



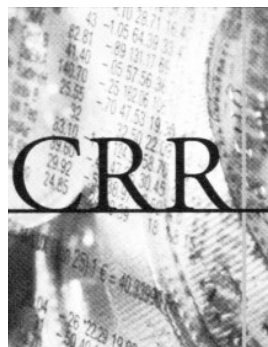


THE EUROPEAN
RETAIL THEFT
BAROMETER

THE EUROPEAN RETAIL THEFT BAROMETER

MONITORING THE COSTS OF SHRINKAGE
AND CRIME
FOR EUROPE'S RETAILERS

FIFTH REPORT TO THE RETAIL INDUSTRY



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EUROPEAN SHRINKAGE IS CLOSER TO 'HOME'

European Retail Theft Barometer V takes closer view of staff theft

The global cost of living is increasingly under pressure from factors beyond the control of most retailers. Natural disasters and increasing oil prices have knocked confidence both in the sector and among the consumers themselves. At the time of writing this foreword, the price of oil was reaching record highs, a factor that will no doubt impact upon the price of goods in stores because the cost of moving the merchandise will have to increase to accommodate it and someone has to pay. There is evidence that retailers are fighting back by trying to bring greater control to a chaotic world. Shrinkage, for example, is one such area because unlike oil prices and natural disasters, it is something that is within their sphere of influence. The evidence for this, the fifth ERTB, proves that retailers are continuing to explore new anti-theft strategies and invest in technologies such as RF/EAS source tagging, spending on which increased by more than 26 per cent from the last report.

I am delighted to report that at 27 per cent, the response rate to this year's report has increased, and as interest in the ERTB continues to grow, so does the barometer itself. This year Professor Bamfield and his team have included analysis of the shrinkage figures from yet another economy – Iceland – which builds upon last year's additions to the study – the central European countries of Poland, the Czech Republic, Hungary, Slovakia, Latvia, Lithuania and Estonia, added in 2004 to reflect the changing face of the newly-enlarged EU.

There is more to shrinkage than shoplifting. In fact staff fraud and theft has worryingly risen by almost 30 per cent across all of the countries. As this continues to buck the general downward trend, the fifth barometer focuses upon the security staff concerns and reports that in 35 per cent of cases they feel that company systems to combat employee fraud were less than satisfactory.

On a more positive note, the variance in national shrinkage rates continues to narrow suggesting retailers are learning from their common problems and responding in similar ways. The overall downward trend of loss speaks volumes and this year's findings reveal even sharper drops in badly performing markets. This is particularly true of the UK, which has consistently topped the shrinkage European league.

The joined up thinking approach of leading European retailers through inter-departmental co-operation between, for example, finance and operations, is paying dividends and many are increasing the use of Source Tagging which by definition requires a high-level strategic buy-in and involves more departments than loss prevention.

The report says that although retail crime cost € 32 billion, the social costs increased their impact to nearly € 46 billion – more than 90 per cent of the total cost of the EU agriculture budget. This helpfully puts shrinkage into a broader context.

I am delighted that Checkpoint Systems is once again sponsoring the European Retail Theft Barometer, the largest survey of retail crime in the world. As always, we are indebted to Professor Joshua Bamfield and his team at the Centre for Retail Research (CRR) and to the 440 retailers who contributed to the study.

Per Levin



Per Levin
*President Europe,
Checkpoint Systems.*

A large, stylized handwritten signature in black ink, appearing to read 'Per Levin'. The signature is written over a horizontal line that extends across the width of the signature.

THE EUROPEAN RETAIL THEFT BAROMETER

SEPTEMBER 2005

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EXECUTIVE SUMMARY

This Fifth Report of the *European Retail Theft Barometer* presents a Europe-wide study of crime in the retail sector. It covers 25 countries in Europe, including 7 in Central Europe, and, for the first time, Iceland.

Results have been provided in the 12 months to June 2005 by 440 major European retailers, with a combined turnover of €371 981 million, 24 572 retail stores, and more than 18% of European retail trade. The response rate of 27% was an increase compared to last year.

- 2005 was the third year that the average rate of retail shrinkage from shops (stock loss from crime or wastage) as a percentage of turnover fell once again. Shrinkage was reduced by 6.7% from 1.34% in 2004 to 1.25% in 2005.
- The value of stock loss in 2005 was €28 938 million.
- Large reductions in shrinkage as a percentage of turnover were achieved by the UK (still marginally the country with the highest shrinkage, but down by 13.2% compared with 2004), The Netherlands (down 9.6%), and Ireland (down 9.0%). Large increases occurred in the three Baltic States (Latvia, Lithuania and Estonia, up 21.0%), Slovakia (up 7.7%) and Hungary (up 3.8%). Last year, the Central European countries achieved above-average reductions in shrinkage, but this year only Poland was able to reduce its losses (down 3.7%). These sharp changes may be caused by differences in sampling.
- In Western Europe, the variance in national shrinkage rates continued to narrow suggesting retailers are increasingly facing common problems and responding in similar ways.
- The main reasons retailers gave for shrinkage reductions were: investment in security equipment, new anti-theft strategies, including close cooperation with finance and operations, the use of new software tools and increased electronic tagging. Those suffering shrinkage increases cited lack of staff training, cuts in security spending, crime by migrants, shortages of good security staff and the use of policies that had not had time to produce a positive effect.
- Reductions were achieved in internal error, which fell to 14.4% of total shrinkage. Customer theft was still the largest source of shrinkage loss at 49.2% (€14 248 million), an increase on last year. Staff theft also increased to 29.9% (€8 663 million). Supply-chain crime was down slightly at 6.5% (€1 873 million).
- Spending on security and loss prevention rose €426

million to €7 633 million. Much of this was spent on security staff: there was a small increase in the proportion of budget spent on contract employees to 37.8% of total security costs, whilst spending on directly-employed staff was reduced (budget share falling to 17.4%). Spending on security equipment (including EAS and CCTV) rose to 26.1% of the total.

- The costs of retail crime in 2005 were €32 417 million, consisting of €24 784 million (crime by customers, staff and suppliers) plus security costs of €7 633 million. This is equivalent to €70.26 per head for every person in Europe. If the social costs of retail crime (the costs of the criminal justice system, tax losses, violence and disruption) are included in the equation, the cost of retail crime rises to €46 billion. Some idea of the scale of these losses is that they are more than 90% of the cost of the EU Agriculture and Rural Development Budget (the *Common Agricultural Policy*).
- Retail security managers were broadly happy with the amount of information they received from their company systems to combat fraud by employees (although 35% believed the information was 'less than satisfactory'), but only 46% thought they were making 'better than average/satisfactory use' or 'good/effective use' of this information. They were even more critical of their companies' use of information with 56% feeling that it was less than satisfactory.
- The six main programmes used to combat staff theft were currently CCTV, anti-theft messages given during normal staff training, induction training of new recruits, controls on access to stock rooms, close liaison with Finance and Audit, and back door controls over waste and refuse.
- Over the next two years, the policies that are expected to grow most quickly are back door controls over waste and refuse, higher spending targeted at reducing internal crime, CCTV linked to audit, and shop committees.
- Other important policies included better information when hiring new staff (including temporary staff), the launch of new anti-theft programmes, financial bonuses for shrinkage reductions, better access control, data mining of transactions, intelligence sharing with other retailers, and EAS and RFID tagging.
- This study has been funded by an independent grant from Checkpoint Systems Europe as a contribution to discussion within the sector. The support provided for the *European Retail Theft Barometer* is gratefully acknowledged.

Fall in shrinkage

This year, in addition to estimating shrinkage and the costs of retail crime, the Report includes figures for Iceland for the first time, views from retailers on the causes of the overall fall in shrinkage, and information about current and intended anti-theft programmes used against staff crime.

In the trading year 2004-05, the shrinkage suffered by Europe's retailers has fallen dramatically from 1.34% of turnover (twelve months to June 2004) to an average of 1.25% (twelve months to June 2005). This continued the trend of decreasing shrinkage first seen in 2003 (Figure 1). The trend will be welcome news to the retail industry and to consumers. Although the rate of retail shrinkage was 6.7% lower than last year, it still represented the massive figure of €28 938 million, equivalent to €219 per year for every household in Europe. The figures in the survey are based on results from 440 major European retailers, which have a combined turnover of €371 981 million.

In contrast to the previous two years when the pattern of shrinkage reduction was fairly uniform, in 2005 17 countries reduced their average retail shrinkage rates, six countries (including the three Baltic states) experienced increased shrinkage, and in one country there was no change (Table 1). This lack of uniformity mainly reflected the different experiences of Western Europe (where shrinkage fell in all except one country) and Central Europe (where the pattern of shrinkage increases and reductions was more variable).

Some commentators view retail crime as a harmless or intriguing social phenomenon or simply as a 'cost of doing business'. This ignores the impact of criminal gangs, international organised crime often linked to trafficking, drug-related retail crime, fraud, extortion, and growing levels of violence against staff. It ignores also the cost of retail crime to the general public, which will be €70 per person this year.

Retailers have increasingly learned how to become more successful in fighting crime by targeting prolific offenders, by introducing a wide range of anti-theft strategies, by investing in crime prevention, and by emphasising deterrence and prevention as well as dealing with thieves after a crime has taken place. Spending on security and crime prevention in Europe is now €7 633 million, an increase of €426 million from 2004, demonstrating the commitment of the industry to reducing crime and shrinkage. Retailers in the countries covered by this survey have suffered pressure on their margins caused by competitive markets, weak consumer demand, and an uncertain economic outlook. This has made it even more important for them to minimise losses from crime and from wastage.

Figure 1

Shrinkage Figures W. Europe 2000-2005

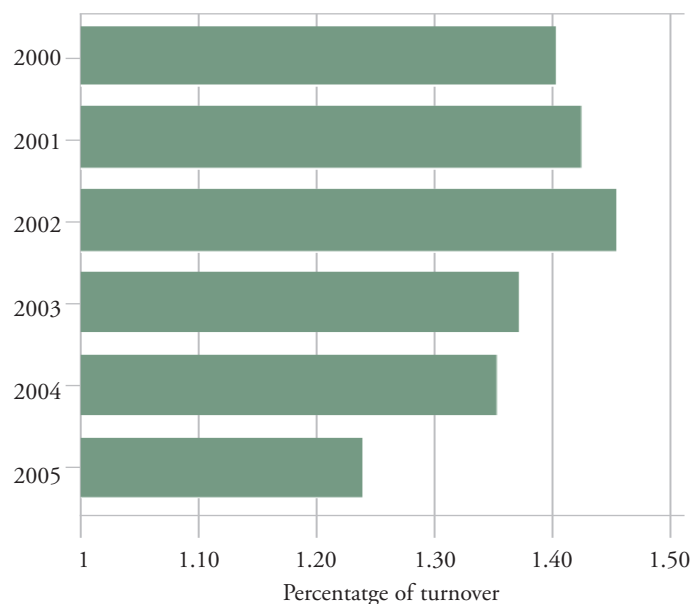


Table 1

Shrinkage 2005

	Total Shrinkage 2005 (€ millions)	Shrinkage (as % of turnover)		percentage change 2004-5
		2005	2004	
Austria	429	0.95%	0.97%	-2.1%
Belgium/Luxemburg	1 052	1.26%	1.32%	-4.5%
Denmark	496	1.21%	1.31%	-7.6%
Finland	511	1.35%	1.42%	-4.9%
France	5 319	1.31%	1.40%	-6.4%
Germany	4 946	1.07%	1.16%	-7.8%
Greece	350	1.31%	1.41%	-7.1%
Iceland	27	1.10%	1.18%	-6.8%
Ireland	256	1.22%	1.34%	-9.0%
Italy	2 624	1.26%	1.36%	-7.4%
The Netherlands	893	1.22%	1.35%	-9.6%
Norway	521	1.29%	1.38%	-6.5%
Portugal	205	1.36%	1.41%	-3.5%
Spain	1 720	1.28%	1.36%	-5.9%
Sweden	745	1.29%	1.36%	-5.0%
Switzerland	524	0.89%	0.89%	0.0%
United Kingdom	5 918	1.38%	1.59%	-13.2%
Western Europe	26 536	1.24%	1.35%	-7.8%
Czech Republic	430	1.40%	1.38%	1.4%
Hungary	297	1.36%	1.31%	3.8%
Poland	1328	1.29%	1.34%	-3.7%
Slovakia	184	1.40%	1.30%	7.7%
Baltic States *	163	1.27%	1.05%	21.0%
Central Europe	2 402	1.32%	1.32%	0.0%
Total	28 938	1.25%	1.34%	-6.7%

(* Latvia, Estonia, Lithuania)

Shrinkage

'Shrinkage' is an accountancy figure, reflecting the difference between the financial revenue the business should have received (based upon inventory and purchases) and the amount actually received. Shrinkage losses are caused mainly by people stealing goods or money from the company but also by a range of small or large process errors, accounting lapses, and pricing mistakes that produce apparent inventory losses. In addition to the actual loss of inventory, declared 'shrinkage' rates will also be affected by company policy, accounting rules, and tax regulations that will influence practice and account for some differences in results.

Although 'shrinkage' is often used as a proxy for retail crime it is *not* identical to crime against shops because it includes error and waste as well as crime. It is a convenient figure used almost universally by retailers for management-control purposes. In a later section, this Report provides an estimate of the total costs of crime against shops from which 'wastage' and 'error' have been subtracted.

Retailers were asked to give information for their last complete year. The figures provided here relate to the twelve-months trading period normally ending in early or the middle of the year 2005.

Where averages are quoted for Europe as a whole, these are 'weighted' in relation to the size of the retail sectors in different countries.

Survey Information

This Report is the largest study into retail crime, shrinkage and security in the world. It now covers 25 countries with a combined population of 461 million. Most, but not all, countries are members of the European Union (EU), but references in the Report to 'Europe' should not be taken as meaning the EU.

In order to preserve the confidentiality of respondents, the figures for Luxembourg have been combined with Belgium and Latvia, Lithuania and Estonia are combined as the 'Baltic States'.

The results for 17 Western European countries (now with Iceland) are published separately from the 7 states in Central Europe. This is done to ensure continuity with previous editions of this Report. 'Western' and 'Central Europe' are used here as geographical expressions: no political implications are intended through the use of this terminology. No political conclusions should be drawn from the groupings used, or from the inclusion or non-inclusion of any country in this study.

Questionnaires were sent to Security Managers, Finance Directors, or the person responsible for the functional area of Loss Prevention in 1 605 of the largest retailers operating in Europe. Four hundred and forty were returned (a 27% response rate from which statistically accurate conclusions can be drawn). This is an increase on last year, showing that retailers continue to value the results of this study. The respondents had 24 572 outlets and a combined turnover of €371 981 million, equivalent to 18% of total retail trade in Europe. Details of the number of companies surveyed in every country are found on the final page in this document: information about the survey methods can be seen at the end of this section.

TRENDS IN RETAIL SHRINKAGE

There were very different patterns in Western European countries compared with Central Europe. In Western Europe, the UK once again recorded the largest fall in shrinkage (a reduction of 13.2%). At 1.38% of turnover, UK shrinkage still remains by a small margin the highest in Western Europe, but the trend is very encouraging. Above-average reductions were also seen in The Netherlands (more than compensating for an increase in shrinkage in the previous year) and Ireland. France, Germany and Italy (whose shrinkage had been largely unchanged last year) recorded significant reductions. The smallest reductions occurred in Portugal (-3.5%), Austria (-2.1%) and Switzerland (0%). Austria and Switzerland have the two lowest shrinkage rates in Europe. Iceland, appearing here for the first time, has a low shrinkage rate but has managed to achieve a significant reduction against the previous year, as has Germany.

In the previous Report, retailers in Central European countries showed major reductions in shrinkage rates from an average 1.40% to 1.32%, which exceeded that gained by the countries of Western Europe. This year only retailers in Poland out of the 7 Central European states reduced the average shrinkage rate, by 3.7%. There was a slight increase in the Czech Republic, increases in Hungary and Slovakia, and in the Baltic States (which showed the greatest fall last year) shrinkage rates rose by 21%, although the Baltic States still had the lowest shrinkage in Central Europe. We think it unlikely that such sharp reversals in shrinkage rates have actually occurred: it is probable that we have figures from a more representative sample this time.

The averages for Western Europe and Central Europe are weighted in proportion to retail turnover in the various countries. The reason why the Central European average remains unchanged at 1.32% even though shrinkage rose in six countries out of seven is that Poland, where shrinkage fell, represents 57% of the retail turnover of these 7 countries. Average shrinkage in Western Europe as a whole was 1.24%.

The reduction in variance around the central shrinkage rate seen in previous years has continued, although this year it relates only to Western Europe. The fact that the differences between shrinkage rates is narrowing is shown by a reduction in the crude variance from 32% in 2000 to 19.8% in 2005. This possibly suggests that retailers are facing common problems across Europe and are adopting similar anti-theft approaches.

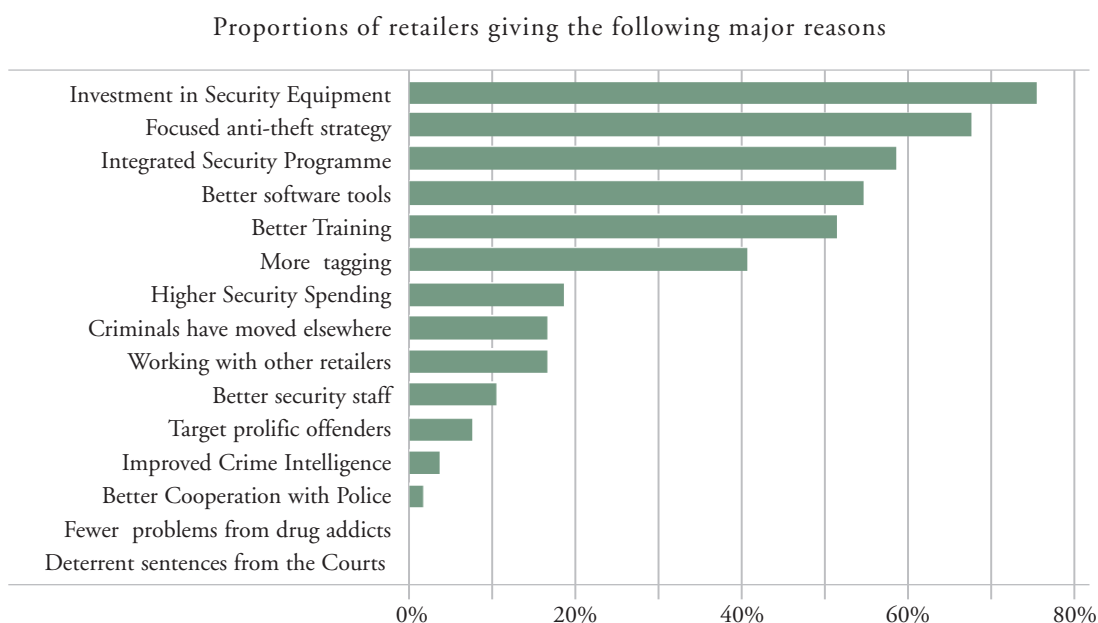
REASONS FOR THE CHANGE IN SHRINKAGE

Retailers were asked to cite the five main reasons, in their opinion, for the change in shrinkage rates experienced by their companies.

Figures 2 and 3 show the reasons given by retailers for their companies' fall or increase in shrinkage. For the majority of retailers that had successfully reduced shrinkage in the previous year, there was considerable agreement on a few main causes. 'Investment in security equipment' (76%) was the most frequently mentioned cause of shrinkage reduction. This was followed by a 'focused anti-theft strate-

Figure 2

Reasons for Lower Shrinkage



gy' (68%), 'comprehensive/integrated security policies involving security, operations and finance' (59%), 'new software tools to detect and investigate crime' (55%), and 'more tagging' (41%). Other reasons cited by fewer than 20% of respondents included 'higher security spending', 'criminals have moved elsewhere', and 'working with other retailers'.

The new investment in security equipment will have come from changing security priorities: only 19% claimed to have a larger security budget than before. Other factors that were less frequently mentioned included 'criminals have moved elsewhere' (17%), perhaps related to 'better cooperation with other retailers' (17%). A small but significant 11% claimed that shrinkage reductions were caused by 'using better security staff' and 8% by 'targeting prolific offenders'. Only 2% felt their shrinkage reduction was caused by 'better cooperation with the Police and no one thought they had fewer problems from drug addicts or that deterrent Court sentences were a factor in lower shrinkage. Retailers' concerns about the ineffectiveness of the Criminal Justice System in dealing with retail crime was considered in some detail in the *European Retail Theft Barometer Report Number 3* (2003).

There was a much greater spread of reasons given for shrinkage *increases* than for reductions. The main reasons for shrinkage increases (Figure 3) related to 'staff training' (57% of respondents), 'cutting the security budget' (53%),

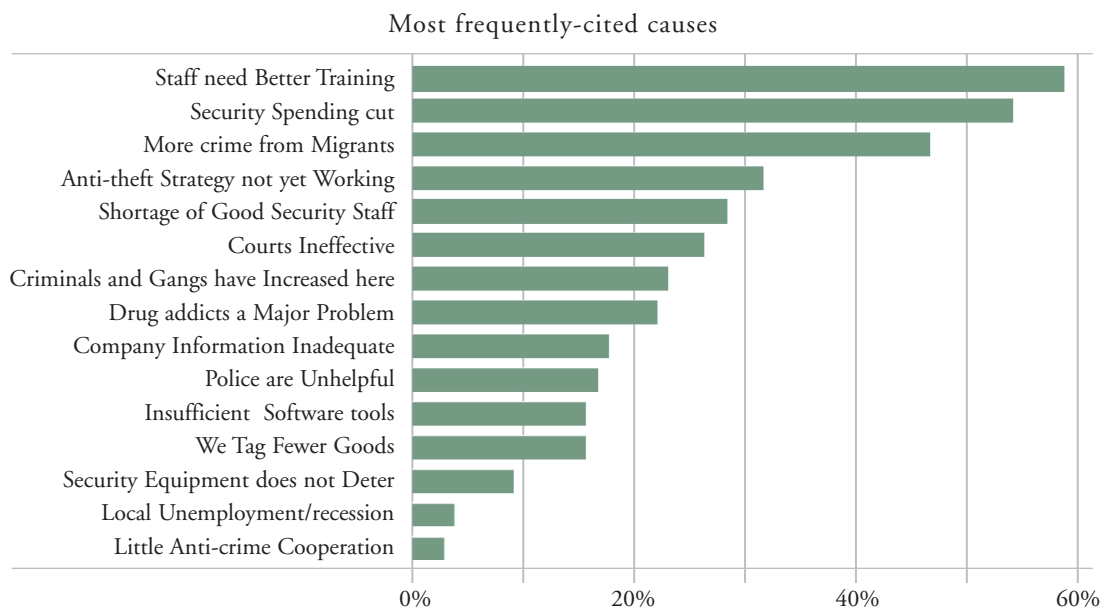
'increased crime by migrants' (46%), and a 'shortage of good security staff' (29%). In 32% of cases, it was felt that the company's anti-theft strategy had not yet had time to produce significant results. Other important factors included increased activity by criminals and gangs (24%) and crime associated with drugs (23%). Also important, but less frequently cited, included inadequate company information (19%), lack of software anti-crime tools (17%), and reduction in tagging (17%). An ineffective Courts system (27%) and lack of cooperation by the Police (18%) were also significant factors. Relatively few retailers cited local unemployment/recession as the cause of higher crime rates (6%) and only 11% felt their security equipment did not deter criminals.

These of course are *perceptions*, but they are the opinions of managers most of whom have spent many years in contact with the problem of retail shrinkage and crime.

Reductions in shrinkage rarely result from doing only one thing. They result from combining a number of different programmes extremely well: highly-focused strategies, investment in IT and security equipment, effective deployment of security staff, integrated security policies and procedures that involve *all* parts of the business, better training, correct use of tagging, and good practice and alertness by staff. They may take more than one year to achieve a favourable outcome. Above all, many of these policies are what can be termed *smart security*.

Figure 3

Reasons Given for Shrinkage Increases 2004-05



SHRINKAGE BY KINDS OF BUSINESS

Table 2 shows the ways in which the 'average' shrinkage rate varies between different kinds of retail business. Different kinds of retail business normally have different shrinkage problems. Supermarkets/hypermarkets, General/discount stores and Shoes and Leather have low rates of shrinkage, whilst 'Other Non-food' specialists, Clothing and Textiles, and Food specialists have higher rates of shrinkage.

There is considerable difference in performance between kinds of business. Other non-food (including books and stationery) recorded a shrinkage reduction of 23.2%. Major reductions were seen in Department Stores (-9.4%) and Hardware/DIY/Furniture (-10.5%). Shrinkage rates rose however in Electrical/Music/Video (+2.5%) and Shoes and Leather (+9.7%).

SOURCES OF RETAIL SHRINKAGE

Table 3 and Figure 4 show the four main sources of shrinkage for retailers covered by this survey. Compared to previous years, the share of retail shrinkage caused by internal error is down to 14.4% from 16.0% last year, showing that the amount invested by retailers in reducing process errors and improving administration is starting to produce significant benefits. In 2001, internal error was as high as 17.6% of retail shrinkage. In addition, losses in the supply chain have fallen to 6.5% of the total from 7.0% last year. These reductions in the share of shrinkage mean that the share of other elements has risen. The share of staff theft has continued to rise and is now 29.9% (compared with 29.0% last year). It marks a further recognition by retailers of the losses caused by an extremely small group of staff, which accounted for €8 663 million in the period ending 2005. Theft and fraud by customers is now thought to be responsible for 49.2% of shrinkage.

Most shrinkage is unseen at the time it occurs. It may be months before it is known. The estimates in Table 3 are perceptions or estimates made by retail security managers based on their current understanding of the source of the major problems they face.

Internal error is shown as a segment of the pie chart (Figure 4), which has partly been removed to indicate that this is caused by internal processes rather than crime, although some respondents have firmly expressed the view that at least part of 'internal error' is used by thieves to conceal criminal behaviour.

Table 2

Shrinkage as Percentage of Turnover by Kinds of Business			
	2005	2004	Change
Food	0.96%	1.02%	-5.9%
- Supermarkets & Hypermarkets	0.79%	0.86%	-8.1%
- Food Specialists	1.45%	1.51%	-4.0%
General/discount Stores	0.74%	0.77%	-3.9%
Department stores	1.35%	1.49%	-9.4%
Clothing & Textiles	1.64%	1.70%	-3.5%
Electrical/video/music	1.23%	1.20%	+2.5%
Hardware/DIY/furniture	1.37%	1.53%	-10.5%
Shoes & Leather	0.68%	0.62%	+9.7%
Other non-food	1.69%	2.20%	-23.2%
Overall	1.25%	1.34%	-6.7%

Table 3

Source of Shrinkage 2005		
	Percentage	(€millions)
Customers	49.2%	14248
Employees	29.9%	8663
Suppliers	6.5%	1873
Internal error	14.4%	4154
Total	100.0%	28938

Figure 4



Table 4

Sources of Retail Shrinkage 2005

	Customers	Staff	Suppliers	Internal Error
Austria	56.4%	25.7%	5.6%	12.3%
Belgium/Luxembourg	52.3%	28.1%	5.6%	14.0%
Denmark	48.3%	32.5%	6.2%	13.0%
Finland	48.0%	31.0%	9.0%	12.0%
France	49.4%	30.0%	6.5%	14.1%
Germany	54.0%	25.9%	5.8%	14.3%
Greece	58.0%	17.0%	7.0%	18.0%
Iceland	39.1%	41.3%	7.4%	12.2%
Ireland	47.3%	31.0%	7.2%	14.5%
Italy	50.4%	24.1%	9.9%	15.6%
The Netherlands	49.4%	31.0%	7.2%	12.4%
Norway	47.2%	32.0%	6.8%	14.0%
Portugal	55.0%	20.0%	8.4%	16.6%
Spain	51.5%	26.4%	7.6%	14.5%
Sweden	48.0%	29.0%	9.0%	14.0%
Switzerland	58.6%	23.8%	6.4%	11.2%
United Kingdom	44.8%	36.5%	4.4%	14.3%
Western Europe averages	49.9%	29.5%	6.4%	14.2%
<i>Average 2004</i>	<i>48.5%</i>	<i>28.4%</i>	<i>6.8%</i>	<i>16.3%</i>
Czech Republic	45.7%	32.0%	6.0%	16.3%
Hungary	42.6%	33.6%	7.8%	16.0%
Poland	40.5%	36.5%	7.0%	16.0%
Slovakia	41.5%	35.0%	7.5%	16.0%
Baltic States	44.8%	33.4%	6.8%	15.0%
Central Europe average	42.1%	35.0%	6.9%	16.0%
<i>Average 2004</i>	<i>41.6%</i>	<i>36.1%</i>	<i>6.8%</i>	<i>15.5%</i>
Average All Countries	49.2%	29.9%	6.5%	14.4%
<i>Average 2004</i>	<i>47.9%</i>	<i>29.0%</i>	<i>6.9%</i>	<i>16.2%</i>

The perceived sources of shrinkage by country can be seen in Table 4. Amongst Western European states, Iceland and the UK have the two highest proportions of staff theft (41.3% and 36.5% respectively), along with Poland (36.5%) and Slovakia (35.0%). The lowest proportions of staff theft are seen in Greece, Portugal and Switzerland. High theft by suppliers (and losses in the supply chain) are seen in Italy (9.9%), Finland and Sweden (both 9.0%), but the lowest share is in the UK.

The country with the lowest internal error is Switzerland (11.2%), followed by Finland (12.0%) and Iceland (12.2%). High proportions are seen in Greece (18.0%), followed by Portugal (16.6%) and the Czech Republic (16.3%).

High proportions of customer theft are normally seen in this survey amongst countries where staff theft is low. The highest proportions of customer theft occur in Switzerland (58.6%), Greece (58.0%), and Austria (56.4%). The lowest are in Iceland (39.1%), Poland (40.5%) and Slovakia (41.5%).

RETAIL SECURITY AND LOSS PREVENTION

Retailers acknowledge that in every European country they have increasingly to police themselves. The amount they spend on security has risen from €7 207 million in 2004 to €7 633 million in 2005, an increase of €426 million in one year. In 2000, the amount spent by retailers on security was €5 781 million (Western Europe only), so they have responded to rising crime in a robust fashion.

Security spending by retailers now costs every person in Europe €16.54 per annum (€18.17 per head in Western Europe). The breakdown of security spending is given in Figure 6. Compared to last year, there has been an increase in spending on security equipment (26.1% compared with 24.0% in 2004) and a fall in directly-employed security staff (17.4% compared to 20.0% in 2004%). The other spending headings are little changed.

THE COSTS OF RETAIL CRIME IN EUROPE

The estimates of the *Costs of Retail Crime* are the amount stolen from shops by theft and fraud *plus* the amount that retailers spent on security.

The total cost of retail crime in Western and Central Europe is estimated to have reached €32 417 million in 2004-05. This is equivalent to a tax of €70.26 on every man, woman and child. These figures are shown in Table 5.

The above estimate is not the same as shrinkage, which includes internal error and does not include the retail security costs. Customer crime costs €14 248 million, crime by employees €8 663 million, thefts by suppliers and losses in the distribution chain were €1 873 million, and the costs of security and loss prevention were €7 633 million.

Figure 5

**Trends in Retail Security Spending
Western Europe 2000-2005**

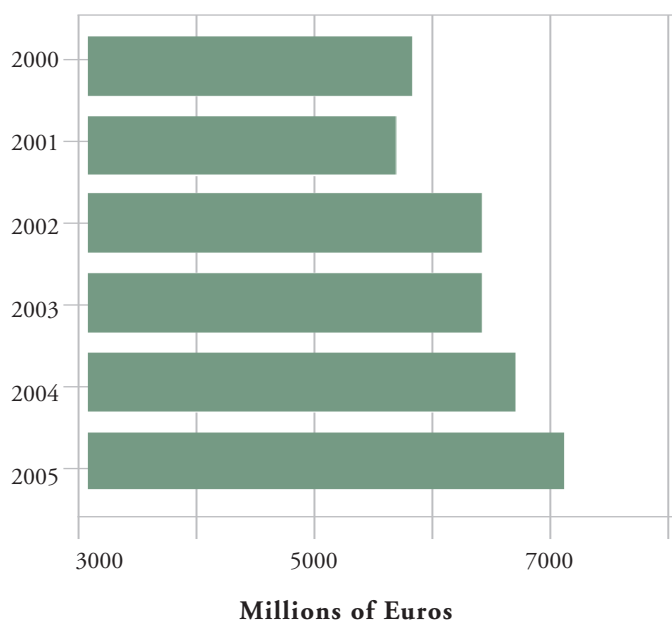


Figure 6

Security Spending 2005
Security Spending € 7633 millions

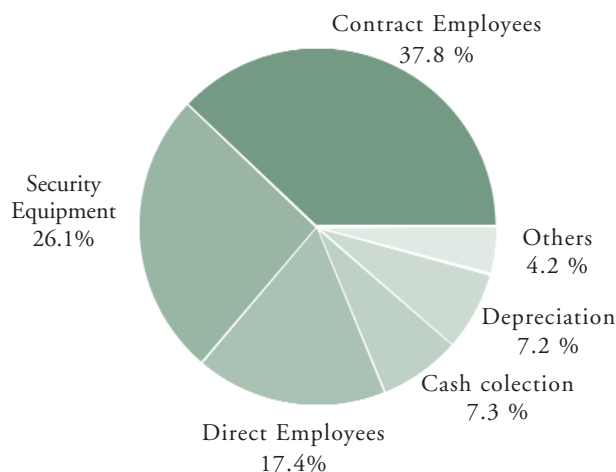


Table 5

The Total Costs of Retail Crime 2005

Costs of crime by customers	€ 14 248 million
+ costs of crime by staff	€ 8 663 million
+ costs of crime by suppliers	€ 1 873 million
+ costs of retail security	€ 7 633 million
Total cost of crime =	€ 32 417 million
Cost per head =	€ 70.26

Table 6

The Costs of Crime 2005

	Crime-related Shrinkage (€ millions)	Security Costs (€ millions)	Costs of Crime (€ millions)	Cost per Head (€ per year)
Austria	376	144	520	64.20
Belgium/Luxembourg	905	251	1 156	108.26
Denmark	431	148	579	109.68
Finland	450	140	590	114.00
France	4 569	1 421	5 990	100.58
Germany	4 239	1 411	5 650	68.03
Greece	287	103	390	36.70
Iceland	24	7	31	120.91
Ireland	219	76	295	81.72
Italy	2 215	667	2 882	50.10
The Netherlands	782	277	1059	66.30
Norway	448	143	591	131.33
Portugal	171	57	228	22.64
Spain	1 471	468	1 939	48.41
Sweden	641	200	841	94.73
Switzerland	465	194	659	91.20
United Kingdom	5 072	1 377	6 449	108.11
Sub-Total	22 765	7 084	29 849	76.55
Czech Republic	360	100	460	44.61
Hungary	249	79	328	32.52
Poland	1 116	287	1 403	36.56
Slovakia	155	42	197	36.15
Baltic States	139	41	180	24.64
Subtotal	2 019	549	2 568	35.90
Totals	24 784	7 633	32 417	70.26

Table 6 shows the combined costs of crime for each country surveyed. 'Crime-related shrinkage' is the sum of losses from customers, staff and the supply chain. The figure for security costs refers to retail spending on security. The total 'Costs of Crime' is crime-related shrinkage *plus* security costs. In the 25 countries surveyed, the costs of retail crime were €32 417 million, equivalent to €70.26 per head.

The countries with the highest cost per head of retail crime were Norway, Iceland and Finland. The lowest were seen in Portugal, the Baltic States of Latvia, Lithuania and Estonia, and Hungary. It should be remembered that the costs of crime not only reflect efficiency, local criminality and decisions that have been made about the appropriate level of security spending, but also the level of prosperity of the country. A wealthy country even with a low shrinkage rate is likely to have higher costs of crime per head of the population than one that is currently less well off. The results of the last column in Table 6 show what retail crime costs every person in that country: they are not a measure of relative efficiency.

Other costs of retail crime that are not provided in these tables include the costs to society of retail crime. These include the costs of police arrests and investigations, the Criminal Justice System when dealing with retail offenders, the costs of imprisonment and community sentences, the costs of taxes foregone, and the costs to retailers and their employees of violence and disruption caused by retail crime and fraud. The Centre for Retail Research carried out a study in 2005 (funded by Checkpoint UK) into the social costs of retail crime, but on this occasion covering only the UK. We found that for every €100.00 of retail crime costs, the community is forced to pay a further € 42.14 in social costs (for further details see www.retailresearch.org). If this were applicable to the 25 countries covered in the survey, it would mean that the total costs of retail crime (including social costs) in Europe were €46 078 million. Some idea of the comparative scale of these losses is that €46 billion is more than 90% of the cost of the EU Agriculture and Rural Development Budget (the *Common Agricultural Policy*).

COMBATING CRIME BY RETAIL EMPLOYEES

A small number of retail employees are responsible for 29.9% of shrinkage, a total of €8 663 million. Retailers in many countries have become increasingly aware of the losses caused by internal fraud. Internal fraud includes both the occasional theft of cash and goods as well as large-scale systematic fraud. It may also include theft from customers, payment fraud, credit-card frauds, and theft from other members of staff. It must be emphasised that internal fraud concerns a very small proportion of retail employees, but the amount they steal is considerable. The average amount stolen by every employee apprehended for theft is €357.85 compared with €78.56 for each customer thief (2004 data from *ERTB IV*).

Retailers face the problem that employees handle cash, payments, loyalty cards, and merchandise as part of their job. It can be exceptionally difficult to discover acts of theft by employees or which member of staff is responsible.

Information About Internal Crime

Retail security managers were asked a series of questions about the quality of information they and their companies received about employee crime. Table 7 shows that only 14% of security managers felt the information they received from Company reports and systems was excessive or better than average. Forty-four percent believed they had enough information, and a further 35% believed that the information was less satisfactory, although 'adequate'. Only 7% felt they had too little information.

Table 8 covers the use made of information by the Security Department and the Company itself. As far as the use of information to combat internal crime by the Security department is concerned, views are polarised. Thirty-nine per cent believed their use of information was better than 'satisfactory/average', whilst 36% believed that their information usage was 'less than satisfactory'. Very few Departments felt they either were very good ('make good/effective use' [7%]) or very bad ('make poor/ineffective use' [4%]) at using the information they received. Relatively few felt their use of information was in the middle of the range - 'average' or 'satisfactory' (14%). Therefore 40% believed their use of information to combat internal fraud was worse than average and 46% thought it was better than average.

Respondents were even more critical of the use made by retail companies of information on combating internal fraud. Here 56% thought their company's use of internal crime information was 'less than satisfactory' or 'poor/ineffective'. Only 29% thought the use of information was 'better than average' or 'good/effective'. Fifteen per cent believed their company's use of information was 'satisfactory/average'.

Table 7

In combating internal crime do you get sufficient information from your Company's reports and systems?

Too much information	6%
Information is better than average	8%
Enough information	44%
Information is just adequate	35%
Too little information	7%

Table 8

Use of Information on internal crime

	Use by Security Department	Use by Company
Makes good/effective use	7%	8%
Better than satisfactory/average	39%	21%
Use is satisfactory/average	14%	15%
Less than satisfactory	36%	43%
Makes poor/ineffective use	4%	13%

Table 9

Developing themes in combating internal crime

- Better procedures and controls, especially concerning stock room, backdoor, cash handling and access.
- Dedicated security equipment including CCTV, EAS and RFID.
- Software to analyse fraudulent transactions or linked to CCTV.
- Launch of new anti-theft programmes and the use of shop committees.
- Anti-theft training for new staff and within normal training.
- Financial incentives for staff and managers: restitution of amounts stolen by offenders.
- Refund controls
- Better checks on new staff and controls over hiring temporary staff.
- Closer liaison with Finance, Audit and other departments and sharing intelligence with other retailers.

Therefore as far as the amount or quality of information to combat internal fraud is concerned, retailers feel that they are receiving enough information but that a substantial minority of Security Managers (40%) feel they are not making good use of it and a majority feel that their company's use is less than satisfactory (56%).

Programmes to Combat Staff Theft and Fraud

Retailers were asked what their key programmes and policies were to combat internal fraud: what programmes did they already have in place and what did they expect to be in place in two year's time in 2007?

Retailers have introduced (or expect to introduce in the next two years) a range of new policies, controls, software and security equipment to inhibit internal crime. Certain major themes could be identified as being important to combating internal crime and these are outlined in Table 9.

Figure 7

Key Programmes to Combat Staff Crime

Proportion of retailers identifying these major programmes

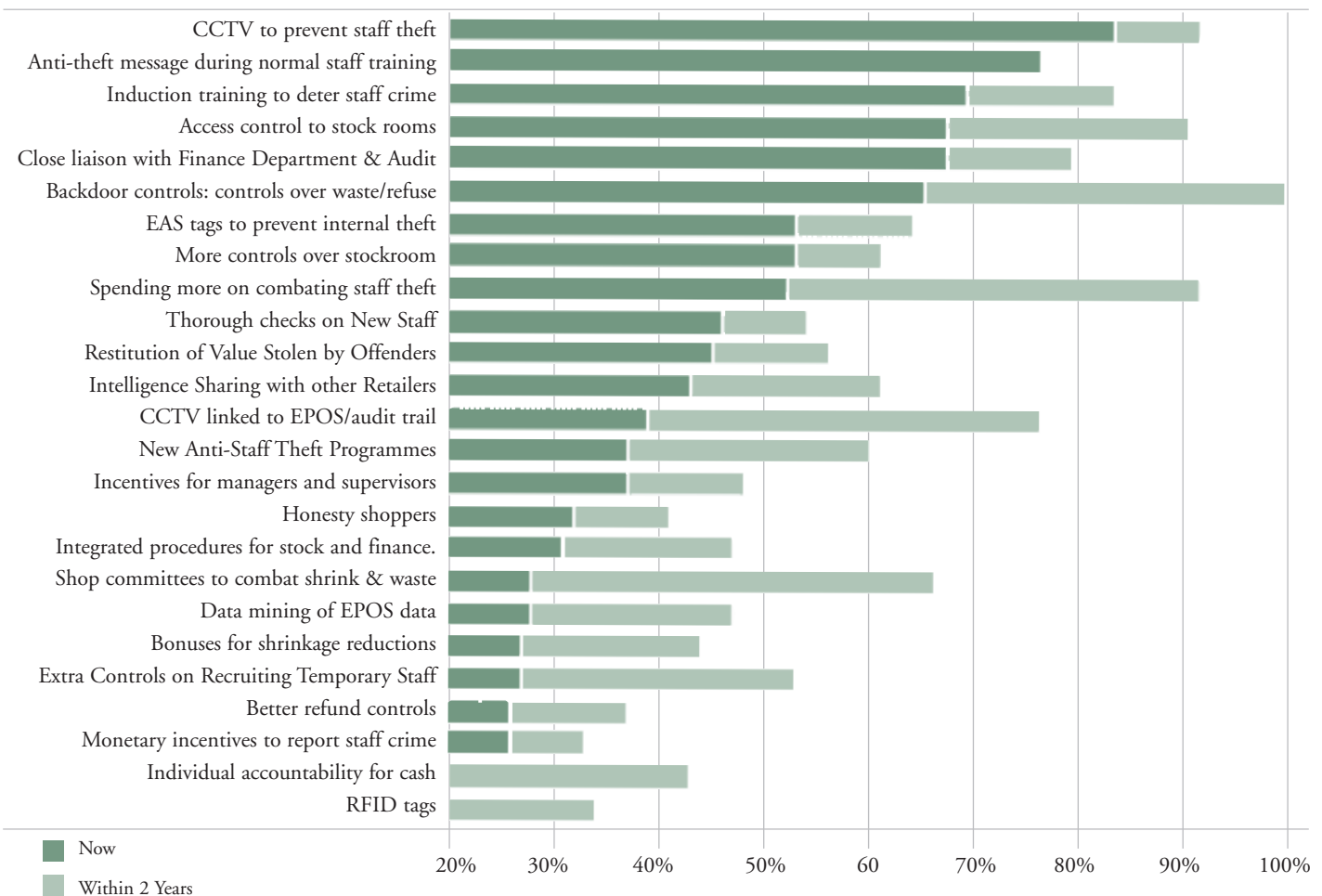


Figure 7 indicates their relative importance. The six most widely-used programmes to combat staff theft were: 'CCTV' (83%), 'anti-theft messages given during normal staff training' (76%), 'induction training of new recruits' (69%), 'controls on access to stockrooms' (67%), 'close liaison with the Finance Department and Audit' (67%), and 'back door controls over waste and refuse' (65%).

Other significant programmes were the use of 'EAS tags to inhibit internal theft' (53%), 'greater stockroom control' (53%), 'greater security spending on combating staff fraud' (52%), 'thorough checks on new staff' (46%), and 'civil recovery or the restitution of the amount stolen by offenders' (45%).

'Intelligence-sharing with other retailers' (43%), 'linking CCTV to audit trails' (39%), 'the launch of new programmes dedicated to combat internal crime' (37%), 'honesty shoppers' (32%), and 'integrated procedures for stock and finance' (31%) were also important. A little over one-quarter of retailers used 'shop committees to combat shrink and waste' (28%), 28% had introduced 'data-mining software' (using transactions data to identify error and fraud), 'additional controls on recruiting temporary staff' (27%) and 'staff bonuses for shrinkage reductions' (27%).

Over the next two years retailers expect to make greater use of all these programmes, except anti-theft messages during staff training, which will remain at 76%.

The policy to combat staff theft expected to grow most rapidly over the next two years is back door controls over waste and refuse (an increase of 34% to be used by 99% of respondents). Other key programmes whose use is expected to grow quickly include higher spending on combating staff crime (up 39% with 91% of respondents expecting to focus their security budgets more on internal crime), CCTV linked to the audit trail (up 37% to reach 76% of respondents), and shop committees (up 38% to be used by 66% of respondents).

European retailers are also expected to make much greater use of controls over recruiting new temporary staff (up 26% to 53% of respondents), the launch of new anti-theft programmes dedicated to combat internal crime (up 23% to be used by 60% of respondents), and access control to stock rooms (up 23% to be used by 90% of respondents).

Other important strategies expected to grow in importance include intelligence-sharing with other retailers (up 18% to be used by 61% of respondents), data mining (up 19% to be used by 47% of respondents), EAS tags to inhibit internal fraud (up 11% to reach 64% of respondents), close liaison with Finance and Audit (up 12% to be used by 79% of respondents), and restitution or civil recovery (up 11% to be used by 56% of respondents).

Figure 7 also shows that within two years, a significant number of retailers will use incentives for managers and supervisors (48% of respondents will use this within two years), fully-integrated procedures for stock and finance (47%), individual accountability for cash (43%), better refund controls (37% in two years), RFID tagging (34%), and monetary incentives to report staff crime (33%).

Crime by a small proportion of employees is now a major focus of attention by retail security managers. All the signs are that retailers are investing in new security equipment and changing their policies and procedures to reduce this kind of crime. The narrowing of profit margins resulting from a hostile economic climate and intense retail competition has made every retailer concerned to reduce its costs in order to secure its future. The next few years will, no doubt, demonstrate the success of the spread of good security practice amongst the retail industry of all European countries.

APPENDIX

SURVEY METHODS

OBJECTIVES

The purpose of the European Retail Theft Barometer is to capture the extent of crime-related losses and shrinkage suffered by retailers throughout Europe and to note trends both in the scale of losses and in the security policies adopted by companies. This study has been funded by an independent grant from Checkpoint Systems Europe as a contribution to discussion within the sector.

THE QUESTIONNAIRES

The loss prevention managers or finance directors of 1,605 of the major retailers in Europe were sent a questionnaire for completion. The questionnaire included 17 questions, which ranged from the level of shrinkage (as a percentage of sales) from which they suffered to the programmes and policies they used to combat internal fraud. The questionnaire was in French, English, German, and Spanish.

CONTACT DETAILS

The names and addresses of the companies were drawn from a combination of commercial lists and the Centre's own list of UK and European retailers.

CROSS SECTION BY COUNTRY AND BY TYPE

The final composite list covered the major retailers in 25 European countries, drawn from all kinds of retail business. The number of questionnaires sent out to retailers in each country was broadly proportionate to the size of the retail industry in that country. Between 25-45 questionnaires were sent to smaller countries in order to encourage replies from a representative sample of the sector as a whole in each country. The growth of cross-border and international retailing meant that a number of respondents would naturally have been providing information about more than one country. The results for Luxembourg were included with Belgium in order to protect commercial confidentiality and the results for Latvia, Lithuania and Estonia were combined (as before) as 'Baltic states'. No political implications should be drawn from this process or the inclusion or non-inclusion of any country.

THE RESPONSE

440 useable returns (4% higher than last year) were provided including returns that were made on-line. This is a response rate of 27%, which is perfectly satisfactory for a study of this kind and is an increase compared to last year. The number of returns made by retailers in each country and the collective scale of those retailers that responded can be seen in the Table. The respondents were collectively responsible for €371 981 million turnover and 24 572 shops.

COLLATING THE DATA

Retailers were allocated to one of nine types of business. A distinction was made between a 'nil response' (no reply was entered to a question) and '0'. The '0' was counted but not the nil response. The question which retailers found it most difficult to, or, on occasions were not willing to, answer related to the amount spent on security. Only 41% of respondents gave an answer. The data provided was consistent (no responses needed to be abandoned because of material error), but certainly showed that there were significant differences between retailers in the same country.

CALCULATING THE RESULTS

In a survey of this kind there is a danger that a small and unrepresentative number of respondents can influence the average – either exaggerating a 'trend' or minimising a problem. To avoid this, we have not used simple arithmetic averages, but have weighted each reply in accordance with the turnover of the company involved. Thus the shrinkage result for Germany is not a simple addition of the average shrinkages of the companies which reported, but each result has been weighted so that the shrinkage of a €500 million firm is calculated at five times more than a €100 million company.

COUNTRY WEIGHTINGS

The results of retailers in each country have been weighted in proportion to the total retail sales of that country to prevent differences in the response rates between countries affecting the overall result.

**Companies in the European
Retail Theft Barometer Survey 2005**

	Number of firms	Number of stores	Combined Turnover of Respondents (€millions)
Austria	19	335	1 822
Belgium/Luxembourg	22	443	6 948
Denmark	19	246	5 831
Finland	13	716	5 784
France	37	4 334	89 220
Germany	38	2 619	57 606
Greece	14	523	10 293
Iceland	4	155	165
Ireland	22	232	6 663
Italy	29	1 692	47 629
The Netherlands	24	1 875	18 341
Norway	16	289	4 288
Portugal	22	612	3 283
Spain	30	1 235	14 411
Sweden	16	1 098	5 978
Switzerland	12	404	5 159
United Kingdom	38	7 006	82 133
Subtotal	375	23 814	365 554
Czech Republic	11	182	22
Hungary	19	179	2 397
Poland	10	190	1 779
Slovakia	6	52	617
Baltic States *	19	155	1 612
Subtotal	65	758	6 427
Totals	440	24 572	371 981

* Latvia, Lithuania, Estonia