



National Retail Federation[®]

The Voice of Retail Worldwide

2009

Organized Retail Crime Survey



About the Organized Retail Crime Survey

NRF's Organized Retail Crime survey is distributed each spring to senior loss prevention executives nationwide. This year's survey features responses from 115 different retail companies, including department/large box, discount, drug, grocery, restaurant and specialty retailers. The 2009 Organized Retail Crime Survey is NRF's fifth annual survey.

About the National Retail Federation

The National Retail Federation is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.6 million U.S. retail establishments, more than 24 million employees - about one in five American workers - and 2008 sales of \$4.6 trillion. As the industry umbrella group, NRF also represents more than 100 state, national and international retail associations. www.nrf.com

NRF Contacts:

Survey Information:

Angelica Rodriguez
Sr. Director, Loss Prevention
202-626-8142
rodrigueza@nrf.com

Media Inquiries:

Kathy Grannis
Manager, Media Relations
202-626-8189
grannisk@nrf.com

NRF 2009 Organized Retail Crime Survey

Purpose

The purpose of this survey is to understand the impact of organized retail crime on retailers across the country. By measuring trends and operational methods of criminal enterprises, retailers will be in a better position to respond to this industry-wide issue, which has significant repercussions on consumers, brands and local economies. New questions were added to this year's survey to get a better understanding of the complexity of the issue and how retailers are partnering with law enforcement.

Organized Retail Crime: Background

Organized retail crime refers to groups, gangs and sometimes individuals who are engaged in illegally obtaining retail merchandise through both theft and fraud in substantial quantities as part of a criminal enterprise. These crime rings generally consist of "boosters" who methodically steal merchandise from retail stores, and fence operators who convert the product to cash or drugs as part of the criminal enterprise. Some of the more sophisticated criminals engage in changing the UPC bar codes on merchandise so they ring up differently at checkout, commonly called "ticket switching." Others use stolen or cloned credit cards to obtain merchandise or produce fictitious receipts to return products back to retail stores.

In many instances, organized retail crime groups target several retailers in one day moving from state to state stealing and re-selling merchandise through fencing operations such as flea markets, pawn shops, Internet sites and swap meets. These groups often steal thousands of dollars worth of merchandise at a time with the intent to resell it for profit, buy drugs or fund terrorist activities. The most popular items targeted by these groups are goods in high demand commanding up to a near-retail resale price, such as designer clothing, gift cards, over-the-counter medicines, electronics, batteries and infant formula.

As the Internet continues to increase in popularity among shoppers, crime rings use online auction sites as an anonymous platform to sell stolen merchandise. This practice, known as e-fencing, continues to increase, giving criminals a nationwide storefront from which to unload goods.

Unfortunately, this illegal and unethical practice also threatens the health and safety of innocent consumers. Delicate merchandise such as personal hygiene products, over-the-counter medicines and baby formula, which are prime targets for criminals because of their high resale value, can spoil when not stored in proper temperatures or in the right environment, but criminals often store stolen merchandise in large warehouses where there is no climate control. When criminals resell this merchandise, consumers are left with no way to guarantee they are getting safe or reliable products.

Stories of law enforcement uncovering and disbanding organized retail crime rings have been prominent within the last 18 months. In Polk County, Florida, law enforcement officials in 2008 made history when they uncovered an 18-person crime ring responsible for stealing upwards of \$100 million worth of baby formula and other over-the-counter products. That same agency was also responsible for a bust this past March, which resulted in the arrest of 13 individuals who stole approximately \$18 million worth of baby formula over a seven-year period. Other areas of the country have been identifying and fighting organized retail crime as well.

Organized Retail Crime Continues to Rise

In this year's survey, a record number of retailers (92%) reported that their companies were victims of organized retail crime activity in the past 12 months, up eight percent from 2008 (see Figure 1). The number of companies who said they have seen an increase (73%) in this activity in the last 12 months also increased, up 11 percent from 2008 (see Figure 2).

Figure 1. Has your company been a victim of organized retail crime in the past 12 months?

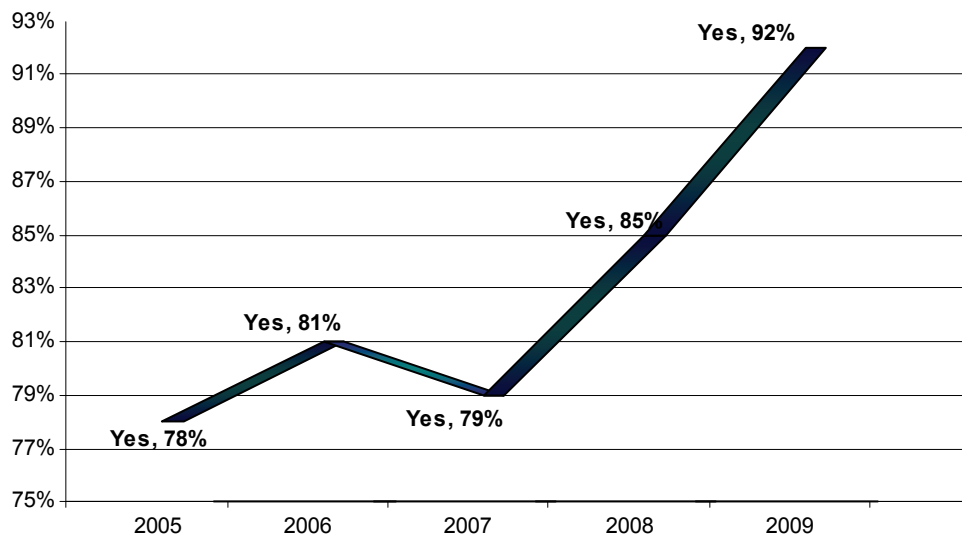
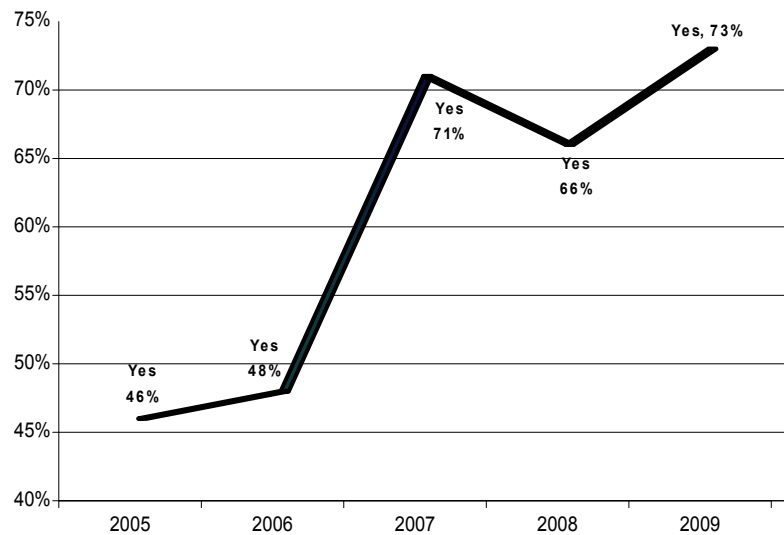


Figure 2. Have you seen an increase in organized retail crime activity in the past 12 months?



In an effort to gauge how retailers feel about the level of organized retail crime in the United States, NRF polled retailers for the first time about how this illegal activity has changed over the last three years. According to the survey, almost seven out of ten (68%) of retailers said they believe organized retail crime activity in the US has increased over 25 percent in the last three years, while 40 percent said ORC activity has increased more than 50 percent in that same time period (see Figure 3).

Figure 3. How has organized retail crime activity in the U.S. changed over the last three years?	
ORC activity has doubled	14%
ORC activity has increased by more than 50%	26%
ORC activity has increased by more than 25%	28%
ORC activity has increased by more than 10%	12%
ORC activity has increased more than 5%	8%
ORC activity has stayed the same	11%
ORC activity has declined more than 5%	0%
ORC activity has declined more than 10%	1%
ORC activity has declined more than 25%	1%
ORC activity has declined more than 50%	0%

When asked about how organized retail crime ranks as a threat to their company, more than one-fourth of retailers (29%) gave ORC a “four” or “five” rating, identifying the problem as a “severe” or “significant” threat to their company. On average, retailers gave organized retail crime a rating of 2.87 on a five-point scale (see Figure 4).

Figure 4. On a scale of one to five, with five being severe, where would you rank ORC as a threat to your company?					
	2005	2006	2007	2008	2009
5 (severe)	7%	4%	6%	8%	4%
4 (significant)	22%	37%	18%	28%	25%
3 (important)	44%	22%	37%	30%	38%
2 (concerned)	22%	30%	34%	28%	24%
1 (non-issue)	5%	7%	5%	7%	11%
Average	3.04	3.01	2.86	3.02	2.87

Fencing and e-fencing

With vehicles like the Internet available to anonymously liquidate merchandise, some experts believe the lines between traditional groups committing organized retail crime activity and the individual criminal “entrepreneur” may be blurring.

Retailers continue to monitor theft and fraud activity at the store level through fence locations such as swap meets, flea markets, pawn shops and temporary stores, as well as online through e-fencing operations, where stolen merchandise is sold through auction sites. According to the survey, six out of ten retailers say they have identified stolen merchandise or gift cards at physical fence locations (60%) and through e-fencing activities (60%) (see Figures 5 and 6).

Survey results imply that law enforcement and retailers have had significant success in thwarting the efforts of professional crime rings that use the internet to distribute their stolen merchandise. Half (50%) of survey respondents saw an increase in e-fencing activity in the past 12 months compared with 63 percent who said they’d noticed an increase last year.

Figure 5. Have you identified or recovered stolen merchandise and/or gift cards from a fence location?

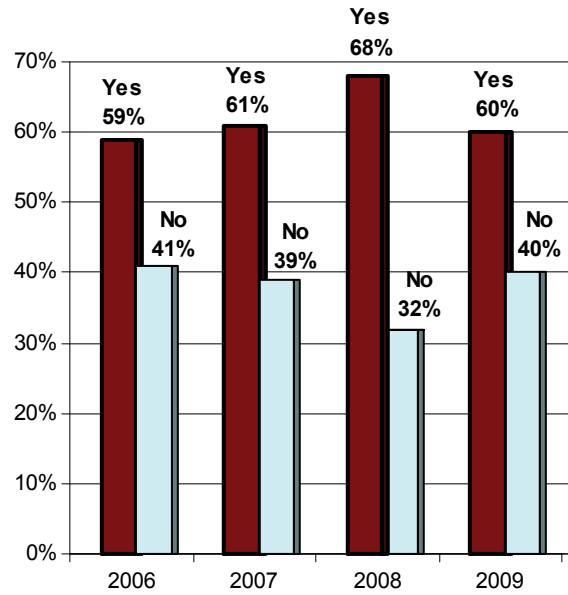
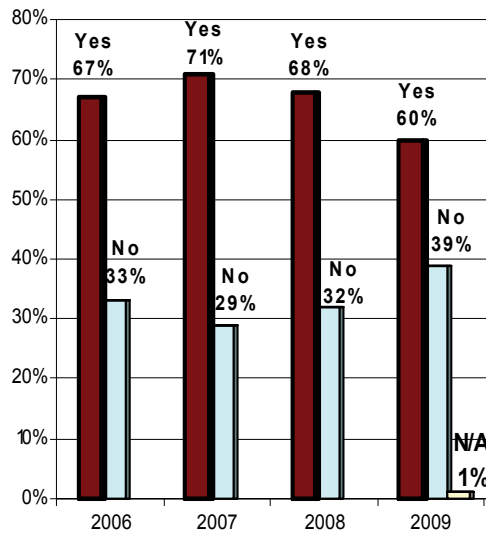


Figure 6. Have you identified or recovered stolen merchandise and/or gift cards that were being e-fenced?



As a part of their scheme, thieves sell “new in box” or “new with tags” merchandise and gift cards online and in pawn shops. This merchandise has never been opened or unwrapped and can provide more peace of mind to a customer buying from an unknown third party. Criminals can make close to 70 cents on the dollar on this merchandise through an online sale as opposed to roughly 30 cents on the dollar through more conventional black markets or physical fence locations. Retailers understand that this is a lucrative opportunity: According to the survey, one-third of retailers believe that more than 50 percent of “new in box” merchandise sold through online auction sites is stolen or fraudulently obtained, which is comparative to last year’s 34 percent.

The Impact of the Economy on Retailers

The economy has had a profound impact on retailers nationwide. Many retailers have been facing staff cuts to minimize costs and, with companies facing one of the worst economic downturns in the history of retail, loss prevention executives are faced with the daunting task of having to do more with less. Organized retail crime actors have quickly learned that tough economic times present a ripe business opportunity by selling goods at less-than-retail prices. As consumers flock to discount chains throughout the country, some have also turned to less traditional retail markets such as street sellers, flea markets, pawn shops and online auction sites to obtain lower prices. These sales may fuel additional thefts as boosters replenish their inventory, contributing to the cycle of additional losses, reduced sales tax revenue for states and potential safety issues with consumable products.

What’s notable, however, is that 42 percent of retailers are still allocating additional resources toward fighting organized retail crime, even in light of current economic conditions. Retailers surveyed spend an average of \$215,000 per year in labor costs to fight criminal gangs in their stores. Some retailers surveyed spend far more, with six percent of respondents spending more than \$1 million dollars annually on the issue.

The fight against organized retail crime would prove futile if loss prevention executives did not have support of senior management and local law enforcement. The good news is that nearly half (49%) of respondents believe senior management in their company understands the complexity and seriousness of organized retail crime (see Figure 7).

As retailers have worked to inform upper management of these threats, law enforcement remains a crucial component of the fight against organized retail crime. This year’s survey asked retailers for the first time if they felt that law enforcement understands the severity of the issue: slightly over one-third (38%) of respondents believe law enforcement understands the complexity of this problem. Retailers recognize the need for additional law enforcement education, changes to legislation which would give officers and prosecutors tough laws to address this problem and continued education in the community about the severity and implications of organized retail crime (see Figure 8).

Figure 7. Do you believe top management understands the complexity and seriousness of organized retail crime?

	2005	2006	2007	2008	2009
Yes	39%	41%	57%	54%	49%
No	56%	59%	43%	46%	47%
No answer	5%	N/A	N/A	N/A	4%

Figure 8. Do you believe law enforcement understands the complexity and seriousness of organized retail crime?

Yes	38%
No	61%
No answer	1%

Showing the depth of the issue, of the 115 companies that took the survey, 72% uncovered that criminal organizations had been exporting stolen goods outside of the United States or across state lines. Additionally, 28 percent of retailers found that criminal groups they are investigating have connections to street gangs with international connections (see Figure 9).

Figure 9. Are any of the criminal organizations you have investigated connected to known street gangs with international connections?

Yes	28%
No	64%
No answer	8%

Addressing the Problem: Legislation

Given the magnitude of organized retail crime, retailers have turned to Capitol Hill for needed assistance to fight these professional criminals. In early 2009, major legislation was introduced in Congress to help law enforcement fight organized retail crime. The three bills introduced include the Combating Organized Retail Crime Act of 2009, the Organized Retail Crime Act of 2009 and the e-fencing Enforcement Act of 2009.

While the bills offer different approaches to combating this crime, taken together they would offer a legal definition of organized retail crime and classify the offense as a federal crime for the first time, making it easier for federal law enforcement agencies such as the Federal Bureau of Investigations to step in. The legislation would toughen federal sentencing guidelines for criminals convicted of organized retail crime, require operators of online auction sites to cooperate with retailers and law enforcement officials in their investigations, and hold auction sites responsible for the sale of stolen merchandise that could have been prevented.

If this legislation is enacted, law enforcement would be given greater authority to pursue organized retail criminals, make it more difficult to resell stolen goods on the internet, and prevent groups from reaping a huge profit from their crimes to fund other criminal enterprises.

Additionally, NRF has been working with states to address the issue. NRF developed a package of model legislation on organized retail crime in 2007, and legislatures in at least a dozen states have passed their own laws, with more on the way. State retail associations continue to partner with NRF in their fight against organized retail crime as well.

Addressing the Problem: Law Enforcement Partnerships

NRF has been working with numerous retailers, retail trade associations and law enforcement agencies to track and prevent organized retail crime. Through NRF programs, retail companies, shopping centers and law enforcement have teamed up to share investigative and intelligence information. NRF's Investigator's Network now represents more than 1300 members in seven regions throughout the country and allows loss prevention and law enforcement personnel to meet, track and work collaboratively on major retail crimes like organized retail crime, burglary and robbery. Additionally, NRF's Joint Organized Retail Crime Task Force, comprised of the nation's top ORC investigators, works to educate the industry and law enforcement on patterns and trends.

Law Enforcement Retail Partnership Network (LERPnet)

Retailers are also becoming more sophisticated with tracking and information-sharing of retail crime incidents. April 2009 marked the two-year anniversary of the Law Enforcement Retail Partnership Network (LERPnet), a national repository designed to track major criminal incidents occurring at retail locations nationwide. Through a restructuring of the system in early 2009, the system has experienced a surge of incidents from several subscribing retailers. Additionally, the FBI's Domestic Security Alliance Council has assigned an analyst to track the data in LERPnet and compare it to crime trends throughout the nation. Approximately 1500 ORC incidents are reported each month in the LERPnet system. With subscriptions rising and an increased level of involvement from law enforcement, it is expected that reporting will increase.

LERPnet findings to this point have been illuminating. According to data in the system, retailers are the most vulnerable for organized retail crime activity on Saturdays between the hours of 3-5 p.m., and Washington DC, New York City, Los Angeles, Miami and San Francisco are the biggest targets of these groups. The largest concentration of reported incidents occurs in the Northeast, Southeast and West Coast regions, which follows suit with the law enforcement partnerships that have been established to work on this growing problem.

Conclusion

As businesses around the country continue to grapple with an unstable economy, retailers and law enforcement are working harder to combat the growing problem of organized retail crime that surrounds them. Though the economy has given criminals new opportunities to take advantage of innocent and unknowing consumers who are looking for good deals, retailers are taking measures to reduce the economic and substantial impact their companies are experiencing from organized retail crime, including:

Training and Awareness

Develop training programs for employees to identify and understand the economic affect to the company, products that are specifically targeted, proper responses dealing with “boosters”, professional shoplifters, employees colluding with outside ORC actors and other means of loss within their company. It is important to communicate that “boosters,” or professional shoplifters, do not necessarily target one specific company. They target stores with similar products or specific brands.

Utilize Existing Resources

Retailers should establish a collaborative relationship with law enforcement agencies and utilize existing relationships with trade associations, like their state association and the National Retail Federation. Working together and sharing crime intelligence information is a critical link in fighting ORC and related crimes. Retailers should explore all of the many tools that have been developed for communication including news media relationships, law enforcement partnerships, COMPSTAT (Comparative Statistics), FBI Uniform Crime Reports, LERPnet Data and other tools to predict and respond to the latest theft trends in their stores.

Communicate and Advocate

Retailers are encouraged to share information directly or through the National Retail Federation about crime trends in an effort to educate law enforcement and legislators. Retailers should call for local, state and federal legislation such as stiffer penalties, civil remedies and demand prevention measures to be implemented. All of these efforts are necessary to effectively combat this large problem.

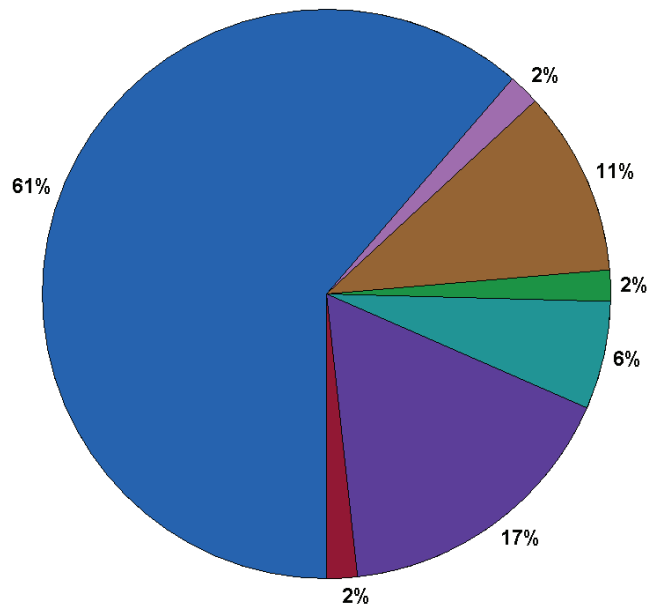
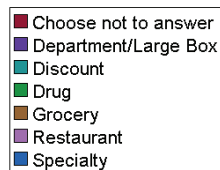
About the Survey

Survey Respondents

For the first time, NRF included company demographics in the survey. Retailers were asked to specify their company sector and size. The pie chart below shows that the majority of survey respondents (62%) represent the specialty store sector, followed by department/large box (17%) and grocery (11%). Table 1 demonstrates the individual company size in terms of number of establishments in operation. Thirty percent of the company representatives that answered have more than 1,000 establishments, followed by retailers with 201-500 stores (26%), 501-1,000 stores (17%) and retailers with 50-200 stores (17%).

Table 1. How many stores does your company operate?	
Less than fifty (50) stores	9%
50-200 stores	17%
201-500 stores	26%
501-1,000 stores	17%
Greater than 1,000 stores	30%
Choose not to answer	1%

What sector of retail does your company represent?





325 7th Street, NW
Suite 1100
Washington, DC 20004
www.nrf.com