



THE 2016 NATIONAL RETAIL SECURITY SURVEY

JUNE 2016



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Dear Loss Prevention Executive,

The National Retail Federation is pleased to present the **National Retail Security Survey**. This research, now in its 25th year, continues to offer loss prevention leaders insight into internal and external retail crime and successful countermeasures.

NRF has partnered with Dr. Richard Hollinger of the University of Florida to explore issues across inventory shrinkage, employee integrity screening, awareness programs, organized retail crime and other challenges facing the broader retail industry in general and loss prevention programs specifically.

The 2015 NRSS made changes in how the material was presented. The 2016 NRSS follows this same format, allowing for a number of year-over-year comparisons. Loss Prevention professionals can see subtle and noteworthy changes in several areas.

This research could not be conducted without the participation of retailers. Thank you for helping to provide understanding of the current landscape of loss prevention. The NRSS study is an invaluable tool for the retail and solution provider communities and our law enforcement partners, as well as for legislative efforts that impact retail crime and media awareness campaigns. We look forward to working with you for years to come.

We wish to express our thanks to our study sponsor, The Retail Equation, for underwriting the 2016 NRSS. We are very grateful to Dr. Hollinger at the University of Florida for the many years that he has shared his time, insights and counsel for this study.

Please feel free to contact Bob Moraca at moracar@nrf.com or Dr. Hollinger at rhollin@ufl.edu if you have any questions or feedback about this study.

Warmest regards,

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I. Introduction and Methodology

The 2016 National Retail Security Survey is jointly conducted by Dr. Richard Hollinger of the University of Florida and the National Retail Federation. The study develops and analyzes retail loss prevention benchmarks to examine:

- ▲ Inventory shrinkage
- ▲ Staffing and budgeting for the loss prevention departments
- ▲ Employee integrity screening
- ▲ Loss prevention training and awareness programs
- ▲ The impact of dishonest employees
- ▲ The costs of external retail crime

Methodology

The 2016 NRSS was conducted from March 22 to April 22, 2016, via an online survey. Participants were asked a number of questions about their company's performance and actions in 2015. Retailers could participate anonymously. Retailer survey participants were sent an email invitation with a link to the survey. We also encouraged readers to participate via the NRF LP Council, an advertising banner in D&D Daily and personal outreach from Dr. Richard Hollinger (University of Florida) and Robert Moraca (NRF).

A total of 80 retailers participated in the 2016 National Retail Security Survey; not all companies answered all questions. The overall number of participants has declined from the 2015 NRSS in part due to the ongoing consolidation in the industry. In addition, several parent companies participated in the survey on behalf of individual brands within their portfolios.

In our analysis of the data for each question, we removed select instances of extreme outliers that distorted the overall results.

We have segmented the data results where possible. Three categories — men's and women's specialty apparel, grocery stores and supermarkets, and discount, mass merchandise or super center — generated some of the highest responses, allowing us to segment data for these verticals. Please keep in mind small segment sizes for some of the segmented data, as not all retailers in a given category answered every question.

Use of "average" and "median"

Where logical, the data references both the "average" and "median" results. The two are not interchangeable. Including both affords readers the opportunity to benchmark their own results to the aggregated survey. According to Merriam-Webster:

- ▲ Average: "a number that is calculated by adding quantities together and then dividing the total by the number of quantities."
- ▲ Median: "the middle value in a series of values arranged from smallest to largest."

Retail Market Categories Represented

Books, magazines and music 3.8%	Consumer electronics, computers and appliances 1.3%	Convenience store or truck stop 2.5%	Crafts and hobbies 1.3%
Department store 3.8%	Discount, mass merchandise or super center 7.5%	Drug store or pharmacy 2.5%	Furniture 3.8%
Grocery and supermarkets 8.8%	Home improvement, building, hardware, lumber and garden supply 7.5%	Jewelry and watches 5.0%	Liquor, wine, beer or tobacco products 1.3%
Office supplies and stationery 1.3%	Optical goods and services 1.3%	Pets and animal supplies 2.5%	Shoes and footwear 6.3%
Specialty children's apparel 7.5%	Specialty men's and women's apparel 15.0%	Specialty women's apparel 7.5%	Sporting goods and recreational products 6.3%
Other (including music, restaurant, garden, theme park, etc.) 3.8%			

2016 Survey Overview: National Retail Security Survey

RETAILER PARTICIPANT PROFILE

Number of Stores

- Less than 50 stores – 11.3%
- 50 to 200 stores – 11.3%
- 201 to 500 stores – 22.5%
- 501 to 1,000 stores – 17.5%
- 1,001 to 2,000 stores – 22.5%
- More than 2,000 stores – 15.0%

Total Employees — Store Level (Managers & Sales Associates)

- 100,000 or more – 10.8%
- 50,000 to 99,999 – 5.4%
- 10,000 to 49,999 – 33.8%
- 5,000 to 9,999 – 18.9%
- 2,500 to 4,999 – 10.8%
- 1,000 to 2,499 – 8.1%
- Up to 999 – 12.2%

Total Employees — Company-wide

- 100,000 or more – 12.0%
- 50,000 to 99,999 – 8.0%
- 10,000 to 49,999 – 38.7%
- 5,000 to 9,999 – 20.0%
- 2,500 to 4,999 – 6.7%
- 1,000 to 2,499 – 6.7%
- Up to 999 – 8.0%

FY 2015 SALES VOLUME

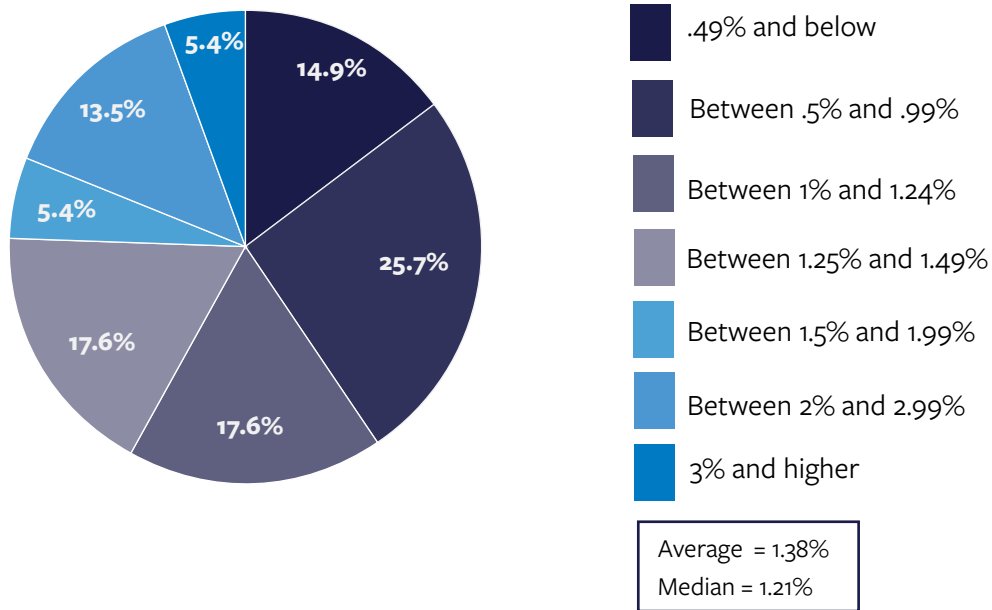
- \$99 million or less – 9.9%
- \$100 million to \$499 million – 2.8%
- \$500 million to \$999 million – 21.1%
- \$1 billion to \$2.49 billion – 25.4%
- \$2.5 billion to \$4.9 billion – 11.3%
- \$5 billion to \$9.9 billion – 7.0%
- \$10 billion to \$24.9 billion – 11.3%
- \$25 billion to \$49 billion – 7.0%
- \$50 billion or more – 4.2%

II. Key Findings

- ▲ **The impact of shrinkage on the retail industry continues to be sizeable.** With an average shrink rate of 1.38%, this costs the overall U.S. retail economy \$45.2 billion in 2015.
- ▲ **48.1% of retailers surveyed reported increases in overall inventory shrink.**
- ▲ **LP budgets remain flat as a percentage of sales.** The total number of LP personnel per \$1 billion in sales increased from 32.47 in 2014 to 37.5. Most of the employment additions were in exempt positions; non-exempt declined slightly.
- ▲ **Most retailers continue to rely on LP professionals to apprehend shoplifters.** More than two-thirds of those surveyed said they limit apprehensions to LP.
- ▲ **For the second year in a row, shoplifting has surpassed employee theft as the greatest cause of inventory shrink.** The number of apprehensions without referrals and shoplifting prosecutions dropped slightly while the number of shoplifting-related civil demands increased significantly.
- ▲ **The average loss was \$377 per shoplifting incident, up nearly \$60 from 2014.**
- ▲ **The average loss from dishonest employee cases dropped from \$1,546.83 to \$1,233.77.** But the number of employee apprehensions increased. Prosecutions, terminations and civil demands for these type of internal incidents dropped.
- ▲ **Many of the hiring practices retailers use to deter dishonest employees dropped.** Only the use of credit checks and worker's compensation claims increased.
- ▲ **Technology is increasing in use as a shoplifting deterrent, but some of the more advanced methods (e.g. facial recognition) are not catching on.**
- ▲ **Methods of increasing LP awareness are changing.** Newsletters, periodic programs and lectures increased while training videos and discussions during new hire orientation decreased.
- ▲ **When it comes to shoplifting deterrents, the more visible, the better.** The use of uniformed guards is up while the use of plainclothes detectives is down.
- ▲ **Robberies are a growing expense for retailers, costing on average \$8,170.17.**

III. Inventory Shrinkage

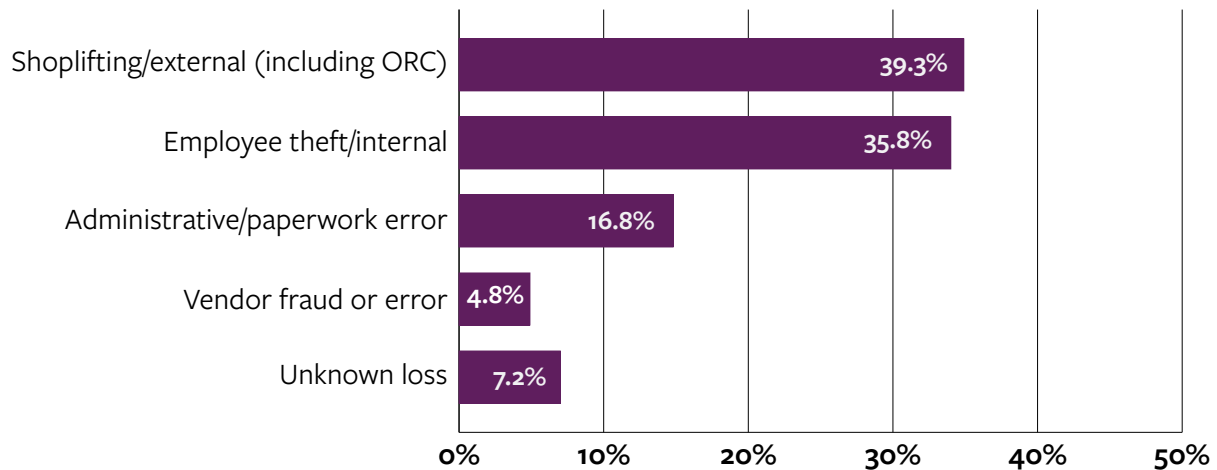
OVERALL INVENTORY SHRINK AS A PERCENTAGE OF SALES



- ▲ Those reporting the highest levels of shrink — 2% or greater — increased from 17.1% in 2014 to 18.9% in 2015. At the opposite end of the spectrum, those reporting shrink of less than 1 percent also grew, from 34.2% to 40.5%.
- ▲ The grocery sector, long one of the most troublesome areas of shrink, saw its averages increase from 3.2% in 2014 to 3.6% in 2015. And the problem is only growing; five out of seven grocery respondents saw an increase in 2015.
- ▲ Specialty men’s and women’s apparel was slightly below the overall group in terms of a percentage of sales, with 1.2%. But six out of 17 respondents in this category reported an increase. The same number reported the results were flat compared to 2014.
- ▲ Discount, mass merchandise or super center retailers were slightly below the overall average, with 1.1%. Three out of five respondents in this category say 2015 brought an increase.

Average of 1.38% Holds Steady, Although Nearly Half Report Increases

SOURCE OF INVENTORY SHRINKAGE (AVERAGE)



Last year was the first in which respondents reported that shoplifting had surpassed employee theft as the leading cause of inventory shrink. That remained true again this year; however, the distance between the two remained steady at approximately 3 percentage points. While the rates of employee theft as a percentage of shrink held relatively steady when compared to the previous year, the biggest change was in vendor fraud or error. The averages varied somewhat between segments. For example:

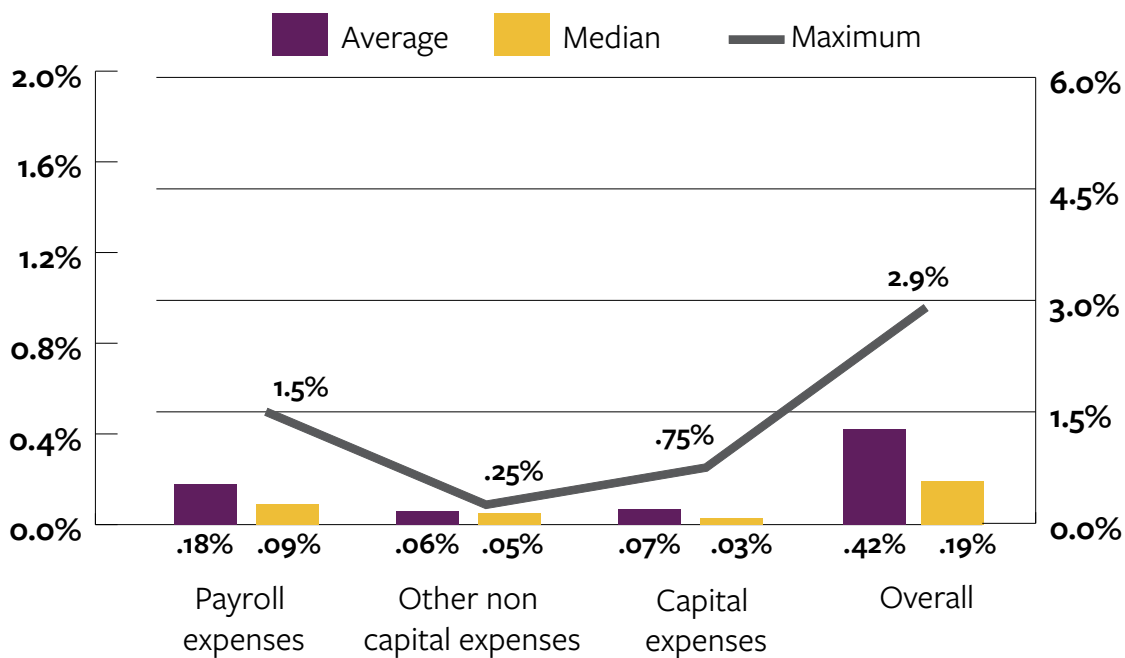
- ▲ Grocery saw a drop in shoplifting — from 29.7% to 24.3% — and in administrative and paperwork — from 18.7% to 11.2%. Unknown reasons, however, accounted for 12.6% of losses.
- ▲ Specialty women's and men's apparel also saw a big drop in shoplifting when compared to 2014 — down 9 percentage points to 40.9%. But the number of losses attributed to employee and other internal thefts increased from 28.1% in 2014 to 35.8% in 2015.

Shoplifting/ORC Remains Top Source of Inventory Shrinkage,
But Employee Theft Is a Close Second

IV. Staffing and Budgets for the Loss Prevention Department

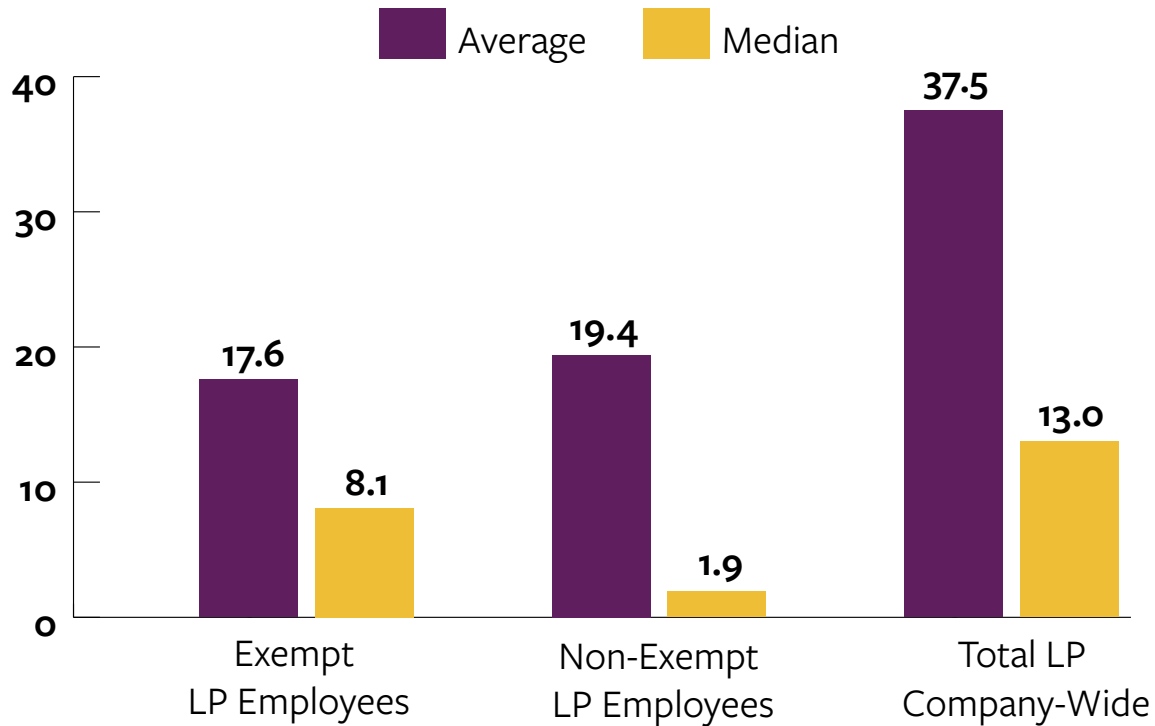
- ▲ For 12.3% of respondents, budget increases have been 20% or greater. That is up significantly from NRSS 2015, when only 1.4% reported that level of budget increase.
- ▲ Another three in 10 say they have seen budget increases of 1-20%. That is down slightly from last year's survey. At the opposite end of the spectrum, three in 10 report decreases in the 1-20% range, up from 22.5% in 2015.
- ▲ In specialty men's and women's apparel, eight out of 18 respondents report decreases in the 1-20% range while only five respondents say they've seen any increase. Of those who have seen an increase, only one out of the five reports an increase of 20% or greater.
- ▲ In grocery and supermarkets, four out of six respondents report increases, though only one reports an increase of 20% or greater.
- ▲ In the discount, mass merchandise or super center category, three out of six respondents say they have received budget increases, though two of them say the increase was in the 1-20% range.

SECURITY AND LOSS PREVENTION BUDGET AS A PERCENTAGE OF SALES



Retailer Security and Loss Prevention Budgets Remain Flat, **Averaging 0.42% of Sales**

RETAIL LOSS PREVENTION EMPLOYEES COMPANY-WIDE PER \$1 BILLION IN SALES (EXEMPT & NON-EXEMPT)

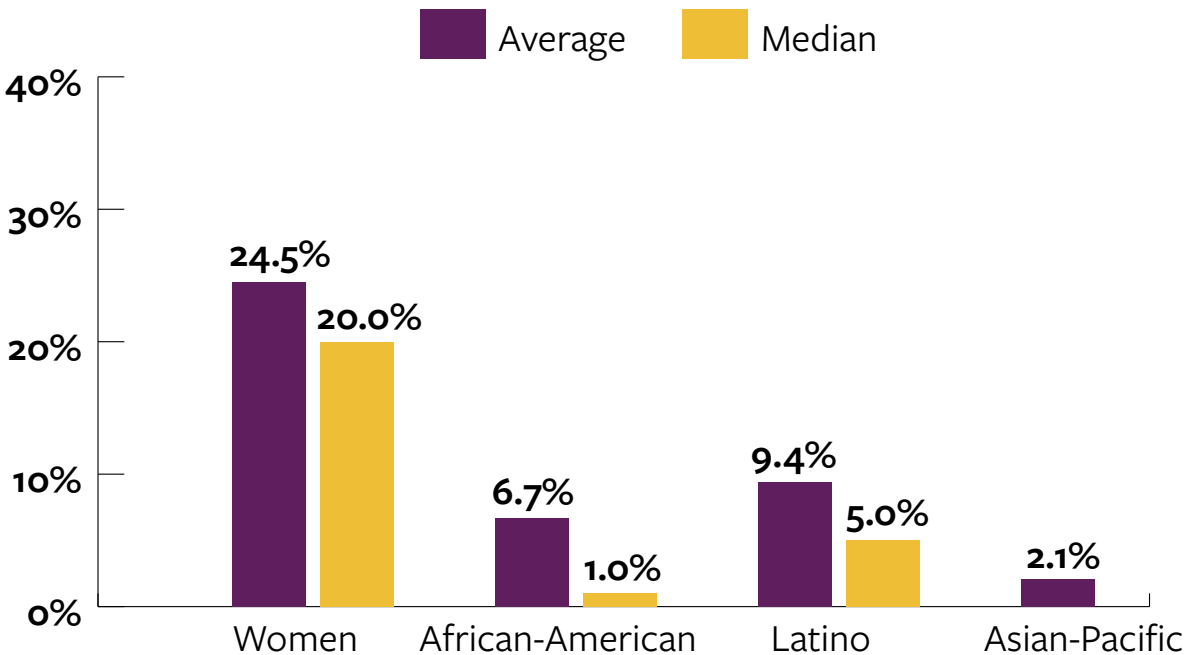


LP professionals still make the bulk of shoplifting stops. Only 31.7% of survey respondents said their company allows non-LP personnel to make shoplifting apprehensions. Of those, some said they are limited to store managers or those who have received special training. In grocery, three out of six respondents said they allow non-LP personnel to make shoplifting stops, compared to four out of 18 specialty men's and women's apparel retailers and one out of four discount/mass merchandise/super center retailers.

Hiring Increases, Primarily in Exempt; Company-Wide Retailers
Average 37.5 LP Employees per \$1 Billion in Annual Sales

43.1% Say LP Budgets Have Increased; Remains Flat as a Percentage of Sales

LP MANAGEMENT REPRESENTATION BY DEMOGRAPHIC GROUPS

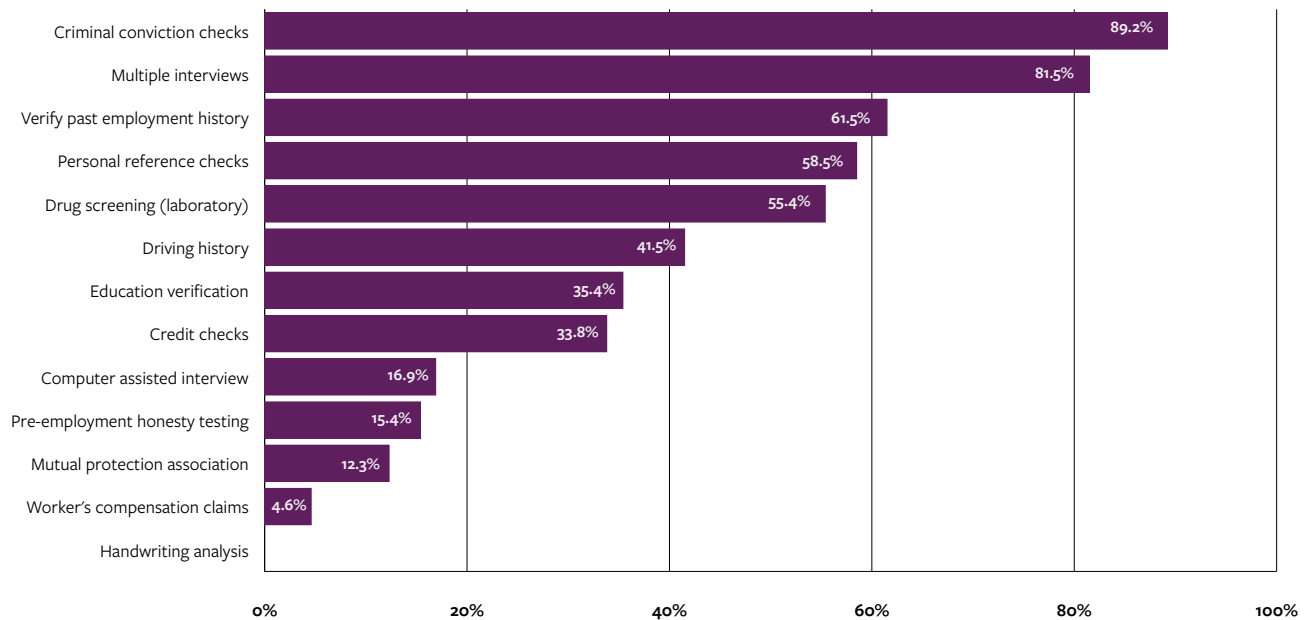


- ▲ Retailers report that an average of 24.5% of LP manager-level or higher staff positions are held by women. That is up slightly from the 23.1% of women in those positions in the previous year's survey.
- ▲ The percentage of African-Americans in LP positions at manager-level or higher dropped slightly, from 7.7% to 6.7%. The median fell from 5.2% to 1.0%.
- ▲ The percentage of Latinos in LP positions at manager-level or higher was relatively flat in both the average — 9.7% in 2014 compared to 9.4% in 2015 — and median — 4.6% in 2014 compared to 5.0% in 2015.
- ▲ The percentage of Asian-Pacific individuals in LP manager-level or higher positions decreased from 2.6% to 2.1%.

Women Gained Ground in LP Management

V. Employee Integrity Screening

EMPLOYEE INTEGRITY SCREENING OPTIONS USED BY RETAILERS



The use of most methods of employee screening dropped in 2015. Only credit checks and worker's compensation claims saw increases.

- ▲ Criminal conviction checks, though controversial, increased slightly — used by 89.2% of the overall respondents. In the grocery store/supermarket and discount/mass merchandise/super center categories, however, nearly every responding retailer reports using this technique.
- ▲ Specialty men's and women's apparel verified employment history more heavily than the overall respondents, with 13 out of 18 respondents saying they do so.
- ▲ In the grocery store and supermarket category, six out of six reported using laboratory drug screenings in addition to the criminal conviction checks, while five out of six also included a strategy of multiple interviews.
- ▲ In addition to criminal conviction checks, five out of five discount, mass merchandise or super center retailers reported using multiple interviews and four out of five report using lab drug screenings.

Criminal Conviction Checks and **Multiple Interview** Remain **Top Methods** of Screening Employees

VI. Loss Prevention Awareness and Training Programs

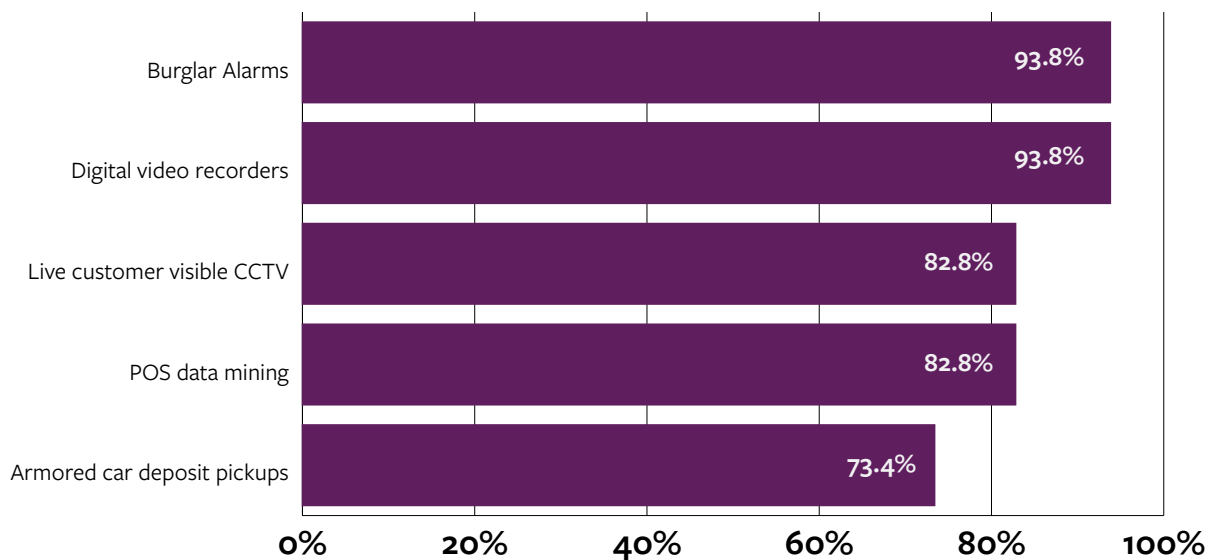
LOSS PREVENTION AWARENESS PROGRAMS USED BY RETAILERS

Awareness and Training Programs	2015	% Point Difference from 2014
Anonymous telephone “hotline”	93.8%	-0.8 ↓
Bulletin board notices and posters	92.3%	+4.5 ↑
Code of conduct	90.8%	0.3
Discussion during new hire orientation	83.1%	-7.4 ↓
Newsletters	72.3%	+18.2 ↑
Training videos	66.2%	-5.4 ↓
Active Shooter training program	61.5%	-4.7 ↓
Anonymous online / email notification system	60.0%	+4.6 ↑
Periodic programs and lectures	58.5%	+7.1 ↑
Honesty incentives (e.g. cash & gifts)	56.9%	+2.8 ↑
Internet, web based communications	55.4%	0.0
Internet, interactive or CD-ROM training	44.6%	0.0
In-store, employee LP committees	41.5%	+3.7 ↑
Training audio/announcements	27.7%	+0.7 ↑
Employee surveys about LP issues	26.2%	-2.2 ↓
Paycheck stuffers	6.2%	-1.9 ↓

Methods of Raising Awareness of LP Programs is Changing;
Newsletters See Sizeable Increase

- ▲ Methods of communication are changing. Newsletters are used much more frequently, up from 54.1% in 2014 to 72.3% in 2015. Periodic programs and lectures increased 7.1 percentage points. Other methods of static communication have increased, though not by as wide a margin. Bulletin board notices and posters, for instance, were up 4.5 percentage points.
- ▲ When compared to the overall group, specialty men’s and women’s retailers are more likely to use active shooter training programs with 13 out of 18 respondents reporting they have done so. All respondents (18 out of 18) in this category reported using anonymous hotlines. They also are more likely to use bulletin board notices and posters, with 17 out of 18 reporting that they use this type of deterrent.
- ▲ Including loss prevention in new hire orientation is used by grocery store/supermarkets (all six respondents) and discount/mass merchandise/super center (all five respondents) more than the overall average.

TOP 5 LOSS PREVENTION SYSTEMS IN USE



More Sophisticated Technology, such as **POS Data Mining** and **CCTV**, Are Growing in Popularity. Visible Deterrent Methods Also Increase

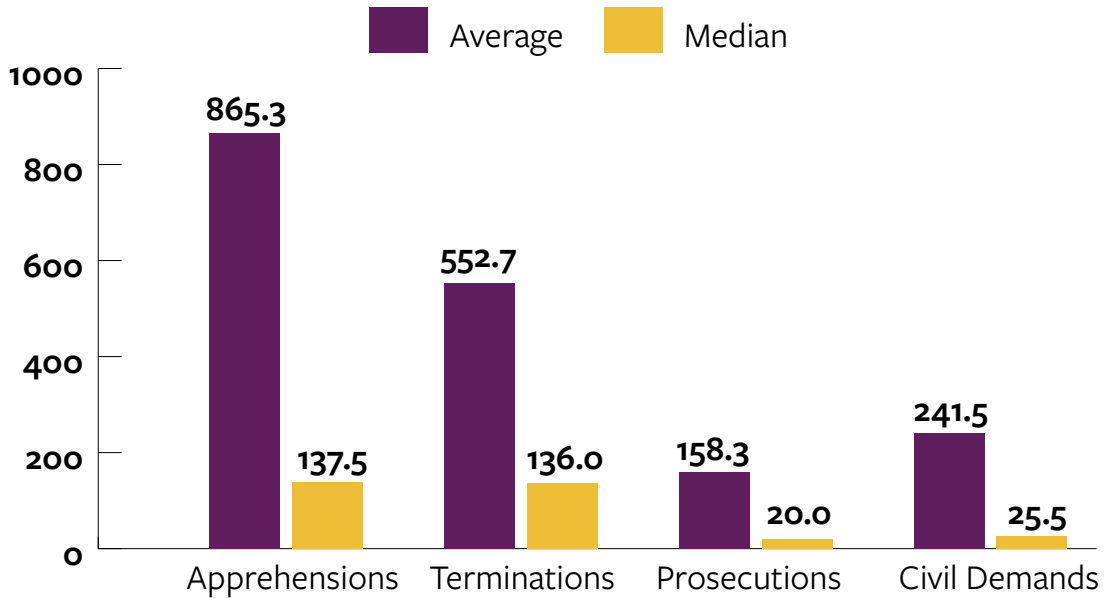
RETAIL LOSS PREVENTION SYSTEMS WITH THE GREATEST CHANGE IN USE COMPARED TO 2014

Loss Prevention Systems	2015	% Point Difference from 2014
Armored car deposit pickups	73.4%	-17.0 ↓
Plain clothes store detectives	26.6%	-14.5 ↓
POS data mining	82.8%	+12.9 ↑
Check approval database screening systems	56.3%	-10.8 ↓
Cables, locks and chains	54.7%	-9.7 ↓
IP analytics	39.1%	+9.0 ↑
RFID merchandise tags for inventory control	7.8%	-8.6 ↓
Merchandise alarms	42.2%	-8.5 ↓
Live customer visible CCTV	82.8%	+7.5 ↑
Uniformed guards	57.8%	+7.1 ↑
Silent alarms	34.4%	+7.0 ↑
Live, hidden CCTV	59.4%	-6.4 ↓

- ▲ When it comes to deterrents, some techniques are obvious, such as burglar alarms, digital video recorders and armored car pickups. Those continue to be among the top loss prevention systems overall, despite remaining flat or dropping in use from 2014.
- ▲ POS data mining increased significantly. It is in use by 82.8% of respondents, up from 69.9% in the 2014 survey.
- ▲ Preference was given to visible security guards, which increased from 50.7% to 57.8% in the survey. Plainclothes store detectives decreased from 41.1% to 26.6%.
- ▲ One other big mover: RFID for inventory control, which dropped from 16.4% in 2014 to 7.8% in 2015. RFID merchandise tags for LP also dropped.
- ▲ Despite the increase in use of technology, some of the most advanced — and controversial — methods have yet to gain traction. Only 8.2% of those surveyed indicated that they were using these techniques, were in pilot or had plans to implement in 2016 or 2017.
- ▲ Nearly all specialty men's and women's retailers surveyed use POS data mining (17 out of 18 respondents) and most chose IP CCTV monitoring (15 out of 18).
- ▲ All retailers in the grocery category (six out of six respondents) use web-based case management and reporting and drop safes. Similarly, four out of four discount, mass merchandise or super center store retailers report using web-based management and reporting.

VII. Dishonest Employees

APPREHENSIONS AND ACTIONS TAKEN AGAINST DISHONEST EMPLOYEES

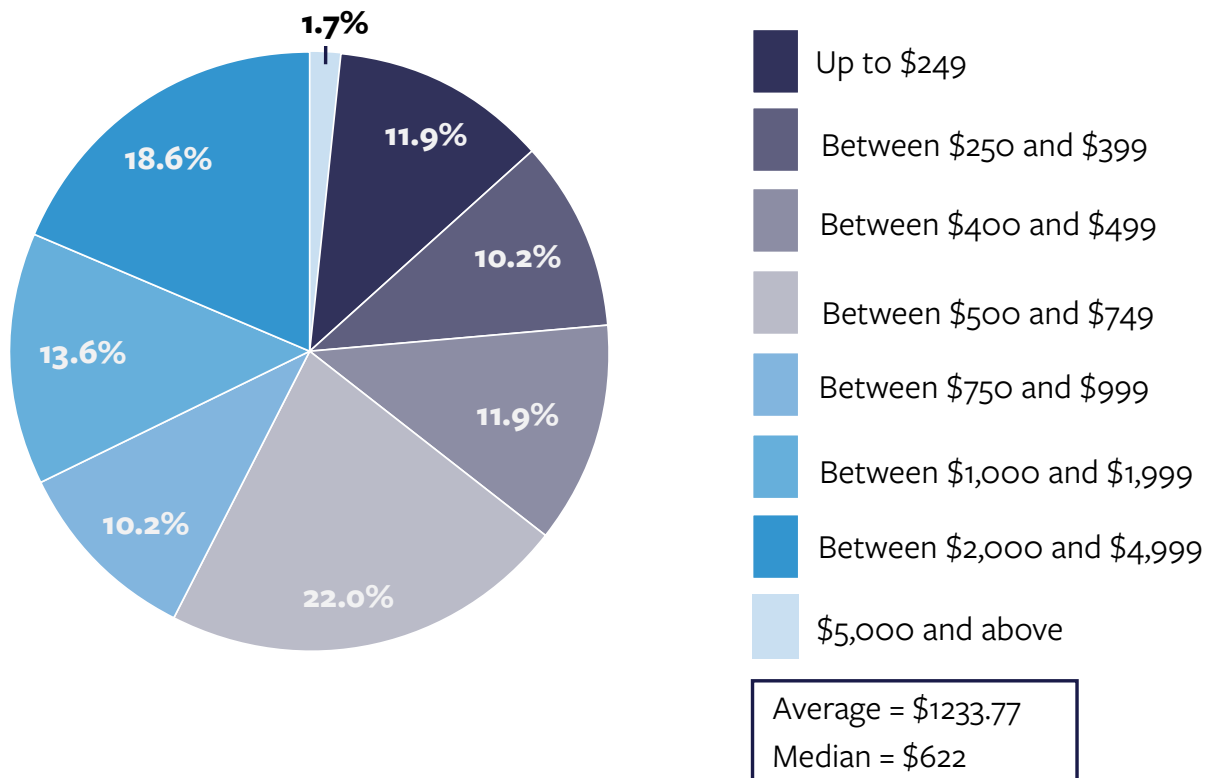


While the average number of apprehensions of dishonest employees increased, the actions taken decreased. The median also fell across the board — including in the number of apprehensions.

- ▲ Grocery stores and supermarkets had nearly triple the number of apprehensions than the group as a whole, but only twice the number of terminations. In terms of civil demands, grocery stores fell well below the group average. Out of an average of 2,536.16 apprehensions, terminations averaged 1,395.33; prosecutions averaged 217 while civil demands averaged 48.8.
- ▲ Specialty men’s and women’s apparel were on par with the overall group in apprehensions (884), but below in terminations (341). This category was higher than the group average in prosecutions (216.58) and civil demands (479.25). In 2014, this category had an average of 446 apprehensions, compared to 884 in 2015.

Apprehensions Increase, But Actions Decrease

AVERAGE DOLLAR LOSS PER DISHONEST EMPLOYEE CASE



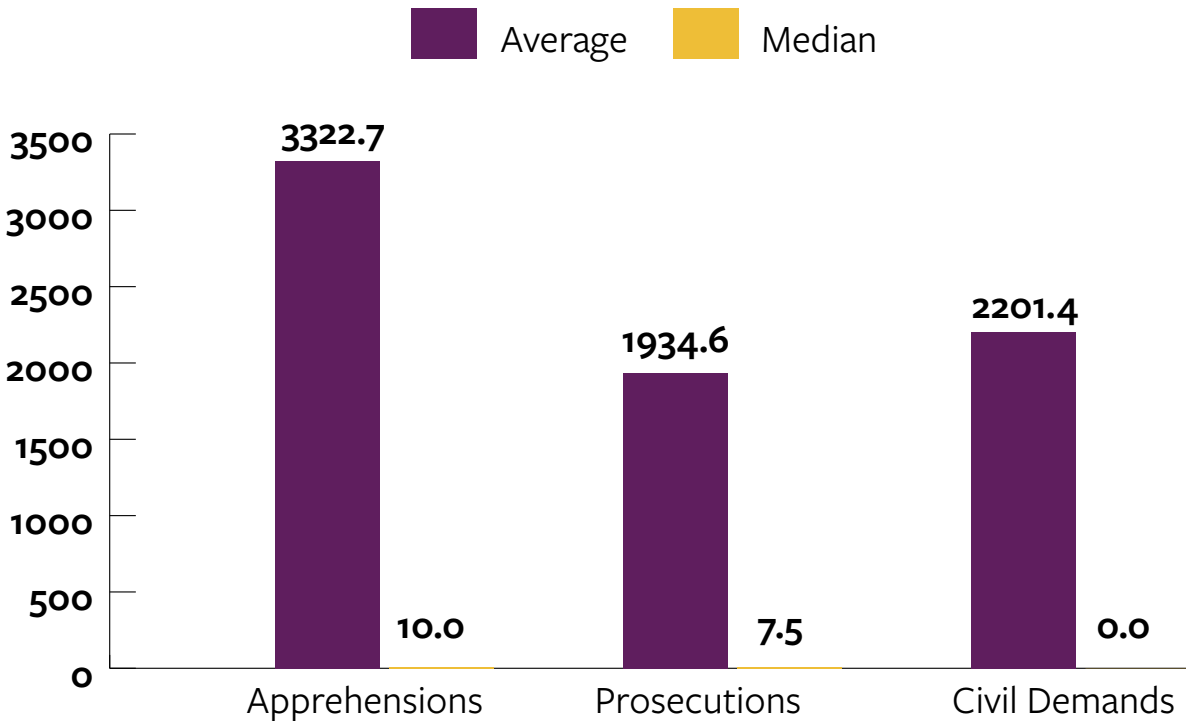
Dishonest employee cases cost retailers an average of \$1,233.77 — down from \$1,546.83 in 2014. The median also dropped, from \$730.92 in 2014 to \$622.

- ▲ More retailers reported average losses in the \$500-\$749 range than in the previous year — up nearly 6 percentage points. Losses in the \$2,000-\$4,999 range also increased by 7.3 percentage points.
- ▲ The number of overall retailers reporting losses of \$5,000 and above dropped, from 6.5% in 2014 to 1.7% in 2015.
- ▲ In specialty men’s and women’s apparel, the average cost per act of dishonest employee —\$978.58 — was lower than the overall average. The median — \$500 — also was lower than the overall median.

The Average Dollar Loss per Dishonest Employee was \$1233.77,
Down \$313.06 From 2014

VIII. External Retail Crime

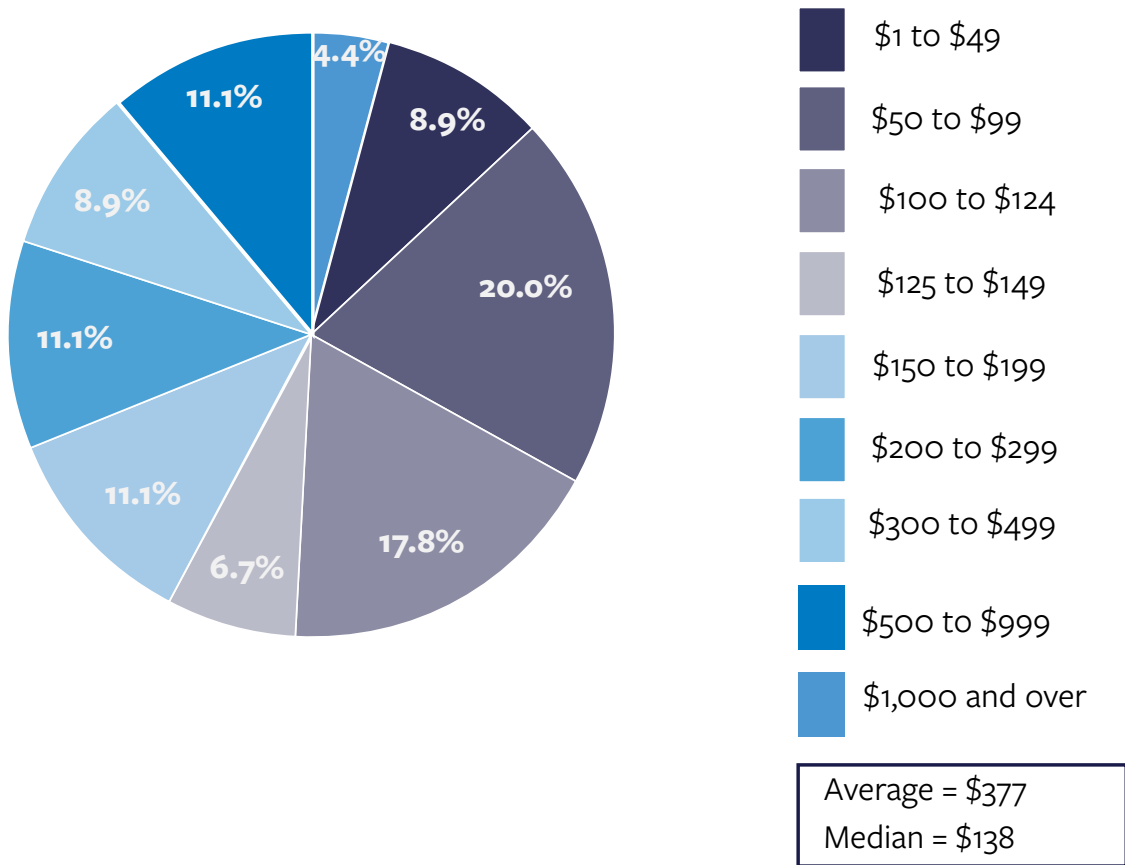
ACTIONS TAKEN IN SHOPLIFTING INCIDENTS



- ▲ The number of apprehensions — stops without referrals — decreased 3.8% in 2015. Prosecutions dropped significantly, by 29.4%. Only civil demands increased, up 81.0% percent.
- ▲ Grocery stores and supermarkets ranked higher than the overall survey, citing an average of 12,953.67 apprehensions. The number of prosecutions (4,288) and the number of civil demands (3,813.4) was higher than the overall average.
- ▲ Discount, mass merchandise or super center stores were most likely to make civil demands (1,480.67) than apprehensions without referrals (1,152.25). This category also had a comparatively high number of prosecutions (1,095.25). The median in each of these categories also was higher than the overall group.

The Average **Number of Apprehensions, Prosecutions Drop;**
Civil Demands Increase

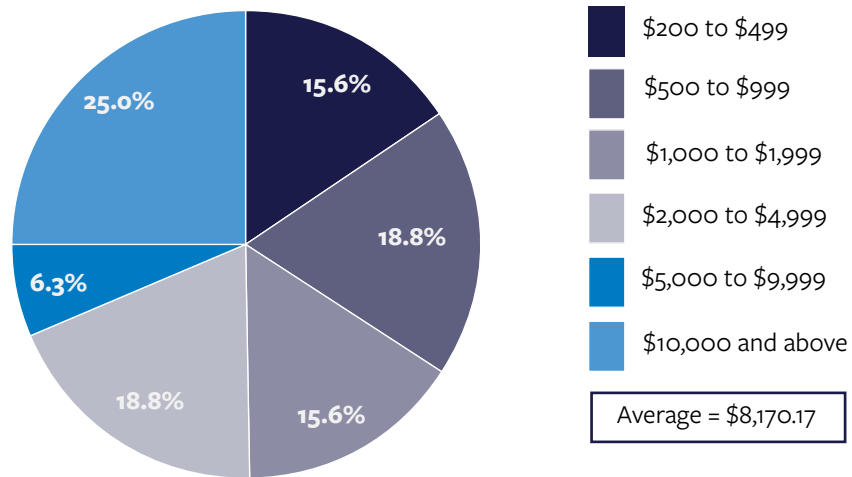
AVERAGE DOLLAR LOSS PER SHOPLIFTING INCIDENT



- ▲ While the overall average loss increased, the percentage of those reporting the highest losses decreased. In 2014, 20.4% said the average dollar loss exceeded \$500 or more compared to 15.6% in 2015.
- ▲ The number of those reporting the smallest losses also increased. In 2014, 40.8% said the average dollar loss per incident was less than \$150 compared to 53.3% in 2015.
- ▲ Respondents in the specialty men's and women's apparel category reported smaller losses than the overall average and when compared to 2015. In 2015, the average loss per incident was \$211.73 compared to \$397.23 in 2014.
- ▲ The grocery store and supermarket sector saw a slight increase in the average dollar loss, up to \$100.17 in 2015 compared to \$96.83 in 2014.

The Average **Shoplifting Loss Was \$377 per Incident**,
Up Nearly \$60 From 2014

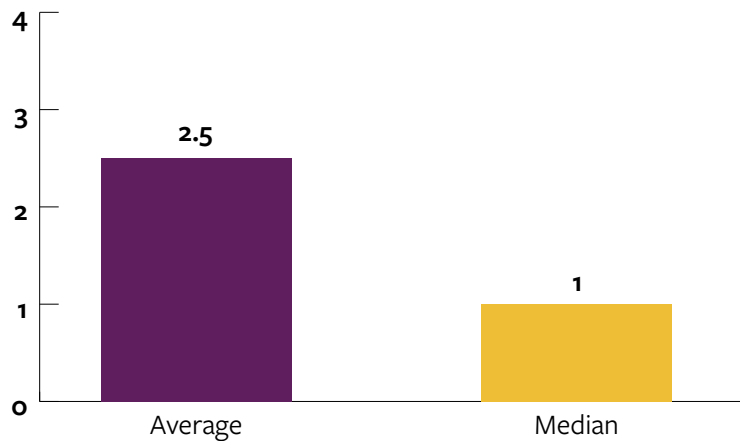
AVERAGE DOLLAR LOSS PER ROBBERY



Retailers surveyed reported an average of 2.46 robberies per billion in sales, compared to 3.2 in the 2014. The median increased from 0.92 in 2014 to 0.99 in 2015. The average dollar loss increased — from \$2,465 in 2014 to \$8,170.17 in 2015, driven by an increase in jewelry stores reporting extremely high average losses.

- ▲ 34.4% of robberies resulted in losses of less than \$1,000, essentially flat with 2014. However, none of the survey participants reported average losses of less than \$200, compared to 9.4% who did in 2014.
- ▲ 31.3% of respondents reported an average loss of \$5,000 or above — above the 28.1% that did in 2014.

NUMBER OF ROBBERIES PER \$1 BILLION IN SALES — FY 2015



Retail Robberies Result in an **Average Loss of \$8,170.17**;
Overall Number of Robberies Drops

About NRF

NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and Internet retailers from the United States and more than 45 countries. Retail is the nation's largest private sector employer, supporting one in four U.S. jobs — 42 million working Americans. Contributing \$2.6 trillion to annual GDP, retail is a daily barometer for the nation's economy. NRF's This is Retail campaign highlights the industry's opportunities for life-long careers, how retailers strengthen communities, and the critical role that retail plays in driving innovation. nrf.com



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