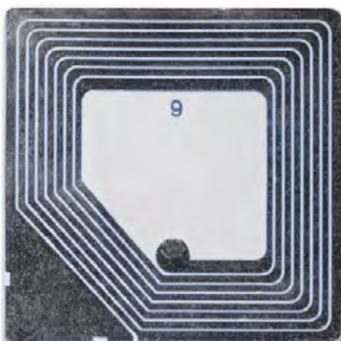




RETAIL IN THE MIDDLE EAST: IMPROVING LOSS PREVENTION TO INCREASE PROFITS

“Current technologies can bring significant support to a loss prevention programme... yet the cost of such solutions can be prohibitive.”



It is an exciting time for the retail sector in the Middle East, with ongoing expansion prompted by strong economic growth and an increasing, young population.

Recently PricewaterhouseCoopers¹ reported that, although online shopping is increasingly popular, more than half of shoppers, both globally and in the Middle East, prefer to shop in-store. With Qatar due to host the 2022 FIFA World Cup, and Dubai having won the rights for Expo 2020, construction and infrastructure development will likely lead to flow-on growth in the retail sector. Tourism growth in the region, particularly in the UAE, has also contributed to the expansion of retail.

In June 2014, consultancy firm A.T. Kearney² pointed out that the Middle East “continued to show strength as a dynamic retail market with five countries – UAE, Kuwait, Saudi Arabia, Oman and Jordan – ranked among the top 25 in the 2014 A.T. Kearney Global Retail Development Index™ (GRDI).” To illustrate the growth, in 2014 some 55 new brands entered the Abu Dhabi market and 45 entered in Dubai.

As new brands enter the market, as new malls – some of the largest in the world – are built, and as some consumers opt for online rather than in-store shopping experiences, competition is high. Retailers cannot afford for shrinkage – inventory loss caused by crime or administrative error – to continue at its current rate.

Whilst absolute figures on shrinkage in the Middle East are hard to find, the global picture is clear. The 2011 Global Retail Theft Barometer³ reported that worldwide:

- Shrinkage rose to \$119 billion in 2011, up 6.6% since 2010.
- Shrinkage averaged 1.45% in 43 countries compared to 1.36% in 2010.
- For 35.9% of retailers actual and attempted shoplifting rose last year and 24% suffered higher employee theft.
- The costs of retail crime, coupled with the costs of loss prevention, were estimated to be \$128 billion in 2011, equivalent to \$66.27 per individual.

In the Middle East and Africa in 2011, the shrinkage rate, as a percentage of sales, was estimated at 1.71%, making it one of the highest shrinkage rates globally, although local experts suggest it may be lower. It is estimated that in 2015 the figure is in the billions of dollars. Organisations in the region need to find ways to address the issue, but as one Middle East loss prevention specialist pointed out, “Current technologies can bring significant support to a loss prevention programme... yet the cost of such solutions can be prohibitive.”

¹ PwC, “Middle East ‘Total Retail’ snapshot urges retailers to adapt to changing consumer habits”, 9/6/2015

² AT Kearney, *The 2014 Global Retail Development Index™: Full steam ahead for global retailers*, 15/6/2014

³ Centre for Retail Research, *The Global Retail Theft Barometer 2011*

Sources of Shrinkage and Mechanisms to Reduce It

Middle East loss prevention specialists suggest that organisations examine the issue holistically, in cooperation with operations and support functions, taking a strategic view rather than merely “running after shoplifters in stores, painstakingly reviewing CCTV recordings and counting the number of times that alarms go off.”

The main sources of retail shrinkage, which need to be addressed by players in the sector if they wish to survive, are both internal and external.

Internal sources cover those which occur as result of people within the organisation committing crimes, such as theft by customers (shoplifting), theft by employees, and accounting and procedural errors (incorrect pricing and invoice problems). External causes cover theft and fraud committed by people outside of the organisation, such as suppliers, and unexpected incidents such as fire or flooding.

Internal Sources of Shrinkage

Theft by Employees

Employees⁴ are reported to have stolen both cash and goods from their employers. As well as outright theft, employees can sell goods to friends at discounted prices. Much theft activity by employees occurs

at the point of sales. Fraudulent transactions include zero-amount transactions, ringing up a lesser amount than the actual sale, and voiding transactions. In retail within the hospitality sector⁵, one company suggested that if an employee admits to stealing money or goods to a certain value, in actuality they probably stole 11.5 times that amount.

There are several types of ‘return fraud’ which retailers need to be aware of, including: issuing a ‘return’ for a friend when the item wasn’t returned; returning stolen merchandise that has never been purchased; and, issuing a ‘no receipt return’ for a legitimate customer and later using the receipt to issue a second return.

Another type of fraud occurs with one of the retail sector’s largest expenses - that is, salaries, with unscrupulous employees manipulating time-keeping systems.

Preventing Employee Theft

Exception-based reporting has proven effective in the retail sector, but it is unclear how much it is being used in the Middle East region. This type of reporting compares the incoming data stream to an established base set of data. The system then flags items that don’t match up, and anomalies can be

⁴ *Vigilance Security Magazine*, “Changing retail, changing loss prevention”, 19/8/2013

⁵ *Hoteller Middle East*, “How to tackle employee theft”, April 2012

⁶ *Sysrepublic*, “Leading Retailers Across Europe, Scandinavia and the Middle East Choose Sysrepublic to Improve Profits and Reduce Loss”, 15/4/2015

We have worked to formally define shrinkage at a corporate level to make sure operations, finance and loss prevention are all talking about the same phenomenon so we can measure, and therefore address, it better.

Middle East Loss Prevention Specialist

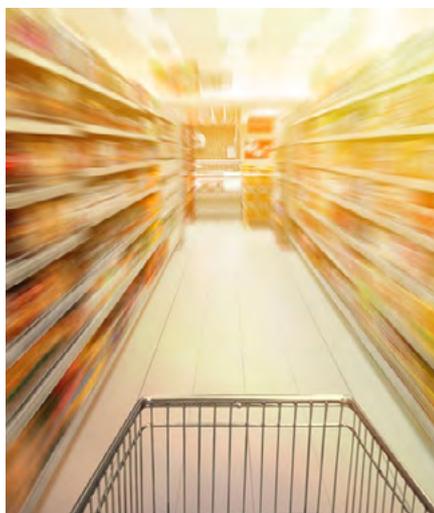


investigated. The latest technology is able to track each employee's transactions, highlighting voids and returns, allowing them to be monitored and investigated if required. At least one major organisation, Majid Al Futtaim Retail in the UAE⁶, has introduced data analytics software to identify ways to improve profit and reduce shrink.

Types of transactions, which are typically regarded as high risk, provide opportunities for dishonest employees to pocket money. These include voids, discounts and coupons, small transactions, no sale transactions and cash refunds. Exception-based reporting systems allow for these to be analysed.

Establishing and communicating loss prevention policies and technologies also has a role to play. Programmes, like BinHendi Enterprises' Loss Prevention Awareness Training, have the potential to address problems by ensuring employees are fully aware of the relevant policies, and understand that the company takes the issue seriously. Effectively communicating policies keeps them in employees' minds and helps keep honest employees honest. Many regional retailers also carry out regular loss prevention audits.

Cash handling policies are another mechanism to reduce theft. These can highlight criminal activity and where training may be insufficient. A policy could include: double counting of cash, keeping records of errors (for example, voided transactions, over and under rings, refunds), limiting the amount of money in cash drawer, and ensuring a single person is accountable for each cash drawer.



An efficient way to prevent employees claiming more salary than they are entitled to, another form of abuse, is to use the **POS system for employees** to record their actual time worked. Exception reporting has a place here too. Consider employees who work long hours that don't match the hours they are scheduled to work. Employees may show up, clock on and then leave, returning later to clock off. Others may ask friends to clock in or out on their behalf.

Shoplifting

Internationally shoplifting is the largest cause of retail shrinkage. In Oman⁷, a press report quoted one stock accountant saying that in four different outlets during 2011, some 250,000 rials (Dh2.4m) worth of products 'went missing from the shelves'. A 2015 Saudi press report⁸ claimed shoplifting is rife, with many of the offenders being women. This report suggested that women targeted stores where the security staff were male, implying that the women knew that male security staff would be unable to approach them. Given the global prevalence of shoplifting, it seems likely that it is a major problem throughout the region.

Preventing Shoplifting

Press reports suggest that much of the shoplifting that is known to take place is not being reported to the police. In Saudi Arabia, some stores use CCTV to monitor their premises, and then demand written confessions and copy the shoplifters' ID cards in a bid to

⁷ *The National*, "Stores losing millions from shoplifting in Oman", 30/6/2011.

⁸ *Arab News*, "Female shoplifters caught on camera", 24/3/2015

deter them from shoplifting in future. Others demand double payment for the item shoplifted. Anecdotal evidence suggests that these mechanisms are not always effective with women denying charges and threatening to call the Commission for the Promotion of Virtue and the Prevention of Vice (Haia) if they are approached by males.

RFID technology is being used increasingly throughout the region. In 2007, it was suggested⁹ that the RFID market in the Middle East would quadruple in size by 2012. This technology is primarily used for stock control and inventory management, but it can be linked to software which alerts staff whenever there is unauthorised movement of inventory. Some alerts can be seen on computers and smartphones, such as pop up screens, SMS and email notification, but the systems also offer more obvious warnings such as buzzers and flashing lights.

High end fashion retailer, Missoni, is one company which is using RFID to track its clothes, following the entire production process with RFID tags attached to every garment. Thus they can be tracked through to the store and the customer.

Accounting, Management and Administrative Errors

Reportedly about 26% of retail loss worldwide is a result of management and administrative errors. This category includes, for example,

marking the incorrect pricing on stock, ordering too much product which then has to be sold at a substantial discount and product spoilage caused by over-ordering of perishable products.

Another contributor in this category can result from problems with suppliers. Some may overcharge, or under-deliver. Suppliers and contracts account for about 8% of retail loss. One example is contractors who charge for services they haven't provided (for example, claiming that they cleaned carpets twice per week, but only doing it once).

Preventing Administrative Errors

Price change audits are one mechanism to reduce shrinking¹⁰. Most places honour the lower price if the price tag shows a lower price than the POS system. Price-change audits verify prices, and can uncover where price tags may have been switched by thieves. Audits can also identify problems, for example, price tags which are easy to switch without them being damaged or identifying areas of the store it is difficult to monitor visually.

Hand-held scanners are being used increasingly to register and track inventory movements, reducing the potential for inventory error. Coupling

⁹ *RFID Journal*, "Middle East RFID Market Heats Up", 12/2/2009

¹⁰ *Integrated Solutions for Retailers*, "Preventing Operational Loss", 14/2/2015,



these with effective contracting and contract monitoring processes, and with checking invoices before they are paid, can reduce shrinkage considerably.

External Sources of Shrinkage

Warehouse Theft

Warehouse theft is another common cause of retail shrinkage. Recently¹¹ 5000 laptops worth Dh10 million were stolen from a warehouse in Dubai. Police reported that the warehouse did not have cameras and was locked with an easily breakable lock. Simple security measures can stop such thefts. Electronic systems¹² can monitor who is in buildings, and alarm systems can help prevent unauthorised access, by employees and associates or by thieves. Remote monitoring, active risk assessment and appropriate security fencing, are other measures that organisations can take to reduce warehouse theft.



Fire and Other Mishaps

Fires and floods can lead to huge retail losses. These are rare occurrences, but they have the potential to destroy a business. Effective preventive maintenance of plumbing can help reduce the risk of flooding from equipment breakdown. High ticket items can be stored on raised shelves so they are protected from water if flooding occurs. The risk of fire can be reduced by implementing fire control measures and regular drills.

Conclusion

The potential of retail loss reduction

is too crucial for organisations to ignore. Understanding the scope of the problem and its root causes means that organisations can introduce robust strategies to minimise it, and to increase profits.

Many factors contribute to retail shrinkage including carelessness and poor processes, dishonesty and corruption. Judging from the number of job advertisements for loss prevention professionals, the countries in the Middle East are taking the issue seriously and companies are actively working to reduce losses. Sophisticated technology has a role to play, and is increasingly being used by organisations. There are also, however, low-cost strategies (such as employee education about policies and double counting cash) which can help reduce shrinkage. By considering the full range of risks, and evaluating the likelihood of the risk events occurring, retailers can consider which system will have the biggest impact in their bottom line.

¹¹ *Gulf News*, "15 arrested over warehouse theft", 27/5/2015,

¹² *Arabian Business*, "Protecting your wares", 21/4/2008

Sources:

Al-Fawaz, Nadi (2015), "Female shoplifters caught on camera", Arab News, 24 March 2015, <http://www.arabnews.com/news/722446> (accessed 30 August 2015)

Al Shaibany, Saleh (2011), "Stores losing millions from shoplifting in Oman", The National, June 30, 2011, <http://www.thenational.ae/news/world/middle-east/stores-losing-millions-from-shoplifting-in-oman> (accessed 30 August 2015)

AT Kearney (2014), The 2014 Global Retail Development Index™: Full steam ahead for global retailers, <https://www.atkearney.com.au/documents/10192/4600212/Full+Steam+Ahead+for+Global+Retailers+-+2014+Global+Retail+Development+In...pdf/6f55a59b-e855-4236-96cb-464c2ca01e91> (accessed 30 August 2015)

Bacheldor, B (2009), "Middle East RFID Market Heats Up", RFID Journal, <https://www.rfidjournal.com/articles/view?4618/> (accessed 2 September 2015)

Bamfield, J (2013), "Changing retail, changing loss prevention", Vigilance Security Magazine, 19 August 2013, http://vigilance-securitymagazine.com/images/changing_retail.pdf (accessed 1 September 2015)

Barakat, N (2015), "15 arrested over warehouse theft", Gulf News, 27 May 2015, <http://gulfnews.com/news/uae/crime/15-arrested-over-warehouse-theft-1.1522878> (accessed 6 September 2015)

DeWolf, R (2015), "Leading Retailers Across Europe, Scandinavia and the Middle East Choose Sysrepublic to Improve Profits and Reduce Loss", Sysrepublic Press Release, April 2015, <http://www.sysrepublic.com/leading-retailers-across-europe-scandinavia-and-the-middle-east-choose-sysrepublic-to-improve-profits-and-reduce-loss/> (accessed 4 September 2015)

Felsted, Andrea (2015), "Shoplifters cost UK retailers £335m in year, says BRC", Financial Times, January 20, 2015, <http://www.ft.com/cms/s/0/7d3d1670-9ff7-11e4-aa89-00144feab7de.html#axzz3kO5PFF00> (accessed 30 August 2015)

The Global Retail Theft Barometer 2011, Centre for Retail Research, http://www.retailresearch.org/grtb_currentsurvey.php (accessed 6 September 2015)

Harris, E (2015), "Preventing Operational Loss", Integrated Solutions for Retailers, March 2015, <http://www.innovativeretailtechnologies.com/doc/preventing-operational-loss-0001> (accessed 6 September 2015)

Menon, P (2014), "UAE's retail industry set for exponential growth", Gulf Daily Mail, 20 September 2014, <http://www.gulfdaily.com/2014/09/20/uaes-retail-industry-set-for-exponential-growth/> (accessed 30 August 2015)

Menzel, O (2012), "How to tackle employee theft", Hotelier Middle East, April 2012, http://www.micros.com/NR/rdonlyres/8CFD6A67-5B86-4381-971B-557615F2DCA3/0/XBR_Menzel.pdf (accessed 4 September 2015)

PwC (2015), Total Retail 2015: Retailers and the Age of Disruption, http://www.pwc.com/et_EE/EE/publications/assets/pub/total-retail-2015.pdf (accessed 30 August 2015)

PwC (2015), "Middle East 'Total Retail' snapshot urges retailers to adapt to changing consumer habits", PwC Press Release, June 2015, <http://www.pwc.com/m1/en/media-centre/2015/total-retail-snapshot-urges-retailers-to-adapt-to-changing-consumer-habits.jhtml> (accessed 30 August 2015)

Staff Writer (2008), "Protecting your wares", Arabian Business, 21 April 2008, <http://www.arabianbusiness.com/protecting-your-wares-187387.html> (accessed 2 September 2015)



\$ \$
 **RETAIL LOSS PREVENTION
& PROFIT PROTECTION**
MIDDLE EAST

If proactively dealing with retail loss to boost your overall profit is important you, then join us at the **Retail Loss Prevention & Profit Protection 2015** taking place from 6-9 December 2015 in Dubai, UAE. Hear from international and regional experts from **Adidas, Nike, River Island, Al Futtaim, Virgin Megastores, Al Tayer** and many more on how they have driven their company's profitability through their loss prevention function.

For more information visit: www.retaillosspreventionme.com



Copyright © 2015 IQPC Middle East. All rights reserved.

This document may not be copied, published, or distributed, in whole or in part, or modified in any way, including by removing the copyright notice or references to IQPC Middle East, without the written permission of the copyright owners. This document and the information contained herein is provided on an "AS IS" basis and IQPC Middle East disclaims all warranties, expressed or implied, including but not limited to any warranty that the use of the information herein will not infringe any ownership rights or any implied warranties of merchantability or fitness for a particular purpose.

Publisher contact details: Shrutika Shetty | IQPC Middle East | enquiry@iqpc.ae