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Business Expense

THE RETAIL INDUSTRY RELIES ON UF'S ANNUAL SECURITY SURVEY TO TRACK TRENDS IN SHOPLIFTING AND EMPLOYEE THEFT

BY JOSEPH KAYS

Gangs of organized shoplifters and dishonest employees cost the American retail industry more than \$33 billion annually, or about \$400 for every family.

"You as a consumer ultimately pay for theft in higher prices and inconvenience when an item is not in stock because it has been stolen," says Joseph LaRocca of the National Retail Federation. "In addition, state and local governments lose billions in sales tax revenue because every item that is stolen is not being counted on the tax rolls."

For the past 18 years, the National Retail Security Survey produced at the University of Florida by criminology Professor Richard Hollinger has been a must read for loss prevention specialists and corporate CEOs.

"The National Retail Security Survey is the leading industry benchmark and one of the most requested documents from our members," says LaRocca, the federation's senior asset protection advisor. "Having a third party like Dr. Hollinger, who approaches the survey in such a deliberate manner, really gives it a lot of credibility with our members."

Hollinger says that when the report comes out each fall he usually gets one of two reactions from retail security managers:

SHRINKAGE IS INDUSTRY-SPEAK FOR ANY PRODUCT LOST BETWEEN MANUFACTURING AND SALE, AND ACCORDING TO HOLLINGER'S RESEARCH 43 PERCENT IS A RESULT OF EMPLOYEE THEFT AND 35 PERCENT IS FROM SHOPLIFTING.

"The first is that I've made their life miserable because they're going to have to explain to their CEO why the company's shrinkage is higher than the national average. Or they thank me for helping show their CEO what their company should be doing to reduce shrinkage."

Shrinkage is industry-speak for any product lost between manufacturing and sale, and according to Hollinger's research 43 percent is a result of employee theft and 35 percent is from shoplifting.

Hollinger's 2009 survey included responses from 100 retailers, from clothing stores to supermarkets. The \$50,000 annual cost of the survey is funded by contributions from some of the industry's biggest names, including ADT, Sensormatic, the National Retail Federation, the Florida Retail Federation, the Retail Industry Leaders Association, eBay and Stoplift. UF's Center for Retailing Education and Research also helps to underwrite the survey.

The good news is that the shrinkage rate of 1.44 percent of sales ties the lowest in the survey's 18-year history.

"It was a pleasant surprise to see the number go down a little this year, especially given the economy," LaRocca says, "but we know from past results that we can't rest because of that lower number."

That "lower" number still translates into \$33.49 billion in lost revenue.

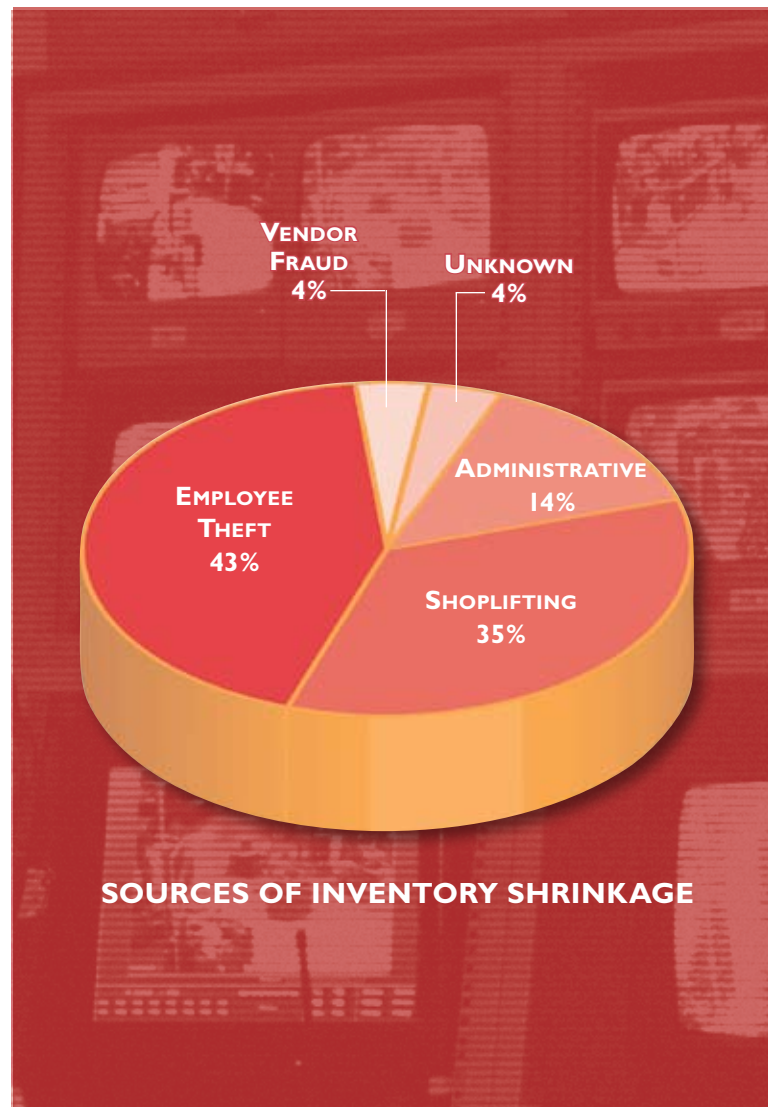
"One can only speculate on how much more profitable this industry could be if these many sources of financial loss could be significantly reduced," Hollinger says.

While the number has gone down a little, he says, that might not necessarily be all good news because some of the decrease may be the result of high-loss stores going out of business.

"Back in the 1990s, we had a lot of record and video stores in the survey and they had huge shrinkage rates, like 4 percent," Hollinger says. "Many of those stores don't exist anymore. Who goes to buy, or steal, a CD anymore?"

Hollinger also theorizes that because jobs are so hard to come by in the current economy, fewer employees are willing to risk their jobs by stealing from their employers.

"The biggest piece of the pie is employee theft and my guess is that a lot of employees are very reluctant to take the risk of



getting caught," he says. "If you've been laid off from a factory job and are falling back on one or two retail jobs, you're not going to take that risk."

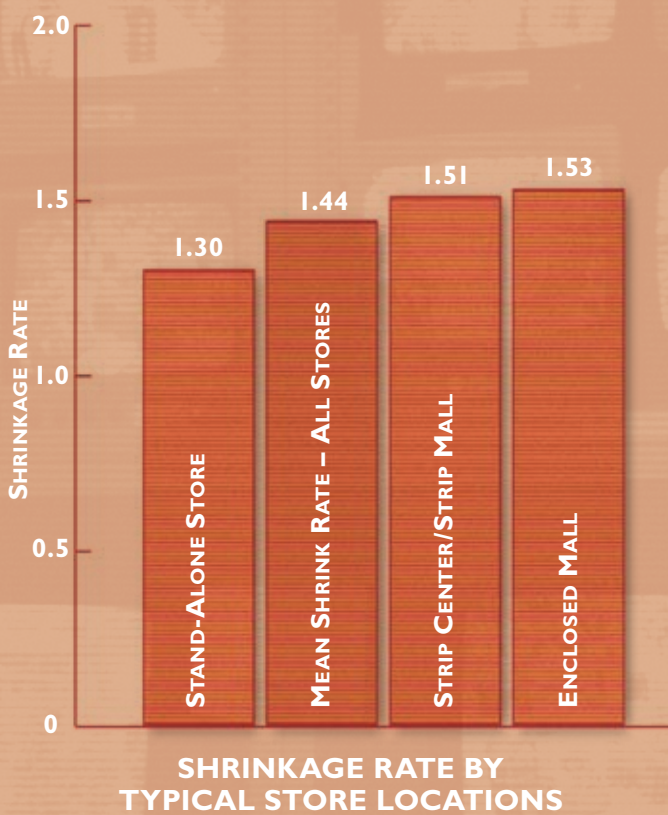
LaRocca adds: "We think one of the contributing factors to the lower number is the hard work we've been doing to fight organized retail crime. Also, a lot of retailers have taken steps to address internal policies and controls at the store level to reduce employee theft."

Despite the large dollar amounts and its dramatic effect on the economy, law enforcement has historically not devoted significant resources to something that was seen as a retail industry problem.

"For a long time, retail theft was considered a nuisance crime," LaRocca says. "But once law enforcement fully understood the impact of retail crime, including the fact that it is a nexus into other community-based crimes, like gangs and drugs, we had their full support."

In addition to the monetary costs, there are safety issues.

"Things like infant formula, over-the-counter drugs and diabetes test strips have expiration dates and are supposed to



The hottest trend in loss prevention is digital video, which allows store security to get high-quality images of suspected shoplifters and can be programmed to look for certain types of activities and alert managers.

be stored in certain climates,” he says, “but the crooks don’t care about that, so they’re often kept in a storage unit by the highway somewhere.”

And when the spoils of American shoplifting began turning up in the bank accounts of foreign terrorist organizations, the federal government really started paying attention.

In 2005, Steve Emerson of the Investigative Project on Terrorism, a non-profit watchdog group, testified before the U.S. Senate banking committee: “Organized retail theft has links to money laundering and financing of Middle Eastern terrorism. It targets everyday household commodities and consumer items affecting a variety of retail enterprises, including supermarkets, chain drug stores, independent pharmacies, mass merchandisers, convenience stores, and discount businesses ... Strong evidence indicates that profits from this chain of illegal activity are funneled to terrorist groups in the Middle East, posing a serious threat to national and international security.”

After years of lobbying by the retail industry and law enforcement, in September the U.S. House of Representatives passed the Organized Retail Theft Investigation and

Prosecution Act, which would require the Justice Department to set up a unit specifically to address organized retail theft. The bill is currently before the U.S. Senate.

“The Organized Retail Theft Investigation and Prosecution Unit, working in close consultation with retailers, will be one of the keys to protecting both retailers and consumers against the massive economic costs and very real public health and safety risks posed by organized retail crime,” LaRocca says.

While employee theft remains the largest component of retail theft, Hollinger says organized retail crime has really taken off in recent years.

“They usually come in teams,” he says. “I’ve seen parking lot videos where a team arrives in a van, then splits up into groups of two, each with a shopping list. Typically, they’ll leave the keys on the wheel of the van, so if some get arrested, the rest can get away.”

Hollinger says new technology is helping store loss prevention specialists fight back.

The hottest trend in loss prevention is digital video, which allows store security to get high-quality images of suspected

“IN THE OLD DAYS, FLEA MARKETS WERE A TYPICAL OUTLET FOR THIS STOLEN MERCHANDISE, THEN THE INTERNET CREATED THESE WORLDWIDE ELECTRONIC FLEA MARKETS LIKE EBAY AND CRAIGSLIST.”
— RICHARD HOLLINGER



Dane Shewey, an assistant manager at the Sears store in Gainesville's Oaks Mall, explains to UF criminology Professor Richard Hollinger that expensive perfumes are a favorite target of shoplifters.

shoplifters and can be programmed to look for certain types of activities and alert managers.

“There is software coming out now that can spot certain movements associated with shoplifting and employee theft practices and alert management to it,” Hollinger says. For example, the software can spot the difference between a legitimate shopper taking one bottle of pain reliever off the counter and a shoplifter sweeping a whole shelf of bottles into their purse — a move known in the industry as a “wipeout.”

“The key to this technology is that it can alert management while the person is still in the store,” Hollinger says. “With a wipeout, there’s no excuse. They can confront the person and show them the video.”

Soon, Hollinger predicts stores will be able to compare real-time video with libraries of digital images of known shoplifters.

“So an alarm would go off in the manager’s pocket alerting him that the gang from last week is back in the store,” he says.

Retailers are also fighting back against technology that was making the resale or “fencing” of stolen merchandise easier.

“In the old days, flea markets were a typical outlet for this stolen merchandise,” Hollinger says. “Then the Internet created these worldwide electronic flea markets like eBay and Craigslist.”

“The crooks found that going onto the Internet gave them a platform to liquidate goods at much higher prices than they could get in flea markets or pawn shops,” adds LaRocca.

In March, eBay announced a partnership with the National Retail Federation to tackle organized crime.

“NRF has done a great job of shining a spotlight on the issue of organized retail crime, but retailers cannot fight this problem alone,” says Paul Jones, Global Director of Asset Protection at eBay. “Through this partnership, NRF and eBay are putting criminals on notice that they will no longer be able to steal from retailers and abuse the online marketplace for profit.”

“The online marketplace has been an important part of the equation as we work to reduce organized retail crime,” says LaRocca. “By sharing information, we have been much more effective at shutting down organized retail crime operations.”

About 20 percent of retailers have dedicated investigative departments that do nothing but follow organized gangs, Hollinger says.

“They have people who spend all day looking for their products or their gift cards on eBay or Craigslist. When they spot a hundred Lowe’s gift cards for sale by a single seller, then they work with law enforcement to set up a sting.”

On the employee theft side, Hollinger says retailers are relying more and more on pre-employment screening to identify potential thieves before they’re hired.

According to the survey, “The most consistent predictor of inventory shrinkage has always been a retail firm’s level of annual employee turnover. As we have repeatedly demonstrated from 18 consecutive years of research data, shrinkage rates are lower in firms with low turnover.”



A Sears security specialist demonstrates how a shoplifter would stuff blue jeans under his clothes.



Craftsman tools have a lifetime guarantee, so shoplifters steal them and then return them.

The data show that above-average turnover among both sales associates and managers results in significantly higher shrinkage rates.

“We must conclude from this that it is almost impossible to achieve low inventory shrinkage levels when the ‘churn’ of employee, and especially manager, turnover is abnormally high,” Hollinger says, adding that the average length of employment of a worker caught for dishonesty is 11.93 months.

Hollinger says the best defense against employee theft is employees who are committed to the customer and the employer.

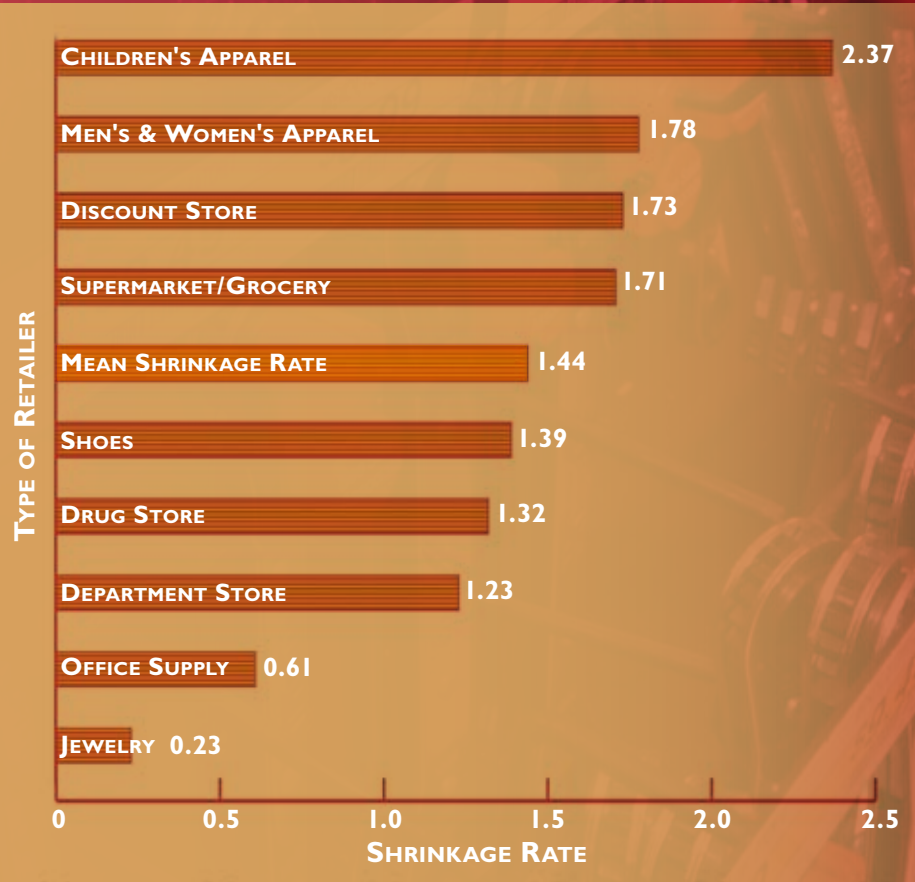
“Once you get the employees to take ownership of the store, then you have 100 loss prevention specialists on the floor instead of two,” he says. “Everybody becomes part of the loss prevention program.” ❌

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Related website:

<http://soccrim.clas.ufl.edu/criminology/srp/srp.html>



SHRINKAGE RATE BY RETAIL MARKET SEGMENT