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Stolen Knowledge

Number 1



Exclusive

Professor Adrian Beck's ground breaking work on how to deal with "shrinkage"

Product Value Management:

Moving Beyond Asset Protection and Shrinkage Management

The Rise and Descent of Cash

Should you
be preparing
for the mobile
wallet just yet?

The CCI Revolution Explained

Cost savings,
improved employee
conditions and better
security. But is it for
everyone?

Retail Fraud Cash Handling Supplement

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A Word From Our Sponsor

Nobody needs reminding of how challenging the retail environment has been over the last 18 months and one can only applaud the way that many retailers have responded to those challenges to deliver impressive trading results in difficult conditions. Of course there have been some casualties along the way, and the market has appeared even tougher for some sectors than others, with discretionary spend on big-ticket items being an example of a tough place to win business right now.

These conditions have forced many retailers to really examine everything they do with even more rigour than usual. After a period of cautious consolidation for many retailers, there now appears to be an increasing appetite for targeted investment to deliver operational efficiency.

Obviously every investment decision needs to stack up against appropriately demanding criteria, but it is clear that many of the most successful retailers realise that operational efficiency and the eradication of all forms of losses are absolutely critical to bottom line performance, and especially so during tough trading conditions. In supporting this publication, Volumatic aims to help retailers across



all sectors and we hope that Stolen Knowledge can make a genuinely useful contribution to the retail industry during these challenging times and beyond. Stolen Knowledge is not designed to compete with any industry publication. Rather, I hope it will become a forum for the exchange of ideas, information and points of view that will benefit the whole retail community.

In an effort to be as relevant as possible you will see that we have asked you to vote on what you would like to read about in the next edition. Hopefully this will lead to a publication that truly addresses the hottest issues and provides information only on matters of importance to readers. Do please let me know what you think of what we are doing with Stolen Knowledge.

James Harris
Commercial Director, Volumatic Ltd.

Product Value Management:



Moving Beyond Asset Protection and Shrinkage Management

By Adrian Beck, Department of Criminology, University of Leicester

The ECR Europe Shrinkage Group recently produced a White Paper entitled: A Working Paper on Defining and Understanding 'Shrinkage', in which they attempt to try and propose some sort of 'standard' for the retail sector on what the term 'shrinkage' should actually mean. In the paper, and the book chapter by Beck with Peacock from which it originates ¹, the complete lack of clarity in what the term means and the consequential negative impact this has on doing any sort of meaningful benchmarking between companies is debated in some detail.

How realistic it is that such a consensus will emerge is debatable, given that the term has been in use for over 100 years without one appearing to date. This is due to a wide range of factors, including:

1. Depending upon the background and motivation of the Head of Loss Prevention/ Asset Protection/Security, the term 'shrinkage' continues to be used to fit particular interpretations of what their job should be. For example, those with a penchant for viewing shrinkage as primarily a theft issue will, more than likely, be averse to including factors such as product waste within their definition.
2. The availability of data within an organisation will determine what can be included in a company's definition.
3. The operational framework of the organisation will influence what is included or excluded from the shrinkage figure – waste and mark downs are frequently viewed as an operational issue rather than something to do with loss prevention.
4. Agreed accounting rules can also influence the shrinkage figure – some companies record shrinkage at retail prices, others at cost price while some prefer a measure based upon cost price plus, which tries to take into account the additional costs associated with shrinkage; such as applying security devices and reshipping lost goods.
5. The politics of the organisation can impact upon the definition used – if issues such as waste, damage and mark downs can be put under operational budget headings, it can, depending on the nature of the retail business, markedly reduce the apparent cost of shrinkage. This in turn can limit the prospect of difficult questions emerging from shareholders if the 'shrinkage' figure is deemed to be unacceptably high.

These considerations aside, more broadly, 'shrinkage' has become a term loaded with such varying and complex notions of what it represents that arguably its usefulness to the industry is now questionable.

¹ Beck, A. with Peacock, C. (2009) *New Loss Prevention: Redefining Shrinkage Management*, Basingstoke: Palgrave Macmillan.

Of particular concern is the way in which it is frequently and persistently associated primarily with the malicious side of the loss prevention agenda – shrinkage equates to theft – and is relatively rarely used to describe the multitude of non-malicious forms of loss which are often called ‘process failures’ or ‘administrative losses’.

This can be seen in the two major surveys regularly undertaken on this topic: The Global Retail Theft Barometer and the National Retail Security Survey carried out in the USA. The former rather confuses the reader by including on the front page that, as well as being the Global Retail *Theft* Barometer, it is also the Worldwide *Shrinkage* Survey², while the latter offers little in the way of clarity about what definition of shrinkage is provided to respondents and focuses primarily on theft-related issues, not least Organised Retail Crime³.

The persistent association of shrinkage with theft also has an impact upon the way in which retail organisations perceive who has responsibility for dealing with the problem. Shrinkage when seen as a predominantly theft issue, is regarded as the responsibility of the loss prevention/security function and not generally the preserve of other parts of the business.

Similarly those factors that also generate loss, but are not included in the typical shrinkage definition, such as waste, mark downs and damages, are not considered something that loss prevention should have any role in controlling. This leads to the compartmentalisation of responsibility for the problem within the business, with the apparent cause driving the way in which responsibility is apportioned within the company. Therefore, theft of an item is a loss prevention issue, but damage to the item is an operational concern.

This in turn can lead to multiple, and sometimes conflicting, solutions being put in place with little regard for the consequential impact they may have on other areas of responsibility. For instance, a solution that fixes a damage issue may in turn cause more theft to occur and vice versa. The compartmentalisation of ‘loss’ can create piecemeal responses that may ultimately cause more loss not less.

There is also a lingering sense that terms such as shrinkage (contraction, reduction), loss, protection, theft, prevention – all have very negative connotations more associated with policing than business. Organisations frequently associate such terms with ‘cost’ rather than ‘profit’ generation and therefore find it difficult to engage all of the business in a meaningful dialogue about how they should be dealt with.

The sense of shrinkage/theft as an inevitable yet regrettable part of what happens creates a culture of reluctance to engage; a feeling that this work does not really add value to the business.

Shrinkage when seen as a predominantly theft issue, is regarded as the responsibility of the loss prevention/security function...



² Bamfield, J. (2010) Global Retail Theft Barometer, Nottingham: Centre for Retail Research.

³ Hollinger & Adams (2007) National Retail Security Survey, Florida: University of Florida.

Thinking About Loss Differently

Much of the work of the ECR Europe Shrinkage Group in recent years has been focussed upon gaining a better appreciation of the way in which operational failures are the root cause of most forms of shrinkage and if these 'failures' can be rectified, then less loss is likely to happen.

While this is well grounded and arguably takes the industry approach forward in a much more progressive and considered fashion, it still ends up being predominantly cause/loss focussed in its analysis rather than value focussed. Perhaps a better way to think about loss is to not think about loss at all, but to think about how you maintain product value - because ultimately the goal of the business is to realise the maximum value from the products they introduce into their organisation.

Using the term 'Product Value Management' (PVM) potentially does away with the generations of (mis)interpretational baggage associated with the terms 'shrinkage' and 'loss prevention' and may enable organisations to actively re-engage with the problem and think more broadly about how they can maximise the value of the products they sell. The emphasis is firmly planted on the product and not the causes of loss associated with it.

For the business it means that compartmentalising the issue is no longer an option – the product and the way it is designed,



packaged, transported, recorded, stored, displayed and ultimately sold drives the agenda.

This then requires a genuinely multi-faceted team to be assembled, cutting across traditional organisational boundaries with a focus on understanding the risks to the value of the product and developing solutions that maximise that value throughout the lifetime of the product – from manufacture to point of sale.

Product Value Management

The proposed definition of Product Value Management (PVM) is relatively straightforward: ensuring the intended value of a product is fully realised. Intended value is the anticipated profit after cost (margin), rather than intended sales income.



Operationalising PVM

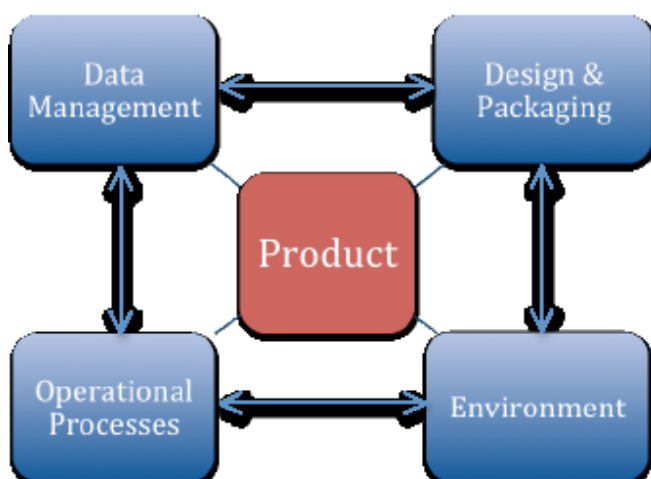
The starting point is identifying any and all the risks that may affect the business in receiving the intended value for a particular product. The typical risks would be damage, waste, mark downs, theft, error, and out-of-stocks. The focus of attention would be driven by the risks that have the highest measurable impact upon the value of the product. This would be achieved through the analysis of all available company data and process mapping exercises.

The key is to include all the possible risks that may reduce the intended value of a given product – the driver is not the cause of the loss but the value of the loss – the larger the loss the bigger the priority.

It would look at the following 4 interlinked areas to identify the risks and develop solutions:

Product Value Management

Design and Packaging	The Operating Environment	Operational Processes	Data Management
	Supply Chain		Receiving
	Storage		Picking
	Display		Counting
			Returning



It is important to recognise the interlinked nature of each of the areas – changes in one can have an impact on another. Equally, the solution to a given risk may be found in a related area – the key is developing solutions that increase the most the overall value received by the business.



Company data and process mapping exercises become the new focus.

It could be argued that this is just a name changing exercise not unlike when traditional security departments became loss prevention/asset protection/profit protection departments. In my view this is not the case. What we saw when security departments changed to a new nomenclature, certainly in the successful companies, was a general switch away from reactive detection activities more towards proactive preventative strategies, premised upon the idea that it is cheaper and more effective to deter than detect. For many, this was an important step in the evolution of loss management in retailing; a realisation that a different way of working was required if genuine change was to be made.

However, these redefined functions now need to take the next step. They need to move away from a proactive approach, focussed primarily on risks associated with malicious activity (mainly theft), and embrace a role that is truly cross-functional, focussed on maximising the value of products at every stage of the business process.

This requires new thinking, a willingness to move freely between organisational disciplines and throw off the shackles imposed by a terminology that continues to hinder creative, collaborative thinking. I think we can all agree that we cannot agree what shrinkage is, so let's end the debate and move to a new way of thinking – let protecting value be the driver of future loss prevention endeavours.

The Rise and Descent of Cash: Rapid Fall, Steady Decline or Growth Potential?

Download your free copy of this insightful report

The future of cash for facilitating economic transactions has been debated intensely in recent years by economists and experts in the retail and financial service industries. New technologies and their potential for accelerating the decline of cash have added heat to the discussion.

Some authorities say currency will disappear and only electronic payments will be convenient for future generations. By contrast, others remain sceptical about this prediction and explain it by different motives and observations.

This study by Elene Asatiani, an MBA undergraduate at the University of Warwick, evaluates the future of paper money by analyzing the potential trends in usage of cash and non-cash payment methods.

The work focuses on those main factors that might influence future perspectives on currency usage, presenting different scenario drawing upon a diverse range of strategic management frameworks and marketing concepts.

The thesis contains a great deal that is of interest to retailers. The often quoted statistic that cash is the cheapest form of payment is challenged, taking into account increasing cash handling costs. And alternatives to cash are discussed, looking forward, with an analysis of what are likely to be the preferred methods of payment in the coming years, by when and why.

The work draws on real life examples from leading thinkers in the commercial world and shows how new technologies are already impacting the way in which leading retailers accept payment. For example, a leading fast food chain has asserted that they intend to roll-out new contactless payment systems across their 7,000 European outlets to speed up customer service, reduce cash handling and collect more information about customers' ordering habits.

And what of the role of the mobile phone and mobile wallets? The work draws on a number of resources.

"The mobile phone will eventually replace plastic," according to a director at a leading UK banking group; "By 2012 it will be normal to pay with the phone, and in five to 10 years, it is completely reasonable to think plastic will be relegated

And what of the role of the mobile phone and mobile wallets? The work draws on a number of resources.

to a secondary function. Cash could be replaced, too, by services aimed at using mobile devices for small purchases".

The managing director at a leading telecoms provider, said that the company will be making some significant announcements by the end of 2011, being ready to make a roll-out with a new project, as part of its vision for bringing customers' wallets together with their mobile phones through contactless technology. In summary the work draws from a wide range of sources to form an up to date, objective view of the future of cash and the impact that new payment technologies will have in the coming few years and beyond. As a rigorous academic treatise on the subject, devoid of commercial bias, it is a well researched and valuable resource for retailers to draw upon when making strategic decisions about their future payment technologies.

A full copy is available to download, free of charge, from <http://www.volumatic.com/stolen-knowledge>



Understanding the Cash Processing Revolution...

“CCi means that the simple action of putting a bank note into a cash deposit box will now have wide sweeping implications for an organisation’s cash receipt, internal transit and counting operations...”

Cash is now the fastest, cheapest and most popular method of payment for both consumers and retailers.

According to the BRC 2010 Survey, cash now accounts for 55% of all transactions, costs just 1.7p per transaction, compared with 37.1p for credit card transactions and 9.2p for debit cards and is faster too; about 31% faster than card transactions. And all of that is a big deal at a time when the IMF is pushing an agenda of a global, double dip recession and everyone is looking very carefully at their costs and their need to protect shareholder value.

Businesses increasingly exploiting benefits

And at the end of the first (and hopefully only) phase of the worst recession in living memory, businesses it seems are increasingly keen on a cash handling system that promises a wide range of business benefits...

For CCi seems to have something for everyone:

- Operations can boast big efficiencies; for one operator, 27 hours per store per week and a 75% decrease in cash handling costs.
- The LP officer can claim increased security and reduced internal shrink.
- The HR department, improved staff welfare.
- And the accountants can boast a 100% payback of installation costs from savings within as little as 12 months of commissioning with ongoing savings thereafter, together with the prospect of provisional credit and decreased CiT costs going forward.

So for any savvy high street operator you would think that CCi was a no brainer. However, during a time of enforced austerity, for some

organisations perhaps anything labelled “capital expenditure” has been off the menu, especially since LP departments themselves have been under pressure to justify their existence to the businesses of which they are part. No longer can they be seen as “an overhead.”

But with technology leaders like Volumatic having now installed over 4,000 CCi systems, and major retailers across all sectors now trialling the new technology, it seems that what has started as a quiet coup is now rumbling into nothing short of a cash revolution.

Here’s how it works...

How does CCi produce significant operational advantages and savings? What is this magic bullet called CCi? And is it really the panacea to everyone’s cash handling problems?

We have all grown used to the ubiquitous CounterCache systems over the years. Basically a cash deposit box is installed under the checkout counter at the point of sale into which the operator feeds notes. When the unit is emptied, these notes are securely contained in tamper-evident pouches or cassettes and then taken to the cash office to be counted.

CCi takes that situation and, through a synthesis of proven technologies, wrings every last benefit out of it.

The simple action of putting a bank note into a cash deposit box will now have wide sweeping implications for an organisation’s cash receipt, internal transit and counting operations... even for the CiT provider and cash centres, who will be able to achieve significant efficiencies in their processes due to accuracy, note presentation and pre-advice of how much cash they are going to be handling for their customers.

Forgery detection at the till point

On receipt of tendered bank notes, the first challenge a retailer faces is forgery detection. Can a cashier really be expected to detect the increasingly sophisticated forgeries passed by gangs in their areas?

The best way to control internal shrink is to ensure that good people are not put in a position where they can make bad decisions.

As notes are fed into the CCI system, each one is scanned to check for authenticity. Recent tests by the Bank of England showed 100% detection of all known forgeries. And not only does this result in the rejection of the forged currency, it also acts as a deterrent for that gang to try and launder money through that retailer again.

Current CCI units accept one note at a time.

Where high value items are being paid for in cash, the processing time, as each note is scanned for authenticity, can make operations a little slower than normal. However, it is relatively rare that high value transactions are made by customers paying in cash. So in practice this is unlikely to deter many retailers.

Reduced till snatch opportunities

Since the notes are securely stored in the CCI, as with the standard CounterCache, the amount of cash in the till draw is kept to a minimum; just sufficient for change and cashback purposes. As a result there is less incentive for a criminal to assault a member of staff to snatch takings and so staff feel safer.

Removal of need for skims

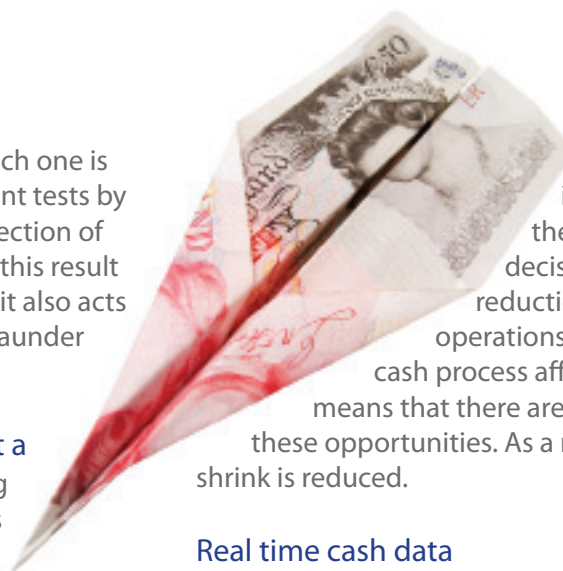
Most retailers perform skims throughout the day. In some cases these can be for as little as £200. Each skim requires at least one member of staff to physically go to each till, collect the cash and transport it back to the cash office. This takes a lot of staff time and obviously exposes that staff member to increased risk of attack by thieves. However, a CCI unit can hold roughly 400 notes or approximately £6000 securely, even overnight. By storing bank notes in it there is less need for skims with their attendant dangers and till downtime.

Cash protected from till to bank

Once accepted by the CCI system, notes are counted by value and stacked in a tamper-evident cassette or pouch system. When the pouch is removed it has a known amount of cash inside it; counted and recorded by the CCI system. The pouches can then be sent directly to the bank. There is no need for the contents to be recounted.

Reduced internal shrink

It has always been true that the best way to control internal shrink is to ensure that good



people are not put in a position where they can make bad decisions. The significant reduction of handling operations throughout the cash process afforded by CCI means that there are far fewer of these opportunities. As a result, internal shrink is reduced.

Real time cash data

The CCI system integrates with the retailer's back office system to show, in real time, what levels of cash are being accepted by each till point at each store. Company head office can see exactly what cash is being taken at their tills in their stores across the world as it happens. This allows them to identify or anticipate potential problems and react fast.

Easy implementation trial

CCI can be trialled easily. It is an out of the box solution and can be set up in less than 15 minutes. Since data dumps can be to PDA via Bluetooth there is no massively complex infrastructure required. This gives retailers the opportunity to trial the system with minimum disruption to their existing systems, even running trials alongside current setups in order to make informed decisions for potential roll-outs based on actual, in store data.

Conclusion

So it is clear, the CCI system has a great deal to offer retailers. With very few exceptions, the operational savings, improved staff conditions, reduced internal shrink and rapid return on investment that the system offers will prove irresistible.

What's more, units can be easily trialled alongside existing arrangements, to enable each retailer to calculate actual savings and benefits using data specific to their operations. This can take place in advance of making any purchasing decision, providing certainty of outcome when examining the individual business case for adoption of CCI.

And as further significant retailers roll this technology out across their estates, CCI looks set ultimately to change the retail landscape forever.

If you could choose a critical area of your business for free research and development, what would that be worth to you?

Stolen Knowledge aspires to become a valuable resource for retailers; a place where ideas, information and research of value to the retail community can be accessed and shared between like-minded individuals.

Thanks to our sponsors, Volumatic, we have the organisational resources to pursue that goal. All that remains is for you to make a contribution by indicating what you would like to see in the next edition...

Below we have shortlisted six areas that could be of interest. All we ask is that you go to the link and simply tick the three of most interest to you. Then we will add up the votes and that will form the basis of our next edition. Couldn't be simpler. Then you get the information, research and ideas that you want, free of charge. And we get what we want – happy readers who support our efforts to understand and support the retail industry...

Dealing With The Bad Guys

How does a criminal seek out opportunity in a retail store? What criteria do they use to select targets? How do they identify opportunities for theft? What deters them? How do they feel most likely to be caught?

These are just a few of the questions that you would perhaps ask real life "bad guys". Getting into the head of a criminal is valuable. It allows you to see, from their perspective, what the triggers are to a criminal mind that will give them confidence that they can successfully steal from a retailer. And of course it is not just the issue of external shrink, but also internal shrink. Improving a culture of loss prevention is clearly a preferable way to go forward. Why did this fail with those who have successfully stolen from their employers and what could have been one to change that? If this is of interest to you, please go to <http://www.volumatic.com/stolen-knowledge> and tick box 1.

Improving a culture of loss prevention is clearly a preferable way to go forward.

Provisional Credit – Is It Achievable And How?

To maximise returns it is important to have cash credited to the bank account as quickly as possible. We are starting to see a number of technologies in the UK that may facilitate provisional credit in the cash cycle, something that has been available in the USA for some time now, typically through CiT providers. Can it really be done in the UK? What benefits would such services deliver? Would the systems be secure and reliable? If this is of interest to you, please go to <http://www.volumatic.com/stolen-knowledge> and tick box 2.

Improving Protection Whilst Reducing Costs

In a challenging economy everyone is looking at their fixed costs and how to reduce them. New intelligent deposit technologies are making major contributions to the reduction of cash handling costs. These, and other technologies in the cash handling process are also delivering returns by decreasing costs whilst at the same time improving both internal and external shrink. How these systems can be incorporated into a retail operation is clearly an interesting one for all retailers in these challenging times. We speak with world class experts on how this is being achieved here in the UK and wider afield. If this is of interest to you, please go to <http://www.volumatic.com/stolen-knowledge> and tick box 3.





Credit Card Crime

According to the latest information, cash is now a safer payment option for retailers to accept than credit cards. Last year 0.018% of cash transactions were fraudulent as opposed to 0.07% of credit card transactions. And to put that into context, 55% of all retail transactions are paid for with cash. As the technology becomes ever more sophisticated, so do the criminals. Whilst EMV chips requiring PIN to be entered into merchant terminals for additional security seem secure, the advent of skimming, usually by dishonest individuals working at a bona fide retailer's premises, means new measures have to be taken. Is your website a cardable website that can be used for fraudulent purposes? How effective are PAN truncation, tokenization or multi-factor authentication? And how does your operation measure up to industry best practice and shrinkage averages? If this is of interest to you, please go to <http://www.volumatic.com/stolen-knowledge> and tick box 4.

Forgeries And How to Deal With Them

According to the Bank of England "The UK has a higher incidence of serious organised criminals involved in counterfeiting on a national basis, compared to some other countries, where counterfeiting is carried out on a more localised basis."

So how big a problem is counterfeiting? In 2010 the value of counterfeit notes taken out of circulation had a face value of £5.9M. The incidence of counterfeiting tends to be associated with the value of the note. Some are more attractive propositions to the criminal than others. For detection, many retailers still use UV lamps and detection pens. However, these can be unreliable under certain conditions. So what are the "best" detection methods for retailers?.

And once a forgery has been detected, how should staff deal with the person presenting the forgery? Should the company have in place a company policy for staff to implement and, if so, what should that policy be? If this is of interest to you, please go to <http://www.volumatic.com/stolen-knowledge> and tick box 5.

Readers' Suggestions

There are of course many other hot topics in the industry, such as;

- Internal theft – sweethearting; how to stop it and how to deal with it.
- What does mobile commerce mean for loss?
- On a global basis, how do different regions approach cash handling and cash shrink?

If a subject of particular interest to you, that you feel would also benefit other readers, is not mentioned above, please list it in the section for voting entitled "Readers' Suggestions", and we will canvass a sample of other retailers to see if your interest is shared. If so, then we will pursue that line of enquiry for you and feature it in next month's publication, together with a credit for your suggestion if appropriate. If this is of interest to you, please go to <http://www.volumatic.com/stolen-knowledge> and tick box 6.

Please take a moment to click on <http://www.volumatic.com/stolen-knowledge> and vote for your favourite topics to be covered in the next edition of Stolen Knowledge. It will only take a moment and the research you have "commissioned" will be yours for free in the next issue...



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