



The Next Generation in Retail Loss Prevention

Major retailers worldwide are looking for new ways to reduce merchandise shrink. Important new technologies are changing the rules of the game.

The challenges facing loss-prevention managers in major retailers have never been more daunting: Merchandise theft has become much more sophisticated; pressures on store managers to squeeze more sales per square foot of store space continue to increase; and shrink, as a percentage of retail revenues, is on the upswing.

Confronting these challenges is becoming more difficult each day. Loss-prevention (LP) managers could create a blanket of security over the store, placing more merchandise behind glass shelves and in locked displays, hiring more security guards and examining every bag that enters or leaves the store. But that would erode the positive customer experience that retailers devote tremendous amounts of time, energy and money to create. There must be a better solution.

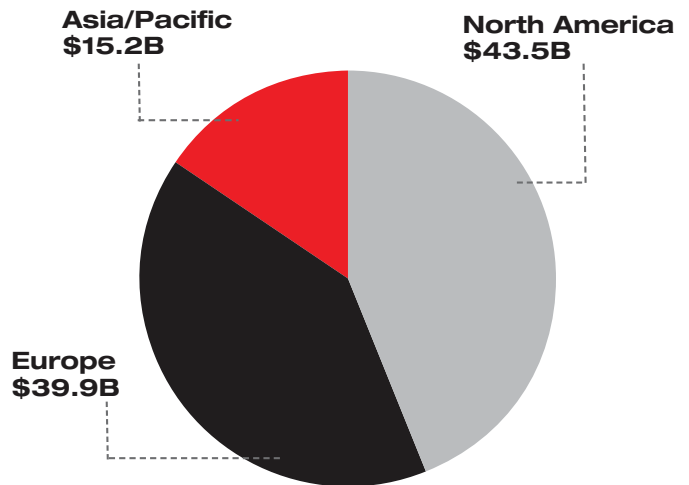
Technologies such Electronic Article Surveillance (EAS) have helped significantly; yet, much more clearly needs to be done. A new generation of loss-prevention systems is needed to help retailers better safeguard their merchandise, without disrupting consumer behavior. These new systems not only must detect theft and help stop merchandise from literally walking out the door, but actually prevent the attempted theft in the first place through a sophisticated set of data

analytics tied to everything from inventory management, store traffic patterns, employee staffing levels to back-office accounting and customer records systems.

Sell more, lose less. It's the single most critical imperative for global retailers...now, more than ever.

Just how big a problem is retail merchandise shrink? The Global Retail Theft Barometer—published in November 2007 by the Centre for Retail Research—

2007 Global Retail Shrink: \$98.6 Billion



SOURCE: 2007 GLOBAL RETAIL THEFT BAROMETER



put global retail shrink at a staggering \$98.6 billion. This represents 1.36 percent of total global retail sales, a figure that rose 1.5 percent in the previous 12 months. The impact of that figure is undeniable: It results in higher prices for consumer goods; degrades the consumer shopping experience, and creates inefficiencies and waste throughout global supply chains. As global economic environments weaken,

The increasing sophistication of organized retail theft requires retailers to adopt new technologies and better analytical tools.

retailers face even more pressure than ever to reduce shrink in order to prevent further margin erosion and lost sales opportunities.

Retail Shrink Trends

This is a problem that must be aggressively targeted with new strategies and tools. Here are six important trends anyone involved in retail loss-prevention strategies should be aware of, and some issues to consider when planning next-generation strategies that go beyond traditional EAS source-tagging to full-scale Shrink Management Systems (SMS).

Retail Theft Trend #1: In most major markets around the world, retail theft is increasing—in some markets, dramatically so.

Globally, shrink increased by 1.5 percent in the 12-month period tracked by the Global Retail Theft Barometer. Importantly, in one-half of the 32 countries covered in the report, shrink increased in 2007 compared to 2006. In North America—the single largest retail geography—retail theft increased 2.7 percent over a 12-month period.

And in other important global markets, such as Germany, France, Ireland and Singapore, year-over-year shrink rates increased even faster.

Retail Theft Trend #2: Shoplifting by consumers remains the number-one source of shrink, but internal theft—increasingly influenced by organized crime—also is a major problem.

The Global Retail Theft Barometer notes that shoplifting, or customer theft, is the source of more than 40 percent of all shrink. But employee theft now represents more than 35 percent of global shrink, including theft by employees fraudulently

placed in retail stores by organized crime. In fact, organized retail theft may be the most sinister form of shrink because it has evolved far beyond crude “smash-and-grab” tactics to well-planned attempts to infiltrate retail organizations. This means that retailers need better analytical tools, such as software that highlights irregularities in register checkout patterns.

Retail Theft Trend #3: Internal theft takes place almost equally at many different locations within the store's physical boundaries.

Internal theft can take place at many locations inside a store: At the checkout counter, in a stockroom, on a delivery dock or on the sales floor. This means that the next generation of LP systems must incorporate a wider and more sophisticated variety of hardware and software to spot and deter theft. It also means that these systems must be more tightly integrated with both other LP assets and with back-office systems tied to activities in all parts of the store.

Retail Theft Trend #4: Retailers are increasing their efforts to protect more and more merchandise,



and spending on source tagging will continue to increase with all types of retailers globally.

Retailers' adoption of EAS-based source tagging is clearly on the rise; in fact, nearly 60 percent of retailers indicate in the Global Retail Theft Barometer that they either already are using or plan to use source tagging in the next two years to combat shrink. Retailers in each major geographic market are spending more to secure their merchandise, and that protected merchandise now represents a larger-than-ever percentage of retailers' total sales.

Retail Theft Trend #5: Forward-thinking retailers are seeking new ways to integrate data from their LP systems with other back-office applications to make smarter decisions in deterring theft.

Integrating data from LP systems with data from such other applications as inventory management, staffing, cost accounting, and shipping and receiving, is becoming an absolute requirement for store operations managers. Let's take the example of an electronics retailer looking to find sources of increased shrink: The manager can take shrink numbers for the past 30

days and map those against the times when certain merchandise was delivered to the loading dock and what the security staffing levels were at that time.

Retail Theft Trend #6: No retail market segment is immune to the trend of higher theft rates.

From hardware and do-it-yourself (DIY) outlets to apparel and convenience stores—and many others—shrink now exceeds 1.5 percent of retail sales globally. Large items or small, inexpensive or pricey...there are few limits on the kinds of products affected by shrink.

Evolve: The Next Generation of SMS

LP managers, store executives, category managers, operations personnel, IT and financial managers—all of these have one goal in mind when it comes to shrink management: Develop more sophisticated ways to detect and prevent theft, while creating an “open-merchandising” environment that encourages shoppers to sample and buy more merchandise.

With the many retail theft trends discussed above, retail executives have struggled to overcome today's realities of shrink management. Technology tools

Enhancing SMS Through 360 RF Technology

Initially developed for military radar applications, 360 RF technology now has been integrated by Checkpoint into its Evolve family of shrink management systems to improve item-level theft detection. The term “360 RF” refers to the capability of Evolve systems to detect tags in a full, 360-degree pattern.

Based upon phased array technology, this first-ever use of 360 RF in EAS environments means that loss prevention systems can more reliably

and consistently “see” a detection tag, even if it's not immediately in direct line of sight to the detection beam. By using a rotating signal field, Evolve systems essentially “scan” a wider area using a multiple-transmit/multiple-receive approach, similar to the technique used by CAT scanners. By driving two transmitters simultaneously, phased array technology changes the antenna's field patterns, thus improving detection sensitivity and performance – resulting in fewer errors, higher detection rates

and less hassle for the consumer.

Additionally, it allows a 25 percent increase in store aisle widths, up to 7.5 feet—creating a better aesthetic environment, an improved customer shopping experience and more in-store coverage with fewer antennas.

Phased array-based RF 360 technology provides retailers with the confidence in knowing more merchandise can be safely displayed, since it will be reliably detected in the event of an attempted theft.



and business processes need to be improved to match the increased sophistication of retail theft, and store managers are seeking new solutions that work closely with retailers' business objectives.

One such new solution is Evolve, the latest EAS-based shrink management solution from Checkpoint Systems. Evolve is a family of shrink management solutions, incorporating both hardware and software to form systems that deliver to retailers enhanced benefits, including:

- Upgraded system performance, allowing for wider aisles without compromising system coverage.
- Increased connectivity to back-office applications through industry standards such as TCP/IP (Internet protocol), Ethernet (in-store networks) and WiFi (wireless connectivity), resulting in sophisticated data analytics.
- Improved system integrity, to more accurately detect tags and filter out other ambient noise and RF emissions that would ordinarily create false alarms.

Evolve provides retailers with an important capability: The ability to support both traditional EAS technology and Radio Frequency (RF) technology in the same systems architecture. This means when a retailer is ready to aggressively adopt RFID or other technologies to provide inventory visibility through global supply chains, Evolve systems will be easily and cost-effectively upgraded via the company's patented Software-Defined Radio technology. With SDR technology, retailers can quickly upload new firmware to all their LP systems simultaneously over the Internet, without taking down their systems or disrupting store operations. Importantly, SDR also allows retailers to set up different RF frequencies for different item-protection levels; for instance, a retailer can establish a more sensitive frequency for high-theft, high-ticket items such as drugs than it would for bulkier, less expensive items that are stolen less often.

Among some of the other advantages delivered by this next-generation solution include:


- Integration with "people-counter" systems modules

to give store operations managers a statistical map to identify the relationship among store traffic, item theft and time of day to better plan security staffing levels.

- Use of wireless networking protocols to reduce or even eliminate unsightly wires in the store.
- A "slim-line" design that can be integrated into existing store entrance/exit areas for a less-conspicuous look than traditional anti-theft antennas.
- Metal Alarming, which provides a signal that detects foil-lined bags and clothing often used by professional thieves to defeat traditional LP systems.

Checkpoint Systems: Your Shrink Management Partner

Checkpoint Systems is the leading supplier of shrink management solutions. Checkpoint's global team partners with retailers and their suppliers to fight the \$98 billion global retail theft challenge. Leveraging its 40 years of RF technology expertise, expanding shrink management offerings and Check-Net labeling solutions, Checkpoint today has more than one million RF devices installed in stores around the world. Over 100 billion products to date have been secured by Checkpoint, creating cost-effective deterrence for the retail industry. Checkpoint's highly scalable solutions and systems-integration expertise help a growing community of successful retailers increase revenues and profits, improve supply-chain efficiencies and provide an open-merchandising environment for their consumers. 

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