





Shrink and self checkout: trends,  
technology and tips.



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# Introduction

In the constant race to optimize profits, satisfy shareholders and stay ahead of growing competition in the retail marketplace, every retailer wants to reduce costs and increase revenue. In particular, there is increasing pressure to optimize labor performance while at the same time maintaining or improving customer service. And many retailers have already realized that they can accomplish these goals by implementing self-service solutions, such as self checkout systems. But some retailers require more information to help them determine whether or not a self checkout solution is right for their environment.

This paper examines key industry trends in self-service solutions within retail environments along with the challenge of inventory shrink, and how to turn this into a positive for you. It offers guidelines for evaluating self checkout vendors and their solutions, highlights ways retailers can take advantage of self checkout technologies to achieve significant business benefits and details the best practices you can implement to get the most out of your self checkout deployments.

## How self checkout can benefit your organization

The benefits of self checkout lanes in the retail environment can include:

- **Improved customer service.** Adding self checkout lanes means more open lanes, which helps to shorten lines and provide a faster checkout experience for the consumer.
- **Margin improvement.** Consider this example: a retailer's estimated US\$1 cost to check out a US\$100 order. Because one store associate can staff four or more self checkout lanes, 75 percent or more of that cost can be returned to the bottom line for each self checkout transaction.
- **Earned labor hours.** For each item scanned through self checkout, retailers can save or reallocate the labor that would have been needed to handle those items.
- **Increased sales.** Self checkout offers a greater degree of choice and speed, which can affect shoppers' decisions about where to shop, especially for convenience trips.
- **Improved cash handling.** Automated self checkout systems can minimize cash shortages by increasing the accuracy of coin and bill dispensing.
- **Improved front-end operations.** Self checkout helps retailers identify and address time and resource drains on the front end, which can help improve throughput.

## New levels of consumer comfort

Consumers are embracing self-service everywhere from airport kiosks to gas stations and ATMs. For retailers this is a very positive trend, indicating that consumers would be very likely to use self-service solutions such as kiosks or self checkout when it's available. According to "Market Study: North American Self-Checkout Systems," a 2007 study by the IHL Consulting Group, 98 percent of respondents have used self checkout, almost 50 percent have used it more than five times in the previous year, and 72 percent have readily accepted the technology in the marketplace without any negative connotations.

Meanwhile, self checkout sales continue to rise. In 2006, consumers spent more than US\$137 billion on self checkout transactions at retail stores, up 24 percent over 2005. What's more, self-service solutions are paying off for retailers. Retailers that have embraced self-service technologies are enjoying a decrease in labor costs and improved customer service.

With statistics like these, why aren't more retailers implementing self checkout solutions? One common concern is "shrink," or lost inventory, caused by factors ranging from intentional theft to accidental failure to scan an item. Many retailers believe that shopper-caused shrink happens more frequently and more easily in self checkout lanes. Research has found, however, that shrink is often either the same or less in self checkout lanes—if the self checkout lanes are properly managed and if retailers follow industry best practices.

## Managing a constant challenge

Shrink poses an ongoing dilemma for retailers. According to a report developed by the Food Marketing Institute (FMI), overall shrink in 2006 compromised 1.69 percent of sales. The previous year, shrink compromised 2 percent of sales. Of the total shrink measured in the FMI study, 40 percent was attributed to employee actions, including 24.8 percent linked to cashier dishonesty. Shrink continues to be an important problem that leading retailers are aggressively addressing using a number of technologies, such as video surveillance and point-of-sale (POS) monitoring. Grocery retailers that have used technology and best practices to

reduce shrink had a median loss rate of 0.67 percent of sales, far below the average. The most common deterrents were closed-circuit television (used by 97 percent of respondents), POS monitoring (used by 76 percent of respondents) and employee hotlines (used by 70 percent of respondents).

One major source of employee-caused shrink is “sweethearting,” a catchall term that describes methods cashiers might use to charge shoppers (often friends or family members) less than the actual cost of their items. Specific examples of sweethearting include cashiers bagging items without ringing them up, using overrides and voids to remove charges from the total sale, entering a stock keeping unit (SKU) number for a lower-priced item but placing a higher-priced item in the bag, and ignoring items in the bottom of the basket. In addition, employee-caused shrink can come

from improper cash handling, either intentional or unintentional, or from collusion, which involves employees and shoppers working together to get unpaid merchandise out the door.

Therefore, removing the cashier from the checkout equation and implementing self checkout lanes has considerable potential to reduce shrink, if the lanes are deployed using best practices. For example, automated bill and coin dispensers are more accurate than a person dispensing change, and bill acceptors can more easily detect counterfeit bills, reducing the potential shrink from improper cash handling.

In addition to employee-caused shrink, shopper-caused shrink can occur in self checkout lanes as well as at traditional staffed lanes.

Here are some of the leading causes, which can be addressed through the best practices described in this paper:

- Failing to scan bottom-of-basket items—either intentionally or unintentionally.
- Switching barcodes or using a fake barcode to reduce the cost of an item.
- Scanning an inexpensive item and then placing a more expensive (but similar) item in the bag.
- Intentionally using the wrong price look-up (PLU) code to pay a lower price for an item.
- Hiding a small item inside another item (for example, placing a CD inside a duffle bag).
- Scanning one item but intentionally putting two in the bag.
- Reusing coupons and using expired coupons or copies of coupons.
- “Sliding,” or placing an item in the bag after only pretending to scan it.

## What to look for in a self checkout solution

The right self checkout solution can help retailers contain shrink. First, look for a flexible solution that allows you to configure security settings based on your shoppers’ needs, preferences and patterns. Second, choose a technology vendor that has the full set of skills and resources to help get the most value from your self checkout solution. Lastly, select a solution based on open standards, which can allow you to more easily integrate both existing and emerging loss-prevention technologies into your self checkout environment.

For example, LaneHawk, a loss prevention solution from IBM Business Partner Evolution Robotics Retail, can help retailers reduce bottom-of-basket losses. The LaneHawk solution identifies items at the bottom of the shopping cart, sends their universal product code (UPC) information to the POS system and includes the items as part of the transaction.

## Recommended best practices

There are a number of best practices in the areas of staffing, management and configuration, and technology that can help you reduce the potential for shrink in self checkout lanes.

### *Staffing*

- **Educate associates.** Train your associates to help detect and prevent sliding while at the same time offering enhanced service by helping shoppers’ overcome technology challenges.
- **Establish a self checkout certification policy.** Award a scan-certified title to employees who have completed training in self checkout and shrink reduction.

- **Reward employees with strong track records.** Designate self checkout as an important position and a required step in the management career path.
- **Staff appropriately.** Assign outgoing, multitasking attendants to the self checkout lanes to make sure attendants are constantly helping and monitoring customers. Since one attendant can typically monitor up to six kiosks properly, bring in additional self checkout attendants when opening more than six self checkout lanes, as well as during periods of peak customer traffic.
- **Create a loss prevention culture.** Raise employee awareness about the consequences of shrink, and make sure management is properly informed and trained on loss prevention.
- **Set up an employee hotline.** A hotline will allow employees to report fraudulent activities anonymously.

### *Management and configuration*

- **Create accountability.** Use individual employee logins for the central self checkout register to create accountability and to reduce the potential for employee-caused shrink.
- **Configure associate logins with limited access.** To introduce an extra layer of accountability, customize self checkout cashier function authorizations for each individual employee, making sure only managers or head cashiers can perform transaction voids.
- **Configure self checkout lanes properly.** Position new self checkout lanes to maximize the associate's view of all lanes. This helps to minimize bottom-of-basket, sliding and other types of loss.
- **Maintain security database integrity.** Review reports for trends and configure the self checkout security database according to the individual store's shrink experiences. For example, configuring the database to trigger cashier involvement by setting controls on sales greater than a specific dollar amount can help reduce shrink.

- **Monitor your type II override report carefully.** Engaging meat, seafood and deli managers to monitor type II override reports can help you identify items that were sold below the appropriate price.
- **Establish goals and appropriate measurements and reporting procedures.** Set goals for self checkout throughput and customer usage, and then implement measurement and reporting procedures to ensure that your self checkout installation is delivering the return on investment you expected.

### *Technology*

- **Use video surveillance cameras around self checkout lanes.** If you have video surveillance elsewhere in the store, you may also monitor your self checkout lanes. Proper monitoring can help identify potential issues, help to reduce employee-caused shrink and serve as a visible deterrent to potential thieves.
- **Incorporate bottom-of-basket technology.** Use sensors or video surveillance to scan bottom-of-basket items to help ensure those items are properly paid for.



## Self checkout solutions from IBM

IBM and its broad ecosystem of IBM Business Partners are committed to ongoing investment in research to help further reduce shrink in both self checkout and staffed POS lanes. Solutions to support bottom-of-basket monitoring and tag-switching prevention systems are currently in development in the IBM labs or are available from IBM and its Business Partners. Both IBM and its Business Partners within the retail industry can help you implement, manage and configure your self checkout solution so that you can gain the most benefit from it.

## For more information

To learn more about how you can reduce shrink in your self checkout environment, visit:

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Route 100  
Somers, NY 10589  
U.S.A.

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1-08  
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