

ANALYSE DATA PAYMENTS BUSINESS
CONTROLS LOSS PREVENTION STORE
SHRINK OPERATIONAL SALES ONLINE
CARD TRANSACTION CASH SECURITY
THE UK RETAIL FRAUD SURVEY – 2015
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 the UK's leading retailers

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Foreword: Tim Edwards of JD Sports Plc

I am very pleased to have been invited to write a foreword for this year's UK Retail Fraud Survey.

This year participants represent almost half of the entire retail market, by sales turnover. And whilst I offer my congratulations to the team at Retail Knowledge for this achievement (for we all know getting retailers to commit to and simultaneously follow through on any project such as this is like trying to herd cats!), something troubles me...

Why only half? Why would all retailers not want to participate?

If one thing has become very clear in fast changing retail environment, trying to fight the growing wave of organised crime whilst working only by yourself, in a vacuum, is never going to work.

Collaboration is the key. Collaboration with other retailers (the growing number of forums is a clear example) with manufacturers and with researchers. Criminals exchange information at the speed of light – literally, with the internet. And in order to defeat the criminal we all need to pool our understanding, experience and resources.

Doubtless some may believe that participation in this Survey is to in some way giving away competitive advantage. My experience is that if your direct competitors are any good – and they all have to be to survive these days – they will already know everything about you that these pages could reveal anyway and probably more! However, by electing not to participate you are making it harder for ALL retailers to spot trends and anticipate where resources are going to be needed in every business. And there is something else...

When it comes to attacking retailers, criminals will go for the weakest link. For example, information obtained from one “soft” retailer can be used effectively against others to defraud even the most vigilant. It is my view, that by not participating, those retailers are actually making it harder for us all to protect our businesses.

So congratulations on those that have contributed and your forward thinking and put the valuable data now in your possession to good use in the fight against the bad guys.

Tim Edwards

Loss Prevention Director
JD Sports Plc

Foreword: WIS

I am very pleased to be writing this foreword as principal sponsor of the UK Retail Fraud Survey 2015.

I know from my conversations with retailers that the value placed on this information is very high. It provides a unique insight into what issues are emerging in the world of retail loss prevention and allows retailers to both benchmark their own performance as well as prioritise areas where others are already being challenged and they may well do too.

It also allows those who supply solutions to the loss prevention market to better understand where challenges are being posed and to help produce solutions most relevant to a constantly evolving market place. As a global supplier of inventory counting services to the retail sector we are particularly interested in understanding how we can utilise this information to support our customers and their goals with accurate and timely stock on hand data.

I would like to thank the team at Retail Knowledge for their hard work in researching and producing this year's Survey to produce a valuable resource for all involved in the business of loss prevention. I hope that our top retailers will continue to support this important work, as we have done, because in doing so we are all effectively providing ourselves with a unique resource that allows us to work together to beat crime whilst preserving commercial confidentialities.

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Retail Fraud 2015

Executive Summary

The study is based on primary research, carried out between January to March 2015, on the processes, systems and strategies used by the UK's leading retailers. We carried out a detailed interview with the Loss Prevention Director or Manager for each company covered in the report. In many cases we also interviewed the E-Commerce Director or Manager about their online fraud prevention systems and strategies, if the Loss Prevention Director was not able to provide the relevant information. This study represents retailers with annual sales totalling £143 billion, i.e. 49% of the total UK retail sector and encompasses 33,500 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. As we now have six years' worth of data we are able to start tracking changes and identify industry trends. We believe the report is 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

- Average shrinkage this year is 1.0% of sales, compared to 1.1% of sales last year. This is still a massive loss to the industry. We believe that this level is still showing signs that the economy is recovering, at least in certain parts of the country. In addition retailers are continuing to use their resources effectively – store fraud prevention costs as a percent of sales have decreased and average team sizes have reduced. Even in the face of these cuts shrinkage levels have dropped.

This level of shrinkage is still lower than for other studies and is probably because this one is not anonymous, so retailers may have under estimated or under reported their true shrinkage levels. However, we believe that comparisons are valid as the level of under estimation will be about the same for all retailers. The shrinkage rates vary by retail sector from mass merchants and department stores at 1.7% of sales to a low of 0.4% of sales for hospitality and leisure retailers.

- Most retailers are still treating store and online loss prevention separately and do not have a joined up approach to shrinkage across all channels. Typically, the head of loss prevention focuses on stores and online shrinkage is managed separately. Employees, customers and fraudsters do not make this distinction and so shrinkage levels could potentially be reduced by retailers who have a more holistic approach to profit protection across all sales channels. This is especially true with the growth of multi-channel retailing where transactions may cross organisational boundaries. The retailers we interviewed expect online sales to increase from 20% currently to 52% in three years. As it becomes more important we expect retailers will restructure so that all loss prevention, store and online, is managed together. However there has not been much sign of a change over the six years that we have been conducting this report.
- The biggest area of store loss for the leading UK retailers is shoplifting or external theft (36% of respondents). This is followed by employee theft of stock at 28%. As oppose to American retailers that generally put losses due to staff ahead of losses due to the public.
- The biggest area of online loss is from stolen credit cards (55% of respondents). Furthermore, credit cards have the highest proportion of fraud of all payment types – 71% of retailers highlighted this important area of loss. In second place, but a much lower priority comes third party fraud payment with 14%.
- Retailers reflecting on recent online fraud events point to poor analytics and monitoring as their biggest concern (38% of retailers). A high proportion of retailers that trade online do not have even basic analytics systems (some 46%).
- Spending on store based and online fraud prevention is now starting to even up. Last year store loss prevention spend was 0.6% of sales, with online spend at only 0.3% of sales. This year store loss prevention spend has reduced to 0.5% of sales and online spend has increased to 0.4% of sales. This is a reflection of the growing importance of online trading to retailers.
- Return fraud has increased to 0.5% of sales in 2015, compared to an average of 0.4% of sales last year and now accounts for 48% of total shrinkage. We believe that this is an area of fraud that is now being measured and taken more seriously.

- We asked about the size of loss prevention departments and have developed a rule of thumb that says that each loss prevention member of staff should cover sales of about £116 million. This has increased by 3% since last year, when it was £113 million. Given the reduction in shrinkage this year it seems as if retailers are being more productive and maybe making better use of systems and automated loss prevention processes. Large companies enjoy economies of scale, and food and drug retailers with larger store sizes manage on a lower ratio of £312 million.
- 48% of the works in stores and 52% in head office. Mass merchants and department stores have the highest store presence at 76%, as this type of store tends to be more complex with multiple floors and entrances.
- Manned guards are used by 62% of all retailers, but rarely in all stores, only 5% of retailers use them in 90% or more stores. The highest proportion (13%) uses them in 5 - 19.9% of stores – the problem ones.
- The benchmarking section shows key metrics for retailers in each of the retail sectors we included plus overall averages. These are split into store and online KPIs.

Respondent Demographics

This study represents retailers with annual sales totalling £143 billion, i.e. 49% of the total UK retail sector and encompasses 33,500 stores.

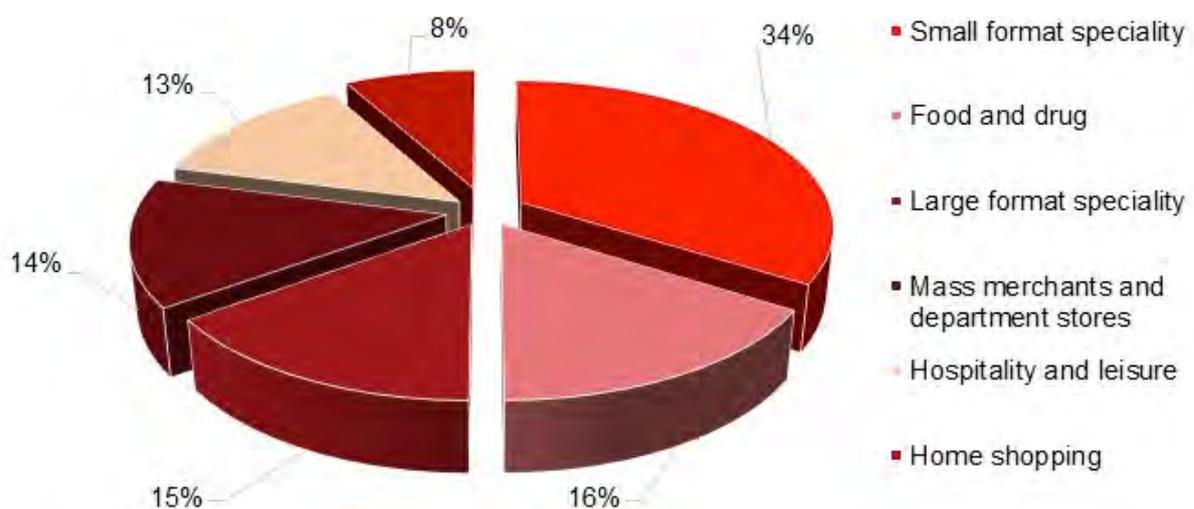
The companies that have participated in this report cover all the main retail sectors. The majority are small format speciality retailers, which make up 34% of the sample and predominate in the UK retail market. We define small format speciality retailers as those including clothing, footwear, accessories, mobile phones, jewelers, music, games and other retailers operating from high street type locations with small sized stores.

Food and drug retailers account for 16% of the total and include supermarkets, convenience stores, co-operative groups and pharmacy stores.

Next comes large format speciality retailers which account for 15% of the retailers interviewed. These include retailers such as DIY, electrical, garden centres, furniture and carpet retailers operating from large, checkout style stores generally out of town.

Mass merchants or variety store retailers and department stores make up 14% of the sample, and hospitality and leisure including fast food, travel, pubs and restaurants 13%. Home shopping retailers with no stores or very few, 8%

Companies Surveyed By Retail Sector



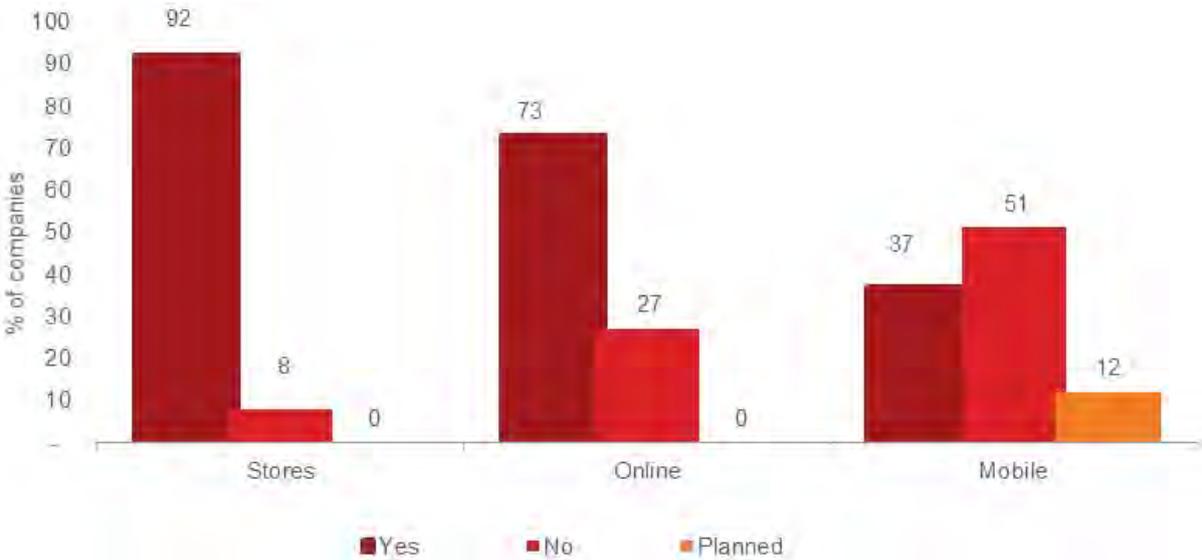
Omni-Channel Retailing

This report covers retailers that operate stores and online retailing or a combination of both. The majority have stores, 92% of the total, with 8% trading solely online. Some 73% trade online while 27% do not have a transactional web site – mainly convenience stores, fast food and coffee shops and retailers selling goods with a low average transaction value. The one that is growing rapidly is the mobile sales channel. Already 37% of retailers use this sales channel with a further 12% planning to add a mobile sales channel.

Mobile channels offer a new opportunity for fraudsters and in conducting these interviews we got a sense that loss prevention processes and technologies are not keeping pace with new mobile options.

Sales Channels Used

% of companies



Value Of Online Retailing

Currently online sales account for an average of 12% of sales for the UK retailers surveyed here. We asked about what proportion they expect it to achieve in three years' time and the answer was an average of 27% of sales – a truly massive increase and one which seems rather ambitious for 2016 when most retailers have seen online sales starting to slow down from their early growth spurts.

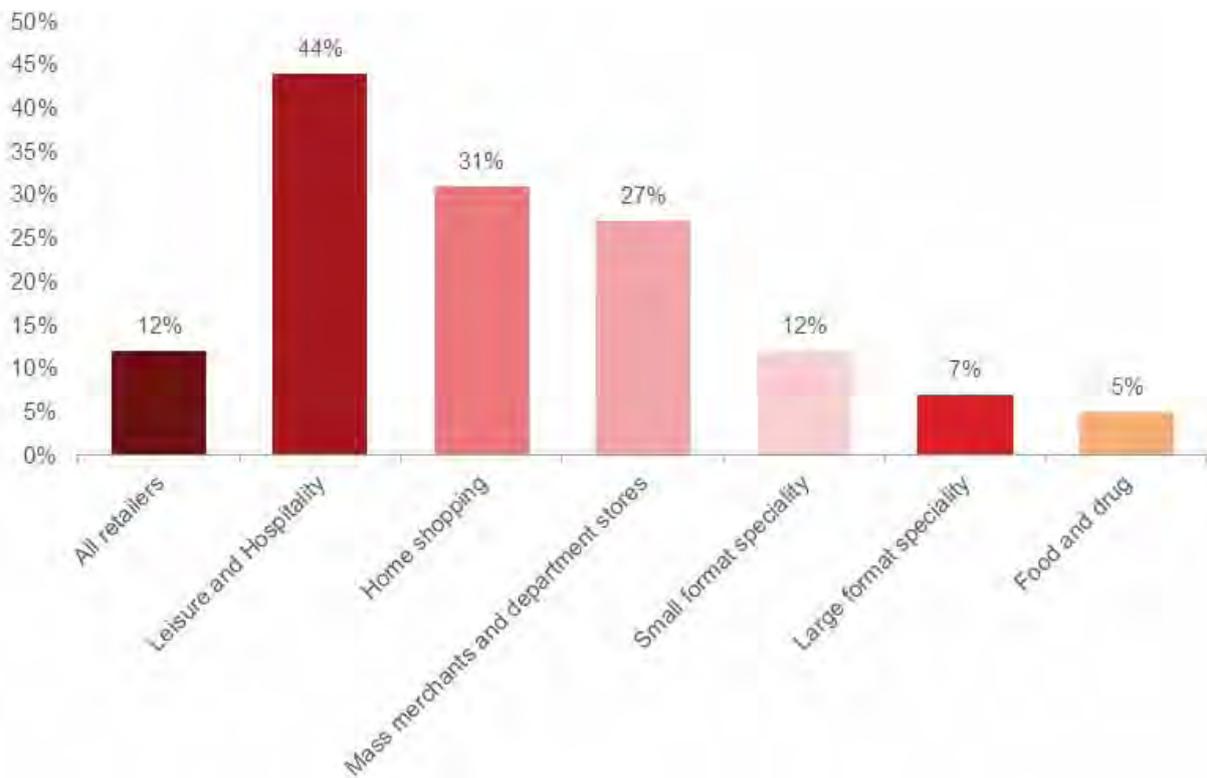
If this projection comes to fruition it does mean that the role of online fraud prevention will be even more important and Loss Prevention directors will need to cover all sales channels, not just stores.

The retail sector which gets its highest proportion of sales from web sites at the moment is hospitality and leisure with 44%, but we did not get a big enough sample size for a prediction for the future. We cover travel companies in this sector who trade online almost exclusively and have increased the average.

Surprisingly home shopping companies average 31% of their sales online at the moment. This is because of the high volume of business done through call centres in the traditional mail order companies. They expect this to reduce significantly so 80% of their business is via the web.

Mass merchants and department stores achieve 27% of their sales online currently, well above average. The sector with the lowest level of online business is food and drug. The complexities and costs of picking and delivery for food make this the most challenging online environment of all sectors in an operational sense.

Online Sales As A % Of Total Sales For Retailers That Currently Trade Online



Note – we did not have enough data to be able to include predictions for online sales in 3 years for mass merchants and department stores and food and drug retailers.

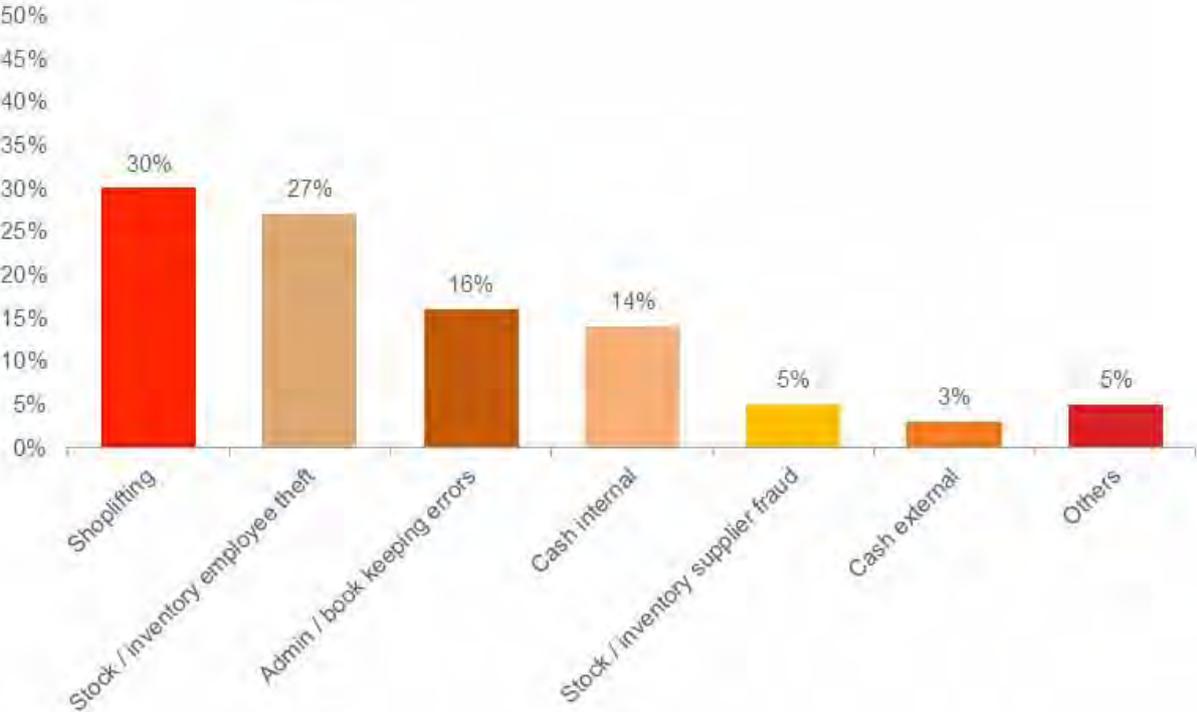
Top Areas Of Store Loss

As we have found in previous years the biggest source of store loss for retailers is shoplifting – that is external theft of stock with 30%. This concurs with other surveys on retail shrinkage. Employee theft of stock comes second at 27%. We think that there may be a reluctance to admit that employee theft is as much of an issue as it really is and believe that this figure may be under-reported.

This year administrative and bookkeeping errors or systems bugs came in third with 16%. This can include losses at the till through errors in scanning, counting change etc. or at head office and the distribution centres when ordering, booking in and transferring goods. Internal cash theft is at 14%, and again is potentially under-reported.

Top Three Areas Of Store Loss in the Business

% of retailers



Top Areas Of Online Loss

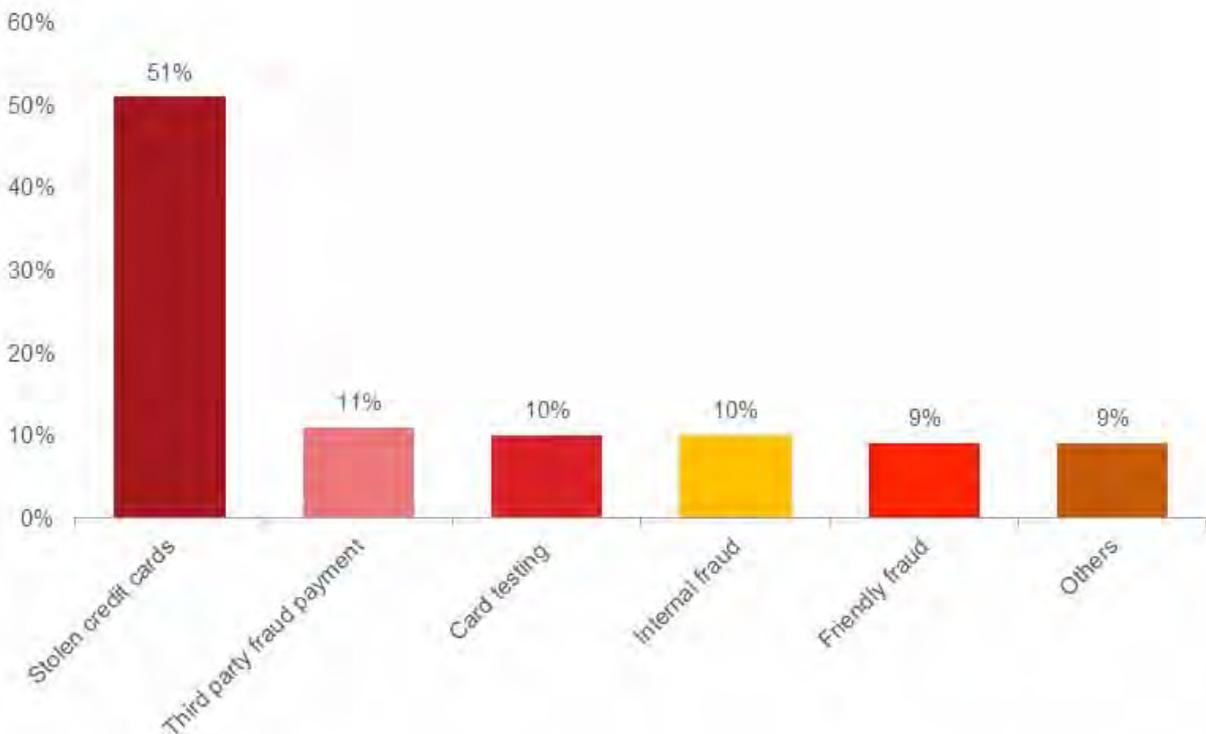
Top of the list and by far the biggest issue is that of stolen credit cards with 51%. This is a fairly wide ranging definition that covers the fraudulent use of a credit card until the owner reports it stolen. Then comes third party fraud payment with 11%. This covers fraud committed against the account holder by an unrelated third party and much of this loss is covered by the financial institution rather than the retailer.

In third place comes card testing with 10%. This is when fraudsters use a card to make test purchases – this is a direct expense to the online merchant through numerous authorization requests. Then comes friendly fraud at 9%. This is also known as friendly fraud chargeback and occurs when a customer makes an online purchase with their own credit card and then contacts the card provider after receiving the goods, to cancel the transaction and refund the money. When a chargeback occurs, the merchant will always be held responsible, regardless of what they did to verify the transaction. The challenge with friendly fraud is that there is no way to verify the authenticity of the transaction.

In fact the results are quite different to the stores loss chart where internal fraud is very significant, for online this is much less with 10%. This may be because it is under reported as well but an element will be that physical access to products by staff will be limited to warehouse workers.

Top Three Areas of Online Loss in the Business

% of retailers



Key Concerns Based On Online Fraud Events In Past Year

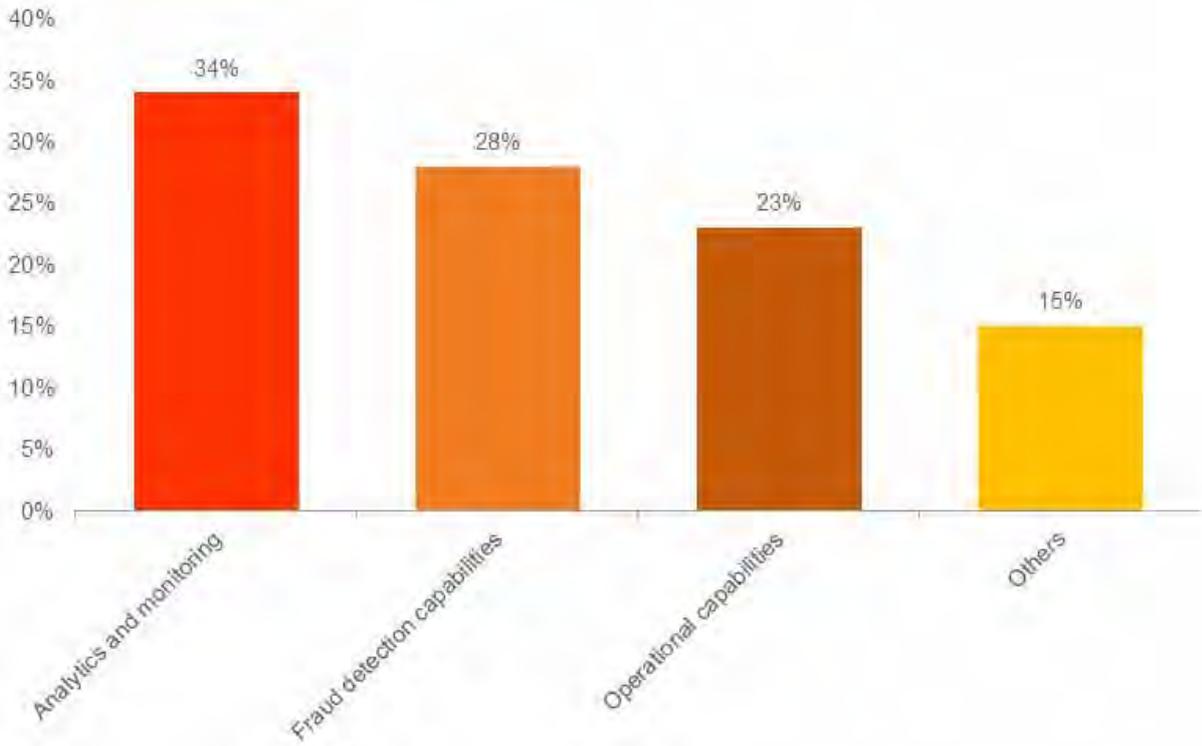
We asked about retailers top three concerns following any online fraud events in the past year. A lucky 15% of those that trade online reported that they do not have any concerns or had not had a recent online fraud event. These are companies that are mainly new to online retailing and are probably being a bit complacent. So the results below are the ranked answers for the remaining 85% of retailers trading online.

In first place comes a concern about the capabilities of existing analytics and monitoring systems with 34%. Given that 41% of retailers that trade online do not even use analytics systems, regardless of sophistication, this is not too surprising. In second place comes fraud detection capabilities with 28%. Again the lack of ubiquity of fraud management and detection systems (37% of retailers trading online do not use external fraud management systems) validates this concern.

Then comes operational capabilities with 23% - this is mainly a reflection of the robustness of retailers' processes regarding online fraud prevention.

Key Concerns Based On Online Fraud Events In Past Year

% of retailers



Note: retailers were asked to rank their top 3 areas of concern and these have been weighted.