



Internal Theft

Can retailers afford to ignore the risk?

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Overview

Internal theft or theft from an employer as often referred to, has long been a risk for retail business organizations, large and small, but in recent years it has grown exponentially, now not only limited to the odd piece of confectionary or petty cash.

For the Retail Sector specifically, already challenged with external risk factors such as a 'Cost of Living' crisis, violence against shop workers and flash-robbing, the internal risk from their own employees is becoming a worrying trend.



What is Internal Theft?

Employee theft is generally defined as when an employee is guilty of “any stealing, use, or misuse of an employer’s assets without permission.” The term “assets” within this statement is important because theft can often involve more than just money.

Within the Retail Industry, employee theft is a particular problem and often under reported, compared to external theft factors such as shoplifting and organised retail crime. Differentiating between internal and external impact is challenging, with many retailers wholly reliant on the accuracy of inventory data / shrinkage to determine whether they have a theft issue, hence employee theft can often be under-reported.

A recent study by Retail Economics / Thruvision suggests that in 2023 the impact of internal theft for UK Retail grew to an eye-watering £3.2 billion across stores, retail warehouses and distribution centres (including organized crime), compared to an external theft impact of £4.7 billion.

More concerning is a finding from the National Retail Federation (NRF) that the average value of loss from a dishonest employee versus a shoplifter is four times higher.

48.5 percent of respondents in NRF’s 2023 survey said that internal theft is more of a priority compared to one year ago. In 2022, 56.9 percent said the issue was more important compared to five years ago.

Key takeaways

- ▶ The value of UK retail theft is forecast to be £7.9bn in 2023.
- ▶ Employees working in retail account for a substantial 40% of the value of theft.
- ▶ Average losses from a dishonest employee versus a shoplifter are four times the amount.
- ▶ This adds to a backdrop of rising operating costs that have squeezed profitability in recent years.
- ▶ The triggers behind employee theft are influenced by factors across the Motivation, Opportunity and Detection Employee Theft Framework.

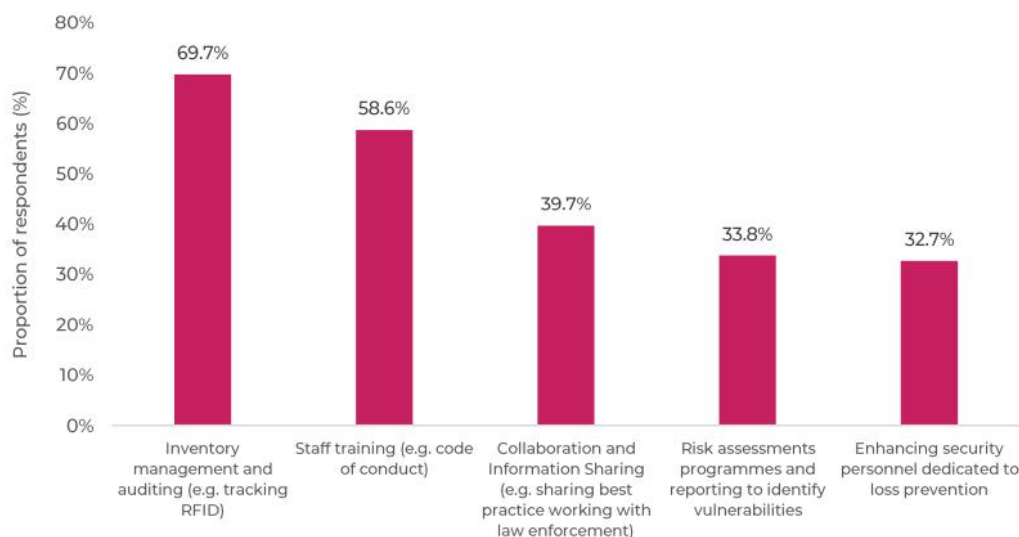
Source: Thruvision and Retail Economics

The Scale of the Problem

So what is driving this trend that converts an honest and trusted employee into a dishonest one? Standard theft factors will always feature: Motivation – the potential gain from a given asset; Opportunity– the potential to remove an asset from its location; and Perception of Risk – the probability of being caught and the severity of punishment, but the Retail Economics study also highlighted cost of living pressures and an increasing transient workforce, leading to challenges around loyalty and commitment to an employer. The trust invested in employees can often be the 'achilles heel' for retailers who are heavily focused on external risks, sometimes at the cost of internal ones.

According to Footwear News, 'a retail store employee who wants to steal from his or her store has an advantage above a regular shoplifter. That is, they have a deeper understanding of how the store functions and what, if any, security measures are in place'. In an effort to mitigate internal theft, many retail organisations default to a focus on the employee and endeavour to target hardening the location, making it more difficult to remove product or goods without detection. Traditional loss prevention methodologies such as CCTV, plain clothes store detectives, and locker/bag searches all play a part, but they are not infallible, and once the product has gone, it's gone, right?

Investment Priorities to Loss Prevention in Retail DC/Warehouses



Source: Thruvision and Retail Economics

The NRF Retail Security Survey 2023 reports that the current landscape of loss prevention has required many retailers to quickly implement or increase several security measures, with several respondents maintaining the same internal payroll (42%), allocating more resources in other areas to address risk. One-third (34%) of respondents, meanwhile, have increased payroll to support their risk efforts, and 45% have increased the use of third-party security personnel as a measure of prevention. 52% have increased that allocation over the past year, and 48% have increased capital allocation for additional LP/security equipment.

Follow the Product

Similar to the financial investigation principles of 'following the money', many retailers are turning to professional service providers to 'follow the product'. Long gone are the days of high-value products being offered solely at second-hand markets or in the local pub. The modern-day thief knows the value of the product and demands a reasonable return, hence the growth of stolen products offered for sale online and via social media forums.

The NRF 2023 Retail Security Survey reports that ORC groups often target specific items or types of goods. Over recent years, targeted goods have expanded, although the focus may not entirely be based on price point. Goods can range from high-priced, high-fashion items to everyday product needs that have a fast resale capability. Based on the retail segment, some of the most frequently targeted items include:

Accessories	Backpacks, handbags, hats, jewelry, sunglasses
Clothing	Athletic clothes, denim, graphic t-shirts, lingerie, underwear, outerwear, suit jackets, workwear
Electronics	Mobile devices and tablets, audio, batteries, cell phone accessories, connected technologies, gaming consoles and games, office printers, printer ink and toner
Food and Beverage	Alcohol, candy and gum, energy drinks, frozen seafood, fresh meat and seafood
Footwear	Branded athletic shoes, designer footwear, high-end Western boots, work boots
Health, Beauty and Personal Care	Body cream, body wash, cosmetics, deodorant, fragrance, grooming needs, health, oral care, over-the-counter medications (especially pain), respiratory care, shave products, shower gel, vitamins and supplements

Source: NRF Retail Security Survey 2023



Trace and Identify

There are now a number of providers making significant advances in product tracing and identification, specializing in the detection, investigation, and prevention of corporate fraud, theft, and intellectual property infringement. Utilizing online monitoring platforms, they provide enhanced b2b and b2c site monitoring for the purpose of identifying and removing stolen, counterfeit, unlicensed, and grey market goods and intellectual property infringements damaging to brands.

These providers proactively and reactively search and cross-reference the sale of identifiable products on e-commerce sites with postcodes of "suspect addresses," seller names, emails, and contact data. Additional functionality includes image recognition, enabling the filtering of 1,000's of listings a second for the identification of potential violations.



National and global retailers are now actively engaged with tracing product, with a variety of use cases including employee discount abuse and reselling, data and proto-type sample leaks, bulk thefts, and commercial burglary investigations.

The Unique Selling Point (USP) of this approach is not only the use of intelligence software but also the layering of physical intelligence and investigative practices delivered by analysts and highly trained investigators. From online intelligence monitoring to test purchases, this evolving area of Loss Prevention is highly focused on delivering results and mitigating risk early.

Best Practice Case Studies

Case Study One - Commercial Burglary / Bulk Theft

A global sportswear brand reported a commercial burglary and container theft at a distribution site, resulting in the bulk theft of specialist footwear TVO worth \$30,000. The limited edition consignment, which was intended for online sale only, was yet to be released for general sale, and an online search was conducted for four specific products. An online seller was traced less than 10 miles from the burglary location, offering for sale all products in multiples of 10 or more. Due to the exclusivity of the product, it was intended to only be offered for sale on a '1 per customer' basis, and a covert test purchase was conducted. In addition to the full details of the seller being secured, the product was confirmed to be part of the stolen haul, and the seller was connected to an internal employee at the burglary location. All details were passed to law enforcement for police action.

Case Study Two - Theft of Staff Uniform

A luxury high-street retailer reported the theft of staff uniforms from a flagship store. The volume of missing product was significant, and an online trace was initiated within a 50-mile radius of the location, with the majority of employees residing within this locality. A trace listing was confirmed via an online reselling platform of several clothing items, and a covert test purchase was conducted. This confirmed the articles were staff uniform items and the seller was a current employee, stealing the product from the stock room for resale.

Case Study Three - Theft of Promotional Product

A premium golfing equipment manufacturer initiated a routine trace of resale products online, primarily to monitor wholesale trade agreements. An online reseller with significant volumes of listed products for sale was identified, and a test purchase was conducted. The reseller was found to be an employee with specific responsibilities for athletes, sponsored by the brand, and after an investigation, it was discovered that the employee was ordering gifted products for athletes, overordering and reselling the surplus for personal gain. An historic review of the account identified a theft value of \$ 23,000.

Conclusion

With retail industry estimates on the impact of internal theft ranging from 24 to 40% of total shrink loss, it is clear that doing nothing is not an option. According to the experts at Footwear News, 'making sure upper management is trained in inventory management and asset protection is a crucial step in ensuring that there is proper oversight into internal theft issues across the retail landscape. Budgeting for a loss control employee in the store could also be an effective tool. However, it is noted that there is a need to tailor different loss prevention tactics to different markets'.

In a recent article published by Modern Retail titled 'THEFT IN THE WORKPLACE: WHERE THE POLICE DON'T TAKE ACTION', the author noted, 'Some workplaces clearly promote their zero-tolerance policy for theft in the workplace, which can often work to deter crime. Often, simply talking to staff and informing them that you are aware of potential thefts will act as a deterrent. Not only does this make loyal staff alert to internal fraud, but it may also prevent that fraud from happening in the first place. According to the American National Association for Shoplifting Prevention, 73% of shoplifting crimes in the US are spur-of-the-moment offences. Consequently, an effective deterrent will reduce the likelihood that fraudsters take the chance to commit theft in the workplace'.

It is evident that no single mitigation action will be 100% effective, and this is likely to require a layered approach; however, positive and affirmative action is required by retailers to stem the losses currently being experienced.

“ *Retailers must strike a balance between treating the vast majority of honest employees fairly while deterring the small number of dishonest ones. This makes deterrence a pivotal strategy.* ”

Source: Thruvision and Retail Economics