



Economic crime in the retail sector

Retailers operate in a global marketplace with expanding international networks of both customers and suppliers. These complex, multi-layered operations create many potential risks and opportunities for economic crime. The repercussions of such activity in the industry are felt not only in immediate financial loss, immediate reduction in shareholder value and/or regulatory fines, but also in the longer term through the erosion of consumer trust and brand loyalty. As a consumer-facing business, reputation is a priority and negative events attract intense negative press

attention. The retail industry has experienced major disruption to the traditional business model. New challengers and the rise of internet shopping has created an increasingly competitive environment, making it more difficult for retailers to attract and retain customers. The challenging time for the industry is evident on the high street, where a number of big names have disappeared. Management at all levels are under pressure to deliver positive results, and it is this pressure that can often lead to unethical behaviour and misconduct.

Why the sector is at risk of economic crime



Complex global supply chains



Multi-jurisdictional operations with differing legislative and political environments



High staff count and employee turnover



High global marketing spend



Reliance on consumer sentiment and brand loyalty



Significant investment in real estate, machinery, IT

Specific economic crime challenges

Do you know who you're dealing with?

Modern retailers rely on a vast network of supply chain partners across the world. Chains of contractors and subcontractors in sourcing, distribution and franchising operations reduce visibility over who is acting on behalf of retailers. The business practices used by these parties could potentially expose retailers to regulatory investigation and fines, as well as the associated damage to brand from negative sentiment in the press or social media.

Are your teams under pressure to hit targets?

As physical outlets face the threat of closure, staff at all levels are incentivised to deliver positive results. With a high number of physical outlets in disparate locations, gaps in financial control can lead to retailers being susceptible to misreporting and internal fraud.

Do you know where your money is going?

In a competitive market, retailers are investing heavily in marketing and business development spend to win and maintain market share. Businesses must be able to track and monitor the use of such spend, to ensure that budgets are being used for legitimate commercial reasons in compliance with relevant bribery, corruption and competition regulation.

Do you understand your global markets?

Multi-jurisdictional operations require the management of differing political, regulatory and cultural environments. Retailers must ensure processes are in place to mitigate the risks of bribery, embezzlement and other unethical or illegal behaviour. This can be challenging for global retailers where different local business practices or arrangements are commonplace and do not always meet regulatory requirements here in the UK.

Have you protected your customer's data?

Targeted breaches and cyber attacks remain a threat to every industry. However, with the high number of physical terminals in use across the retail industry, organisations are particularly vulnerable to attacks on card skimming and Point of Sale ("PoS") malware attacks. As retailers move their focus to the online market, malevolent actors have followed suit, with attacks on e-commerce payment applications now making up 64% of breaches in the Retail industry(1). With GDPR fines reach more than €372m(2), organisations must continue to assess and improve their data practices and security weaknesses.

(1) Verizon, 2019 Data Breach Investigations Report

(2) European Data Protection Board (September 2019)

Spotlight on: Counterfeiting and fake goods

Counterfeiting, black market sales and inventory fraud not only erode the bottom line, but also undermine consumer faith in retailers' brands. As of 2019, trade in fake goods is now 3.3% of world trade and rising(3) and retailers face a constant battle to protect their revenue and their brands.

In the supermarket sector, food fraud has emerged as a pressing concern, where mislabeling and misreporting of quality standards is costing the UK food industry up to £12 billion annually(4). High-profile incidents have rocked the food industry and required expensive, time-consuming programmes of supply chain remediation.

(3) Source: OECD (2019) (4) Source: NFU Mutual report (2018)



Helping our clients take action

Revenue recognition

A listed retailer identified the inappropriate acceleration of revenue recognition in rebates and promotional income contributions from across its supplier base. Through our understanding of the accounting processes, our effective assembly of the related specific supplier interactions and using data analytics to target at risk revenue streams, we helped the client with the immediate need to 'size' the impact on results, avoiding a suspension of its shares – there was a significant correction to profit, impacting on shareholder value – subsequently supporting the client through related regulatory intervention and legal claims.

Integrity due diligence

Our Corporate Intelligence team are working with a global luxury goods conglomerate to provide due diligence services on current and potential business partners. Through this long-term relationship, our multilingual team of specialist intelligence researchers have identified and assessed bribery and integrity risk, political exposure, and adverse media reporting on partners across EMEA, Asia and the Americas, helping our client remain confident in the integrity of their business relationships.

Anti-competitive behaviour monitoring

Our team of forensic investigators and competition law specialists are assisting a consumer business in identifying and investigating red flag behaviour associated with anti-competitive behaviour within their business operations, thus reducing the risk of regulatory action and fines. We provide a managed service of technology-assisted reviews of interactions between staff and supply chain partners, utilising cutting-edge technology to monitor electronic communications including audio data.

Retail loss intelligence

Inventory shrinkage totals more than \$50 billion and accounts for an average 1.38% of yearly sales at US retailers(5). Proactively managing these losses has become imperative in light of significant pressure to improve the bottom line against a backdrop of increased external and internal theft in stores, and emerging online forms of customer interactions. From insights to actions, Deloitte's retail loss intelligence uses advanced pattern recognition and machine learning to help retailers find, capture and sustain untapped value across multiple layers of their business. In particular, we're helping retail clients achieve significant savings including, a 60% reduction in the time spent on check-the-box store reviews; a drop in yearly inventory shrink rate by up to 35 basis points in the first two years; and, over 25% reduction in losses for certain product categories through targeted data-driven investigations.

(5) The 2019 National Retail Security Survey published by NRF and University of Florida



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