UNIVERSITY OF FLORIDA

2000 NATIONAL RETAIL SECURITY SURVEY

9th Edition

EXECUTIVE SUMMARY

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2000 RETAIL SURVEY REPORT

INTRODUCTION

It is widely agreed that present day retail loss prevention is not an exact science. Nevertheless, loss prevention professionals are forced every day to make significant and costly policy decisions based on very limited and sometimes inaccurate information. The ongoing purpose of the National Retail Security Survey has been to provide some badly needed light upon the various questions that retail loss prevention directors face: How do our losses compare to other retailers? What are the principal sources of shrinkage? What are other firms doing to reduce their inventory and cash losses?

The 2000 National Retail Security Survey (NRSS) is the ninth edition in a series of annual, nationwide, empirical research studies focused on loss prevention, asset protection and retail store security activities. This year's Executive Summary of the Final Report provides an overview of the data voluntarily provided via a self-administered, anonymous questionnaire. The questionnaire was completed and received from 199 separate retail chains representing seventeen (17) different vertical markets. The retail firms participating in this year's survey represent virtually the entire retailing industry (with the intentional exclusion of restaurants, bars, motor vehicle dealers, auto service stations, catalog and Internet sale outlets).

RESPONDING RETAILERS

The 199 different retail companies included in this year's survey represent seventeen (17) different vertical markets within the retail industry.

The single largest market category responding to this year's survey was the combined men's, women's and children's apparel stores group (27). Other vertical markets participating in relatively large numbers include department stores (23); home centers, hardware, lumber & garden supply stores (16); discount stores (14); as well as the supermarket & grocery group (12). Between five and ten retail chains responded from each of the following retail categories, namely, jewelry (10); recorded music & videos (10); furniture & household furnishings (8); computers, electronic appliances, & cameras (7); drug store & pharmacy (7); shoes (7); cards, books, magazines and novelties (6); and sporting goods (5). Less than five firms participated in the year 2000 survey from the following retail groups: convenience, liquor, wine, & beer stores (4); optical shops (2); auto parts (1); and toys and hobbies (1). Thirty-nine other retailers returned completed survey questionnaires, but were unable or refused to categorize themselves into any of the above markets.

LEVELS OF INVENTORY SHRINKAGE

The principal objective of the NRSS is to ascertain the level of inventory shrinkage experienced annually by various categories of merchants within the US retail industry. Providing data from the preceding 1999 calendar year, the nearly two hundred responding firms indicated that their average inventory shrinkage rate was 1.69% of total sales (calculated at retail). This past year's shrinkage rate was significantly lower than the 1998 NRSS report's rate of 1.72% (the most recently conducted previous National Retail Security Survey).

Overall shrinkage level is comprised by averaging the following retail market segments: toys and hobbies (2.82%); convenience, liquor, wine & beer (2.17%); home centers & hardware (1.93%); sporting goods (1.91%); department stores (1.82%); discount stores (1.81%); optical (1.76%); cards, books, magazines, & novelty stores (1.74%); and men's, women's & children's apparel chains (1.73%). Below average shrinkage retailers included: recorded music & video (1.63%); drug stores (1.56%); supermarket & groceries (1.53%); shoes (1.14%); jewelry (1.09%); auto parts & tires (0.82%); furniture & home furnishings (0.71%); followed last by computers, consumer electronics, appliances & camera stores (0.62%).

Average inventory shrinkage percentages have remained relatively stable over the past nine years studied, never exceeding two percent of annual sales. In the early years of the survey shrinkage averages oscillated in a generally upward direction from 1.79% during 1990, to 1.91% in 1991, down slightly to 1.88% during 1992, then increasing slightly to 1.95% in 1993, decreasing again in 1994 to 1.83%, up to 1.87% in 1995, down to 1.77% in 1996 and falling slightly again to 1.72% for the calendar year of 1997. However, the more recent trend in inventory shrinkage over the past few years is slightly downward. In fact, this year's average inventory shrinkage at 1.69% is the lowest recorded in the history of the National Retail Security Survey.

Above Average Inventory Shrinkage Percentage Rate for 1999

CASH, CHECK AND CREDIT CARD LOSSES

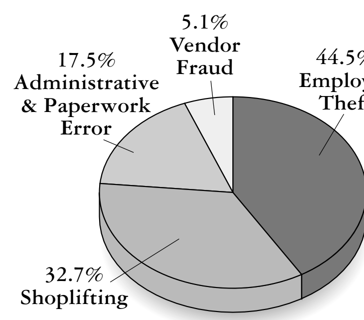
The 2000 NRSS questionnaire also asked retailers to report their annual cash, check and credit card losses for the calendar year 1999. Lowest of the three were cash shortages which averaged at just 0.13% of retail sales. Recorded music and video stores suffered the greatest level of cash shortage, averaging 0.28% of annual sales.

The next most serious financial losses were incurred from credit cards, averaging 0.23% of sales. Not surprisingly, credit card charge back losses were most problematic in discount and department stores averaging 0.99% and 0.46% of sales, respectively.

The most costly losses for the above methods of payment were the result of bad checks — overall averaging 0.67% of sales. Bad check losses were most problematic in discount stores (2.04%); convenience, liquor, wine & beer stores (1.7%); and department stores (1.40%) of annual retail sales.

SOURCES OF INVENTORY SHRINKAGE

Another principal annual objective of this study is to measure the perceived sources of inventory shrinkage as assessed by the retail loss prevention executives completing the survey instrument. Inventory shrinkage (sometimes called "shortage") can be generated by a variety of factors. Identifying the precise source of inventory shrinkage after the loss has occurred is an especially difficult task since managers are left with no tangible audit trail. As such, loss prevention executives often must rely on "after-the-fact" educated guesses to estimate how their inventory losses occurred. We recognize that these estimates are inherently affected by personal biases. Nevertheless, asking loss prevention directors to provide their professional opinions regarding the sources of inventory shrinkage can still be useful because they are most knowledgeable about the problem and are ultimately responsible for deploying their firm's resources in the fight to reduce shrinkage.



Loss prevention managers in each responding firm were asked to divide the inventory shrinkage "pie" allocating their total shrinkage attributable to the following four major sources, shoplifting, employee theft, administrative & paperwork errors and finally, vendor-related fraud.

This year's survey once again confirms that employee (i.e., internal) theft is believed to be the retailers most significant source of inventory shrinkage. In fact, during this past year the proportion of loss believed to be attributable to employee theft reached an all time high of 44.5%. This would suggest that either employee theft is increasing substantially, or other categories of loss are decreasing significantly as a proportion of the whole.

Three other sources of inventory loss also contribute to the shrinkage total. Specifically, this past year's loss prevention executives attributed 32.7% of their company's losses to shoplifting, 17.5% to administrative & paperwork errors, with the final 5.1% caused by vendor fraud.

When these percentages are compared to the 1998 NRSS conducted two years ago the variation is quite minor for most sources of loss. Administrative and paper errors along with vendor fraud decreased two-tenths of a percent (5.3% to 5.1% and 17.6% to 17.4%). The shoplifting percent decreased nearly 2 percentage points (34.4% to 32.7%). When comparing the 1998 report to the year 2000 report data results, undoubtedly the most significant change in the source of loss can be found in the nearly two percentage point increase in the proportion of loss which can be attributable to employee theft (42.7% to 44.5%).

As in years past, we continue to caution the reader against making too much of minor year-to-year fluctuations. However, we believe that it is safe to conclude that tight labor markets combined with increasingly effective controls on shoplifting, administrative error and vendor fraud, has elevated the relative contribution of employee theft in the total shrinkage control picture.

The highest estimates of employee theft were found among optical (80%); computers, consumer, electronics, appliances and cameras (61.4%); and convenience, liquor, wine and beer stores (60%). Alternatively, the very lowest levels of employee theft were reported by home centers, hardware, lumber and garden supply (33.1%); toys and hobbies (35%); followed last by cards, books, magazines and novelties stores (40.8%).

The firms which reported shoplifting to be their primary source of shrinkage included homecenters, hardware, lumber and garden supplies (40%); recorded music & video (40.6%). The very lowest levels of shoplifting were found in optical shops (5%) which guard their displayed merchandise very carefully.

The highest percentages of inventory shrinkage due to administrative and paperwork errors are found in jewelry (25%); tied with toys and hobbies (25%); followed closely by cards, books, magazines and novelties (24.2%). The lowest administrative and paperwork errors were reported by supermarket & grocery stores (7.6%).

The highest vendor fraud percentages were again reported in the double digits by convenience, liquor, wine and beers stores (10.8%); followed by toys and hobbies (10%); and supermarket & grocery stores at (7.5%). Since these are the three markets that rely most heavily on outside vendors to help stock their shelves, it is not surprising that vendor fraud was considered a more significant problem for these vertical markets.

CORPORATE COMMITMENT TO PREVENTING LOSSES

When incidents of employee theft or shoplifting come to the attention of retail corporations, a variety of steps can be taken to sanction those involved. In an effort to measure the various ways in which retailers respond to detected losses, each firm was asked to report on the number of apprehensions/terminations, prosecutions and civil demand recoveries that they had recorded during the past year for both dishonest employees and shoppers. Since the size of a retailing corporation has a direct effect on the number of dishonesty cases, we chose to standardize these figures by the company's annual sales volume. In the following two sections, we will report data on employee theft and shoplifting apprehensions, prosecutions and civil demand recovery per $100 million of annual sales volume.

EMPLOYEE DISHONESTY

The three most common responses to employee dishonesty are termination, prosecution and more recently, civil recovery (also called "civil demand").

EMPLOYEE DISHONESTY
(Per $100 million annual sales)

	1997	1999	Trend
Apprehensions/Terminations	40.9	33.0	down
Employee Theft Prosecutions	16.2	12.0	down
Employee Theft Civil Demand	7.6	10.1	up
Average Tenure of Employee Apprehended for Dishonesty (months)	9.4	8.8	down
Average Dollar Loss	$1,058.00	$1,022.68	down

Employee Theft Apprehensions/Terminations

In the previous calendar year of 1999 the overall levels of apprehensions and subsequent terminations were 33 per $100 million in sales. The trend in apprehensions and terminations of dishonest employees is down. By way of comparison, in 1997 retailers reported a substantially higher rate of 40.9 employee theft apprehensions for every $100 million in sales.

Employee Theft Prosecutions

Criminal prosecutions occur less often than terminations. In the previous year retailers prosecuted dishonest employees at a rate of only 12 per $100 million in annual sales. These statistics confirm the retail industry's continuing reluctance to use criminal sanctions. For example, the average rate of dishonest employee theft prosecutions was reported to be 16.2 per $100 million in sales volume in 1997.

Employee Theft Civil Demand

The least most commonly observed response to the dishonest employee was the use of Civil Recovery (Civil Demand). Retailers reported a rate of 10.1 dishonest employee civil recovery cases per $100 million in annual retail sales for the calendar year of 1999. This rate is up from previous years, as we found in 1997 an average of only 7.6 employee theft cases were handled by civil demand per $100 million in sales. Once again we see confirmation of retailers preference to use civil law, not criminal law, solutions to dishonest employee cases.

Average Tenure of Employees Apprehended for Dishonesty

Generally speaking, dishonest employees do not work very long before they are apprehended. As was the case in each of the nine previous NRSS reports, this year's study again confirmed that the length of time worked by the typical dishonest employee prior to their apprehension was less than a year. In fact, the average tenure of dishonest employees has dropped even lower. Specifically, the average tenure of the dishonest employee was just under nine months (8.8 months). This is even lower than observed in the 1998 NRSS when the average length of time worked by the dishonest employee was an average of 9.4 months.

Low tenure was especially true of convenience, liquor, wine & beer store dishonest employees who worked less than three months before being caught. Other low tenure vertical markets were shoes (5.3); auto parts (6); and toys & hobbies (6).

Average Dollar Loss Per Dishonest Employee

This past year the average dollar loss admitted stolen by the typical dishonest employee was $1,022.68. This loss amount is just slightly lower than the 1997 data in which retail firms estimated that each employee theft incident costs them on average $1,058.

SHOPLIFTING

Despite the widespread perception among loss prevention professionals that employee theft is their most significant loss prevention problem, the number of shoplifting apprehensions continues to surpass those of dishonest employees. The three most common forms of management response to shoplifting is apprehension, prosecution and civil demand (civil recovery).

SHOPLIFTING
(Per $100 million annual sales)

	1997	1999	Trend
Shoplifter Apprehensions	265.3	96.5	down
Shoplifter Prosecutions	129.1	76.7	down
Shoplifter Civil Recovery	37.4	69.3	up
Average Dollar Loss	$212.68	$123.03	down

Shoplifter Apprehensions

The average rate of shoplifting apprehension was found to be 96.5 apprehensions per $100 million in sales during calendar year 1999. Shoplifting apprehensions seem to be at a significantly lower rate in this year's survey. For example, in 1997 responding retail firms reported a rate of shoplifting apprehensions that was three times higher, averaging of 265.3 shoplifting apprehensions for every $100 million in retail sales.

Shoplifter Prosecutions

The average rate of shoplifting prosecutions was reported to be 76.7 per $100 million in sales. This rate of prosecution is significantly down from 129.1 prosecutions for shoplifting that were reported in the 1998 survey for every $100 million in sales.

Shoplifter Civil Recovery

Lastly, the rates of Civil Recovery actions against shoplifters was reported to be 69.3 per $100 million in annual retail sales. Civil Demand as a sanction option for shoplifting has almost doubled when compared to the 1997 data when the rate of civil recovery was only 37.4 cases per $100 million in annual sales.

Average Dollar Loss Per Shoplifter

The average dollar loss per shoplifting incident was $128.03 in the calendar year of 1999. This number is significantly lower than the $212.68 per shoplifting incident reported in 1997. The highest dollar losses are occurring in jewelry stores ($1,500) and the lowest dollar losses are found in toys & hobbies stores ($13.82).

LOSS PREVENTION DEPARTMENT

Loss Prevention Budget as a Percent of Total Sales

One very accurate way to assess a company's commitment to preventing losses is to measure the size of their loss prevention budget. As such, each respondent was asked to report their loss prevention budget as a percent of their total retail sales. Our respondents indicated that "on average" their loss prevention budgets equaled 0.79% of their firm's annual retail sales. This number is substantially higher than 0.57% reported in the 1998 National Retail Security Survey. Highest LP budgets as a percent of retail sales were found in recorded music and video stores (1.72%); discount stores (1.58%); and jewelry stores (1.52%).

The above overall loss prevention budget can be roughly broken down into non-capital (e.g., payroll) and capital (e.g., security equipment) expenditures. In the calendar year of 1999 retailers reported that their non-capital expenses were 0.53% of sales, while their capital expenditures amounted to 0.21% of annual retail sales. Jewelry stores (1.34%) reported the highest non-capital budgets; while discount (0.73%) and recorded music & video (0.54%) stores spend the most money on capitalized items in security and technology.

Loss Prevention Employees Per $100 Million in Sales

The average number of LP personnel per $100 Million in sales was 5.75. The number consists of 3.62 "non-exempt" employees and 2.06 "exempt" employees. As was the case in our last report, the highest concentration of loss prevention employees was found in both full line (14.18) and discount (13.59) department stores. The only other category with similar staffing levels to discount and department stores was found in the computers, consumer electronics, appliances and cameras combined market category (11.25). All other vertical markets had LP staff numbers that were below the overall average.

By way of comparison, 1997 LP department staffing was at a significantly higher level as responding retail companies reported hiring an average of almost ten (9.99) loss prevention employees per $100 million in annual sales.

Loss Prevention Employees Per Typical Store

Our final measure of loss prevention commitment is the number of loss prevention staff divided by the total number of store locations. Responding firms reported that they have assigned an average of 0.85 employees per store to loss prevention duties. The mean for "exempt" employees is 0.20 and for "non-exempt" employees is 0.61. The highest concentrations of LP personnel per store were reported in discount stores, department stores and sporting goods stores. These three types of retailers deploy two to four times the number of LP personnel found in other types of retail stores. The level of LP employees per store in the 1999 data is significantly lower than the 1.12 persons per store in 1997.

LOSS PREVENTION DEPARTMENT

	1997	1999	Trend
Loss Prevention Budget as a Percent of Total Sales	0.57%	0.79%	up
Loss Prevention Employees Per $100 million in Sales	9.99	5.75	down
Loss Prevention Employees Per Typical Store	1.12	0.85	down

CONCLUSION

In summary, there is both good and bad news in this year's report. While overall inventory shrinkage percentage is down slightly, an increasingly larger proportion of losses are attributable to employee dishonesty… a much more difficult problem to control, especially in a tight labor market. Employee theft apprehensions and criminal prosecution rates are down. This may indicate fewer employees are stealing, however, it could also mean that fewer are getting caught. Retailers are increasingly relying on Civil Recovery as their response to employee dishonesty. This can be viewed as an extremely short-run strategy to fight the difficult problem of internal theft. The average tenure of the dishonest employee remains at a very low nine months. This continues to suggest that dishonest employees begin to steal very soon after coming to work. While it is good news that the average dollar cost of the dishonest employee is holding at about the same dollar level per case, more employees are stealing which increases the overall cost of internal theft.

On the subject of shoplifting, the news seems to be a little brighter. First, fewer shoplifters are being apprehended, less are being criminally prosecuted and retailers are twice as likely to use civil recovery as the sanction of choice for this form of retail crime. This may suggest that the investment in technology such as EAS and cameras is beginning to pay off in lower levels of shoplifting activity.

As in years past, it is our hope that this ninth edition of the University of Florida's National Retail Security Survey will continue to be used as a valuable resource of unbiased information in the never-ending quest for lower retail inventory shrinkage and financial loss. We have again tried to produce a user-friendly research report that offers retailers a practical document with which they can begin to evaluate and eliminate their loss prevention problems. Readers are encouraged to contact the Security Research Project at the University of Florida if they have questions regarding these research findings. Moreover, all security, loss prevention and assets protection professionals are invited to provide data on their company when they receive next year's survey questionnaire in the mail.

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