Empower loss prevention with strategic data analytics

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Amid heightened levels of business competition and heavy margin pressure, the strategic management of risk and the reduction of shrink can make substantial contributions to both profitability and customer satisfaction. Whether an organization is successful often hinges on identifying those vulnerabilities *before* losses occur.

A US retail industry survey1 found shrink equal to 1.47% of revenue. Industrywide, that translates to roughly $44 billion—incentive enough to seek a remedy, especially because shrink reduction falls mostly to the bottom line. Considering the stakes, even modest improvements can have significant impact.

In addition, the emergence of omnichannel retailing increases the importance of risk mitigation, shrink management, and unit integrity in affecting the customer experience and in driving profitability. Today's consumer can search for, purchase, and receive products in more ways than ever before; and inventory integrity and accuracy are at the center of that consumer's experience.

Think strategically

In retail, it is inherent to stockpile information from massive numbers of transactions. Such data can add value to various segments of the business, including loss prevention (LP) programs. The challenge lies in converting the data into actionable information, but all too often the collected data remains underutilized, because:

- Companies may be unsure which pieces of data are worth storing and for how long.

- Data sits in too many different systems across the enterprise.

- Data accuracy may be questionable.

- Data is too difficult to access.

- Managers struggle to identify and consolidate the metrics most indicative of loss.

- Companies simply don't maximize the use of good data.

- Analysts are needed to help transform masses of data into actionable insights.

Does your company's loss prevention and risk mitigation program make effective use of data analytics to act on initiatives and thereby achieve company goals? And how would you assess your current program versus other programs in the industry? If you're not sure of answers to those questions, it would be useful to examine a few ways successful retailers build enterprise-wide loss prevention programs that apply data and analytics.

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[1] 2012 National Retail Security Study completed by the University of Florida.

Loss Prevention Program Maturity Model

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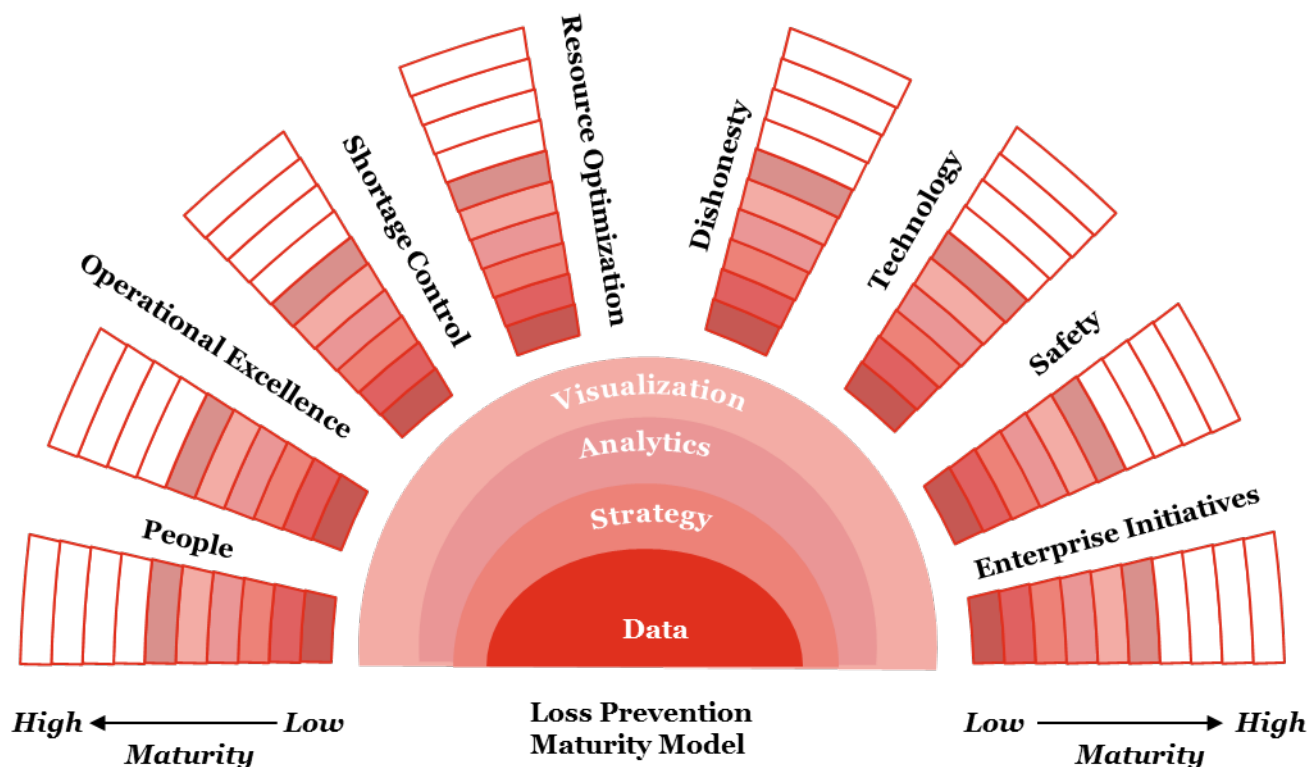
PwC has designed a maturity model that aligns to the core components of our Loss Prevention Framework. The model takes into consideration a range of industry practices drawn from both PwC and industry practitioner experience.

Benchmark

Benchmarking merits an important role in the area of loss prevention. Comparing your company's LP program with the programs of your organization's peers can help you prioritize activities, adjust your strategy to incorporate lessons learned, and allocate investment dollars wisely. Concurrently, it can sharpen understanding of how your organization aligns to the maturity model.

Comparisons like these become the strategic fuel of an effective LP program. As your program moves forward, you'll become able to quantify where you were, where you want to be, how to get there, how close you are to reaching goals, and whether goals can be even more ambitious.

Apply strategic analytics

A robust LP program that improves the use of relevant data analytics will give insight into historical trends and help determine actions that will serve to contain and reduce future shrink.

Results can be impressive. For example, one large US retailer was able to reduce shrink from close to $1 billion to $250 million through a revamped, data-driven LP program.

Whatever the specific numbers, evidence abounds that the impact of cutting shrink extends organization wide—to the LP function, operations, finance, human resources, and other areas—as well as to the bottom line and stakeholders.

Build a strong program

Many forward-looking companies build their loss prevention programs on a foundation of good data and sophisticated analysis. Often referred to as *data analytics*, this differentiating capability can open up a wide range of opportunities across the business. For example, a company can build predictive models around key performance variables such as shrink. For those models, analytics teams access and merge relevant data across the organization—from point of sale as well as from the finance, human resources, store operations, and supply chain departments. In addition, external data on crime rates, leading financial indicators, and economic health also get added to the predictive models.

Those data points fuel an analytics algorithm that distills daunting amounts of information down to strategically impactful metrics. The metrics in turn yield indexes of likely shrink sources, thereby equipping a monitoring system that will flag potential shrink causes early in the loss cycle.

On a base of data analytics, the development of a strategy and the building of a program can move forward in four broad phases: *risk assessment, program design, execution, and measurement*

Phase I: Risk assessment

The risk assessment phase begins by determining the risk attributes, root causes, and performance yardsticks against which to measure the entity as a whole and then each of its components. An accurate assessment will yield leading indicators or predictors of risk and will generate risk rankings for the company and for each unit or store.

This phase also brings to light the tasks currently performed at several organizational levels so that it can then be decided which ones are redundant, which can safely be eliminated, which can be automated, and which further modernized.

In fact, it is a virtual certainty that task modernization will be a major component of the company's LP program. Task modernization's scope might include identification of tasks required at the store and field levels, elimination of unproductive tasks, and automation of other tasks via current technology and processes.

Some companies have transitioned to a centralized database for LP information, having switched from PCs and spreadsheets to tablets running customized apps.

Phase II: Program design

The goals of this phase are to design a loss prevention strategy that matches the company's broader business objectives and to develop a system that measures performance against those objectives.

Data analytics teams are especially valuable during the design phase, because they identify the key metrics for overall strategy and objectives, examine root cause, analyze historical trends, develop indicators to determine risks, design technological solutions such as dashboards to be used for ongoing reporting and risk monitoring, and implement data management requirements that support the execution and measurement phases.

The design phase is also the right time to initiate a thorough analysis process that leads to broad management buy-in of the strategy, its execution, key deliverables, and identified risk factors. The results will form the core repository of key performance and process indicators. Those indicators in turn can be correlated to processes that improve margins, reduce turnover, reduce shrink, and boost customer satisfaction.

Phase III: Execution

In this phase, the strategic understanding of shrink gained through data analytics gets applied so a company can refine and carry out an effective global LP strategy that:

- Executes customized strategies at the corporate, field, and unit levels.

- Creates merchandise protection protocols that help get ahead of loss.

- Further correlates shrink indicators to risk ratings.

- Continues analyzing root shrink causes in main organizational areas.

- Creates new job descriptions, core competencies, and development programs as needed.

A company's employees have always represented the first line of organizational defense, and strengthening that base is an integral part of a loss prevention program. Training in the optimal use of data in decision making becomes essential, with emphasis on consistent execution and timely response.

Phase IV: Measurement

Scheduled measurement is vital to risk control. Many successful retailers have found the maturity model an effective tool for measuring the journey to optimal performance. On a progression from basic to advanced, the maturity model framework helps management target where it wants the program to be, map how to get there, and continue correlating results to strategy

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Contacts

PwC deploys strategic data analytics to help retailers mitigate shrink and grow profits. For a deeper discussion of how your organization can realize the benefits of an effective loss prevention strategy, contact:

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