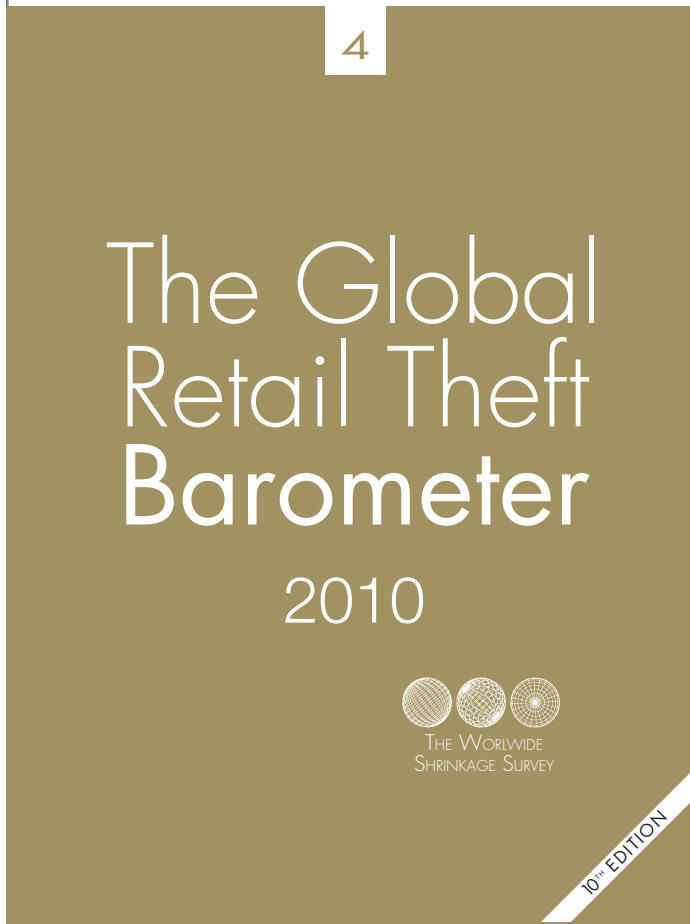


Making Progress in Preventing Shrink

Improving economies, renewed LP investments help stem the tide



With most global markets beginning to see renewed economic growth, retailers are enjoying some relief from escalating shrink rates. Global shrink retreated 5.6 percent during the most recent 12-month period, according to the fourth annual Global Retail Theft Barometer, reversing last year's spike in shrink rates in every geographic market. The improving economic picture and increased investment in LP and security measures have combined to tamp down retail theft. But while progress clearly is being made, retailers and their trading partners still face important shrink-related challenges to their financial performance. This year's report suggests important strategies and tactics for retailers to consider in addressing the still-imposing problem of shrink.

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Remaining Vigilant in the Fight Against Shrink

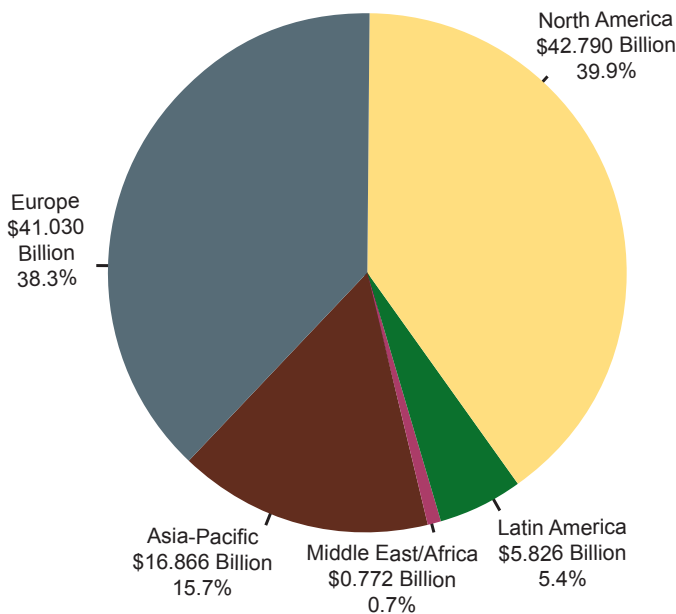
Despite successes, retailers must maintain attention and investment

A year ago, there was little doubt that the global economic recession was a major contributor to a worldwide spike in shrink rates. After several years where shrink rates hovered at consistent levels, shrink rates jumped almost in lockstep with deteriorating retail sales. Today, the correlation between macroeconomic trends and retail shrink is actually good news: As economies have improved around the world—some more than others, to be sure—shrink levels have been consistently reduced, according to the Centre for Retail Research's annual Global Retail Theft Barometer (GRTB).

In this year's survey, respondents from 1,103

retailers throughout North America, Europe, Asia-Pacific, Latin America and Africa/Middle East provided in-depth information about all aspects of their stores' shrink. Retailers in 42 different countries were represented, including, for the first time, Russia. The survey asked retailers to provide information pertaining to shrink for the time period from July 2009 through June 2010, which is widely believed to be a timeframe where many regional economies began to stabilize and resume growth after the economic near-collapse starting in 2008.

Retail Shrinkage 2010 By Region (US \$ billions)
Total Shrinkage \$107.284 billion



Key Data Points

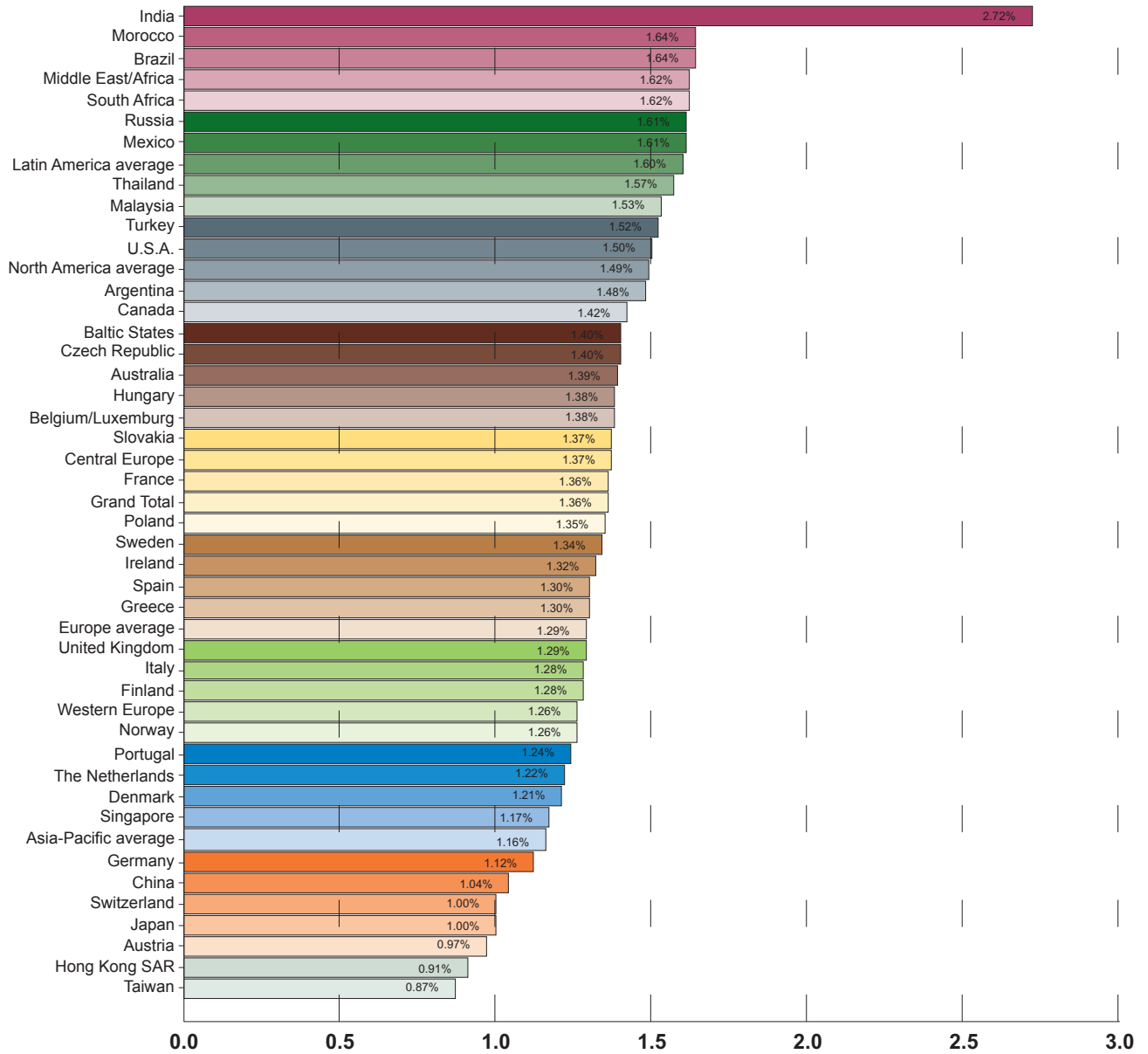
Retailers' responses yielded a wide and deep array of statistics. Some of the key issues highlighted by the survey's data are:

- **Worldwide shrink was \$107.3 billion (U.S.)**, a decline of 5.6 percent. This represented 1.36 percent of retail sales, down from 1.43 percent a year ago.
- **Shrink fell in North America by 7 percent**, more than in any other region surveyed. By contrast, shrink rose nearly 9 percent in North America in last year's report.
- **India once again was the country with the highest** shrink rates, although shrink did fall 15 percent in that region from 2009's report to this year.
- **Hardware and DIY(do-it-yourself)** supplanted apparel as the industry with the highest shrink rates, although apparel and pharmacy/cosmetics followed closely behind.
- **Shoplifting—already the number-one cause of**

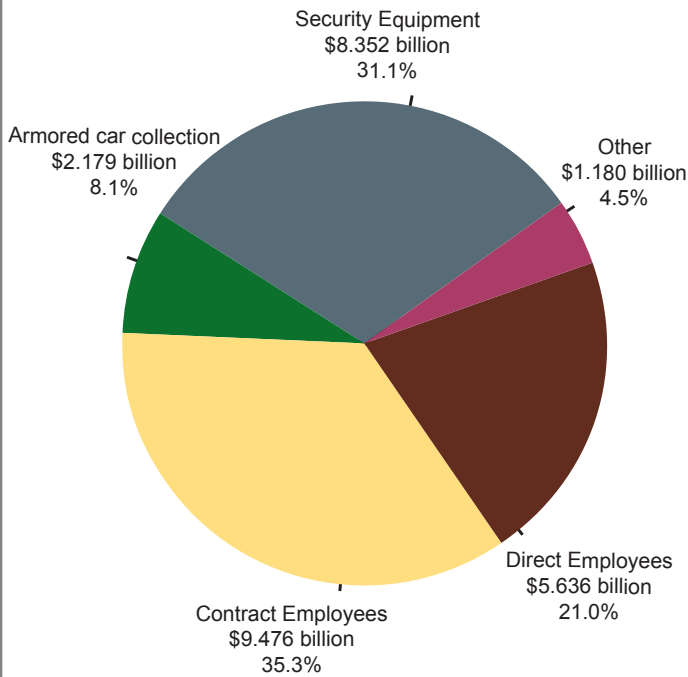


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Shrinkage Rates 2010 by Country as Percentage of Retail Sales



Global Loss Prevention Expenditure 2010 (Total \$26.823 billion)



shrink globally—appears to be generating even more concern among retailers.

- **For the first time in three years**, retailers increased their spending on loss prevention and security; LP hardware and systems was the category with the highest percentage of year-over-year percentage increases.

- **Retailers are taking other important steps** to thwart the rise in shrink, including stepped-up employee training and compliance audits, and increasing the percentage of products protected in their stores.

As in prior years, the 2010 GRTB reports the statistics globally as well as by each of the major geographic regions. Additionally, shrink rates are reported across each of the 42 countries where retailers provided responses to detailed questionnaires. As can be imagined, understanding geographic differences and trendlines is invaluable to LP professionals and retail executives looking to craft the ideal strategy for each store. That's why smart LP professionals not only have a corporate strategy for shrink management, but have a tactical plan for each major geographic region and for each country within that region where they operate. As the data indicates, shrink rates vary widely by country, even for countries within the same continent or hemisphere.

Spending on LP and Security

Total spending on loss prevention and security rose 9.7 percent in this year's GRTB to \$26.8 billion, or 0.34

	Percentages	Sub-totals
Percentage of lines not protected	25.5%	25.5%
EAS hard tags	14.0%	
EAS soft or paper tags	13.7%	
EAS source tagging	10.2%	
3-alarm accessories	4.2%	42.1%
Displayed in locked cabinets or shelves	7.0%	
Dummy cartons or ticket systems	3.5%	
Chains, cables, loop alarms	4.5%	
Keepers/safers, locked boxes, product alarms	13.4%	
Other protection device	4.0%	32.4%
Totals	100.0%	100.0%



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percent of sales. North American- and European-based retailers led the way, accounting for the vast majority of all global loss prevention spending. In North America, where shrink fell the most compared with the 2009 results, loss-prevention spending now represents 0.45 percent of retail sales – the highest percentage of any region worldwide.

Of course, there are several categories of spending on LP and security spending: equipment, employees and third-party services. The combination of internal staff and contract employees represents slightly more than one-half of all LP/security spending; however, spending on security equipment—EAS systems, anti-theft solutions, tags, alarms and the like—increased by a robust 29 percent compared with last year's total, making it the fastest-growing segment of LP spending in this year's survey.

One of the key points made by Professor Joshua Bamfield, executive director of the CRR and the study's author, is the relationship between increased investment in LP spending—particularly in systems and infrastructure—and lower shrink. "The correlation between increased security spending and a global 5.6 percent reduction in theft is very significant," he said. "It highlights the importance of continued advancement and improvement of loss prevention programs, as reducing theft is key to the success and growth of retailers' businesses."

Retailers are taking other important steps that appear to be contributing to their efforts to reduce shrink, according to the study. For instance, 91 percent of

2010 Global Retail Theft Barometer Snapshot

- 1,103 retailers
- 42 countries
- Shrink down 5.6% to \$107.3 billion
- Represents 1.36 percent of sales
- Industries with highest shrink rates: Apparel, Pharmacy, Hardware/DIY,
- Countries with highest shrink rates: India, Morocco, Brazil
- Money spent globally on loss prevention/security: \$26.8 billion, up 10%
- Global cost of shrink: \$186 per family

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respondents said they have increased their use of employee training to spot and deter theft, while 75 percent said even more training is planned for the next 12 months. This use of increased staff training represents a huge 20-point increase in just one year. Among the additional steps being taken by retailers: pre-hiring screening for employees, increased use of video surveillance and EAS consumables and accessories, and hiring more in-store employees.

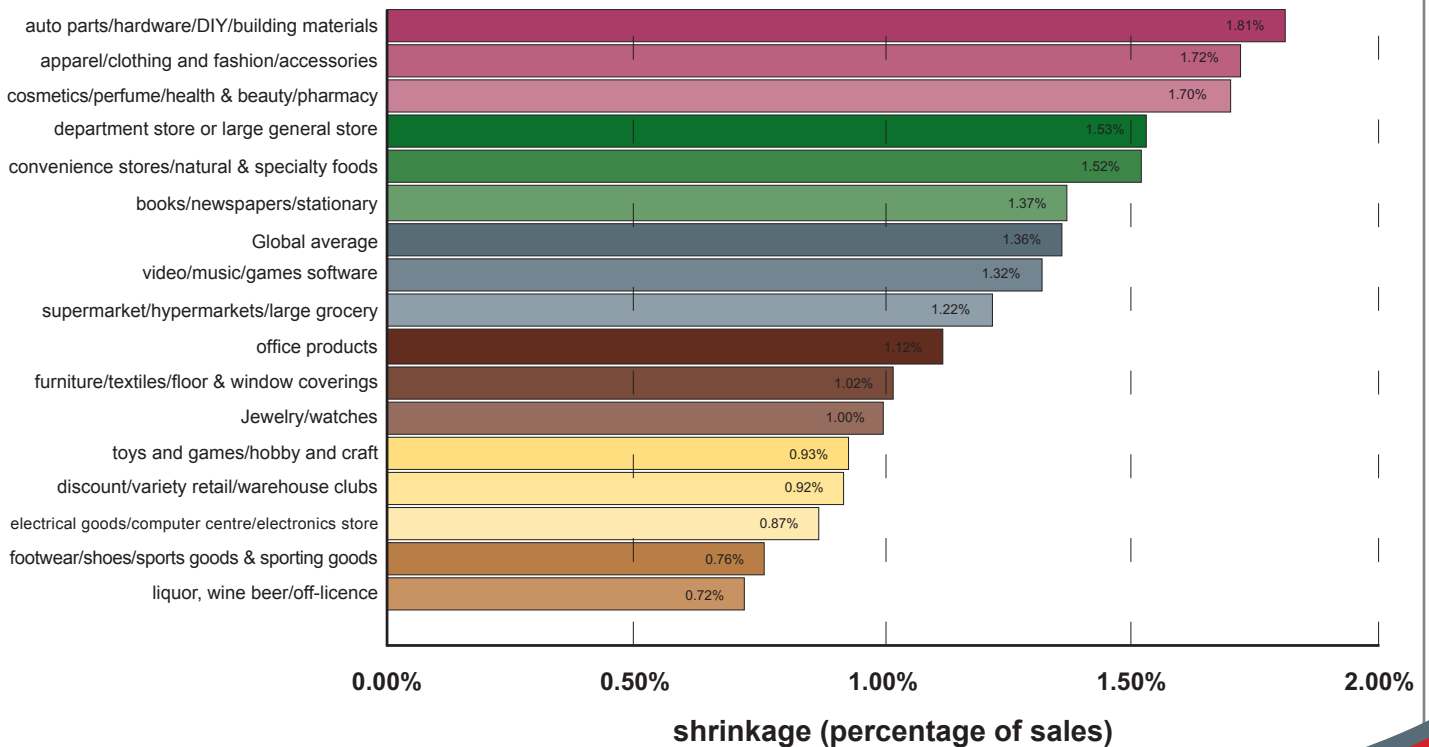
An important result of the additional steps taken and investments made by retailers is that, on

average, about 75 percent of the 50-most-stolen product lines now are protected by some type of loss prevention device, such as EAS tags, 3-alarm accessories, cable and loop alarms, Keepers or some other form of product alarm.

LP Investments Lead to Greater Apprehension of Thieves

Retailers' heightened investment in LP systems and increased employee training and awareness on security risks has been complemented by

Global Shrinkage by Business Sector/Vertical Market 2010



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companies' commitment to make apprehending thieves and dishonest employees a higher priority. Nearly 6.2 million shoplifters and employee thieves were apprehended by retailers in the timeframe of this year's study—an increase of nearly 400,000 compared to the 2009 GRTB.

On average, shoplifters steal \$196 worth of goods per incident, while employees steal an average of \$1,944—virtually 10 times higher. Of course, there is a much higher incidence of shoplifters globally than employee thieves, so shoplifters still make up the single-largest portion of theft globally. However, employee thieves are actually a bigger contributor to the overall theft value in North America, according to the study: Employees in North American retailers make up 28 percent of total thieves apprehended, compared with just 4 percent of those apprehended in Europe.

Vertical Market Trends

Retailers in the hardware/DIY (do-it-yourself) market reported the highest shrink rates: 1.81 percent of category sales. This segment supplanted last year's highest-shrink segment, apparel, which was second this year at 1.72 percent, followed by pharmacy and cosmetics at 1.70 percent.

But there's a more important story for retailers, embedded under these high-level numbers for each industry. In key markets such as apparel, food and health/beauty/pharmacy, there are a number of high-theft product lines that experience anywhere from two to four times the shrink rates for their overall

markets. For instance, take apparel, where the overall industry shrink rate was 1.72 percent in this year's GRTB. However, accessories experienced a 3.84 percent shrink rate globally, spiking to almost 5 percent in North America and more than 4 percent in Europe. Other apparel product categories where shrink was much higher than the industry average included children's wear, fashion/tailored clothing, outerwear, and tops/sweaters.

A similar story occurred in the food vertical market, where the category global shrink rate in supermarkets and large grocery stores was 1.22 percent. But in the fresh meat sub-category, shrink was 2.86 percent globally, 5.2 percent in Latin America and 4.1 percent in North America. Also experiencing higher-than-average shrink rates were luxury cooked meat, cheese, alcohol, candy, infant formula and high-quality seafood.