



National Retail Federation[®]

The Voice of Retail Worldwide

2008

Organized Retail Crime Survey



About the Organized Retail Crime Survey

The Organized Retail Crime survey is distributed each spring to senior loss prevention executives nationwide. This year, 114 executives responded, representing all segments of retail, including drug store, supermarket, mass merchant, home improvement, apparel, department, and specialty stores. The 2008 Organized Retail Crime Survey is NRF's fourth 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 2007 sales of \$4.5 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
Director, Loss Prevention
202-626-8142
rodrigueza@nrf.com

Media Inquiries:

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

NRF 2008 Organized Retail Crime Survey

In April 2008, the National Retail Federation conducted its fourth annual survey on Organized Retail Crime. This year's survey includes responses from 114 senior loss prevention executives representing all retail segments, including drug store, supermarket, mass merchant, home improvement, apparel, department and specialty stores.

Purpose

The purpose of the annual organized retail crime survey is to understand the impact of this issue 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.

Organized Retail Crime: Background

Organized retail crime (ORC) 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 commercial 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 check-out, this is commonly called "ticket switching." Others use stolen or cloned credit cards to obtain merchandise or produce fictitious receipts to return products back to retail outlets.

In many instances, these groups target several retailers in one day, and the merchandise is then moved and sold through fencing operations such as flea markets, pawn shops, Internet sites and swap meets. These groups often steal thousands of dollars of merchandise at a time with the intent to resell it for profit. The most popular items targeted by these groups are goods in high demand commanding a near retail resale price, such as designer clothing, Benadryl, Crest Whitestrips, Prilosec, gift cards, electronics and Similac infant formula.

As the Internet continues to increase in popularity among shoppers, criminals are using online auction sites as an anonymous place to conduct illicit operations. Merchandise may also be re-introduced into the supply chain by packagers and illegitimate wholesalers who slip the products back into the distribution system, rerouting the items to unsuspecting retailers and consumers.

In addition to raising prices for honest shoppers, merchandise resold by organized retail crime groups may pose health risks to customers. For example, criminals may not keep stolen merchandise in a temperature-controlled environment, so merchandise like baby formula and over-the-counter medicines can easily spoil. When criminals sell these items online through third party auction sites consumers are left with no way to guarantee they are getting safe and reliable healthy and beauty products.

Stories of organized retail crime have been rampant this year. In Florida, law enforcement officials uncovered a theft ring estimated to total between \$60 to \$100 million dollars in stolen goods. Most of the items involved were health, beauty, and cosmetic products and over-the-counter medicines. The investigation uncovered that the stolen products were methodically sold at Florida swap meets, using online auction sites and through proprietary websites created for the purpose of selling stolen goods to the public.

In New Jersey, FBI and other law enforcement officials announced indictments against one of the Gambino Crime Family's highest-ranking members and 22 other members and associates with crimes ranging from extortion to ticket switching involving one prominent retailer. In addition to ticket switching, one suspect obtained employment at the retailer to defraud the company by creating and using false bar code labels and using fraudulently issued temporary credit cards.

Cities across the country including Kansas City and Minneapolis have also uncovered multi-million dollar organized retail crime cases, further emphasizing the need for retailers, law enforcement and legislators to take immediate action to prevent, detect and investigate these crimes.

According to the Federal Bureau of Investigation, organized retail crime accounts for as much as \$30 billion in retail losses every year.

Organized Retail Crime Continues to Rise

In this year's survey, a record number of retailers (85%), indicated their companies were victims of organized retail crime activity in the past 12 months, up 6% from 2007 (see Figure 1). Though more retailers report being victims of organized retail crime, it is encouraging that fewer companies report experiencing increased crime rates year-over-year (see Figure 2).

When asked about how organized retail crime ranks as a threat to their company, a growing number of respondents report that organized retail crime is a significant to severe threat to their organization. On a scale of one to five, with five being severe, retailers gave organized retail crime an average rating of 3.02, meaning that the problem is important (see Figure 3). Retailers believe that nearly half of external theft is caused by professional or organized crime groups.

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

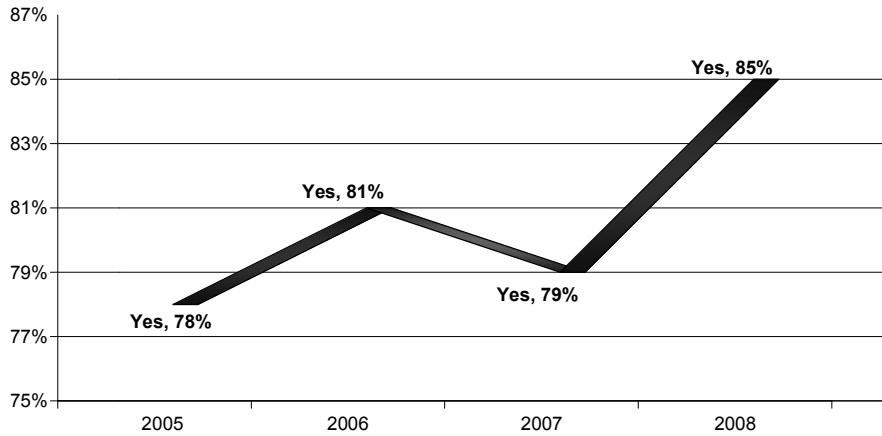


Figure 2: Have you seen an increase in organized retail crime activity in the past 12 months?

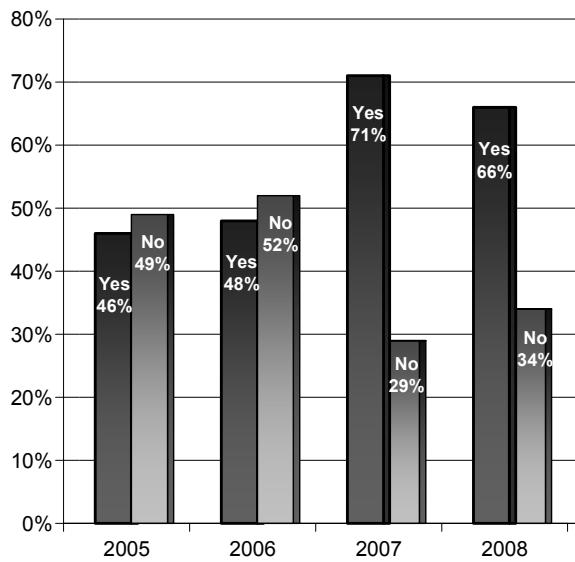


Figure 3: On a scale of one to five, with five being severe, where would you rank ORC as a threat to your company?

	2005	2006	2007	2008
5 (severe)	7%	4%	6%	8%
4 (significant)	22%	37%	18%	28%
3 (important)	44%	22%	37%	30%
2 (concerned)	22%	30%	34%	28%
1 (non-issue)	5%	7%	5%	7%
Average	3.04	3.01	2.86	3.02

With tools such as 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. Many retailers have experienced individuals stealing larger quantities for the purpose of resale and illegal profits. Also disturbing is the lost tax revenue at a time when so many cities and states are recognizing shortfalls and making cuts to vital services including law enforcement.

Fencing and e-fencing

For the third consecutive year, NRF’s Organized Retail Crime survey has been tracking differences between traditional fencing outlets such as street corner vendors, swap meets, flea markets, pawn shops and temporary stores and e-fencing, the sale of product or gift cards using online auction sites and marketplaces. Retailers continue to monitor theft and fraud activity at the store level, but are now beginning to target the location of illicit merchandise. According to the survey, two-thirds (68%) of retailers say they have identified stolen merchandise or gift cards both at physical fence locations and through e-fencing activities (see Figures 4 and 5). The survey also found that almost two-thirds (63%) of respondents saw an increase in e-fencing activity in the past 12 months.

It is important to note, thieves make more money selling “new in box” or “new with tags” merchandise and gift cards online than they do through traditional fence operations or 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. This merchandise is extremely profitable. In fact, thieves can make close to 70 cents on the dollar through online sales, as opposed to roughly 30 cents on the dollar through more conventional black markets or physical fence locations.

As a result, respondents this year were asked to estimate, in their opinion, what percentage of “new in box” merchandise being sold through online auction sites is likely to be stolen or fraudulently obtained. According to senior loss prevention professionals, nearly 40 percent of “new in box” merchandise being sold through auction sites is likely stolen or fraudulently obtained.

Figure 4: Have you identified or recovered stolen merchandise and/or gift cards from a fence location?

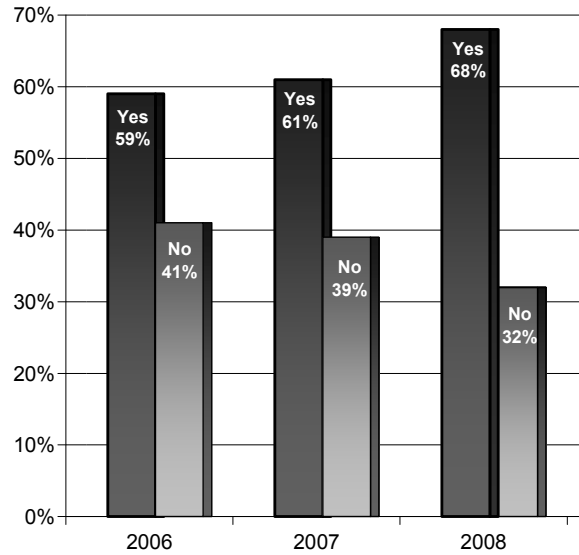
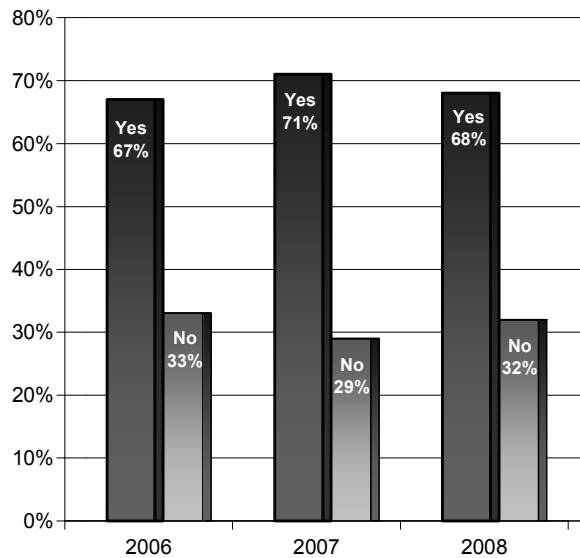


Figure 5: Have you identified or recovered stolen merchandise and/or gift cards that were being e-fenced?



Addressing the Problem: Retail Companies

Though senior loss prevention executives believe that organized retail crime is an important issue, just over half (54%) of respondents believe senior management understands the complexity and seriousness of organized retail crime. Raising this issue in the face of weak retail sales and cost-cutting measures is a challenge for loss prevention executives. However, the report did offer encouraging findings that awareness of organized retail crime among senior management has risen since 2005. Some of this awareness may be due to the national media efforts of NRF, state associations and some retailers that are keeping awareness high (see Figure 6).

To address the organized retail crime problem, about half of companies across the industry are allocating additional resources, comparable with the past four years. Retailers surveyed spend, on average, \$230,000 per year in labor costs. Some retailers surveyed, however, spend far more, with seven of the 82 respondents spending more than \$1 million dollars per year on the issue.

Addressing the Problem: Legislation

Following a year of significant organized retail crime activity, retailers are continuing to work with legislators at the federal and state level to enact laws that would reduce the reward and increase the risk.

Throughout 2007 and early 2008 legislative hearings have been held in state and federal offices across the U.S., highlighting the abundance of e-fencing and organized retail crime activity through the use of online auction sites. Several states passed organized retail crime legislation in 2007 including Arizona, Delaware, Florida, Louisiana, Nevada, North Carolina, Oregon, Texas and Utah. In the first three months of 2008 several states held hearings to discuss introducing ORC and ORC-related bills including Colorado, Connecticut, Georgia, Maryland, Massachusetts, New York, Ohio, Virginia and Wisconsin. This year, ORC-related legislation has officially passed in Georgia, Maryland and Virginia and decisions are being awaited in many other states.

Figure 6: Do you believe top management understands the complexity and seriousness of organized retail crime?

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

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, retailers, shopping center security and law enforcement have teamed together to share investigative and intelligence information. NRF's Investigator's Network now represents more than 1200 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.

Retailers are also getting more sophisticated with their tracking and information sharing of retail crime incidents. On April 9, 2008, the retail industry marked the one-year anniversary of the Law Enforcement Retail Partnership Network (LERPnet), a national repository designed to track major criminal incidents occurring at retail locations nationwide. To date, nearly 60 major retailers, including department stores, specialty stores, drugstores and grocery chains, have joined the Network, which represents more than 86,250 retail stores and \$883 billion in retail sales. LERPnet also launched new features and functionalities in 2008 making it easier for retailers to share incident details with other retailers and law enforcement.

Conclusion

Clearly ORC continues to be a significant issue for retailers. There are some measures retailers can take to reduce the economic and substantial impact their companies are experiencing.

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 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.



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