

RETAIL SHRINKAGE AT TWO SELECTED STORES

By

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TO WHOM IT MAY CONCERN

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This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

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Date.....

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ABSTRACT

Self-service may increase customer satisfaction. But by allowing customers to be in close contact with goods before they purchase, exposes the retailer to possible shrinkage in the form of dishonest customers and staff. Suppliers contribute to the shrinkage problem by under-supplying or falsifying invoices. Errors in the capture of inventory information on the part of management and employees are further contributors to possible shrinkage. The combination of these three factors contributes to the phenomenon of 'retail shrinkage' and is directly responsible for eroding the profits of retailers.

At present the South African retail market is highly competitive. It is almost saturated and retailers depend on sales volume and lower profit margins to remain in business. To increase profitability, South African retailers are pursuing re-branding and foreign market expansion strategies. This is aggravated by a higher shrinkage rate which in turn increases prices. Robust Shrinkage reduction leads to lower prices, better availability and safer shopping for consumers, greater sales and guaranteed shelf space for manufacturers and reduced losses and increased profitability for retailers. How this can be achieved is the challenging question for retailers.

Bearing this in mind, this research is carried in two selected stores, from Woolworths and Checkers. The findings reveal that the above listed shrinkage problems are of great concern to the stores and they have put in place various loss reduction solutions. In this situation the list of solutions is diverse and 'prescribing' a solution is not the main concern. The challenge is how to systematically identify critical and solution seeking causes. From this research it was clear that neither of the two stores has a systematic Shrinkage related data gathering, recording and analysis tools. They are not collaborating with other firms in similar businesses. And worst of all they do not have a strategy to reduce loss because they do not seem to consider loss reduction as a core business activity.

Finally, a strategic or policy deployment approach to loss reduction is recommended for the two stores. This includes shrinkage awareness, planning, shrinkage cause analysis, implementation and evaluation. Based on the strategic approach, specific solutions to the specific problems at the two stores are also provided.

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CHAPTER 1: INTRODUCTION

1.1: INTRODUCTION

The loss of resources such as cash, stock, service, and information has a harmful impact on the profitability and survival of retailers. These resources, if properly managed, are the sources of strength which help businesses to reduce external threats and/or to take advantage of opportunities. Many retailers have put systems in place to reduce shrinkage but the lack of enforcement and discipline regarding shrinkage creates major setbacks. The worst situation is that shrinkage is considered to be a form of policing and non-core activity. This in turn makes it difficult to attain the level of discipline and company culture required to achieve loss reduction (Internet 1).

The retail sector is a highly competitive sector; thus, ignoring shrinkage would further diminish the meagre profits earned in this environment. The costs of shrinkage are borne either by the business or, most of the time, are transferred to the consumers in the form of increased prices. Irrespective of who bears the consequences, failure to reduce shrinkage compromises a firm's competitiveness.

Therefore, safeguarding resources is so crucial that business concerns have to be able to identify the causes and extent of their shrinkage prevalence so that strategies and techniques to encounter the problem can be identified and implemented. Shrinkage involves a complex convergence of factors amongst which is intricate human behaviour. For this reason, completely eliminating shrinkage may not sound achievable, but an internalised and periodically updated system has the potential to reduce shrinkage. Because shrinkage is such a major source of loss for retailers, it requires serious consideration (Internet 2).

In this chapter the discussion starts with background information of both the Checkers and Woolworths stores. Then there is brief discussion of the literature review, followed by the statement of the problem, objectives of the research, limitations of the project, motivation of the research, value of the project, research methodology and structure of the paper and summary. In other words this chapter deals with the road map that was followed to complete the research paper.

1.2 BACKGROUND OF THE RESEARCH

The South African retail industry is highly competitive and to improve their bottom-line performance retailers have invested in technology at both the backdoor and the front end of the value chain. Some of the strategies include outsourcing non-core operations, the rollout of smaller convenience shop formats, banking facilities, international expansion and re-branding to reach upper to lower end consumers (Internet 3). To increase their profit retailers need to either increase prices or reduce costs. But competition, inflation and their weak bargaining power with suppliers mean that the increase or decrease of prices is not usable as competitive tools. In such a competitive environment one option of maximizing the profit available for the retailer is loss prevention because, unlike prices and the costs of products, it is able to be controllable by management. Thus, provided that loss prevention is planned, implemented and controlled, it could increase the bottom line performance of both the Checkers and Woolworths stores with which this case study research deals. Some background information pertaining to these retailers follows.

1.2.1 SHOPRITE GROUP

The Shoprite Group of Companies is a public company listed on the JSE. It is Africa's largest food retailer, operating 688 corporate outlets and with a reported revenue of R13, 4 billion for the six months ended 31 December 2003. The Company's headquarters is situated in the Western Cape. Currently the company employs more than 30,000 workers and apart from its diverse interests throughout South Africa it has ensured its presence in an additional 15 African countries (Internet 4).

The group consists of Shoprite Checker's supermarket group, Fresh mark, OK Furniture outlets, Checkers Hypers, Usave supermarkets, House and Home stores, and The Hungry Lion fast food outlets. The Group strives to offer best-value merchandise to consumers and its consumers comprise South Africans of all income groups.

As an entity owned by the Shoprite Group the checkers store selected for this study is situated in central Durban. In 2003 the store's turnover was R30 million and currently the store employs 74 workers.

1.2.2 WOOLWORTHS HOLDINGS

Woolworths Holdings Limited is an investment holding company listed on the JSE and has two major trading subsidiaries, Woolworths (Proprietary) Limited and Country Road Limited. The group operates a chain of retail stores offering a selected range of clothing, footwear, toiletries, cosmetics, homeware and food primarily of its own-brand name. Woolworths has stores throughout Africa and the Middle East. Country Road Limited offers a leading apparel and homeware brand in its own retail stores, major department stores and specialty stores and is listed on the Australian Stock Exchange. Country Road Limited has stores and operates in Australia, New Zealand and Singapore (Internet 5).

The Woolworths supermarket store selected for this research is situated in The CBD in Durban. The store's annual revenue for the year ended 31 December 2003 was R125 million. The store employs 65 workers of which are 20% full time and 80% part time.

1.2.3 CRIME PROBLEMS

In addition to the problems of supplier fraud and process failures, like any large retail organization, there are a range of opportunities both for employees and customers who aim to steal goods from Woolworths and Checkers. Problems are worsened by the fact that both Checkers and Woolworths trade in what can be described as 'desirable' goods available in the market place. These include shoes, ladies and men's formal wear, cosmetics, polishes, alcohol, cigarettes, food and the like, many of which can be easily concealed on the person's body/clothes and which can either be used for the thief's personal enjoyment or can be readily sold at a flea market.

The problems faced by the stores represent a combination of those experienced, to a greater or lesser degree, by other retailers. Though retailers are reporting shoplifters to the relevant law enforcement agencies (the police), but they fail to have a well documented information and this in its turn becomes an obstacle; despite the frequency with which crimes are reported, neither company is at the moment able to pinpoint the exact causes of shrinkage. This is the general problem facing business concerns and in the following paragraphs the essence of shrinkage and the issues surrounding the subject matter will be discussed.

1.2.4 SHRINKAGE THEORETICAL BACKGROUND

In 2001 The Efficient Consumer Response (ECR) Europe Shrinkage Committee developed a working definition of shrinkage. According to this committee shrinkage encompasses process failures, internal theft, external theft, and supplier fraud (Internet 6). Shrinkage is categorized depending on the intention and 'proximity' to the retailer of the people causing it. Malicious shrinkage is an intentional act of a perpetrator whereas non-malicious shrinkage is unintended but happens when the processes and systems fail. Internal shrinkage is caused by employees and external shrinkage (shoplifting) is caused by customers. Both employees and non-employees could collude to misappropriate resources belonging to the retailer.

Because customers like to be able to pick and feel the item they intend to purchase, retailer stores have been forced to become more self-service oriented. Apart from self-service being the preferred shopping style, lower labour requirements associated with self-service, has meant that there are fewer staff members and therefore, more opportunities for shoplifting to take place. Damage to goods; improper accounting and recording of stock are also problems which lead to shrinkage problems. Some suppliers also claim their share either by delivering lower quality or smaller stock by deviating from the agreed upon specifications. The following paragraphs highlight the causes of shrinkage.

1.2.4.1 PROCESS FAILURES

Many companies still equate shrinkage with shoplifting, even though shoplifting is just one of the many possible causes of shrinkage, perhaps accounting for less than 40 per cent of all stock losses (Internet 8). Process failures are non-malicious but result when the retailer fails to deliver the right products at the right price to the shop floor. Common types of process failures include:

- Unrecorded price changes
- Wrong merchandise in-transit accounting
- Incorrect mark-up/down practices
- Miscounting, improper accounting period cut-off
- Internal cost fluctuation

- Unrecorded receipts in quality control, spoilage/perishables/salvage
- IT/Computer programming glitches
- Inaccurate physical counts and unrecorded returns and destruction of expired stock
- Unreturned and unaccounted samples (Internet 9).

1.2.4.2 INTERNAL THEFT

Employees are expected to control and safeguard the assets of their employers, but contrary to this expectation, some experts believe businesses lose more to employee theft than to burglary, robbery and shoplifting combined (Internet 10). If the retailer is able to make employees feel that they have a stake in the business, they possibly will not be tempted to steal it away. Hence, employees are not beyond of suspicion and they can take items or use company property for personal gain. Embezzlement and pilferage can be on a bigger scale as cashiers may use “short ring ups” which involves ringing up a lower price on the sales register to cover money they have taken from the till. Alternatively, they may overcharge customers and pocket the difference or undercharge fellow employees and friends. This could occur on a scale from simply overloading of expense accounts through payments made to nonexistent companies. There are certain indicators which would alert retailers to monitor their employees and these would include (Internet 11):

- Frequent shortages
- Rewriting of records
- Staff who turn down promotions and do not take annual leave
- Irregular patterns during the absence of an employee
- Sensitivity of some employees to routine questions and procedures and complaints of customers

Dishonest employees have various ways of cheating their employers. They may consume food and other items without permission, purposely damage stock in order to be able to purchase it at reduced price, conceal stock inside trash bins, use discarded customer receipts to show that stolen goods were ‘paid for’ and they can conceal items on their bodies or in bags and purses. To avert such non admissible behaviour retailers have to devise and implement shrinkage policies, otherwise the hard earned profits will be leached by dishonest employees.

For the West European market, in 2002/3 internal theft contributed 27% of the annual shrinkage bill of €27 billion. This amounts to €7.56 billion and this indicates the severity of the problem (Internet 13).

1.2.4.3 EXTERNAL THEFT

Some call it shop stealing, others shoplifting or external theft. Security experts consider the last two terms to be too lenient because they trivialise the act in the minds of offenders and society in general and there is a growing preference for the adoption of terms such as shop stealing (Internet 12). Henceforth, we shall use shop stealing interchangeably with retail theft and external theft to describe the theft by customers who remove goods without paying the price specified by retailers.

Despite the severity of the problem, retailers lack accurate data concerning theft because they do not invest in data gathering mechanisms and most of them are unaware of the nature of crimes perpetrated against them. The year end stock-take is the only indicator of missing stock, and while these stock-takes may have their own purposes, they cannot pinpoint what has happened to the stock. In 1998 in a report prepared for the Crime Prevention Unit of the South Australia Attorney-General's Department, it was found that the majority of retailers surveyed were unaware of crimes being perpetrated against them and only 2.5% of retail theft was witnessed. The remaining 97.5% were only established by audit. This indicates that retailers are unaware of how and when their stock is being stolen (Internet 14).

Another main problem regarding theft is that the incidents are seldom reported to the police which encourage shop stealers to engage in a repetitive shoplifting. Retailers provide many reasons for not reporting the cases. The reasons may include the seriousness of the theft, history of the offender, age, time shortage, and expenses of hiring a detective, availability of evidence, fear of bad publicity, probability of recovering the stolen property and perceived inability of police to do anything (Internet 15).

1.2.4.5 SUPPLIER FRAUD

Fraudulent suppliers knowingly send short deliveries, sub standard goods, incorrect invoices or send additional goods to that which was originally ordered and request payment for the additional supply. When the quantities of goods handled are enormous, fraudulent suppliers take advantage and retailers need to ensure that order specifications match deliveries. Retailers must verify price, quality and quantity of goods plus the functionality of bar codes and tags. Retailers also must be watchful when making advance payments as fraudulent suppliers may disappear with the money or deliberately liquidate their business to avoid supplying the goods (Internet 16).

1.2.5 SHRINKAGE SOLUTIONS

The solutions for shrinkage are contextual. This means that the solution applicable for one retailer may not work for others because of differences in environment, nature of business, type of stock, management and leadership style and company culture. Depending on the magnitude and nature of shrinkage, a retailer may use a combination of shrinkage solutions available on shelf. Solutions adopted to tackle shrinkage can be broadly categorised under four headings, namely,

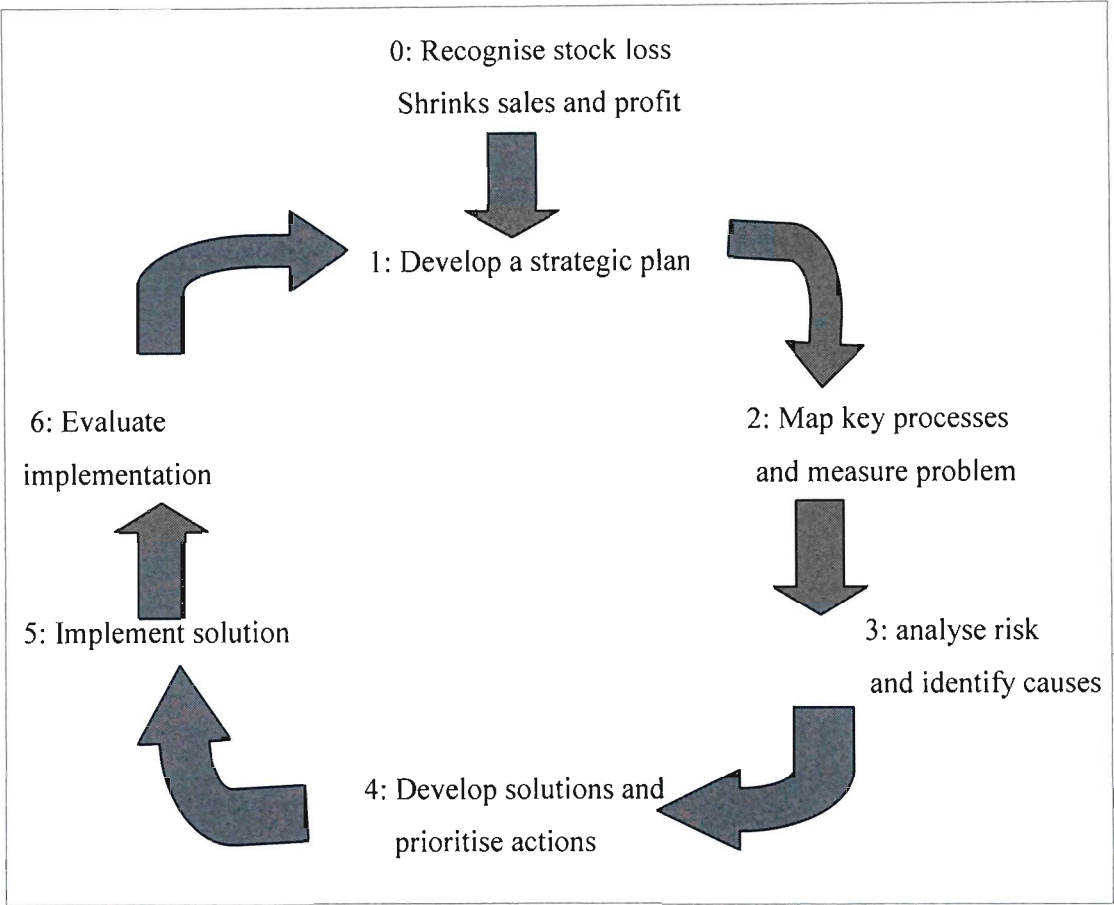
- Procedures and routines
- People and processes
- Equipment and technology
- Design and layout (Internet 13).

A solution becomes worthwhile if and only if it is an outcome of a strategy deployment which is discussed below.

1.2.5.1 SHRINKAGE REDUCTION ROAD MAP

The Efficient Consumer Response (ECR) Europe report on shrinkage has put forward a “road map” to counter the problem of shrinkage. This is a diagrammatic presentation of the shrinkage reduction road map developed by ECR Europe shrinkage team (figure 1.1).

Figure: 1.1 SHRINKAGE REDUCTION ROAD MAP



(Source: ECR Europe shrinkage project (Internet 17))

The wakeup stage (step 0) indicates that there should be an understanding that shrinkage reduces profit and to reduce losses, action must be taken immediately. The planning stage (step 1) includes the setting of goals and the establishment of plans to achieve them. At this stage, in order to focus its efforts, a retailer must make use of a systematic approach, as opposed to haphazard actions. Planning should provide a systematic perspective for collaboration among suppliers, retailers, distributors and if possible with competitors. At the ‘Map and measure’ stage (step 2) focus should initially be on ‘hot products’ (products highly targetted by shoplifters). Processes should be mapped on the total supply chain including the flow through each supply chain node and the amount of loss should be measured. At the ‘analyse stage’ (step 3) the causes of loss i.e. process failures, internal theft, external theft and supplier fraud should be identified. At the ‘solution stage’ (step 4), solutions must be aligned with the overall business strategy. Solutions must also be contextual meaning the

selection of solutions may depend on, technology choices, staff skills, organisational structures, business and social environment. At the implementation stage (step 5) resources, the tasks and their flow, time and resources needed for the project implementation should be identified and secured. At the evaluation stage (step 6) the implementation should be evaluated for its effectiveness. The evaluation should be objective and lessons that help the implementation of future projects should be capitalised (Internet 17).

1.3 MOTIVATION OF THE RESEARCH

The safeguarding and protection of company resources is crucial for the success of a business. As was mentioned above, a significant level of shrinkage is an indicator that a retailer is losing one of its strengths: its resources. The existing practice means that most organisations only know their shrinkage at the end of the fiscal year as a result of inventory control. Companies are having problems in identifying the causes of shrinkage due to the time gap between resource shrink and detection so companies depend on “soft” data such as guesstimates, personal experience and opinion. The failure to make decisions based on “hard” data such as fair figures and fair statistics, results in solutions of inferior quality. In other words, without clearly identifying the real causes, solutions cannot be implemented. This is one of the reasons why shrinkage persists in firms despite the introduction of new and modern technology.

A firm cannot ignore the problem of shrinkage and this research has attempted to devise techniques so that Checkers and Woolworths would be able to identify the real causes of shrinkage at the right time and could implement ‘best in practice solutions’. When it comes to retail loss prevention, the obsession with technology has not provided the expected results so this research will attempt to evaluate all possible solutions for better results.

1.4 VALUE OF THE PROJECT

This research has meticulously evaluated the awareness of shrinkage at both Woolworths and Shoprite, examined the causes and their contribution to the total loss as well as examined and evaluated the solutions set in place by the firms in terms of modern shrinkage fighting tools and techniques. The implementation of the findings of this research is expected to reduce the losses caused by shrinkage. This will result in cost reduction and profit is

expected to increase. In most instances, the cost of shrinkage is borne by consumers; therefore after the implementation of the shrinkage strategy recommended at the end of this research, the saving in costs is expected to lower prices of products so that the firm will be more competitive. Alternatively, cost savings could be re-directed to realise other more constructive objectives. A shrinkage-conscious and motivated work force is also expected to better safeguard the resources of the company. Hence this research is expected to have a multifaceted value and benefit to the organisations and their stakeholders.

1.5 STATEMENT OF THE PROBLEM

In this research paper the problem is stated as follows: What are the causes of and how serious is the problem of shrinkage at Woolworths and Shoprite Checkers. How effective is the loss reduction approach? The research will cover the following dimensions:

- ◆ Raising awareness of shrinkage as a problem
- ◆ Defining the role of management and staff in reducing shrinkage
- ◆ Modelling, defining and indicating practical tactics to employees
- ◆ Defining how to approach staff and customer theft
- ◆ Emphasising the importance of adhering to procedures
- ◆ Identifying the benefits of reducing shrinkage
- ◆ Transferring new skills and attitudes easily into the workplace
- ◆ Specifying the required actions and behaviours
- ◆ Encouraging appropriate behaviours from staff
- ◆ Equipping management to train and motivate staff
- ◆ Providing guidance on best practices
- ◆ Providing 'best in practice' loss reduction strategies

1.6 OBJECTIVES OF THE STUDY

The objective of the study is to identify the possible causes of shrinkage, to measure the size or extent of shrinkage so that comparison can be made with trends in other countries and to evaluate the solutions utilised to alleviate the shrinkage problem at Checkers and Woolworths. The following aspects have contributed towards the realisation of the objective.

- ◆ Adopting a working definition of shrinkage for the purpose of this research
- ◆ Measuring shrinkage in financial terms and as percentage of turnover
- ◆ Determine what cause contributes to what portion of the shrinkage problem
- ◆ Based on best practices and solutions the evaluation of the techniques/systems applied to contain shrinkage.

1.7 RESEARCH METHODOLOGY

1.7.1 RESEARCH DESIGN

The problem of shrinkage involves a wide range of fields such as criminology, systems design, technology, espionage, human behaviour, motivation, training, compensation, layout design, product design, product packaging and customer behaviour. Shrinkage is a complex field. In light of the existing theory and practice, to have a feel for the problem and to reach on strongly grounded findings a case study through the induction approach is preferred. Dealing with a real business world challenge has enabled the researcher to face a practical problem and its exigent circumstances.

Burns and Bush (1998) have asserted that qualitative research involves the collection, analysis and interpretation of data by asking open-ended questions. This is usually done with a small number of informants or through observation. In this research large scale survey was not preferred as the required information could be better sourced from ‘appropriate personnel’. In this case ‘appropriate personnel’ means the right/key person who has knowledge of the subject matter. Here caution is required, for purposes of this research, a person is important not because he holds a higher position but because he possesses the relevant shrinkage related knowledge. Whenever the opportunity arose observation was utilised to supplement the data collection.

According to Guari, Gronhaug and Kristianslund (1995), “for inductive and exploratory research, qualitative methods are preferred, as they lead us to hypothesis building and explanation.” The purpose of this study is to collect empirical data and to reach conclusions and explanations so the inductive and qualitative approach is found to be useful. Since this research is being undertaken at one point in time, it is cross-sectional. However, organisations and circumstances change and shrinkage is a moving target, so from Checkers

and Woolworth's point of view, a longitudinal study i.e. a repetitive measure of the same population over a period of time, is significant.

1.7.2 DATA COLLECTION

Guari, Gronhaug and Kristianslund (1995) noted that in-depth interviews are highly suitable as a method of data collection for exploratory and inductive studies. They provide the researcher with an accurate and clear picture as respondents are free to express their own opinions without constraints. The disadvantage of the in-depth-interview is that it demands a skilled interviewer. The interviewee's willingness is a further determining factor for its success. As recommended in Ghuari, Gronhaug and Kristianslund (1995) the interview was undertaken in three stages:

1.7.2.1 PREPARING FOR THE INTERVIEW

In light of the research problem, the researcher attempted to understand the information to be collected and then preparations were made to secure valid and reliable information from the right sources at both Checkers and Woolworths. Following that, a draft interview was prepared and pre-tested with fellow students. Some of the draft questions were considered vague and, after some amendments, the researcher contacted the interviewees for appointment.

1.7.2.2 PRE-INTERVIEW

At this stage the approach of the researcher in terms data collection, data analysis dimension and schedule of the interview was reconsidered.

1.7.2.3 THE INTERVIEW

During the interview the first task was to orient the respondent so the interviewer tried his best to establish a rapport with each respondent using simple and understandable language, avoiding leading or directive questions, control the time taken by the interview and handling sensitive questions carefully were some of the aspects to which the interviewer

gave due consideration. Without these controls, it could have been difficult to get the relevant responses because shrinkage is a very sensitive subject to the retailer.

1.7.2.4 POST INTERVIEW

Immediately after the interview the researcher listed important points, further contact was also made with the interviewees to clarify some vague responses and after that it was possible to develop a descriptive report of the interview by discarding the irrelevant data.

1.7.2.5 SECONDARY DATA

According to Kinnear and Taylor (1996), data published and collected for purposes other than the specific research needs at hand are called secondary data. For purposes of this research, internal data relevant to shrinkage were found important. These included data incorporated in periodic reports for internal managerial control and decision-making. The secondary data was advantageous in terms of cost and time saving. Since the data was collected for the sole use of the firm and was prepared by persons out of the reach of the researcher, the handling of such data was made with caution because its accuracy may be questionable.

1.8 LIMITATIONS OF THE PROJECT

This case study is an embedded case study because it has covered various facets in two firms. The research was carried out in two retailers; namely, Checkers and Woolworths. This research is undertaken in two stores only so it may be difficult to extrapolate the findings to other similar retailers. A survey involving major retailers may provide a researcher with well-founded solutions but it would need huge resources and at this time this option is out of the reach of this research project. Another limitation is the reluctance of the retailers to provide some types of data especially employee related data. Generally speaking the sensitive nature of retail shrinkage made it difficult to get the right data at the right time. The lack of statistical data and figures relevant to shrinkage in both retailers was also a major obstacle.

1.9 STRUCTURE OF THE STUDY

Chapter Two

In this section a working definition of shrinkage is laid out. The main causes of shrinkage are identified and discussed in detail, their magnitudes and international shrinkage trends are compared. In addition to that 'best in practice' solutions are discussed and their effectiveness is evaluated. The ECR shrinkage reduction road map or strategy of loss prevention is also examined in detail.

Chapter Three

In this chapter the history, strategy, products, manpower, sales and organisation of Checkers is presented. In addition, some basic shrinkage related issues are identified. The retailer's awareness, the magnitude and causes of shrinkage and the measures taken or the tools put in place to alleviate the problem are evaluated according to the theoretical framework and models presented in Chapter Two.

Chapter Four

In this chapter the history, strategy, products, manpower, sales and organisation of Woolworths is presented. In addition, the retailer's awareness, magnitude and causes of shrinkage and the measures taken or the tools put in place to alleviate the problem are evaluated according to the theoretical frame work and models presented in Chapter Two.

Chapter Five

In this chapter, recommendations and conclusions are given. In other words, the recommendation is the shrinkage strategy that has to be adopted by the retailers under study. In some aspects the two retailers under scrutiny are doing well and the recommendation given is a reinforcement to perpetuate the positive aspects. When the situation indicates an ineffective shrinkage approach, remedial solutions that will bring about long-term solutions are recommended.

1.10 SUMMARY

In the retail and wholesale industry, firms have to protect their tangible and intangible resources otherwise they will be forced to bear the costs. Retailers are widely using self-service and this exposes resources to shrinkage by both employees and customers. Self-service, wider assortment, complexity of both inbound and outbound logistics and consumer rights aggravate shrinkage and render the task of reducing shrinkage as one of the main concerns of the industry. Fighting shrinkage is considered a policing activity and is down played by many firms. Shrinkage is also a complex field involving various disciplines such as criminology, espionage, human behaviour, motivation, training, processes and layout design.

In this research, the problem is stated: “What are the causes and extent of shrinkage at Woolworths and Checkers; and how effective is the loss reduction approach?” This shrinkage related research is expected to reduce the costs of the company, which means the company will become more competitive either by selling its products at lower prices or by earning higher profits vis-à-vis competitors.

The research is qualitative in nature and in the form of a case study carried out at Woolworths and Checkers. The research is cross-sectional and inductive. The data collection was mainly through interviews and company secondary data resources. The research and its methodology are not without limitations. The unavailability of written literature and the confidential and sensitive nature of the information required to do the research were the main obstacles in the course of undertaking the project.

CHAPTER 2: LITERATURE REVIEW

"Retail crime prevention calls for lateral thinking and innovative solutions. We live in the information age and retailers need information on crime to help plan their responses. We need to be able to look at retail crime problems nationally and at store level, to be able to compare town to town, and to be able to compare industry sectors and to target resources where they are going to be most cost effective. The cost of crime, the disruption to business and the damage to communities and individuals make this a priority issue and a battle well worth winning." Keith Cameron, Chairman, British Retail Crime Reduction Action Team (Internet 18).

2.1 INTRODUCTION

In this chapter the discussion commences by defining shrinkage and its financial and psychological impact on retailers. To enable comparison be made, the size of shrinkage in selected countries is compared with South African shrinkage rates. The four main causes of shrinkage are also elaborated in detail. Once the causes are identified the next logical step is finding the solutions to combat shrinkage and both general and specific solutions are identified. But identifying both causes and solutions is not sufficient. A policy deployment approach or strategy to guide and combat the loss prevention program is therefore discussed in detail. Emphasis is given to a holistic and methodical approach to loss prevention and this will enable the reader to grasp the issues revolving around shrinkage.

2.2 WHAT IS SHRINKAGE?

A comprehensible working definition of shrinkage permits the delineation of the research's scope. In addition to that, a standardised and comprehensible definition allows comparisons of trends among firms, industries and countries. In their quest to define shrinkage, different authors and loss prevention practitioners have defined shrinkage as follows:

Walker and Etzel (1975) define stock shrinkage as any shortage, which exists when physical inventory count is compared with the book inventory.

According to the Quebec Retail Security Report (2001) shrinkage is defined as the difference between inventory per books and physical inventory (Internet 19).

Shrinkage is the term used to represent the shortages in stock inventory, attributable to theft by customers, by employees, vendor fraud and clerical error, rather than losses as a result of burglary, robbery, arson damage and vandalism (Internet 7).

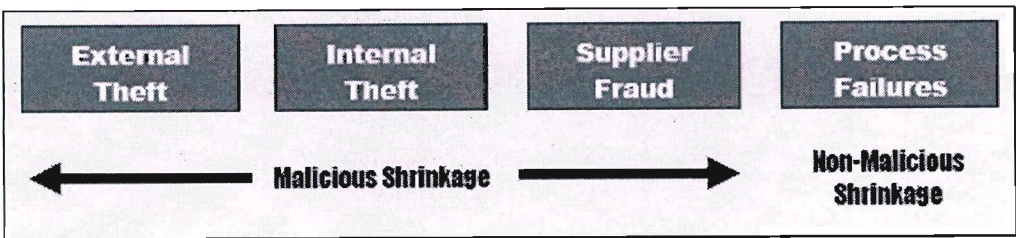
Masuda's (1992) definition of shrinkage is narrower because it includes unknown losses only, meaning losses related to shrinkage but which are difficult to detect. This relates to those losses which the firm was unable to identify.

Some definitions of shrinkage are narrow but others are wider in scope and they embrace various causes. In view of this, in 2001 Efficient Consumer Response of Europe (ECR Europe) has developed a definition, which strikes the balance between the two extremes. The definition provided by ECR Europe encompasses both stock and cash as a result of internal theft, external theft, process failures and supplier fraud (Internet 13).

Woolworths and Checkers deal with suppliers, customers, and employees. They have processes that enable them to complete the deceptively simple-seeming task of receiving, storing, distributing and selling goods to customers. The environment and nature of their business involves the shrinkage of both cash and stock. Therefore, the challenge is how to contain this problem so that profit could be maximised.

The business of a firm could determine the way it defines shrinkage. For example, a bank may be concerned more about cash shortages than stock losses. For the purposes of this research, the widely accepted definition given by ECR Europe Shrinkage Committee will be used through out this paper. Shrinkage reduction will also be used interchangeably with the term loss prevention.

Figure 2.1 DEFINING SHRINKAGE



(Source: Internet 13)

ECR Europe’s definition is widely imitated by countries such as Brazil, Australia, Efficient Consumer Response (ECR) South Africa and Portugal. It is believed that this definition best serves the objectives of this research and to the circumstances of Checkers and Woolworths stores.

2.3 FINANCIAL AND PSYCHOLOGICAL IMPACT OF SHRINKAGE

When goods are stolen, misplaced or damaged it results in the store having fewer items on the shelf. The outcome is a multifaceted series of financial losses of which some are obvious, but others are quite subtle. Shrinkage results in revenue shortfall, freight charge loss, inventory shortage, lower productivity on the part of the people processing the shipments and a portion of any other fixed or variable costs incurred to sell goods. Assuming an average net profit of 1.10 percent and a shrink rate of 2.32 percent, for every \$1.10 a grocer makes in net profit, it has already lost \$2.32 to shrinkage. Therefore, best-in-class supermarket operators have realised that loss prevention can be their top profit source (Internet 20). The loss of goodwill also adds to the costs of the retailer. Desirable items are no longer available and key personnel are absent from the shop floor to deal with offenders. This creates lack of service, which displeases customers and is considered as a predicament to retain loyal customers. On top of that, investment and expenses to fight shrinkage cost money, time and energy (Internet 21).

2.4 SHRINKAGE SIZE

Western Europe: according to a 2003 report from the Centre for Research (European theft Barometer), the average shrinkage level for 2002/3 for Western Europe was 1.37%. This loss was equivalent to €27,258 million or €75.28 per head of the population (Internet 22). Retailers perceived customer thieves to be responsible for 48% of shrinkage, employees for 28% and suppliers for 7%. Internal error, process failures and pricing mistakes were thought to cause 17% of shrinkage meaning that 83% of shrinkage was crime-related.

Canada: according to a 2003 report from the Canadian Retail Security Council, in 2002 shrinkage averaged 1.75 percent of sales. According to Statistics Canada, retail sales during 2002 were \$173.6 billion (total retail excluding automotive but including grocery). From this, it can be estimated that total retail sales lost due to shrink were \$3 billion or \$8 million each day. According to this report administrative errors were 18%, vendor dishonesty 7%, internal theft 40% and external theft 35 % (Internet 23).

TABLE 2.1 LEVELS OF SHRINKAGE SELECTED COUNTIES 12 MONTHS 2002/3

Country	Shrinkage (as % of turnover)	Country	Shrinkage (as % of turnover)	Country	Shrinkage (as % of turnover)
Austria	0.98	Germany	1.16	Norway	1.42
Belgium/Luxembourg	1.32	Greece	1.43	Portugal	1.44
Denmark	1.35	Ireland	1.35	Spain	1.38
Finland	1.44	Italy	1.36	UK	1.69
France	1.41	The Netherlands	1.32	South Africa	2*
Canada	1.75	United States	1.65		

(Source: European theft barometer (Internet 22), Canadian retail security council (Internet 23), National retail security report (Internet 24) and South African retail industry (Internet 25 and Internet 26).)

* Source: Comments of O'Reilly, Managing Director of Advanced Technologies (there is not an official retail shrinkage survey conducted for the South African retail sector).

United States of America: according to the National Security Report 2003, in the United States, the retail shrinkage for 2002 is 1.65%. This translates into an approximately \$33.6 billion annual loss to retailers (assuming a retail base of \$3028 trillion in annual sales for the retail sector surveyed in the study). This survey estimates vendor fraud to be 6%, administrative and paper error 15%, employee theft 47% and shoplifting 32% (Internet 24).

South Africa: according to the comments of O'Reilly, managing director of Advanced Technologies, in South Africa annual inventory losses are estimated to be about 2% of industry turnover. But there has not been an intensive survey conducted in this country which is similar to that of Western Europe or United States (Internet 25). Assuming annual retail sales of R210 billion (Internet 26) and the above estimated shrinkage rate of 2%, the annual South African shrinkage bill for retailers amounts about R4.2 billion. Compared to Western Europe, Canada and the United States shrinkage rate in South Africa is higher and this may be attributed to the higher unemployment figures and the malicious criminal activities prevailing in the country.

2.5 METHODS OF CALCULATING SHRINKAGE

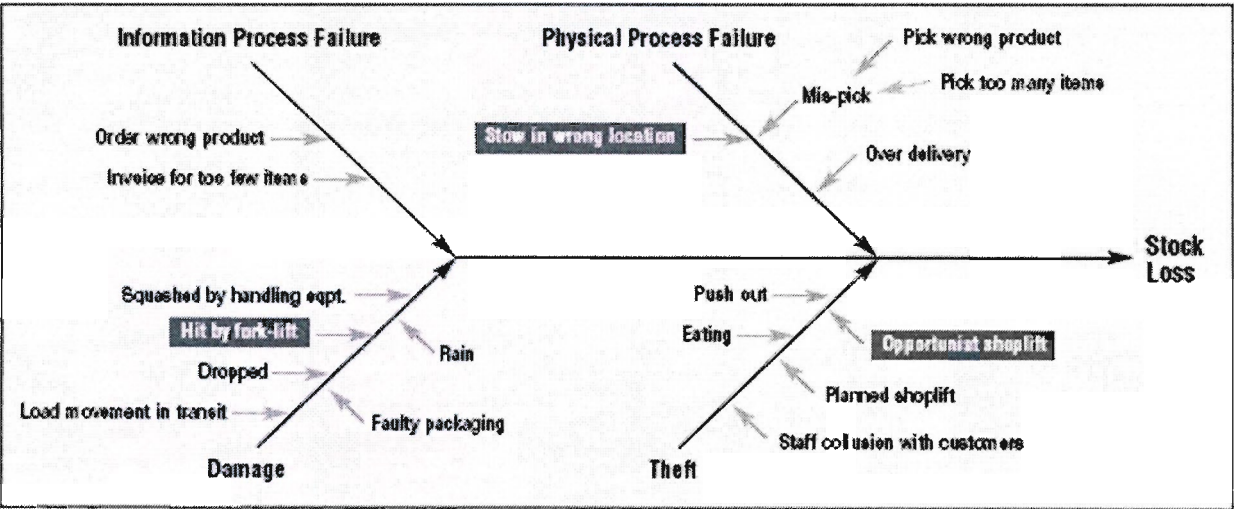
According to the Quebec Retail Survey Report of 2001 there are three methods of calculating shrinkage (Internet 19). The true cost method uses the actual cost of a particular item purchased; the retail method makes use of the selling price of a particular item sold to customers; and the third method uses combination of the retail method and the true cost method for calculating shrinkage i.e. the store determines which method to use for a range of products but on a one by one item basis. This method applies to situations where a company sells products at a wide variety of price points. Hence, caution is needed when comparing shrinkage figures and rates of different research outcomes.

2.6 CAUSES OF SHRINKAGE

Without appropriately understanding the causes of shrinkage, it is impossible to bring about shrinkage solutions. The causes of shrinkage could be intentional (malicious) or unintentional (non-malicious). But whether they are intentional or unintentional, the causes embrace employee (internal) theft, shoplifting (external) theft, supplier error/fraud and

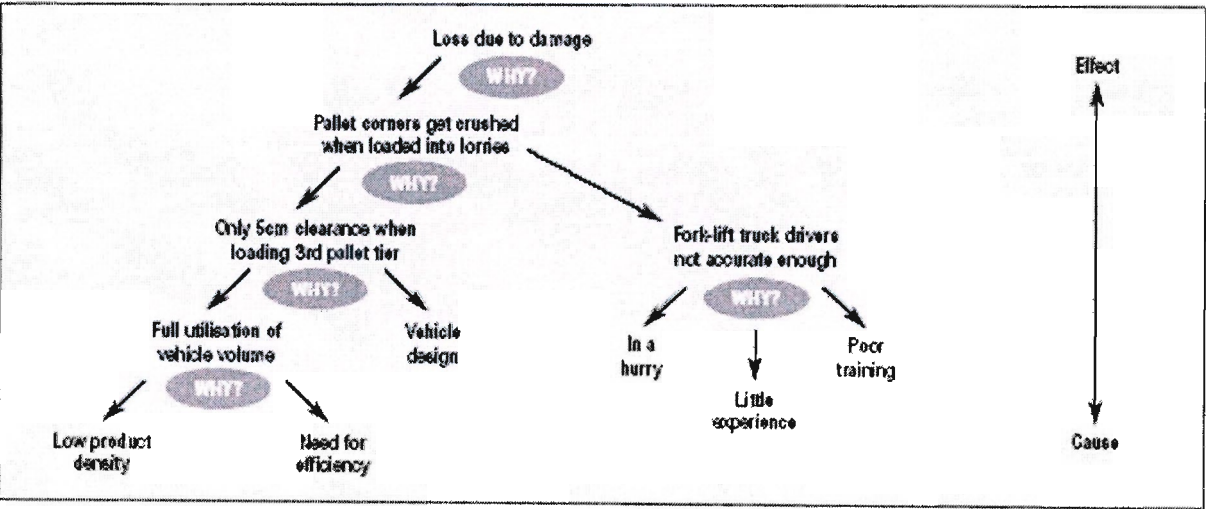
process failures/paper shrink. The retailer has various methods of identifying which causes apply to his shop. Cause and effect diagrams are good at identifying causes by looking at the symptoms and once the cause has been identified, successive answers to ‘Why’ questions would finally lead the investigator to uncover the root problem. A cause and effect and ‘five why’ diagrams are shown below.

FIGURE 2.2 CAUSES AND EFFECT DIAGRAM



(Source: Internet 27)

FIGURE 2.3 ‘FIVE WHYS FROM CAUSE TO EFFECT’



(Source: Internet 27)

The above figures assist retailers to identify causes from symptoms. In Figures 2.2 and 2.3, shrinkage was as a result of damage to goods but faulty packaging, rain damage, handling

equipment or dropping in transit, could cause the damage. Hence, the use of such analysis tools simplifies the task of finding the actual causes contributing to loss.

2.6.1 NON MALICIOUS SHRINKAGE

2.6.1.1 PROCESS FAILURES

Goods are manufactured in factories, distributed to retailers and sold to consumers at retail outlets. To accomplish the flow of tasks through this channel efficiently, products need to be supplied at the right quality, quantity, place and price. This function seems simple but in practice, processes fail because of:

- Improper accounting of records
- Incorrect inventory audits and on hand adjustments
- Inter company and interdepartmental transfer errors
- Unrecorded changes
- IT or computer programming glitches
- Unrecorded receipts in quality control.

Even though these obstacles are not deliberately created, they impede the business operation as a result of which it becomes difficult to satisfy customers.

Retailers with lower rates of process failures are those which supply their products and services at the right marketing mix and are more likely to benefit from their business operations, whereas those who fail to do so will be forced to pay the cost. Currently, the retail environment is very competitive and consumers have a wide easy access to a wide range of information and alternative products from which to choose; hence, a company with higher rates of process failures is prone to financial losses.

In 2001 process failure for Europe accounted for 27% of all retail losses or €3.6 billion a year. On the other hand the process failure in Europe for suppliers or manufacturers was €3.6 billion a year or 78% of all supplier losses. Hence the total retail losses due to process failures were a total of €7.20 billion. For the same year in the United States it was estimated that process failures accounted for 17.5% of sales turnover (Internet 13).

A recent workshop on RFID and shrinkage has identified the key elements that contribute to process failures (Internet 13).

- Stock going out of date as a result of product not being sold in time because too much was ordered, it was not discounted in time or stock was not rotated properly.
- Price reductions: stock is sold below the price originally envisaged because too much was ordered or because the expected sales targets have been overly ambitious.
- Damage to stock caused by methods used to store and to distribute products. This can include temperature sensitive products such as foodstuffs.
- Delivery errors include a combination of the wrong products being delivered to the wrong place at the wrong time. This can include failure to record products transferred between stores.
- Price errors occur with the incorrect pricing of products either below the planned price or the products are incorrectly discounted in connection with other products.
- Scanning errors caused by the store staff incorrectly scanning products on the shelves resulting in errors in the inventory or, the checking staff forgetting to scan products or incorrectly entering the product identification code.
- Incorrect inventory checks are the result of staff miscounting products in the warehouse, in the storeroom or in the shelves, causing errors in the expected and actual levels of stock.
- Master file errors include the incorrect entry of product type or qualities on the master inventory file. This can lead to companies thinking that they have more or less of a particular product than is currently in the supply chain.
- Product promotion errors occur when products are sold off at promotion prices when they should not be or when associated products are sold at discounted prices when they should not be or when incorrect multiple-buy discount being applied.
- Returns cause problems when products that have been legitimately returned by customers are not re-entered in the supply chain correctly.
- Intra-company transfers involve products that are misplaced as they move between different parts of the organisation, such as between retail stores.

Therefore, process failures arise due to failure to collect and communicate accurate and timely information about products in the supply chain. If retailers are unable to correctly

identify the correct quality, quantity, location and price of their stock, they are unable to fulfil their customers' needs.

2.6.2 MALICIOUS SHRINKAGE

Organisations are victims of both internal and external theft. The extent to which internal and external thefts contribute to shrinkage may be difficult to determine. Understanding the essence of internal and external theft is a prerequisite in the search for shrinkage solutions. For a theft offence to be committed the three elements that need to be present are a likely motivated offender, a suitable target and the absence of a capable guardian (Internet 28). In a retail environment the likely or motivated offender is a shoplifter or an employee; the suitable target could be a 'hot product' such as cigarettes or CDs; and lack of security guards, closed-circuit television or electronic surveillance constitutes an absence of a guardian. Thus, negating one of the above factors could obstruct the occurrence of a theft offence.

In addition to the above factors motivation, temptation, opportunity and risk of consequences tremendously influence a person's decision to commit theft offence (Internet 13). These factors coupled with the psychological thought process of the offender and the circumstances of the retail environment lead either to the omission or commission of a theft offence. A discussion of these psychological and circumstantial factors is presented in the following paragraphs.

The availability of valuable items and large amounts of cash tempts customers and employees to commit theft. In England and Wales, the range of people who shoplift is wide: from 15-year-olds thieving for the thrill of it through to depressed middle-aged women doing it to give themselves a lift, to poor people who cannot afford to buy the goods they need to have (Internet 29). Understanding the motives, demographics and profiles of shoplifters can help retailers to fight shop theft. When it comes to shoplifters' motives the most obvious that come to the mind is economic motives but the list of motives involves the interplay of economical, sociological, psychological and demographic factors. The objective of this research is not to undertake detailed sociological and psychological research but it is deemed that a brief discussion of these factors is worthwhile.

Some of the motives are economic gain, compensation for 'losses', self-rewarding, the excitement or thrill during or after stealing, school and peer pressure, addiction and as a relief mechanism for anxiety, frustration, boredom or depression (Internet 30). These motives apply to both internal and external shoplifters. The following motives apply to employees; therefore, every retailer has to take note of them because without doing so, it is difficult to develop an anti-theft culture in the work place. They are acceptability, risk and consequences of theft, neutralization, marginalisation, dissatisfaction, 'everyone does it', opportunity-space, opportunity-time, and opportunity-position (Internet 13). A discussion of these factors, which could influence employees' inclination to thievery, is presented in the following paragraphs.

- **Acceptability:** Some people do not consider their dishonesty as wrong. Using company property such as cars and eating foods on display may not be considered wrong by some supervisors and workers.
- **Neutralization:** When employees think and perceive that the loss of property does not directly cause pain to any one in the organization, they could be motivated to steal.
- **Marginalization:** Temporary and part-time employees are in most cases excluded from promotions and benefit packages. They are more likely to commit theft because marginalization leads to resentment and they may try to make up for those unearned benefits in the form of theft activities. In addition to that, these employees may not see any future in staying too long with an organization and do not see the danger in being caught while stealing. Hence, the position of a person holds and the nature of his contract of employment (permanent or temporary) may influence his likelihood to steal.
- **Dissatisfaction:** When workers view their salary as being below what it should be, they feel their compensation is unfair and strive to fill the gap between the earned salary and the ideal salary by stealing company resources.
- **Everyone does it:** Some employees think that everyone steals from his employer and this therefore justifies their stealing.

- **Opportunity-space:** Unidentified backroom areas or 'blind spots' that are not observable by CCTV such as spots behind pillars give offenders the opportunity to steal, as the offender thinks that the nature of the space allows him / her not to be caught (Internet 31).
- **Opportunity-time:** During night shifts the level of supervision is usually lower compared to the busy hours of the day. Hence, this motivates employees to commit theft.
- **Opportunity-Position:** The position one holds in an organization partly determines one's likelihood to offend. For example, an employee in a store has more exposure to the company's properties at the store than the accountant. A cashier also has more chances of stealing cash than a mechanic who has relatively limited access to the company's cash and safe.
- **Risk and consequences:** If the risk of getting caught is low and if the punishment subsequent to apprehension is relatively lenient, this encourages theft. On the other hand, if the chances of being caught and the subsequent punishments are high people become discouraged to steal. Job loss, the risk of a criminal record and going to prison are harsh measures which deter offenders from stealing.

2.6.2.1 INTERNAL THEFT

Employees have ample knowledge of their companies' resources, working procedures, store security systems, work systems and processes. Some employees can exploit this information to gain illegal benefits. The National Security Report 2003 estimated that in the United States, the internal theft rate is 47% for retailers and this amounts to \$15.6 billion. Retailers are inclined to ignore internal theft, process failures, and supplier fraud and become fixated on external theft (Internet 32).

In the United States most shoplifters are not caught and most of them are not worried when they are caught because half of the ones who are caught are not prosecuted (Internet 33). Since employees have a relatively better knowledge of their work environment, they are rarely apprehended compared to external offenders. This leads to the build up of data on external theft and to the false understanding that internal theft is non-existent or irrelevant.

The retailers' attention and priority is totally diverted to problems other than internal theft. For these reasons, the tendency is to blame external offenders as the main causes of shrinkage to the extent that unknown losses are blindly apportioned to external shrinkage. The trends of ignoring internal theft also originate from the fact that by its very nature internal theft is not easy to detect. Employees are in positions of trust and authority to handle cash and property so that sales can be made. Often internal theft is only detected when the extent of it becomes large to hide. This leads store management to concentrate on those problems which are relatively easier to detect and solve.

From the point of view of employee morale, excessive spying on employees could lead to poorly motivated and inefficient a workforce. Excessive internal theft also implies that pre-employment screening was not undertaken efficiently and this amounts to self incrimination; hence, management may prefer to down play it. High levels of internal theft may give an organization a bad image with its stakeholders. Managers therefore prefer to point their fingers at external offenders and this in turn leads to the aggravation of internal theft. The main forms of internal theft are:

- **Collusion or sweet-hearting:** Employees, often the ones operating the till, collude with customers to steal products. This is usually done either by staff not scanning items at the check point or mis-canning which involves using an item that is cheaper than the one being purchased. It can also include collusion when goods are being returned to the store (possibly stolen in the first place) and with delivery workers, suppliers and contractors.
- **Grazing:** Staff members are consuming stock such as food straight from the shelf without paying for it.
- **Theft of cash:** Members of staff may steal cash from the till or cash office, or short-change customers and pocket the proceeds.

What type of employees is more likely to steal?

The crime prevention service at The State University of New Jersey has identified that some employees with the following 'behaviours' are more likely to steal from their employers (Internet 34).

The Wanderer - If an employee is supposed to work in Department A, should he be spending a lot of time in Department B? He may be taking advantage of this "wandering" time to stash stolen merchandise to pick up later. Also, while his department is unattended, customers will find it easier to shoplift, and other employees will be able to come in and remove items.

The Early Luncher - This employee makes frequent trips to the staff lounge area, perhaps to use the rest room or get something to eat. But these trips through the store to reach the staff area present opportunities for employees to stash items illegally, or put stolen items into personal bags or lockers.

The Socializer - An employee who seems overly friendly with workers in other areas may have arrangements to swap stolen merchandise with them. Like the Wandering Employee, walking from one department to another gives him a chance to stash merchandise somewhere. His unattended work area is also vulnerable to shoplifters and dishonest employees. At the very least, the socializer is stealing time from his employer.

The Purse-Carrier - Allowing employees to bring their purses or bags onto the sales floor invites theft. These provide a ready spot to conceal stolen goods. Most retailers adopt a policy of parcel or purse checking if the parcel is big enough to cause suspicion. Some retailers consider a purse or parcel big if it is bigger than an A4 size paper sheet.

Understanding and identifying the behaviour of employees and determining whether they are sociable, wanderers, early lunchers or big purse carriers will assist a retailer to fight theft committed by staff. But management should be careful to avoid generalizations. For instance, not everyone who carries big purse is a thief. Since it is not easy to detect and control, employee-caused shrinkage is a major problem facing retailers.

According to the National Security Report 2003 the rate of employee theft, in the United States in 2002 as a percentage of total retail shrinkage was 47% and this amounts to \$15.8 billion (Internet 24). According to this report, dishonesty was the largest component of employee caused theft at 26% and best in class results occurred in companies that combined loss prevention technology and loss prevention practices. An IBM Business Consulting

Services study in 2002 indicated that internal shrinkage includes collusion with vendors (Internet 35).

2.6.2.2 EXTERNAL THEFT

As was discussed in the above sections, management and security staff have the tendency to ignore internal theft and concentrate their time and effort in fixing external theft through technological systems and human intervention. In the following paragraphs the discussion focuses on professional and opportunist shoplifters, the modus operandi of shoplifters, hot products, hot stores and hot store managers.

● PROFESSIONAL AND OPPORTUNISTIC SHOPLIFTERS

Shoplifters could be categorized as professional and opportunist thieves. Professional thieves usually convert the stolen goods e.g. cosmetics to cash (Internet 36). They have a good knowledge of the security system of the store and will undertake a prior study on the retail store before stealing. Prior study helps these professional offenders to evaluate the weaknesses and strengths of the retail security system. They also evaluate the technological and human security intervention utilized by the organization. The United States Department of Justice's Office of Community Oriented Policing Services found that offenders are able to invent new methods to bypass technology and that professional thieves are deterred more by human intervention than by technological driven security systems (Internet 37). These professional offenders target 'hot products', devise counter technology approaches (e.g. removing tags), work in teams and evolve their methods to meet the changes in stock loss prevention methods (Internet 13).

Opportunist shoplifters steal items for their personal consumption, do not plan the offence, have little knowledge of the security system of the retail, target a wide range of products and are more likely to be detected by technology driven security systems. The Department of Textile and Apparel Management, University of Missouri-Columbia, has identified the following opportunist shoplifters as amateur (Internet 36).

Drunks and vagrant: They usually grab and run, and they steal food, clothing, tobacco and alcohol. Approximately 10% of them shoplift in order to survive and are the easiest to detect.

Juveniles: About 50 percent of all shoplifters are juveniles. They may come into the store in groups and may shoplift in response to a dare. They shoplift for excitement, attention, acceptance or revenge against society. Young people generally look for jewellery, cosmetics, toys, music and clothing.

Female homemakers: Those apprehended while shoplifting are likely to be first-time offenders stealing everyday items such as food, vitamins and cosmetics. Similarly, adults who want acceptance within a peer group, but cannot afford to keep up, may resort to shoplifting.

Habitual shoplifters: These are the ones who will put a retailer out of business. These offenders steal something every time they have a chance, even though they may purchase something at the same time.

Drug users and alcoholics: These people could be dangerous because they steal to support their habit and these types of shoplifters, when suspected, have to be treated carefully.

Kleptomaniacs: Are people who steal for psychological reasons. Most people have an exaggerated idea of the number of shoplifters who are kleptomaniacs, but in fact, they do not account for a great proportion of the shoplifting population.

●HOW DO SHOPLIFTERS OPERATE?

Shoplifters use many techniques, some of which do not require much advance preparation (Internet 38).

Switching: involves altering the retailer's price tag. This is especially common during sales when the retailer has already changed the price on many tags. Shoplifters may also switch price tags, bar codes or tickets or may substitute fake tags.

Boosting: this consists of many techniques used to conceal merchandise in some manner. Common boosting techniques include slipping items into a purse or pocket, adding items to bags and boxes, concealing items in a stroller, buying a large item after stuffing it with smaller items, and wearing bulky, blousy, oversize, or loose clothing (e.g., gloves, blouse, bra), including a "professional" shoplifter's coat with false pockets. More boosting techniques include carrying a large shopping bag with a smaller bag inside so that items can be hidden between the bags, taking the merchandise out of its packaging and discarding the packaging, using a false pregnancy device or a dummy cast and/or sling on an arm and filling the space with merchandise, concealing goods between legs, concealing small items inside paper towel or toilet paper rolls or hollowed-out books, and using a booster box, a package that appears to be wrapped and tied but actually opens at the side or bottom through spring action.

Some shoplifters will wear goods out of the store: They may conceal the goods under their own clothing, or they may remove the tags and wear stolen clothing or jewellery out of the store openly.

A shoplifter may create a diversion by asking to see more articles than the clerk can control, sending the clerk for more merchandise, or "accidentally" knocking merchandise off the counter or display case onto the floor. Some may appear to be "under the influence," or they may hand out literature or pamphlets or work with someone else who creates a diversion.

A brazen shoplifter may carry goods out of the store by displaying a fake or used receipt and calmly walking past store employees with large items such as portable televisions or luggage. They may steal items and then return them to the store for a refund or take items from the shelf and ask for a refund.

Shoplifters also may conceal items in the store for an accomplice to pick up later (e.g. fasten jewellery under the counter edge with chewing gum), stash merchandise in restrooms or under stairs for later retrieval

Returning stolen goods: Shoplifters may return previously stolen items in order to obtain cash refund. There are many variants of this including the purchase of the same product as

the one stolen and then using the genuine receipt to refund the stolen item, using a stolen or invalid cheque book/credit card to purchase items and then returning the goods and getting a cash refund, or simply by intimidating store staff and claiming that receipt-less items were genuinely purchased or were gifts.

Grazing: This happens when customers are consuming food and other products in the store.

Till snatches include offenders targeting till operators, demanding cash and this is usually carried out in a threatening or violent manner.

Burglary: This includes offenders entering a building, usually by force, when it is closed and removing goods and or cash.

● 'HOT PRODUCTS', 'HOT STORES' AND 'HOT STORE MANAGERS'

Some products are more vulnerable to theft than others, theft is more prevalent in some store locations within a city and some store managers report more shrinkage compared to their peers. The concept of hot products, hot stores and hot managers is crucial to retailers because without the detailed knowledge of vulnerable products, high theft incident stores and managers, it is unlikely that the desired shrinkage reductions will occur. But why are some products, stores and store managers more vulnerable to shrinkage?

HOT PRODUCTS

Hot products attract theft and their distribution helps to explain patterns of theft, including both hot spots and repeat victimization. Hot products can also help explain mini-crime waves caused by the sudden popularity of particular products such as training shoes or mobile phones. More important than their role in the explanation, is the potential role of hot products in helping to focus crime prevention efforts. A better understanding, of which products are 'hot', and why, would help businesses to protect themselves from theft and would help the police in advising them how to do this. To improve understanding, more information is required about which products are stolen in a variety of different contexts, and more refined theories are needed in terms of what makes these products 'hot'. It also requires studies of why particular product brands attract more theft than others. To assist in policy

making, studies are needed in terms of how much theft is generated by hot products, when and where they are most vulnerable, and what the costs involved are for businesses and the public. Hot or 'craves' products are those products which are available, valuable, enjoyable, disposable, removable and concealable or (Internet 39).

Available: There was no car theft before cars were invented .The importance of availability is revealed in theft waves resulting from the introduction of attractive new products, such as mobile phones or laptop computers, which quickly establish their own illegal market. At the retail level, availability is important in terms of the accessibility of 'hot products' to thieves. Availability may also be expressed in terms of the visibility of objects at the point of theft.

Valuable: Thieves will generally select the more valuable goods. This is particularly true of goods that are sold rather than kept. Goods taken for personal use obviously have value for thieves themselves. Two components, in particular, merit separate treatment and these are distinguished below: the enjoyment of owning and using particular goods and the ease or difficulty of selling them.

Enjoyable: Hot products are generally enjoyable things to own or consume such as alcoholic drinks, tobacco, cassettes, perhaps even condoms. This may reflect the pleasure-loving lifestyle of many thieves and the people who buy from them.

Disposable: Since many items are stolen to be sold to others, the thief will tend to select things that will be easy to sell.

Removable: Products that are easily moved are more likely to be stolen. Much security practice focuses on making valuable products less easy to remove.

Concealable: Items which cannot be concealed on the person are more difficult for the thief to remove. Those that cannot be concealed afterwards, or that are easy to identify later are also less likely to be stolen. This is one reason why students write their names in their books and why cars must be registered and licensed (Internet 40). In 2003 The Retail Security Guide has identified the following 'hot products' in South Africa (Internet 41).

Table 2.2 ‘HOT PRODUCTS IN SOUTH AFRICA’

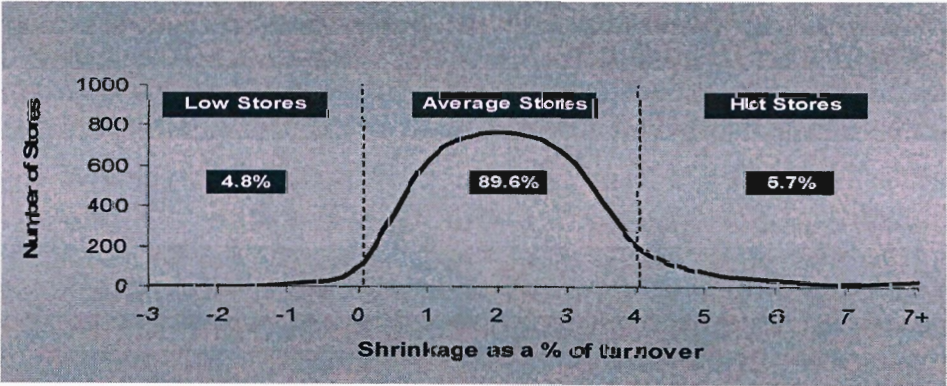
Books	Hardware	Goods
The Bible	Power tools	Batteries: Duracell
Concise Oxford Dictionary	Hand tools	Shaving blades: Gillett
Long Walk to Freedom	Circuit breakers	Headache tablets and Berocca
Witwatersrand Street Guide	Plumbing items	Facial cosmetics, Oil of Olay, and Camel cigarettes
	Padlocks	Cutlery sets
		Designer wear
		Canderal

(Source: Internet 41)

‘HOT STORES’

The risk of loss in the retail sector is not distributed evenly and that is why 3% of locations in some cities account for 50% of all recorded crime (Internet 13). The high risk situation of stores could be due to location, nature of stock, staff working on shift and long hours, racial differences, and store environment (Internet 42). Therefore a store located in a disadvantaged neighbourhood, with an assortment of ‘craved’ products, working on a twenty four hour basis and with poor security and weak anti-shrinkage culture is at high risk of theft.

FIGURE 2.4 SHRINKAGE TURNOVER AND STORE SUSCEPTIBILITY AND RISK TO THEFT



(Source: Internet 43)

As the diagram indicates in a sample of European retailers 4.8% out of the surveyed stores were low risk stores, 89.6% were average risk store and 5.7% were hot stores and shrinkage as percentage of turnover was the highest at hot stores.

‘HOT MANAGERS’

Loss prevention managers directly affect sales and profit by managing key item availability, employee and customer safety, and cash and other asset protection (Internet 44). Their role usually evolves as they are being assigned a broader scope of responsibility and dealing with non-crime issues may ultimately dilute their loss control effectiveness.

Loss prevention executives appear to be primarily tactically rather than strategically focused, and frequently team up with others to address the myriad issues they are faced with, but tend to work with operations and finance managers more frequently than with merchandise buyers. Secondly, these managers concentrate on inventory loss measures as a better indicator of performance than apprehension totals or service surveys by store managers. Thirdly, they also appear to look more often at overall measures rather than specific loss prevention efforts. Finally, the quality of management decision-making may be adversely affected by a lack of quality, evidence-based data (Internet 44).

Therefore, those strategic, solution-oriented, organized and well-informed store managers are more likely to report lower shrinkage, whereas those who fail to be strategic, uninformed and with poor communication lines with sister departments are going to experience more shrinkage and they are then termed ‘hot managers’ (Internet 44).

2.6.2.3 SUPPLIER FRAUD

According to a 2003 report from the Centre for Research (European Theft Barometer), for Western Europe in 2002/3, the average shrinkage rate caused by supplier fraud was 7%. When translated into cash this amounts to €1.89 billion. Supplier fraud includes the following categories (Internet 45):

Phantom delivery: Suppliers who claim to have delivered orders when they have not.

Invoice error: Suppliers who charge for more goods than were delivered.

Returns: Suppliers not crediting retailers for the full value of goods returned by them.

Quality/weight of items: Suppliers sending sub-quality products (compared to those stated in the original order) or delivering products that are below the original weight stated or expected (for example in the delivery of fresh food).

2.6.3 COMBATING SHRINKAGE

In the previous sections, the nature and main types of shrinkage were identified. The identification of shrinkage causes is not an end in itself. Shrinkage is a serious problem and retailers have to devise ways and means to prevent it. Depending on their specific circumstances, retailers have a wide range of alternative solutions from which they can choose. Whereas some solutions remedy a specific shrinkage problem, other solutions are multipurpose by nature. In the following paragraphs some basic guidelines, policies and organizational issues that have to be considered at a company level are discussed.

2.6.3.1 LOSS PREVENTION ORGANISATION

According to the Quebec Retail Survey Report of 2001, in Quebec the number of companies that have a separate loss prevention department have shown an increasing trend from time to time (Internet 19). Companies are not only establishing a separate department but they are also increasing the average budget for loss prevention. This survey shows the average loss prevention budget in Quebec is 1.5 % of total sales. This trend gives a clear indication that some organizations are giving more attention to the problem of shrinkage. The loss prevention department could be organized along the lines of the following three alternative forms. The department could be internal, external consultant or both. The study indicates that loss prevention departments are accountable to one of the following officials in a company; namely, board of directors, vice president of finance, vice president of human resources, vice president of operations or others (general manger, corporate services, vice president sales, and vice president loss prevention).

While 46% of loss prevention departments reported to the vice president of operations, 23% reported to vice president of finance, 12% reported to the board of directors and 7% reported to vice president of human resources. Therefore, loss prevention departments by and large are considered as part of and accountable to the operations group.

2.6.3.2 LOSS PREVENTION AND ASSET CONTROL POLICIES

Every company doing business in the retail sector is expected to have a loss prevention and asset control policy. The Quebec Retail Survey indicates that 96% of the retailers studied have loss prevention policy, whereas 4% were unable to draft a loss prevention and asset control policy. Such a policy contains issues such as void control, refund control, employee purchase plan, merchandise receiving plans, merchandise receiving controls, inter-store transfer controls, POS bar coding and scanning, controlled access to cash handling area, employee parcel checks, inventory bar and scanning, unobservable exit (back door) controls and trash removal controls.

2.6.3.3 LOSS PREVENTION AWARENESS PROGRAMMES

Internal theft of cash or merchandise could be committed by an employee, an employee in collusion with customers or vendors. Employees can make a difference in determining shrinkage level. According to the Quebec Retail Security Report 2001, in Quebec 89% of all respondents in the study claimed they have loss prevention programs while 11% of the respondents said that they do not have such programs.

Loss prevention programs are facilitated through employee guides, newsletters, bulletin board notices and posters, discussion during new hire orientation, periodic programs/lectures, honesty incentives training audio/ videotapes, codes of conduct and anonymous telephone or “hot line” for reporting incidents of theft.

2.6.3.4 EMPLOYEE INTEGRITY SCREENING

Employee integrity screening could be done by verifying past employment history, conducting multiple interviews, contacting personal references, carrying out credit card checks, educational record verification and criminal conviction checks. Most companies have some form of employee integrity checking. A well processed employee integrity checking will help retailers recruit more honest employees. In the Quebec Retail Shrinkage Survey 89% of respondents claimed that they have an employee integrity screening procedure. The remaining 11% claimed that they do not undertake integrity screening procedures. As discussed above, previous records and personal work related history give

employers ample information about the behaviour and honesty of job seekers. Hence, those who recruit without any form of integrity screening may end up employing many dishonest people and this will have a direct impact on the company's culture and profitability.

2.6.3.5 CREATING AN ANTI-SHRINKAGE CULTURE

A culture of employee participation has to be developed because it is a key factor in the success of loss prevention programs (Internet 46). The attitude and performance of employees is greatly influenced by the attitude and performance of management. Even though the customer is the king, employees should not be treated below the customer. Management has to show initiative and support so that all employees can follow in creating an anti-shrinkage culture. The process of creating a positive culture starts during pre-employment screening and continues during orientation. Employees have to be well-informed about the shrinkage policies of the organization, the consequences of stealing and alternative ways of theft reporting. Shrinkage is a moving target so periodic training helps to update employees about the latest developments. Employees should not be continually subjected to excessive work load pressure, unreasonable demands, constant criticism, or frequent threats by managers or supervisors. Workers have to be treated with respect as dissatisfaction due to work stress could lead employees to resort to revenge by stealing items from the company. Over cautious employees should not be criticized as this could lead to negligent behaviour. Finally, management has to make it easier for employees to call the manager or security for assistance by silent alarm, annunciator, intercom or telephone. So it is advisable to get employees involved in loss prevention programs. By doing so, management can easily achieve better results, because the program will always become one of the employees' priority so long as it is management's priority (Internet 47).

2.6.3.6 COMPANY-WIDE PRACTICES EMPLOYED TO CONTROL STOCK LOSS

Solutions adopted to tackle shrinkage can be broadly categorized under four headings. The solutions listed below have been grouped into four different types: procedures and routines; design and layout; equipment and technology; and people and processes. A brief discussion of stock loss reduction options is presented below and they are examples of the different approaches currently available and no attempt has been made to 'rate' their effectiveness. Detailed description of these solutions is listed in Appendix A (Internet 27).

Procedures and routines: This includes annual stock loss awareness campaigns, company wide stock loss refresher training, customer returns and refunds control (operator and customer data base), damaged goods resale controls, employee exit searches, hot product identification, hot product management, point of sale information, or data checks, random till cash checks, rigorous delivery checking procedures and shelf replenishment techniques.

People and processes: Anonymous phone lines, civil recovery, cover surveillance of customers and employees, employee awareness and training, employee incentives, employee integrity checks, stock audit function, internal compliance monitoring, internal security/loss prevention function, store detectives, test purchasing (mystery shopper) and security guards fall into this category.

Equipment and technology: such as CCTV, automated ordering processes, cash protection tactics and equipment, EAS hard and soft tagging, intruder alarm systems, protector display cases applied by retail outlets, secure lockers for employees, security sealed containers/shippers, shoplifting and theft policy posters and special theft display equipment.

Design and lay out: such as appropriate production location strategies, designing out blind spots, designing out crime program, distribution centre security storage, employees entry or exit access control, external security fences, anti-ram raid, roll, shutters, risk based design and layout, robust anti-theft packaging and single direction production flow.

A retailer has the option of applying one or a combination of the above shrinkage solutions. Most of the time organizations concentrate on shoplifting and become obsessed with a high level of technological solutions. Shoplifting contributes one third of all total shrinkage but 95% of the security budget is spent on reducing it. The problem of using high level technology as an ultimate answer to shrinkage is the tendency of the company to consider technology as the sole answer to shrinkage. High tech manufacturers have also contributed to this because their way is 'technology solution comes first and the problem follows'. The danger with such a tendency is that the more expensive technology is seen as the sole answer to shrinkage problem and companies can be locked into unfruitful relationship with suppliers.

2.6.3.7 SHRINKAGE PREVENTION STRATEGY

Shrinkage reduction demands careful problem diagnosis and solution implementation. The discussions above reveal that an understanding of shrinkage, its causes and solutions, is essential. The result of loss reduction efforts would be fruitful if and only if the identification of problems, evaluation of the causes and appraisal of the recommended solutions is done in a systematic way. As mentioned in the previous sections, given the uniqueness of each business environment, a single 'right' strategy for reducing shrinkage does not exist. But this assertion does not nullify the exchange of experiences and some sort of standardized solutions among businesses. The following shrinkage reduction guide or strategy has six steps and is the result of the hard work of the ECR Europe Shrinkage Reduction Team (Internet 27).

- STEP 0: RECOGNIZE THAT STOCK LOSS SHRINKS PROFIT AND SALES

At this stage the main objective is to recognize the fact that shrinkage exists and is a serious problem and it requires some approaches to minimize its effect. The annual European businesses loss of €27,258 million is an indication of the seriousness of the problem; so a systematic diagnosis and approaches to tackling the problem should be considered. This will call for a structured approach and a systematic strategic policy deployment. The following two tables are tools which retailers can use to benchmark their loss prevention practice.

TABLE 2.3 CONCEPTUAL APPROACHES TO STOCK LOSS REDUCTION

Rating Category	Ad hoc	First steps	Systematic practice	Strategic policy deployment
Philosophy	shrinkage is not an identified issue	Reactive fire fighting with emphasis on detection	Emphasis on detection and prevention	Strategy led systematic approach
Accountability	Nobody is accountable for shrinkage	Accountability lies primarily with the store manager	Special security/loss prevention and audit departments.	All departments have stock loss accountability and are measuring their target as frequently as sales
Responsibility	shrinkage not seen as priority therefore nobody takes responsibility for it	Board sees stock loss as a 'cost of doing businesses. Responsibility for stock loss is not taken centrally but by local alternatives	Security/loss prevention and audit departments but not responsible to the Board.	Board receives stock loss quarterly. Head of stock loss reports to board. All departments have responsibility for stock loss and producing quarterly reports on it
Culture	Staff not used	Some effort made to use staff through raising awareness and encouraging honesty	Staff receives an ongoing training to tackle shrinkage methods adopted to screen new staff	All staff carefully screened and then seen as the main defence against crime. Staff used as the main resource for better prevention

TABLE 2.4 COMPANY WIDE PRACTICES USED TO COMBAT SHRINKAGE

Rating Category	Ad hoc	First steps	Systematic practices	Strategic policy deployment
Intra organizational collaboration	none	Some cooperation between security/loss prevention and audit departments, and store staff. Occasional pilot projects	Security and loss departments occasionally liaise with other departments but on specific problems only	Regular cross functional dialogue to design out stock loss through the supply chain
Inter organizational collaboration	none	Pilot projects with isolated suppliers/customers based upon ad hoc arrangements	Occasional projects to resolve specific problems with suppliers, customers and trade bodies.	Regular inter organizational process evaluation and coordinated action on joint projects. External collaboration with other groups such as retailers, trade bodies, suppliers, police.
Data availability	Annual inventory counts undertaken with stock loss data recorded at store/department level only and not available electronically	Annual inventory counts undertaken and computerized centralized data available for some stock loss problems (process failures)	Annual inventory counts with supplementary checks on 'at risk products'. Computerized records of most stock loss collected centrally	Annual inventory counts topped up with more frequent counts for hot products, with all data recorded in electronic format. Reports on stock loss performance issued as frequent as sales reports.
Data analysis	No analysis performed on stock loss	Emphasis on summarizing inventory counts and process failure data	Regular analysis of most types of stock loss including company- wide and store- specific profiles overtime	Regular data mining. Analysis tools used to identify patterns, adjustment data used to get to line level losses
Evaluation of effectiveness of efforts	Not done-considered far too hard	Occasional or one off reviews	Regular internal reviews	Ongoing evaluation with all supply chain partners

Source : (Internet 27)

The above bench marking tools (Figures 2.3 and 2.4) show the level and sophistication of the orientation of combating shrinkage ranging from Ad hoc practices to strategic policy deployment. Therefore a retailer has to evaluate its shrinkage philosophy and practice in order to achieve the maximum level of strategic policy deployment.

- STEP 1: DEVELOP A STRATEGIC PLAN

A systematic approach to loss reduction involves setting objectives, working with the actors in the supply chain, inter and intra-departmental coordination, learning from the experience of others, computerized data capturing and analysis and the evaluation of efforts. Current research reveals that businesses are not collaborating and the availability, analysis and evaluation of data is minimal.

The first step in the systematic approach to stock loss reduction is planning. Planning is based upon clear, realistic, attainable objectives with measurement criteria for knowing when these objectives have been met. This requires the project team responsible for delivering reductions to have answers to the following questions:

- What is the supply chain process to be improved?
- When does the improvement of this supply chain process start and finish?
- What are the goals of the stock loss reduction activity?
- When is the date by which some benefits must be felt?
- What are the attributes of the ideal supply process?
- What are the constraints to improvement?
- What are the stock loss threats faced by the company?

The activities of the project team are best directed if the answers to the above questions are undertaken in a satisfactory manner. An organization undertaking a stock loss reduction project will benefit from knowing how its approach to shrinkage stands in comparison to best practice within the industry. This can be determined by making an assessment of the existing efforts and practices that a company applies to its stock loss prevention, against the conceptual approach.

● STEP 2: MAP KEY PROCESSES AND MEASURE PROBLEM

A rigorous diagnosis of the problem is a starting point to reducing stock loss. This diagnosis is well facilitated by understanding the nature of the losses and then identifying their causes. The project team members have to understand the processes in the supply chain and this helps them to easily identify problems. Process models need to be documented and communicated so that individuals would start to view their jobs in terms of process and this would help in facilitating change. Without the ability to communicate the need for improvement from this perspective, employees who fail to view their current activities in process terms are not likely to readily adopt change.

‘HOT PRODUCTS’

Hot products are those items “craved” by thieves so identification of these products helps the retailer to concentrate its effort and resources on the main problem areas. While the concept of hot products refers mainly to items that are stolen, lessons learnt from closely monitoring their progress throughout the entire supply chain may have more generalized benefits for improving the processes used to move these, and all other products.

MEASURING THE PROBLEM

Within the FMCG sector, most retailers keep records of supplier fraud and process failures, but few keep computerized records of internal and external theft, either at a company or store level and the same holds true for manufacturers. The experience is majority of the FMCG participants kept either no record whatsoever or only paper files. The use of computerized databases and information-led strategic approach helps retailers to identify trends in the constantly changing world. The levels of loss in deliveries to a site, from a site and at a site are the main measures of stock loss required in order to determine and understand loss. These measures allow an assessment that involves all stake holders in the supply chain and value chain. In addition, it is necessary to collect data on the type of circumstances, nature and timing of shrinkage incident.

Therefore, companies need to develop an approach that is systematic and part of an ongoing process for collecting and collating timely and useful information that describes patterns,

trends and information on stock loss throughout the supply chain, from first delivery to final checkout.

- STEP 3: ANALYZE RISK, IDENTIFY CAUSES AND PRIORITIZE ACTIONS

After mapping and measuring current operation, the data should be analyzed to understand and describe exactly what is wrong. With this understanding, the causes of problems can be identified.

CAUSE AND EFFECT ANALYSIS

Once the process is documented as a system, the major causes of stock loss need to be identified from the trivial once. This would enable loss reduction personnel to exert their efforts on major problem areas. Brain storming sessions and lessons from previous projects facilitate the identification of major causes. Statistical tools are important for this purpose but the experience of those people who are at the forefront in the process should be exploited.

- STEP 4: DEVELOP SOLUTIONS AND PRIORITIES ACTIONS

It is not uncommon for organizations to start their stock loss reduction efforts at the solution stage. The diversity of technology solutions for loss reduction is so wide; a solution selected without duly assessing the previous three steps is more likely to choose a costly technology that may not solve the problem at hand. A series of options are presented in Appendix A. The solutions and priorities stage comprises designing technical solutions, defining skills/staffing needs and specifying organizational structure. Designing particular solutions into the practices and procedures of an organization can be undertaken through a clean sheet or by renovating existing operations. The clean sheet approach sets existing systems to one side and starts afresh whereas renovating existing processes builds upon the capabilities that have accumulated through the years. Once new processes and systems are developed they should be accompanied by new performance measurement. Tools such as the balanced score card ensure if performance is up to the standard and the standard could be for example, results of bench marking with other, for example, a retailers hot products against that of another retailer's hot products.

● STEP 5: IMPLEMENT SOLUTIONS

The implementation of the solution that will reduce stock loss requires project planning. This stage requires developing implementation plans, implementing the pilot plan, monitoring progress and refining the rollout. Successful projects require a sponsor to be responsible for delivering the benefits of the project. Like all successful projects, implementation needs the support of top management.

At this stage the outcomes of implementation, sources of resources and cost limitations need to be clearly identified. Here loss prevention experts have to apply project management tools so that better results could be obtained and must include the following tasks:

- Identify the overall tasks needed to complete the project
- Show the interrelationships between tasks and the sequence in which they can be undertaken on a network diagram
- Estimate the types and amount of effort needed to complete these tasks
- Calculate the resource profile over time to complete the project
- Identify potential risks to successful project delivery
- Mitigate risks or plan contingency
- Iterate the plan to match it against resource availability
- Secure resources
- Put in place procedures for evaluation

● STEP 6: EVALUATE IMPLEMENTATION

Once the project is implemented the next logical step is evaluation of the project according to the performance measures or benchmarks set in the preceding stages. The effectiveness of the loss prevention project, the costs and the time used up, the procedures and systems adopted need to be evaluated and this would help to guide subsequent loss prevention projects that would be implemented in order to match future developments in the supply chain including new systems and resourcefulness of criminals. Evaluation should be free from biases and objective and to achieve this, evaluation should be done by people who are external to the project. So long as it contravenes with their interests, people who commissioned the project and equipment suppliers may manipulate the outcomes of

evaluation; hence, evaluation should be led by those people who can provide an objective and robust evaluation. Finally, periodic review will enable the retailer to evaluate the ongoing effectiveness of the new loss prevention system meaning that as the circumstances of the store and the environment change, new loss prevention systems need to be adopted.

2.7 SUMMARY

To summarize, self-service, wider product assortment, a complex inbound and outbound supply chain, psychological, social and economic situations of both employees and customers have exposed retailers to shrinkage. Shrinkage is the loss of retailers' property caused by employee theft, supplier fraud, external theft and process failures. Out of the four major causes of shrinkage the main problems are losses caused by employee and customer theft. In Europe customer theft is the main cause of shrinkage whereas in The United States employee theft is the culprit. In South Africa there has not been a survey conducted to evaluate the relative contribution of the causes of shrinkage. Shrinkage is recognized by almost all retailers as a main problem area which shrinks profits and diverts the focus of managers as their time is spent in following up and even attending court cases. Shrinkage also has a negative impact on the relationship between retailers, employees and customers. If the retailer persists thinking that both customers and employees are potential offenders, the value of these very important participants may diminish due to the mistrust conceived in the retailer's mind.

After identifying the cause of shrinkage the next step is to find solutions. The list of solutions is wide but it can be categorized under four headings; namely, procedures and routines, people and processes, equipment and technology and design and layout.

People and processes solutions emphasize educating, motivating, controlling and disciplining employees and implementing work processes that help to detect and prevent losses. The detection and prevention is also facilitated by people and processes. Equipment and technology solutions concentrate on the application of technology (such as CCTV) to combat shrinkage. The existing technology is diverse and the tendency of retailers to view technology as the sole solution is not productive. Design and layout solutions involve designing and redesigning the store layout so that thieves no longer find conducive environment in which to steal. This includes light illumination, identifying blind spots, use

of mirrors, erecting fences and the location of reception, cash tills, supervisors, sales people and hot products. Finally, procedures and routines solutions include events such as annual stock loss awareness campaigns, company wide stock loss refresher training, customer returns and refunds control (operator and customer data base), damaged goods resale controls, employee exit searches, hot product identification, hot product management, point of sale information, or data checks, random till cash checks, rigorous delivery checking procedures and shelf replenishment techniques.

As stated above, the list of solutions is wide but the main challenge is to identify the main problem and to align the solution to the problem at hand. Instead of prescribing random and uncoordinated solutions, retailers are advised to make use of a retail shrinkage strategy. The main steps in the strategy are shrinkage awareness, planning, identification of causes, identification of solutions, implementation and evaluation. This strategic approach could not succeed without proper data gathering, recording and analysis tools. In addition to that, a single handed effort cannot bring about the required outcomes and collaboration among the stakeholders in the retail sector is crucial. In the following chapter the case and analysis of findings for the Checkers store will be discussed.

CHAPTER 3: CASE AND DISCUSSION OF FINDINGS (CHECKERS)

The Checkers store under study belongs to the Shoprite Group. Therefore, an overview of Shoprite is followed by some background information about the specific Checkers store selected for this research. Then, it follows the discussion of findings for the store.

3.1 INTRODUCTION

In this chapter the discussion starts with the background information of the South African retail industry followed by a detailed overview of Shoprite Checkers. History, organization, mission, philosophy, market standing, manpower, products and future plan of the retailer are discussed in detail. Most of the information about Shoprite and Checkers is found on the company's website (Internet 48). Then, based on the literature review, a thorough analysis of the findings follows. In the analysis, the main areas of concern are the size, causes of, and solutions to shrinkage and the approach of loss prevention adopted by the Shoprite Checkers store which was selected for purposes of this research.

3.2 SOUTH AFRICAN RETAIL INDUSTRY

Due to the prevailing competition South African retailers have explored ways in which to improve margins through greater efficiencies and reductions in operating costs. The result is an investment in technology at both the back (supplier/warehousing) and front end (Point of Sale) of the value chain. Other strategies include a rising demand for outsourcing non-core operations, mostly in the area of administrative and business/technical support services. The South African market is highly brand conscious, with a number of very strong consumer brands. In food retailing, where the market is highly concentrated, there is a balance of power within the supply chain. However, in the more fragmented apparel market, it has been more difficult for retailers to push through price changes without a significant impact on trading volumes (Internet 3).

While the African market has tended towards bulk/discount shops, South Africa has seen a rise in consumer demand for convenience shopping. Most retailers are rolling out smaller convenience shop formats through their franchise divisions. Other link-ups include fuel

stations, which have begun to combine fuel sales with 24 hour retail outlets, banking facilities and fast food services.

To maintain profitable growth, food retailers have expanded outside of their traditional income groups. Pick'n Pay is expanding its offering to attract high to lower end consumers through higher margin meals and rural acquisitions, respectively. Spar has expanded its supermarket brand (SuperSpar) to compete more directly with Pick'n Pay. Shoprite, too, has re-branded its Checkers chain to compete head-on for Pick'n Pay's core mid-market consumer. Finally, Woolworths Food is looking to refocus its efforts to capture consumers from a wider income spectrum.

Three core strategies have emerged; international expansion, a heavy store rollout program, and acquisition of a similar or complimentary operation. Two other markets, which have proved to be very profitable for apparel retailers, are the sale of cellular handsets and packages and financial services. In some instances, cellular sales account for as much as 15% of turnover (Internet 3). In such a trading environment, loss reduction is expected to boost the profit of retailers. In the following paragraphs an overview of the Shoprite Group then, an overview of the Checkers store especially relevant for this research will be given.

In order to accurately portray the ethos and corporate identity of the Checkers and Woolworths brands, it has been necessary to take much of the information in the case section of Chapter Three and Chapter Four directly from their websites as indicated in the body of the cases (Internet 5, Intern 48 and Internet 49).

3.3 SHOPRITE

3.3.1 SHOPRITE OVERVIEW

The Shoprite Group of Companies, Africa's largest food retailer, operates 688 corporate outlets and has a reported revenue of R13,4 billion for the six months ended 31 December 2003 (2002: R12,6 billion). The Company's headquarters is situated in the Western Cape province of South Africa, and the Group currently trades in 15 African countries, apart from its diverse interests throughout South Africa.

Shoprite Holdings Ltd is a public company listed on the JSE Securities Exchange and its ownership therefore lies in the hands of its more than 6000 shareholders. The Group is currently implementing a strategic expansion program throughout Africa and on the adjoining islands to maintain its position as the leading food retailer on the continent.

3.3.2 SHOPRITE GROUP HISTORY

The Shoprite Group of Companies started from small beginnings in 1979 with the purchase of a chain of 8 Cape-based supermarkets for R1 million. The next 24 years were marked by various acquisitions and innovative expansion strategies that resulted in it becoming the R25 billion businesses that Shoprite is today. Within four years of listing on the JSE, Shoprite increased its outlets four-fold by acquiring Grand Bazaars, and the next year in 1991, it grew almost six-fold with the acquisition of the national Checkers chain of supermarkets. While consolidating that new business, which for the first time gave Shoprite country-wide representation, expansion plans for the rest of the continent were into action and by 1995 the Group was able to open its first store in Central Africa. That same year Shoprite utilized a golden opportunity to increase its distribution substantially by acquiring the central buying organization then known as Sentra, which acted as a buying group for 550 owner-manager supermarket members. Shoprite thus entered into the franchising field, enabling it to compete in smaller markets where the emphasis is on convenience.

In 1997 the Group acquired the ailing OK Bazaars Group in the now legendary "R1billion deal". This strategic expansion move added 157 super- and hyper sized supermarkets and 146 Furniture stores to the Group. In 2001 Shoprite realized another ambition when stores were opened in North Africa: 5 Shoprite supermarkets are now trading successfully in Egypt.

In October 2002 the acquisition of the French-owned Champion supermarket group in Madagascar enabled Shoprite to take control of five supermarkets which now trade under the Shoprite banner, and one distribution centre. In November 2002 the Group opened its first outlet in Mauritius, the first Shoprite Hyper beyond South African borders, and made Group history by achieving the highest turnover ever recorded for a single opening day of trade. The year 2002 had a high note with the acquisition of Score Supermarkets' Tanzanian operation - three supermarkets and a small distribution centre which became effective on 31 December. Today Shoprite trades through 107 outlets in 15 countries outside of the Republic

of South Africa while its South African operation totals 574 corporate outlets, bringing the total number of corporate stores in the Group to 681 at the end of December 2003. Over the past 9 years, Shoprite has expanded its thrust northward beyond the South African borders. Currently, 100 outlets serve consumers in the 15 African countries outside of South Africa. In each of these countries Angola, Ghana, Egypt, Mauritius, Madagascar, Uganda, Zambia, Tanzania, Mozambique, Zimbabwe, Namibia, Lesotho, Swaziland, Botswana and Malawi Shoprite has created world-class supermarkets.

Towards the end of 2004, Shoprite will for the first time enjoy representation beyond the African continent when it opens its first supermarket in Mumbai in India. The Group is the first South African retailer to penetrate the Indian subcontinent, a step taken in consultation with local partners.

Shoprite's long-term aim is to increase the operating income from its non-South African operations to more than 50 percent of Group revenue. Expansion beyond the borders of South Africa is an essential development for Shoprite as the potential for more large supermarkets in the country has almost reached saturation point. The Group's expansion program into the rest of Africa has also resulted in the creation of a substantial export market for South African producers and manufacturers. The retail value of their products passing through the pay points of the Group's foreign stores during the 2002/2003 fiscal year exceeded R2 billion.

By opening stores across the continent, the Shoprite Group of Companies is assisting with the enlistment program of other countries in Africa by creating both job and skills development opportunities. The Company currently provides employment to more than 7 400 local nationals in its non-South African operations.

3.3.3 MISSION

The guiding mission of the Shoprite Group of Companies is to be the consumer's preferred shopping destination, by retailing food and non-food at the lowest prices from conveniently located outlets in an environment that is conducive to shopping.

3.3.4 PHILOSOPHY

The Group realizes its low-price policy by continuously finding ways to reduce costs in the supply chain. Shoprite buys in bulk from both local and overseas manufacturers, it cuts out the middle-man by buying directly from suppliers; and it operates 17 technologically advanced distribution centre from which central delivery of grocery products, non-food and fresh produce to stores all over Africa takes place in a cost effective way.

At store level, staff and management are trained to enforce the Group's Consumer Policies geared at ensuring a satisfying and convenient shopping experience. While embracing the International Code of Consumer Rights, the Group encourages and welcomes feed-back from its customers in order to live up to evolving consumer needs. Its commitment to consumer education is underscored by its informative range of consumer leaflets that are distributed through its supermarkets throughout Africa, free of charge.

3.3.5 THE GROUP

Shoprite Holdings Ltd comprises the following entities: the Shoprite Checkers supermarket group, which consists of 318 Shoprite supermarkets, 83 Checkers supermarkets, Freshmark with 19 fresh produce distribution centers, 148 OK Furniture outlets, 19 Checkers Hypers, 48 Usave supermarkets, 23 House and Home stores, and 50 Hungry Lion fast food outlets. Through its OK Franchise Division, the Group procures and distributes stock to 31 OK MiniMark convenience stores, 28 OK Foods supermarkets, 43 OK Grocer stores, five 8'Till Late outlets, 78 Megasave wholesale stores, and 135 Sentra, Value stores and buying partners.

3.3.6 CUSTOMER PROFILE

The Shoprite Group has a broad customer base consisting of some 10 million people, which closely mirrors the demographic profile of the country. The various store formats within the Group cater for the mass middle market with the Checkers, Checkers Hyper and House & Home stores focusing on the middle to upper end of the market and Shoprite and OK Furniture focusing on the broad middle to lower market.

3.3.7 MARKET STANDING

Shoprite enjoys a reputation for offering best-value merchandise to consumers at the lowest prices, which they can always trust. Not only has this been substantiated by independent market research companies, but price surveys conducted by consumer groups and the media regularly confirm that the Group remains the price leader in its field.

Through the years, supermarkets in the Shoprite stable have proved to be firm favorites with South African consumers. The recent Trade Search Omnibus study conducted by internationally acclaimed research company AC Nielsen revealed that 70.5% of South African households do their shopping at the Group's Shoprite and Checkers outlets.

3.3.8 CORPORATE DISTINCTIONS

In 2001 F&T Finance Week measured the growth ratios of top companies and Shoprite was the top performer on earnings per share over 10 years. In the 2002 Markinor-Sunday Times Top Brands Survey Shoprite Checkers scored 4th place in the Most Loved Every-Day South African Brand category and 5th place in the Top 10 Most Admired Companies category. The Checkers brand shared the first place on a brand relationship score in the Grocery Store Sector, Shoprite was ranked 2nd, Shoprite Checkers 3rd and the OK brand took 4th place. In Financial Mail's Top Company Survey of 2001 Shoprite Holdings was placed 58th in the ranking by market capitalization of the Top 150 Market Leaders. In the retail sector the company ranked 3rd by market capitalization. Shoprite was placed 4th in the survey on staff numbers and productivity (Internet 3).

3.3.9 INFORMATION TECHNOLOGY

During the 2003 financial year Shoprite's investment in its information technology infrastructure led to the implementation of a central e-business technology platform, replacing the existing mainframe structure. To accomplish this, more than 7, 5 million lines of code were replaced in under 11 months. The Group realized its objective of developing common integration architecture that provides the flexibility to communicate with any software platform in a common language. Its Business-to-Business exchange connects with all suppliers, branches and buyers on a range of 206 000 stock keeping units (SKU's), processing 8.7 million item orders per month. All stores will have full scanning capability by 2004 and, to this end up to seven stores are being converted every week.

These advances allow the Group to trade in any country, in any currency and in any language, as a retail and wholesale operation from one location. Its continuing African expansion will be supported by the ability to trade with or without a telecommunications network.

3.3.10 SUPPLY CHAIN MANAGEMENT

Having invested heavily in infrastructure and technology, Shoprite differentiates itself from conventional South African retailers relying on vendor's direct-to-store deliveries, by controlling its supply chain. In 2003 service levels achieved at its 12 distribution centers exceeded those of vendors by some 10%. During the period Shoprite took occupation of a further 81,000 m² of distribution space in Centurion. These new refrigeration and ambient distribution facilities are the largest on the African continent.

3.3.11 OUTLOOK

Food retailing in South Africa is highly competitive and the Group is cautious in expanding its business in this market, and will not buy market share at the expense of earnings. However, the increasing demand for convenience stores in South Africa provides an opportunity for growth, and the continuing consolidation of the Group's franchise operations under the OK banner is expected to improve its share of this market. At the same time, opportunities not covered by any of the Group's established store formats will be pursued through Usave. The Group is interested in pursuing growth outside South Africa by using all opportunities meeting the Group's required rate of return of 30% after two years on capital employed, to realize its stated objective of achieving 50% of earnings outside South Africa in the medium term.

3.3.12 CHECKERS

As part of a brand rationalization program, it was decided to re-brand the Hyperama to Checkers Hyper. The transformation was well received by consumers. As part of the process, stores with unprofitable retail space were downsized to improve trading densities. More attention was placed on the developing of non-food ranges, which drives the hyper store format, by restructuring its buying department. The repositioning of the Checkers brand to fit

in between Woolworths and Pick 'n Pay corporate stores continues, with a lot of emphasis being placed on developing convenience and added value fresh product ranges. The aim is to add value to the consumers' shopping experience resulting in stronger brand loyalty. The Checkers brand caters for the middle to top end of the market and today provides a product range suitable for the discerning shopper in a world-class retail environment. The brand boasts two store-formats namely Supermarkets and large-format Hyper stores.

Further motivation to take over Checkers was to save the chain financially, and to also save the jobs of its thousands of employees. To achieve this, the two brands were merged regardless of the fact that Shoprite catered for the broad middle to lower consumer market, while Checkers targeted the middle to upper income groups. Checkers stores were integrated with Shoprite strategically by keeping the brand name Checkers for those stores that were financially viable and that were located in the corresponding target market. Checkers stores, which were more suitable to the Shoprite profile in terms of their location and customer base, were converted to Shoprite stores and the non-viable ones were closed down. The effectiveness of the program is reflected in a customer growth of 6% over last year, delivering same-store sales growth of 15.45% for the year and the full impact of the re-branding and repositioning program will be evident in the medium term – three to four years. The store, with which this research paper deals employs 120 persons out of which are 85% sales personnel and 15% are management staff. The composition of the workforce is 70% part time and 30% fulltime. The stores gross margin is 15%. The store undertakes stock inventory quarterly. The store does not have a loss prevention department and the annual sales for the store is R30 million.

3.4 ANALYSIS AND DISCUSSION OF FINDINGS (CHECKERS)

The analysis concentrates mainly on what is currently happening regarding shrinkage. The causes of shrinkage, the size and the solutions are discussed based on the theoretical frame work discussed in chapter 2.

3.4.1 HOW SHRINKAGE AFFECTS THE PERFORMANCE OF CHECKERS?

According to the explanations of the store manager, at Checkers, shrinkage affects direct costs, indirect costs, customer service and the productivity of workers. He stressed that when

goods are lost the direct costs of acquiring them and indirect costs incurred in procuring stock such as shipment costs increase and this finally affects the bottom line. High shrinkage prevalence also affects the trust and relationship between the retailer, customers and employees. The lack of trust among these stakeholders affects the productivity of the store.

3.4.2 SHRINKAGE SIZE, CHECKERS

At the Checkers store, the size of shrinkage for 2002 and 2003 was R360, 000 (1.2% of sales) and R300,000 (1% of sales), respectively.

Table 3.1 SHRINKAGE SIZE IN RAND & AS PERCENTAGE OF TURNOVER

Year	Shrinkage in Rand	Shrinkage as percentage of sales
2002	360,000	1.2%
2003	300,000	1%

(Source: From the Interview with the store manager)

Compared to the South African Average rate of 2% shrinkage these rates are lower; hence, the rate of shrinkage at the store is very low by South African standards. The rate is similar to that of France and Germany. The store believes the improvement of shrinkage rate in 2003 over that of 2002 is attributed to better surveillance.

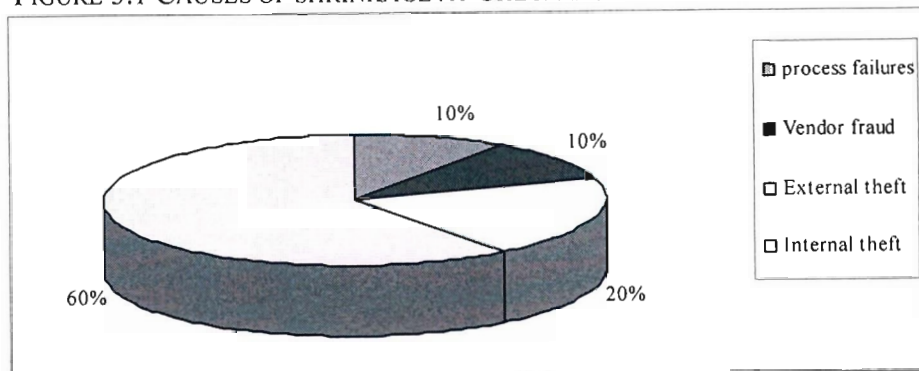
3.4.3 HOW DOES CHECKERS CALCULATE SHRINKAGE?

From the three methods of calculating shrinkage the store utilizes the full retail method. According to the store manager this method is applied because it is in line with the Generally Accepted Accounting Principles (GAAP). The use of this method seems logical because when goods are lost/stolen the firm losses not only are the costs of the goods lost but also the profits which were to be earned, had the goods been sold to customers.

3.4.4 CAUSES OF SHRINKAGE AT CHECKERS

Even though some employers tend to ignore or downplay the true picture of employee theft, at Checkers, employee theft makes up 60% of inventory shrinkage. External theft is 20%. Administrative and paperwork error (process failure) 10% and vendor (supplier) fraud contributes 10% towards inventory shrinkage.

FIGURE 3.1 CAUSES OF SHRINKAGE AT CHECKERS



(Source: from the interview conducted with the store manager)

TABLE 3.2 COMPARISONS OF SHRINKAGE CAUSES

Shrinkage Causes	Western Europe %	Canada %	United States %	South Africa %	Checkers store %
Employee theft	28	40	47	Not available	60
External theft	48	35	32	n/a	20
Supplier fraud	7	7	6	n/a	10
Process failures	17	18	15	n/a	10

(Source: European theft barometer (Internet 22), Canadian retail security council (Internet 23), National retail security report (Internet 24) and South African Retail Industry (Internet 25 and Internet 26))

From the above table one can observe that in all the selected 'entities', employee and customer theft claim more than 75% of all losses. Employee theft at the Checkers store is very high and the trend is similar to that of the US and Canada. On the other hand, for Western Europe the main problem is external theft at 48%. Process failure is the highest in Canada at a rate of 18% and Supplier fraud is the highest at the South African Checkers store 10%. As far as could be ascertained, such surveys are not carried in the South African retail

sector and the only option at hand is to compare the individual store's rates with the rates and trends in other countries. I am stressing on this subject because I was not able to find similar data from the Woolworths store under study and I feel there is a gap to be filled so that a sound comparison can be made in the South African context.

3.4.4 NON MALICIOUS SHRINKAGE AT CHECKERS

Non malicious shrinkage includes mainly process failures. Process failures happen without the malicious intention of those people involved in the supply chain. In this section the nature of process failures at the Checkers store and the methods applied to contain it are discussed.

- PROCESS FAILURES AT CHECKERS

Concerning non-malicious shrinkage the main causes of process failures at Checkers are scanning errors, damage to stock, and the lack of matching 'theoretical' and physical inventory record. At Checkers, scanning errors occur when staff members incorrectly scan products on the shelf causing errors in the inventory. Staff members also forget to scan products or incorrectly enter the product identification code. Goods at the store are sometimes damaged during storage and distribution. In this store foodstuffs which are sensitive to heat, are damaged when correct methods of storing them are not strictly adhered to.

The Checkers store faces problems during the capture of stock related data. While capturing data clerks make mistakes. For the purposes of check and balances, data capturing staff and stock keeping staff are segregated. A third party called the invoice reconciliation clerk matches the data from the data capturing stock clerk with the data from the stock keepers inventory sheet so that mistakes made by either party able to be identified and reconciled. Though process failures are unintentional, the store manager has highlighted, they create lots of problems and confusion because without correct stock data the manager is not in a position to make the right decisions.

3.4.5 MALICIOUS SHRINKAGE AT CHECKERS

According to the store manager, the main causes for malicious shrinkage such as theft and fraud are economic motives, social stress and light punishment given to offenders. He pointed out that employees and customers with lower incomes and those who are under stress from social obligations are more inclined to steal from the store because they want to supplement their income by stealing. The severity of punishment is also relevant because the punishment for those caught stealing is so light that those people with lower incomes and social stresses have no fear of stealing from retailers.

3.4.5.1 HOW ARE THE SHOPLIFTERS STEALING FROM CHECKERS?

The store manager has revealed that, in the store where he manages, shoplifters usually operate during peak business hours so they make it difficult for monitoring. Most of the time shoplifters conceal items in their bags and in their clothes. To minimize swap theft, the store keeps only a small number of the items on the shelf which are mostly targeted by offenders. Other commonly used method of stealing, which is difficult to detect, is when thieves open a packaged product and put expensive stolen items inside the package. The sensor in the point of sale (POS) recognizes the Bar code on the outside of the package but is not able to identify the products inside; shoplifters are able to walk out of the store with the stolen items. Another way of stealing is that thieves pack vegetables and take them to the scale for weighing but after weighing the product instead of going to the cashier they fill the package with additional stolen things and leave the store with the stolen items, undetected. As long as the scanner is not able to identify the stolen products which are inside the package, it is easier for the thieves to steal many small size and valuable products which finally made their way for sale in the flea market.

3.4.5.2 'HOT PRODUCTS', 'HOT STORES' AND 'HOT STORE MANAGERS' AT CHECKERS

The concept of hot products, products which are mainly targeted by thieves, has great relevance in the store under study. In Checkers the list of hot products includes mainly deodorants, blades and car polish. These products are easy to conceal and are either consumed by the shoplifters themselves or disposed of because they are easy to sell at a flea

market. As mentioned above, these products are so highly targeted by thieves that only small amounts of them are kept on the shelf. Besides that, these products are counted at least four times a day and a comparison is made between the actual stock and inventory register stock. By making intensive daily inventory of these products the store will be able to know what is happening with these products and takes preventive measures. The counting and recounting of these items through the bar code stock control system helps the store to instantly determine whether these items are sold or stolen.

In order to avoid 'hot managers', top management at Shoprite Checkers applies both 'carrot' and 'stick' methods. Top management exerts a lot of pressure on store managers to reduce shrinkage. In addition to that those store managers who are able to reduce shrinkage are given bonuses. Therefore, the pressure from the top management is an act of awakening those managers with higher shrinkage reports, whereas the incentive motivates managers to contain shrinkage at their stores. Therefore, the incentive system and the pressure from top management motives store managers to implement the necessary internal controls important to reduce loss.

The most common store size of Checkers is between 7500-1999 square meters. The store manager's understanding is "the bigger the store the difficult it becomes to monitor it." As compared to big (super) stores, the small and medium-sized stores are relatively easy to monitor. The store manager has also explained that his store is located in middle income area and the risk of loss due to theft is average. According to the store manager's experience, stores located in a low income area are more prone to shrinkage because the residents in the environs of the business will try to supplement their lower incomes by stealing from retailers. The store manager has also noted that those businesses in the central business district (CBD) attract all sorts of people from all directions and are subject to both opportunist and professional thieves.

3.4.5.3 INTERNAL THEFT AT CHECKERS

While discussing the causes of shrinkage, it was noted that at The Checkers store, employee shrinkage contributes 60% of total shrinkage. In this store, employees are more difficult to control because they know the internal controls of the store and they are able to easily manipulate these controls to their own advantage. Also key shrinkage areas are exploited by collusion between two or more staff or staff and customers. At Checkers, employees are not

allowed to buy second grade or damaged products at a marked down prices because this practice tempts employees to intentionally damage stock.

According to the store manager everyone has the potential to steal and every one-whether he is management, high income earning, lower income earning, young or old staff is a suspect. According to the store manager's exposure, the store catches all types of people stealing. Suspecting and treating everyone as a potential thief could possibly dilute the level of trust and the bond of relationship required in a good working environment. The idea that "Everyone is a potential thief or suspect" seems to contradict with the notion that "everyone is innocent until caught stealing and declared guilty by the relevant authority". A further study of the profile of shoplifters, though beyond the scope of this research, gives clues as to the sex, behaviour, lifestyle, age, mindset, economic and social background of shoplifters.

3.4.5.4 SUPPLIER FRAUD AT THE CHECKERS STORE

At Checkers the number of suppliers who intentionally deliver goods inconsistent with the order is very low. When a supplier commits fraud by delivering less items or inferior quality stock, ECR South Africa notifies all retail stores via the Internet. Eventually, such fraudulent suppliers will be black listed. Suppliers are aware of the consequences of fraud; hence, ECR South Africa's warning mechanism is a deterrent of fraud by vendors.

3.4.5.5 RETAIL CRIME INCIDENT AT CHECKERS

On average, six persons per month or 72 persons per year are intercepted shoplifting. From those intercepted shoplifters about 86% are arrested and prosecuted for criminal conviction and civil demands. Employee theft interception is 24 employees per year of which 75% of them are arrested on criminal charges and civil demands. In 2003 the number of employees arrested for reasons of theft was about 18 employees. This number is large because for a store with a 150 personnel the apprehension of 18 employees in one year is alarming. Customer refund and return fraud is approximately R600 per month whereas counterfeit currency encounter is R100 per day. Vandalism is a rare case but the store manager remembers there was armed an armed robbery one year back. From the statistics one can easily observe that the number of interceptions and arrests does not correspond with the level of shoplifting

meaning that not all persons intercepted are arrested due to lack of sound evidence and for various other reasons.

3.4.6 COMBATING SHRINKAGE AT CHECKERS

The Checkers store under study does not have a loss prevention department. The activities of loss prevention are carried out by the store manager and his deputies as part of their day to day routine business. The store does not have a quantified and formal loss prevention budget. But according to the information from the store manager 10% of the expenses are for payroll and benefits, 70% for contract services and 20% for training programs. This indicates a greater portion of the expenditure is spent on the payment of contract services.

The store does not have a data base solely devoted to shrinkage monitoring. Shrinkage reports are included in the various timely sales reports compiled for management decision making. The store manager believes developing software (database) for shrinkage purposes only does not justify the costs.

Shoprite has central distribution centres. Goods are stolen while in transit from the central distribution centre or on the Shop floor. If the necessary controls are not used, there is the possibility of a receiving clerk processing the receiving procedure without actually receiving the goods meaning that goods can be directed somewhere else before reaching the retail store. To avoid such occurrences management has devised a system which involves managers at receiving spots. This means when a supply arrives at the Checkers store a manager has to be at the spot to determine the genuineness of the delivery of goods from suppliers or from the Shoprite central distribution warehouse. On a daily basis a manager is supposed to make at least six on the spot receiving checks.

The store uses test shoppers and their contribution is crucial because they test the integrity of staff and the effectiveness of the control systems. To realize this 'test shoppers' are changed from time to time otherwise they will be identified by employees and customers and will have difficulty in doing their job.

There is not an official collaboration between Checkers and other competitors in the retail industry. There is not also a thoughtful collaboration between Checkers and suppliers to

combat shrinkage. But there is an informal monthly meeting of all those stakeholders concerned about crime in general and retail shrinkage in particular. This is done through the community policy forum. There is a monthly meeting and all people from all walks of life are given the chance to talk about crime, including retail crime. The store manager considers the forum productive because it includes residents (customers) from the community and it is a novel way of getting valuable information. Residents, who live near the store, watch and witness what is happening in the retail store, hence, they assist in providing relevant retail shrinkage related information.

3.4.6.1 LOSS PREVENTION AND ASSET CONTROL POLICY AT CHECKERS

Currently, asset control policies utilized by the store include employee parcel checks, void controls, refund controls, point of sale exception reporting, controlled access to the cash handling area, control of blind (unobserved) exits back door controls, employee purchase plans and price change controls.

3.4.6.2 LOSS PREVENTION SYSTEMS AT CHECKERS

Out of the multitude loss prevention systems, Checkers utilizes shop theft deterrence signage, alarms, safes, security display fixtures, closed circuit TV, cables locks and chains, plain clothes store detectives, mystery or honesty shoppers, uniformed guards and employee training and awareness programs. Currently, loss prevention systems such as denial/security tags, vendor/source tags, merchandise alarms, simulated or closed circuit television are not being used.

3.4.6.3 LOSS PREVENTION AWARENESS PROGRAMS AT CHECKERS

During the interview the store manager emphasized the strategic importance of employee awareness programs. He stressed that the retail store believes employees are the eyes and ears of the business, therefore, enlightening and educating this important human asset is vital. To realize this end, the store discusses the importance of loss prevention during the hiring of new staff and this forms part of the orientation program. Every two months, as part of this program, the store presents to staff videos with shrinkage related educational content. Periodic lectures, newsletters, bulletin board notices and posters, anonymous 'hotline',

honesty incentives, the code of conduct and employee guide are the major programs and means used to boost the awareness of employees in terms of shrinkage and loss prevention.

3.4.6.4 EMPLOYEE INTEGRITY SCREENING AT CHECKERS

Currently the Checkers retail store has several ways of measuring the integrity of new and existing employees. The store manager believes that knowing the behaviour and integrity of the employees is of paramount importance. The store has employee integrity screening techniques such as credit card checks, past employment verification, multiple interviews, and education verification. These techniques apply to all employees whether they are management, non-management or professionals. This is a very important screening procedure as potential offenders are more likely to be rejected from employment. But the store manager has stressed that even after all these screening procedures have been carried out, the store follows up on the performance and behaviour of all employees because, after being recruited people can change their behaviour. One way of integrity screening for existing employees, according to the store manager, is the mystery or undercover shoppers who secretly test the integrity of all existing staff. The mystery shoppers also test the effectiveness of the control systems laid down by the store.

3.4.6.5 ANTI-SHRINKAGE CULTURE AT CHECKERS

New employees are inducted on shrinkage and its effects on the growth and future of both Checkers and its employees. Reinforcement training with the help of videos and instructors is given every two months. Management also has an open policy meaning that employees are allowed to speak informally on a one-to-one basis with their supervisors, on shrinkage related issues. The management style is not autocratic and employees are encouraged to express their opinions freely. There is a shrinkage committee at the Checkers store level and they hold a monthly meeting. Each person representing his department attends the meeting during which problems and issues regarding to shrinkage in each department are raised and discussed in depth. After listening to and discussing current and urgent problems, management encourages the participants to forward alternative solutions thereby involving the committee members in the decision making process. The emphasis of education via videos, lectures and monthly meetings, according to the store manager, is an indication that management is at the forefront of creating an anti-shrinkage culture.

Management is trying its best but the employee caused shrinkage involving employees, as stated in the above sections, is at a rate of 60% so it is difficult to say that the retailer has achieved any success in creating an unswerving anti-shrinkage culture.

3.4.5 SYSTEMATIC PRACTICES VERSUS STRATEGIC POLICY DEPLOYMENT

In its drive to reduce shrinkage, the store is engaged in various activities but it is questionable whether the activities can be seen as a strategic policy deployment aimed at combating shrinkage. Though the objective is similar i.e. combating shrinkage, a strategic policy deployment is a thoughtful and higher level orientation whereas random practices are lower level orientations which concentrate on finding solutions to problems instead of preventing them.

During the interview, the response to the question ‘Do you have a shrinkage reduction strategy?’ was, ‘Yes, we have monthly meetings’. However, monthly meetings do not replace strategies on their own. These can be also analyzed from the level of inter and intra organizational collaboration, data availability, data analysis and evaluation of the effectiveness of controls. In the area of intra-organizational collaboration, monthly meetings of department heads are beneficial in providing the venue for creating cross functional dialogue to track stock loss but these meetings do not include the supply chain participants so their effectiveness becomes questionable.

As far as inter-organizational collaboration is concerned there is no inter-organizational process evaluation and coordinated action on joint projects with other Checkers stores. External collaboration with other groups such as competitors, trade bodies, and suppliers is not in place. As mentioned above, the only venue for discussion and sources of information is the community policing forum.

There is no central data base for the purposes of measuring shrinkage and the emphasis is only on summarising inventory counts and process failure data because staff efforts are concentrated on reconciling the variation between actual stock and invoices. Without having systematically and electronically recorded and assorted data on the causes of shrinkage, it is difficult to find effective and timely solutions. This problem is evident because organized and ready to use data was not available on items such as: shop theft interceptions, shop theft

arrests, empty packages/known thefts, price tag switching, EAS and dye tag removal, employee theft of cash, employee theft of merchandise, vendor fraud and theft, customer refund and return fraud, employee refund and return fraud, not sufficient fund cheque, credit card fraud, counterfeit currency, slip and fall artists and vandalism. Here it must be understood that without a regular data mining and analysis tools, management would not be able to identify patterns on which to base sound decisions.

The evaluation of efforts or projects is crucial because without it management will not be in a position to know the consequences of its actions. Internal evaluation is done on a monthly basis but this is not sufficient because the evaluation has to be performed in concert with suppliers or central warehousing so that long lasting solutions can be found.

3.4.6 SUMMARY

The Shoprite Checkers store recognizes shrinkage as a main problem area which minimizes the bottom line of its operations. The store uses the true cost method to calculate shrinkage. The main cause of shrinkage at the store is employee theft which claims 60% of all shrinkage followed by customer theft (20%). On the other hand the remaining 20% is caused by supplier fraud and process failures each of them contributing 10%. The shrinkage rate for 2003 is 1% of the annual turnover of Rand 30 million. This translates to a total annual loss of R300 000. Almost 80% of the loss is caused by theft committed by both employees and customers.

Thieves conceal items and walk out of the store to illegally profit from theft. One main problem facing the store is when customers open a package, place stolen items inside it and walk out of the store without being detected. The existing POS is unable to read the items inside the package and thieves are bypassing the technology. Employees also collude with customers and cause loss to the retailer. At the store, employees know the weaknesses and strengths of the security system and they manipulate this to their advantage. The main targeted products are blades, car polishes and cosmetics and they are sold at flea markets in the city.

The store uses various methods to combat shrinkage such as awareness programs, employee integrity screening, store detectives or mystery shoppers, on spot checking of incoming stock, monthly meetings of department heads and incentives for store managers.

The firm does not have organized data gathering, recording and analysis tools. Even the rates and numbers given during the interview are rough estimates. In addition to that, the solutions are implemented at random and are not coordinated. In short, the store does not have a retail shrinkage loss prevention strategy. The following chapter will deal with a discussion about the case and the discussion of the findings with regard to Woolworths.

CHAPTER 4: CASE AND DISCUSSION OF FINDINGS (WOOLWORTHS)

4.1 INTRODUCTION

This chapter starts by discussing the strategic intent, customer service, products, and organization, workforce and business units of Woolworths. The information has been captured from the company's website (Internet 49). An analysis of the findings follows and this includes the level of shrinkage, a profile of the thieves and their methods of stealing, the 'hot' concept, causes and solutions of shrinkage. A discussion of the general approach of combating shrinkage used by the retailer will end of this chapter.

4.2 WOOLWORTHS HOLDINGS

Woolworths Holdings Limited is a South African-based retail group that operates locally and internationally through two subsidiaries: Woolworths (Proprietary) Limited and Country Road Limited. Stores are operated in Africa, the Middle East, Australasia and Asia. Woolworths offers select ranges of apparel, footwear, toiletries, cosmetics, homeware, food and financial services, of high quality and value, under its own brand name.

4.2.1 STRATEGIC INTENT FOR WOOLWORTHS

The strategic intent of Woolworths is, 'We aspire to being the most trusted and respected African retail brand. We will achieve this by nurturing and building lifetime relationships with our customers. These relationships will be earned by us all making the 'Woolies difference'.' This vision and strategic intent is the driver of the company's thinking and actions. The vision is consolidated into a straightforward plan of action as follows:

The need to build:

- Textile business
- Food business
- Financial services business and
- International business.

Enabling these is a drive to:

- Really understand customers
- Recruit and develop the best and most diverse team in the game
- Simplify and drive costs out of the business and to do this under the best principles of good corporate governance and good citizenship.

On the merchandise front, it had been clear for some time that Woolworth's base quality was not good enough and that it needed to improve textile standards across the board. It was also evident that different parts of its customer base were buying from different parts of catalogues. The challenge was therefore, to upgrade across the board, yet still keep their price proposition in place and to get food customers to buy more clothes and clothing customers to buy more food.

4.2.2 STRATEGIC BUSINESS UNITS

Strategic business units for Woolworths can be categorized into homeware, food, textiles, financial services and international and local franchising. A brief discussion of these business units is presented in the following paragraphs.

4.2.2.1 TEXTILES

Woolworths strives to offer beautifully styled, classic and modern merchandise of superior quality and exceptional price appealing to multiple lifestyles. In textiles, reintroducing the 'Woolies' passion for quality has been a long journey and one that still has some way to go. Recently the firm has strengthened relationships with its traditional supplier base and raised the quality of its fabrics whilst still holding key opening price positions. To tempt food customers to apparel, the W-Collection was launched, first in menswear, with a positive response particularly from black customers. Ladies followed with similar success.

Over 90% of all clothing continues to be sourced from South Africa. The capability of the firm's dedicated technical teams, has underpinned the drive to upgrade standards and it considers this resource important and continues to see it as a strategic part of its arsenal.

In the fiscal year 2003, sales for the textiles division grew by 17.7% and achieved a market share of 17.2% against 16.2% the previous year. Availability was a special focus during the year and the replenishment program for flow merchandise performed exceptionally well, achieving growth of 33%. These replenishment ranges account for a third of all textiles sales. The firm redefined its women's wear offer by providing fresh new inputs every two weeks and presented these ranges to customers as 'wardrobe solutions', with great success.

4.2.2.2 HOMEWARE

Despite considerable new competition in the market, the homeware sector is growing. Last year a range of furniture was trialed, but was unsuccessful and as a result, the range was withdrawn. To enhance its customers' shopping experience, continuous investment is made in exciting visual merchandising. This was underpinned by increased emphasis on special occasions and in-store events. The firm intends to be the leader in providing the best gift choice for all occasions. In addition to that Woolworths is determined to become again the home of beautiful and innovative goods. All suppliers' efforts are directed at delivering this experience to customers consistently, season after season.

4.2.2.3 FOOD

Woolworths aims to be the home of healthy eating where good food is conveniently available in an exciting, interesting and fun shopping experience. In the foods department, the firm's growth is increasing all the time by gaining a considerably larger share of the market. Driving this growth is better end-of-day availability and the gathering pace of the 'good food' journey, supported by their continuing commitment to innovation and ongoing passion for good quality.

Added to the above factors are the roll-out of small format and micro stores and the introduction of a limited range of most needed, branded merchandise. These are the key elements of the plan to tempt more traditional shoppers to buy their food at woolworths and to offer all customers the convenience of doing more of their regular shopping at 'Woolies'. With food safety becoming the most talked about issue in food retailing circles, Woolworths is committed to ensuring food safety in every way possible and has resourced its technical

base accordingly. In the fiscal year 2003 food sales grew by 28.7% and achieved a market share of 6.7% against 6.1% the previous year.

Supporting the drive to offer good food to customers, the firm now sells free range chicken, lamb, beef and pork. Monosodium Glutamate (MSG) and tartrazine additives have been removed from all food products. The range of organics offerings has been expanded and will be a major focus in the future. The low kilojoule diet range, 'Count on us', was launched successfully. A new concept of coffee shops in six stores is adding an exciting service dimension to customers' experience. The firm now has a number of professional chefs demonstrating products in the bigger stores. This has brought fun element to stores and has helped show customers the ease with which Woolworth's foods can be prepared. The firm is determined to continue driving the innovation, the convenience, and the quality that are winning customers to its brands and is planning to open smaller food stores as and when sites become available.

4.2.2.4 FINANCIAL SERVICES

Financial services are rapidly becoming the third arm of the business. This business is being built on, and adds to the trust that customers have in the Woolworths brand. Overall market awareness of the fact that Woolworths is providing financial services increased significantly over the year. Experiments were undertaken with in-store concepts in both Century City in the Western Cape and Gateway in Kwa-Zulu Natal. What the firm learned will be applied in developing an in-store presence to help build the brand and to service customers better. The active Woolworths Card base swelled to 1,020,000 accounts with a debtors' investment totalling R1, 35 billion representing growth of 17.4% over the previous year. The personal loan base grew to 88,000 accounts and the debtors' investment rose by 33% over the previous year to R382million. At the year-end 2003 there were 23,000 active Woolworths Visa accounts with outstanding balances reaching R70million. In a fairly turbulent climate for investors, both unit trusts showed some growth with total accounts rising to 110,000 and funds under management to R35million.

4.2.2.5 INTERNATIONAL AND LOCAL FRANCHISING

On the international front, Woolworths now has stores throughout much of Africa and the Gulf region, all franchised to partners who love and care for the brand in a way that humbles the firm. The Gulf, with its warm climate and its sense of being an emerging market, holds much potential for growth. The firm can now provide a high-quality experience in the middle ground at similar prices to local discounters, yet at materially lower prices than the international brands that are flooding into these markets. Since most of the merchandise is made in South Africa, there are real benefits to local clothing industry.

In South Africa (during 2003) Woolworths opened five new franchise stores and converted eight corporate stores to franchises. This included two food-only stores that are being trialled in the franchise format. In the Gulf, three new stores were opened. Franchise arrangements were finalized in Ghana, Nigeria, Uganda and Saudi Arabia, Kuwait Qatar and Mozambique. This will bring the number of countries in which Woolworths trades to 19 and there is a growing focus to going outward to grow in all these territories.

To support this international development, Woolworths has established procurement, supply chain and marketing capabilities that will enable consistent delivery of the Woolworths customer proposition wherever they are.

4.2.2.6 EXCEPTIONAL, CUSTOMER-FOCUSED SHOPPING EXPERIENCES

The firm has extremely committed staff in store and it believes they are the backbone of the business. They interact every day with customers. They sell goods and cement the lifetime relationships the firm tries to build. Over the past two years almost 10 000 store team members underwent service leadership training, aimed at building knowledge, skills and competencies. The introduction of a staff scheduling system and the roll-out of a point-of-sale system is expected to further improve efficiency and customer service.

Online facilities have added a unique opportunity to communicate on a one-on-one basis with customers and get their feedback on their shopping experience and on products. Online shopping includes wine, flowers, gifting and more recently a range of basic clothing and homeware. Geographical areas in which it is available have also been extended to

include Pretoria, Durban, the East and West Rand of Johannesburg, as well as Somerset West and the Helderberg area.

4.2.2.7 OPERATIONAL EXCELLENCE LOGISTICS

Universal Product Networks (Proprietary) Limited (UPN), the logistics subsidiary of Woolworths, delivered improved productivity and service levels to all of its customers. This achievement was as a result of a sharper operational focus through the implementation of the operational excellence charter. The cost of distribution was reduced in real terms due to productivity gains. In anticipation of ongoing growth, UPN has prepared real estate and expansion plans to manage increasing volumes. The establishment of a Gauteng campus in 2005 for all operational facilities dominates these plans.

4.2.2.8 RENEWAL AND EFFICIENCY

In 2003 there was a beginning of extensive renewal of the IT infrastructure affecting stock, people and processes. The primary aims were to accelerate the modernization process, enhance customer services, raise productivity and drive down operational costs.

Woolworths continued selective outsourcing of non-core elements to external suppliers who are able to do the job cheaper and better than it is able to. Large portions of back-end infrastructure were outsourced to strategic partners. The company is creating a flexible infrastructure that will provide information anytime, anywhere. Notable projects include the introduction of a new point-of-sale system that will improve service and customer convenience and PeopleSoft system that manages human resources administration. There was also be the rebuilding of distribution and warehousing systems aimed at extensive automation and operational efficiency.

In the future Woolworths attention will be concentrated on customers, growth and organizational efficiency. Growth effort will centre on building new infrastructure for Woolworths' international expansion. Enhancing organizational efficiency involves the biggest project, which is a three-year implementation of new merchandising management systems and the continuing improvement of supply chains.

Woolworths believes that great products cannot be delivered by less than great people. Throughout business it is privileged to have teams of individuals who take real pride in making the ‘Woolies difference’. The firm is making some headway in building teams with the strength and diversity that truly reflect the richness of the country’s people. The firm has remarkably talented people throughout the company and its supply chain. Whether it is in designing outstanding stores, giving great personal service, installing fridges, buying just the right item with the right technology built into it, people in this company are starting to take charge for themselves. As they more clearly understand the principles that drive the contact with customers, so they are freer to express their creativity in delivering service to customers in so many more meaningful ways.

4.2.2.9 STORES

Table 4.1 WOOLWORTH’S CURRENT AND PLANNED STORES

Current stores	June 2003	Intended June 2007
Full line stores	69	79
Food stand alone and micro stores including Engen	48	141
Franchise – local and international	110	176
Total	235	402

(Source: Internet 49)

In the following section the findings for the Woolworths store under study are discussed and analysed in detail.

4.3 ANALYSIS AND DISCUSSION OF FINDINGS (WOOLWORTHS)

In this section the analysis concentrates on the size and cause of retail shrinkage and the strategy adopted by the Woolworths store to alleviate it.

4.3.1 LEVEL OF SHRINKAGE AT WOOLWORTHS

The store's annual average shrinkage is R1 137 500 or 0.91% of the annual turnover of R125 000 000.

Table 4.2 SHRINKAGE RATE COMPARISON

Entities for comparison	Woolworths	Checkers	South Africa	Western Europe Average
Rate	0.91%	1.2%	2%	1.34%

Compared to the South African (2%) and Western European (1.34%), the shrinkage rate at Woolworths is (0.91%). This figure is similar to that of Austria. The relative size and contribution of employee theft, external theft, vendor fraud and process failures, unfortunately, is not readily available and it is not possible to comment at this time.

4.3.2 NON MALICIOUS SHRINKAGE

In this store, the main causes of process failures are stock beyond its expiry or going out of fashion, returns and damage to stock. Stocks of the store are vulnerable to time because items such as fashion clothes and shoes have short life span and if they are not sold at the right time they become outdated. The damage to products in the shop floor is caused by both staff and customers. Even though the damage in most cases is not intentional, it causes losses to the store. The return of sold items is also a problem because of the time that is wasted in verifying the purchase and the condition of the returned items. The policy of returning sold items helps in building long-term relationships with customers. But this is done at a cost because shoplifters can abuse this policy to demand refunds for stolen and damaged goods. The returned items could also be damaged. For hygienic reasons the store refuses the return of underwear. On the other hand, the implementation of systems-driven computerization has reduced paper shrinkage as these systems are enabled for the automatic match of physical and theoretical inventory. The procedures of receiving, issuing and inventory systems are so efficient, in this store process failures are not major problem areas.

4.4 MALICIOUS SHRINKAGE

The operations manager explained that the main causes of malicious shrinkage are economic motives, social stress, opportunity, character defects, psychological stress, stealing for adventure, greed and drug or alcohol addiction. He stressed that the above motives are so important that management strives to uncover the behaviour and the circumstances surrounding the employee. This needs caution because sometimes it amounts to infringement on the private life of employees and at other times the complexity of human nature makes the detection of negative behaviour difficult.

4.4.1 WHO ARE THE “TYPICAL” SHOP THIEVES TARGETING WOOLWORTHS?

According to the operations manager, all types of people steal and it is difficult to set a profile of the ‘typical’ thief. The presumption that all facets of people are stealing is ‘conclusive’ and closes the door for dealing with people with a certain profile. A detailed profiling of the thieves may give a clue about the offenders so that store security personnel can consciously follow them. If one is going to conclude that ‘all facets of people steal’ that means managers do not need to institute employee integrity screening and this will lead to the exertion of more effort on techniques of detection rather than prevention. In this case the argument is not to sketch a clear-cut portrait of offenders; rather from an overall profile a sort of pattern which will assist loss prevention programs may be envisaged.

4.4.2 HOW DO SHOPLIFTERS OPERATE AT THE WOOLWORTHS STORE?

Professional thieves operating in syndicates are more of a threat to the store. They operate in groups: some direct the attention of staff and security personnel while others swap clothes from the shop floor. Concealing of items on the body, baby prams and card fraud are common.

4.4.3 ‘HOT PRODUCTS’, ‘HOT STORES’ AND ‘HOT STORE MANAGERS’

In the Woolworths store, items highly targeted by shoplifters are ladies shoes and formal wear in both the ladies and men’s sections. The shoplifters target these products because

they are valuable and easily disposable. If these items are shelved near to the exit or entrance of the store the chance of these products being stolen becomes high.

The operations manager has elaborated that store location and risk of shrinkage are interrelated. He says that the main risk stores are those located in central business districts (CBD). According to him, while stores in quiet areas are targets for violent crimes such as armed robbery, stores in CBDs are targeted by both professional and opportunistic shoplifters, who use non-violent but subtle tactics.

He also believes that the store manager is the main driver behind loss reduction and he added that without the dedication and support of head office, the loss prevention becomes meaningless. The logic he presented is that the 'top leads and subordinates follow'. This is because a program that does not interest top management can never interest subordinates. At the store under study, the store manager is the spearhead of loss reduction activities. He continued to say that the store manager can not influence shrinkage reports. This is due to the customer/supplier relationship of the store and head office; the systems and procedures in place also prevent distorted shrinkage reporting. The operations manager does not agree with the idea that 'as the size of the store increases shrinkage also increases'. According to him it is not the size that matters; rather it is the controls and the systems placed to fight shrinkage. Even in a small store, if the store environment is made favourable for shoplifters, the risk will increase. His idea contradicts with most research survey findings but it is not without a glimpse of truth. A large high risk store could be changed to a low risk store provided that the relevant resources, culture, controls and procedures are implemented but here the issue is all the resources, people, systems and procedures are procured at cost; therefore, the question here is 'does the cost justify the benefit?'. In this case the answer is direct and simple because larger size stores are high risk stores but they can be changed to lower risk stores if the store has the relevant resources and if it is willing to spend these resources for such purposes.

4.4.4 INTERNAL THEFT AT WOOLWORTHS

In this store dishonest employees are a threat because they know the retail environment and the weaknesses and strengths of the security system. The store is also very cautious in handling employee theft because of the labour relations act and because it does not want to

break the trust and relationships. Incriminating an employee for theft is not as simple as it seems because the evidence and the witnesses have to be reliable and court litigation costs the store both money and time. Management also loses focus while litigating with employees and this is additional cost. At the store, employees steal by conducting fraudulent acts and by colluding with customers.

4.4.5 SUPPLIER FRAUD AT WOOLWORTHS

The head office supplies the stores with stock and for this reason the operations manager was not in a position to give explanations about the nature of supplier fraud because ordering from suppliers and quality control inspection is centralized at the head office.

4.4.6 RETAIL CRIME INCIDENT AT WOOLWORTHS

On average about 30 shoplifters are apprehended every week and more than half of these suspects are arrested in collaboration with the police. The reason why all intercepted shoplifters are not arrested is vague. But as experience of other countries indicates, minors and old people are usually just reprimanded on the spot and not reported to the police. The value of the stolen items is also one reason for not arresting criminal because lots of time and resources will be wasted and the firms are obliged to weigh the costs and benefits of arresting shoplifters. These reasons may sound good but if continuously practiced they may be considered as weaknesses and could be manipulated by thieves. The operations manager was not willing to provide information in terms of employee arrests and interceptions. He says this type of information is very sensitive and could affect the image of the organization. Without a data base which reflects the true nature of crime incidents, it is impossible to precisely identify problem areas, and without identifying the problem areas it is difficult to make corrective measures. The crimes against the retailer are theft, but theft is too general and the retailer has to go one step further in identifying and categorizing whether the incident is price tag switching, tag removal, employee theft of cash, employee theft of merchandise, vendor theft/fraud, refund fraud, not sufficient fund, credit card fraud, and counterfeit currency. Without having a detailed record of these incidents it is impossible to make sound analysis and decisions.

4.4.7 COMBATING SHRINKAGE AT WOOLWORTHS

In its endeavour to contain shrinkage the store uses a combination of 'hard' and 'soft' solutions. In other words technology coupled with processes, people issues, procedures, systems, and layout is applied to combat shrinkage. Inventory is taken twice a year meaning the store has to wait for six months to know its shrinkage level. There is no an inventory system designed specially for 'hot products'. If 'hot products' are not controlled and followed rigorously and timeously, six months later is too late to repair the damage.

The store does not have a loss prevention department. The average annual loss prevention budget is R500 000 or 0.4% of the annual sales of R 125 million. An Ernst and Young shrinkage survey for United States firms indicates an annual operational expense ranging from 0% to 0.6% and the median is 0.2 % (Internet 50). Hence, the store's expenditure is comparable to the expenditure made by United States firms.

As has been mentioned above shrinkage is recorded and reported as an aggregate and the lack of a detailed record on individual incidents hampers decision making. There is not a formal mechanism whereby the store can exchange information with other competing retailers. The only opportunity is the community policy forum which is also the sole venue for entertaining issues of crime in general and retail shrinkage in particular.

4.4.7.1 LOSS PREVENTION AND ASSET CONTROL POLICIES AT WOOLWORTHS

The store manager's evaluation of the store's anti shrinkage culture is good. The store has achieved a healthy anti-shrinkage culture because of the effectiveness of the training programs, employee involvement and leadership dedication.

The stores loss prevention and asset policy includes parcel checks, void controls, POS exception reporting, controlled access to the cash handling area, trash removal controls, inter-store transfer controls, back door controls, POS bar coding and scanning, employee purchase plans and price change controls. The use of such a wide range of asset control policies is vital but it should be put into writing and should form part of the operations manual.

4.4.7.2 LOSS PREVENTION SYSTEMS AT WOOLWORTHS

In this store denial/security tags, shop theft deterrence signage, alarms, safes, secured display fixtures, merchandise alarms, closed circuit TV, observation mirrors, uniformed guards, fitting room attendants, and employee training and awareness programs are used as loss prevention systems. The store does not utilize mystery/honesty shoppers. Integrity or honesty testing shoppers, when properly used, could provide the store with valuable information about the store's retail security. They could also provide an abundance of information about sales procedures and customer service. Currently loss prevention systems such as, observation booths, cables, locks, chains, simulated visible and closed circuit and source tags are not being used by the store. The use of plain clothes store detectives becomes less effective as professional thieves start to identify them but they are good for catching opportunistic thieves. The nature of products stocked by the store is not suitable for the use of cables, locks and chains. The retailer could benefit a lot by implementing vendor tagging as this will provide a multifaceted benefit ranging from efficiency in the supply chain to loss prevention.

4.4.7.3 LOSS PREVENTION AWARENESS PROGRAMS AT WOOLWORTHS

The use of CCTV and other technology driven systems plays an important role in reducing shrinkage. But the technology works best when it is reinforced by motivated and well informed personnel. To meet this end, the store undertakes loss prevention awareness programs which include new employee orientation, periodic programs and lectures, training video tapes, newsletters, bulletin board notices, posters, an anonymous telephone "hot line", honesty incentives, code of conduct and employee guide. The store believes that a conscientious and alert workforce is able to hinder the random and unpredictable behaviour and strategy of shop thieves.

4.4.7.4 EMPLOYEE INTEGRITY SCREENING AT WOOLWORTHS

The operations manager pointed out that a work force with solid behaviour minimizes shrinkage and in order to have a dependable high quality and well-monitored workforce, the store makes use of integrity screening techniques such as credit checks, criminal conviction checks, past employment verification, personal reference checks, multiple interviews, and

education verification. If handled with caution, drug screening for new and existing employees could give the store a clue as to the behaviour of new and existing employees, therefore, the store has to reconsider drug screening so that it can vigilantly deal with addicts.

4.4.4.5 SUMMARY

At Woolworths shrinkage is 0.91% of the annual sales of R125 million and this amounts to R1 137 500. The relative contribution of supplier fraud, employee theft, external theft and process failures is not known. But damage to goods and refunds are the main components of process failures. The main causes driving people to steal from the store are a combination of social, economic and psychological stresses. Professional syndicates are a threat to the store because they steal high value items and a large quantity of stock. Credit card fraud is also one of the main problems of malicious shrinkage creating losses for the firm. The most targeted products at the store are ladies shoes and formal wear of both men and women. The store is located in central business district (CBD) and it is targeted by both professional and opportunistic thieves because its location is at the centre of the city and attracts all sorts of people from all directions.

Employees of the store understand the weaknesses and strengths of the security system and the retailer has difficulty in detecting and controlling them. The retailer was not willing to provide data related to employee arrests and interceptions because they consider such information very sensitive. The store does not have systematic data gathering, recording and analysis tools that can support a strategic loss prevention program.

The store takes inventory twice per year and this is too infrequent especially for those products highly targeted by thieves. The budget allocated for loss prevention is similar to the expenditure made by US retailers. The retailer has asset control policies, loss prevention systems, loss prevention awareness programs and employee integrity screening. The store's collaboration with other retailers and stakeholders is limited. The loss prevention approach of this store does not fit with the loss prevention strategies discussed in the previous chapters.

CHAPTER 5: RECOMMENDATIONS AND CONCLUSIONS

5.1 INTRODUCTION

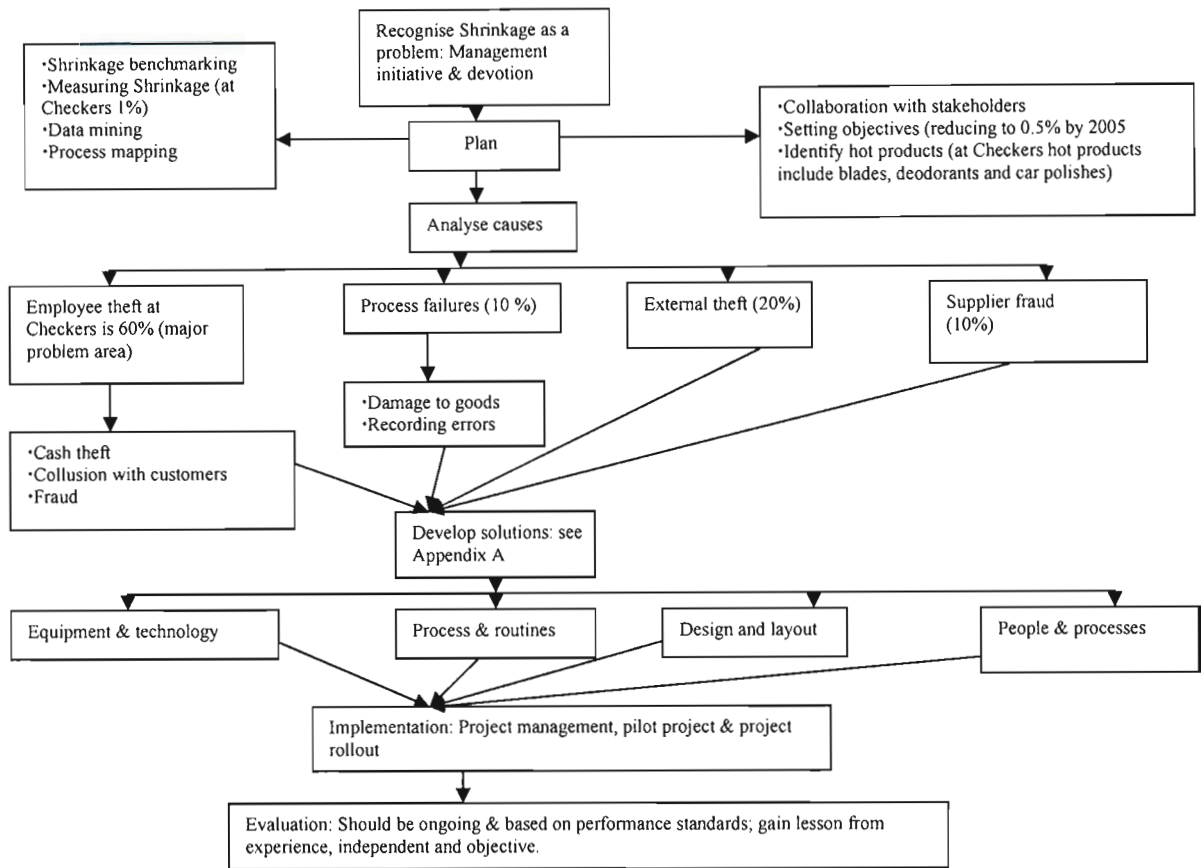
In this chapter the recommendations and conclusions are the outcome of the analysis which is done based on the theoretical discussion in Chapter Two. The main emphasis is on the strategy that has to be adopted by the two stores. Some specific recommendations peculiar to each store are also provided.

5.2 CHECKERS

RETAIL SHRINKAGE REDUCTION STRATEGY

To begin with, the store does not have a systematic approach to shrinkage. It applies 'in and out' solutions which most of the time are not able to solve the problem. Instead of adhering to haphazard solutions, it should start to think in terms of the bigger picture, meaning it should use a strategic policy deployment. A strategic policy deployment starts with the recognition that shrinkage is a problem and it is worth fighting. This recognition of the problem coupled with management's devotion and initiative should be followed by planning. The planning philosophy should strive to develop an anti-shrinkage culture and all employees should be involved to prevent shrinkage. All departments should be accountable for their shrinkage with respect to the sales or activities they perform and sound and informative reports should be forwarded to top management periodically. As mentioned earlier, the list of solutions is large but the challenge is how to systematically align the problem to the solution. Therefore, Checkers should be able to adhere to continuous learning, changing old habits, continuously measuring critical areas and managers should coach workers on the best operating procedures and policies. Figure 5.1 indicates on how Checkers should approach its loss prevention program.

FIGURE 5.1 SHRINKAGE PLAN FOR CHECKERS



(Source: Adopted from ECR Europe Loss Reduction Road Map)

RETAIL SHRINKAGE AWARENESS

The fact that the management at Checkers acknowledges shrinkage as one of the main problems facing the retailer is a good trend, without which it will be impossible to contain loss. But recognizing the shrinkage problem is only the beginning because systemic and systematic approaches need to be devised. As has been seen it in the previous discussions, the list of alternative solutions is endless but the main challenge is the assessment of the causes and designing the approach to be followed in solving the problem. The task of those responsible for fighting shrinkage is to make an assessment of the problem and to match the best solutions to the problem at hand. In this case the costs and benefits of the solutions need to be weighed rigorously. Loss prevention heads need to evaluate solutions in terms of their cost, effectiveness, timeliness, and applicability.

As far as Checkers is concerned, the management understands the negative effects of shrinkage but the procedures and solutions are mostly detective in nature so they must strive to put in place preventive measures. The disadvantage of detection is that it emerges once the damage is done. On the other hand, preventive measures concentrate on preventing loss before it materializes. For example, management has to educate workers about the disadvantages of shrinkage so apprehending and disciplining should not be emphasized. To further elaborate, instead of firing an employee for theft, it is advantageous to educate him so that he will be an honest employee. Similarly, instead of catching a customer stealing it is advisable to make the environment inconvenient for theft so that he will not get the chance to steal. But this does not mean that the retailer has to totally forgo detection, rather that it should concentrate on prevention and detection should supplement prevention to fill the gap.

SHRINKAGE DATA

Another aspect to which Checkers should pay attention is that it must have a systematic data gathering mechanism and incidents have to be recorded. At Checkers, employee theft contributes 60% to the total shrinkage figure. Therefore, in order to alleviate the problem, the retailer should collect, record and analyze the following shrinkage related data.

- * Who committed the theft?
- * How were goods removed?
- * Do incidents involve collusion with 'outsiders'?
- * When did theft(s) take place?
- * Were efforts made to 'cover' for the stolen goods?
- * Do procedural loopholes encourage staff theft?
- * What is the background of the offender?

Records should also include the timing of incidents in terms of season, date (during week ends or during weekdays), and the specific time of a day. In addition to the methods used by the thief, the record should include the store environment during theft occurrence and the loopholes that led to the specific theft. From the interview it was concluded that Checkers does not have organized data from which management and loss prevention experts could infer a pattern for sound decision making.

COLLABORATION

One important field which management should consider is collaboration with other stakeholders. If a store has implemented a good loss prevention system, thieves will not get the chance to steal in that particular store and they will shift their operations to other stores. From the retail sector's side, the problem is not solved as criminals will keep on shifting from store to store depending on the circumstances. Therefore, all those concerned: retailers, police, community representatives, law enforcement authorities and consumer right groups should concentrate their efforts to fight shrinkage. In particular, retailers are targeted by criminals and they should collaborate to minimise the damage caused by shrinkage. In this case, the exchange of information among retailers and suppliers should be emphasized. Information shared may include the profile of offenders, incidents, new tactics used by offenders and new shrinkage trends. This is because the implementation of a loss prevention program, policy or system is not conclusive because offenders continually come up with new methods which could enable them to rob the retailers. Collaboration among retail stores is lacking and mutual unity against shrinkage is in the retailers' interest and advantage.

EMPLOYEE THEFT

From Figure 5.1 the main problem area identified for Checkers is employee related theft and the management's efforts to curb recording mistakes were not successful. Employee theft has to be tackled by changing the existing culture, educating employees, leadership by example, changing the composition of the workforce (more full time and fewer part time employees), reducing labour turnover, improving employee involvement, using incentives, motivation and discipline and paying better wages (the pay system of Checkers is 5% less than the market). On the other hand, process failures such as recording errors can be reduced by training employees and introducing new procedures, processes and technology. Some manually performed aspects of the recording system could be automated with new technology driven systems such as the radio frequency identification (RFID) technique which automatically updates receiving, inventory, sales and helps combat shrinkage. This has great potential for eliminating human errors such as recording problems but this also needs training and resources. All the selection and implementation steps portrayed in the above chart need to be followed so that better results can be achieved.

PACKAGING AND CUSTOMER THEFT

In the analysis part we have seen that customers conceal stolen items by opening packages and this is one of the major problems facing the store. This problem can be averted by designing robust anti-theft packaging which implies the use by manufacturers of extra strong and robust packaging and it includes design concepts such as 'too large to fit in the average pocket' packaging. To achieve this, close collaboration and consultation with manufacturers is required.

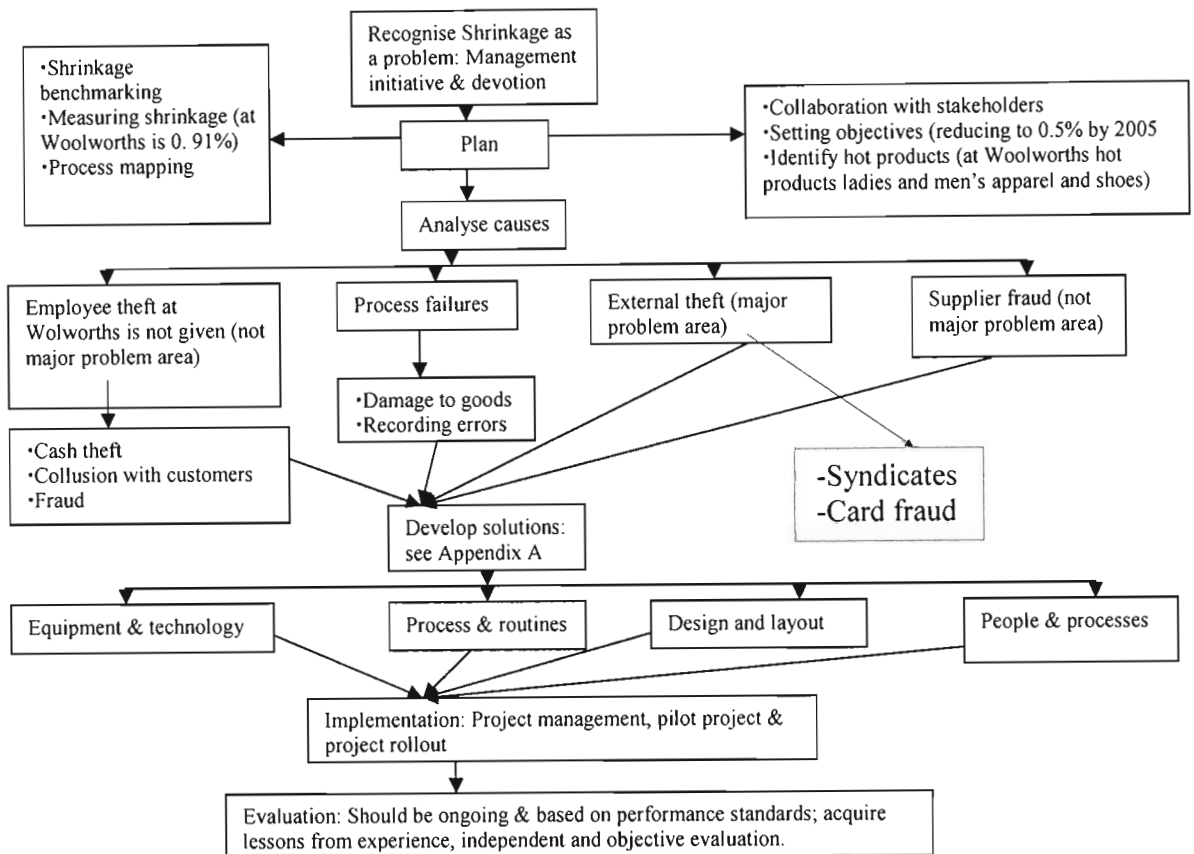
5.3 WOOLWORTHS STORE

At Woolworths, systems and technology utilized to combat shrinkage are in place and similar to the Checkers store, this retailer does not have the scarcity of solutions but the issue is how to identify and assess the problem so that the best solutions can be implemented. According to the evidence, the store has the tendency to undermine employee theft and this leads to the belief that all shrinkage related problems come from customers or external theft.

RETAIL SHRINKAGE REDUCTION STRATEGY

The store is aware of the negative consequences of shrinkage. The shrinkage size for 2003 is 0.91% of turnover. The store has to set objectives like the one proposed in Figure 4.2 i.e. to reduce shrinkage to a 0.5% of turnover by the year 2005. In order to achieve this objective there should be a mapping of processes and identification where exactly the shrinkage is happening. This could be from central warehousing on the way to the store, in the store and on the way to customers. Once the process is mapped and the hot spots identified, the next step is to identify the causes. In this store, the main problem area is theft by syndicated thieves and card fraud. To combat these problems, solutions have to be identified, implemented and evaluated.

FIGURE 4.2 SHRINKAGE PLAN FOR WOOLWORTHS



(Source: Adopted from ECR Europe Loss Reduction Road Map)

Similar to the case of Checkers, shrinkage related data collection, recording and analysis are poor. Without proper data mining it is difficult for the retailer to take effective solutions.

SYNDICATES

At the Woolworths store supplier fraud and process failures are not problem areas mainly because supplier related transactions are performed at the head office and new systems and technology introduced to the store have reduced human error. The main problem area for the Woolworths store is external theft, mainly in the form of syndicated theft including card fraud. In order to alleviate this problem the retailer has to strictly adhere to the steps in the following chart. At the Checkers store criminals operating by syndicates are not a problem like in Woolworths. This I think is because the managers at the Checkers store stand on the spot and check while goods are received and off loaded from trucks and ensure that goods

make their way to the store. So Woolworths could apply the same procedures and this is the essence of benchmarking and collaboration.

Systems like RFID put a passive and easily readable tag on products to track and report on their travels throughout the supply chain. There should therefore be a close relationship between the manufacturer and retailer because information regarding the data of the items (identification) has to be supplied to the retailer in advance. Nowadays radio frequency technology enables businesses to detect the information of items that have left the store including the number of items and the time they left the store. Tags that are sourced at the manufacturer's plant are making the work of syndicates difficult because they cannot easily remove the tag from the product. Most of the time syndicates swap items like one truck load of goods. Woolworths can benefit to reduce such losses by implementing latest technological developments like RFID because hot products at Woolworths are mostly high value attire and the use of source tags will bring about efficiency and loss reduction.

Other alternative way of fighting syndicates available for Woolworths is that it has to collaborate with intelligence units, such as the police and law enforcement agencies. If the syndicates were not able to find a buyer for the goods they steal, they would not be motivated to steal from the store. By hiring intelligence services, the store could trace those business people who purchase the stolen products and by so doing, can disrupt the market for stolen goods. Syndicates are very sophisticated and they can overcome technological loss prevention methods. Human intervention in the form of secret shop floor detectives is advantageous to deter crime by syndicates. But the use of shop detectives should be handled with caution because store managers should not become complacent and set aside other loss prevention activities thinking that the detectives are doing the job. This implies loss prevention needs careful planning and a holistic approach. Such systems need a seamless collaboration between all the supply chain participants so by collaborating and mapping the processes, the stakeholders can identify the problem and loss which occurs during delivery to the retailer's site and on to shop floor. The only problem with RFID is it is expensive and stores may not be convinced to tag low cost items, so cost benefits analysis has to be carried out. Figure 4.2 highlights the steps that Woolworths should take in order to solve its shrinkage problems.

It was mentioned that another main problem at Woolworths is credit card fraud. To avoid credit card fraud the retailer has to train cashiers and sales personnel. The training has to concentrate on the identification of the typical behaviour of a credit card fraudster and on the physical discrepancies of fraudulent card. Most perpetrators are impatient, indifferent about cost, purchase the same product in multiples, and prefer self delivery. Such training programs are important but they can not be carried out by the retailer only so the store has to create a close relationship with law enforcement and other relevant agencies. The store has to design an incentive program for those who detect fraud card and fraudsters have to be prosecuted. An online access which prompts the information exchange about lost cards can help the quick identification of illegal usage. Therefore, the store can achieve a significant reduction by understanding how such frauds are accomplished and by designing a fraud prevention programme.

Both the Woolworths store and the Checkers store are facing all the shrinkage problems discussed in the previous chapters, though the extent of their exposure to the causes of shrinkage varies. Both stores have recognised that shrinkage is a major problem for their respective stores. In recognising these factors the stores have put in place different solutions which match to their environment and stocks. But one major observation common to both stores is that they do not have a computerised data capturing analysis tools that help loss reduction decision making. The level of collaboration with stores from their corporate and outside of the corporate is almost non existent. The stores do not have a strategic policy approach. Therefore, in order to adapt to the constantly changing environment and resourcefulness of criminals both stores should make use of a loss reduction strategy. After the introduction of the strategic approach to loss reduction, dealing with whatever specific problems that come along the course will be easier and productive.

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Appendix A: Loss prevention solutions

Loss prevention solutions are categorized under four headings; namely: procedures and routines; design and layout; equipment and technology; and people and processes. In the following paragraphs a detailed list of 67 loss prevention items is presented (Internet 27)

Procedures and routines

Annual stock loss awareness campaign: Create themes, activities and performance measures to engage every part of the organization. This could include awareness of current performance, risks and prevention procedures. They are often supported by departmental action teams to gain feedback.

Company-wide stock loss refresher training: Scheduled training that covers every employee within a reasonable time frame. It uses the most relevant materials based upon recent stock loss performance, responsibilities, industry 'best practices' and specialist loss prevention techniques.

Customer returns and refund controls (operator and customer database): Sets maximum values for refunds without supervision, develops over-rider facilities procedures, management 'halos' to ensure that high value, hot product or high abuse items are tracked, e.g. clothes, videos, CDs etc.

Damaged goods resale controls: Procedures that make it less attractive for employees to deliberately damage 'premium goods' to enable them to be bought later at a reduced price or to get them free of charge.

Employees exit searches: Using a precise record of shift patterns allowing management or security teams to carry out employee searches either by a random, arbitrary or targeted schedule.

Hot product identification: Hot products vary by outlet, location, time of year and demographics. Once identified, various approaches can be considered to reduce their loss, e.g. delivery checking, shelf replenishment techniques, use of special storage, display location and equipment and regular counting routines.

Hot product management: A unique set of procedures and guidelines, which aim to control the risks associated with these groups of products. Because varying degrees of risk occur

throughout the replenishment cycle, checkpoints should be invoked at all key stages of the supply chain process.

Hot products routine counting: Used to identify levels of loss, timing of loss and if possible whether the loss occurred on the sales floor, in the storeroom or in transit. Frequency of count should be weekly minimum and hourly maximum. Counting may deter theft as the products receive more regular attention and therefore thieves will be prone to more surveillance.

Induction training for new employees: Use the captive and influential opportunity during induction to enlighten new employees to issues of stock loss prevention, including areas and products at risk, common theft techniques and the organization's policy on prosecutions. Induction could also be supported by brochures, videos and memory aids.

Internal key control: Logging systems to determine whom, when and why particular areas, such as 'hot product' secure lock-ups, are opened and secured after each activity.

Patrol routes for employees (red routes): Standard or set routes through storage and sales floors areas that all employees are required to use. This could enable vulnerable stock areas to be more carefully monitored.

Point-of-sale information or data checks: Point-of-sale audits against targeted personnel based upon suspicion, anecdote or concerns about an individual's honesty. This could also cover internal and or external collusion.

Random till cash checks: Random, arbitrary or targeted cash checks to detect mid-shift or end of shift under-ringing and cash abuse/theft.

Rigorous delivery checking procedures: Clear and detailed procedures covering all types of delivery checks for internal and external suppliers of stock. This should include detailed levels of claims for shortages, timescales and validation processes for claims. This can include special procedure for high-risk products.

Security newsletter: Regular communication alerting employees at all levels about loss prevention techniques and up-to-date information on fraud and theft trends and cash and stock controls. Depending on sensitivities and civil rights, examples of external and or internal theft and vigilance awards for employees can be highlighted.

Shelf replenishment techniques: A range of techniques to reduce the risk of internal or external theft by regulating the flow of goods onto the shelves. Examples include a maximum of one day's sales on shelf, loose stock secured between replenishment cycles, stock secured between cycles and replenishment cycles increased for high-risk lines.

Unique till operator PIN numbers: A unique electronic operator number that enables transaction monitoring and an audit trail at operator level to be determined. It can also enable

other electronic tracking devices, such as CCTV, to be used to investigate individual operators.

‘Watertight’ product monitoring procedures: Used to identify skilled theft of high-risk products. CCTV cameras monitor the shelf stock of high-risk products. The quantity of shelf stock is checked twice a day, morning and afternoon, by a hand count. The number of items taken from the shelf is compared against EPOS data. If a loss is found to have occurred then the CCTV tape is reviewed to identify likely culprits. Files are kept on these people and evidence collected over time on their behavior patterns until enough is known to act to stop them.

Design and layout

Appropriate product location strategies: This approach locates high-risk products in an area of high visibility and control during storage and in the sales area.

Designing-out blind spots: This involves improving the physical layout of a facility, for example through better lighting, improving the positioning of CCTV cameras and giving better line-of-sight visibility to members of staff from their work locations.

Designing-out crime program: Using up-to-date techniques to ensure that thieves cannot loiter undetected, cannot steal large quantities of high-risk products easily, and cannot conceal themselves internally or externally in any part of the building. A range of equipment, e.g. one-way entrance/exit gates, low-level fixtures, CCTV, anti-theft display equipment and robust packaging, should support this approach.

Distribution centre secure storage: These solutions consist of isolated distribution centers or sections within a distribution centre designed to handle high-risk product groups with uniquely rigorous receiving, picking, access control and dispatch processes.

Employee entry/exit access control: A unique entrance and exit facility for employees to ensure that arrivals and departures can always be monitored. This area will include a place where either management or security employees can perform discreet searches.

External security—fences, anti-ram raid, roll shutters: A range of defensive approaches designed to ensure that exterior and out-of-business-hours breaches are made more difficult and do not go undetected.

Risk-based design and layout: In place of a one-size-fits-all approach to store design, this approach considers risk profiling or modeling of each unit based on their specific levels of

risk of stock loss. This method makes use of records of internal and external theft, insurance risk (industry data), historical stock loss performance, local demographic data, rates of staff turnover, trading hours and cash losses to develop an accurate picture of the risks associated with a particular site.

Robust anti-theft packaging: The use by manufacturers of extra strong and robust packaging. Includes design concepts such as 'too large to fit in the average pocket' packaging.

Single-direction product flow: A one-way process that does not have any ability to reverse the movement of stock for any reason. Quantities are designed to always fit into the dispatch, delivery and replenishment requirement of a recipient, without fail.

Supply chain and logistics network design: Consideration of a range of specific secure delivery methods that could include, cross docking, unique hot product delivery processes, third party consolidation and delivery service for hot products, central distribution high-risk product routine checkpoints throughout the network and unit item picking in a controlled environment.

Equipment and technology

Active CCTV: Either black-and-white or preferably color systems that operate during working or trading hours and record incidents throughout the key areas of the building.

Automated ordering processes: Computer based ordering processes are usually either sale based or sales trend based. They may include manual intervention capability to adjust final order quantities.

Cash protection tactics and equipment: (both cash offices and tills):A wide range of equipment and approaches are available including cash drawer covers to prevent till snatches, cumbersome metal till cash pick up units, maximum values between till pick ups, heavily supervised/guarded pick ups and timed 'dead locks' on safes.

Company-wide stock loss awareness posters: Use the most appropriate and relevant themes. Position in key employee areas- changing rooms, main corridors and stairways, employee restaurants, department notice boards, to capture the attention of full-time and part-time employees. It is important to be creative and rotate themes in order to stimulate interest and sustain attention.

Dummy display cards in place of high-risk products: Professional replicas of product with signage explaining clearly to customers how and where this product can be obtained and paid for.

EAS hard tagging (recycled): Radio Frequency, Acosta Magnetic or Electro Magnetic tags placed on high-risk products by employees to raise alarm if products are removed and not purchased. EAS is usually disarmed or identified at point of sale and used extensively on clothing.

EAS soft tagging (disposable): Radio Frequency, Acosta Magnetic or Electro Magnetic tags placed on high-risk products by employees to raise alarm if products are removed and not purchased. Usually disarmed or identified at point of sale. This can sometimes cause problems with systems in other locations if 'deactivated' products are taken there.

EAS source tagging (either disposable or recycled): Radio Frequency, Acosta Magnetic or Electromagnetic tags placed on high-risk products by manufacturers, to raise alarm if products are removed and not purchased. Usually disarmed or identified at point of sale.

Employee purchasing arrangements: Facilities that make monitoring of staff purchases and benefits easier to track. It often requires heavy investment to create an exclusive or unique facility for staff.

Employee panic alarms: Alarm buttons strategically placed and often connected to the local police station to reduce the risk of personal injury, armed robbery as well as the theft of cash and goods.

Employee uniforms without pockets: Reduces the opportunity for staff to conceal either cash or stock while at work.

Intruder alarm systems: Make use of passive beams, infrared or wire-based anti-breach burglary alarms. These can be used to control stock security either during operating hours or secure buildings when closed to the public.

Non-active CCTV: Dummy cameras that look as if they are real but have no facilities for enabling monitoring or recording of incidents.

Point-of-sale camera monitoring: Cameras targeted on till operators and used in conjunction with computerized till monitoring system that tracks 'unusual' incidents such as till drawer open for more than an acceptable amount of time, consistently low transaction values etc.

Protector display cases applied by retail outlets: Robust product containers that are applied in the retail outlet to protect products such as CDs, music tapes and videos. These are usually removed at the point of sale with special equipment.

RFID intelligent tags on pallets, cases or items (radio frequency): Tags that can track the correct stock dispatch to the right outlet. Usually focused on high-risk product groups but could extend to all products over time.

Replenishment equipment to support techniques: Specialist equipment for high-risk products, which allows secure storage for loose hot products before, during and between replenishment cycles and operator shifts.

Secure lockers for employees: An employee facility to ensure that personal possessions or money are not accessible during business hours for employees; always maintaining a management prerogative to search if suspicion exists.

Security-sealed containers/shippers: Specially designed secure containers for hot products moving from supplier to distribution centers, and between distribution centers to outlets. These range from hot sealed opaque bags to lockable/sealed boxes or containers.

Shoplifting and theft policy posters for customers and staff: Signs distributed around any stock areas, both for employees and customers, clearly stating the policy to arrest, prosecute or detain anyone suspected or caught in possession of unpaid goods.

Specialist anti-theft display equipment: Restrictors on the level of fill and/or restrictors to reduce removal of more than a single product per customer. Also includes lockable display units, dummy display units and customer service dispensing only systems.

People and processes

Anonymous phone line: Constantly manned or answer phone-based hot line, which enables employees to report any known internal theft or incidents of collusion that they are aware of, but would prefer not to be identified for fear of reprisals. This could also extend to external events that are known about and reported by customers in high-risk locations.

Civil recovery: A process that takes theft-related offences beyond standard police prosecution and utilizes civil law to recover the costs of stolen property from the offender (both customers and employees).

Covert surveillance of customers or employees: Use of CCTV or trained personal to observe suspected employees without them knowing it is taking place.

Employee awareness and training: A wide-ranging program, which can help to change

Organizational culture if sponsored by senior management. This makes use of internal and external specialists to enlighten, facilitate and help create change within the organization. It is important to identify the intended outcomes and to measure them accordingly.

Employee incentives—discount purchase schemes: These are schemes which encourage employees to buy products from the company at discounted prices, and act as an alternative to stealing product during working hours. Some schemes are only valid after a certain minimum number of months of employment.

Employee incentives—stock loss bonus schemes: A range of schemes to encourage employees to improve stock loss performance. Industry examples range from percentage of annual savings shared with employees to developing and rewarding key performance indicators such as degree of compliance with procedures, cost controls and sales performance.

Employee integrity checks: Pre-employment screening to ensure no relevant previous criminal record exists.

Employee stock loss training and education: Continuous structured programs facilitated by a range of internal and external specialists, which may include, security, loss prevention, stock management, customer service, manufacturers, police and consultants.

External compliance monitoring: External staff contracted to measure key process adherence to existing stock loss prevention procedures. They can also provide industry standards, best practice and up-to-date thinking on new procedures.

External security/loss prevention function: External staff contracted to measure security procedure adherence on cash, stock, alarms, key holder controls, and perform risk assessments.

They can also provide industry standards, best practice and up-to-date thinking on security issues.

External stock audit function: External staff contracted to count stock on a regular basis either through entire inventories across all processes or alternatively more focused counting on high-risk products in high-risk outlets. This is used to produce performance results in a consistent format enabling comparisons over time to be made.

Internal compliance monitoring: Staff employed to measure key process adherence to existing stock loss prevention procedures. Unless they are specialists it is unlikely that they can provide or compare results with industry standards. Their performance can be enhanced if they are able to report directly to senior management.

Internal security/loss prevention function: Staff employed to measure security procedure adherence on cash, stock, alarms, key holder controls, asset risk assessment. Unless they are

specialists, it is unlikely that they can provide industry standards. Research shows that such a function has a greater impact if it reports directly to senior management.

Internal stock audit function: Staff used to count stock on a regular basis either through entire inventories across all processes or alternatively more focused counting on high-risk products in high-risk outlets. Used to produce performance results in a consistent format enabling comparisons over time to be made.

Random checks on distribution centre picking accuracy: Internal or external agencies who carryout load checks prior to dispatch to identify picking errors. Usually focused on high risk product groups.

Store detectives: Plain-clothed security operatives employed to detect or deter would-be shop thieves.

Test purchasing 'mystery shopper': Customer decoys who take a normal or targeted shopping load through suspected or regular employee to check accuracy of transaction, cash handling and observational skills of checkout operators.

Uniformed security guards: Either contracted from a specialist company or trained as a member of the organization. Used as a visible deterrent to would-be offenders and often positioned near at-risk products. Also employed to reassure staff who may feel vulnerable to crime, especially violent crime.