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Leveraging New Technology in Loss Prevention

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Modern retailers are faced with unprecedented pressures for sales and profit growth, Customer satisfaction, Employee retention, Supply line management, and more. Nearly without exception, the metrics that drive retail management behavior are at odds with one-another. That is, success on one is often achieved at the expense of another.

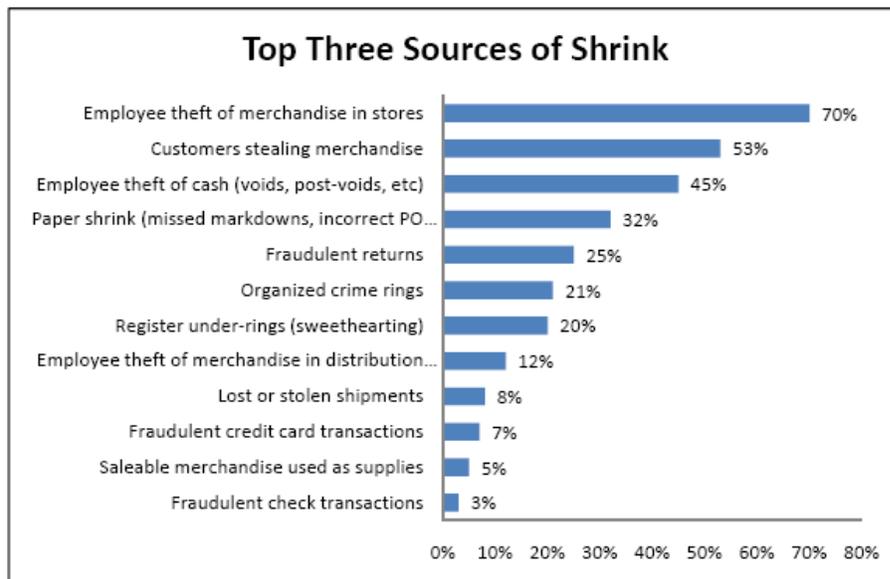
This is most obvious in many of the measures impacted by the vigorous and appropriate push to control Retail Shrink. Overzealous attempts to secure merchandise make it more difficult for associates to access the same, ultimately resulting in a negative impact on customer satisfaction and sales. Not enough control ultimately leads to increased shrink that is typically driven by internal theft – a result of every associate having improper access to valuable merchandise. All of this is fueled by the dizzying pace of associate turnover.

Retail Shrink is a Global Problem with No Easy Answer

Why worry about retail shrink? In 2007 over \$98.6 Billion of merchandise was stolen from retail shelves worldwide (Seshan, 2008). That is larger than the GDP of 72 percent of the world's countries. Every dollar of product stolen from a shelf has a direct impact on the price to paying customers. Some studies indicate the each family in the U.S. will spend nearly \$500 additional next year for retail purchases to cover the expense of stolen goods. Because of retail shrink, combined with the dramatically increasing pressure from global competitors, retailers either must control merchandise theft or risk significant financial implications with reduced profits. It is a problem to be taken seriously.

Top Sources of Shrink

According to Retail Systems Research's (RSR) *Winning Trends in Loss Prevention Benchmark Study: 2008*, the top three sources of shrink are internal and external theft of merchandise and employee theft of cash. With employee theft and customer theft topping the chart regarding types of inventory shrink, retailers are challenged with finding effective methods to protect goods from both internal and external threats.



Source: RSR Research

As you can see, organized crime rings (OCRs), are also a source of retail theft. In fact, 41 percent of large retailers (those generating over \$1 billion in revenue) say they attribute a large portion of retail shrink to OCRs. According to the National Retail Federation 2007 Organized Retail Crime Survey Results, 79 percent of the ninety nine Senior Loss Prevention executives from various retail segments admit their

company has been a victim of organized retail theft. In fact, 55 percent of the group's external theft resulted from organized crime. OCRs are coming up with more creative ways to steal from companies, therefore the need for security on things like cargo inventory and stock rooms containing large dollar amounts of merchandise must be strong and smart (Rosenblum and Rowen, 2008).

Growth in Consumer Electronics Implications

Fear of higher technology products is becoming a thing of the past. According to the Consumer Electronics Association, the US Consumer Electronics industry is growing at a rapid pace—from \$107.4 billion in 2003 to a predicted \$170.1 billion in 2008 (CE Industry Forecast, 2008).

Additionally, the number of products available to make a consumer's fast paced life easier (examples: PDAs, cell phones that can do almost anything) are increasing. For retailers, this means more revenue potential, but heightened security needs. Because of the size, portability and value of these types of items, many retailers secure them in display cases.

Retailers are challenged with securing merchandise on the floor while providing customers immediate access to these goods. People need to interact with a product to make smart buying decisions, especially on high price items such as consumer electronics. If a consumer must wait an unsatisfactory amount of time for a clerk to unlock a display case, he or she may leave without buying the product

Although locking high cost items in display cases is critical to loss prevention, it can also be a deterrent to sales if access impedes the sales process. Because of our fast paced society, managing the process for giving customers fast, easy access to items such as video games is a crucial competitive advantage.

Retailers must do everything possible to entice consumers to buy their products in their store. By creating a convenient buying environment for their ever-growing demands, retailers are sure to stay ahead of competition.

Typical Security Products Do Not Meet the Needs of Retailers

Most products designed to secure high-value merchandise are a slightly enhanced version of the same lock and key designed over 140 years ago by Linus Yale. They do a fairly good job of securing the merchandise as long as keys are controlled. Controlling who has keys and whether or not those have been copied can be a huge problem. An employee carrying mechanical keys that have no patent to offer protection from copying can duplicate copies of keys to sensitive areas such as stock rooms containing high value merchandise and give them to unauthorized persons.

The problem is further enhanced when system change is needed. With typical mechanical locks and keys, to change an associate's access rights means either the lock must be re-keyed or replaced – often times both. Combined with the fact that associates with mechanical keys have access to the secured area 24/7, security is not ideal. Further, due to the cost of re-keying the system, retailers often wait until several infractions or suspicions mount in order to control the cost, further contributing to the lack of security.

One way to attempt to control this expense is to only issue keys to retail managers. This solution, while offering some control over the system and related costs, causes the customer to suffer by having to wait for access to products while the junior associate locates the key-carrying manager. This wait often results in a negative impact on sales as the frustrated customer loses patience and leaves in search of a more customer-centric shopping experience.

Retailers also employ the use of Closed Circuit video monitoring equipment to attempt to keep a closer watch on vulnerable merchandise in the hopes of leaving it unlocked for faster customer access, but, while a worthwhile idea on paper, most retail stores do not have the resources to watch the camera at all times, nor any method of identifying infraction times to selectively review the video. Many cameras are installed with the best intentions, and then go virtually unused for the purpose originally intended.

New Products Offer Better Solutions

The pressure created by today's economic and competitive landscape is forcing retail leaders to find new, efficient ways to solve many of the problems that could historically be overlooked. Technology has changed enough over recent years to offer retail management a better solution. A way to appropriately secure valuable merchandise while empowering retail associates with fast, but auditable access to the same merchandise to increase customer satisfaction and sales. The result is secured merchandise, increased sales and decreased shrink; A previously elusive trio of targets.

This new generation of products may actually tie increased security with increased sales instead of the historic inverse relationship. The products combine the security of mechanical key systems with the flexibility (scheduling) and accountability (auditing) of a robust access control system, but do it all in a portable lock cylinder that can be used in a padlock, camlock, glass display case lock, etc, allowing retail managers to increase security and access by allowing more associates to carry keys. Each of these new keys can be scheduled to have access to specific cylinders during specific days or times, and audited to give a report of what secured areas were accessed or where access was attempted. Additionally, the cylinders carry the same audit capability and can be digitally "re-keyed" in seconds to add or remove access or to change an access schedule. The next section of this paper will dig deeper into the specifics that make this such a powerful combination.

New Products Offer Increased Security

Digital Masterkeying

Medeco Logic is the union of a patented mechanical keying system with an innovative miniaturized access control module that is fully contained within the cylinder and the key. In summary, this means that a retailer can have scheduling and auditing available anyplace a 'normal' lock is today. The positive implications are far reaching.

Savings via Audit

By having an audit record available for access to secured merchandise, retailers might speculate on a reduction in shrink by as much as 30-50%. Using 55 percent (industry average) of a retailer's loss attributable to employee theft, a retailer with average dollar loss in shrink of 1.7 percent of sales (industry average) and with annual sales of \$1 billion could recapture nearly three million dollars or 30 percent of sales:

Loss-Prevention Calculations

Total shrink Dollars	\$17,000,000	1.7 % of \$1 billion in sales
Percentage of current shrink attributable to internal theft	55%	Industry average
Anticipated decline with Audit records on locked merchandise	30%	assumption
Value of Audit feature per year	\$ 2,805,000	Calculated from above

Combining Technology Improves Security

Marrying existing installed technology, such as CCTV, retailers can track thieves. For example, a sales associate opens a display case to show a watch to a customer. Instead of opening the case to return the merchandise, the employee puts it in his pocket. By leveraging standard inventory tools, audit records in the lock or key and existing video monitoring, store management can find out what times the lock was opened based on the audit trail Logic provides, and view those time frames on CCTV recordings. Utilizing the two technologies together minimizes time spent tracing theft events and provides solid proof for legal actions.

Sales Managers can Provide a Key to Every Associate for Fast Product Access

Logic cylinders and keys benefit the greatest when every associate is issued a key to secured merchandise, but with access granted only during appropriate times or days. For example, a sales associate works Monday, Wednesday, and Friday, 5pm to 10pm. Her Logic key can be programmed to access the stock room and the display cases during her shifts, but not the manager's office. If she tries to access a lock outside of that time frame or tries to access the manager's office at any time, this information would be available through an audit trail of either the lock or the key.

By having the ability to audit who accesses each lock and control when their key will work, retailers have much more control of internal theft. Purely from a psychological standpoint, employees are deterred from theft because they know managers will know when they accessed an area. And, if inventory is checked regularly, managers can easily identify problem associates.

Customers Have Access to the Products They Want, When They Want It

Because of Logic's audit and access permission, managers can trust giving a key to each sales associate. This eliminates the need for a manager to be available to assist customers when cabinets or display cases need to be unlocked. Any sales associate can immediately assist a customer seeking more information on a product, improving the buying experience, freeing managers time for more critical.

Store Managers can Change Associate Access Rights Nearly Immediately

Store managers can easily maintain their own system with simple software and gain information for every associate and every locked device. System changes might include rekeying, permission programming, system auditing or similar actions. These changes can be made immediately to the system without service calls, saving time and money while increasing security.

Fixture Planning Resources are not Hampered by Bulky Security Devices and Wiring Requirements

Logic locking products can fit virtually any retail display fixture. The portable and inconspicuous technology fits in a normal size cylinder and does not require any wiring. To change from regular mechanical locks to Logic, it's simply a matter of inserting the matching hardware. So, a retailer can change mechanical cabinet locks in an entire store in less time than it would take to rekey the cylinders. Logic fits perfectly into existing locking systems, but with several times the benefit.

Minimizing OCR Issues

Logic keys can only be produced in one place: the Medeco factory in Salem, Virginia, USA. So, there is no way to surreptitiously obtain a copy of a Logic key. There is never a risk of OCR rings getting copies of a store's keys. Even if an employee leaves the company and steals the key, the permissions can be turned off immediately by management, so access will always be denied with that key.

Support is an Important Part of Any System

Medeco has a national network of retail security service providers who install, support and service this product at all of their locations throughout the US and Canada. These channel partners are trusted businesses in the security industry, with expert knowledge of retail security and the Logic Locking System.

Logic is the only locking system of its kind on the market. It is clearly the most convenient, cost effective way to audit and control access to anything in a retail setting.

For more information, please contact Joey Kingma, Director of Business Development at Medeco High Security Locks: 1-800-675-7558 ext. 1683 or jkingma@medeco.com

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