Research Study

The Great Disconnect Between LP and IT

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HARD DATA, SMART DECISIONS

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HARD DATA, SMART DECISIONS

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When We Started

Greg Buzek served as Product Development Manager for two Fortune 500 retail technology suppliers for 6 years. Faced with making recommendations to senior management with spotty reports stuffed with technical jargon and unsubstantiated data, in 1996 he left to form IHL Group as an arms length consulting firm that delivers exacting research to corporate managers.

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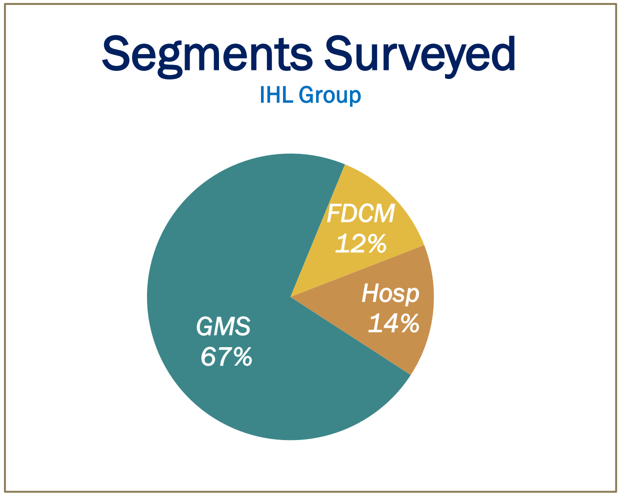
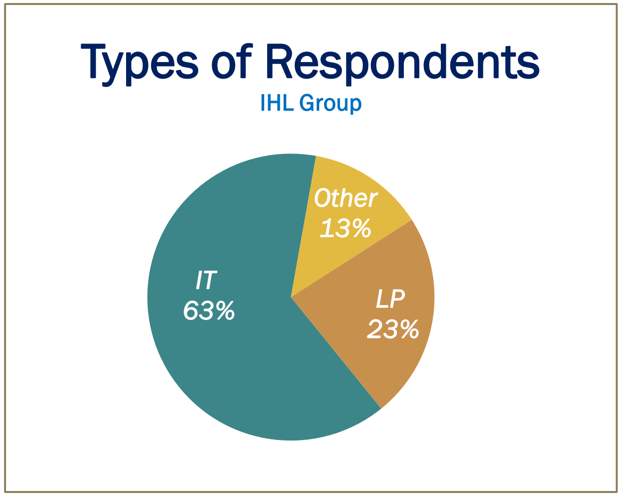
Highlights

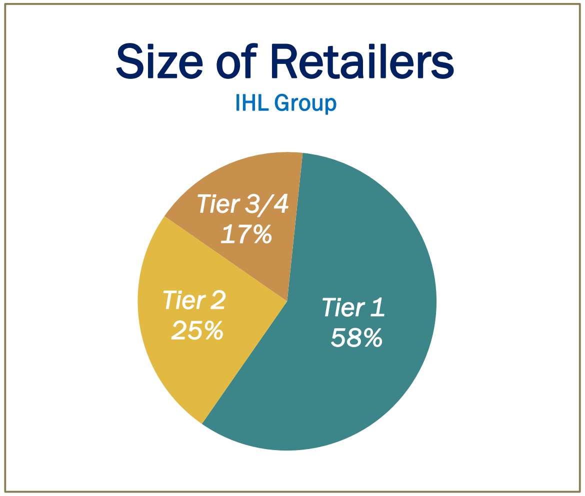
State of LP

We review the relationship between LP and IT

LP Thinks Differently than IT and Others







Traditional LP Technologies are being co-opted for use in other activities leading to influencers of buying decisions that would otherwise be purview of LP only.

As LP technologies become IP enabled, several are being co-opted by IT and other business units for other functions beyond just loss prevention. For instance, with CCTV cameras in particular, software is being added for traffic counting, amber alerts, trade promotion compliance and shelf space compliance as well as intelligence on demographics of who they see for marketing purpose.

In this study we set out to get a view of the differences in how these different business units (specifically IT) see these technologies and LP priorities. The demographics show a healthy balance in types of retailers, the size of retailers, and the titles represented.

One thing that is abundantly clear is that the view of these technologies differ greatly based on whether someone works in a cost center like IT and LP vs a profit center such as store operations and marketing. Even amongst LP and IT, they agree on many areas but differ on specific priorities for the same technology.

IT Budgets for LP Activities Beyond PCI

PCI and Data Breach protection is similar for all retailers. But retailers over $1B spend 8.3% of their IT budget on other LP items when smaller retailers have less in the LP bucket left.

Without question Data Breach Protection and PCI certification take up a significant part of the IT budget related to LP activities. This question revolved around "What's left of that budget" once PCI and Data Breach protection was funded. What the data shows is that although they are huge chunks of total LP spend, retailers have on average 6.4% of their IT budget left for other Loss Prevention Activities.

What is also clear is that although PCI and Data Breach protection are large parts of the budget, those costs do not grow linear as the retailers get larger. Because the IT budget as a percent of revenue tends to be somewhat linear once retailers hit $100m in sales, as revenues increase there is more budget. But since PCI and Data Breach protection costs begin to level out, these larger retailers have nearly 2x in terms of % of other their IT budget left. Factor in the linear growth of the IT Budget and larger retailers have 2-3x more funds for other LP activities than smaller retailers. So aspects of spending on Organized Retail Crime, Slip and Fall, EAS, CCTV, Video Analytics, etc. grows at a much faster rate as revenue increases.

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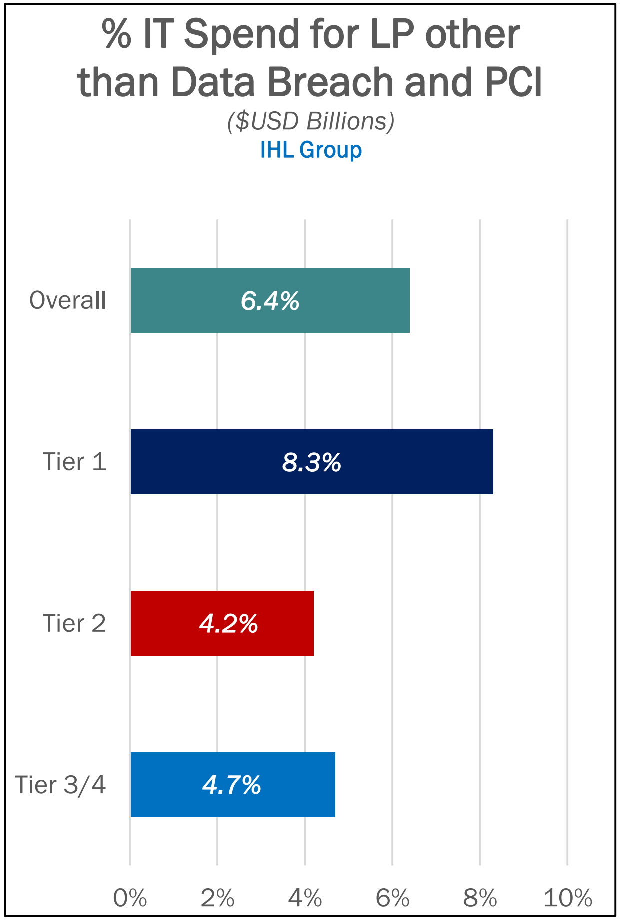
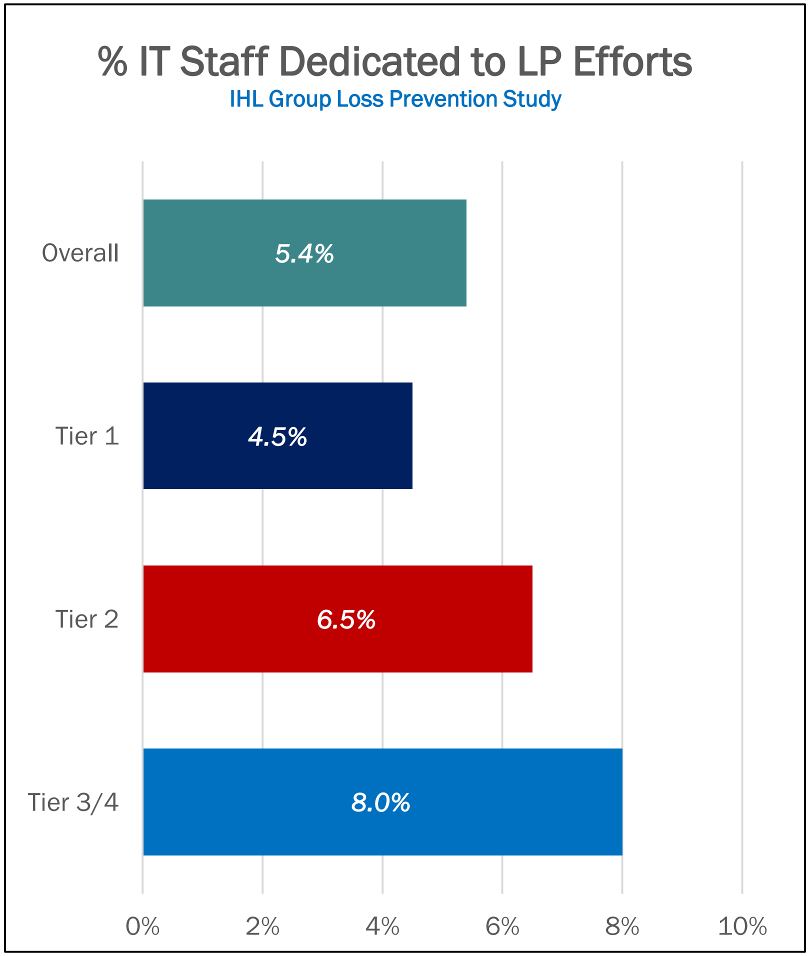


IT Staffing for LP Efforts



Overall, 5.4% of the Retailer's IT staff is dedicated to Loss Prevention efforts.

Much the same way that the IT budgets for LP enjoy economies of scale, the same is true for the availability of IT Staff for other business unit activities.

For Tier 3-4 retailers, about 8% of their IT staff is dedicated to the Loss Prevention efforts of the company. Contrast this to only 4.5% of the IT staff in Tier 1 retailers that are over $1B in sales.

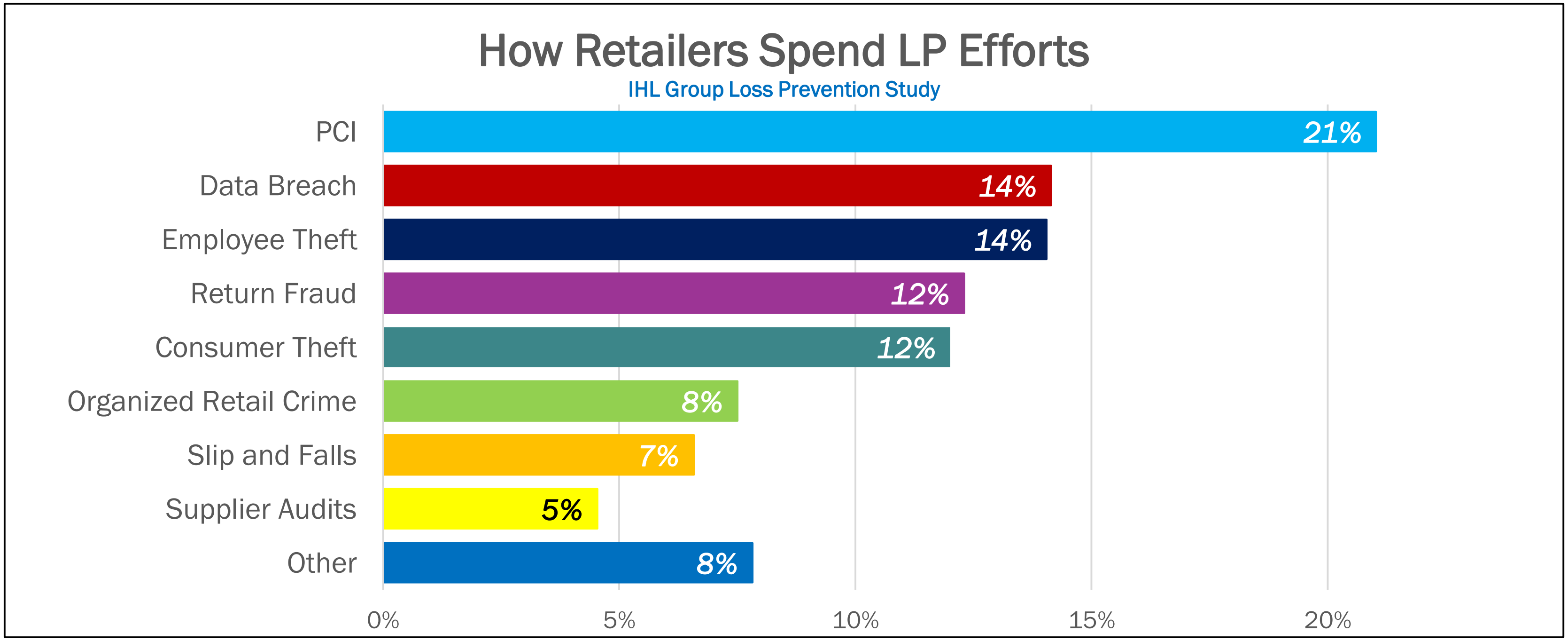
As you can see, the percentage of IT staff for LP goes down as revenues go up. This is part of that linear budget for IT spend (1-2.2% of revenues depending on the segment).

So retailers need to have a certain amount of personnel for activities regardless of the number of stores and sales. That number goes up as the number of locations go up, but efficiencies in systems and coverage allow for the larger retailers to do a similar job with a lower percentage of the IT Staff.

Unlike the previous question around budgets specifically set aside for LP functions, this question gets to the heart of the availability of IT staff for all business functions. So not only do smaller retailers have fewer personnel overall, the LP functions take nearly twice the percentage of personnel as a Tier 1 retailers, leaving a lower percentage of people available for business growth activities.

Focus of LP Initiatives

PCI and Data Breach Protection Dominate overall Retail LP Focused Efforts



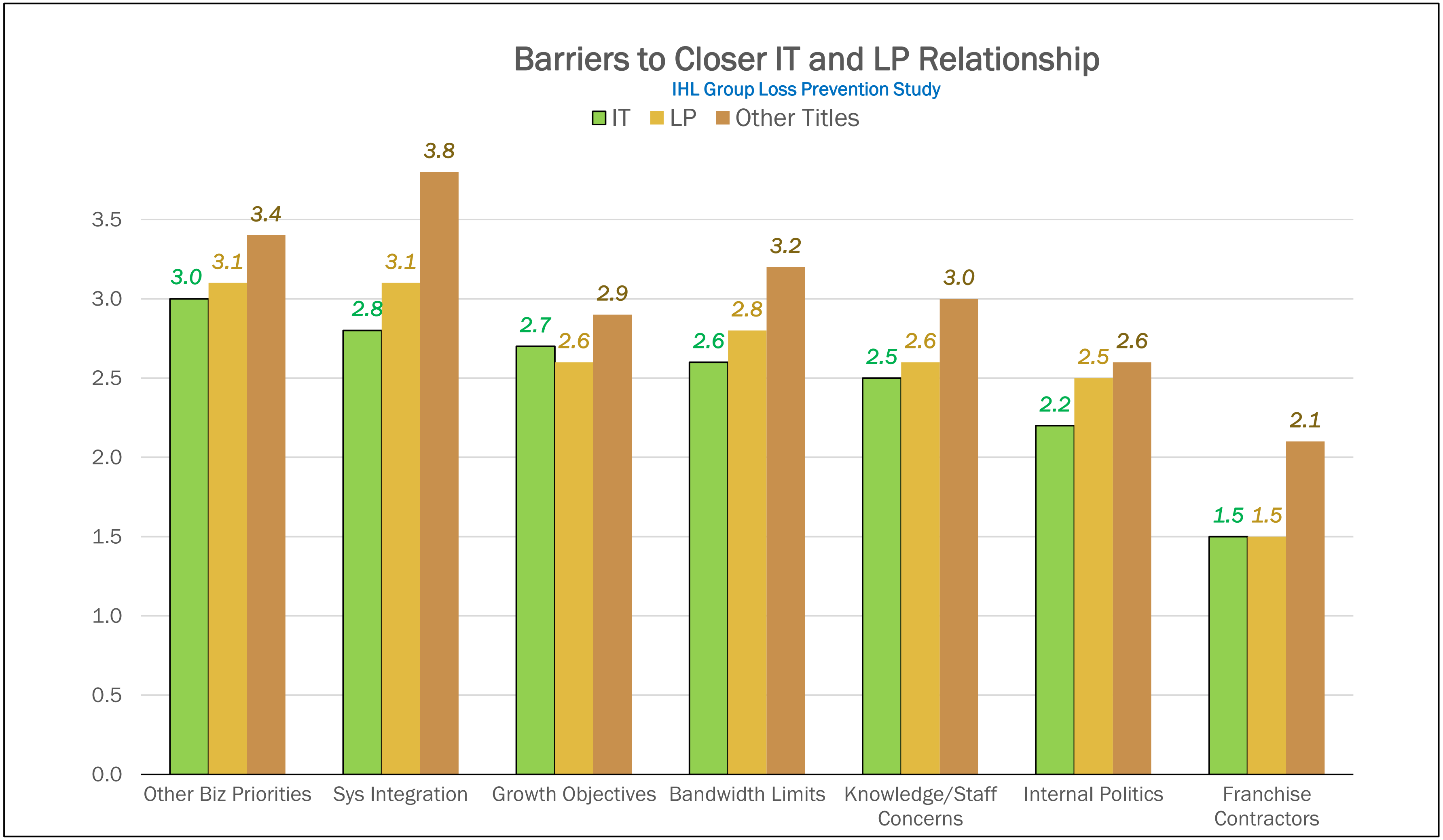
The data protection aspects of loss prevention dominate the focus of the LP efforts within the organization. PCI and Data Breach take 35% of the overall LP focus for the organization. This is not necessarily budget or staff, but simply focus on losses. As we will see in the subsequent page, these vary a bit based on what department the person resides in. What is interesting is Employee Theft is viewed as a higher priority than Consumer Theft which shows the impact of the IT department who is often more focused on the internal than external. What is stunning about this figure is that PCI and Data Breach components average about less than .1% of sales where all shrink (Employee and Consumer theft, damaged inventory) are over 20x more costly each year at over 2% of sales.

Focus of IT and LP Initiatives

	IT	LP	Others
PCI	23%	12%	31%
Employee Theft	14%	16%	12%
Data Breach	12%	14%	23%
Consumer Theft	12%	16%	7%
Organized Retail Crime	8%	8%	3%
Slip and Falls	5%	10%	7%
Supplier Audits	4%	4%	9%
Other	9%	8%	3%

The data protection aspects of loss prevention dominate the focus of the LP efforts within the organization. PCI and Data Breach take 35% of the overall focus for the organization but it is interesting to see how each group weighted this. IT is right at 35%, but LP only sees it as 26% of LP efforts, weighting their own functions as much higher. This would be natural bias. What is most interesting is that the other business units rates the two as a whopping 54%. What we believe is happening is that PCI and Data Breach Efforts are so pronounced and communicated in the organizations since the numerous public data breaches that have happened are being over-communicated to everyone. We think this is a good thing as long as the LP department is still focused on the larger issues of Employee and Consumer Theft.

Barriers to closer IT/LP Relationship



Issues that keep IT and LP apart

When we asked about internal barriers that get between a closer relationship between IT and Loss Prevention, it was interesting to see that most sides viewed things roughly the same way. Both seemed to think the greatest barriers were overall Business Priorities, Systems Integration, and Growth Objectives. This is not a big surprise as both LP and IT are generally considered to be cost centers, rather than revenue centers. So it is natural that their primary issues are due to an overall organization focus on growth. However, this is good news economically because it means retailers have moved past primary cost control and continue to move forward with growth objectives.

While they agreed on what the issues were, in general the LP professionals rated the barriers as greater than the IT professionals. We think this is due much more to the LP being primarily reliant on IT more than IT is reliant on LP. In addition, because of the many different business units pulling on IT, LP is just one of the stakeholders they are dealing with. So while IT views things as some barriers between them, in nearly every case LP views the issues as a greater problem.

What we found most interesting, however, was how the other business unit personnel viewed the barriers between LP and IT. In nearly every case, they viewed the relationship as more troubled than the people in it. We found that as pretty humorous and a metaphor of any dating or marriage relationship. The people involved agree there are issues, but the family and friends look at it and think the issues are much greater.

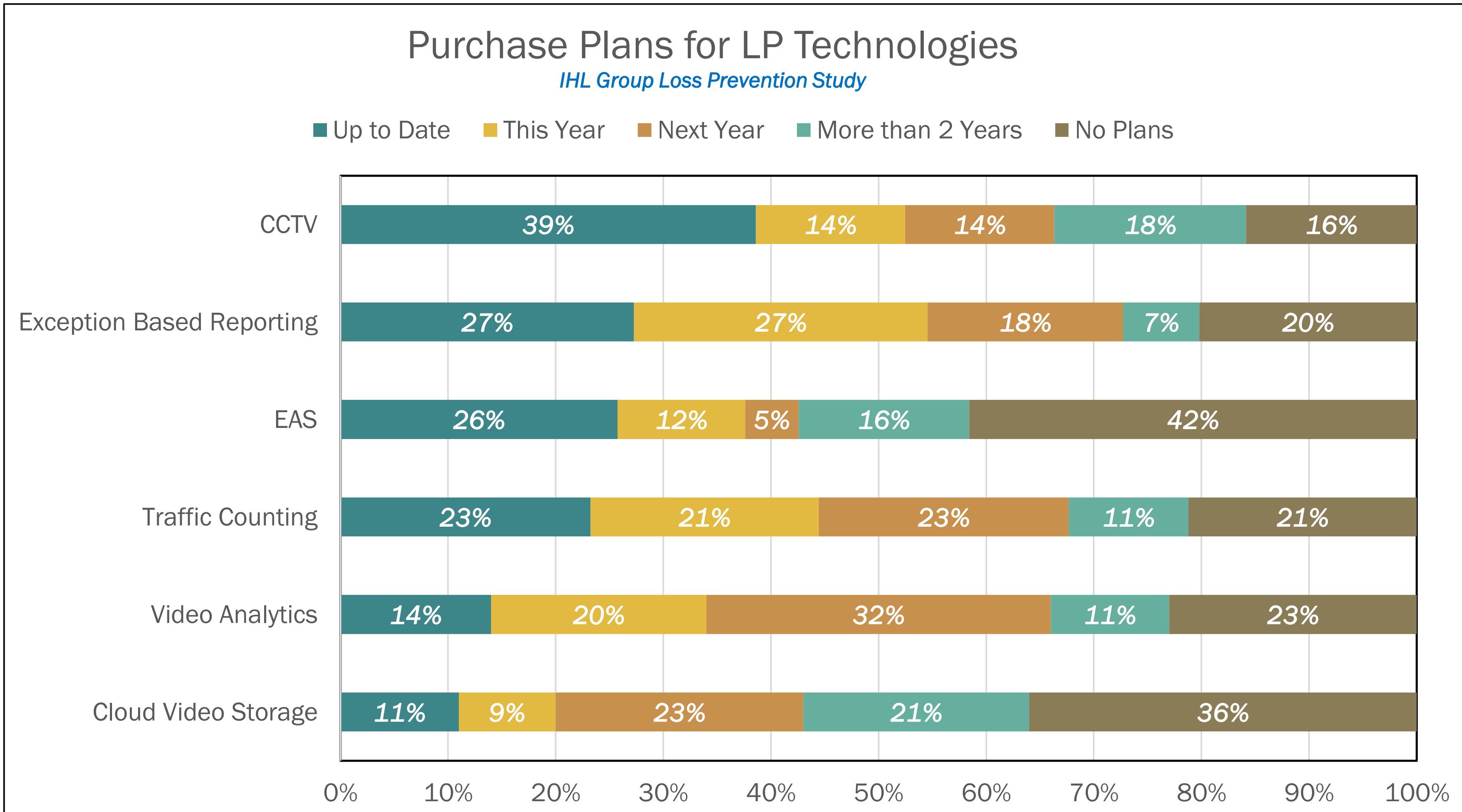
It's either that or IT has done a good job of telling other business units that system integration (35% higher) and bandwidth issues (18% higher) are the scapegoats to their issues as well. "We can't do this because integration is too expensive or bandwidth is too limited."

In general it is good to see that Internal Politics was considered the least of the problems. It shows that most retailers that survived the Great Recession learned to work together more efficiently and better than in previous generations.

One thing that is clear in this study overall is there is a complete different way of thinking between profit centers and cost centers. The profit center personnel wake up every day thinking about growth, growth, growth. The cost center people wake up thinking control and protect. That tension, when properly managed can lead to great synergy and success. When the other is not appreciated or tolerated, the business suffers greatly.

LP Technology Plans

Plans to upgrade technologies



Exception Based Reporting Leads Plans

Additional software is the big spend area for the next 24 months for the retailers in the study, led by Exception Based Reporting with 54% of retailers expecting to make a purchase decision in the next 2 years. Likewise 54% over the next two years area planning to buy new Traffic Counting Software, but it is more back loaded in the second year than in this first year. Finally, Video analytics is also a huge investment area over the next 2 years at 52% with 20% of that coming in the next year.

CCTV was the area that had the highest rated area of Up to Date technology in place at 39% of our sample. It is not surprising that retailers purchase the cameras first and then the software to expand the functionality and use of the cameras in subsequent years. This shows that in general, retailers are planning to instill the cameras first for LP functions, then expanding the functionality and use in multiple business units after they are installed. What will be interesting in the future is that there are a number of cameras that are beginning to be installed with the traffic counting/marketing functions as the primary purpose and LP secondary. It will be interesting to see how those are deployed. The focal length and focus of these cameras are generally for smaller areas, however, they will be IP-based thus having the ability to be coopted for LP purposes at times.

Cloud Video Storage still seems to be a hard sell this coming year. Only 11% of our sample use the cloud for video storage today, and only 9% are planning to make that purchase this year. However, 2 years or more out these figures pick up dramatically. When we see this sort of curve, it tends to indicate that retailers are not “sold” on the technology or haven’t quite figured out the service can be managed cost effectively yet. This sort of view reminds of us what happened to mobile devices in the store. For several years the curve looked like this until the iPad disrupted the pricing model and then the numbers exploded.

Finally, EAS seems to be the area where over the next 2 years retailers don’t seem to be planning massive changes. In one respect, this makes a lot of sense and is tied often to new store openings. It is also a technology that is far more mature than these other technologies. Still, it is clear the big money for LP technologies in the next 2 years is in video and software related to Video and analytics.

Differences in Perspective

% who answered technology is up-to-date	IT	LP	Other Depts
CCTV	41%	50%	14%
Exception Based Reporting	19%	50%	29%
EAS	31%	25%	14%
Traffic Counting	19%	40%	17%
Video Analytics	11%	30%	0%
Cloud Video Storage	11%	20%	0%

When we look at these questions based on the titles of the respondents we see many differences in perception of what is considered Up-to-Date systems.

There are two major areas that really stand out. First, it is abundantly clear that CCTV cameras that were once the single domain of LP, have stakeholders in IT and many other business units such as Operations, Merchandising, and Marketing. While 50% of LP thinks current CCTV technology is adequate, only 14% of the other departments believe so. Likewise for exceptions, there is a disparity. LP exceptions are better than other exceptions.

Second, the more advanced profit-generating functions show that LP and IT think differently than Other Departments due to their charter. While 30% of LP respondents say their Video Analytics are up to date, only 11% of the IT respondents and 0% of Operations, Merchandising, and Marketing feel the same way as the current technology is not meeting their needs.

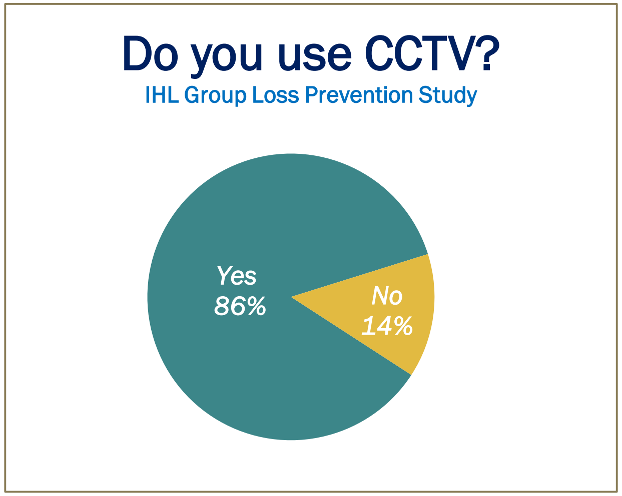
What is clear is there is an insatiable appetite for video and analytics/reporting from these other business units.

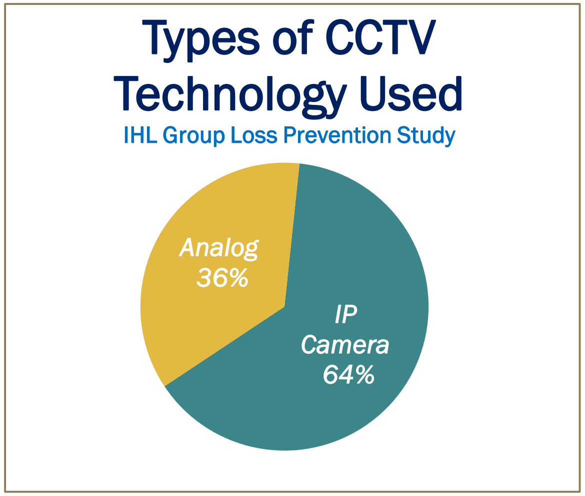
Closer Look at CCTV

YouTube Generation

Video and Software are driving the growth of spending in LP and beyond. This section looks at this growth opportunity in more detail.

CCTV Popularity Continues To Grow





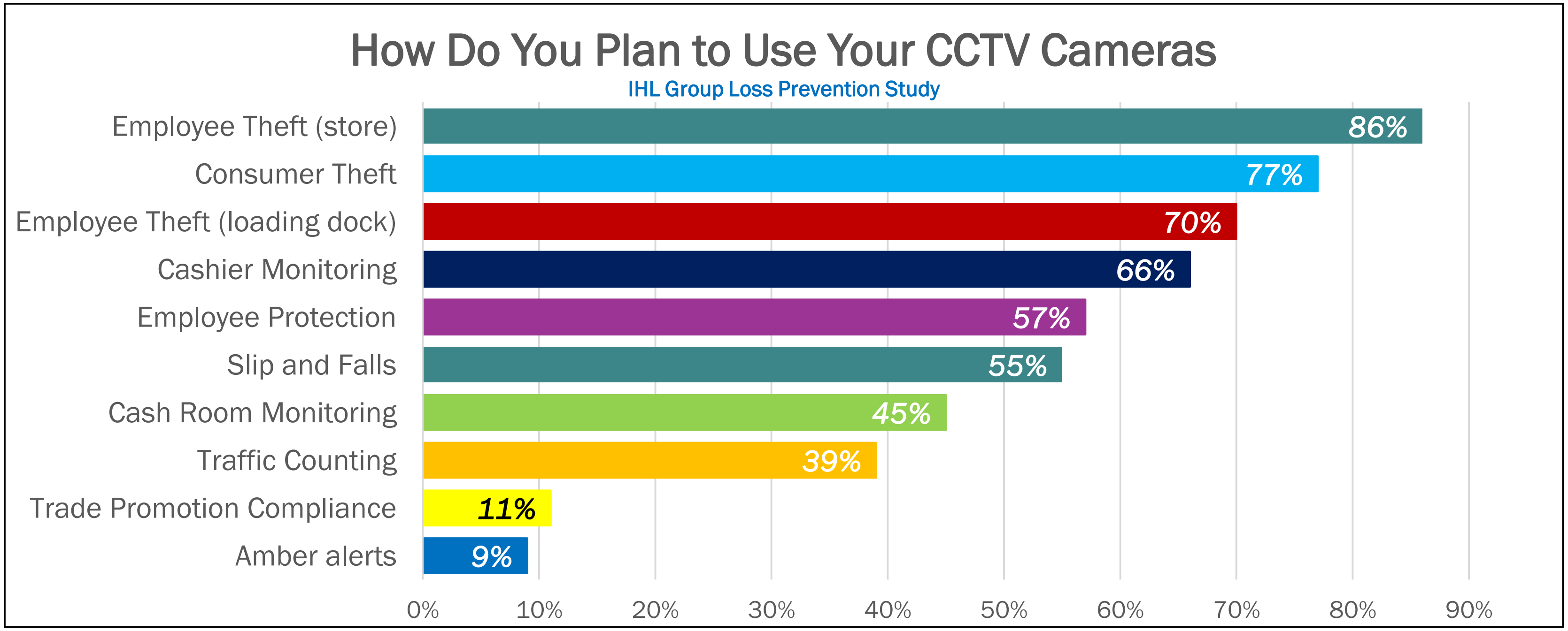
86% of our respondents use CCTV technology today. Of those 64% are using IP enabled

As we alluded to this earlier. The days of the CCTV camera being the prevue of only the LP department are long over for most retailers. The power of video for traffic monitoring, marketing purposes, and trade compliance are in greater demand from all of the business units, so the flexibility of the units and use 24 hours a day are critical. The battle for these “eyes in the skies” inside of retailers is not dissimilar to government agencies fighting over satellite time.

The ability for IP Addressable cameras brings a tremendous opportunity for retailers to leverage this ability particularly for the profit centers. Cameras as being added to shelf labels, end caps, along with the traditional security cameras. As retailers look at their overall camera opportunities, managing content, analytics, and decisions on who to share what with whom (internal and suppliers) become critical components of the overall strategy.

Closer Look at CCTV

Plans for CCTV Cameras



While retailers are planning for the future with more software and analytics, in the near term CCTV camera use will remain dominated by traditional LP functions

In a previous question we talked about the planned investment in new software technologies over the next 24 months to take advantage of video technologies and analytics for other business functions beyond traditional LP uses. That is where retailers are going, however, in the near term the CCTV cameras are being planned to be used for traditional LP activities. One interesting tidbit we found by looking at data by respondent is that the LP department is already planning for using the cameras for Traffic Counting (60%) as the first non-LP function, then Trade Promotion Compliance (20%) at a higher rate than IT and other business units.

What Will You Be Using Cameras For?

What will you be using CCTV cameras for in next 18 months	IT	LP	Other Depts
Employee Theft (store)	89%	90%	71%
Consumer Theft	79%	90%	57%
Employee Theft (loading dock, backoffice)	74%	80%	43%
Cashier Monitoring	56%	100%	57%
Employee Protection	52%	80%	17%
Cash Room Monitoring	26%	80%	71%
Slip and Falls	48%	90%	29%
Traffic Counting	37%	60%	14%
Trade Promotion Compliance	4%	20%	29%
Amber Alerts	7%	20%	0%

Perhaps the most interesting aspect of looking at how the CCTV cameras will be used over the next 18 months is the disparity between the IT and LP respondents and those from the other business units.

Methodology

Background on the study

How we arrived at the numbers

Methodology

Background of the study

The study was conducted using a primary research model of web surveys targeted to different groups. We set out to first make sure to include a representative IT and LP professional distribution and then as initial results came in and we started to see differences this was expanded to include store operations, marketing, and merchandising titles who would be exploring video technologies for functionality beyond just basic LP functions.

In general our sample was focused not so much to get a factual split of all segments and sizes of retail and hospitality, but rather a representative sample of total LP Spend in the industry for North American Retailers. What we mean by that is Tier 1 is over-represented in terms of number of respondents compared to total number of retailers and stores. However, because their LP spend is vastly higher than the combined LP spending of smaller retailers, we get a truer picture of the market this way.

To put that into perspective, Wal-Mart is equal to 485,000 mom and pop retailers in terms of revenue, and in terms of LP technology spend more like 600,000 mom and pop retailers. So by focusing on Tier 1 we get a much higher percentage of the budget power and thus more factual information for decision making.

What we did not do in this study is weight answers by revenue category. So in this study a Tier 1 answer is equal to a Tier 3 and 4 answer. For that reason, where you see Tier 1 and Tier 2 answers, realize that the “market overall” is more like these answers than the Tier 3 and 4 answers. That being said, our final point is that it is fair to use the answers within tiers as representative of those markets, but overall when combining results you should skew the results towards larger retailers to get total picture view.

Thank You

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