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The \$42 Billion Problem

Each year, the University of Florida conducts its National Retail Security Survey to determine losses suffered by retailers due to shoplifting, employee theft, administrative error and vendor fraud—together described as “shrinkage.” The preliminary results of the latest survey were released last week at the National Retail Federation’s Loss Prevention Conference and EXPO—and the news is not good.

Although retailers have deployed more sophisticated anti-theft technologies in their stores—95 percent have burglar alarms, 87 percent visible closed-circuit televisions and 60 percent hidden cameras—losses from theft and fraud have reached an all-time high. Richard Hollinger, a professor at the University of Florida, found that retail shrinkage last year in the United States averaged 1.61 percent of retail sales, up slightly from 1.60 percent in 2005.



The good news is that as a percentage of sales, shrinkage stayed virtually the same. Total retail losses increased to \$41.6 billion due to higher retail sales in 2006, compared to 2005.

Some people believe RFID could eventually be combined with, or even replace, Electronic Article Surveillance tags. They say RFID could reduce theft by alerting retailers when unusual activity occurs at the shelf, such as the swiping of multiple lingerie items—one of the most shoplifted products—or 10-packs of razors. By detecting a possible theft at the shelf, systems could alert security to make sure all items are paid for before customers leaves the store.

Gillette tested the technology a few years ago, but RFID is still unproven as a theft deterrent or antitheft technology. And until many packages of individual items have tags, smart shelves are not going to have a big impact on shoplifting. Still, RFID might play a role in other areas. The largest cause of shrinkage in the United States is not shoplifting, but employee theft. The survey put the 2006 losses at \$19.5

billion, representing nearly half (47 percent) of the total shrinkage problem, while shoplifting accounted for \$13.3 billion (about one-third).

RFID could potentially reduce employee theft. Here's how: Let's say you're selling video cameras, digital cameras, iPods and the like. These are expensive items, small enough to slip into a pocketbook or coat pocket; the same is true for lingerie, video games, music CDs and other oft-stolen items. Some companies put these high-value items in locked cases or cages, but an employee could open a locked case with a key and pocket an item, with no way to identify the culprit.

With an RFID-enabled lock, however, employees would have to swipe their ID badges, identifying who opened the case. If the items were tagged and the shelves equipped with interrogators, a retailer would know which employee removed which item. That would cut down on theft—at least until employees figured out how to beat the system.

Two other areas where RFID could play a role is in reducing administrative errors (\$5.8 billion, or 14 percent of shrinkage) and vendor fraud (\$1.7 billion, or 4 percent). Administrative errors occur when, for instance, a retailer records that it received 10 cases but actually received only eight. Vendor fraud, on the other hand, would be the case if a vendor were to claim it shipped the 10 cases but had only shipped eight. In both cases, retailers lose because of the cost involved with performing manual counts. By reading RFID tags on cases when they arrive at a distribution center or store, retailers could reduce this kind of shrinkage.

Some consumer advocates will complain that RFID is not a good antitheft technology because it could result in a loss of privacy, for both consumers and workers. What these people don't understand is that theft is a criminal activity that hurts consumers, as the \$42 billion in losses is passed on to those consumers. That's about \$140 for every man, woman and

child in the United States. RFID will never eliminate theft—nothing ever will—but it can be another tool in the ongoing war against criminals.

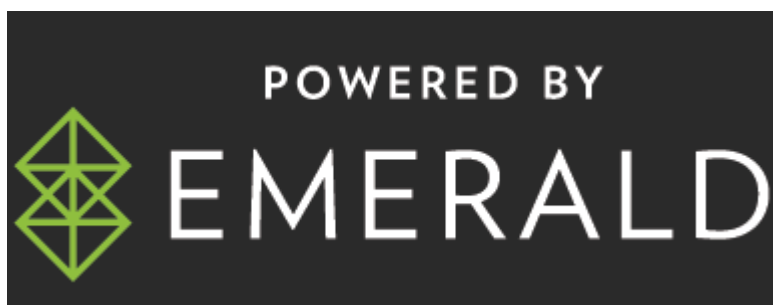
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