



**National Retail
Association**

The hidden costs of retail crime

A case study on retail crime in Brisbane City
by the National Retail Association



Organised crime and recidivism (repeat offending) are serious problems for the Australian retail industry. Retail crime disrupts business operations, harms staff, impacts customers and erodes profitability, while also impacting employment and living expenses.

In addition to this, retail businesses are prime targets for organised criminal networks and repeat offenders, further highlighting the significance of crime for retail business, and the broader community.

The measurable costs of crime for retailers

The impacts of criminal activity on the retail industry includes the costs of stolen goods and robberies, fraud, lost productivity, damaged property, security measures, as well other indirect costs, such as the emotional and psychological distress caused by victimisation.

Industry estimates produced by the National Retail Association suggest that the financial costs of retail crime in Queensland, for the 2014-15 Financial Year, was \$1.32 billion.

Almost half of these costs (\$618.1 million) were absorbed by retail businesses in Brisbane City.

These costs are distributed across five main areas:

1. Shrinkage Lost to Retail Crime

This factor represents the value of products and cash that were lost by retailers during the 2014/15 financial year. It is estimated to be approximately \$198.4 million, or 32 per cent of the total financial costs of retail crime.

This total figure can be further segmented as follows:

- Shop theft (Customer): \$128.3 million
- Shop theft (Employee): \$46.7 million
- Vendor or supplier fraud: \$23.3 million

2. Loss Prevention

The financial expenditure on loss prevention measures and strategies is the single largest cost of retail crime, and accounted for \$214.6 million dollars in 2014/15 or 35 per cent of total retail crime costs.

This particular figure incorporates labour costs associated with loss prevention, as well as hardware, which includes the procurement, installation and operation of surveillance systems, data storage, electronic tagging and detection systems.

3. Retail Crime Follow On Costs

This factor represents the costs and consequences of dealing with crimes after they have occurred, such as lost sales and store downtime. In addition to this, it also includes additional costs that result from violent crimes and robberies, such as psychological and emotional trauma and employee compensation.

For the 2014/15 financial year, this was estimated to be approximately \$94.6 million, or 15 per cent of the total financial costs of retail crime.

4. Costs to Property

The expense associated with property damage, in particular the repairs and upgrades to retail outlets that are needed following a criminal incident are significant, and were estimated to account for approximately \$91.6 million for the 2014/15 financial year, or 15 per cent of the total financial costs of retail crime.

5. Lost Output & Productivity

This represents the costs that arise from team members dealing with offenders, submitting internal and police reports, as well as managing stock, following a retail crime incident. Research indicates that 2.5 hours is the average amount of productive time lost following each retail crime incident.

For the 2014/15 financial year, it is estimated that this accounted for \$18.9 million, or 3 per cent of the total financial costs of retail crime.

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It costs us all



\$216 million

Cost of loss prevention
- labour costs, security guards,
surveillance systems, tagging

\$198 million

Cost of products & cash lost
- shrinkage



\$93 million

Retail crime follow-on costs
- downtime, employee trauma &
compensation, lost sales



\$93 million

Costs to property
- damage, repairs, upgrades



\$18 million

Lost output & productivity
- internal and external reporting, dealing
with police, stock management

Cost of retail crime in Brisbane City on business

\$618 million

Based on 2014-15 NRA loss prevention study



13 hidden costs of retail crime

1. Costs for government from retail crime

In addition to the significant financial costs incurred by business, it should not be forgotten that retail crime also produces significant expenditure for government through the direct costs and lost productivity associated with dealing with offenders, through court proceedings, the administration of justice, and the resources of law enforcement agencies.

Local government authorities make significant investments in crime prevention strategies and operations in key business localities.

2. Living expenses and retail crime

For the broader public, one of the most important but least understood impacts of retail crime is the upward pressure it places on goods and services. Occasionally referred to as an honesty tax, retail crime impacts living expenses through the costs of crime and crime prevention, which are ultimately factored into the margins and prices of retail businesses.

Actual retail sales for Brisbane totalled \$27.5 billion for the 2014-15 financial year.

Shrinkage lost to crime cost retail businesses \$618.1 million, with losses associated with criminal activity accounting for approximately 2.2% of total retail turnover in the last financial year.

That estimate is consistent with evidence from the NRA that indicates the total impact of retail crime contributes between 2 per cent and 5 per cent to the final cost of goods, depending on the category of retail product.

Therefore, a reduction in retail crime has the potential to lower living expenses for Brisbane City residents and visitors.

3. Organised crime

The National Retail Association has long been concerned about the relationship between organised crime and retail theft.

There are clear links between the type of theft in retail and products targeted that supply organised crime networks.

Currently there is an emerging trend where organised primal groups target particular products that are currently in high demand, currently in fashion or are easy to sell on in other markets.

The provenance of these organised groups is growing dramatically, which highlights the needs for an all of industry solution.

4. Employment impacts of retail crime

Retail crime also impacts employment. The lost productivity, output and profitability caused by shop theft decreases the opportunities for job creation and economic growth. Essentially, the foregone viability of businesses could be utilised to generate local jobs instead.

Analysis conducted by the National Retail Association suggests that revenues lost to retail crime in 2014-15 was the equivalent of 4,984 full-time, entry level positions.

Our research also suggests that businesses have difficulty sourcing and retaining good employee candidates in areas of high crime due to the perceived threats of staff.

The flow on effect from this perceived threat is that management have to alter the operation or roster staff together when there is no operational requirement to do so, thus increasing costs for business.

5. Security Guards

In many cases business is forced to fund security guards in an attempt to deal with the crime menace, particularly when the majority of CBD retail outlets are not located in sheltered malls or centres, further driving up the cost of doing business in these locations.

6. Store Layout

In many cases, NRA members have indicated they need to alter their product displays in order to limit theft. This means either having to lock up wanted merchandise or place wanted merchandise in an area that is under constant control of the store staff.

In extreme cases the store require alternate fittings or displays to manage the theft issue, leading to additional business costs in locations that are already struggling with margin pressures.

7. Location selection

Crime effects the profitability of a business in many ways, and can also lead to decisions about the viability of some business in certain locations.

Recent trends suggest that retailers are currently more attracted to shopping centre locations and not main streets or CBD locations to the increased costs associated with crime.

This, combined with the increased costs of tenancy for CBD locations, translates into higher vacancy and turnover rates for business in these locations.

Alternatively, we are seeing trends where a limited selection of retail categories are attracted to these locations due to cost pressures, like the dominance of restaurants and fashion.

8. Location Costs

Recent research conducted by the NRA has determined that the costs of CBD rents for retailers are, on average, 3 times the amounts charges by a suburban neighbourhood shopping centre. This pressure on profitability would no doubt have the effect on site selection for retailers.

9. Location alternatives

The additional customer turnover that a CBD offers would be offset by the increase in revenue lost to crime, making the locations unworkable.

Most of the medium to large shopping centres in suburban locations have a security presence for busier period of the day making the proposition more attractive in certain cases.

10. Profit Margins

For some retail sectors, sales volume is low and margins are larger, however the loss of a single item due to theft can have the effect of eliminating a full day's profit. These losses are difficult to absorb, potentially leading to business closure.

11. Online shift

Inevitably the solutions for many retailers will be a business model that involves the inclusion of an online delivery component. The combined pressure

on margins and rising theft can cause businesses to change to an online-only model, further reducing the diversity of retail products offered in CBD locations.

12. Reported crime versus actual crime

In research conducted by the NRA over a year in selected sites, we found that less than 20 per cent of retail crimes were reported to police.

Businesses cite their main reasoning for not reporting crime as:

- the time, resources and staff members needed to provide a report cost more than the stolen goods, and
- previous experience suggests that the likelihood of restitution is low.

As in the case with major crimes, if the true value and frequency of retail crime is not reported, then police resources will never be correctly allocated.

13. Complacency and vigilantism

In some cases, retailers have lost faith in the capacity of the justice system to deal effectively with retail crime. Some individuals will take matters into their own hands and possibly make the situation worse or put lives at risk.

Unfortunately some retailers will also compromise the work of law enforcement by their actions and allow the criminals to get away with their activities.



RETAIL CRIME

It costs us all

Connect with other retailers and help reduce retail crime.

The current state of loss prevention and retail crime reporting

Preventing loss from crime is one of many priorities for any store manager or small business owner.

Different businesses have varying capabilities for identifying and preventing retail crime. While few retailers, and small businesses in particular, have dedicated personnel in a loss prevention role, more than half of all retail outlets do utilise security monitors or systems, which are often maintained by an external third party.

However, this means that many retail crimes occur without a retailer becoming aware of the incident, or at least without them being immediately aware. Theft of merchandise is usually revealed during a stock take process, and it may or may not trigger a retailer to later examine CCTV footage or other records, if they have such resources.

When live incidents of retail theft occur, assuming the retailer becomes aware of it in time, a store employee must decide whether to confront the offender, which presents both legal and physical risks to the team member and business.

When it is possible to verify a crime and identify the offender, retail staff must decide whether to cease performing their usual roles and take further actions such as reporting the crime to police.

The reporting of a criminal offence is currently labour intensive and time consuming for retail team members. The gathering of evidence and the act of collating required information into a report template, takes considerable time and effort.

Currently, the reporting process can take up to six hours for a retail crime, depending upon the level of cooperation received from the perpetrator, the

capacity of the retailer to collate the required evidence, the completion of police reports, and the time spent with police when they attend the scene.

This manual process means that valuable time and resources are lost by both the retail business and the police service.

In this environment, it is unsurprising that the Australian Institute of Criminology has suggested that retailers are only reporting as few as one in a hundred retail crimes experienced in their businesses.

For all of these reasons, the amount of information received by the police about retail crimes is a mere fraction of what is actually occurring in the community.

The Queensland Police Service is potentially being denied significant information about the perpetrators of retail crimes, which could assist in the quick and easy apprehension of criminals.

Given that organised criminals target the retail sector, and that serious repeat offenders cause the majority of retail crime, a critical source of intelligence is currently being underutilised.

Similarly, the amount of information that retailers are receiving about retail crime is a fraction of what it could be.

If retailers could be better informed about serious repeat offenders in their geographic location, or about local crime and trends, they could take more targeted actions to help themselves and prevent or reduce crime in their own businesses.

The NRA SafeCity Network

The National Retail Association - Australia's largest and most representative retail industry association - is seeking to bring together retailers, government, law enforcement agencies, and the public to create safer cities and vibrant retail precincts by launching the **NRA SafeCity Network**.

The NRA is engaging in a 12-month trial, aimed at increasing collaboration and insight between retailers to reduce retail crime in Brisbane CBD and Fortitude Valley.

The **NRA SafeCity Network** aims to reduce retail crime by:

- sharing knowledge, experience and insight between retailers - large and small
- introducing a crime-reporting platform which provides meaningful insight to inform retailers
- helping law enforcement agencies to identify and prosecute repeat offenders by providing real-time, actionable data

By reducing crime over the long term, the program aims to attract more shoppers and visitors to the city centre and ultimately create a more vibrant, safer Brisbane. If the trial proves successful, there is an opportunity for the program to be rolled out nationwide.

What's in it for my business?

- Retailers will have the opportunity to collaborate with similar businesses to learn from shared experiences of retail crime and loss prevention techniques.
- Get exclusive access to the NRA SafeCity Network that provides data to help you identify criminals.
- Receive up-to-date information and statistics to improve the way you operate.
- Improve profitability by taking action against the costs of crime on your business.

How do I get involved?

The NRA SafeCity Network is free to all retailers with stores in Brisbane City or Fortitude Valley who sign up for the 12-month trial which commences 1 March 2018.

1. Sign up to the SafeCity Network through the NRA portal: www.nra.net.au/safecity
2. Gain access to timely information, statistics & specialists.
3. Participate in SafeCity Network collaboration activities (face-to-face and online).



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