

ANALYSE DATA PAYMENTS BUSINESS
CONTROLS LOSS PREVENTION STORE
SHRINK OPERATIONAL SALES ONLINE
CARD TRANSACTION CASH SECURITY
THE US RETAIL FRAUD SURVEY – 2014
FRAUD CREDIT TILL SYSTEMS REPORTING
MONITORING EMPLOYEE RISK DEBIT
COUNTING STOCK CCTV TRAINING
CHARGEBACK VENDOR DEVICES SCANNER

Providing a detailed understanding of
the retail fraud and loss prevention
systems, processes and strategies
of 100 of North America's leading
retailers

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Index of Participating Retailers

7-Eleven, Inc	Hannaford Brothers Company
99 Cents Only Stores	Home Depot
A & P Supermarkets	iGourmet LLC
A C Moore Arts & Crafts, Inc.	IKEA
Abercrombie & Fitch	Krispy Kreme Doughnut Corporation
Ace Hardware Corporation	Kroger Company
American Meadows	Kum & Go
Ann Inc	Limited Brands, Inc.
Art Van Furniture	Little Caesar Enterprises Inc.
Atlanta Bread Company International, Inc.	Macy's Inc
AutoZone Inc.	Marsh Supermarkets Inc
Aveda Corporation	Monsoon/Accessorize USA
Bambeco.com	Mount Vernon Inn
Bebe Stores, Inc.	NBTY Inc.
Best Buy Canada Ltd. (Future Shop)	Nexcom (Navy Exchange Service Command)
Best Western International, Inc	Nike, Inc.
Big Y Foods, Inc.	Office Depot, Inc.
Bigelow Tea	Outback Steakhouse Inc.
Blade HQ	Panda
Blair Candy	Panera Bread Company
Body Shop Inc.	Patio Pacific Inc
Boy Scouts of America	Pilot Corporation
Britax USA	Pizza Hut
Canadian Tire Corporation	RepairClinic.com, Inc.
CarMax	Royal Caribbean International
Carmike Cinemas Inc.	RTA Store Inc
Case-Mate.com	Safeway
Century Novelty Co Inc	Shaw's Supermarkets
Children's Place	Shock Warehouse Inc
CloseoutLinen.com	Spartan Stores
CPI Corporation	Staples, Inc
Creative Kidstuff (SensationalBeginnings.com)	Stop & Shop Supermarket Company, The, LLC
DealYard.com	Taco Mac
Destination Maternity, Inc.	Target Corporation
Dexclusive.com	Taunton Press Inc
Dicks Sporting Goods	TJX Companies
Dollar General Corporation	Tools Plus
Dressbarn (Ascena Retail Group)	Toys R Us
DSW Inc	Two Trees Inn/Foxwoods
Fanzz Sports Apparel	Universal Studios, Inc.
Fetchdog.com	W.H. Braums Inc. (Braum's Ice Cream and Dairy Stores)
FireFold	Wal-Mart Stores Inc.
Friendly's	Wegmans Food Markets, Inc.
Gap	Weis Markets
Giordano's Ent Inc	Working Persons Enterprises Inc
Hall Wines	Yum! Brands, Inc.

Foreword: Retail Knowledge

It gives me great pleasure to welcome you to the second edition of The US Retail Fraud Survey.

First, I would like to thank all of the retailers who took part in the Survey and so help nurture and grow this invaluable industry resource.

Second, I must thank our sponsors, in particular Don Bush at Kount and James Harris at Volumatic. Without their vision and commitment to supporting this project, none of this would be possible. Thank you.

There are a number of important changes to the Survey this year, which I am delighted to announce for 2014. Perhaps most significant is that the whole process of data collection and analysis has been brought in-house at Retail Knowledge. This has provided us with an unsurpassed level of control and insight into what you, the retailers, are reporting. The in-house team will also allow us to react more quickly to market needs and changes and certainly allow us to provide you with a report that continues to grow in value to retailers.

The other big change for 2014 is that The US Retail Fraud Survey – 2014 will no longer be available to purchase. The only retailers who get to receive the report will be those that took part or agree to take part; no longer will a retailer be able to opt out of taking part and then purchase a copy. Neither will the Survey be available for the vendor community to purchase. So, as a participant, you can be totally certain that the data you give will be used in the most appropriate manner.

All of these process and commercial changes are intended to increase the value of the Survey to those retailers who choose to work with their contemporaries; to identify patterns of loss across the industry as a whole, which as a standalone retailer they would probably not have spotted, and react accordingly.

Finally, for 2014 we have introduced an anonymous section to the Survey. The intention is to permit the collection and sharing of the most sensitive information around new areas of online fraud. The fraudsters and criminals, after all, are already sharing this information with each other to target retailers.

It is hoped that by making this data available our industry will be able to fully understand, and successfully address, the crime epidemic that is sweeping North America and beyond.

Mark

Mark Emmott
Retail Knowledge
markemmott@retail-knowledge.com
+44 (0) 207 100 3 999

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Foreword: Volumatic

Volumatic is delighted to continue to support the Volumatic Kount US Retail Fraud Survey in this its second year. Retail Knowledge has delivered an interesting and informative insight into the fraud and loss prevention systems, processes and strategies of some of the US's leading retailers.

I would like to thank those retailers that have participated. Their combined annual sales figure totals \$864 billion, or 19% of the total US retail sector, and between them they trade through almost 126,000 stores, making them a representative group.

I am confident that the outputs of this Survey will help the loss prevention community benchmark themselves against their contemporaries and to identify opportunities to engage with their businesses, as well as each other, to win back some of the multi-billion dollar hole in profits that is being created through shrinkage.

Volumatic is a global leader in the manufacturer of intelligent cash handling equipment, protecting over \$2 Billion of cash every day throughout North America, Europe and the rest of the world. Our customers in the retail, banking and leisure industries use Volumatic products to enhance security, reduce shrinkage and deliver process efficiencies.

James Harris
Commercial Director
Volumatic
JHarris@volumatic.com
+44 (0) 24 7668 4217



Foreword: Kount

Fraud is one of those dark topics that few like to talk about. But at Kount, we talk about it, study it and help our customers avoid it, everyday. We are obsessed with keeping ahead of the fraudsters and giving online merchants the tools they need to sell more things, to more people, in more places than ever before all while reducing risk.

That's why we chose to sponsor the 2014 Retail Fraud Survey. Knowing the trends and keeping tuned in to the current threats merchants are dealing with helps the entire industry stay ahead of the increasing hazards of fraud. If this report can assist retailers improve their fraud prevention methods than we will feel like we have accomplished our goal. Diminishing the effects of fraud is something that makes the entire online ecosystem function better and as they say, a rising tide lifts all ships.

I talk with dozens of merchants operating online and often hear the comment, "I don't have a fraud problem." Well, they may or they may not, but they better be ready for fraudsters to strike.

The good news is that the problem of online fraud is beginning to be taken more seriously. As this survey report will illustrate, spend on online fraud prevention rose by over 50% YoY as a percentage of sales compared with in-store fraud prevention which actually saw a decrease in spend. This is in no small way due to the rapid increase of multi-channel retail.

It is not all good news though – fraud is still very prevalent and credit card fraud is still a big issue faced by retailers, as this report shows 59% of fraud suffered online is down credit card fraud alone.

Knowledge is power, retailers operating online, typically, are not fraud experts, that's not what they do. Detecting, preventing and managing fraud is a full time job where accurate analytics of the most powerful data is key.

Fraud techniques change, new methods for stealing from retailers are introduced regularly. Changing payment types, mobile commerce, international concerns, cross-channel operations and the challenges of increasing sales are all key considerations when developing a fraud strategy, for either internal processes or partnering with a 3rd party vendor.

I hope you enjoy reviewing the findings of the survey. Please feel free to contact me and let me know what you think. And, of course, contact me if you find fraud nipping away at your ability to optimize your operations and let's see what we can do together to Boost Sales and Beat Fraud.

All the best,

Don Bush
VP, Marketing
Kount Inc
+44(0)161 817 8710 - UK
208.489.3346 - US
don.bush@kount.com



Retail Fraud 2014 Executive Summary

This study is based on primary research, carried out between April and May 2014, into the systems, processes and strategies used by 100 of North America's leading retailers.

Detailed interviews with the Loss Prevention Director or Manager for each company in the report were carried out. We also interviewed the E-Commerce Director or Manager about their online fraud prevention systems and strategies where if the Loss Prevention Director was not able to provide the relevant information.

This study represents retailers with annual sales totalling £864 billion; 19% of the total North American retail sector by sales value and encompassing 126,000 stores.

We would like to thank all those Loss Prevention executives who participated in this research for their views, opinions and, most of all, their time.

Retailers have expressed support for the high levels of anonymity and data security made possible by our new, improved data collection processes. This has helped considerably in facilitating the collation of commercially sensitive material to produce really useful and accurate benchmarking figures. As we now have two years' worth of data we are able to start tracking changes and identifying industry trends. The Survey is vitally important for the industry, as it shows what people are **really** doing in terms of systems used, strategies adopted and key benchmarks.

Retailers using the report are able to benchmark their performance against the rest of the industry and other retailers in their sector. Vendors can use it to plan future product development and sales and marketing strategies, and to gain a better understanding of individual accounts.

Key Findings

- Shrinkage levels average 1.27% of sales. We estimate this translates to a \$57 billion loss to the industry.
- The shrinkage rates vary by retail sector, from discount stores at 2.5% of sales to specialist non-food at 0.7% of sales.
- Opinion remains divided as to the best way to measure shrinkage – 53% use cost price.
- Most retailers still treat store and online loss prevention separately. Typically the VP of Loss Prevention focuses on stores and online shrinkage is managed separately. However, employees, customers and fraudsters do not make this distinction.
- With the growth of multi-channel retailing, where transactions cross organizational boundaries, we anticipate the wider use of a cross-functional, holistic approach to loss prevention. Retailers expect online sales to increase from 6% currently to 15% of total business over the next three years. As that happens, we expect the adoption of an increasingly “joined up” philosophy to all loss prevention; store and online.
- The biggest area of store loss remains employee theft (38%), followed by cash theft (24%) and then administration and book keeping errors (21%).
- In the UK we found that customers are seen as the biggest liability; shoplifting being the top area of store loss. Shoplifting comes down at fourth place for North America (11%).
- The biggest area of online loss remains, overwhelmingly, from the fraudulent use of credit cards (59%), followed by friendly fraud (16%).
- Reflecting on recent online fraud events, 37% of retailers identify analytics and monitoring as their biggest concern.
- Spend on store based and online fraud prevention is beginning to even up. Store spend continues to fall whilst online continues to increase.

Store fraud prevention spend has fallen from 0.6% of sales last year to 0.5% this year. Meanwhile, online fraud prevention spend has increased from 0.2% of sales last year to 0.34% this year. This reflects the growing importance of online trading to retailers, reflective of the anticipated 15% of online sales as a percentage of total in three years.

- Return fraud is costing retailers an average of 0.25% of sales this year compared with an average of 0.4% last year.
- We asked about the size of loss prevention departments and found that, on average, each member of the fraud prevention team is responsible for \$103 million of sales.
- 61% of the average loss prevention team works in stores and 39% in headquarters. A higher proportion of teams are store based in North America than for the UK, a reflection of the large distances to cover and the difficulties of covering the whole chain from headquarters in North America.
- Discount stores have the highest store presence at 95% and theme parks have all their loss prevention team based at headquarters.
- Manned guards are used by 31% of all retailers, but never in all of their stores. The highest use of manned guards (9%) is used in less than 5% of stores and 45% of retailers do not use them in any of their stores.

The benchmarking section shows key metrics for retailers in each of the retailer sections.