

FEATURE

# THE 11 HABITS OF LOW-SHRINK RETAILERS

HOW DO YOU COMPARE?

By Colin Peacock, ECR Europe

In his bestselling book, *The 7 Habits of Highly Effective People*, Stephen Covey presented a holistic, principle-based approach for solving personal and professional problems. This got the ECR team thinking, what if for highly effective people, we read low-shrink retailers? What then would be the habits of low-shrink retailers? Would there be seven?

With this as a brief, Professor Adrian Beck, the academic support for the ECR Europe Shrink and On-Shelf Availability team, undertook research to, first of all, identify the low-shrink retailers and then, secondly, to discover common practices and themes that

While there is no question as to the validity of the findings presented, the ECR group believed there was an opportunity to turn this research into a practical tool for loss prevention professionals to use in their own organisations, from the board room all the way down to a high-shrink store, to help inspire improvement efforts by illustrating the greatest gaps versus best practice.

On behalf of, and with strong contributions from the ECR Group, a simple tool was developed with three versions. For rapid assessments by top management, there are eleven questions that the respondent—for example, the

of good shrink data and the need for a company-wide response.

The purpose of this article is primarily to get you curious and eager to jump online to the website to get your team and organisation started on an assessment. However, to further intrigue you and encourage you to share this article, I will share each of the eleven habits and ask that you write down and total up your score based on how well-aligned or not you think your organisation is to each of the habits. Once done, share your score with your colleagues to see whether you reach the same conclusions or not.



Loss prevention in low-shrink organisations typically get a “seat at the table” on teams and cross-functional groups working on projects, such as new store designs, new supply-chain strategies, or innovations like self-scan checkouts, all of which could have huge implications for managing shrinkage.

help them deliver their results—put another way, their “habits of success.”

Based on a survey of leading academics and experts in the loss prevention business, five US-based retailers were consistently identified (at the time of the research) as the leaders in low shrink—Target, The Gap, Limited Brands, CVS, and Best Buy. When made aware of the study premise, all five agreed to participate in the research and welcomed Beck to their head offices and stores to meet with the loss prevention team and the broader organisation to learn more about how they delivered their shrink results.

After visiting all five, Beck completed a report introducing the “Loss Prevention Pyramid,” a framework that described the common strategic, operational, and executional “habits” he found in common in these five low-shrink retailers (see chart page 32). The report is downloadable from [ecr-shrink-group.com](http://ecr-shrink-group.com).

CEO—would be asked to score how he or she thinks their organisation is aligned to each of the habits. Where the respondent judges the organisation to be fully aligned, the score would be 3, and where there is no alignment the score would be 0. For deeper analysis, there is a version of the tool with 61 sub-questions for each of the eleven habits. A third version aims to strike a balance between the two and has 33 questions. This tool can be accessed by any retailer, free of charge, from the ECR Group’s website.

Already Walmart, Ahold, and Marks & Spencer have shared some very positive comments on the value and contribution of the tool. For example, in a recent interview, Steve Hewitt, head of loss prevention for Marks & Spencer, described how the tool has enabled him to engage more parts of the organisation, formulating a strategy that makes them more aware of the importance

## Habit #1 Senior Management Commitment

*There is senior management commitment to prioritise shrinkage, oversee an action plan, allocate resources, and monitor results.*

In organisations that score nearer 3, the CEO is crystal clear on the significance and impact that good shrinkage management can deliver. They see shrink improvement as a clear part of the company priorities and are able to articulate the benefits of shrink reduction in terms of impact on sales growth, net profit improvement, and earnings per share. In these organisations, the CEO makes shrinkage a regular item at every business review meeting, they communicate shrink to the board, all associates, and key external parties at important occasions and times during the year. In some organisations, the CEO also personally chairs a multi-functional shrink task force.

### How does your organisation score?

- 3** My company is fully aligned on this habit.
- 2** My company is aligned, but more needs to be done.
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## Habit #2 Organisational Ownership

*All parts of the business recognise the value of prioritising shrinkage.*

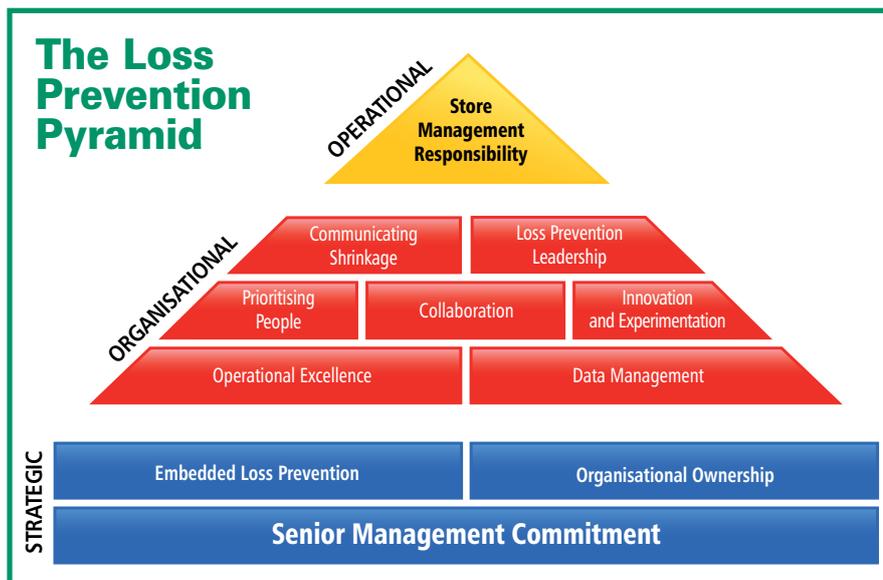
This is perhaps one of the most challenging of all the habits to align the organisation against since targets and key performance indicators per function can sometimes be in violent conflict with the goal of reducing shrink. For example, the marketing function may create an over-trusting refund policy or a new store

design that promotes an open feel for the customer that at the same time may send a message to thieves that the retailer has become a “soft touch.” While both of these marketing decisions look right against the metric of shopper satisfaction and loyalty, for the store manager it will likely increase theft and returns fraud.

However, in those organisations that score closer to a 3, all functions are in fact very aware of the impact their decisions and choices have on the shrink number. Moreover, there is a broad recognition from all functions that they

information technology, replenishment, store operations, store associates, and, of course, loss prevention. A key enabler to fuller collaboration is trusted, credible, and inarguable data on shrink and sales at item and store level.

For example, providing visibility on item-level shrink detail to the buying group informs them of the true profit after shrink, which in turn encourages collaboration with others, such as the vendor and operations, to lose less and sell more. The organisations scoring closest to 3 all had item-level data on shrink, many on a monthly basis.



can be part of the solution. For example, buyers and merchants understand that by reducing range, promotions, and pricing complexity; pushing less inventory into the stores; and developing more collaborative relationships with hot-product suppliers, they can prevent and reduce losses.

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**Habit #3 Embedded Loss Prevention**

*All parts of the business are taking action to address the problem of shrinkage.*

Beyond just awareness, in those organisations closer to 3, there are clear accountabilities and action plans related to shrinkage in all parts of the organisation, including human resources, buying, store design, marketing, supply chain,

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**Habit #4 Operational Excellence**

*All parts of the company recognise the link between poor process adherence and shrinkage.*

In low-shrink retailers shrinkage is seen as a problem that is within the control of the organisation and one that will respond to good management and adherence to good procedures, especially related to the high-shrink products, people, stores, or processes where there is a known heightened risk level. This belief is explained by the widely held view that shrink is the consequence of poor compliance, audited regularly by the company, or a choice made at a functional

level that has led to the emergence of an increased opportunity for non-malicious or malicious loss to occur in the stores.

In the best organisations these choices and decisions are made with the consequences on shrink highly visible and transparent in any business case. For example, if the organisation is planning to introduce self-scanning devices, then an adjustment will be planned for the shrink budget to be increased based on available test results.

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**Habit #5 Data Management**

*The company has available actionable, reliable, and timely data on shrinkage.*

Low-shrink retailers have been found to have available trusted, reliable, and inarguable monthly item-level data on shrink by store. This allows them to create, monitor regularly, and share, for example, a top-100 item loss list with the rest of the business. This ability to generate focus drives clarity across the business, but, most importantly, it fosters collaboration and starts to reveal the myriad of causes of shrink beyond those typically associated with loss, such as external theft. Beyond the item-level loss data, low-shrink retailers invest significantly in the acquisition and analysis of all types of data, especially point-of-sale transaction data. Further, the loss prevention teams of low-shrink retailers are very aware of the importance of robust field experiments to inform investment choices.

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**Habit #6 Innovation and Experimentation**

*The company is willing to innovate and experiment to deal with the problem of shrinkage.*

Organisations scoring closer to 3 have a strong bias to learning from other,

non-competing retailers as well as the providers of loss prevention solutions. They believe in the value of benchmarking and practice it to constantly seek innovation in their approach. Low-shrink retailers typically have a pipeline of new solutions that are about to be tested in stores.

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**Habit #7  
Collaboration**

*There is regular collaboration between LP, other functions, and third-party organisations, such as Police, manufacturers, and solutions providers.*

The loss prevention team in organisations scoring closer to 3 recognise that while there is much they can do to improve shrink that is within their own circle of control, the greatest opportunity often lies in persuading others outside of their immediate team to prioritise and execute solutions that can improve shrink.

For example, loss prevention in low-shrink organisations typically get a “seat at the table” on teams and cross-functional groups working on projects, such as new store designs, new supply-chain strategies, or innovations like self-scan checkouts, all of which could have huge implications for managing shrinkage. Additionally, in these organisations, extensive collaboration and data sharing with the suppliers of hot products, solution providers, and law enforcement is the norm and not the exception.

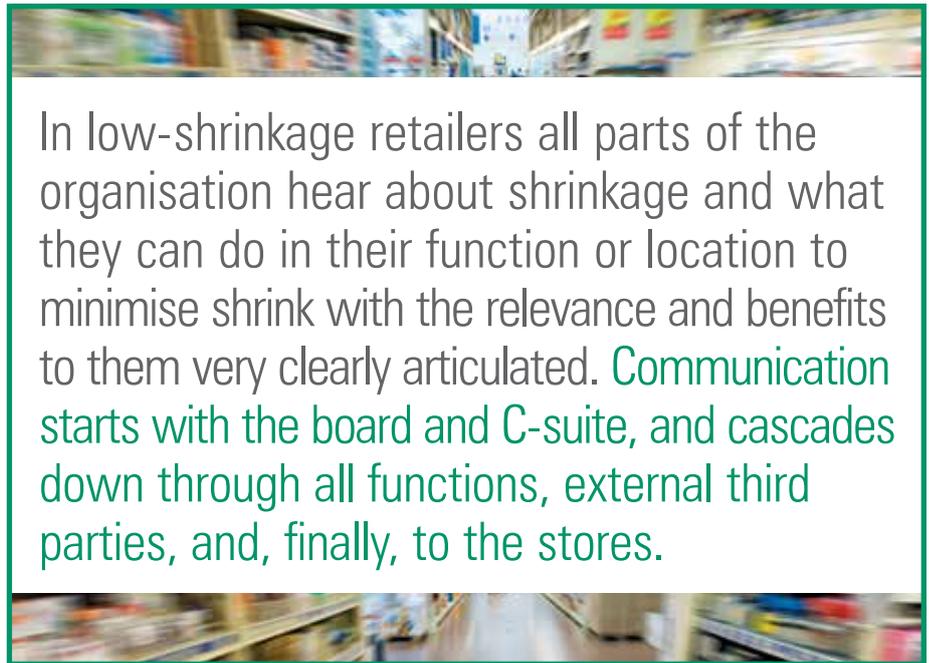
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**Habit #8  
Prioritising People**

*The company has developed a strong, multi-functional team to deal with shrinkage.*

Beyond just being made up of specialists in security and investigations, the loss



In low-shrinkage retailers all parts of the organisation hear about shrinkage and what they can do in their function or location to minimise shrink with the relevance and benefits to them very clearly articulated. Communication starts with the board and C-suite, and cascades down through all functions, external third parties, and, finally, to the stores.

prevention teams of low-shrink retailers have experts in the team with skills in data management, data analysis, work process improvement, and technology. Individuals in the team are strong at working with others and skilful in their ability to build and sustain collaborative relationships. Positioned internally as partners to the business, the loss prevention team are seen as “agents of change.”

In these organisations, consistent with habits #2 and #3, accountability for reducing losses lies with the business leaders, not the loss prevention team. Through this partnership approach, the experts in loss management work day-to-day with business leaders in buying, supply chain, HR, and stores to create and deliver function-specific loss prevention strategies. In low-shrink retailers an assignment or career in loss prevention is seen as aspirational, challenging, and highly attractive to managers looking to advance their careers.

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**Habit #9  
Communicating Shrinkage**

*The issue of shrinkage is clearly and regularly communicated across the organisation.*

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Imaginative and creative campaign themes, often developed with assistance from the more creative associates found in marketing, are communicated and constantly refreshed via newsletters, message boards, events, videos, and computer-based training. The key elements of the communications include the shrinkage data itself, the actions that each function or location can take to reduce shrink, and the relevant benefits. For stores, the benefits translated into the impact shrink reduction can have on the annual bonus or the number of extra hours the store has for replenishment can be very motivating. In these organisations shrink thinking is included in all recruitment interviews and new-hire training. Dedicated and tailored “shrink schools” are embedded in the company training and store manager support programmes.

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—John Fonteijn, Director Group Asset Protection, Royal Ahold

**Habit #10**  
Loss Prevention Leadership

*There is clear and strong leadership in place to effectively manage shrinkage.*

For those retailers scoring closer to 3, the head of loss prevention is a highly visible role within the organisation. Hierarchically, the leader is positioned close to the CEO, within at least three levels, with the skills to promote the benefits of reducing shrinkage in a very relevant way to each stakeholder, from the board to the CEO to buyers to the IT group through to the stores. More than ever, the loss prevention leader needs to convey passion, high energy, and possess the ability to sell others the need to prioritise a relatively unsexy problem using the language of retail rather than security.

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**Habit #11**  
Store Management Responsibility

*Store managers and associates are given the necessary data, tools, and training to enable them to deal with shrinkage effectively.*

In low-shrink retailers stores are very aware of their shrink numbers, which are usually communicated as regularly as the sales performance and the other cost-centre data, such as wages and staffing levels. The loss prevention team develops dashboards and alerts to help the store focus on the vital few priorities, and realistic targets are given to stores on the basis of robust analysis of their previous performance and risk level. All store managers and associates are highly engaged in the reduction of shrink and receive from the company and the loss prevention team the right support, training, and resources to effectively deal with it in their particular operating environment.

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**What Was Your Total?**

No matter whether you have scored 33 (congratulations) or your total adds up to any other number, now is the time to visit the website and enrol your team to see if they and their peers agree with your assessment, the final number, and the particular habits where you are strongest or have the greatest opportunity.

What we have heard back from retailers who have started to use this tool is that the biggest benefit of using the benchmarking tool is that it is a great way to start the conversation on loss prevention strategy and how the team can learn from others as to how they are perceived and where their immediate priorities for improvement lies.

Commenting on the tool, John Fonteijn, director group asset protection for Royal Ahold said, “We have used this tool in our European and US operations to identify where our biggest gaps relative to low-shrink retailers lie. In particular, this tool has helped highlight the priority for our organisation in increasing communication on shrinkage across the entire business.”

This benchmarking tool can be found at [ecr-shrink-group.com/users/signin](http://ecr-shrink-group.com/users/signin). You will need to create a user name and password. Then you can set up assessments for your team and the wider organisation. Please do share back with the ECR team your views on the tool and any successes or breakthroughs it has helped make happen in your company. ■



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