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How to fight shrink in a complex retail world

As the complexities of global retailing continue to escalate, so do the challenges retailers face. Their margins are under pressure as shoplifting losses and internal theft are compounded by online fraud, organised crime and more complex supply chains. The advance of omnichannel retailing has added another dimension to the challenge.

Retail loss prevention (LP) departments may have reached a tipping point. The tools that worked well for them in the past are no longer adequate. Today, it is imperative for LP teams to shift their focus from traditional strategies such as policing and basic reporting, to LP videos and predictive analytics. They need these solutions to combat theft, fraud and inefficient operations that erode margins.

Over the past 50 years, LP evolution has been extraordinary. As the retail landscape has changed, so have pervasive issues of shrink.

When retailing comprised mostly independent small stores during the 1960s, shrink was not a high-profile concern. Stores had simple formats, supply chains and assortments were limited, and staffs were smaller. Today, it is difficult to scrutinise all corners of the larger store formats across regional and national chains.

Growing workforces and complex supply chains have opened new doors to shrink. Retailers have responded by creating an organised LP department that works with divisions across the enterprise to slow shrinkage growth from both internal and external sources.

Here's how LP strategies have evolved:

- **Pre-20th century:** shrink grew as retail evolved. Policing and detection units to prevent shoplifting date back to 18th century London, which pioneered the use of a dedicated police division for rapid investigation at crime scenes.
- **Dedicated LP:** retailers used basic methods until the 1960s, when the first formal LP departments were formed. Most were staffed by former police officers with no retail experience. They were managed at the individual store level and had little or no communication with senior management. Stores used plainclothes detectives, shoplifting focus towers and basic daily till reconciliation.
- **New tactics:** as retail business expanded, the shrink dollar drain increased and retailers began to invest in more sophisticated tools and effective strategies. Ceiling mirrors and shoplifting

watchtowers were replaced by EAS (electronic article surveillance) systems, CCTV and interdepartmental collaboration.

In the late 1980s and 1990s, LP departments reshaped their organisational structure and collaboration with other departments to reduce shrink. LP shared goals with other departments and morphed into asset protection (AP), which extended responsibilities outside the store and into the warehouse. This led to the introduction of distribution centre audits, truck seal programs, vendor compliance audits and increased focus on production planning and overall retail operations.

By the 21st century, most AP departments had embraced technology to uncover internal wrongdoing. Through the emergence of exception-based reporting, enterprise shrink reporting and refined case management software, productivity increased dramatically.

New LP techniques such as exception-based reporting and EAS tags have emerged, allowing retailers to reduce shrinkage as a percentage of sales, although the actual dollar loss due to shrink continues to grow.

Challenges and opportunities

Rising shrink concerns have placed LP initiatives high on the retail agenda. Companies are keen to invest in effective and proven LP methods, and to collaborate with technology companies and specialists to find loss-management solutions that lower shrinkage. Forward-thinking retailers will differentiate themselves by exploring new methods to control shrink.

In survey after survey, most retailers have reported shoplifters stealing merchandise and returning it for store credit. Online forums and social media platforms provide an easy means of exposing loopholes in retailers' systems, or selling stolen merchandise.

To stem the tide, retailers have created local collaborations and begun sharing intelligence with their competitors and law enforcement officials. Most interactions are ad hoc, via phone calls and emails. Retailers still need to find ways to

make collaboration easier, timelier, and more effective.

Since reduction of organised retail crime (ORC) benefits the entire community, retailers and law enforcement agencies need to work together to create a common communication platform on which mutual alerts are dispatched and best practices devised and shared.

Advanced analytics

A high percentage of Australian retailers plan to implement real-time theft analysis capabilities. Since limited resources and lack of adequate tools to mine huge amounts of structured and unstructured data continue to undermine the effectiveness of LP teams, retailers need to invest in technologies that collate data from applications across the enterprise to assemble a complete picture of shrink.

Advanced data analytics and predictive modelling are capable of effecting an enormous change in the way LP organisations operate.

Retailers have focused on known and verifiable past shrink to plan for the future, but during the next decade an era will emerge in which they will analyse real-time data and predict shrink. Imagine waiting only a couple of weeks rather than months to verify that shrink strategies are working. Analytics has the potential to be a game-changer in shrink management.

With consumers active on social networks and online forums, retailers can apply big data analytics to gain a better understanding of behaviour patterns and develop short- and long-term LP strategies.

Criminals frequenting these forums seek and provide aid to help shoplifters. Big data reports can pinpoint products that are being stolen, mechanisms used to steal them and, in some cases, individuals who commit the crimes.

Instead of looking at each source independently, retailers should start analysing a variety of feeds as one large, interconnected pool to generate actionable insights. They can begin by analysing transaction logs, videos and stills from CCTV and workforce management applications in tandem to identify employee fraud.