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COST TO BUSINESS

Pillaged, pirated and plucked

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RETAIL

The cost of crime to the consumer goods retail sector amounts to a staggering R4,1bn (including efficiency losses), according to Michael Broughton of the Consumer Goods Council of SA.

Included in this figure are bulk syndicated theft, crime prevention and pilferage. Bulk syndicated theft accounts for about 60% and relates mainly to "back-door shrinkage". This involves collusion between staff and suppliers at the point of entry to a store. Truckloads of goods destined for a store often go missing, to be distributed by crime syndicates.

Broughton says crime costs Australia about 1,8% of total retail turnover, the US 1,7%, Europe 1,9% and SA 2,1%.

JD Group chairman David Sussman reported this month that crime in and around the merchandising group had doubled in the past five years. He said the costs of crime and crime prevention had exceeded R100m in the year to August 31 2006. The group, which operates chains such as Joshua Doore, Bradlows, Hi-Fi Corporation, Morkels and Russells, experienced 43 armed robberies over the financial year.

Woolworths says the number of armed robberies escalated from seven in 2005 to 15 in 2006. A special focus for Woolworths is the smaller convenience stores, which are open for longer hours and provide relatively easy access.

Pick 'n Pay notes that the issue of crime needs to be put in context and that the news isn't all bad. "The co-operation we have enjoyed from the SA Police Service has been extraordinary and we work together closely," says spokesman Tamra Veley. New Clicks spent R33m on security for its retail operations, which include Clicks, Discom, Musica and The Body Shop, in its past financial year.

RESTAURANTS

Gianni Mariano, cofounder of the Mastrantonio chain of Italian eateries, says raids on restaurants have created the biggest headache the industry has ever had to deal with. Tactics and technology aimed at reducing theft have become an expensive component of overheads.

The Hyde Park, Sandton, branch of Mastrantonio's M&A franchise was hit twice in a year - and it is far from being alone. Raids on the Kitchen Bar in the Design Quarter near Fourways and on Mike's Kitchen outlets have been well-documented.

"We've had to restrict access, put up perimeter fencing and use an armed-guard service," says Mariano.

Marc Guebert of Bistro 277 in Bryanston takes heart from the security set-up in the complex where the restaurant is situated. But he says the only way to reduce theft on the inside is to avoid employing casual staff.

Recently, however, the Restaurant Association of SA (Rasa) came to the aid of its beleaguered members - just in

time for the festive season, when crime picks up. Says CEO Wendy Alberts: "With the help of an off-site monitoring company, we have introduced a three-way system that includes face-recognition technology, a tracking device for stolen goods and a call-in centre for whistleblowers. "

She adds that Rosebank is a hot spot for gang activity, the modus operandi being to occupy a table at peak times and then strike when it's opportune.

The system costs members, of which Rasa has 1 200, a one-off fee of R25 000, or a monthly rental of R800.

BANKING SECTOR

Even sangomas are being drawn into the growing number of crime syndicates targeting banks. Their protection *muthi* is sometimes found spread outside a branch after a robbery. Known as *intlesi*, it's also used for protection before going into battle.

And the battle is on. Branches and ATMs are constantly monitored from secure "bunkers" or control rooms, and alarms are responded to almost instantly.

Telephone lines used for surveillance are being replaced by satellite links, which are more reliable, and branches can be watched in close to real-time.

The cost of sophisticated security is large. An industry-wide figure isn't available, but adding up the efforts of SA's four biggest banks, the total runs into hundreds of millions. Nedbank, for example, says it spends more than R100m/year on branch security and R100m on insurance. But this is an operating cost and doesn't include capital spent on security.

Losses from fraud run into tens of millions of rand annually, while losses from robberies stand at R10m.

Standard Bank says it spends "hundreds of millions" of rand a year on security. Losses stand at a few million rand a year across all forms of crime.

First National Bank says it's had 11 armed robberies, six burglaries and three cash-in-transit heists during the past five months. The cost of fraud and crime rose 64% between 2004 and 2006, and the bank suffered losses of R99m this year, compared with R73m in 2004.

More than R810m has been stolen in cash-in-transit robberies in SA since 2000, says Anton Wiid, general manager of the violent crime office at the SA Banking Risk Centre. In an affidavit opposing bail applications by 26 suspected cash-in-transit robbers in the Durban regional court this week, Wiid said cash-truck robberies averaged 400-540/year, with between R88m and R140m stolen.

As the banking and cash-guarding industries are big players, "it stands to reason that any threat, trauma or losses for the industry will have a direct influence on the economy".

Banks are also paying a price in terms of the effects of crime on staff. FNB CE Michael Jordaan says he writes a note to every staff member who has been the victim of crime. "I feel like the president writing to a dead soldier's family after he's been shot in Vietnam."

CONSTRUCTION

Theft on building sites is not a new phenomenon. The costs of access control and insurance against loss of equipment are factored in to tender prices.

But there's a new development, says Master Builders' Association CE Pierre Fourie: armed and organised syndicates are raiding building sites and stealing high-value cabling.

Construction companies are required by health and safety laws to restrict access to sites. The costs related to securing a site have doubled in recent years, says Stocks Building Africa MD Rob King. In the past, a contractor's employee, paid between R2 000 and R3 000/month, would serve as a watchman. Now, outsourced security

guards paid R5 000-R7 000 are used.

King says it is usually the smaller contractors who are hardest hit because they have fewer resources to protect building sites.

Sean Flanagan, Murray & Roberts' head of SA operations, says it is difficult to quantify exactly how much crime costs the company. But he gives the example of the Gautrain project, for which foreigners and their families have moved to SA. "All we need is to have someone hijacked or something [crime-related] happens on site and we could see a whole lot of people climbing on aeroplanes. That would be a risk to the project."

The Gautrain presents one of the biggest security challenges because the building site is 100 km long.

Paul le Seuer, MD of building for construction company Group Five, says that containers on building sites are being installed with alarms and cameras in efforts to manage crime on site. He estimates that theft could cost as much as 3%-5% of the company's earnings.

More broadly, he points out, crime costs the industry by deterring tourism and other investment and by driving away people with skills.

Wilson Bayly Holmes CE Mike Wylie says that spending on security and by inference on crime costs the company about 0,13% of revenue. The company spends about R5m/year on security for its SA operations.

SHORT-TERM INSURANCE

Crime, along with weather and deteriorating driving standards, will mean that short-term insurers will battle to report underwriting margins of any more than 2%, well down on the 6%-10% experienced in 2004 and 2005.

Historically, crime accounted for 17% of underwriting losses, substantially less than weather or motor accidents, but it's creeping up to a 25% share.

Mutual & Federal MD Bruce Campbell says that better security systems in the home and in cars have led to a fall in burglaries and car thefts - in the June quarter, for example, car thefts fell by 10% compared with a year earlier. Security systems appear to be deterring random, opportunistic crime.

But there has been an increase in organised, violent crime as criminals have worked out that they have a better chance of getting away with valuables if they can force people to surrender their car or the goods inside their house at gunpoint. Often they aim to clean out a house in the two to three minutes, before the armed response arrives.

M&F's car hijackings were up 15% in the June quarter and it is getting worse. SA Eagle MD Nick Beyers says its hijacking experience in the third quarter was 80% worse than a year before, and there had been a sharp increase in housebreaking claims over R1m.

The security guard strike earlier this year also led to increased claims.

Caroline da Silva, head of portfolio management at Santam, says that the days when living in a gated community automatically led to a lower insurance premium are over. "There are high-security estates, but when there is only a gate and a lightly armed guard it many not qualify for much of a discount."

Serious crime is moving to the outlying areas and is now a concern in towns such as Rustenburg.

The lax ethical climate has also led to an increase in fraudulent claims, which always has a seasonal pick-up before Christmas. "Claiming to have lost an expensive Swiss watch, which in reality was a cheap Asian watch, is becoming more frequent," says Da Silva.

TELECOMS

The almost daily reports about the theft of copper cable from Telkom's telecommunications network don't often



highlight the impact this has on productivity and costs. Office parks, and sometimes entire neighbourhoods, can be disconnected from the Internet and land-line telephony for days, if not weeks.

Thieves, some of them small-time crooks, some of them part of organised criminal syndicates, are making off with millions of rand every year in copper cable infrastructure. This leaves consumers and businesses to rely on more expensive and often less practical mobile alternatives while Telkom technicians work to replace the stolen and damaged infrastructure.

Telkom won't talk about specific incidents - it says this would be invaluable information for rivals looking for business opportunities and it also says it doesn't want to alert criminals to easy targets. The company won't even comment on how much crime is costing it each year. What it will say is that it spends about R100m/year on security alone in an effort to minimise the impact of criminality.

"Cable theft, in particular, negatively affects our service delivery to our customers and our revenue," says Telkom corporate affairs group executive Lulu Letlape. "Apart from the revenue that is lost, there is also a cost involved in replacing stolen cable."

The theft has also had a big impact on Eskom and the building industry. Copper theft has resulted in widespread power failures in Johannesburg this year.

Thieves melt down the copper and resell it. The surge in the price of copper over the past couple of years, driven by strong global demand, has made it more attractive for criminals to steal the metal.

Letlape says the negative impact of cable theft on service delivery across all customer segments is a "major concern" for Telkom. "In many cases, businesses are seriously affected by service interruptions due to copper theft," she says. "Theft has caused our fixed-line fault rates to increase and the repair time on our network and the network downtime associated with such faults to increase. In addition, network fraud and payphone fraud have resulted in lost operating revenue and additional costs."

Telkom claims it doesn't recover these costs from its clients but rather absorbs them in its bottom line. Letlape points out that the company reduced its basket of tariffs by 2,1% in August 2006.