


 **NRF LOSS PREVENTION**  
CONFERENCE & EXPO

NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012  
EXPO JUNE 20-21, 2012  
[www.nrf.com/LP12](http://www.nrf.com/LP12)

## Realizing the LP Benefits: Merging Refund Management with Customer Data

Friday, June 22, 2012 9:45am


 **NRF LOSS PREVENTION** CONFERENCE & EXPO

NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
[www.nrf.com/LP12](http://www.nrf.com/LP12)

## Agenda

- Introductions
- The Science of Linking and Fraud Detection
- The Home Depot Perspective
- The Donna Karan Perspective
- Summary
- Q&A


2

 **NRF LOSS PREVENTION CONFERENCE & EXPO** **NEW ORLEANS**  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
[www.nrf.com/LP12](http://www.nrf.com/LP12)

## Introductions


- **Speakers:**
  - David Speights, PhD., Chief Statistician, The Retail Equation
  - Thomas Hacker, Director of Loss Prevention, The Home Depot
  - Paul Paglia, Sr. Director of Loss Prevention & Retail Operations, Donna Karan
- **Moderator:**
  - Gregg Smith, Sr. Director, Loss Prevention, The Children's Place

3

 **NRF LOSS PREVENTION CONFERENCE & EXPO** **NEW ORLEANS**  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
[www.nrf.com/LP12](http://www.nrf.com/LP12)

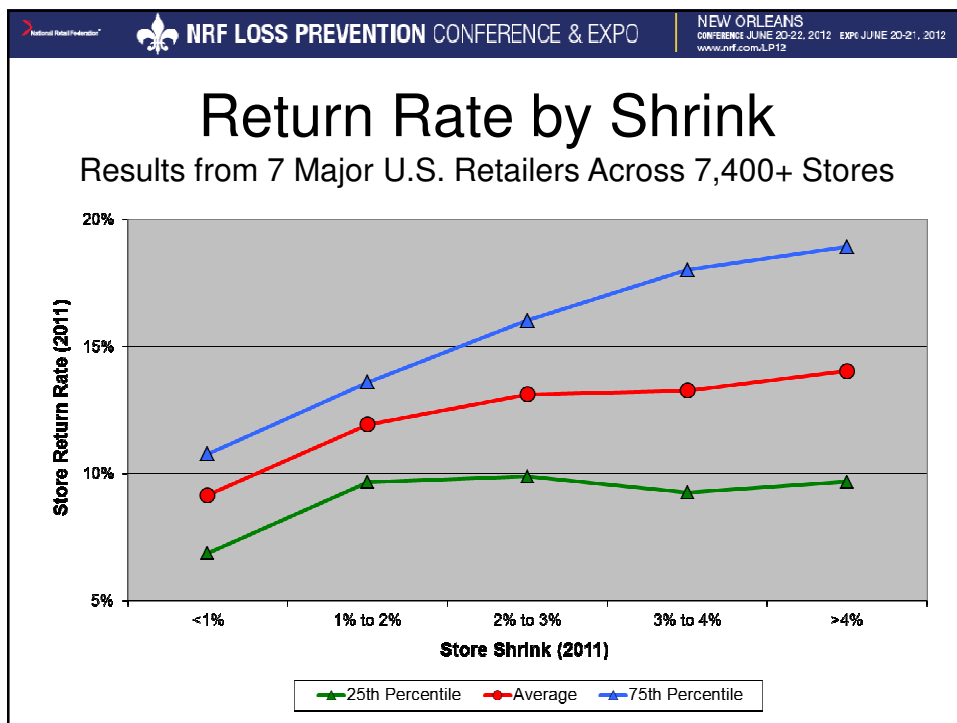
## Realizing the LP Benefits


- What do we mean by:
  - Merging Refund Management with Customer Data
- We are going to focus most of our examples on return fraud, but we will touch on how the linked identities can impact other types of fraud reduction.

National Retail Federation™  **NRF LOSS PREVENTION CONFERENCE & EXPO** | NEW ORLEANS  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## Examples of LP struggles


- Return policy's in a customer centric environment
- Subjectivity in decision making process
- Shrink associated with theft of product
- Return rates and high shrink
- Non-receipted return rates on high theft product
- Linking customer data to return policy



 **NRF LOSS PREVENTION CONFERENCE & EXPO** | **NEW ORLEANS**  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
[www.nrf.com/LP12](http://www.nrf.com/LP12)



## What are Retailers doing Today?

- What solutions are available?
  - No automation, address via policy
  - In-house solution
  - Vendor-based solution

 **NRF LOSS PREVENTION CONFERENCE & EXPO** | **NEW ORLEANS**  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
[www.nrf.com/LP12](http://www.nrf.com/LP12)

## The Science of Linking and Fraud Detection

David Speights, Chief Statistician,  
The Retail Equation

8

NRF LOSS PREVENTION CONFERENCE & EXPO

NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

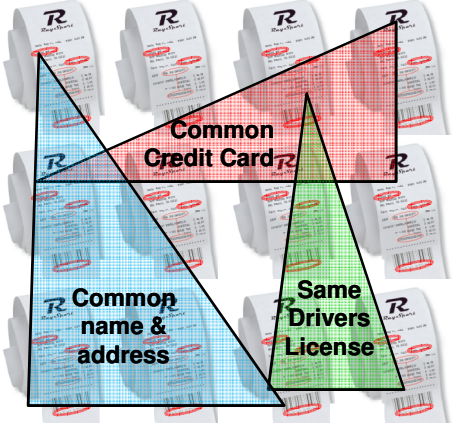
## Components of Return Fraud Detection

- Gather relevant history (linking)
- Create variables to make a decision
- Utilize models to detect unusual patterns
- Output a ranking of “odd” behavior
- Take action
- Study Impact

NRF LOSS PREVENTION CONFERENCE & EXPO

NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

## Which Transactions Actually Belong to a Consumer




Common Credit Card

Common name & address

Same Drivers License


Following the paths between various IDs can form a complete picture of a customer


**NRF LOSS PREVENTION CONFERENCE & EXPO**

NEW ORLEANS  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## Linking Methods

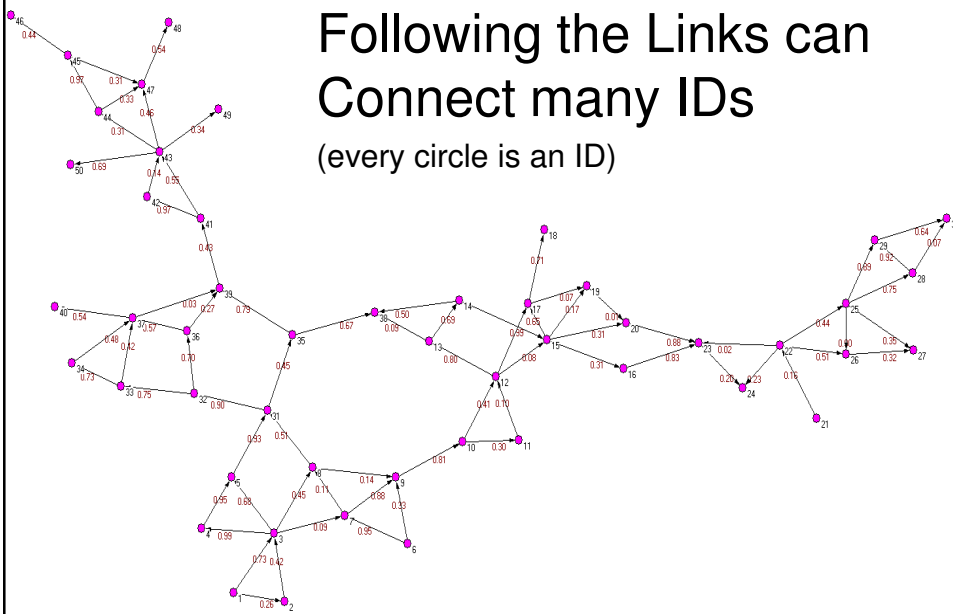
- Old Method: Manual review of receipts
  - Takes many man hours
  - Can only review a few cases at a time
  - Usually initiated by observing or reported suspicious behavior
- New Method: Automated Linking & Visualization
  - Done nightly on all transactions
  - Can review all cases easily
  - Data can be used to discover new cases

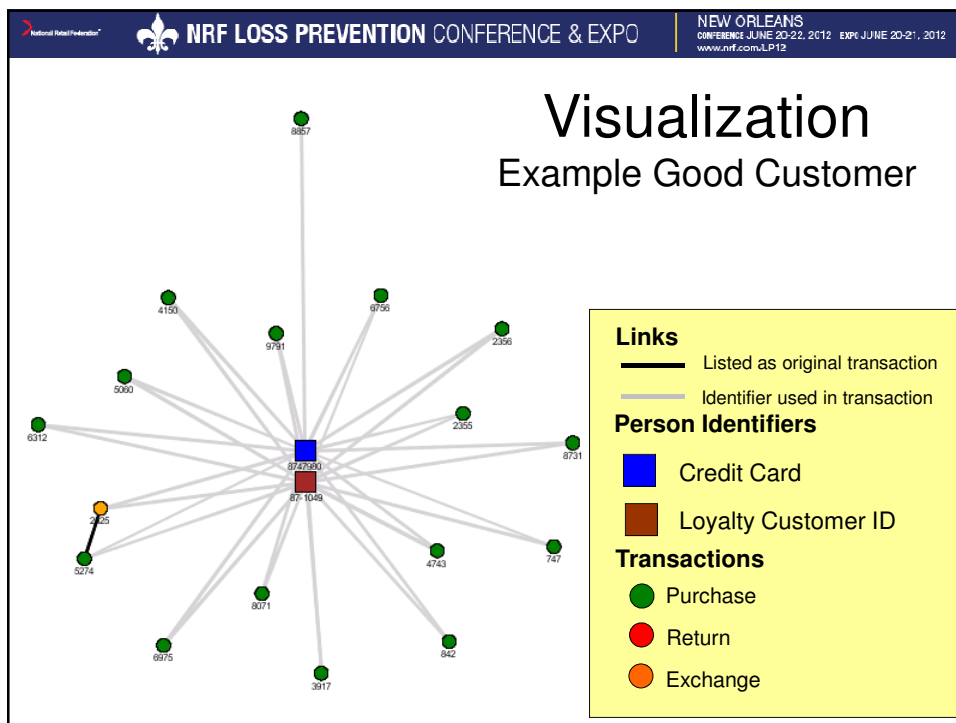
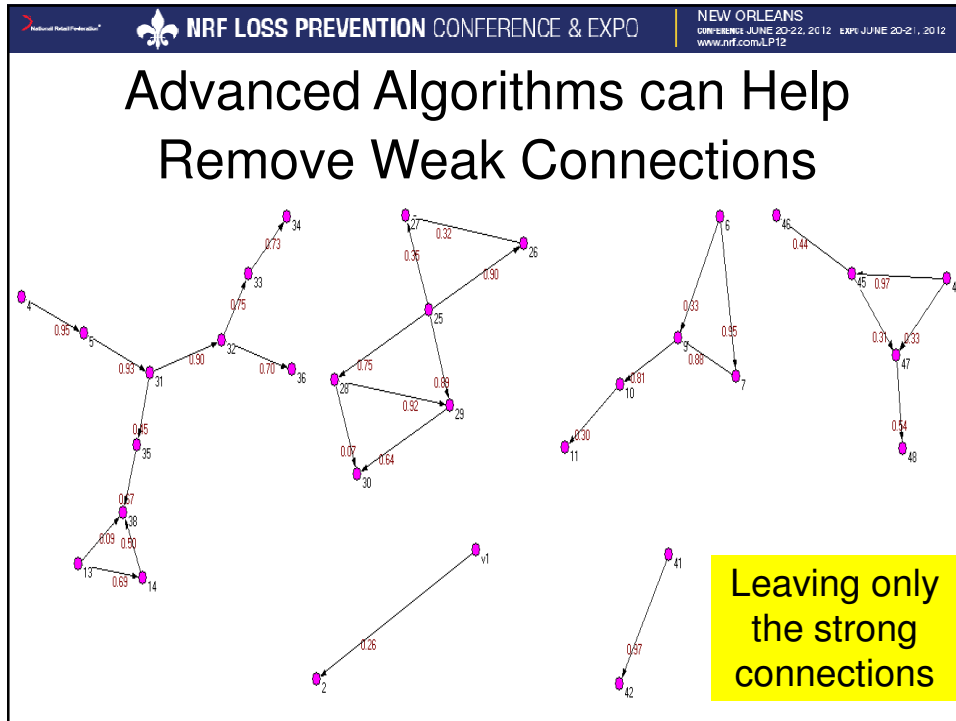

**NRF LOSS PREVENTION CONFERENCE & EXPO**

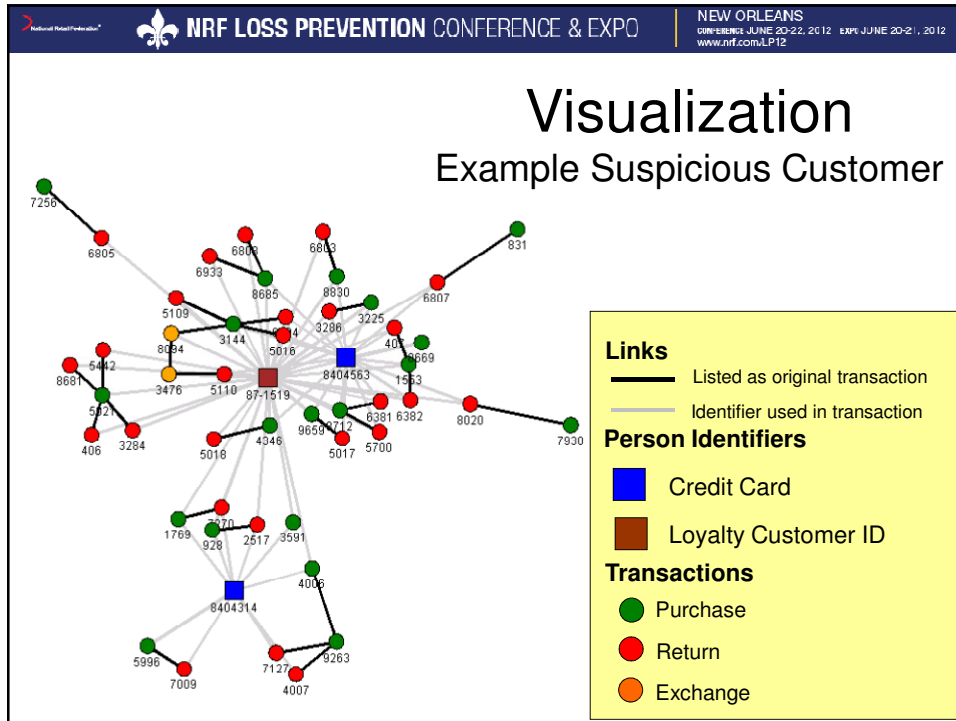
NEW ORLEANS  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## Following the Links can Connect many IDs

(every circle is an ID)







**NRF LOSS PREVENTION CONFERENCE & EXPO** NEW ORLEANS  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## Linking in Action

### Example #1: Return Fraud/Abuse

- Group of Individuals
  - 11 Loyalty Customer IDs
  - 138 Different Payment Cards
- Visited 38 stores
- Buys with one card and returns to another
- Total Returns = \$30,807
- Total Purchases = \$33,705
- Purchased and Returned 120+ Blu-Ray Discs and Pirating Equipment

Copyright © 2002 Microsoft Corp. and/or its suppliers. All rights reserved.

**NRF LOSS PREVENTION CONFERENCE & EXPO** NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## Linking in Action

### Example #1: Return Fraud/Abuse

Automated linking can bring together very complex connections

**NRF LOSS PREVENTION CONFERENCE & EXPO** NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## Example #2: Organized Retail Crime

**SC** = Same Credit Card  
**RT** = Returned 4+ times within 30 minutes of each other in same store  
**SA** = Same Address

Activity disappears after system deployment

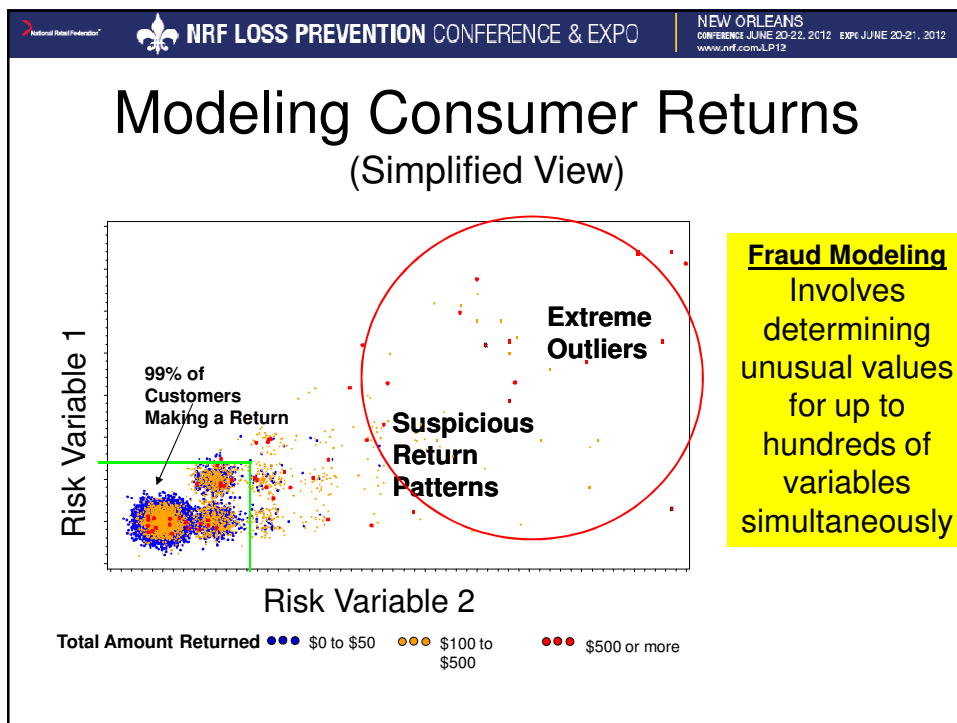
Year	Month	Returns	
2007	6	\$ 133,521	
	7	\$ 175,313	
	8	\$ 18,438	
	9	\$ 1,857	
	10	\$ 387	
	11	\$ 105	
	12	\$ 2,185	
	2008	1	\$ 2,026
		2	\$ 717
		3	\$ 92
		4	\$ 278
		5	\$ 46
6		\$ 45	
7		\$ 281	
10		\$ 515	
<b>Grand Total</b>		<b>\$ 335,806</b>	

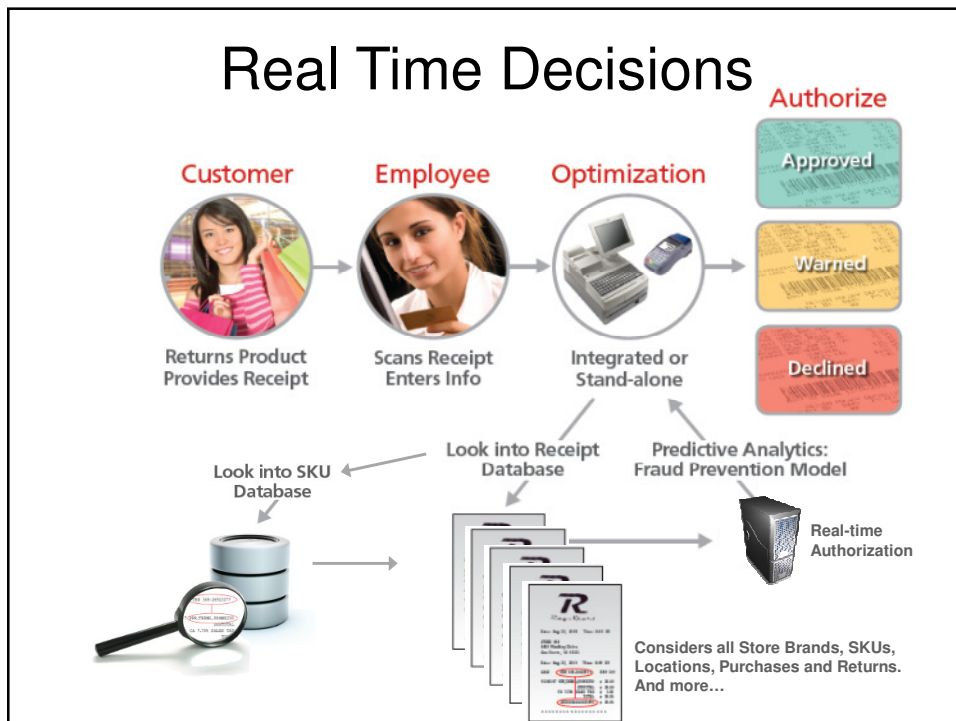
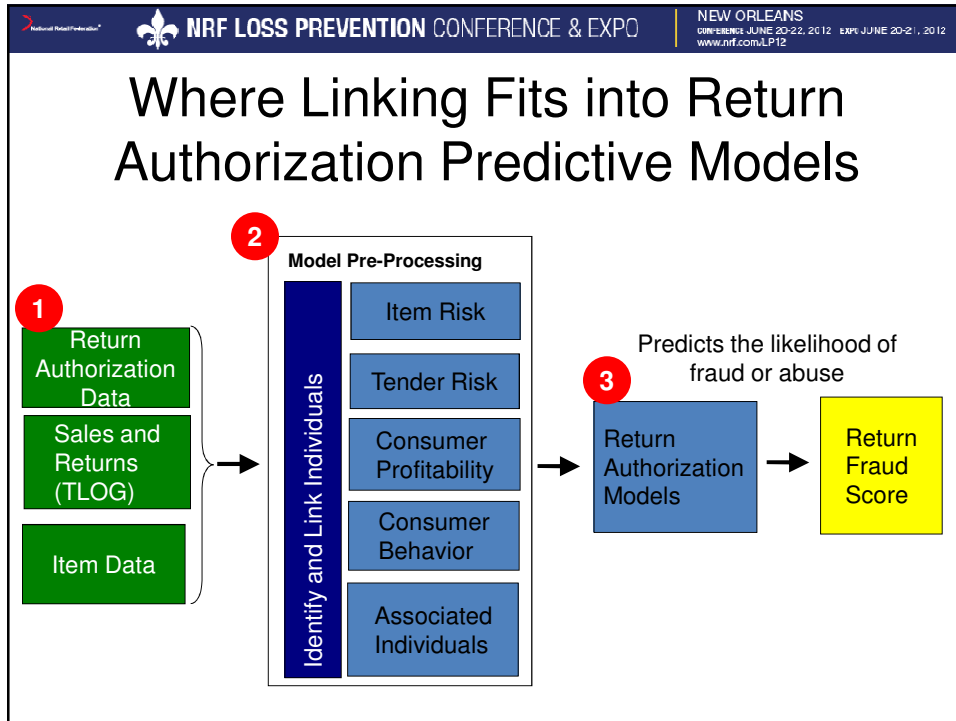
NRF LOSS PREVENTION CONFERENCE & EXPO

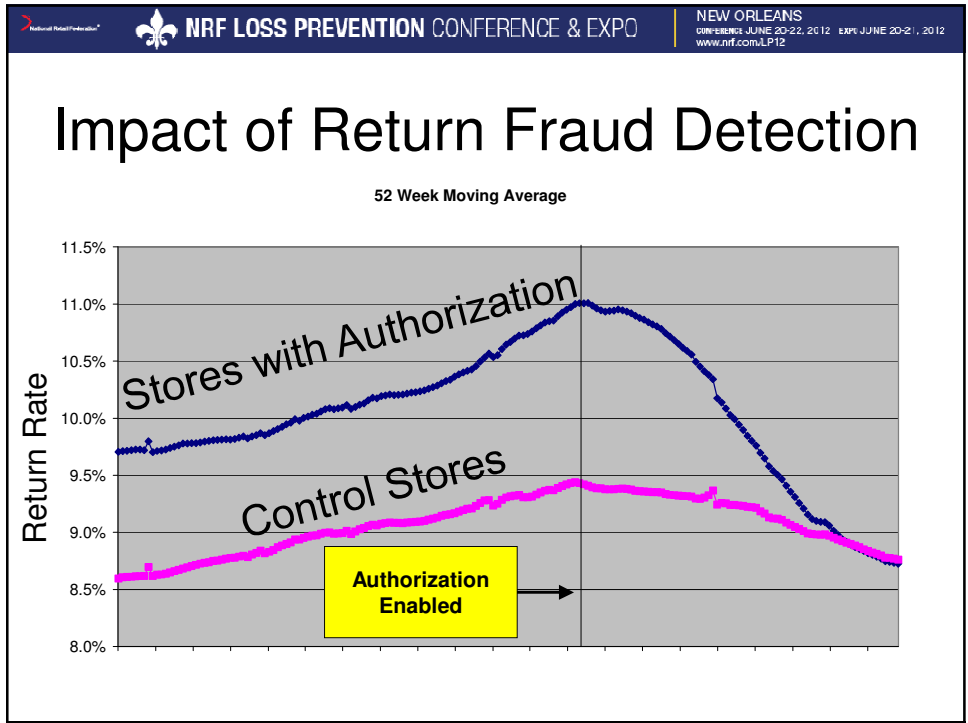
NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

## Variables to Model Return Fraud

- Example Categories to detect fraud
  - Unusual return activity
  - High risk products
  - High risk stores
  - High risk tenders
  - Associated individuals and their profiles
- Example Categories to evaluate profitability
  - Return rate
  - Net sales
  - Discount usage
  - Gross profit
  - Loyalty values







**NRF LOSS PREVENTION CONFERENCE & EXPO** | NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 | EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

## The Home Depot Perspective

Thomas Hacker, Director of Loss Prevention,  
The Home Depot

National Retail Federation

24

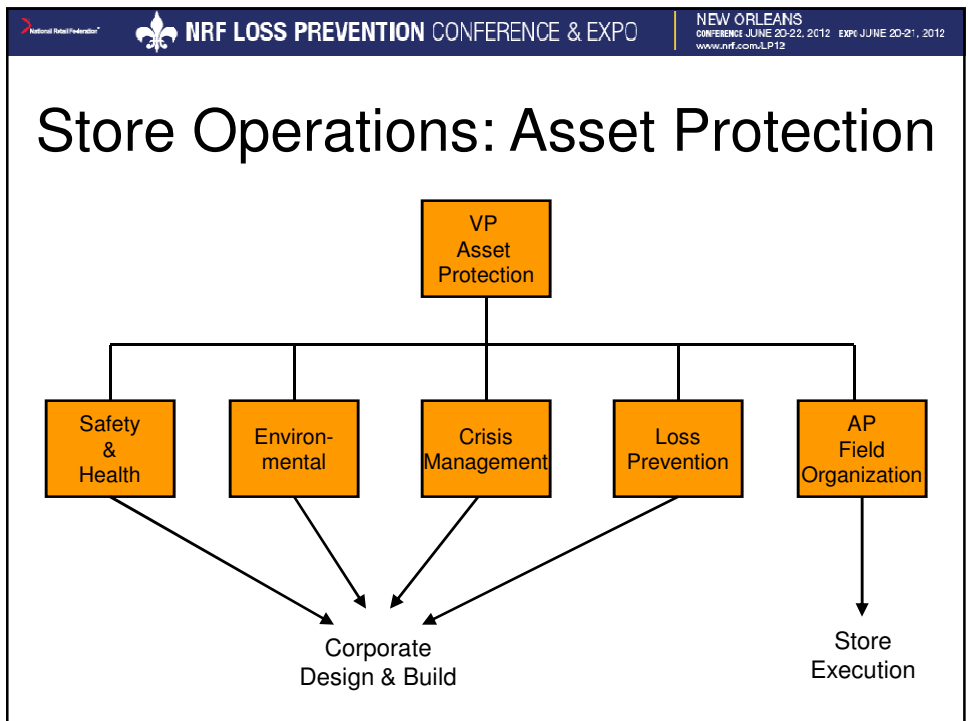
NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nf.com/LP12

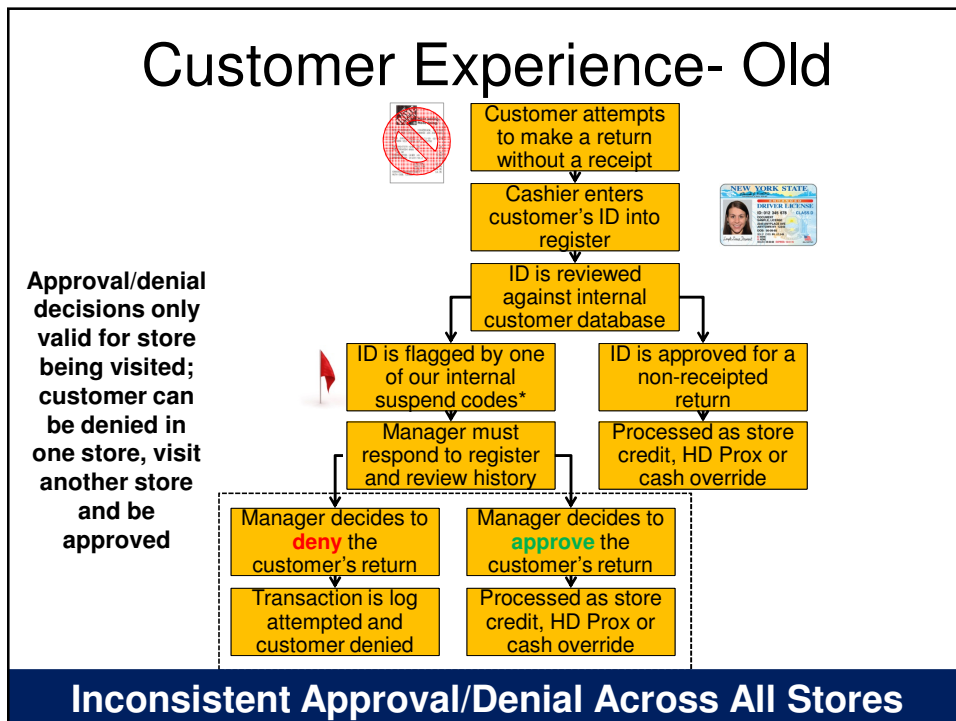
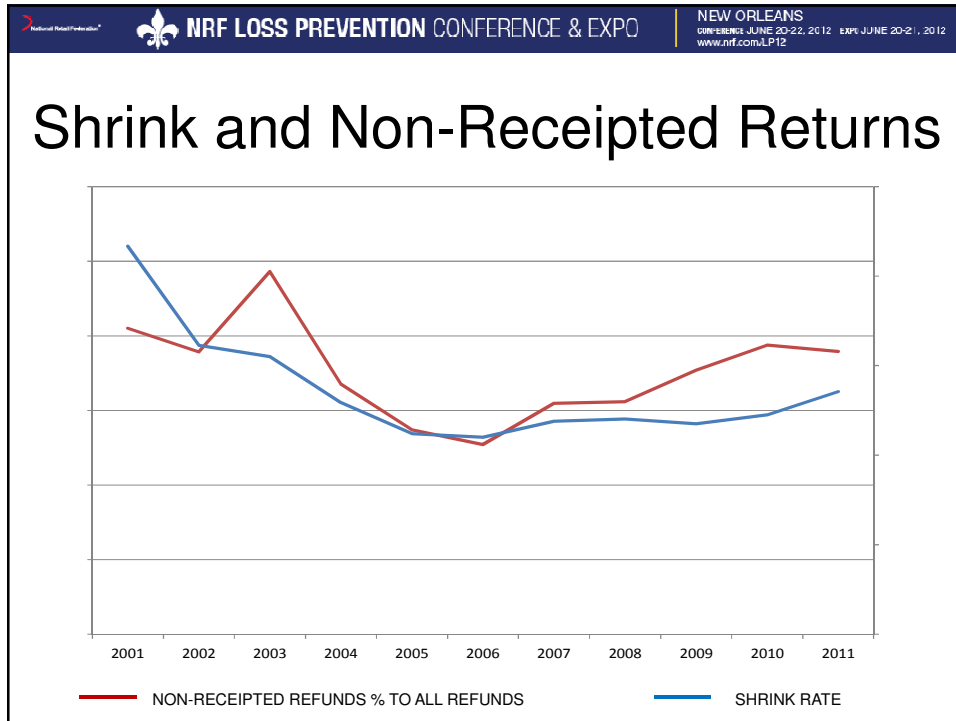
## Facts on The Home Depot

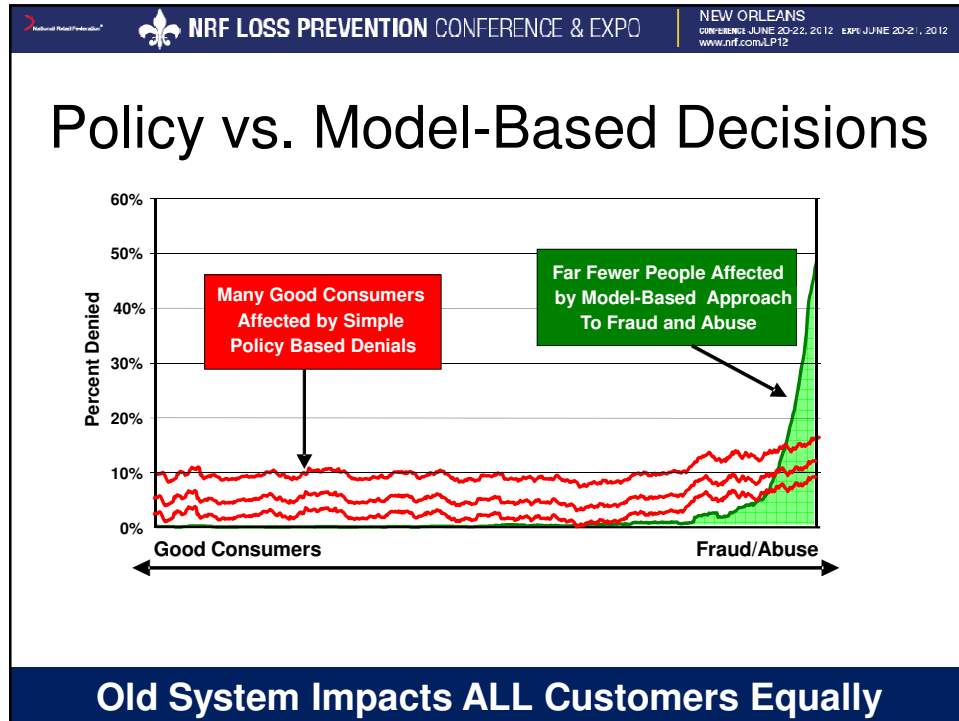
- **Stores:** 2,246 (Q411)
- **Operations:** U.S., Canada, Mexico, Puerto Rico, U.S. Virgin Islands, Guam and China
- **Associates:** approx. 300,000
- **Revenue:** \$70.4B USD (FY11)<sup>1</sup>
- Member of **DOW**
- **NYSE (HD)** since 1981



<sup>1</sup>) Continuing operations








- NRF LOSS PREVENTION CONFERENCE & EXPO
- NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12
- ## The Home Depot's Objectives
- Minimize Fraudulent Return Activity
    - “Decision” non-receipted returns with data & analytics
    - Reduce shrink associated with theft of product
  - Enhance the Customer Experience
    - Significantly reduce the volume of “suspend” activity
    - Increase flexibility on valid non-receipted returns
  - Objectivity vs. Subjectivity
    - Remove approving manager from decision making
    - Reduce levels of conflict management regarding returns
    - Reduce liability exposure relative to profiling

National Retail Federation™ **NRF LOSS PREVENTION CONFERENCE & EXPO** NEW ORLEANS  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## Proof of Concept

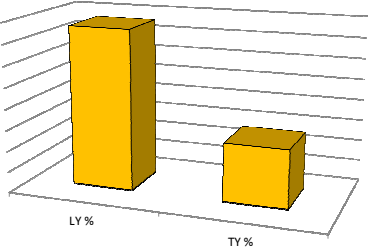
- 90 day POC
- 2 districts in Pacific South (California)
  - 23 total stores
- Monitored surrounding stores to measure impact
- KPIs
  - Total returns as % to sales
  - Non-receipted returns as a % to total returns
  - High theft SKU activity (returns & sales)
  - Shrink results



National Retail Federation™ **NRF LOSS PREVENTION CONFERENCE & EXPO** NEW ORLEANS  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

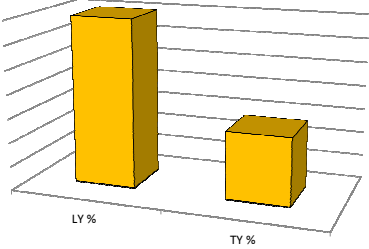
## Proof of Concept Results

**Non-Receipted Returns**



- 244 bps drop vs. LY

**Shrink**



- 21 bps drop vs. LY



NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

## Linked IDs

- 23 IDs linked to one TRE ID#
- Consistent non-receipt return of high theft product
- Purchases linked to redeemed store credits

TRE ID Number	Transaction Key (Date - Store - Register - Tran Number)	Store Number	Purchase Dollars	Return Dollars Receipts	Return Dollars Non Receipts
822966	20090615-1843-1-933	1843	\$ 6.98	\$ -	\$ -
822966	20090615-1843-16-5868	1843	\$ -	\$ (6.98)	\$ (299.00)
822966	20090615-1843-24-1748	1843	\$ -	\$ (299.00)	\$ -
822966	20090615-1843-24-1749	1843	\$ 299.00	\$ -	\$ -
822966	20090615-1843-58-2301	1843	\$ 299.00	\$ -	\$ -
822966	20090616-644-22-9135	644	\$ -	\$ -	\$ (249.00)
822966	20090617-1843-15-512	1843	\$ -	\$ -	\$ (249.00)
822966	20090617-1843-16-6412	1843	\$ -	\$ -	\$ (269.00)
822966	20090617-6968-12-4193	6968	\$ -	\$ -	\$ (269.00)
822966	20090617-6968-13-7199	6968	\$ -	\$ -	\$ (299.00)
822966	20090618-644-22-9791	644	\$ -	\$ -	\$ (279.00)
822966	20090618-644-57-2196	644	\$ 110.10	\$ -	\$ -
822966	20090618-6968-1-7724	6968	\$ 1,541.40	\$ -	\$ -
822966	20090618-6968-13-7252	6968	\$ -	\$ -	\$ (269.00)
822966	20090622-6677-57-3823	6677	\$ 11.55	\$ -	\$ -
822966	20090624-6968-13-8577	6968	\$ -	\$ (468.00)	\$ -
822966	20090624-6968-56-2786	6968	\$ 468.00	\$ -	\$ -
822966	20090624-6968-57-9244	6968	\$ 468.00	\$ -	\$ -
822966	20090625-1069-15-5228	1069	\$ -	\$ -	\$ (299.00)
822966	20090625-1843-16-8303	1843	\$ -	\$ -	\$ (139.00)
822966	20090625-6677-8-4934	6677	\$ -	\$ -	\$ (129.00)
822966	20090625-8572-10-4854	8572	\$ -	\$ -	\$ (408.00)
822966	20090626-1069-15-5376	1069	\$ -	\$ -	\$ (149.00)
822966	20090626-1069-2-5659	1069	\$ 1,357.90	\$ -	\$ -

TRE ID	Purchases	Receipted Returns	Non-Receipted Returns	Total Return \$	Return Rate	Percent Non-Receipted
822966	\$ 25,094	\$ (14,551)	\$ (9,439)	\$ (23,990)	96%	39%

NRF LOSS PREVENTION CONFERENCE & EXPO
NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

## Linked IDs

- 23 IDs linked to one TRE ID#
- Consistent non-receipt return of high theft product
- Purchases linked to redeemed store credits

Receipt Image	Receipt Image
<p><b>THE HOME DEPOT 6968</b> 2600 41ST AVENUE SQUERE, CA 95073 (931)462-5650</p> <p>***Trans 8878 Reg 0013 Cashier JWA5FCZ 6968 00013 88784 06/26/2009 RETURN JWA5FC 12:35 PM</p> <p>**** REFUND ****</p> <p>* ORIG REC: NO RECEIPT TA*</p> <p>088381089425 15V COMBO -299.00 Invalid Host Response(207)</p> <p>SUBTOTAL -299.00 SALES TAX -26.91 TOTAL -325.91</p> <p>XXXXXXXX3912 GIFT CERTI -325.91 EXPIR 0609 TA</p>	<p><b>THE HOME DEPOT 1069</b> 355 S GREEN VALLEY ROAD WATSONVILLE, CA 95076 (831)786-9877</p> <p>***Trans 5228 Reg 0015 Cashier VDL6CE 1069 00015 52280 06/25/2009 RETURN VDL6CE 05:42 PM</p> <p>**** REFUND ****</p> <p>* ORIG REC: NO RECEIPT TA*</p> <p>028877374475 CDLS IMPACT -299.00</p> <p>SUBTOTAL -299.00 SALES TAX -27.66 TOTAL -326.66</p> <p>XXXXXXXX6239 GIFT CERTI -326.66 EXPIR 0609 TA</p>
<p><b>THE HOME DEPOT 1843</b> 1890 N DAVIS ROAD SALINAS CA 93907 (831)444-9614</p> <p>***Trans 6412 Reg 0016 Cashier ER48KG 1843 00016 64127 06/17/2009 RETURN ER48KG 03:08 PM</p> <p>**** REFUND ****</p> <p>* ORIG REC: NO RECEIPT TA*</p> <p>743184993729 EC L-DS -269.00</p>	<p><b>THE HOME DEPOT 0644</b> 2300 N PARK BLVD PITTSBURGH CA 94565 (925)473-1900</p> <p>***Trans 9135 Reg 0022 Cashier MFJ3529 0644 00022 91359 06/16/2009 RETURN MFJ352 03:52 PM</p> <p>**** REFUND ****</p> <p>* ORIG REC: NO RECEIPT TA*</p> <p>088381077521 DRILL/IMPACT -249.00</p>

TRE ID	Purchases	Received Returns	Non-Received Returns	Total Return \$	Return Rate	Percent Non-Received	
822966	\$ 25,094	\$ (14,551)	\$ (9,439)	\$ (23,990)	96%	39%	-249.00 -23.03 -272.03 -272.03 0609 TA

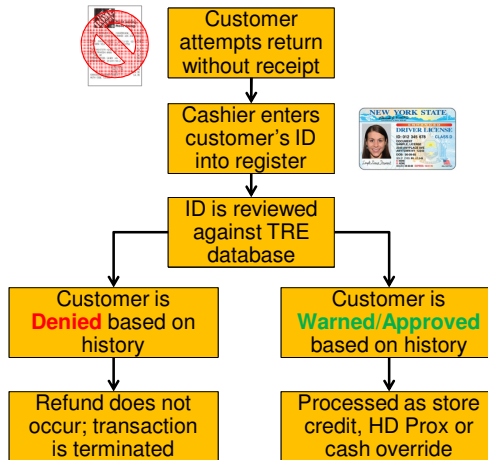
NRF LOSS PREVENTION CONFERENCE & EXPO
NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

## POS Integration

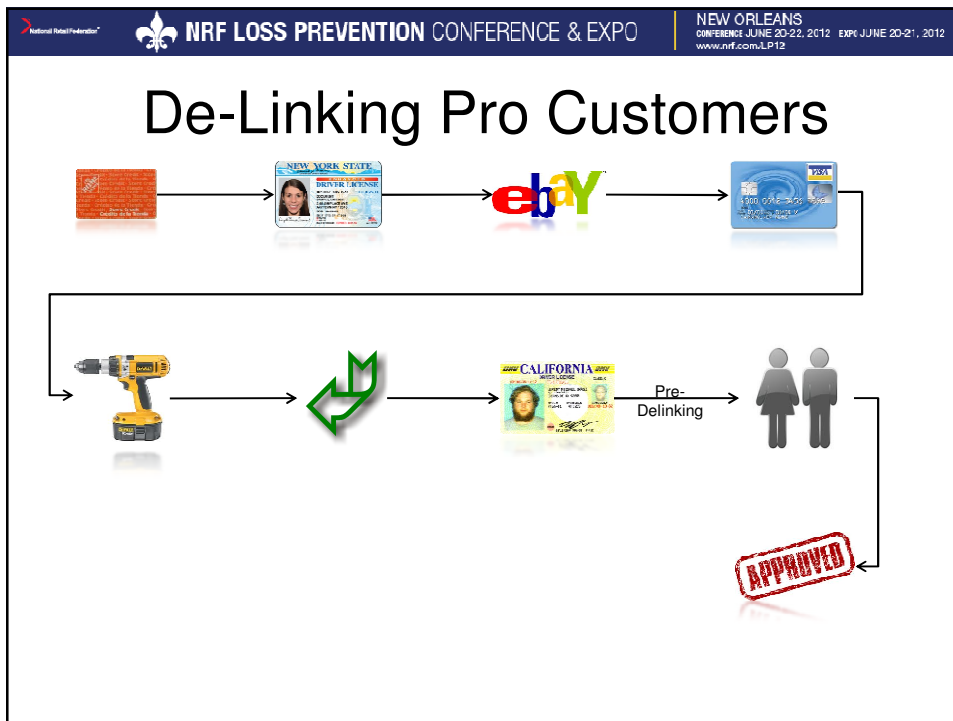
### Things to Consider:

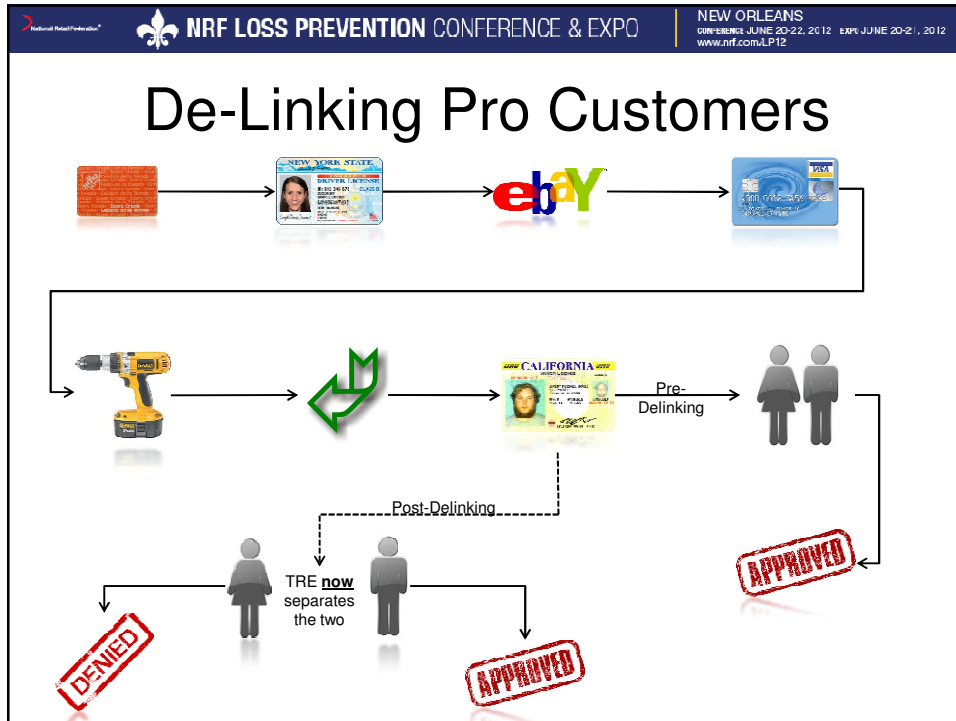
- Update returns policy and signage
- Cashier training guide
- Customer service department and escalations
- Reporting access for AP team

# Customer Experience- New



**Consistent Approval/Denial Across All Stores**





**NRF LOSS PREVENTION CONFERENCE & EXPO** | NEW ORLEANS CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012 www.nrf.com/LP12

## The Donna Karan Perspective

Paul Paglia, Sr. Director of Loss Prevention & Retail Operations, Donna Karan

**National Retail Federation** | **DKNY** DONNA KARAN NEW YORK


40



NRF LOSS PREVENTION CONFERENCE & EXPO NEW ORLEANS CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012 www.nrf.com/LP12

## DKNY LP & Retail Operations


- Wholesale Division & Retail Division
  - Operations Standards & Controls
  - Business Analysis
  - Audit (Retail Stores & Distributions Centers)
  - Awareness Program
  - Training
  - Investigations
  - Expense Control


**NRF LOSS PREVENTION CONFERENCE & EXPO**

**NEW ORLEANS**  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## Fraud & Shrink Control

- Fluid Risk Assessment Process
- Exception Base Reporting System
- CCTV / Video Analytics
- Store Audits
- Refund Policy & Operational Procedures


**NRF LOSS PREVENTION CONFERENCE & EXPO**

**NEW ORLEANS**  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## High Risk Shortage Reporting

<b>Audit:</b>	Assessment Scores / Reduction in Score Results				
<b>Management:</b>	Turnover / Open Postions / Experience / Involuntary Terminations				
<b>Theft:</b>	External & Internal Theft Activity / Defeated Tags / LP Investigations / Return Rate				
<b>Controls:</b>	Cash Shortages / Self Assessment on Time Submission / Self Assessment Accuracy				
<b>Staff:</b>	Conversion / UPT				
	Low Shortage Risk				
	Ave Shortage Risk				
	High Shortage Risk				

Store #	Store Name	Audit	Management	Theft	Controls	Staff
104	Woodbury					
108	Cabazon					
201	Camarillo					
202	Riverhead					
203	Orlando					
204	Leesburg					
205	Wrentham					
206	Limerick					
207	Estero					
208	Miami					
209	Mercedes					
210	San Marcos					
211	Cypress					
212	Vacaville					
213	Tinton Falls					
214	Niagara					
215	Aurora					
216	Las Vegas					
217	Atlantic City					
218	Milpitas					
219	Woodburn					
220	Tulalip					


Store #	Store Name	Audit	Management	Theft	Controls	Staff
104	Woodbury					
108	Cabazon					
201	Camarillo					
202	Riverhead					
203	Orlando					
204	Leesburg					
205	Wrentham					
206	Limerick					
207	Estero					
208	Miami					
209	Mercedes					
210	San Marcos					
211	Cypress					
212	Vacaville					
213	Tinton Falls					
214	Niagara					
215	Aurora					
216	Las Vegas					
217	Atlantic City					
218	Milpitas					
219	Woodburn					
220	Tulalip					

## Exception Based Reporting

- Incidents – Violations – Excessive Violations
- Return Rate by Store
- Returns Exceeding Purchase Reporting
- No Receipt Returns Reporting
- Customer Information Tracking

**NRF LOSS PREVENTION CONFERENCE & EXPO** | NEW ORLEANS  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## Customer / Merchandise / Transaction Type



Channel #5[Registers]  
 13 Channel 5

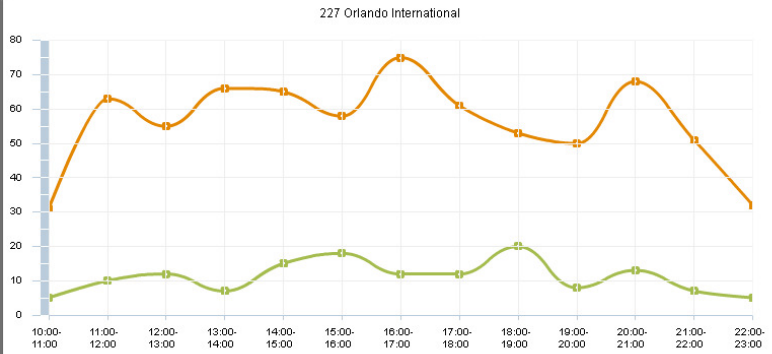
**NRF LOSS PREVENTION CONFERENCE & EXPO** | NEW ORLEANS  
 CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
 www.nrf.com/LP12

## CCTV Analytics / Staffing & Schedules

Business Analytic > Conversion rate > Hourly

Search Date: 04/26/2012 [Calendar Icon] [View Report]

227 Orlando International



**ChartAnalysis**

View Sites

Enable Ranking

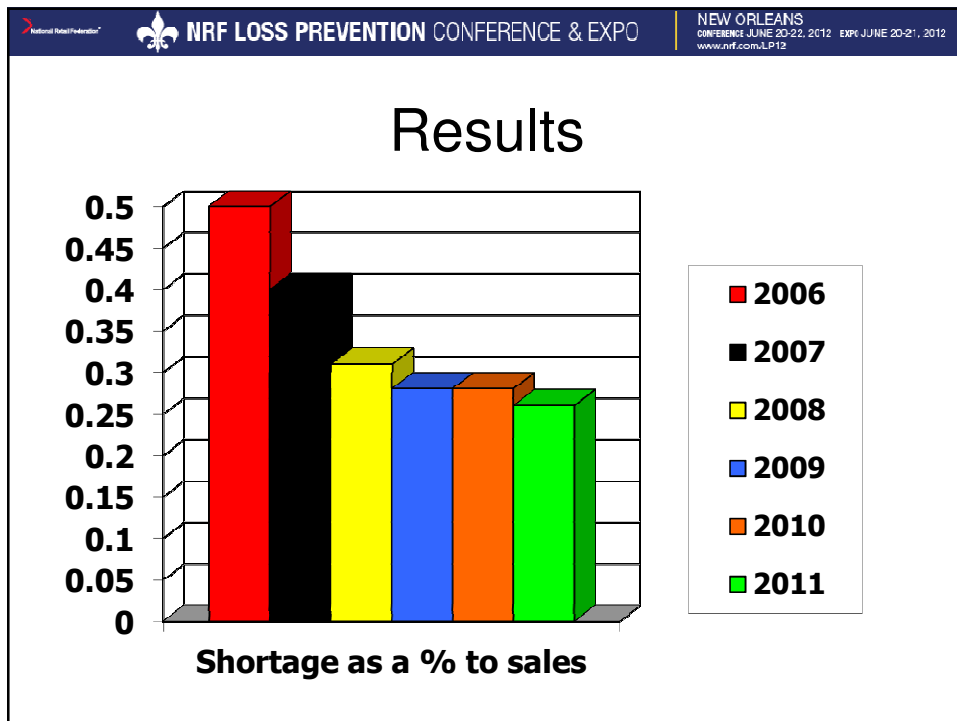
■ Traffic  
■ Transactions


Region Name	Site	10:00-11:00	11:00-12:00	12:00-13:00	13:00-14:00	14:00-15:00	15:00-16:00	16:00-17:00	17:00-18:00
Total Retail		6%	10%	12%	9%	10%	10%	8%	10%
	227 Orlando Inte	16%	16%	22%	11%	23%	31%	16%	20%

**NRF LOSS PREVENTION CONFERENCE & EXPO** NEW ORLEANS  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

## Contrast: DKNY/The Home Depot

- Direct Relationship between Return Activity & Shortage “Shrink”
- Customer Experience Important
- Base Decisions on Statistical Data
- DKNY Less Fraud Exposure than THD, Associate to Customer Ratio



 **NRF LOSS PREVENTION CONFERENCE & EXPO** | **NEW ORLEANS**  
CONFERENCE JUNE 20-22, 2012 | EXPO JUNE 20-21, 2012  
[www.nrf.com/LP12](http://www.nrf.com/LP12)

## Justifying New LP Programs


### ROI Analysis

- ✓ Turn Returns into Sales
- ✓ Customer Experience
- ✓ Fraud & Shortage Reduction

 **NRF LOSS PREVENTION CONFERENCE & EXPO** | **NEW ORLEANS**  
CONFERENCE JUNE 20-22, 2012  
EXPO JUNE 20-21, 2012  
[www.nrf.com/LP12](http://www.nrf.com/LP12)


## Recommendations to Address Return Fraud and Abuse

Gregg Smith, Sr. Director, Loss Prevention,  
The Children's Place



 National Retail Federation™

52

 **NRF LOSS PREVENTION CONFERENCE & EXPO** | **NEW ORLEANS**  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

## Recommendations

- Returns needs to be a focus
- Linking consumers' transactions builds a picture of their behavior, eliminating false positives and identifying negative actions to address.
- Think twice before you let a restrictive return policy impact your good customers.
- Build a business case. Reducing fraudulent returns is a measurable action and should have a documented ROI.

53

 **NRF LOSS PREVENTION CONFERENCE & EXPO** | **NEW ORLEANS**  
CONFERENCE JUNE 20-22, 2012 EXPO JUNE 20-21, 2012  
www.nrf.com/LP12

## Questions and Answers

Gregg Smith, The Children's Place  
David Speights, The Retail Equation  
Thomas Hacker, The Home Depot  
Paul Paglia, Donna Karan

 National Retail Federation™

54