2016

Retail Holiday Season
Global Forecast

2016

Retail Holiday Season Global Forecast

Contents

2016

Retail Holiday Season Global Forecast

Introduction

by Ernie Deyle

Introduction

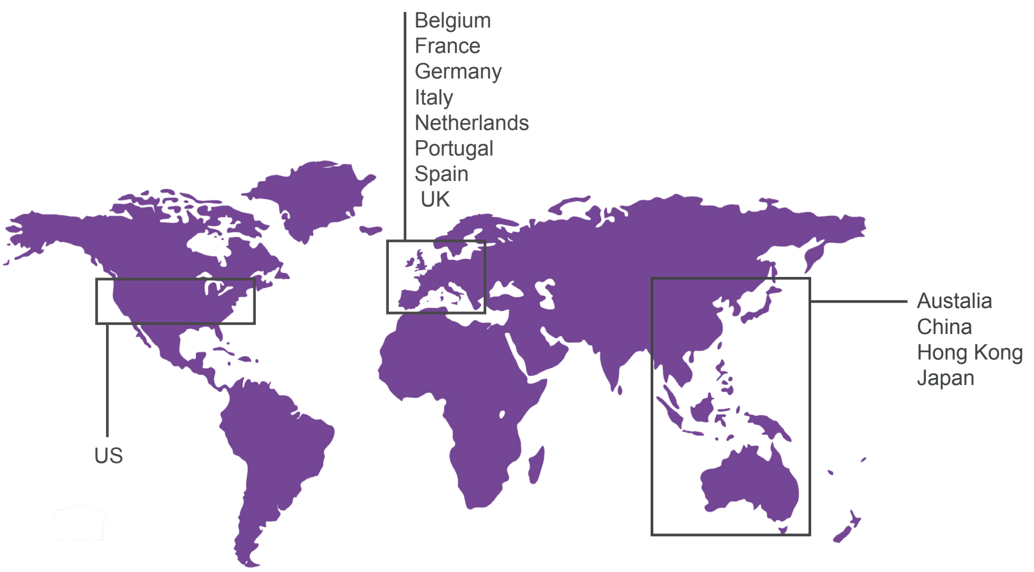
by Ernie Deyle

This year I am partnering with sponsor Checkpoint Systems to introduce the 2016 retail holiday Season global forecast, an analytical view of business risks that major retailers face during this holiday season in 13 global markets. This is Checkpoint's fifteenth year of providing the industry with insightful research into the state of retail shrink.

Our methodology blends the top retailers from each nation from a revenue- and shrink-leading indicator perspective. We accessed public financial data to assess applicable financial metrics performance based on reported earnings for fiscal year 2015, while employing data from last year's Global Retail Theft Barometer (GRTB) study. Research focused on a holiday case study that isolated three core retail verticals: grocery/supermarket, department stores and apparel/fashion. These verticals experience among the worst year-over-year shrink performances, according to last year's GRTB study.

13 Global Markets

The 13 markets covered in the following pages span North America, Europe and Asia, and include the U.S., Belgium, France, Germany, Italy, Netherlands, Portugal, Spain, UK, Australia, China, Hong Kong and Japan.



Summary Findings

Overall, research shows that retailers in all 13 researched markets will experience both the heaviest sales volumes and the weakest performances specific to margin rate during this time period. Strains on profitability manifest during the holiday season largely because of increased shrink/theft from external (primarily via shoplifting/organized retail crime) and internal sources (primarily via sales reducing activities).

Some global recommendations to address these issues include the following:

- Maintain operational execution standards, while being vigilant regarding financial performance expectations.

- Update planning and financials to properly account for advanced deliveries of seasonal products, since the seasonal build starts earlier now than in the past. Enhance oversight to seasonal/holiday merchandise to ensure financial goals are achieved while cost center controls are contained.

- Employ technology to stabilize inventory loss and ensure on-shelf availability while enhancing product protection countermeasures.

- Properly train seasonal help to manage the increasing complexities of the season.

As noted, among the biggest challenge retailers face is the increase in shrink during the holiday period. The chart below looks at the most at-risk categories of merchandise by retail vertical on a global basis:

Global TOP 5 most Frequently Stolen Items

Top 5 most stolen items	Department store	Appareal - fashion	Grocery - supermarket
alphabetical order	accessories	accessories	cosmetics
	denim	costume jewelry	gourmet cheese
	foot wear	denim	infant formula
	home electronic	foot wear	meat / seafood
	house wares	intimates	spirits

Market Environment

As the global economic slowdown persists, retailers are faced with a myriad of tough decisions, ranging from maintaining revenue streams; to undertaking cost containment measures, including payroll and store closings; and stabilizing profitability in a diminishing marketplace with as little negative impact to shareholder value as possible.

Recent headlines about weak retail environments throughout the world confirm the added stresses retailers are facing in addition to the normal challenges of the holiday season: *Japanese retail sales plunge*, *Gloom returns to China's economy*, *US retail sales tumble*, *UK retail sales down*, *Euro zone retail sales unchanged*.

Challenges Of the Holiday Season

+

Added Stresses

Last 15-24 months

Cost containment measures

Globally, over the last 15 to 24 months, many retailers have resorted to reactionary cost containment measures to offset and/or stabilize profits as revenue/sales stagnate. These cost containment measures include but are not limited to the following:

- Store closings – unprofitable or stressed performing locations
- Headcount freeze or reductions – support staff and stores
- Store payroll – countermeasures enabled to meet plan
- Payroll freeze – annual increases and performance-based and discretionary bonuses
- Expense control – travel and support
- Re-optimization of AP/AR terms to vendors
- Enhanced markdown control
- Enhanced management of on-hand inventory (cost to carry)

Adding further complexities, the holiday season – the year's most critical retail marketing cycle – is already upon us in many global markets. Particularly in the U.S., the holiday season has been considered the "make-it or break-it" window for retailers to achieve their fiscal year profitability. And while that concept still holds true, the holiday season has become something of a financial paradox, because it can cause normal business disciplines, principles and acumen adhered to for more 75 percent of the fiscal year to be suspended in order to change the game plan at the most critical point in the year.

For example, during this season, retailers are driven to obtain more revenue, often times at any cost (literally). In an attempt to drive foot traffic, they may run promotions where inventory is sold below costs, thus generating increased markdown expenses while margins run negative (below costs). These actions are undertaken with hopes to capture incremental sales of any kind, and are often counterproductive, unintentionally compromising the goals of the business. When revenue streams become flat or are trending downward, mishaps begin to manifest more frequently and on a much larger scale and contribute increased losses because of shrink and margin erosion.

Operational Breakdowns

These miscalculated executions are the first signs of a much larger, more significant breakdown in business performance, the result of a cascade of unexpected errors, such operational execution breakdowns and logistical problems that may impact product flow and unbudgeted financial compromises - all of which lead to an increased burden on the profit and loss statement.

These compromises may include but are not limited to the following:

- Challenges to the merchandising calendar sequence as products arrive sooner.
- Increased on-hand inventory carrying cost.
- Underperforming inventory turns/movement (see benchmarking chart).
- Increased risk of external theft activity (shoplifting and ORC).
- Increased risk related to SRA performance.
- Increased challenges to the inventory management system/stock ledger accuracy.
- Increased challenges in managing the item of record (IOR) price file management.
- Decreased store/warehouse productivity.
- Decreased store execution – multiple areas.
- Increased associates “touch/handling” of inventory before it is sold.
- Increased SKU count, leading to cannibalized sales (visual merchandising changes).
- Increased risk of out of stocks.
- Increased markdown expense.
- Stressed/decreased gross margins.
- Increased risk on shrink (inventory valuation loss).

Operational performance benchmarks

Benchmark Guidelines

There are variations in metrics within the industry as well as with in each retail vertical The highest achieving firms may have performance rates that can be 75-200% better than the industry average. As such, targeting the industry average on any metric is setting a precedent that mediocrity is an accepted goal.

75-200%

Highest Achieving Firms

Internal Theft Data - Benchmarking

The primary performance metrics for internal theft cases revolve around the three core data sets:

- Frequency Ratio for a terminable offense as it relates to total active headcount. For example, the industry average is one termination for theft for every 83 active heads. Thus a business of 100,000 associates would mean the targeted total investigations that lead to a terminable action would be 100,000 (divided by) 83-- or 1,205 terminable internal cases for theft.
- Raw Admission value is the confessed value by the suspected associate for what he/she is admitting to stealing from the store/business location.
- Suspects per Case is a metric that assesses the number of individuals involved or aligned with an individual investigation. For example, an LP manager had 15 initial investigations for theft. Of the initial 15 investigations, seven of the suspects implicated/rolled-over on eight other associates. Thus, a total of 23 individual associates were included in the investigation process. If all were investigated and all implicated themselves in the theft, there would be 23 total terminable associates (divided by) 15 initial investigations or 1.53 Suspects per Case.

These metrics focus on the frequency of retailers identifying and acting on theft, not the frequency of theft. Thus higher termination rates and suspects per case are desirable.

Global Internal Data - Benchmarks

INTERNAL CASES	Industry Best	Industry Average	Industry Worst
Frequency Ratio	**1 termination for every 29 active heads - stores**	**1 termination for every 83 active heads - stores**	**1 termination for every 172 active heads - stores**
Raw Admission	*$ 1,853*	*$ 1,208*	*$ 413*
Suspect per Case/ Rollover	**2.1**	**1.7**	**1.0**

External Theft Data - Benchmarking

With the advent of smart EAS pedestals, the external performance data has been enhanced to determine the true impact of external theft stress on the total shrink performance. Three base data sets help to augment other data metrics, such as case value and item categories:

- Alarm EAS Activity is a performance metric to isolate the frequency of EAS alarm events (excluding cashier error – failure to deactivate EAS alarm events) as it relates to customer count (point of sale data set). For example: A monthly store customer count of 10,620 (divided by) monthly EAS alarm events of 70 (excluding cashier error – failure to deactivate EAS alarm events) would result in one EAS alarm event for every 151.7 customers.
    - The lower the number the MORE frequent the behavior/action.

- Shoplifter Apprehensions (excluding deterrent - drop and run off) is a performance metric to isolate the frequency of shoplifting events as it relates to customer count (POS data set). For example: A monthly store customer count of 10,620 (divided by) monthly shoplifter apprehensions of 10 (excluding deterrent - drop and run off) would result in one shoplifter apprehension event for every 1,062 customers.
    - The lower the number the MORE frequent the behavior/action.

- Shoplifter: EAS Alarm Frequency Ratio (excluding cashier error – failure to deactivate EAS alarm events) is a performance metric to isolate the frequency of shoplifter apprehensions as it relates to EAS alarm events (excluding cashier error – failure to deactivate EAS alarm events). For example, 43 EAS alarm events (excluding cashier error – failure to deactivate EAS alarm events) (divided into) six shoplifter apprehensions, would give us a ratio of one shoplifting apprehension for every 7.16 EAS alarm events (excluding cashier error – failure to deactivate EAS alarm events).
    - The lower the number the MORE frequent the shoplifting behavior/action.

Global External Data - Benchmarks

Shoplift: Alarm	Shoplifting Freq: customercount	Alarm EAS - excluding failure deactivate
7.2	1,085	151
7.8	1,387	178
8.1	1,064	131
6.8	801	117
7.4	***1,017***	***138***

Financial Metrics

Return on asset performance
Cash flow
Sales per square foot performance
Gross Margin
Recuced expense in markdowns
Out of stocks
Shrink Loss

Inventory Turns - Benchmarking

One of the more notable financial performance data metrics is inventory turns. Retailers that post strong inventory turn performances quarterly typically post a healthy P&L statement. A few of these robust financial metrics include but are not limited to: return on asset performance, cash flow, sales per square foot performance, gross margin, reduced expense in markdowns, out of stocks and shrink loss.

Metrics from 2015's GRTB are expected to hold true for this year as well. And because retailers are bringing in holiday merchandise earlier than ever, retailers are at greater risk for asset burn. As such they must do a better job of effectively managing inventory to avoid serious financial losses.

Industry Average - Inventory Turn Metrics

Retail Vertical	Annual Turns
Merchant wholesalers (All)	8.1
Wholesale trade,durable goods	5.9
Motor vehicle & vehicle parts & supply	7.8
Furniture & home furnishings whsle	5.3
Lumber & other construction matls whsle	9.2
Electrical goods	6.8
Hardware/plumbing/heating equipt & supply	5.1
Miscellaneous durable goods whsle	6.8
Wholesale trade, nondurable goods	10.8
Paper & paper product whsle	11.2
Drugs & druggists sundries whsle	6.3
Appareal, piece goods & notions whsle	5.3
Grocery & related products whsle	16.1
Beer & ale whsle	8.5
Miscellaneous nondurable goods whsle	7.9

For most retailers, wholesalers and distributors, inventory and the space to store it is the largest single cost of doing business. From purely a cost viewpoint, less inventory means lower costs. At the same time, unproductive or “dead” inventory as well as insufficient inventory leads to out of stocks, lost sales and unhappy customers. ***So balancing these two factors is critical to profitability and growth, particularly in omni-channel environments.*** But achieving this balance is not easy. This specific facet of the business requires process disciplines, systemic controls at the three core areas of the business (receiving, center store and POS) and strongly structured protocols/procedures in order to optimize this most significant financial asset of the business. The use of technologies such as automated inventory management (AIM) and RFID to track merchandise as it moves throughout the supply chain to distribution centers, retail backrooms and store shelves is one approach that is being used to successfully address this issue.

Glossary of Key Terms

COGS: Cost of goods sold, a financial term/ metric, **that is a P&L measureable**, used to calculate gross margin.

GIG: Going in gross, a financial term/metric, that is a P&L measureable, used to define the expected gross margin.

Inventory Turns: A financial performance metric, example: total annual net sales $11,755,000 (divided into) the book value YE (year end) Stock Ledger Value $1,250,000 = 9.4.

Inventory Turn Definition	
Total Annual Sales	$ 11,755,000
Book Inventory Value YE - Stock Ledger	$ 1,250,000
Inventory Turns	***9.4***

Inventory Value: A financial term used to calculate the total value of on hand inventory.

Leading Indicator: A performance term used to identify performance data that directly impacts a P&L measureable.

Lagging Indicator: A performance term used to identify performance data that in-directly impacts a P&L measureable via a Leading Indicator.

Revenue: A financial term/metric, **that is a P&L measureable**, used to define the income that a retailer receives from its normal business activities, usually from the sale of goods and services to customers.

SG&A: A financial term used to define Selling, General and Administrative Expenses, which is a major non-production cost of a P&L statement.

SRA (Sales Reducing Activities): A POS event that decrements a transactions sales value, SRAs are THE Leading Indicator of Shrink/Profitability, there are eight core SRA Types, including four that directly impact shrink: Voids (line voids & error correct), Refunds, Transaction Cancels, Post Void and three that directly impact margin; Price Modify, Discounts, Coupons (store and/or manufacturer). The last SRA type is the TAX Factor (tax exempt & tax modification).

SHRINK Value: A financial performance term/metric (be it a cost method or retail method or AWP, or a hybrid accounting methodology), **that is a P&L measureable**, used primarily to define an expense and a sum of the delta between the book value of the on hand expected value (less) the actual physically counted value. For example: on hand book value/stock ledger $1,250,000 (less) the physically counted value $950,000 = a shrink value of $300,000.

Shrink Value Definition	
Book Inventory Value YE - Stock Ledger	$ 1,250,000
Physically Counted Value	$ 950,000
Shrink (inventory loss)	***$ 300,000***

SHRINK Rate: A financial performance term/metric, that is a P&L measureable, used to define to financial expense of inventory loss value as a percent of sales – example the Shrink Value $300,000 (divided into) the total sales $11,755,000 (for the inventory cycle) = a shrink rate of 2.55%.

Shrink Rate Definition	
Total Annual Sales	$ 11,755,000
Shrink /inventory loss)	$300,000
Shrink Rate (inventory loss)	***2.55%***

2016

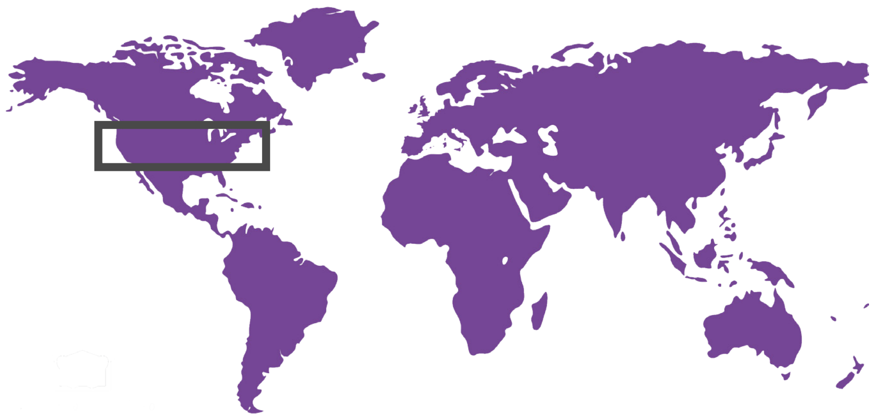
Retail Holiday Season Global Forecast

Country Report

United States (US)

Country Report
United States

The US holiday retail season continues to be pushed back even further – to just after Labor Day.



The US retail strategy common for fourth-quarter/holiday season marketing can be viewed as prototypical, because many global markets have now adopted it. For example, even though Thanksgiving's Black Friday is a US event, other countries have begun their own versions of holiday sales events on that same date. Likewise, they've begun seasonal marketing earlier in the fourth quarter. The biggest difference among global retailers is that the US holiday retail season continues to be pushed back even further – to just after Labor Day. As a result, by late September, we may see Halloween candy stacked next to Christmas candy on shelves. This has retailers building holiday inventories for high-risk items such apparel, toys, electronics, etc. earlier, which may lead to increased sales reduction

United States

Most Frequently Stolen Items	Items
alphabetical order	apparel
	children's toys
	electronics
	electronic accessories

pressures, including markdowns and shrink throughout the fourth quarter. In fact, as this report reveals, despite more than one-third of the year's retail sales expected to be registered in just these three months, a number of sales reduction factors, including unusually high shrink, will put additional strains on brick-and-mortar retailers already reeling from an ongoing inhospitable retail market.

In this section, we will review the following data for the US market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by quarter for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by quarter for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Shrink Losses for the Holiday Season

The holiday season financial performance contributes roughly 34% of a retailer's annual sales base, while incurring 37% of the annual shrink loss. There are three reasons for this increase. First, store product mixes change considerably during the holiday season to include higher priced merchandise. So even if the same quantity of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behavior like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra bathing suit for the summer.

37%

Of the Annual Shrink Loss

Margin Captured for the Holiday Season

Retailers book 32% of all margin dollars for the year during the holiday season. However, the rate of margin for that quarter decreases to 29% from a robust 31% for the rest of the year, which is just under an 8% decline of realized margin captured. This significant drop off can be attributed to deeper promotional events such as “loss leaders” and “door busters,” which are designed to increase foot traffic and thus basket size/customer spend.

The chart below shows the expected increased sales distribution in the holiday season (34.5%), with a smaller margin distribution of 32.2% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for the season of 37.7% and an even higher SRA distribution of 40.2% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is about double that of other quarters.

United States

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	21.2%	22.5%	20.6%	20.8%
Q2	21.8%	23.3%	20.3%	19.0%
Q3	22.5%	22.0%	21.4%	20.0%
Q4	34.5%	32.2%	37.7%	40.2%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

USA	Gross Margin
Q1	31.2%
Q2	31.9%
Q3	30.1%
Q4	28.7%
Total	**30.23%**

Cost of Shrink Loss per Person for the Holiday Season

The retail cost loss burden for the retailers surveyed in the US for 2016 is expected to be $132 per person, of which $50, about twice as much as in other quarters, is expected to be incurred in the holiday season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 27.18
Q2	$ 26.78
Q3	$ 28.25
Q4	$ 49.80
Total	***$ 132.01***

Other Key Performance Indicator Data for the Holiday Season

Annually for every $51 in sales there is $1 worth of "loss dollars" incurred. However, during the holiday season, the run rate is expected to decline to about $47 in sales for every loss dollar incurred. This increased pressure on profitability during the holiday season can be seen in more detail in the data below:

- Capture – Sales during this season are at a 58% higher run rate than the rest of the year.

But…

- Burn – Margins show an 8% lower run rate than the rest of the year.
- Burn – Shrink during this season is 15% higher than the rest of the year.
- Burn – The SRA burden is 27% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 52.36
Q2	$ 54.64
Q3	$ 53.48
Q4	$ 46.51
Total	***$ 50.86***

2016

Retail Holiday Season Global Forecast

Country Report

Belgium

Country Report
Belgium

For Belgian retailers, often seasonal sets are being prepped at the end of October and early November.

Belgian retailers generally employ traditional developed markets' fourth-quarter calendar year/Christmas season marketing strategies in order to optimize sales and margins. For example, Christmas merchandising has gradually arrived earlier in the season. Often seasonal sets are being prepped at the end of October and early November. These early seasonal inventory sets may lead to increased sales reduction pressures including markdowns and shrink for products such as luxury food, toys and apparel from October through December. In fact, as this report reveals, despite almost one-third of the year's retail sales expected to be registered in just these three months, a number of sales reduction factors, including unusually high shrink, will put additional strains on brick-and-mortar retailers already suffering from an inhospitable retail market.

Belgium

Most Frequently Stolen Items	Items
alphabetical order	apparel
	children's toys
	luxury food

In this section, we will review the following data for the Belgian market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Christmas Season

The Christmas season financial performance contributes roughly 35% of a retailer's annual sales base, while incurring 38% of the annual shrink loss. There are three reasons for this increase. First, store product mixes change considerably during the Christmas season to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behavior like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra bathing suit for the summer.

38%
Of the Annual Shrink Loss

Margin Captured for the Christmas Season

Retailers book 31% of all margin dollars for the year during the Christmas season. However, the rate of margin for that quarter decreases from a robust 31% for the rest of the year, to 26.8%, which is just under a 15% decline of realized margin captured. This significant drop off can be attributed to deeper promotional events such as "loss leaders" and "door busters," which are designed to increase foot traffic and thus basket size/customer spend.

The chart below shows the expected increased sales distribution in the Christmas season (34.8%), with a smaller margin distribution of 31.2% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for the Christmas season of 38% and a similar sales reduction activity (SRA) distribution of 37.6% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is about double that of other quarters.

Belgium

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	20.6%	21.5%	19.2%	19.7%
Q2	22.5%	24.7%	21.7%	21.3%
Q3	22.1%	22.5%	21.1%	21.5%
Q4	34.8%	31.2%	38.0%	37.6%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

Belgium	Gross Margin
Q1	31.2%
Q2	32.8%
Q3	30.4%
Q4	26.8%
Total	**29.85%**

Cost of Loss per Person for the Christmas Season

The retail cost loss burden for the retailers surveyed in Belgium for 2016 is expected to be $46 per person, of which $18, about double that of other quarters, is expected to be incurred in the Christmas season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 8.88
Q2	$ 10.05
Q3	$ 9.79
Q4	$ 17.57
Total	***$ 46.29***

Other Key Performance Indicator Data for the Christmas Season

Annually for every $84 in sales there is $1 worth of "loss dollars" incurred. However, during the Christmas season, the run rate is expected to decline to only $77 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 60% higher run rate than the rest of the year.

But…

- Burn – Margins show a 15% lower run rate than the rest of the year.

- Burn – Shrink during this season is 15% higher than the rest of the year.

- Burn – The SRA burden is 13% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 90.09
Q2	$ 86.96
Q3	$ 87.72
Q4	$ 76.92
Total	***$ 83.91***

2016

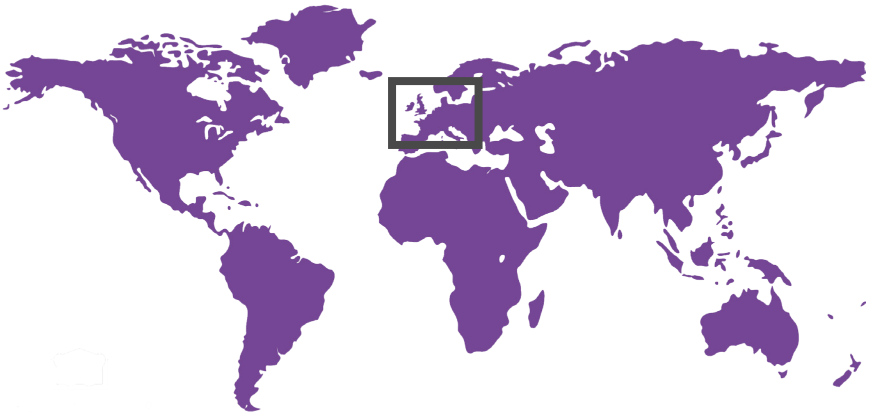
Retail Holiday Season Global Forecast

Country Report

France

Country Report
France

Often seasonal sets are shipped as early as September by French retailers.



French retailers employ traditional developed markets' fourth-quarter calendar year/ Christmas season marketing strategies in order to maximize sales and margins. For example, Christmas merchandising has gradually arrived earlier in the season. Often seasonal sets are shipped as early as September. At risk for theft items for the holiday season may include grocery items such as foie gras, smoked salmon, champagnes, and mushrooms; apparel; as well as a variety of electronics. Early seasonal inventory sets may lead to increased sales reduction pressures including markdowns and shrink from October through December. In fact, as this report reveals, despite more than one-third of the year's retail sales expected to be registered in just these three months, a number of sales reduction factors, including unusually high shrink, will put additional strains on brick-and-mortar retailers already suffering from a challenging retail environment.

France

Most Frequently Stolen Items	Items
alphabetical order	champagne
	electronics
	foie gras
	mushrooms
	smoked salmon

In this section, we will review the following data for the French market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Christmas Season

The Christmas season financial performance contributes roughly 36% of a retailer's annual sales base, but incurs 46% of the annual shrink loss. There are three reasons for this increase. First, store product mixes change considerably during the Christmas season to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behavior like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra bathing suit for the summer.

46%

Of the Annual Shrink Loss

Margin Captured for the Christmas Season

Retailers book 32% of all margin dollars for the year during the Christmas season. However, the rate of margin for that quarter decreases from a robust 30% for the rest of the year, to 25.7%, which is just under a 15% decline of realized margin captured. This significant drop off can be attributed to deeper promotional events such as “loss leaders” and “door busters,” which are designed to increase foot traffic and thus basket size/ customer spend.

The chart below shows the expected increased sales distribution in the Christmas season (35.7%), with a smaller margin distribution of 32% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for the Christmas season of 44.2% and a similar sales reduction activity (SRA) distribution of 42.4% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is about double that of other quarters.

France

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	20.3%	21.8%	17.6%	18.7%
Q2	21.8%	22.7%	19.6%	19.0%
Q3	22.2%	23.6%	18.7%	20.0%
Q4	35.7%	32.0%	44.2%	42.4%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

France	Gross Margin
Q1	30.8%
Q2	29.9%
Q3	30.5%
Q4	25.7%
Total	**28.70%**

Cost of Loss per Person for the Christmas Season

The retail cost loss burden for the retailers surveyed in France for 2016 is expected to be $41 per person, of which $18, more than double that of other quarters, is expected to be incurred in the Christmas season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 7.24
Q2	$ 8.10
Q3	*$ 7.70*
Q4	$ 18.21
Total	***$ 41.24***

Other Key Performance Indicator Data for the Christmas Season

Annually for every $120 in sales there is $1 worth of "loss dollars" incurred. However, during the Christmas season, the run rate is expected to decline to only $97 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 66% higher run rate than the rest of the year.

But…

- Burn – Margins show a 15% lower run rate than the rest of the year.
- Burn – Shrink during this season is 42% higher than the rest of the year.
- Burn – The SRA burden is 32% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 138.89
Q2	$ 133.33
Q3	*$ 142.86*
Q4	$ 97.09
Total	***$ 120.08***

2016

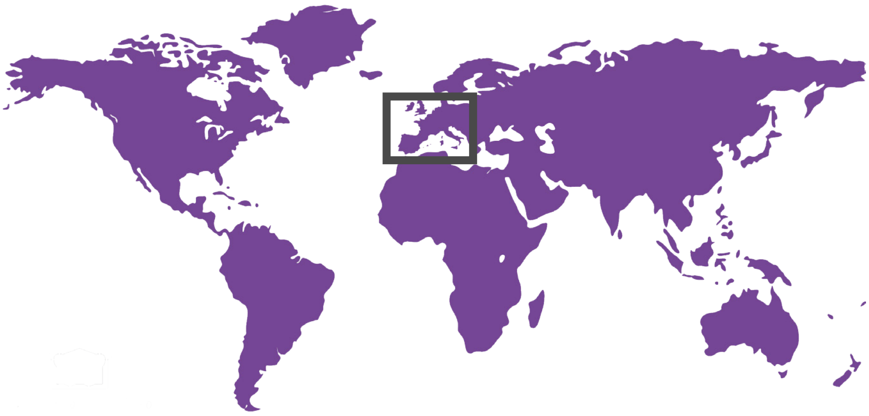
Retail Holiday Season Global Forecast

Country Report

Germany

Country Report
Germany

Many German retailers often prepare seasonal sets in October and early November.



Many German retailers employ traditional developed markets' fourth-quarter calendar year/Christmas Time marketing strategies in order to optimize sales and margins. For example, Christmas merchandising has gradually arrived earlier in the season. Often seasonal sets are being prepped in October and early November. These early seasonal inventory sets may lead to increased sales reduction pressures including markdowns and shrink for products such as holiday foods (salmon, carp, smoked eel, trout, Christmas goose, boxes of chocolates, Christstollen) as well as electronics (tablets, smartphones, TVs and game consoles) from October through December. In fact, as this report reveals, despite more than one-third of the year's retail sales expected to be registered in just these three months, a number of sales reduction factors, including unusually high shrink, will put additional strains on brick-and-mortar retailers enduring a difficult retail market.

Germany

Most Frequently Stolen Items	Items
alphabetical order	electronics
	luxury food

In this section, we will review the following data for the German market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Christmas Season

The Christmas Time financial performance contributes roughly 34% of a retailer's annual sales base, while incurring 46% of the annual shrink loss. There are three reasons for this increase. First, store product mixes change considerably during Christmas Time to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is often higher. In addition, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behavior like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra bathing suit for the summer.

46%

Of the Annual Shrink Loss

Margin Captured for the Christmas Season

Retailers book 31% of all margin dollars for the year during Christmas Time. However, the rate of margin for that quarter decreases from a robust 29% for the rest of the year, to 25%, which is just under a 13% decline of realized margin captured. This measurable drop off can be attributed to deeper promotional events such as “loss leaders” and “door busters,” which are designed to increase foot traffic and thus basket size/customer spend.

The chart below shows the expected increased sales distribution during Christmas Time (34%), with a smaller margin distribution of 31% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for Christmas Time of 41.1% and a similar sales reduction activity (SRA) distribution of 38.4% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is about double that of other quarters.

Germany

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	20.2%	20.9%	18.1%	19.1%
Q2	21.5%	22.4%	19.3%	20.1%
Q3	24.3%	25.6%	21.5%	22.4%
Q4	34.0%	31.0%	41.1%	38.4%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

Germany	Gross Margin
Q1	28.8%
Q2	29.0%
Q3	29.3%
Q4	25.4%
Total	**27.79%**

Cost of Loss per Person for the Christmas Season

The retail cost loss burden for the retailers surveyed in Germany for 2016 is expected to be $51 per person, of which $21, about double that of other quarters, is expected to be incurred during Christmas Time. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 9.20
Q2	$ 9.79
Q3	*$ 10.95*
Q4	$ 20.90
Total	***$ 50.84***

Other Key Performance Indicator Data for the Christmas Season

Annually for every $92 in sales there is $1 worth of “loss dollars” incurred. However, during Christmas Time the run rate is expected to decline to only $76 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 55% higher run rate than the rest of the year.

But…

- Burn – Margins show a 13% lower run rate than the rest of the year.
- Burn – Shrink during this season is 35% higher than the rest of the year.
- Burn – The SRA burden is 21% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 103.09
Q2	$ 103.09
Q3	*$ 104.17*
Q4	$ 76.34
Total	***$ 92.32***

2016

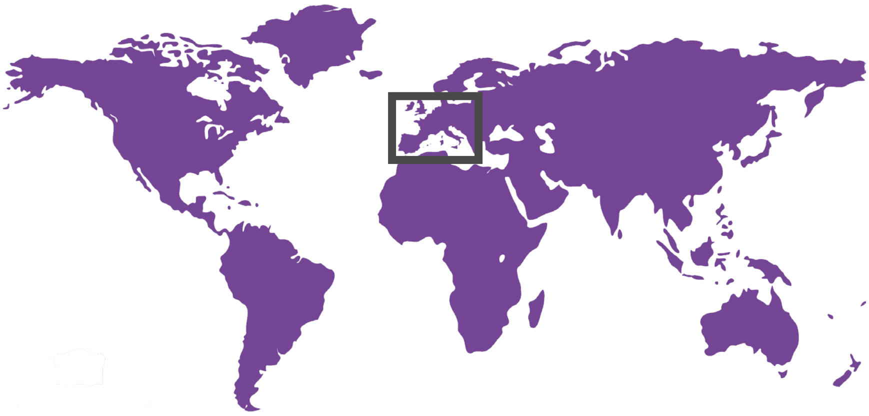
Retail Holiday Season Global Forecast

Country Report

Italy

Country Report
Italy

At the end of October and early November, seasonal sets are being prepped by Italian retailers.



Italian retailers employ traditional developed markets' fourth-quarter calendar year/ Christmas season marketing strategies in order to optimize sales and margins. For example, Christmas merchandising has gradually arrived earlier in the season. Often seasonal sets are being prepped at the end of October and early November. These early seasonal inventory sets may lead to increased sales reduction pressures including markdowns and shrink for merchandise such as luxury foods and toys from October through December. In fact, as this report reveals, despite almost one-third of the year's retail sales expected to be registered in just these three months, a number of sales reduction factors, including unusually high shrink, will put additional strains on brick-and-mortar retailers already reeling from an ongoing inhospitable retail market.

Italy

Most Frequently Stolen Items	Items
alphabetical order	Accessories
	Children's toys
	Consumer electronics
	Luxury food

In this section, we will review the following data for the Italian market:

- Expected retail shrink rates by quarter for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Christmas Season

The Christmas season financial performance contributes 34.6% of a retailer's annual sales base, while incurring 38% of the annual shrink loss. There are three reasons for this increase. First, store product mixes change considerably during the Christmas season to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behavior like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra bathing suit for the summer.

38%

Of the Annual Shrink Loss

Margin Captured for the Christmas Season

Retailers book 32% of all margin dollars for the year during the Christmas season. However, the rate of margin for that quarter decreases from a robust 30% for the rest of the year, to 27%, which is just under a 10% decline of realized margin captured. This drop off can be attributed to deeper promotional events such as "loss leaders" and "door busters," which are designed to increase foot traffic and thus basket size/customer spend.

The chart below shows the expected increased sales distribution in the Christmas season (34.6%), with a smaller margin distribution of 32% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for the Christmas season of 38% and a similar sales reduction activity (SRA) distribution of 37.8% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is about double that of other quarters.

Italy

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	21.0%	21.6%	19.7%	20.1%
Q2	21.2%	21.8%	19.7%	19.8%
Q3	23.2%	24.4%	22.4%	22.3%
Q4	34.6%	32.2%	38.2%	37.8%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

Italy	Gross Margin
Q1	29.6%
Q2	29.6%
Q3	30.2%
Q4	26.8%
Total	**28.77%**

Other Key Performance Indicator Data for the Christmas Season

Annually for every $99 in sales there is $1 worth of "loss dollars" incurred. However, during the Christmas season, the run rate is expected to decline to only $89 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 58% higher run rate than the rest of the year.

But…

- Burn – Margins show a 10% lower run rate than the rest of the year.
- Burn – Shrink during this season is 17% higher than the rest of the year.
- Burn – The SRA burden is 15% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 105.26
Q2	$ 106.38
Q3	*$ 102.04*
Q4	$ 89.29
Total	***$ 98.69***

2016

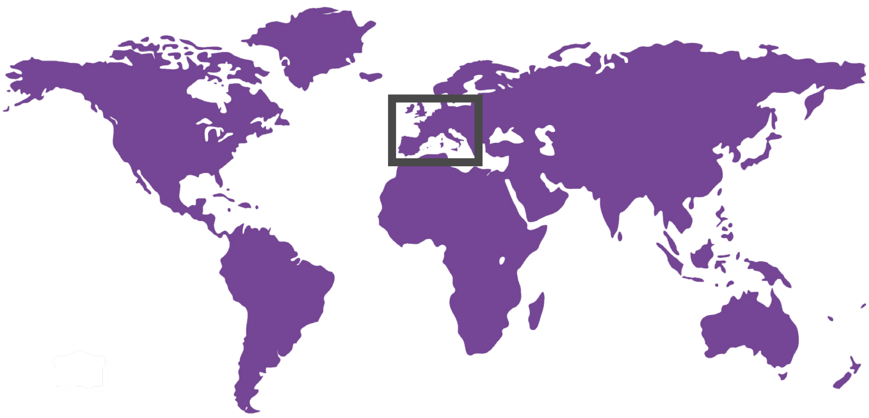
Retail Holiday Season Global Forecast

Country Report

Netherlands

Country Report
Netherlands

Often, Dutch retailers prepare seasonal sets, such as children's toys, apparel and holiday foods at the end of September.



Dutch retailers generally employ traditional developed markets' fourth-quarter calendar year/Christmas season marketing strategies in order to optimize sales and margins. For example, Christmas merchandising has gradually arrived earlier in the season. Often seasonal sets, such as children's toys, apparel and holiday foods, are being prepped at the end of September. These early seasonal inventory sets may lead to increased sales reduction pressures including markdowns and shrink from October through December. In fact, as this report reveals, despite almost one-third of the year's retail sales expected to be registered in just these three months, a number of sales reduction factors, including unusually high shrink, will put additional strains on brick-and-mortar retailers suffering from an inhospitable retail market.

Netherlands

Most Frequently Stolen Items	Items
alphabetical order	apparel
	children's toys
	holiday foods

In this section, we will review the following data for the Dutch market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Christmas Season

The Christmas season financial performance contributes roughly 32% of a retailer's annual sales base, while incurring 37% of the annual shrink loss. There are three reasons for this increase. First, store product mixes change considerably during the Christmas season to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behavior like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra bathing suit for the summer.

37%

Of the Annual Shrink Loss

Margin Captured for the Christmas Season

Retailers book almost 31% of all margin dollars for the year during the Christmas season. However, the rate of margin for that quarter decreases from 29% for the rest of the year, to 27.5%, which is just under a 6.6% decline of realized margin captured. This slight drop off can be attributed to deeper promotional events such as “loss leaders” and “door busters,” which are designed to increase foot traffic and thus basket size/customer spend.

The chart below shows the expected increased sales distribution in the Christmas season (32.3%), with a smaller margin distribution of 30.8% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for the Christmas season of 37% and a similar sales reduction activity (SRA) distribution of 41% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is about double that of other quarters.

Netherlands

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	22.2%	22.3%	21.2%	17.3%
Q2	22.8%	22.9%	21.4%	19.2%
Q3	22.8%	24.0%	20.1%	22.5%
Q4	32.3%	30.8%	37.3%	41.0%
Totals	***100.02%***	***100.00%***	***100.00%***	***100.00%***

Netherlands	Gross Margin
Q1	29.0%
Q2	29.1%
Q3	30.4%
Q4	27.5%
Total	**28.86%**

Cost of Loss per Person for the Christmas Season

The retail cost loss burden for the retailers surveyed in Netherlands for 2016 is expected to be $56 per person, of which $21, about double that of other quarters, is expected to be incurred in the Christmas season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 11.90
Q2	$ 12.03
Q3	$ 11.33
Q4	$ 20.98
Total	***$ 56.24***

Other Key Performance Indicator Data for the Christmas Season

Annually for every $67 in sales there is $1 worth of "loss dollars" incurred. However, during the Christmas season, the run rate is expected to decline to only $58 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 43% higher run rate than the rest of the year.

But…

- Burn – Margins show a 7% lower run rate than the rest of the year.
- Burn – Shrink during this season is 24% higher than the rest of the year.
- Burn – The SRA burden is 45% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 70.92
Q2	$ 71.94
Q3	$ 76.34
Q4	$ 58.48
Total	**$ 67.57**

2016

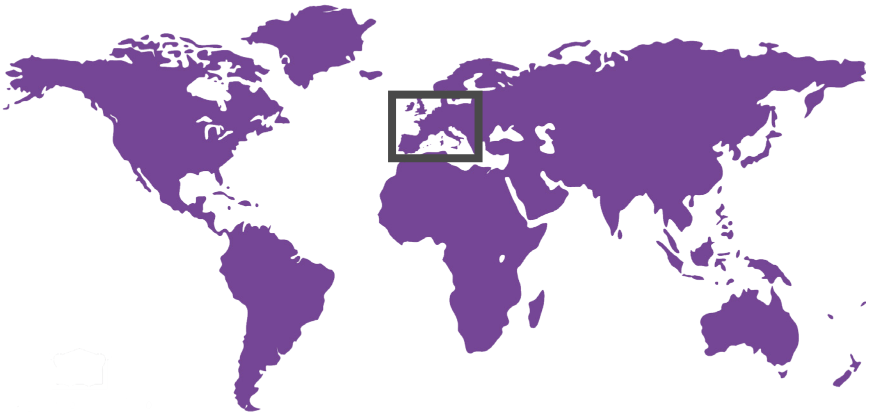
Retail Holiday Season Global Forecast

Country Report

Portugal

Country Report
Portugal

In Portugal, often seasonal sets are being prepped at the end of October and early November.



Many Portuguese retailers employ traditional developed markets' fourth-quarter calendar year/Christmas season marketing strategies in order to maximize sales and margins. For example, Christmas merchandising has gradually arrived earlier in the season. Often seasonal sets are being prepped at the end of October and early November. These early seasonal inventory sets may lead to increased sales reduction pressures including markdowns and shrink for merchandise such as luxury foods, toys and apparel from October through December. In fact, as this report reveals, despite almost one-third of the year's retail sales expected to be registered in just these three months, a number of sales reduction factors, including unusually high shrink, will put additional strains on brick-and-mortar retailers already suffering from an ongoing inhospitable retail market.

Portugal

Most Frequently Stolen Items	Items
alphabetical order	apparel
	children's toys
	luxury food
	makeup products

In this section, we will review the following data for the Portuguese market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Christmas Season

The Christmas season financial performance contributes roughly 30% of a retailer's annual sales base, while incurring 35% of the annual shrink loss. There are three reasons for this increase. First, store product mixes change considerably during the Christmas season to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behavior like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra bathing suit for the summer.

35%

Of the Annual Shrink Loss

Margin Captured for the Christmas Season

Retailers book 27% of all margin dollars for the year during the Christmas season. However, the rate of margin for that quarter decreases from a robust 26% for the rest of the year, to 22%, which is just under a 14% decline of realized margin captured. This significant drop off can be attributed to deeper promotional events such as “loss leaders” and “door busters,” which are designed to increase foot traffic and thus basket size/ customer spend.

The chart below shows the expected increased sales distribution in the Christmas season (30%), with a smaller margin distribution of 27% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for the Christmas season of 35% and a similar sales reduction activity (SRA) distribution of 33% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is about double that of other quarters.

Portugal

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	22.8%	23.8%	21.4%	22.1%
Q2	22.8%	23.9%	19.9%	21.0%
Q3	24.5%	25.5%	23.3%	24.0%
Q4	29.9%	26.8%	35.4%	32.9%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

Portugal	Gross Margin
Q1	26.1%
Q2	26.2%
Q3	26.1%
Q4	22.4%
Total	**25.01%**

Cost of Loss per Person for the Christmas Season

The retail cost loss burden for the retailers surveyed in Portugal for 2016 is expected to be $22 per person, of which $8, nearly double that of other quarters, is expected to be incurred in the Christmas season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 4.77
Q2	$ 4.43
Q3	$ 5.19
Q4	$ 7.87
Total	***$ 22.26***

Other Key Performance Indicator Data for the Christmas Season

Annually for every $111 in sales there is $1 worth of "loss dollars" incurred. However, during the Christmas season, the run rate is expected to decline to only $93 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 27% higher run rate than the rest of the year.

But…

- Burn – Margins show a 14% lower run rate than the rest of the year.
- Burn – Shrink during this season is 28% higher than the rest of the year.
- Burn – The SRA burden is 15% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 117.65
Q2	$ 126.58
Q3	$ 116.28
Q4	$ 93.46
Total	***$ 110.55***

2016

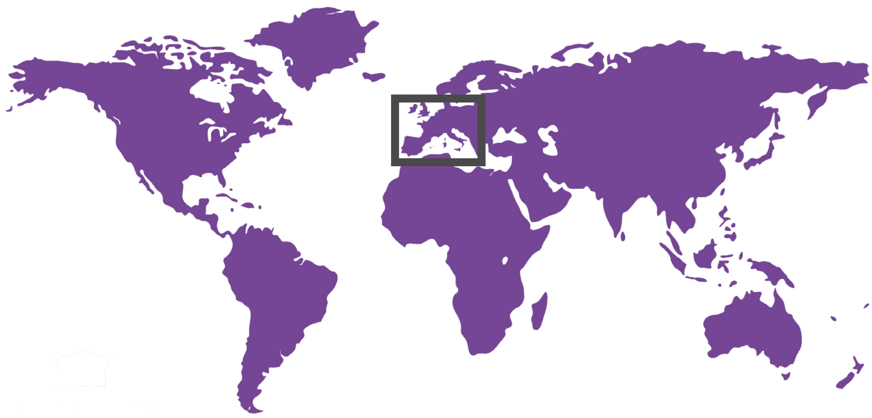
Retail Holiday Season Global Forecast

Country Report

Spain

Country Report
Spain

Often, between the end of October and early November, seasonal sets are prepped by Spanish retailers.



Many Spanish retailers employ traditional developed markets' fourth-quarter calendar year/Christmas season marketing strategies in order to optimize sales and margins. For example, Christmas merchandising has gradually arrived earlier in the season. Often seasonal sets are being prepped at the end of October and early November. These early seasonal inventory sets may lead to increased sales reduction pressures including markdowns and shrink for goods such as luxury foods, toys and apparel from October through December. In fact, as this report reveals, despite almost one-third of the year's retail sales expected to be registered in just these three months, a number of sales reduction factors, including unusually high shrink, will put additional strains on brick-and-mortar retailers already experiencing ongoing retail strains.

Spain

Most Frequently Stolen Items	Items
alphabetical order	apparel
	children's toys
	luxury food
	premium wines&spirits
	cellphone accessories
	makeup products

In this section, we will review the following data for the Spanish market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Christmas Season

The Christmas season financial performance contributes roughly 32% of a retailer's annual sales base, while incurring 37% of the annual shrink loss. There are three reasons for this increase. First, store product mixes change considerably during the Christmas season to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behavior like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra bathing suit for the summer.

37%

Of the Annual Shrink Loss

Margin Captured for the Christmas Season

Retailers book 28.6% of all margin dollars for the year during the Christmas season. However, the rate of margin for that quarter decreases from a robust 27% for the rest of the year, to 23%, which is just under a 13% decline of realized margin captured. This meaningful drop off can be attributed to deeper promotional events such as “loss leaders” and “door busters,” which are designed to increase foot traffic and thus basket size/customer spend.

The chart below shows the expected increased sales distribution in the Christmas season (32%), with a smaller margin distribution of 29% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for the Christmas season of 37% and a similar sales reduction activity (SRA) distribution of 35% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is almost double that of other quarters.

Spain

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	21.0%	21.7%	18.5%	19.1%
Q2	23.0%	24.1%	21.8%	21.7%
Q3	24.4%	25.5%	23.5%	23.8%
Q4	31.6%	28.6%	36.1%	35.4%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

Spain	Gross Margin
Q1	26.7%
Q2	27.0%
Q3	27.0%
Q4	23.3%
Total	**25.77%**

Cost of Loss per Person for the Christmas Season

The retail cost loss burden for the retailers surveyed in Spain for 2016 is expected to be $35 per person, of which $13, almost 76% higher than that of other quarters, is expected to be incurred in the Christmas season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 6.68
Q2	$ 7.01
Q3	$ 8.27
Q4	$ 12.87
Total	***$ 34.82***

Other Key Performance Indicator Data for the Christmas Season

Annually for every $75 in sales there is $1 worth of “loss dollars” incurred. However, during the Christmas season, the run rate is expected to decline to only $64 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 39% higher run rate than the rest of the year.

But…

- Burn – Margins show a 13% lower run rate than the rest of the year.
- Burn – Shrink during this season is 16% higher than the rest of the year.
- Burn – The SRA burden is 14% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 82.64
Q2	$ 86.21
Q3	$ 77.52
Q4	$ 64.52
Total	***$ 75.45***

2016

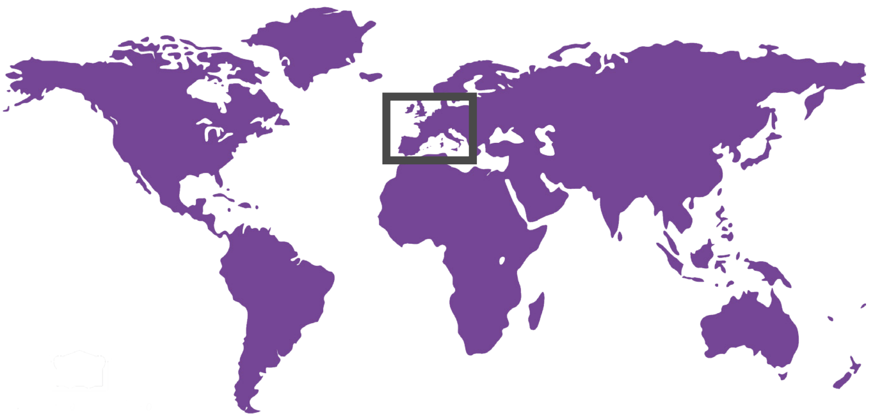
Retail Holiday Season Global Forecast

Country Report

United Kingdom (UK)

Country Report
United Kingdom

In the UK, Christmas sets often begin arriving in stores in September.



UK retailers often employ US fourth-quarter calendar year/Christmas season marketing strategies in order to optimize sales and margins. For example, even though Thanksgiving's Black Friday is a US event, many UK retailers have initiated sales events on that same date. Likewise, Christmas merchandising has typically begun earlier in the season. As such, Christmas sets begin arriving in stores in September. High risk theft items include grocery (champagne, spirits, steak, chocolates), apparel (leather/designer outerwear, hats, gloves, dresses), and goods from department stores (jewellery, perfume, home ware). These early seasonal inventory sets may lead to increased sales reduction pressures including markdowns and shrink from October through December. In fact, as this report reveals, despite almost one-third of the year's retail sales expected to be registered in just these three months, a number of sales reduction factors, including

UK

Most Frequently Stolen Items	Items
alphabetical order	alcohol - champagne & spirits
	apparel
	electrical goods
	food - chocolate & luxury meat
	perfume & make-up inc gift sets

unusually high shrink, will put additional strains on brick-and-mortar retailers already reeling from a challenging retail market.

In this section, we will review the following data for the UK market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Shrink Losses for the Christmas Season

The Christmas season financial performance contributes roughly 34% of a retailer's annual sales base, while incurring 38% of the annual shrink loss. There are three reasons for this increase. First, store product mixes change considerably during the season to include higher priced merchandise. So even if the same quantity of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behaviour like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra bathing suit for the summer.

38%

Of the Annual Shrink Loss

Margin Captured for the Christmas Season

Retailers book 32% of all margin dollars for the year during the Christmas season. However, the rate of margin for that quarter decreases to 29.8% from a robust 33.1% for the rest of the year, which is just under a 9.8% decline of realized margin captured. This drop off can be attributed to deeper promotional events such as "loss leaders" and "door busters," which are designed to increase foot traffic and thus basket size/customer spend.

The chart below shows the expected increased sales distribution in the Christmas season (34.6%), with a smaller margin distribution of 32% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for the Christmas season of 37.7% and an SRA distribution of 40.2% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is roughly double that of other quarters.

United Kingdom

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	20.9%	22.5%	20.6%	20.8%
Q2	22.1%	23.3%	20.3%	19.0%
Q3	22.4%	22.0%	21.4%	20.0%
Q4	34.6%	32.2%	37.7%	40.2%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

UK	Gross Margin
Q1	33.9%
Q2	34.2%
Q3	31.2%
Q4	29.8%
Total	**31.96%**

Cost of Loss per Person for the Christmas Season

The retail cost loss burden for the retailers surveyed in the UK for 2016 is expected to be $59 per person, of which $26, about twice as much as in other quarters, is expected to be incurred in the Christmas season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 10.27
Q2	$ 10.57
Q3	$ 11.75
Q4	$ 26.20
Total	***$ 58.79***

Other Key Performance Indicator Data for the Christmas Season

Annually for every $112 in sales there is $1 worth of "loss dollars" incurred. However, during the Christmas season, the run rate is expected to decline to $89 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season. This increased pressure on profitability during the season can be seen in more detail in the data below:

- Capture – Sales during this season are at a 58% higher run rate than the rest of the year.

But…

- Burn – Margins show a 9.8% lower run rate than the rest of the year.
- Burn – Shrink during this season is 52% higher than the rest of the year.
- Burn – The SRA burden is 27% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 135.14
Q2	$ 138.89
Q3	$ 126.58
Q4	$ 87.72
Total	***$ 112.97***

2016

Retail Holiday Season Global Forecast

Country Report

Australia

Country Report
Australia

In Australia, Christmas mechandising has gradually arrived earlier in the season, with seasonal sets shipped in August – or even earlier.

Australian retailers use traditional developed markets' marketing strategies to maximize sales and margins during the fourth-quarter of the calendar year (Christmas season). However, neither the sales nor shrink distributions for this quarter are as dramatic as for their European or American counterparts. One reason is that Christmas merchandising has gradually arrived earlier in the season, with seasonal sets shipped in August – or even earlier. These early seasonal inventory sets may lead to increased sales reduction pressures, including markdowns, increased shrink for high-risk items such as apparel, accessories plus expensive grocery items such as cheese and meat that are traditionally used for entertaining during the Christmas holidays.

Australia

Most Frequently Stolen Items	Items
alphabetical order	apparel
	appareal - accessories
	holiday cheese
	holiday meats

In fact, as this report reveals, despite somewhat less than one-third of the year's retail sales expected to be registered in the last three calendar months, a number of sales reduction factors (including higher shrink) will put additional strains on brick-and-mortar retailers, which are experiencing a challenging retail market.

In this section, we will review the following data for the Australian market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Christmas Season

The fourth-quarter Christmas season financial performance contributes approximately 29% of a retailer's annual sales base, while incurring 35% of the annual shrink loss. There are three reasons for this. Firstly, store product mixes change considerably during the Christmas season to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. Secondly, there is increased store foot traffic, which correlates to more shoplifting. And finally, people tend to rationalize immoral behavior like shoplifting. It's much easier to do so when a child's Christmas present is at stake rather than an extra jacket for the winter.

35%
Of the Annual Shrink Loss

Margin Captured for the Christmas Season

Retailers book 28% of all margin dollars for the year during the Christmas season. However, the rate of margin for that quarter decreases from 28% for the rest of the year to 26%, which is a 5% decline of realized margin captured. This moderate drop off can be attributed to deeper promotional events such as “loss leaders” and “door busters,” which are designed to increase foot traffic and thus basket size/customer spend.

The chart below shows the expected increased sales distribution in the Christmas season (29%), with a smaller margin distribution of 28% for that same time period. The smaller margin distribution can be attributed to more promotional events, loss leaders, price downs, markdowns, etc., as well as increased shrink. The table shows this increased shrink distribution for the Christmas season of 35% and a sales reduction activity (SRA) distribution of 30% for the same period. Beyond the factors noted earlier, credit card declines, breakdowns in processes by poorly trained/motivated seasonal workers and other factors contribute to this percentage, which is higher than that of other quarters.

Australia

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	22.4%	22.8%	19.5%	22.0%
Q2	23.2%	23.8%	20.7%	23.0%
Q3	25.6%	25.8%	25.3%	25.6%
Q4	28.7%	27.6%	34.5%	29.5%
Totals	***99.90%***	***100.00%***	***100.00%***	***100.00%***

Australia	Gross Margin
Q1	28.3%
Q2	28.6%
Q3	28.0%
Q4	26.8%
Total	**27.83%**

Cost of Loss per Person for the Christmas Season

The retail cost loss burden for the retailers surveyed in Australia for 2016 is expected to be $61 per person, of which $21, about 58% more than other quarters, is expected to be incurred in the Christmas season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 11.94
Q2	$ 12.65
Q3	*$ 15.55*
Q4	$ 21.15
Total	***$ 61.29***

Other Key Performance Indicator Data for the Christmas Season

Annually for every $98 in sales there is $1 worth of “loss dollars” incurred. However, during the Christmas season, the run rate is expected to decline to only $81 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 20% higher run rate than the rest of the year.

But…

- Burn – Margins show a 5% lower run rate than the rest of the year.
- Burn – Shrink during this season is 31% higher than the rest of the year.
- Burn – The SRA burden is 4% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 112.36
Q2	$ 109.89
Q3	*$ 99.01*
Q4	$ 81.30
Total	***$ 97.75***

2016

Retail Holiday Season Global Forecast

Country Report

China

Country Report
China

Chinese retailers experience both their highest sales and shrink distributions in this period.

The Chinese retail vertical is a top-growth emerging markets sector and does not follow traditional Western trends specific to the fourth-quarter of the calendar year. That said, as this report reveals, Chinese retailers experience both their highest sales and shrink distributions in this period, with many shipments in November for Christmas and New Year's Day holiday promotions of apparel cloth and accessories as well as cosmetics. This is placing additional strains on brick-and-mortar retailers struggling in a difficult retail market.

China

Most Frequently Stolen Items	Items
alphabetical order	apparel - cloth
	apparel - accessories
	cosmetics

In this section, we will review the following data for the Chinese market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Season

The fourth quarter financial performance contributes roughly 26.4% of a retailer's annual sales base, while incurring 29.9% of the annual shrink loss. There are two reasons for this increase. First, store product mixes change considerably during the fourth quarter to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting.

30%
Of the Annual Shrink Loss

Margin Captured for the Season

Retailers book 26.4% of all margin dollars for the year during the fourth quarter. However, the rate of margin for that period decreases from 24.3% for the rest of the year, to 23.9%, which is just under a 1.5% decline of realized margin captured.

The chart below shows the expected increased sales distribution in the fourth quarter (26.4%), with a slightly smaller margin distribution of 26.1% for that same time period. The smaller margin distribution can be attributed, in part, to increased shrink. The table shows this increased shrink distribution for the fourth quarter of 29.9%, and a similar sales reduction activity (SRA) distribution of 27.1% for the same period.

China

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	23.3%	23.4%	20.8%	22.9%
Q2	24.0%	23.8%	21.2%	23.8%
Q3	26.3%	26.7%	28.1%	26.2%
Q4	26.4%	26.1%	29.9%	27.1%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

China	Gross Margin
Q1	24.4%
Q2	24.1%
Q3	24.6%
Q4	24.0%
Total	**24.26**

Cost of Loss per Person for the Season

The retail cost loss burden for the retailers surveyed in China for 2016 is expected to be $2.70 per person, of which $0.81, about 28% more than the first two calendar quarters, is expected to be incurred in the fourth quarter. These increases in losses place a burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$0.56
Q2	$ 0.57
Q3	*$ 0.76*
Q4	$ 0.81
Total	***$ 2.70***

Other Key Performance Indicator Data for the Season

Annually for every $74 in sales there is $1 worth of “loss dollars” incurred. However, during the fourth quarter, the run rate is expected to decline to only $65 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 7% higher run rate than the rest of the year.

But…

- Bun – Margins show a 1.5% lower run rate than the rest of the year.
- Burn – Shrink during this season is 20% higher than the rest of the year.
- Burn – The SRA burden is 4% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 82.64
Q2	$ 83.33
Q3	*$ 68.97*
Q4	$ 64.94
Total	***$ 73.65***

2016

Retail Holiday Season Global Forecast

Country Report

China (Hong Kong)

Country Report
Hong Kong

In Hong Kong, retailers experience both their highest sales and shrink distributions during this period.

The Hong Kong retail vertical is a top-growth emerging markets sector and does not follow traditional Western trends specific to the fourth-quarter of the calendar year. That said, as this report reveals, retailers here experience both their highest sales and shrink distributions during this period. Sales of many Christmas and New Year's Day holiday-related merchandise that are at risk of being stolen, such as toys, apparel and electronics, ship in October and November. This places additional strains on brick-and-mortar retailers already facing a challenging retail market.

Hong Kong

Most Frequently Stolen Items	Items
alphabetical order	apparel
	children's toys
	electronics

In this section, we will review the following data for the Hong Kong market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Season

The fourth-quarter financial performance contributes 26.9% of a retailer's annual sales base, while incurring 30.4% of the annual shrink loss. There are two reasons for this increase. First, store product mixes change considerably during the season to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting.

30%
Of the Annual Shrink Loss

Margin Captured for the Season

Retailers book 26.9% of all margin dollars for the year during the season. However, the rate of margin for that quarter decreases from 29% for the rest of the year, to 28%, which is just under a 3% decline of realized margin captured.

The chart below shows the expected increased sales distribution in the season (26.9%), with a smaller margin distribution of 26.3% for that same time period. The smaller margin distribution can be attributed to a number of factors, including increased shrink. The table shows this increased shrink distribution for the season of 30.2% and a similar sales reduction activity (SRA) distribution of 29.1% for the same period.

Hong Kong

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	22.9%	23.0%	19.8%	22.2%
Q2	23.9%	24.1%	20.5%	22.4%
Q3	26.3%	26.6%	29.3%	26.3%
Q4	26.9%	26.3%	30.4%	29.1%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

Hong Kong	Gross Margin
Q1	29.0%
Q2	29.0%
Q3	29.1%
Q4	28.2%
Total	**28.80%**

Cost of Loss per Person for the Season

The retail cost loss burden for the retailers surveyed in Hong Kong for 2016 is expected to be $22.62 per person, of which $6.89, about 33% higher than that of the first two quarters, is expected to be incurred in the season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 4.48
Q2	$ 4.63
Q3	$ 6.62
Q4	$ 6.89
Total	***$ 22.62***

Other Key Performance Indicator Data for the Season

Annually for every $94 in sales there is $1 worth of "loss dollars" incurred. However, during the season, the run rate is expected to decline to only $84 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 10% higher run rate than the rest of the year.

But…

- Burn – Margins show a 3% lower run rate than the rest of the year.
- Burn – Shrink during this season is 20% higher than the rest of the year.
- Burn – The SRA burden is 12% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 109.89
Q2	$ 111.11
Q3	$ 85.47
Q4	$ 84.03
Total	***$ 95.12***

2016

Retail Holiday Season Global Forecast

Country Report

Japan

Country Report
Japan

Japanese retailers experience both their highest sales and shrink distributions during this period.

The Japanese retail vertical is a strong developed market sector, but does not follow traditional Western trends specific to the fourth-quarter of the calendar year. That said, as this report reveals, Japanese retailers experience both their highest sales and shrink distributions during this period, with an uptick in selling for its year-end holiday season. Increased shipments of merchandise like children's toys, cashmere winter garments, leather gloves/wallets and holiday foods are at high risk. This is placing additional strains on brick-and-mortar retailers struggling in an inhospitable retail market.

Japan

Most Frequently Stolen Items	Items
alphabetical order	apparel - cashmere
	apparel - leather
	apparel - winter garments
	children's toys
	holiday foods

In this section, we will review the following data for the japanese market:

- Expected retail shrink rates by quarter for 2016.
- Expected cost of shrink for the average individual by season for 2016.
- Expected sales mix/margins as well as shrink/sales reducing activities (SRA) distributions by season for 2016.
- Expected other KPIs (sales margin to shrink ratio by quarter) for 2016.

Retail Losses for the Fourth Quarter

The fourth-quarter calendar financial performance contributes 28.1% of a retailer's annual sales base in Japan, while incurring 30.7% of the annual shrink loss. There are two reasons for this increase. First, store product mixes change considerably during the fourth quarter to include higher priced merchandise. So even if the same amount of merchandise was stolen, the value of the merchandise stolen is higher. In addition, there is increased store foot traffic, which correlates to more shoplifting.

31%
Of the Annual Shrink Loss

Margin Captured for the Fourth Quarter

Retailers book 26.6% (see chart below) of all margin dollars for the year during the season. However, the rate of margin for that quarter decreases from 24.5% for the rest of the year, to 22.8%, which is just under a 7% decline of realized margin captured.

The chart below shows the expected increased sales distribution in the season (28.1%), with a smaller margin distribution of 26.6% for that same time period. The smaller margin distribution can be attributed to a number of factors, including increased shrink. The table shows this increased shrink distribution for the season of 30.7% and a similar sales reduction activity (SRA) distribution of 29.2% for the same period.

Japan

Incurred Dollars	Sales Distribution	Margin Distribution	Shrink Distribution	SRA Distribution
Q1	22.4%	22.9%	20.4%	21.5%
Q2	23.2%	23.6%	22.6%	23.0%
Q3	26.3%	26.8%	26.2%	26.2%
Q4	28.1%	26.6%	30.7%	29.2%
Totals	***100.00%***	***100.00%***	***100.00%***	***100.00%***

Japan	Gross Margin
Q1	24.7%
Q2	24.5%
Q3	24.6%
Q4	22.8%
Total	**24.09%**

Cost of Loss per Person for the Fourth Quarter

According to the chart below, the retail cost loss burden for the retailers surveyed in Japan in 2016 is expected to be $40.54 per person, of which $12.46, about 33% higher than that of the first three quarters, is expected to be incurred in the season. These increases in losses place an enormous burden on retailers and, ultimately, on honest consumers who pay for it in higher prices.

Loss dollars to population	
Q1	$ 8.26
Q2	$ 9.18
Q3	*$ 10.64*
Q4	$ 12.46
Total	***$ 40.54***

Other Key Performance Indicator Data for the Fourth Quarter

Annually, for every $73.93 in sales there is $1 worth of “loss dollars” incurred in Japan. However, during the fourth quarter, the run rate is expected to decline to only $67.57 in sales for every loss dollar incurred. As such, they are capturing fewer sales for every lost dollar during this season.

- Capture – Sales during this season are at a 17% higher run rate than the rest of the year.

But…

- Burn – Margins show an 7% loweer run rate than the rest of the year.
- Burn – The SRA burden is 23.7% higher than the rest of the year.

Sales Dollar - Shrink Ratio	
Q1	$ 81.30
Q2	$ 75.76
Q3	*$ 74.07*
Q4	$ 67.57
Total	***$ 73.93***

2016 RETAIL HOLIDAY SEASON

GLOBAL FORECAST

2016

by

www.CheckpointSystems.com