

Loss Prevention

THE MAGAZINE FOR LP PROFESSIONALS



HARD TAG RECYCLING

Transparent, Sustainable, and Profitable

BASIC ROI KNOWLEDGE FOR FIRST-LINE MANAGEMENT
CHICO'S TECHNOLOGY-BASED APPROACH TO ATTACKING SHRINK
EIGHT LP EXECUTIVES FIELD WIDE-RANGING QUESTIONS





Hard Tag Recycling

Transparent, Sustainable, and Profitable

by Steve Fahey

One of the recent exciting initiatives taken on by bebe stores' loss prevention team has been designing and implementing a comprehensive process for electronic article surveillance (EAS) source tagging and tag recycling for our company's more than 300 stores. We believe this is the most comprehensive tag recycling program implemented to date by a specialty retailer in North America.

Arriving at bebe about five years ago, it was eye opening for me to learn about the unique challenges of loss prevention in the higher-end specialty retail field. This certainly applied to EAS tagging. I had been in department store retail for almost twenty years, including eight years with Bloomingdales, which was then owned by Federated Department Stores. During most of that time, I represented

Bloomingdale's on Federated's loss prevention technology committee. In that role, I sat through numerous presentations on single-use source tagging, ink-versus-no ink, and even the future of radio frequency identification (RFID) technology in EAS. My full tank of knowledge about EAS was helpful because after six months at bebe, it was clear we had some challenges and opportunities in that area.

Whiteboard Approach and Decision Matrix

The LP team and I scoured the weekly bebe loss reports and visited stores throughout the country. It was evident that a reevaluation of our source-tagging program was needed. The stores were standardized on an older-generation, reusable hard tag applied in each store as the merchandise arrived.



Analysis showed that the tags had a moderate-to-heavy defeat rate. On a weekly basis, store personnel found tags on the floor throughout the stores. Our investigations also suggested that in certain geographic areas, organized groups were hitting us hard.

We launched what turned out to be a six-month review of the existing tagging program, along with a whiteboard review of all the tagging solutions currently available by EAS vendors. The review team included myself and several loss prevention



- Enable consistency of tag placement on merchandise,
- Reduce or eliminate labor costs of in-store tagging,
- Achieve a positive visual impact with the look of the racks and rounders,
- Reduce failures to remove the tags at point of sale,
- Increase our associates' availability for customer service,
- Ensure tagging compliance throughout the manufacturing, distribution, and merchandising system,
- Create a strong internal theft deterrent, and
- Speed up the time-to-floor of new merchandise.

With methodical analysis, we looked in detail at the pros and cons of the available options, including sewn-in tags versus hard tags; source tags versus store-applied tags; and the huge variety of hard tags, including the popular one-time-use tags and reusable hard tags.

We determined early on that hang-tag, sew-in, and other single-use soft tag approaches would not address bebe's issues or objectives. We had concerns about potentially significant lower detection rates, higher-than-acceptable rates of dead labels, impacts of permanent EAS labels on the merchandise, and, most important, higher defeat rates.

As we proceeded down the road to hard-tag, we looked at one-time use versus reusable hard source tags. The one-time-use hard tags appeared to us to be too easily defeated. And with one-time-use hard tags or reusable hard tags applied in the stores, we saw a risk of increased internal theft of newly arrived untagged items as well as greater staffing requirements for applying the tags.

Store-Applied Versus Factory-Applied

Our decision matrix led to an analysis of the available reusable hard-tag solutions and then to an optimal approach for applying the tags.

Obviously, the key variables included demonstrated defeat rates,

staff members along with stores operations executives, finance, distribution/logistics, and store managers. My prior technology knowledge was helpful.

Because bebe is a vertical producer of its own clothing lines, I believed we had an opportunity to develop a much more effective and streamlined tagging strategy. We had a less complex supply-chain situation compared with a department store operation that sources hundreds or even thousands of lines from many different designers and manufacturers.

After assessing where we currently were with tagging, which found we were not in a good place, we "imagined" the characteristics of an ideal tagging program. Our strategic objectives were to achieve aggressive, best-in-class loss prevention reduction goals and support the company's performance by helping to get already tagged new merchandise to the floor faster. We needed to accomplish these goals without increasing the complexity and cost of our operations.

It did not take long to develop the following criteria:

- Attain much lower tag defeat rates,

The conventional approach of applying and recycling tags at the distribution or store level is straightforward, but expensive. We determined that a source-level tag recycling program would involve some risk, start-up cost, and an initial learning curve for our manufacturers, tag supplier, and stores. However, the benefits of a fully operational source-tag recycling program could be considerable. Particularly appealing was that the stores could get tagged new merchandise to the sales floor much faster and without the added personnel cost and complexity.

size and weight, design and strength of the locking mechanism, and visual impact. To help ensure the highest security and effectiveness possible, we ultimately created the specifications for what we believed would be the strongest hard tag available—a micro shell tag with multiple inks.

We developed a strong team relationship with the vendor we selected, WG Security Products (WG), to develop and test the tag we envisioned. The result is an excellent product that combines a small, aesthetically acceptable footprint with a tightly engineered coupling of the locking back and ink tag.

Finally, the review group looked at the comparative economics of either bebe investing in the capital expense of building an inventory of these tag devices for application at our distribution centers or stores, or designing a recycling process at the manufacturer source level.

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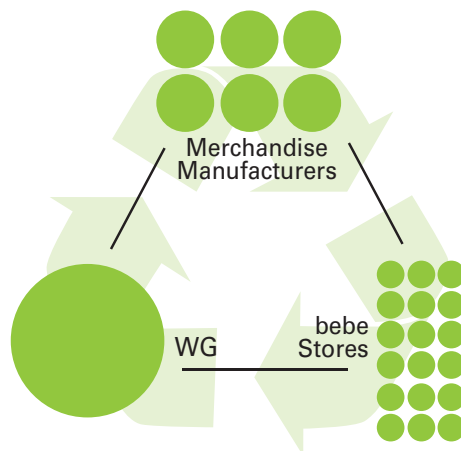
The journey from initial whiteboard design of the tag recycling program to implementation to “go live” took about a year. We developed in 2005 and implemented in 2006.

Architecture of bebe's Tag Recycling Program

The operational architecture of the tag recycling program involves robust communications and defined processes among bebe's stores operations, our garment suppliers and their factories, and WG.

When bebe issues a purchase order to one of our garment suppliers, for example, it includes a specification for the tags in the same way that purchase orders also specify sewing style and color and style of shirt buttons. WG simultaneously sends pre-specified quantities of tags to the garment supplier's factories. When the merchandise has been manufactured, tags applied, and packaged, it is shipped floor ready directly to bebe distribution centers and then to the stores.

The stores take possession of the merchandise and immediately place it on the sales floor. When tagged merchandise is purchased off the racks, bebe sales associates know exactly where to find the tag and remove it. Tags are collected from the POS check-out stations and placed into corrugated boxes provided by WG. When the boxes are filled with removed tags and pins, store personnel use preprinted shipping labels to return the tags and pins directly to WG, who then sorts, counts, cleans, tests, and repackages the tags for shipment back to the garment manufacturers for the tagging of new merchandise.



There were a few bumps along the implementation road, but no serious roadblocks. We asked for and received the buy in of bebe stores operations and store managers as well as our corporate leadership. From the beginning WG not only helped



Four years into full operations and it is clear that the tag recycling program works. Feedback from the stores has been strongly positive. The new tag is effective in that defeat rates have declined significantly. Shrink from both internal theft and shoplifting has declined significantly. We have also seen benefits in store-level employee productivity. Merchandise arrives already tagged and ready for floor display. The recycling process is simple and easy for store associates to implement.

us meet our product requirements, but also worked through the entire recycling process with us. WG has been along with us on the entire ride.

We also asked for and received almost unanimous buy-in from our outside manufacturers, whom bebe considers its business partners. They wrote the bebe tagging specification into their operating manuals and training programs. During the implementation phase, we used warnings to the factories when we detected lapses in compliance. Later, we issued charge backs for items shipped without tags. We routinely audit compliance at our distribution centers, and the tag



vendor audits used tags and pins that are returned for recycling.

In other words, this is a closed-loop system transparent enough to identify non-compliance and any leakage of tag inventory.

Our initial challenge was to forecast the appropriate level of tags that needed to be sent to the garment factories. We worked to align the modeling of tag orders with merchandise orders. The top priority... and litmus test for success... is to avoid delays in shipping finished merchandise to the stores due to lack of tags. We closely monitor merchandise that arrives from factories without tags.



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Initial Results

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Most important, the program has been invisible to customers. The tags are uniformly positioned on the merchandise, creating a clean, crisp, and non-intrusive appearance. And because of the uniform position of the tags, there are fewer failures by associates to remove the tags.

The Road Ahead

It is great to report that bebe's tag recycling program is working well and is an important component of our loss prevention program.

On a strategic level, today's program gives a solid roadmap and "process" for bebe's future source-tagging investments. As new technologies, including RFID, arrive on the scene and as product designs and materials evolve, we believe bebe will have the ability to incorporate new EAS tagging solutions with minimal disruption.

In addition to its inherent transparency, sustainability, and eco-friendly design, our source hard-tag recycling program has enabled bebe to design source tagging and, therefore, loss prevention, into the entire lifecycle of every garment we sell.



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bebe stores Loss Prevention Organization Centered on Mission and Partnership

By Michael A. Stugrin, Ph.D.

Mission statements, like strategic plans, often turn out to be expressions of good intentions and wishful thinking rather than commitments and ideas that companies actually use to run their business. This does not seem to be the case with bebe stores, inc. (NASDAQ: BEBE), a specialty retailer with about \$508 million in annual sales and 297 stores, headquartered near San Francisco. bebe stores has a core mission statement "to satisfy the fashion needs of the modern, sexy, and sophisticated woman."

When Steve Fahey arrived at bebe to lead the loss prevention program, he developed a mission statement for his department that was consistent with the company's core beliefs and would win the support of the company's leadership.

For example, asked how bebe came to implement one of the retail industry's most innovative reusable source-tag recycling programs [see page 18], Fahey says, "Everything we do is filtered through our loss prevention brand identity and core beliefs. This program needed to meet the objective of reducing loss, influencing sales growth, and supporting the stores organization."

Fahey joined bebe stores in 2005 and is vice president of loss prevention, risk management, and social compliance. He spent a few months visiting stores, getting to know the company's culture and distinctive mindset about fashion and retailing, and assessing loss prevention needs, particularly in technology.

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Fahey had been at Federated Stores' Bloomingdales banner for eight years, and had also worked at May Company and Filenes Department Stores. "My loss prevention knowledge was deep, and I had been part of Federated Stores' technology committee for several years. The first objective was to learn about bebe stores and build partnerships here before I could apply any of that knowledge and experience in the most meaningful way."

Fahey's goal was to write a mission statement that would start to establish an identity for the LP group:

"bebe stores' loss prevention is committed to best-in-class shrink performance by

- *Protecting bebe assets,*
- *Detering and resolving theft, and*
- *Influencing sales growth.*

We will accomplish this through strategic planning, leveraging technology, and creating strong business partnerships."

Every word in the mission statement was intently considered says Fahey. "The bebe stores culture and mindset places ultimate importance on the customer experience. Intrusive security and loss prevention measures would not be accepted by store operations leadership, and would ultimately not be effective."

As Fahey sees it, bebe's EAS solution was carefully designed to be balanced in relation to fighting shrink effectively, protecting company assets, and contributing to company sales growth—and still aligning with the bebe stores experience.

"Anything my team and I proposed to change had to pass through the filter of the bebe brand and the customers' experience of the brand. Our new approach to EAS was supported because it protected the assets, maintained the visual integrity of the merchandise, and we can move



it to the floor faster, which supports our business and our customers' strong interest in the latest fashion. That's a home run," explains Fahey.

Focus on Style and Results

bebe occupies a specialty retail niche and operates with great conviction, flare, and discipline. Established in 1976, bebe is an integrated designer, producer, merchandiser, and seller of a distinctive style of contemporary women's fashion termed "the bebe look." It targets a specific demographic of 18 to 34-year-old women who look for current fashion trends, high quality, and competitive prices.

The company uses a network of contract manufacturers and keeps a close watch over adherence to specifications, including the attachment of hard source tags at specific locations on specific products.

bebe stores' size and ownership structure help make the company a nimble and decisive stand-out in the always-turbulent retail fashion industry. While a publicly traded company, the company's founder, Manny

Mashouf, still owns over 50 percent of the stock. Mashouf named the company. He says it was inspired by the existential musings of Hamlet—"to be or not to be"—in Shakespeare's play. (The word bebe also has literal translations, including the Turkish word for woman and the Persian name for the queen in a deck of cards.) The company says its name reinforces the mission of the company "to satisfy the fashion needs of the modern, sexy, and sophisticated woman."

This summer the company announced a hefty first-time, one-time cash dividend and said it would close its sixty under-performing PH8 stores, less than a year after announcing that this new retail concept would replace its BEBE SPORT stores. The company will now focus on increasing sales in existing stores and expanding its promising outlet division, 2b bebe. The company will continue expanding internationally, adding to its current 57 licensed stores in Southeast Asia, United Arab Emirates, Israel, Russia, Mexico, and Turkey and will soon open in Japan.

Backbone of bebe stores Loss Prevention

The backbone of loss prevention at bebe stores is as much the strength of the team and the strong partnership and communications between LP and store operations. Fahey has a small staff at bebe headquarters, including a director of LP, manager of LP operations, senior manager of brand protection, and several regional LP managers and administrators. Fahey reports to bebe stores's chief operating officer/chief financial officer.

"Our loss prevention team has become stronger and stronger. Personally and as a team, we have all embraced the company's core values and supported each other. This has been critical to our success," says Fahey. "Our regional LP managers work very closely with the stores

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district managers. We both focus on the stores in terms of performance, training, and improvement.”

Fahey says that loss prevention and store operations partnered to develop a monthly stores audit that covers specific loss prevention and operational measures, from sales performance to loss numbers, morning openings to night bank deposits, and sales staff turnover to sales training. The audit produces a compliance score and is the basis for a weekly conference call of the stores and loss prevention teams. Stores with scores below the standard are the primary focus.

Loss Prevention Technology Infrastructure

Achieving the strategic objective of “best-in-class shrink” while preserving a specific bebe customer experience has also translated into a major investment in loss prevention technology infrastructure for bebe stores.

The most innovative program may be the source-tag recycling program described in detail in the accompanying article. But other LP initiatives were implemented in the past several years.

bebe stores are typically about 4,000 square feet and located in higher-end regional malls with perimeter and internal security, and in freestanding street locations in upscale urban neighborhoods. The company installed a chain-wide, integrated fixed camera and digital video recording (DVR) management system that allows loss prevention, risk management, stores operations, and merchandisers to monitor activity as well as store appearance. An exception-reporting system is also integrated with video to support investigation of fraudulent or noncompliant transactions.



Fahey insists, however, that the real strength of bebe’s loss prevention program is communications with the associates in the stores. “The centerpiece of our communications is a monthly newsletter called ‘believe.’ This is a branded printed communication that goes to every store. We work hard to make it timely and relevant to what is happening in the stores. It covers recent shrink trends and new threats as well as customer-relations techniques. It recognizes associates who have demonstrated diligence in prevention, apprehension, and customer service.”

Susan Powers, bebe stores senior vice president of store operations, explains that “believe” works hand in hand with the monthly all-team store meetings. Store managers focus the sessions on the topics covered in the newsletter and use role-playing exercises to illustrate specific situations.

“Communications between Steve and his team and my store operations team are critical,” says Powers. “Steve and I have built a strong partnership. I joined bebe shortly after Steve joined. We worked together to assess and calibrate the stores’ needs. Our teams worked together to test and phase

in new loss prevention programs. It’s important to remember that a loss prevention program without the buy-in of the stores will not succeed. We are mutually dependent on each other for success.”

Fahey adds that loss prevention, risk management, and compliance need to be as organic and as seamless as possible out in the stores. “The bebe store managers are our loss prevention managers. We provide the best communications and training materials possible, but the store managers are responsible for delivering the training and conveying the passion for preventing loss and ensuring the safety of customers,” he says.

The onboarding of new bebe associates is also taken seriously. In addition to extensive orientation about the bebe brand, style, and customer experience, each new associate reads and signs a document called “Contract of Honesty.”

“The message in this document resonates through the organization, in every store, and with every store manager,” Fahey says.

Fruits of a Maturing Program

Fahey says that after five years of building the bebe stores’ loss prevention program based around the original mission statement, the LP department is succeeding.

“Our program is maturing and continues to support the organization,” says Fahey. “We’ve met and exceeded our initial objective of best-in-class shrink. We are using the store audits and monthly meetings to continually work to make the loss prevention results even better. The positive relationship and communications with the stores...at every level...has been the key to our results so far.” ■

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- Steve Fahey, VP of Loss Prevention at bebe Stores



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