

EAS SOURCE TAGGING

PLANNING GUIDE



THE IMPACT OF THEFT IN RETAIL

Shrink is a \$120B problem globally. According to the 2013 Global Theft Barometer, North American Retailers and Manufacturers experienced over \$30B in shrink, eroding sales and margins for retailers and manufacturers, and providing an additional tax for consumers.

SHRINK IMPACTS SALES & PROFITS: Global Retail Theft Barometer 2013

Region	Country	Shrinkage Value in US\$ Million	Cost of Shrinkage by Household in US\$	Shrinkage as Percentage of Total Retail Sales	Change in Shrinkage*
Asia/Pacific	China	22,268.9	51.6	1.5	↑
	Hong Kong	565.4	234.7	1.1	→
	Japan	11,952.8	227.7	1.0	↑
Australasia	Australia	2,468.0	296.4	1.1	↑
Europe	Belgium	1,232.0	259.3	1.3	↑
	France	6,752.7	237.4	1.4	↑
	Germany	5,442.8	133.9	1.1	↓
	Italy	4,687.6	182.3	1.3	↑
	Netherlands	1,518.5	202.1	1.4	↑
	Portugal	596.8	147.4	1.2	↑
	Spain	3,308.6	179.4	1.4	↑
Lat. America	UK	5,288.1	194.0	1.2	→
	Argentina	1,669.2	130.9	1.5	↑
	Brazil	4,931.6	82.8	1.6	↑
N. America	Mexico	2,897.7	98.6	1.6	↑
	US	36,619.6	302.4	1.5	↑



SHRINK HURTS EVERYONE: RETAILERS, MANUFACTURERS AND CONSUMERS

- **Manufacturers:** Shrink limits sales, increases out-of-stocks, degrades brand trust and decreases brand loyalty.
- **Retailers:** Shrink decreases sales, increases out-of-stocks, increases costs and results in dissatisfied customers.
- **Consumers:** Shrink increases costs and decreases product availability. The cost of theft is passed on to consumers, resulting in a “tax” of \$300 per family per year in North America.

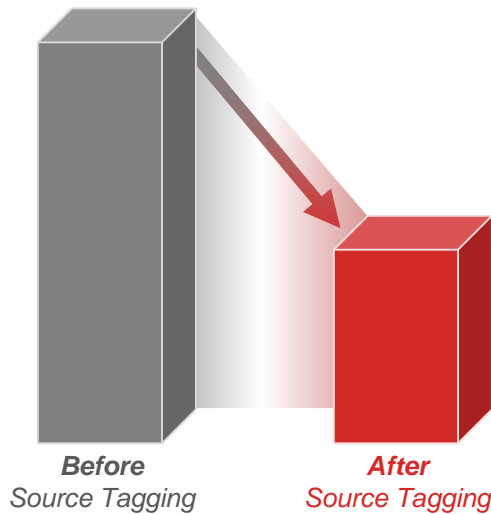
IMPROVING PROFIT POTENTIAL WITH SOURCE TAGGING

Source Tagging provides an ubiquitous product protection solution throughout the retail supply chain. This benefits both manufacturers and retailers by:

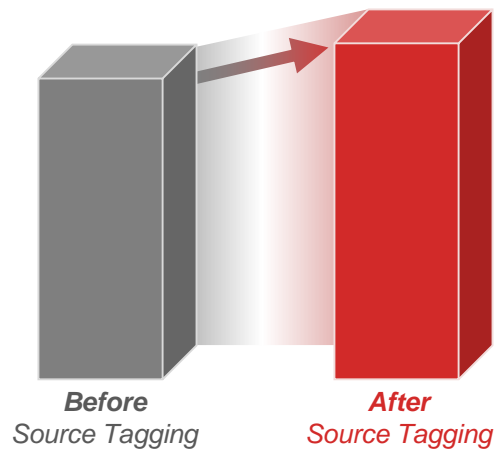
- Increasing Sales
- Increasing In-Stock Rates
- Decreasing Shrink

PROVEN RESULTS FROM SOURCE TAGGING: 2013 CPG-Retailer Program

Decreased Shrink



Increased Sales



A visible tagging program enabled a Fortune 50 consumer products manufacturer and a Top 10 US retailer to realize double digit sales increases in high-risk categories along with a significant improvement with in-stock rates.



“EAS and source tagging are the backbone of our company’s product protection program. Source tagging provides the first line of deterrence and detection of theft activities and visible source tagging provides even greater deterrence.”

– VP Operations,
North American Retailer

WHY SOURCE TAGGING?

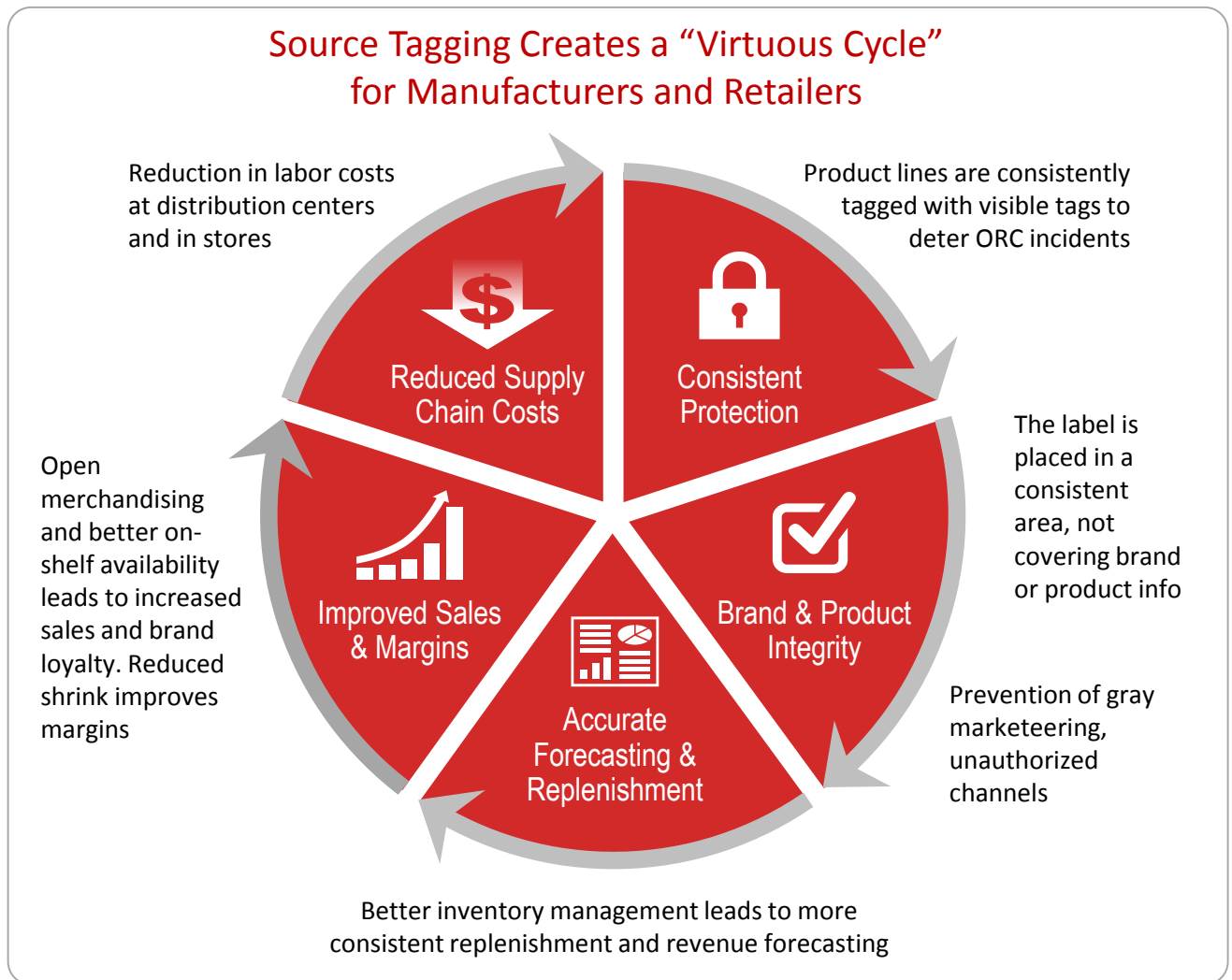
Manufacturers and Retailers face an ever-changing consumer environment, where operational agility and customer loyalty drive margins and revenue.

Source tagging formalizes manufacturer-retailer collaboration for key merchandise categories, resulting in a “virtuous cycle” that increases efficiency, improves brand loyalty and results in more profitable growth for both parties.

“Customers want the right products on-shelf, easily accessible, and visually enticing. Source tagging high risk products helps us achieve this.”

– VP Operations, North American Drugstore Chain

Source Tagging Creates a “Virtuous Cycle” for Manufacturers and Retailers



This guide is designed to provide Manufacturers and Retailers with background information and best practices to incorporate source tagging into their product launch, packaging, merchandising and margin protection plans.

SOURCE TAGGING BEST PRACTICES

Leading Manufacturers and Retailers understand the benefits of source tagging, but the complexity of changing supply chain processes can be challenging. The following best practices were discussed at the annual National Source Tagging Symposium, hosted by CVS Pharmacy and attended by asset protection leaders from Rite Aid, Walgreens, Family Dollar, ToysRUs, BJ's Wholesale Club and product design leaders from L'Oreal, Pfizer, Elizabeth Arden, Merck Consumer Care and Johnson & Johnson.

6 BEST PRACTICES FOR MANUFACTURERS AND RETAILERS

- 1. THINK "WIN-WIN":** When more products are sold, with less shrink, both retailers and manufacturers boost sales, profits and market share.
- 2. MAKE USE OF VISIBLE TAGGING:** Independent studies at mass merchants and pharmacy retailers show that visible, tamper-resistant EAS tags are an effective deterrent against casual theft and ORC incidents.
- 3. FOCUS ON HIGHEST SHRINK SKUs:** Tagging every product can be an overwhelming task. Implementing a very targeted source tagging strategy can help. By source tagging the 10% of products that comprise 90% of shrink, small efforts can make a very large impact.
- 4. MANAGE SOURCE TAGGING AS AN ONGOING PROGRAM:** As product introductions become more and more frequent, a consistent, replicable process for source tagging, from the design stage to the store, is critical.
- 5. KEEP PACE WITH MARKET TRENDS:** Leveraging the latest EAS, RFID and mobile technology can give both retailers and manufacturers a competitive advantage against private label manufacturers and gray market vendors.
- 6. START AT THE DESIGN STAGE:** Building source tagging into product design ensures consistent brand packaging and protection for manufacturers and retailers.

These six best practices are detailed in the following pages.



"ORC operators are getting more sophisticated. I need to protect my products from resale."

– Fortune 500 Brand Manufacturer

BEST PRACTICE #1: THINK “WIN-WIN” FOR MANUFACTURER AND RETAILER

Source Tagging benefits both Manufacturers and Retailers. Some of the key areas of mutual benefit are listed below.

	MANUFACTURER BENEFITS	RETAILER BENEFITS
<i>OPEN MERCHANDISING</i>	<ul style="list-style-type: none"> Enabling customers to handle products without assistance from store associates results in increased sales and market share 	<ul style="list-style-type: none"> Enabling customers to handle products without assistance from store associates results in increased sales
<i>REDUCED OUT-OF-STOCKS</i>	<ul style="list-style-type: none"> Source tagging reduces shrink. This minimizes out-of-stock incidents that result in empty shelves, lost sales and reduced brand loyalty 	<ul style="list-style-type: none"> Source tagging reduces shrink. This minimizes out-of-stock incidents that result in empty shelves, lost sales and reduced shopper loyalty
<i>PRIORITY STATUS</i>	<ul style="list-style-type: none"> Manufacturers participating in source tagging programs have gained access to additional accounts and secured more shelf space 	<ul style="list-style-type: none"> Retailers participating in source tagging programs have the benefit of planning for new product introductions from the design stage, while virtually eliminating labor costs from in-store or DC tagging
<i>REDUCED SHRINK / REDUCED ORC INCIDENTS</i>	<ul style="list-style-type: none"> Products visibly protected with EAS tags are a proven deterrent against theft. Tamper-proof tags damage packaging when removed, making stolen goods difficult to resell 	<ul style="list-style-type: none"> Products visibly protected with EAS tags are a proven deterrent against theft. Tamper-proof tags damage packaging when removed, making stolen goods difficult to resell
<i>IMPROVED APPEARANCE OF MERCHANDISE</i>	<ul style="list-style-type: none"> Source Tagging insures the EAS label is placed accurately in the correct location, so product branding and information is not obscured 	<ul style="list-style-type: none"> Source Tagging insures the EAS label is placed accurately in the correct location, so product branding and information is not obscured
<i>PATHWAY TO RFID</i>	<ul style="list-style-type: none"> Once products are source tagged with an RF-EAS label it is an easy transition to apply an RFID tag 	<ul style="list-style-type: none"> Once products are source tagged with an RF-EAS label it is an easy transition to apply an RFID tag

“On-shelf availability for the customer is our focus. We need suppliers to source tag high loss SKUs in order to keep product in stock, on-shelf, and provide our stores with an alternative to locking up merchandise.”

– VP Loss Prevention,
North American Drugstore Chain

“Visible tags are a great theft deterrent, and source tagging protects the look and feel of premium packaging better than in-store tagging”

– Consumer Products
Manufacturer

BEST PRACTICE #2: MAKE USE OF VISIBLE TAGGING

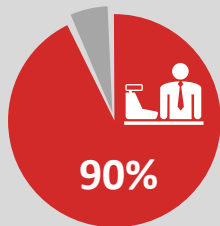
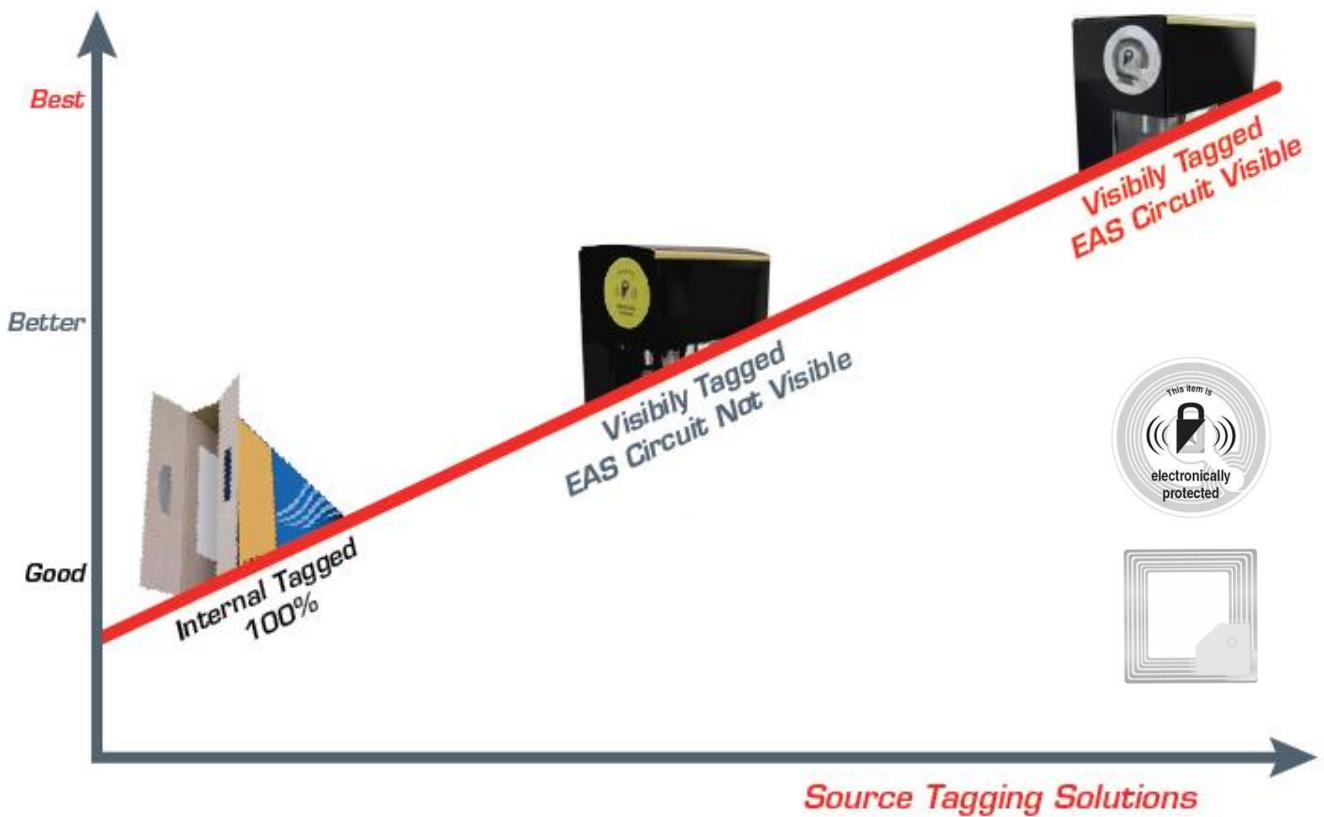
Visible clear (circuit) labels provide a visual deterrent to retail thieves while protecting the look and feel of the merchandise. Clear labels do not interfere with existing retail packaging, branding, barcodes or product information, and have been proven in retailers' pilot studies to significantly reduce pilferage.

Food and drug retailers are also recognizing the value of visible labels in deterring and apprehending the growing number of organized retail crime (ORC) perpetrators, since these items are more easily tracked if resold to wholesalers, flea markets and online auctions.

"Source tagging alone has reduced the pilferage of high-risk items by 44%."

— VP Loss Prevention,
North American Drugstore Chain

Effectiveness



RESEARCH CONDUCTED AT A FORTUNE 50 RETAILER FOUND THAT **90 PERCENT** OF STORE MANAGERS BELIEVE THAT **EXTERNAL CLEAR LABELS ARE EFFECTIVE AT DETERRING THEFT...**



...WHILE **68 PERCENT** BELIEVE THAT **CONSUMERS PREFER TO SEE VISIBLE PRODUCT PROTECTION.**

BEST PRACTICE #3: FOCUS ON HIGHEST SHRINK SKUs

The top selling items in a store are generally the most attractive items for thieves, and represent the greatest opportunity for both loss prevention and sales uplift. Retailers and Manufacturers are now collaborating to share anonymized shrink data by SKU to compile a ranked “Hot Theft Item” list. This helps to prioritize protection efforts in the store, and to evaluate package design as new products are introduced.

TOP 10 SHRINK SKUS FOR DRUGSTORE RETAILERS & MANUFACTURERS

UPC_NBR	SKU_DSC	CAT_DSC	SUBCAT_DSC	VENDOR_NAME	RANK OF LOSS OF COMMON SKUS
3700020141	TEETH WHITENING STRIPS 20CT	ORAL CARE	WHITENING PRODUCTS	CONSUMER PRODUCTS MFR A	1
30087136505	BABY FORMULA 12.5Z	BABY CARE	BABY FORMULA/FLUID	CONSUMER PHARMA MFR A	2
31254778098	HAIR REGROWTH FORMULA TRPL	HAIR CARE	HAIR GROWTH	CONSUMER PHARMA MFR B	3
4740015622	MENS PREMIUM RAZOR REFILL 8CT	SHAVING NEEDS	RAZORS	CONSUMER PRODUCTS MFR A	4
3700020142	TEETH WHITENING STRIPS 14CT	ORAL CARE	WHITENING PRODUCTS	CONSUMER PRODUCTS MFR A	5
4133326998	PREMIUM BATTERIES AA 24PK	BATTERIES	BATTERIES	CONSUMER PRODUCTS MFR A	6
30085360064	COLD AND COUGH CAPLETS 16CT	UPPER RESPIRATORY	COLD/ALLERGY	CONSUMER PHARMA MFR C	7
4740030250	MENS PREMIUM RAZOR REFILL 8CT	SHAVING NEEDS	RAZORS	CONSUMER PRODUCTS MFR A	8
30766080063	COLD SORE REMEDY 2 OZ TUBE	COLD REMEDIES	COLD SORE REMEDIES	CONSUMER PHARMA MFR D	9
30067628605	ANTACID CAPLETS 42CT	GASTRO-INTESTINAL	ANTACIDS	CONSUMER PHARMA MFR E	10

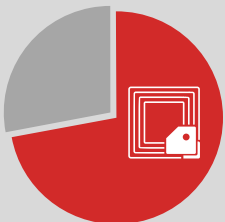
“In the past, when our stores applied EAS tags, retail staff often overprotected the wrong items, while under-protecting others.”

– VP Loss Prevention,
North American Retailer



TYPICAL HIGH-RISK CATEGORIES:

- Skin Care
- Oral Care
- Cosmetics
- Hair Care
- OTC Medication
- Family Planning
- Batteries
- First Aid
- Shaving Needs



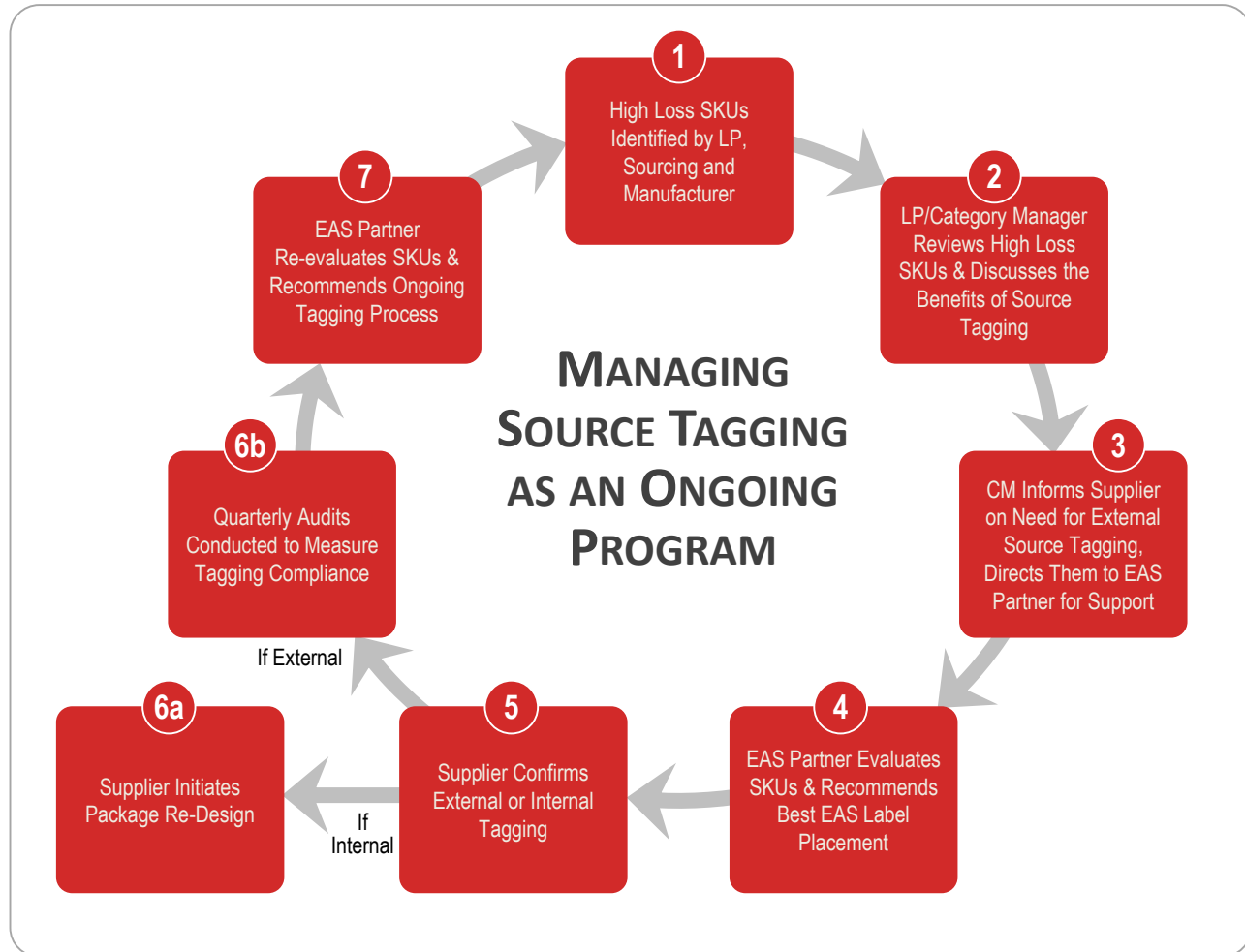
IS FRACTIONAL TAGGING EFFECTIVE?

In many cases, top selling items suffer from “fractional tagging”, where only a portion of the SKUs are tagged at source. As a result, a “2-pack” of a certain product may not be protected while a “4-pack” of the same product is EAS tagged. Retailers and manufacturers both agree that providing full protection (100% tagging) of top selling items is far more important than tagging a wide assortment of slower-moving merchandise.

BEST PRACTICE #4: MANAGE SOURCE TAGGING AS AN ONGOING PROGRAM

The consumer goods market is always dynamic. As new products are released, both manufacturers and retailers need to anticipate hot sellers... and high risk / high loss SKUs. A source tagging program is key to enabling manufacturers and retailers to launch new products successfully.

An effective source tagging program is based on a continuous, consistent process that manages the cycle from identifying high loss SKUs to evaluating tagging placement options to performing frequent compliance audits, as illustrated in the chart below:



"I may have great shelf placement, but if my brand is covered by the EAS label, it doesn't matter"

– Consumer Products Manufacturer

*"Newly released 'hot' cosmetic products are my highest shrink items. One of my biggest headaches? **Black Mascara.**"*

– VP Loss Prevention,
North American Drugstore Chain

BEST PRACTICE #5: KEEP PACE WITH MARKET TRENDS

Manufacturers and Retailers face new market realities which are changing the way they source, merchandise and sell products. These market trends and associated recommendations are listed in the table below:

MARKET TREND	RECOMMENDATIONS	BENEFITS
<p>Expanded Merchandise Categories: Retail formats continue to blur, for example, as drugstores and discounters expand grocery selections and as supermarkets add in-store pharmacies</p>	<p>For Grocery Items: Employ specialized EAS labels to protect fresh foods. RFID tracking can also be used to decrease food spoilage and waste</p> <p>For Pharmacy Items: Employ Tamper-proof labels to protect high-risk merchandise</p>	<p>Manufacturers: Ensure on-shelf availability and product protection in new retail channels</p> <p>Retailers: Extend protection to new areas within the store</p>
<p>Increase in ORC Incidents: ORC organizations are increasingly sophisticated, often setting up automated logistics processes to source stolen goods and to repurpose product for resale</p>	<p>For Manufacturers & Retailers:</p> <ul style="list-style-type: none"> • Employ tamper-proof labels, applied at source to ensure product authenticity from manufacture to retail store • Collaborate on protection solutions that deface product packaging upon removal, making goods unattractive for resale • Consider systems to detect “booster bags” and jammers used by ORC gangs 	<p>Manufacturers & Retailers: Reduce ORC incidents, increase shelf availability of high shrink items and protect brand equity by ensuring product is being sold through authorized channels</p>
<p>Increase in Counterfeit Consumer Products: Consumer products are increasingly being diverted within the supply chain and being sold through unauthorized channels</p>	<p>For Manufacturers & Retailers:</p> <ul style="list-style-type: none"> • Employ tamper-proof labels, applied at source to ensure product authenticity from manufacture to retail store • Consider RFID tracking from source to store to prevent diversion at distribution points within the supply chain 	<p>Manufacturers & Retailers: Ensure product authenticity, brand protection and consumer safety. Reduce supply chain risk</p>
<p>New Government Regulations: New legislation, such as the National Drug Security Act, in the United States, require manufacturers to track products from production to consumer</p>	<p>Manufacturers & Retailers:</p> <ul style="list-style-type: none"> • Employ 2D barcode or RFID drug pedigree solutions to track and trace pharmaceuticals from point of manufacture to customer delivery, including actively monitoring controlled substances 	<p>Manufacturers & Retailers: Ensure product authenticity, brand protection and consumer safety. Reduce theft incidents, along with supply chain and regulatory risk</p>

“By expanding our Source Tagging Program, we will be able to aggressively merchandise our products in an open fashion that allows our customers direct access to the product which in turn will contribute to achieving our sales goals.” – VP Category Management, Fortune 500 Retailer

BEST PRACTICE #6: START AT THE DESIGN STAGE

Manufacturers are shortening the design-to-delivery cycle, resulting in more frequent product introductions. When Manufacturers and Retailers collaborate on important product introductions earlier in the design stage they can incorporate effective loss prevention into product packaging. This ensures consistent brand packaging and protection, unlike tagging in-store, which can obscure product brand, barcodes, and important consumer information.



BEFORE SOURCE TAGGING

Applying individual tags/labels in-store can be inconsistent, often resulting in loss prevention measures that cover the brand name or important usage instructions.



AFTER SOURCE TAGGING

Collaborating at the design stage enables manufacturers to design a dedicated "safe spot" on packaging for Source Tagging. This protects the product, the product information (such as ingredients, instructions for use) and the brand itself.

"To directly combat ORC, EAS labels must be placed with adhesive that will tear and ruin the package if an ORC clearing house attempts to remove the tag."

— VP Loss Prevention, Fortune 500 Retailer



CRITERIA FOR EVALUATING NEW PRODUCTS FOR SOURCE TAGGING:

- Is the product unique to the marketplace?
- Is there a similar product with theft issues?
- Will the price point attract theft?
- Does a gray / re-sale market already exist for similar products?
- Do product components have a secondary illicit use?
- Will exposure from aggressive marketing / ad campaigns attract theft?
- Will package size or tamper-ability attract theft?
- Is the product a lifestyle requirement (e.g. testing strips)?
- Has the product recently been regulated, or deregulated?
- Is this product the subject of a national media focus?
- Does the product / product category have embarrassment concerns?
- Does this product have availability issues?

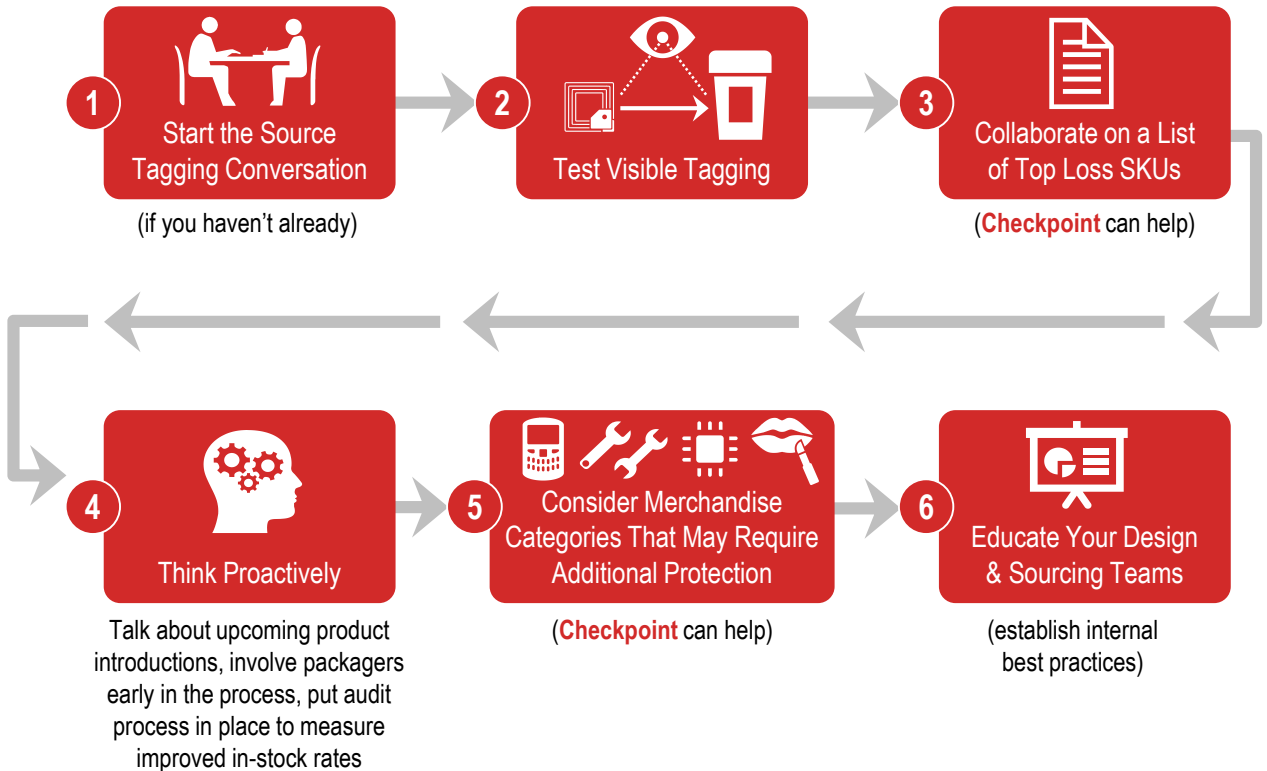
If YES to any of these questions - Source Tagging should be considered

Source: Industry Loss Reduction Team (ILRT) Decision Tree for New Package Development

GETTING STARTED

At the National Source Tagging Symposium, retail and manufacturing leaders outlined the following recommendations for launching an effective source tagging program.

GETTING STARTED WITH SOURCE TAGGING:



SOURCE TAGGING RESOURCES:



The **Checkpoint Source Tagging Team** is experienced in running large-scale programs for numerous manufacturers and retailers, managing every aspect of source tagging from package design (materials, adhesives, offset printing) to manufacturing (auto-application, high-speed tagging) to in-store compliance.

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ABOUT CHECKPOINT SYSTEMS

Checkpoint Systems is a global leader in merchandise availability solutions for the retail industry, encompassing loss prevention and merchandise visibility. Checkpoint provides end-to-end solutions enabling retailers to achieve accurate real-time inventory, accelerate the replenishment cycle, prevent out-of-stocks and reduce theft, thus improving merchandise availability and the shopper's experience.

Checkpoint's solutions are built upon 45 years of radio frequency technology expertise, innovative high-theft and loss-prevention solutions, market-leading RFID hardware, software, and comprehensive labeling capabilities to brand, secure and track merchandise from source to shelf.

Checkpoint's customers benefit from increased sales and profits by implementing merchandise availability solutions to ensure the right merchandise is available at the right place and time when consumers are ready to buy. Listed on the NYSE (NYSE: CKP), Checkpoint operates in every major geographic market and employs more than 4700 people worldwide.



Helping Retailers Grow Profitably

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