WHITE PAPER

What Is in Store for Security — Retail Trends in the U.S.

ADT Retail Solutions

Introduction

Retail is, without a doubt, one of the most challenging environments for security and safety. Large numbers of people, employees and merchandise with continuous motion — often both day and night — make for a lot of moving pieces to track and protect. It is difficult in even the best of times, but it takes on a whole new meaning in an economic downturn when people and employees are under greater stress and crime tends to naturally increase.

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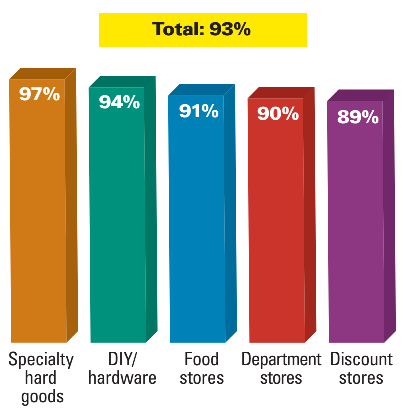
In an effort to meet security challenges, retail loss prevention professionals have increasingly turned to new tools and technologies. Alarm systems, surveillance cameras and access control cards have become an expected part of the landscape. A recent survey conducted by National Analyst for ADT Security Services showed that more than 93 percent of the surveyed top 250 global retailers operating in the United States have monitored security systems, and among all U.S. retailers, 83 percent have monitored systems.

The results of recessionary times, including layoffs and store closings, go hand in hand with budget cuts. Surprisingly enough, despite one of the most severe recessions since the Depression in the first half of the last century, the ADT retail survey of 334 U.S. retailers showed that more than 93 percent expect their security spending to remain the same or increase over the next three years. Almost 50 percent of U.S. department stores expect to increase their security budgets, and more than 39 percent of food and discount retailers anticipate an increase.

U.S. Retailers anticipating spending to remain the same or increase



It would seem that at a time when reluctant shoppers are forcing stores to cut back, retailers realize that security is one area that is not expendable. The numbers suggest that retailers understand protecting assets and people pays off even in the toughest of times, and perhaps the payoff is even more important when times are challenging. Losses to shoplifting, employee theft and organized retail crime can be crippling — especially now.

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The survey conducted for ADT between October and December of 2008 asked U.S. security and loss prevention specialists, owners of businesses, and individuals from finance, operations and IT representing a broad spectrum of retailers to answer questions about their current and future commitment to security expenditures and technology. The survey took a look at what security measures they currently had in place, their goals for security technology and what they were looking to purchase or implement in the near future.

Retailers from different market segments, including food, specialty hard goods, DIY/hardware, department stores and discount stores were part of the survey. The results were also broken down according to size, and retailers were separated into three tiers. The top 250 global retailers comprise the first tier. These are larger retail chains with multiple stores in different areas or regions. Retailers, not in the global 250, yet with more than 20 locations or outlets, make up the second tier and those with less than 20 locations were considered in the third tier.

TIER 1
Top 250 global retailers
- **Larger retail chains**
- **Multiple stores in different areas or regions**

TIER 2
Retailers not in global 250
- **More than 20 locations or outlets**

TIER 3
Retailers with less than 20 locations

Trends in security purchases, implementation and future buying varied among market segments and tiers, but retailers, regardless of size or segment, seem committed to security and to security technology. Larger retailers in tier 1 and discount and department stores seem to lead the way in sophistication and technological advancement. Food retailers follow closely in many areas, and with special day-to-day considerations, they often surpass department and discount retailers in some areas of sophistication.

The survey shows video surveillance to be one of the most popular security technologies for U.S. retailers. Loss prevention professionals seem to understand the power of live and recorded images in deterring, limiting and prosecuting retail thieves. These findings coincide with the results of the 2007 National Retail Security Survey conducted by the University of Florida and sponsored by ADT. That survey of U.S. retailers also found a strong preference for video technologies with retailers looking to add video and remote video capabilities in the near future.

Beyond video, the recent ADT survey also found retailers looking increasingly at integrating security systems with IT. Tier 1 department, discount and food stores are the most likely to already have completed the steps toward integration. These high-end retailers are also moving closer to total integration of video, access control and other security devices on the IT network.

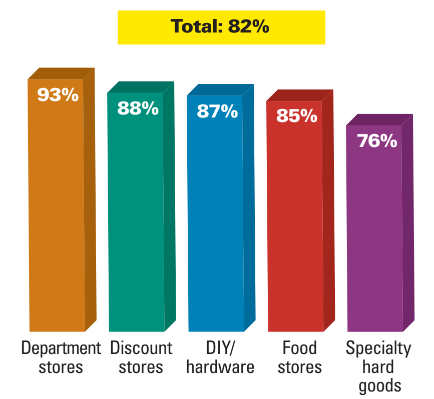
Other advance technologies on the rise include video analytics and radio frequency identification (RFID). Retailers across all segments, but mainly in tiers 1 and 2, seem to be increasingly interested in adding these newer tools.

The survey shows a picture of an industry that has embraced technology for security and safety as a part of its culture. In a very competitive industry, and even tougher economic environment, retailers have found that keeping up with technology tools and solutions is essential.

The Security Picture Today

The first portion of the ADT survey looked at what security tools retailers are currently using. As mentioned before, monitored security systems appear to be a staple of the industry. More than 82 percent of the 334 retailers surveyed were using a monitored security system. Department stores had the highest percentage at 93 percent followed closely by most other major segments. Specialty hard goods retailers were the least likely to be using monitored security with only 76 percent, but they were also the most likely to be planning to purchase a system in the near future at 9 percent.

Retailers across segments using monitored security systems



The high percentage of department stores using monitored security is probably partially due to the fact that a large number of them are in tier 1 or 2. They are larger with locations in different regions and have the requirements and resources for monitored security systems. In fact, 93 percent of tier 1 and 95 percent of tier 2 retailers indicated that they have monitored systems. Smaller, tier 3 retailers are relatively less likely to currently have a monitored system at 77 percent, but they do represent growth in the industry with 6 percent indicating that they are looking to purchase a system in the near future.

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Video Technology

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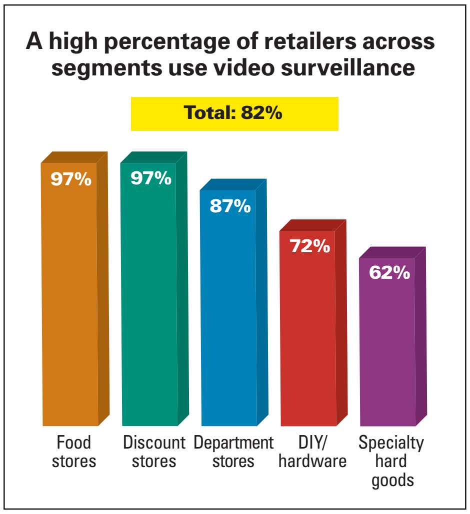
Of the 278 retailers surveyed with monitored security systems, video surveillance was the number one technology used. Discount and food stores lead the way with 97 percent of both segments using video. The specialty hard goods segment was the least likely to use video at 62 percent.



Images have become invaluable for retailers and loss prevention specialists. Today's video technology is extremely effective at keeping an eye on activities in a retail setting, and as a result, its popularity has soared.

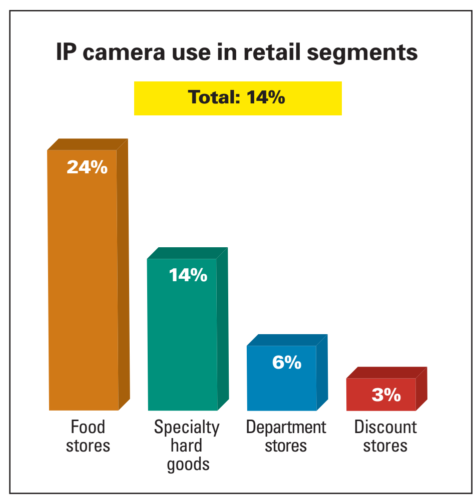
Probably because of their very popularity, these technologies have continued to evolve at a breakneck pace. Manufacturers have been able to make them do more, be more flexible, more scalable and, best of all, integrate with the Internet and the enterprise.

Cameras, recording and monitoring systems require an initial investment from the retailer, but they prove to be one of the most effective loss prevention tools available. Probably the biggest bonus these systems have to offer in lean times is that they pay for themselves quickly in loss prevention benefits. But they go way beyond loss prevention and security once a system is in place. Information from a video system is valuable for almost all store operations, from human resources and sales to marketing and management. The cost of a system can be spread out over a number of departments since the benefits are so diverse.

Cameras

Cameras are becoming smaller, smarter and easier to install and upgrade. The biggest advancement is networked Internet Protocol cameras or cameras with their own IP address that can be plugged in and out of systems much like plugging a printer into a computer. Video from IP cameras can be accessed directly from the Internet for monitoring and recording. IP camera systems are more versatile and scalable, so that systems can easily grow with changes in the retailer's needs and budget. They also can be more simply upgraded since software may be downloaded directly to the camera giving the technology longer life and making it less likely to become obsolete.

As the technology for IP cameras has gotten better, so has the resolution. Getting a high-quality image is vital, and megapixel cameras are making it easier to do just that. More pixels also make it possible to zoom in on details without losing quality. As every LP professional knows, some criminals are very good and very quick. Being able to zoom in on and freeze the frame at the exact point that the razor blade pack slips into the coat and out of sight can make a big difference and might be enough to help with successful litigation or at least an admission of guilt. These new cameras make it hard for criminals to argue with the evidence.



While retailers are committed to video, the transition to Internet Protocol cameras is just beginning. All segments are using some IP cameras, but surprisingly, food retailers are leading the way. Department and discount retailers usually in front of the technology march are behind in this area.

Food retailers may lead in this area because they have newer facilities and more locations. This may have allowed them to implement newer camera technologies.

Other Technologies in Use

Discount, department and DIY/hardware stores list the desire to protect high-value goods as the number one reason for implementing security solutions, so it is no surprise that they are heavily invested in electronic article surveillance (EAS). Discount leads the way with 82 percent listing EAS as a solution, followed by 61 percent of department stores and 42 percent of DIY/hardware.

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EAS source tags are often placed on products by manufacturers, so the retailer gets the benefit without the time and labor costs of tagging items. EAS manufacturers today offer a wide variety of tags for almost any size or shape of product. Even hard-to-tag items, such as wine bottles, baseball bats and fishing poles, now have special tagging solutions.

Food stores with hard-to-tag and low-cost items have the smallest adoption of EAS with only 19 percent listing it as an implemented solution.

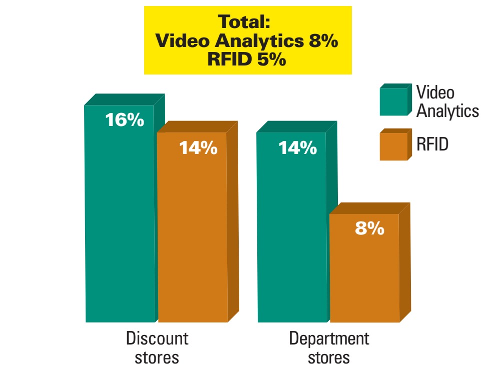
However, food retailers do embrace card-based access control more than other segments with 47 percent listing it as an implemented technology. Conversely, use in DIY/hardware is much lower at 10 percent. The greater interest in access control may also explain why the food segment has a 6 percent implementation of biometric access control when the total for biometric is a mere 3 percent.

The survey also reveals that tier 1 and 2 discount and department stores are the most likely to have implemented some of the newest leading technologies including video analytics and RFID. While the total percentage for video analytics is 8 percent and 5 percent for RFID, more than 14 percent of department stores and 16 percent of discount stores are using video analytics, and 8 percent of department stores and 15 percent of discount stores are using RFID.

The tier view of currently implemented retail security tools in the U.S. is pretty much as expected. Tier 1 and tier 2 retailers follow each other fairly closely for the first four tools — video detection, fire detection, maintenance contracts and other types of electronic locks. Tier 3 retailers veer from the first two tiers dramatically. Its adoption of video technology is only 60 percent, while tier 1 and 2 are at 95 percent and 93 percent respectively. The smaller retailers are less likely to turn to technology most likely because of costs and the sophistication of their operations. Tier 3 is far less likely to use all categories of technology including EAS, exception-based POS and security guards.

Tier 2 retailers use a surprisingly large amount of card-based access control. More than 52 percent list it as a tool, while the percentage for tier 1 is only 20, and for tier 3 is 13.

Discount and department stores are the most likely to use leading technologies



Challenges Faced by Retailers

The 2007 National Retail Security Survey showed that retailers lost more than $34.8 billion to theft, internal error and vendor fraud. The largest portion of that came from employee theft at $15.2 billion followed by $11.8 billion in shoplifting.

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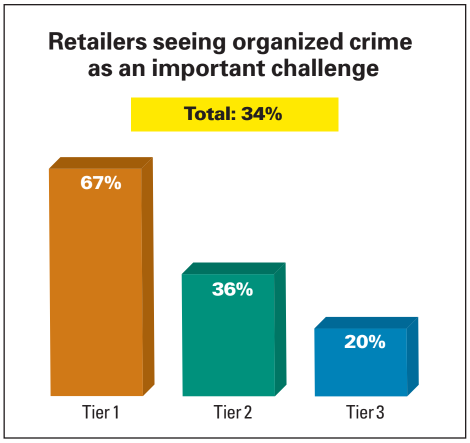
An ADT U.S. retail survey showed that retailers see the three greatest security challenges as:

- Theft by customers
- Theft by employees
- Organized retail crime

While most segments were in agreement with the order of those challenges, food retailers see employee theft as a greater challenge than theft by customers, and DIY/hardware retailers are not as concerned about organized crime as they are with employee safety.



Other security concerns for discount retailers, in addition to the top three, include customer safety, standardization of different security systems and education and training of employees and security staff.

Across the three tiers the top problems are similar except that organized retail crime ties for third place with obtaining funding for security projects. Also tier 3 retailers are not as concerned about organized crime as they are about false alarms. But large tier 1 retailers see organized crime as a real issue.

All segment and tiers rank terrorism as a challenge low on the list, although tier 1 retailers are the most concerned with 12 percent citing it as a worry.

Motivation for Retailer to Adopt Technology and Tools

The top reasons retailers implement security solutions are the following:

- Desire to protect high-value goods (62%)
- Desire to reduce customer theft (60%)
- Desire to reduce employee theft (57%)

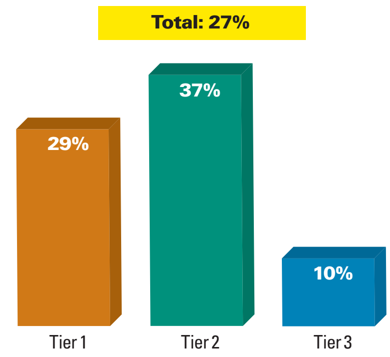
Food retailers varied slightly with a smaller percentage citing the desire to protect high-value goods. They indicated that the desire to improve worker safety was even of more importance. This could be because food retailers do not have the same number of high-value goods as other retailers, and the expense of workers' compensation claims and employee downtime overrides the need to protect high-value items.

Other motivations that ranked high for department and discount stores included improving the customer shopping experience through an open merchandising environment. More than 42 percent of the department stores and 57 percent of discount retailers listed this as a reason for technology adoption. These are also the segments using the most EAS in their environments which allows merchandise to be more accessible to the customer while still affording some protection against shoplifting. Only 10 percent of specialty hard goods retailers listed improving the customer shopping experience as a reason for security solution implementation.

While there was little difference in motivation across the different retail segments for putting technologies in place, the tier view shows that tier 3 retailers have some significantly different reasons for implementing security technology. Smaller, tier 3 stores are less motivated by a desire to reduce employee theft and are more prompted by a desire to decrease stress about business security when owners and executives are not on-site. This could be because many of these smaller retailers are owner or family operated. They may have smaller staffs with fewer employees to manage, making employee theft easier to monitor. But with fewer people to rely on, decreasing stress when they are not on-site becomes a bigger issue.

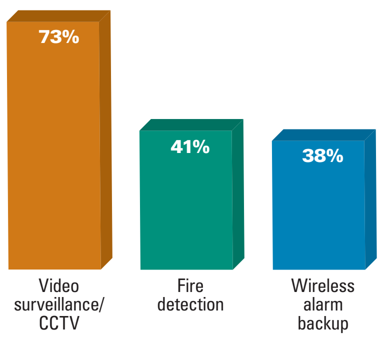
Improving the consumer shopping experience is far more important to tier 1 and 2 retailers than it is to tier 3 retailers.

Implementing security to improve the customer experience



Implementing New Security Solutions

The top three security solutions to be added over the next three years



The ADT survey presented respondents with a list of security solutions they indicated that they did not currently use. When asked which of these solutions they planned on or would consider adding in the next three years, video was the clear winner. More than 73 percent of the retailers indicating they did not currently have video surveillance said they are planning or would consider adding it.

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One of the strongest segment interests came from the food retailers. More than 41 percent without biometrics currently are planning or considering the addition of biometric access control.

The tier view of future solution implementation shows that tier 3 retailers are looking to add the most new technologies since they are more likely to not be currently using them. Most of the new implementations of video will come from the smaller retailers.

RFID Implementation

"A recent study by the IHL Group estimates that retailers lose more than $93 billion a year to out-of-stocks. It is a bigger problem than theft and has a strong effect on shopper loyalty."

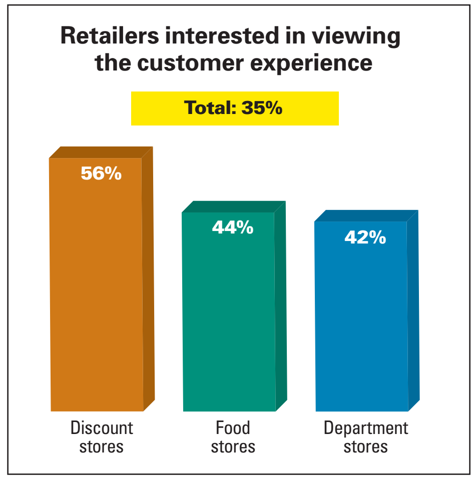
The biggest implementation of new technology for tier 1 appears to be RFID. More than 30 percent of tier 1 retailers not currently using RFID technology said they were planning to or would consider implementing RFID in the next three years.

The adoption of RFID in retail has been slower than many people predicted, but these numbers would indicate that retailers are looking to move forward. While the economy may somewhat slow implementation, most retailers acknowledge its potential to move items more efficiently and securely through the supply chain. For loss prevention specialists, that means less shrink in the back of the store and fewer lost merchandise and inventory errors.

Beyond reducing shrink and helping loss prevention efforts, RFID's biggest benefit to retailers may be that it can keep shoppers happier and more loyal because it keeps products on the shelf when and where they belong. A recent study by the IHL Group estimates that retailers lose more than $93 billion a year to out-of-stocks. It is a bigger problem than theft and has a strong effect on shopper loyalty. It can take only a couple of times of going to the store for a product and not finding it on the shelf to prompt a consumer to make another retailer their first shopping choice.

Expected implementation of RFID for tier 2 retailers was 21 percent, but tier 2 did show a stronger interest in adding exception-based, point-of-sales reporting systems at 41 percent. This likely reflects the desire of midsize chains to remain competitive by adding more business intelligence to their security and loss prevention arsenals.

Remote Monitoring



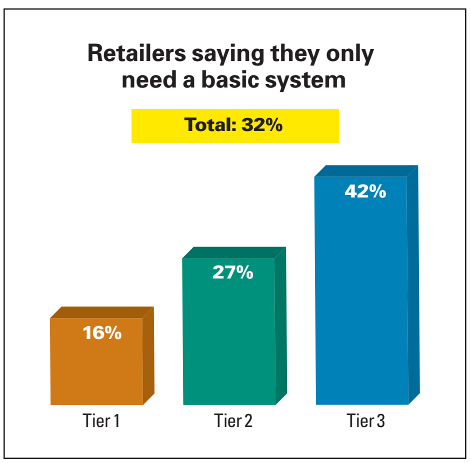
Retailers show an interest in being able to use their camera systems to remotely monitor facilities by running video over their network. There are varying levels of interest in the benefits of remote monitoring across the segments and tiers. The biggest benefits are seen as being able to identify people coming into a store or facility, being alerted when an exterior or interior door is opened, or knowing if there is flooding, a power outage or dangerous carbon monoxide levels.

Taking the security system beyond security and using the infrastructure for business operations and marketing also seemed to be especially interesting for discount, department and food stores. These segments all showed an interest in being able to record and review the customer experience remotely via video, including time spent near various retail displays.

Centralized remote monitoring gives a total view of day-to-day operations on a chainwide level that can benefit every aspect of retail operations. For example, marketing can look in on stores to make sure that they have set up special promotions correctly or that seasonal items are displayed in a timely manner. Making sure items are displayed properly and are easily available can increase sales and make the difference in a shaky economy.

Tier 1 retailers are significantly more interested in a variety of remote capabilities than tier 3. Tier 1 shows more sophistication and familiarity with the technology. The gap between tier 1 and tier 2 is less pronounced. Tier 2 retailers show an understanding of the capabilities and a willingness to embrace new technologies.

Most Important Factors in Selecting a System



Overall, the survey shows that price is the most important factor for retailers when selecting a security system. But that does not appear to be true for all segments. While price is still an important consideration, department and discount retailers say that having a state-of-the-art, monitored security system is the most important consideration for them. And food retailers indicated that they are willing to pay more for a system that helps keep employees safe. Safety of employees is also a major concern for DIY/ hardware and discount retailers.

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The tier view of which factors are most important in selecting a system demonstrates a difference between the different tiers. More than 74 percent of tier 1 retailers said that the most important factor for them is having a state-of-the-art monitored security system. Only 38 percent of tier 3 retailers listed this as the most important factor and, in fact, 42 percent of tier 3 retailers said that they only need a “basic” system.

Integrating Retail Security and IT

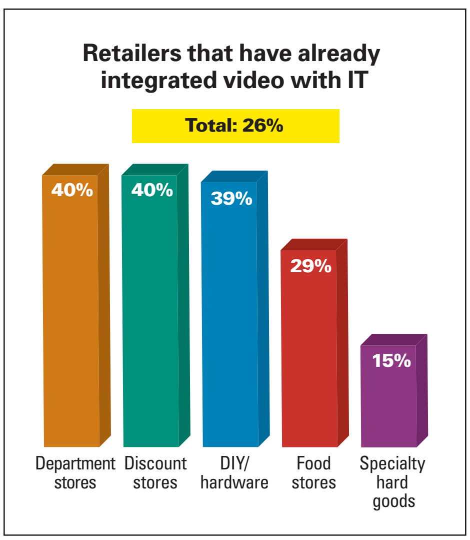
Retailers are on the integration path according to the findings in the survey. The more sophisticated and nimble of them have already started making progress toward the ultimate goal of fully integrating security with other business processes on the network.

There is a lot of technology out there that can help retailers during these difficult times and certainly into the future. But, the technology becomes even more powerful when it works together. When all of the systems are working together, they provide the retailer with an exceptional view of their business operations on every level.

When the alarms, cameras, monitoring and software systems are all integrated, it provides an in-depth picture of the business and its operations. That type of information can be used to make adjustments in everything from staffing levels to display placement or even store layout.

There are enterprise and networked systems that bring all of these elements together providing the store management with comprehensive automated reporting. It allows retailers to identify and track a wide variety of data and trends on a companywide basis as well as at the store level, and bring all of that information together into one place where it can be evaluated and acted upon. Overlapping and integrating information can point to solutions that in many cases would otherwise go unnoticed. For most retailers that means money out the door at a time when every dollar is crucial.

Building an integrated system takes resources, but it can very quickly pay for itself and allows not only the loss prevention and security departments to accomplish more, but also aid every other aspect of the retail business.



Tier 1 retailers lead the way in all aspects of integration. They have the size and resources to pull security into the IT mix. The process appears to be more difficult at this time for the smaller tier 3 retailers. Many indicate that they have plans to or would like to integrate, but a significant number say that they have no plans to link IT and security.

Across segments, integration is taking place at different levels. Food retailers seem to be integrating in some key areas, and department stores have the highest level of security integration with other business processes on the network.

Tier 1 and 2 retailers indicate an overall healthy desire to move forward with integration in the near future. The major retailers have already taken steps or indicate that they plan to or would like to bring security systems and all aspects of security on to the enterprise.

“Most retailers at all levels say that both security and IT have joint responsibility. This may mean that the buy-in for integration is joint and signals a cooperative corporatewide desire to get the most out of security technology and the information it provides.”

The driver for this integration is not one-sided. Most retailers at all levels say that both security and IT have joint responsibility. This may mean that the buy-in for integration is joint and signals a cooperative corporatewide desire to get the most out of security technology and the information it provides.

So What Is in Store?

> "What retailers do now to keep innovating and moving forward will mostly likely determine how they fare in the future."

Overall the survey demonstrates a commitment on the part of retailers to loss prevention and security technology. Retailers seem to have a real appreciation for the benefits of protecting products, customers and employees. In a very competitive marketplace, they seem to see the need to employ technology to help them better know and control what is going on in their environment.

Technology adoption is taking place at different levels according to needs and resources, but at every level it appears to be advancing. Understandably, tier 1 retailers are in front of most new technologies, but tier 2 retailers are also paving the way by having the flexibility to implement newer technologies more quickly. Even tier 3 retailers show an eagerness to embrace technology and use it to remain competitive and profitable.

The number of retailers already taking steps to integrate security on the network with IT shows that security technology and the information it provides is increasingly becoming an essential aspect of doing business. But an even more telling statistic is the number of retailers planning or considering integration. It strongly suggests that we will continue to see more of the same — greater adoption of technology and even more effective use of solutions.

Beyond the survey, technology is going to get better and better by evolving at an increasingly fast pace. It will allow retailers to do even more in the future, so it is important for them to be in the right position to take advantage of those future capabilities. It has been said that during economically hard times good companies prepare for taking advantage of the impending upswing. What retailers do now to keep innovating and moving forward will mostly likely determine how they fare in the future.

About ADT Security Services, Inc.

ADT Security Services, Inc. is a unit of Tyco International and part of ADT Worldwide, the world's largest electronic security provider. In North America, ADT provides electronic security services to nearly 5 million commercial, government and residential customers. ADT's total security solutions include intrusion, fire protection, video systems, access control, critical condition monitoring, home health services, electronic article surveillance, radio frequency identification (RFID) and integrated systems. ADT's government and commercial customers include a majority of the nation's *Fortune* 500 companies, all U.S. federal courthouses and over 70 mid to large airports. Headquartered in Boca Raton, Florida, ADT has more than 24,000 employees at approximately 240 locations in the U.S. and Canada. More ADT information is at http://www.ADT.com.