



National Retail Federation[®]

The Voice of Retail Worldwide

2012

Organized Retail Crime Survey

www.nrf.com/organizedretailcrime



About the Survey

The National Retail Federation's Organized Retail Crime survey serves as a tool to bring awareness to a pervasive crime occurring in cities across the country. The survey serves to educate all levels of retail, law enforcement, public policy makers and the media. Completed by 125 retail loss prevention executives representing department/big box stores, discount, drug, grocery, restaurant and specialty retailers, this is NRF's eighth annual survey and was conducted from April 17 – May 11, 2012. www.nrf.com/organizedretailcrime

About the National Retail Federation

As the world's largest retail trade association and the voice of retail worldwide, NRF represents retailers of all types and sizes, including chain restaurants and industry partners, from the United States and more than 45 countries abroad. Retailers operate more than 3.6 million U.S. establishments that support one in four U.S. jobs – 42 million working Americans. Contributing \$2.5 trillion to annual GDP, retail is a daily barometer for the nation's economy. NRF's Retail Means Jobs campaign emphasizes the economic importance of retail and encourages policymakers to support a Jobs, Innovation and Consumer Value Agenda aimed at boosting economic growth and job creation. www.nrf.com

NRF Contacts

Survey Information:

Angélica Rodríguez
Sr. Director, Loss Prevention
202-626-8142
rodriguez@nrf.com

Media Inquiries:

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

Contents

I. Summary of Findings.....	4
II. Definition: Organized Retail Crime.....	6
III. Organized Retail Crime Levels at All-Time High.....	7
IV. Cities Most Affected by Organized Retail Crime.....	8
V. Types of Organized Retail Crime Growing.....	9
Impact of Cargo Theft.....	9
“Gateway” Crimes.....	10
Physical and e-Fencing Activity.....	11
I. Highly Targeted Items.....	12
II. Methods of Operation.....	13
III. Gaining Support from Top Management and Law Enforcement.....	14
IV. Partnerships and Advocacy.....	15
V. Conclusion.....	16

Summary of Findings

Almost no retailer is immune to organized retail crime. In its eight-year history of reporting, organized retail crime has never been so evident. Nine in 10 retailers in this year's survey said they have been victims of ORC in the past 12 months and, more retailers this year agree that activity has increased overall. These criminal enterprises, large and dangerous on various levels, anonymously sell stolen items through both online sites and physical fencing locations, including flea markets and pawn shops.

Top cities for organized retail crime activity similar to last year, San Francisco/Oakland new to list. As a type of crime that relies on America's highways to transport stolen merchandise from state to state, it's not surprising to see new cities make the list each year. Many of the cities named in this year's survey have been targets of federal law enforcement agency investigations for several years.

Cargo theft activity is growing. For the second year, NRF's Organized Retail Crime Survey asked retailers about their experience with cargo theft. This year, more than half of survey respondents say they have been victims of cargo theft in the past year and, the location where the thefts are occurring has changed significantly from last year, with retailers experiencing more losses while merchandise was en route from the distribution to the store.

Organized retail crime incidents increasingly linked to "gateway crimes." When asked about apprehended criminal offenders who they believe may be involved in other crimes, such as use or sale of drugs and/or illegal weapons, gangs and other offenses, retailers say on average four in 10 offenders are involved in these crimes.

Criminals are known to steal items that have high sale value, including over-the-counter medicines, high-end designer fashions, and grocery products. This year retailers are reporting that designer fashions continue to be one of the top stolen items, though a few new items have made this year's list, including Kitchen Aid mixers, GPS devices and educational toys and games. Many companies have taken initiatives in recent years to put sensors, locks and

alarms on shelves that house products like razor blades, energy drinks, weight loss pills, pain relievers and small electronic items, aiming to make it more difficult for criminals to quickly steal these types of products in large quantities.

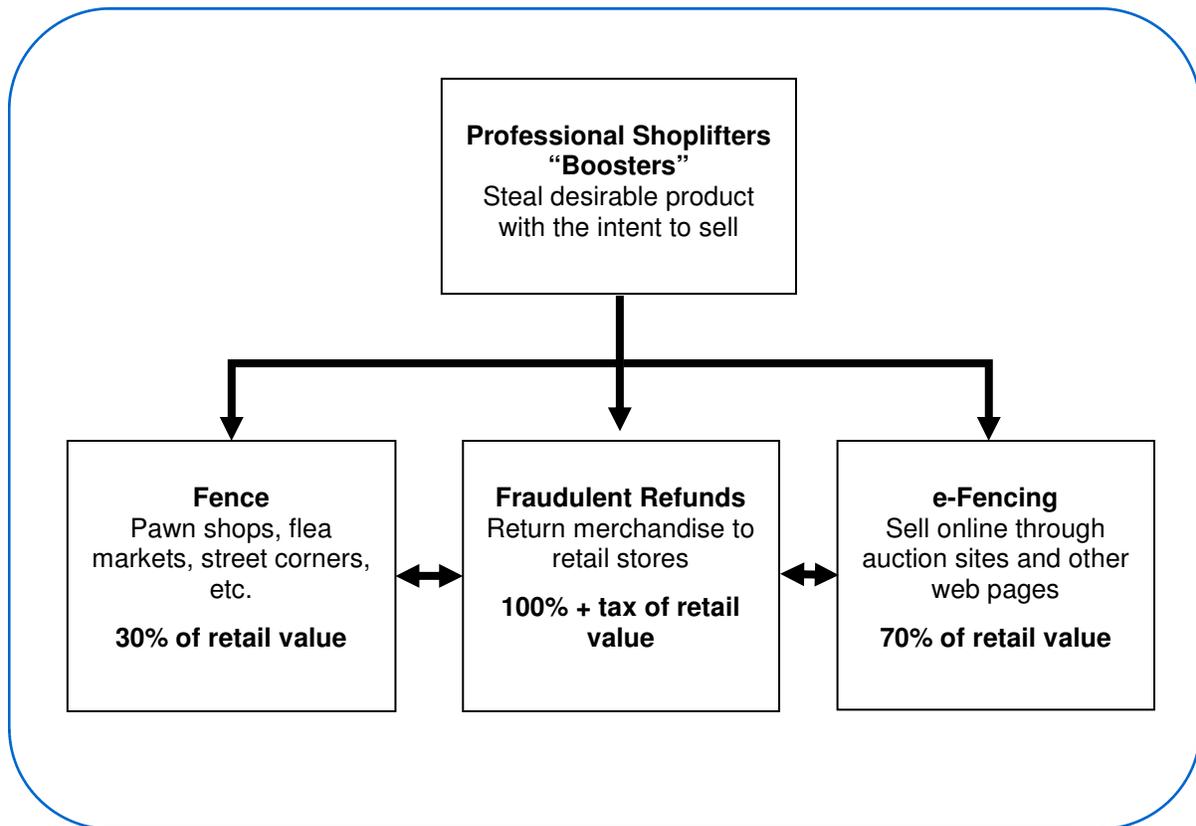
The risk organized crimes pose to consumers is heavy and great. The state of the economy in recent years has led consumers to seek out deals online and through other physical locations like flea markets and pawn shops. Criminal enterprises use these channels to sell their stolen items, oftentimes going completely unnoticed. When innocent consumers use these criminal enterprise auction sites and phony physical store locations to purchase items like infant formula, pain relievers, razors and more, they unknowingly put themselves and their families at serious risk of ingesting and using spoiled, expired and ruined merchandise.

Working with law enforcement, growing partnerships. In recent years, retailers have worked tirelessly to grow unique and supportive partnerships with law enforcement agencies across the country. Developing a comprehensive approach to building partnerships with law enforcement is a major component of fighting organized retail crime. Currently there are technologies that allow retailers to share incidents, proving to be more important than ever as these criminals have become mobilized, crossing multiple jurisdictions daily to commit multiple thefts from multiple retailers.

Advocating for Change. NRF has been educating retailers, law enforcement, media outlets and policy makers on organized retail crime since early 2005. Utilizing a model legislation package NRF published in 2006, several states have engaged the issue through state legislation. We are encouraged by recent legislation in Illinois, Texas and Colorado, but some states continue to face hurdles when advocating for state-wide legislation. Today, retailers and the National Retail Federation continue to lobby Congress to coordinate major law enforcement partners, enhance existing legislation and crack down on criminal enterprises through tougher sentencing guidelines.

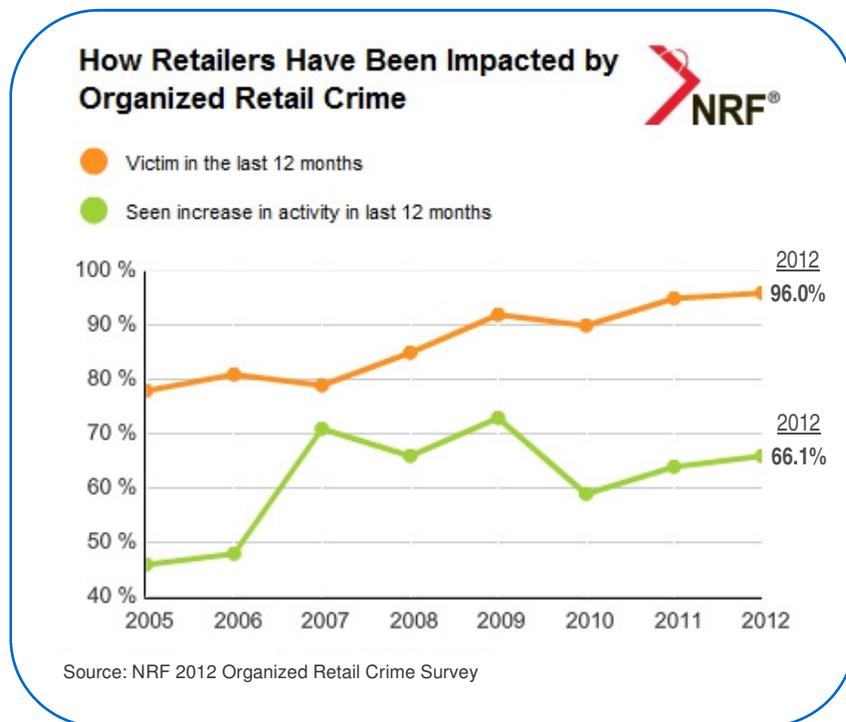
Definition: Organized Retail Crime

Organized retail crime is defined as the theft/fraudulent activity conducted with the intent to convert illegally obtained merchandise, cargo, cash, or cash equivalent into financial gain (no personal use), typically through their online or offline sales. Organized retail crime typically involves a criminal enterprise that organizes large-scale thefts from a number of retail stores and employs a fencing operation to sell the illegally-obtained goods for financial gain. It should be distinguished from “shoplifting,” which is typically a theft by a single individual of a small number of goods for personal use.



Organized Retail Crime Levels at All-Time High

In its eighth year, the annual Organized Retail Crime Survey reveals the highest level of organized retail crime activity in the survey's history. It's evident no retailer is immune to this problem anymore—nine in 10 respondents (96.0%) reported being victims of organized retail crime in the past 12 months, up from 94.5% last year. Additionally, two-thirds (66.1%) say they've seen an increase in organized retail crime over the same time frame, up slightly from last year (64.1%).



Overall, 87.7% of respondents believe organized retail crime activity has increased in the past three years. Though much has been done to raise awareness to this insidious issue, organized retail crime continues to present huge challenges for retailers of all types and sizes. There are several factors contributing to the increased level of activity, including current economic conditions, lower staffing levels at stores, and the ease of selling stolen merchandise in pawn shops/flea markets, online and other fencing operations.

Cities Most Affected by Organized Retail Crime

For the third year, retailers were asked which cities rank the highest for organized retail crime activity. Six of the metropolitan areas have appeared on this list for three consecutive years: Chicago, Dallas, Houston, Los Angeles, Miami and New York.



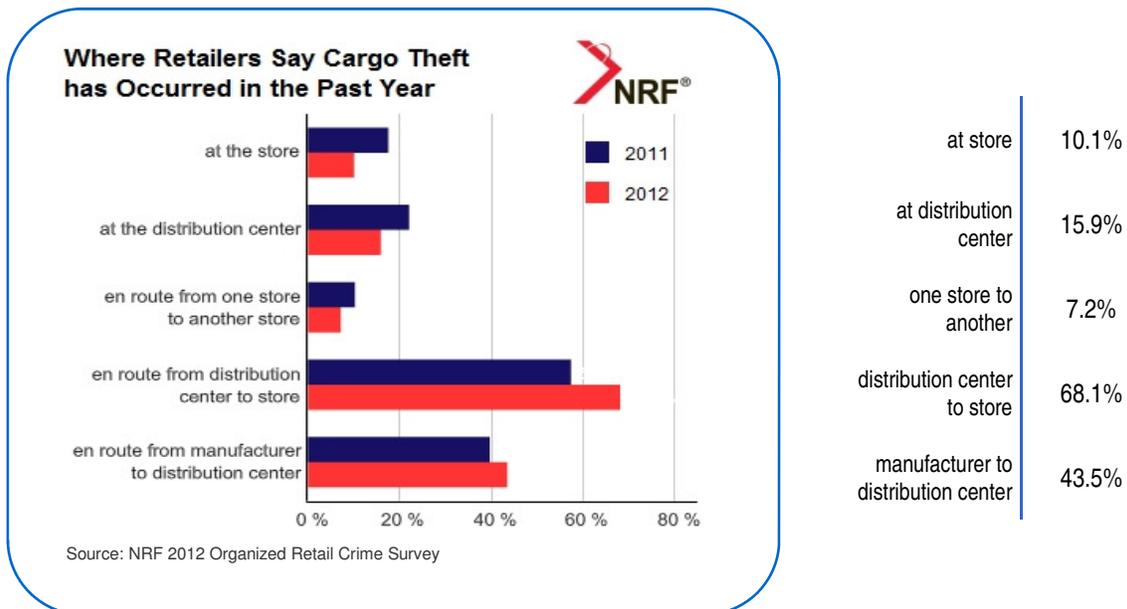
While these top 10 cities/metropolitan areas are widely known as being heavily affected by organized retail crime groups, new cities typically emerge each year. Baltimore, Orange County, CA and San Francisco were new to the top cities this year. As a multi-state enterprise, organized retail crime groups typically rely on large, national roadways to target retailers in various states and to transport their stolen goods.

Types of Organized Retail Crime Growing

Cargo Theft Growing Among Retailers

Cargo theft is another extremely troubling component of organized retail crime. More than half of survey respondents this year (52.1%) say they have been a victim of cargo theft within the past year, up from 49.6% last year. Though the majority of cargo theft (68.1%) occurs en route from the distribution center to the store, other instances occur en route from the manufacturer to the distribution center (43.5%).

What's alarming this year is the shift in source of loss. Losses occurring en route from the distribution center to the store increased 19% from last year (57.4%). Additionally, losses en route from the manufacturer to the distribution center also increased substantially, up nine percent over last year's 43.5%.

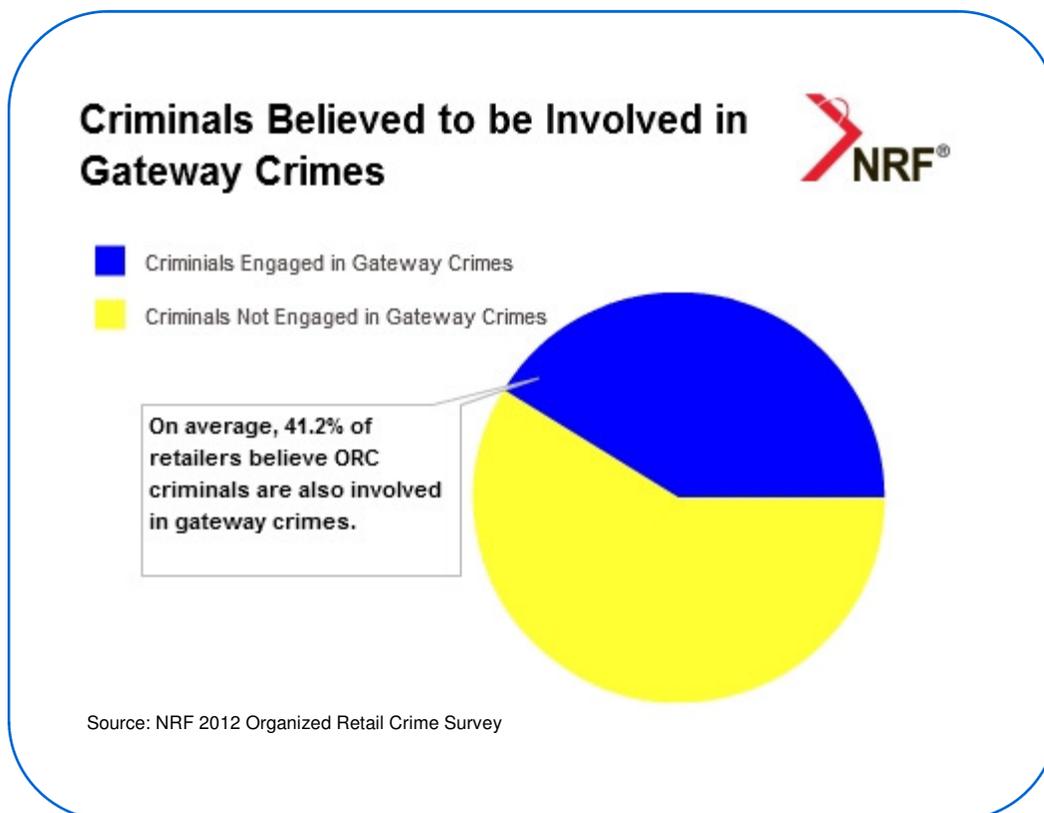


For the average person, these statistics should serve as a quick reminder that retail crime affects them too. These crimes not only affect a retailer's bottom line, it also affects what consumers end up seeing on the shelves at the store and the amount of inventory available.

Organized Retail Crime Criminals Often Engaged in Other, or “Gateway Crimes”

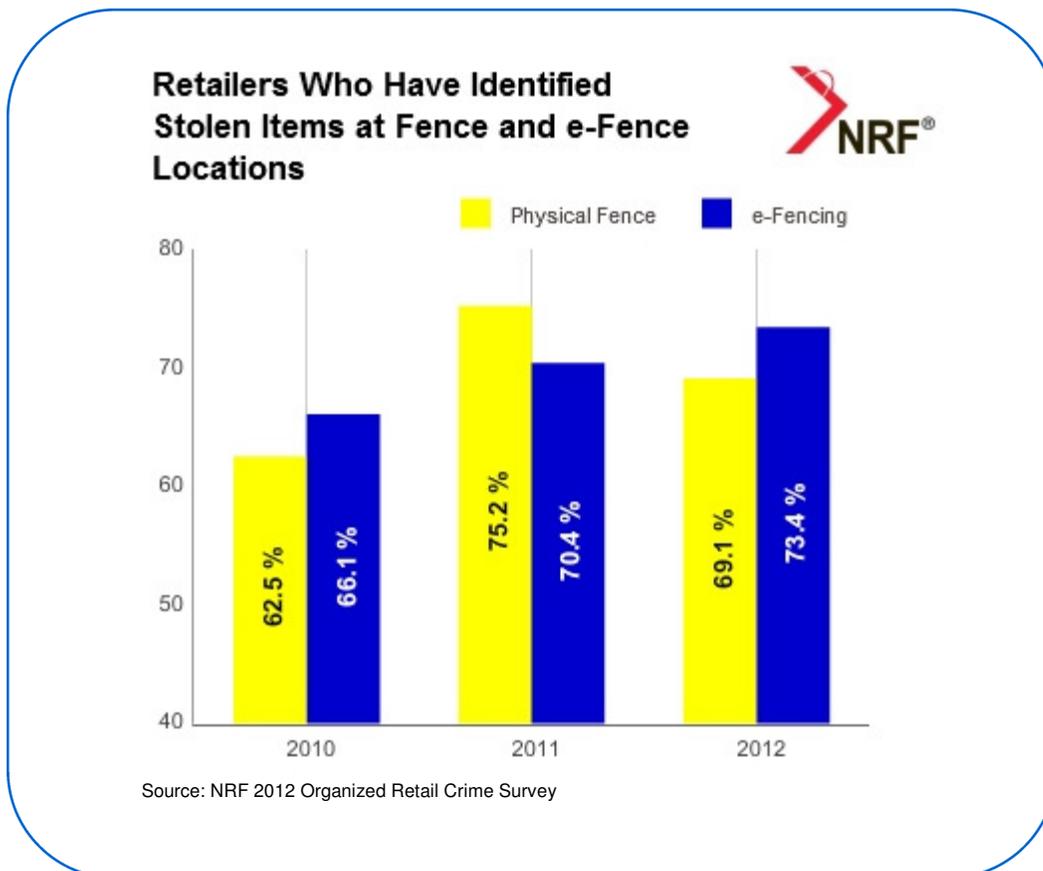
When it comes to how this crime impacts a person or members of a group, many in the industry and even law enforcement are very clear to note that organized retail crime in recent years has become more of a “gateway crime” than ever before.

Gateway crimes are crimes that prelude bigger crimes. Today, members of organized retail crime groups are frequently being found to be linked to street gangs, engaged in the sale of illegal substances, drugs, or weapons; as well as involved in illegal immigration issues, money laundering and even terrorist financing activities. On average, retailers believe that 41.2% of organized retail criminals that are apprehended are involved in gateway crimes and, 48.5% of offenders are engaged in drug activity, either through personal use, dealing or trafficking.



Physical and e-Fencing Activity

Physical fence operations, or locations that criminals use to sell their stolen merchandise, such as flea markets, pawn shops and other fictitious and temporary store locations, and e-fencing, or online sites specifically, continue to pose threats to many retailers. According to the survey, more than two-thirds (69.1%) of retailers surveyed say they have identified stolen merchandise or gift cards at physical fence locations. Additionally, nearly three-quarters (73.4%) say they have identified stolen items for sale online. While law enforcement and retailers throughout the country have made inroads with local and state policy makers about these types of fencing operations, the fact that a majority of retailers are still affected further justifies the need to bring more awareness to thwart the efforts of professional crime rings.



Highly Targeted Items

The most popular items targeted by these groups are goods in high demand that criminals can sell for near-retail price. In general, groups target department and specialty stores specifically for items like designer clothing, handbags, lingerie and accessories. Those targeting grocery and drug stores quickly grab infant formula, over-the-counter drugs, razor blades and other high-end health and beauty products. At electronics and general merchandise locations, criminals target everything from batteries to the latest gadgets, like smartphones, tablets, cameras and MP3 players. Many criminals will buy gift cards using fraudulent tender, only to sell them and make a tremendous profit.

This year, retailers are reporting that jeans continue to be one of the top stolen items. Other new items added to the list this year include Kitchen Aide mixers, educational toys and games, GPS units and laundry detergent. Below is a list of the types of the most commonly targeted products.

Grocery

- * Cigarettes
- * Energy drinks
- * High-end liquor
- * Infant formula

Over-the-Counter Medicine

- * Allergy medicine
- * Diabetic testing strips
- * Pain relievers
- * Weight loss pills

Health and Beauty

- * Electric toothbrushes & replacement heads
- * Lotions and creams
- * Pregnancy tests

Clothing

- * Denim jeans
- * Designer clothing/denim
- * Handbags

Electronics

- * Cell Phones
- * Digital cameras
- * Digital recorders
- * GPS devices
- * Laptops
- * LCD monitors & televisions

Home

- * High-end vacuums
- * Kitchen Aid mixers

Methods of Operation

Groups, gangs and sometimes individuals 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 or trailers (cargo theft) – and fence operators who convert the product to cash or drugs as part of the criminal enterprise. Sophisticated criminals have even found ways to switch 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, tamper with retail equipment such as pin-pads or produce fictitious receipts to return stolen products back to retail stores.

Organized retail crime rings are clever, using designated roles, such as driver, lookout, picker, packers and supervisor. They use hand signals, cell phones, GPS devices and comprehensive shopping lists and have “tools of the trade,” which include foil-lined shopping bags, purses, boxes and signal jammers to defeat inventory control tags. Some will use computers to replicate fake receipts for the purpose of making cash returns, while others will use fake credit cards or checks to purchase gift cards and other expensive goods. In some cases, employees are recruited to look the other way or provide details about camera or security systems.

On average, retailers say nearly nine percent of shoplifters that are apprehended are found with foil-lined bags, commonly called “booster bags”, used to defeat electronic article surveillance tags. Retailers are also reporting that on average more than one in 10 organized retail crime apprehensions (15%), lead to some level of violence, such as physical assault and/or battery, impacting the safety of customers and employees.

Gaining Support from Top Management and Law Enforcement

If there is any silver lining to the troubling news that organized retail crime continues to grow, it's that retail loss prevention executives have made significant strides in educating their internal and external partners. Well over half of retailers surveyed (54.4%) say that their top management understands the severity and complexity of the problem. More companies are reporting that their company is allocating additional resources to address this crime (52.8% vs. 46.5% last year).

Law enforcement's understanding of organized retail crime is just as important, if not more important than a retailer's senior leadership. In recent years, retailers have worked tirelessly to educate federal, state and local law enforcement agencies about the severity of this issue. This report shows that their awareness of the issue is growing. Four in 10 (40.0%) retailers say that law enforcement has a better understanding of the issue since last year. While there has been a lot of headway for both groups, there is still room for better awareness, education and partnership.

"...as retailers have become more aware, proactive and collaborative with law enforcement in pursuing these criminals, the criminals have become more desperate and brazen in their efforts, stopping at nothing to get their hands on large quantities of merchandise..."

- Richard Mellor, National Retail Federation

Partnerships & Advocacy

For years, retailers and other vested parties have worked together to tackle organized retail crime both with industry partnerships and through state legislation and pending Federal legislation.

As of today, over 20 states have passed and/or enacted organized retail crime (ORC) or ORC-related legislation. States with organized retail crime laws already in place or ORC-related legislation include: Alabama, Arizona, Colorado, Delaware, Florida, Georgia, Illinois, Kentucky, Louisiana, Maryland, New Hampshire, Nevada, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, Texas, Utah, Virginia and Washington.

NRF strongly believes that organized retail crime must be addressed through Federal legislation by amending the Federal Criminal Code to effectively address the organized and serious nature of this issue and be properly defined as a federal crime with appropriate sentencing guidelines as well as providing Federal law enforcement the resources needed to combat this crime.

Relationships with lawmakers have helped in passing recent organized retail crime legislation in states like Texas, Colorado and Illinois.

Conclusion

Partnerships with law enforcement still crucial to retailers' understanding of organized retail crime. Retailers' level of awareness regarding the problems that organized retail crime creates for their business has never been higher. It's important for retailers to continue to work with law enforcement and network with other companies to discuss ways to combat this multi-billion dollar problem. NRF's Annual Loss Prevention Conference and Expo hosts a Fusion Center each year for federal, state and local law enforcement agencies from around the country to come and meet with retailers, learn from them and gain insights into organized retail crime, including retail fraud.

Locking up popular stolen items in stores. With the severe implications that innocent consumers face when buying potentially stolen expired and/or ruined merchandise, retailers should continue to find ways to educate the public about why specific products are on lock-down in their stores and why it's important to only buy these types of products from reputable retailers and not from secondary markets or online auction sites.

Expand budgets to fight organized retail crime. In recent years, more retailers have announced plans to create specific task forces within their organization to combat organized retail crime. This is unfortunate as these budgets could easily go towards projects to remodel their stores, purchase new inventory, hire more employees and offer enhanced sales and promotions for their customers. With the help of law enforcement, these criminal patterns are traced more effectively. These task forces could prove to be extremely beneficial in cracking down on criminal patterns, possibly eradicating habits of crime gangs in specific areas.

Continue training and awareness programs for staff and other industry partners. Moving forward, a continued emphasis on training and awareness programs will help retail employees identify and understand the economic effect of organized retail crime to their company.

Lobbying for Federal legislation. Since 2005, NRF and its various committees have been on the forefront of educating retailers, law enforcement, legislators, the business community and consumers on the vast impact of organized retail crime. As evidenced by the top 10 metropolitan

areas most affected, there is still work to be done. Half of the top 10 locations affected by organized retail crime are located in states with active organized retail crime-related legislation. NRF continues to work with Congress to enact Federal legislation. Congress must properly define organized retail crime as a Federal crime and provide law enforcement with the proper resources needed to combat this growing crime.



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