



ORGANIZED RETAIL CRIME SURVEY

OCTOBER 2016

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Open Letter from Bob Moraca

Dear Retail Loss Prevention Community:

For a dozen years now, organized retail crime has been an issue that few outside the retail loss prevention profession have fully grasped. Thanks to hundreds of loss prevention professionals who have participated in NRF's annual Organized Retail Crime survey over the years and have fought tirelessly to protect their own companies, ORC is now much better understood. The NRF ORC Survey has made millions of Americans aware of the problem, with the goal of highlighting the impact these crimes have on the retail industry, the economy and ultimately consumers around the globe.

This survey has served as an important benchmark for retailers to collectively measure the impact of ORC. Over time, companies have responded to ORC activity by allocating additional resources to combat these crimes, while NRF has continued to advocate for retailers by pursuing state and federal ORC legislation.

Our 12th annual survey has not only identified emerging trends, but has also reinforced how influential strong partnerships between retailers, the law enforcement community and lawmakers can be in the fight against organized retail crime. Retail asset protection professionals must be vigilant and proactive while looking for trends that are not always immediately apparent. The criminal mind and creativity never stop: as one vulnerability is resolved, criminals find another way of stealing from and defrauding retailers. Clearly, combating organized retail crime is a full-time job, and it is a constant battle industry-wide for retailers large and small to stay one step ahead of these savvy criminals. If we have learned one thing, it is that we cannot win this fight alone.

We would like to thank the retail loss prevention community for their help in building the value of this survey. We look forward to working with you in the years to come.

Warmest regards,



Bob Moraca
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Introduction and Methodology

The 2016 Organized Retail Crime Survey, an annual survey conducted by the National Retail Federation, continues to show the impact of organized crime in retail. For the first time, 100% of retailers surveyed say they believe they have been a victim of organized retail crime in the previous 12 months.

This study explores the ways that ORC continues to grow and evolve, detailing new challenges and persistent issues that retailers face. It also explores resources and policy changes implemented to combat ORC.

We are grateful to the retailers who participated in this survey, some of whom have participated for a number of years. Their willingness to share company data has helped to track ORC activity and develop proactive measures.

Methodology

The 2016 ORC survey includes information from 59 retailers who were allowed to participate anonymously. Not every retailer answered every question. In our analysis of data, we removed extreme outliers that distorted the overall results.

Use of “average” and “median”

To offer more detail, we occasionally provide results in average and/or mean. An average calculates all the data and divides by the total number input. It can be skewed by extremes at either end of the spectrum. A mean, then, is the exact midpoint of all responses.

Average is “a number that is calculated by adding quantities together and then dividing the total number by the number of quantities.” Depending on the extremes (large or small) in a given data set, the average may be at some distance from the data set midpoint (median).

Median is the “middle value in a series of values arranged from smallest to largest.” Whereas the average can be swayed by values at either end of the spectrum, the median gives a sense of the midpoint in a given data series.

100% of retailers surveyed believe they have been a victim of ORC in the past 12 months.

Respondent Profile

Those responding to the 2016 Organized Retail Crime Survey reflect a variety of categories, number of stores and annual sales. Overall, the group mostly mirrors the 2015 survey population, with fewer supermarket and grocery stores and drug store/pharmacies. Some large, multi-brand retailers reported figures collectively in 2016.

RETAIL CATEGORY	PERCENT
Auto parts, tires and accessories	1.7%
Books and magazines (no music)	1.7%
Consumer electronics, computers and appliances	3.4%
Convenience store or truck stop	3.4%
Department store	8.5%
Discount, mass merchandise or supercenter	6.8%
Drug store or pharmacy	3.4%
Furniture	3.4%
Home improvement, building, hardware, lumber and garden supply	3.4%
Household furnishings and housewares	5.1%
Jewelry and watches	3.4%
Liquor, wine, beer or tobacco products	1.7%
Office supplies and stationery	1.7%
Optical goods and services	3.4%
Pets and animal supplies	1.7%
Specialty accessories	1.7%
Specialty children's apparel	5.1%
Specialty women's apparel	6.8%
Specialty men's and women's apparel	16.9%
Sporting goods and recreational products	6.8%
Supermarket and grocery	10.2%

NUMBER OF STORES	PERCENT	ANNUAL SALES SIZE IN FY15	PERCENT
1 TO 99 STORES	15.5%	\$999 MILLION OR LESS	28%
100 TO 199 STORES	10.3%	\$1 BILLION TO 2.49 BILLION	18%
200 TO 499 STORES	24.1%	\$2.5 BILLION TO 4.9 BILLION	16%
500 TO 999 STORES	19%	\$5 BILLION TO 24.9 BILLION	22%
1,000 TO 2,499 STORES	22.4%	\$25 BILLION TO 49.9 BILLION	4%
2,500 TO 4,999 STORES	3.4%	\$50 BILLION OR MORE	12%
5,000+ STORES	5.2%		

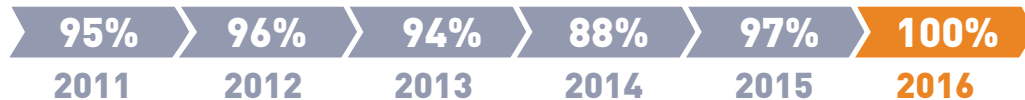
Summary of Key Findings

- ▶ All retailers responding said they believe their companies have been the victim of organized retail crime in the previous 12 months. It is a problem that is growing; 83% said ORC activity had increased in the previous 12 months.
- ▶ The cost of organized retail crime has increased for retailers. In all, retailers see an average impact of \$700,259 per \$1 billion in retail sales. That is up significantly from 2015's \$453,940. Because respondents change from year to year, the median might be more significant. While it also shows an increase, it is not as dramatic. The median increased to \$200,000 from \$194,340.
- ▶ More respondents have confidence that upper management fully understands the severity of ORC (71.2% in 2016 vs 62.7% in 2015).
- ▶ The average dollar amount of retail personnel dedicated to combating ORC is at an all-time high of \$545,694, among retailers that provided an amount of at least one dollar. Still, half of all retailers have not allocated additional resources in personnel or technology in the previous year.
- ▶ Identifying stolen merchandise in these physical locations — a pawn shop, kiosk, swap meet, etc. — has declined since 2011.
- ▶ Finding recovered merchandise that's been "e-fenced" is much more common. Nearly six in 10 (58%) have identified stolen merchandise on online auction sites, which is significantly higher than the previous year. All forms of "e-fencing" have seen an increase.
- ▶ All areas in which retailers find boosters stealing merchandise, returning it and selling a gift card or merchandise credit again are up from the previous year. Specifically, 64% have found this happening online, well outpacing pawn shops and other physical locations.
- ▶ Cargo theft is up again this year, with 44% reporting they've been a victim in the past 12 months, but still not near the 2012 high of 52%. The most common place for cargo theft to occur is still en route from the distribution center or manufacturer, followed by onsite at the distribution center.
- ▶ Over half of surveyed retailers haven't seen any additional support from law enforcement, the highest rate in the survey's history.
- ▶ Eight in 10 feel a federal law is needed to combat ORC, with stronger penalties acting as a deterrent and providing consistent mandates. A federal law also will remove jurisdictional issues in what increasingly is becoming an interstate crime.
- ▶ Decriminalization efforts, reducing shoplifting to a misdemeanor in many cases, is only proving to increase ORC.
- ▶ More than half report ORC gangs have been exhibiting more aggression and violence.

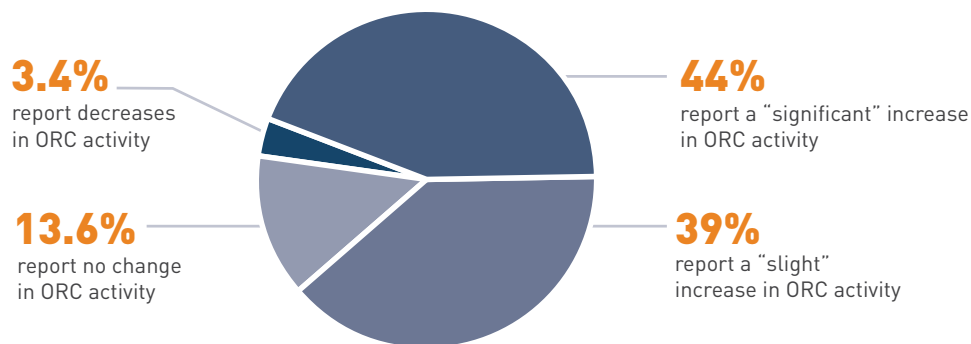
Impact of ORC on Retailers

Current ORC Activity

For the first time, 100% of surveyed retailers believe their company has been the victim of organized retail crime.



▼ More than 8 in 10 report that ORC activity has increased in the past 12 months.



Respondents report losing an average of \$700,259 — or a median of \$200,000 — per \$1 billion in annual sales volume due to ORC activity in the past 12 months. That is up from an average of \$453,940 and median of \$194,340 in 2015.

The average loss per billion has increased more than \$246,000 in the past year.

Top management understands the impact of ORC.

More than seven in 10 (71.2%) of retailers surveyed said that top management “definitely” or “probably” understands the complexity and severity of ORC. That’s up from 62.7% in 2015 and 60% in 2014, when the question was first asked. The number of respondents who believe that executives don’t understand the impact has dropped from 40% in 2014 to 28.8% in 2016.

More respondents feel that top management

71.2%

understands the complexity and severity of ORC.

Impact of ORC on Retailers

Types of ORC

Physical and online fencing, cargo theft and issues with gift cards and merchandise credits all add to the complexity of ORC facing retailers. Retailers are combating these issues increasingly by looking to the Internet to identify stolen merchandise. Identifying stolen merchandise in physical stores, pawn shops or flea markets has decreased since 2011.

Identifying Stolen Merchandise and Gift Cards

Within the past 12 months, have you identified or recovered stolen merchandise and/or gift cards from a **fence location**? (n=59)

PHYSICAL STORES	2016	PERCENTAGE POINT CHANGE FROM 2015
YES Store	33.9%	+0.6
YES Pawn Shop	30.5%	-4.3
YES swap meet or flea market	27.1%	-3.2
YES temporary or pop-upstore	8.5%	-11.2
YES Kiosk	6.8%	-3.8
YES Other Venue	18.6%	+3.4
NOT SURE	1.7%	-2.8
NO	35.6%	-0.8

Within the past 12 months, have you identified or recovered stolen merchandise and/or gift cards that were being "**e-fenced**"? (n=59)

PHYSICAL STORES	2016	PERCENTAGE POINT CHANGE FROM 2015
YES Online auction site(s)	57.6%	+18.8
YES Other websites(s)	39%	+10.6
YES Classifieds website(s)	28.8%	+1.9
YES Blog listing	8.5%	+1
YES Other	6.8%	+0.8
NOT SURE	1.7%	-7.3
NO	23.7%	-7.6

Current ORC Activity

Physical Fencing:

In all, 63% said they had identified or recovered stolen merchandise from a physical location, such as a store, swap meet or pawn shop. That is down from 2011, when 75% said they had. Of the types of location, finding stolen merchandise in kiosks, temporary/pop-up stores and swap meets all declined over the 2015 figures. Other types of locations increased slightly, with respondents listing warehouses, street vendors and residences.

E-fencing:

Recovering stolen items advertised on the Internet — online auctions, classifieds and blog listings — is becoming more common. Nearly six in 10 (58%) have identified stolen merchandise on online auction sites, which is significantly higher than the previous year (39%). All forms of e-fencing have seen an increase. Other websites — such as social media sites — increased from 28% in 2015 to 39% in 2016.

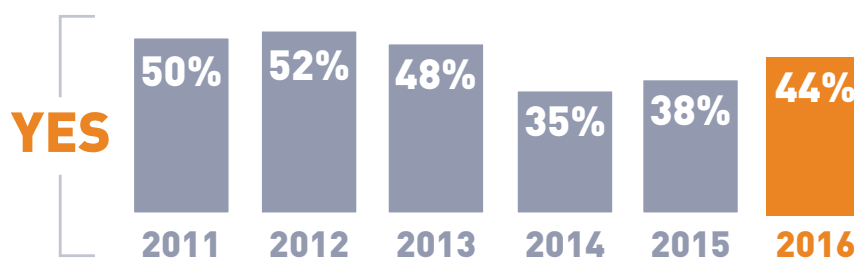
Merchandise credit and gift cards:

Stolen merchandise returned for gift cards/store credit and then resold continues to challenge retailers. Two in three retailers — 68% — reported this as an issue. The number has dropped since 2013, when 78% reported this problem. 64.4% reported finding credits or gift cards on websites while one in three said they have found them in pawn shops. Check cashing (15.3%) and other venues (8.5%) like gift card exchange sites are also places where stolen gift cards and store credits are found.

Cargo Theft:

With cargo theft, organized retail criminals can score on a much bigger level. In 2016, 44% of those surveyed reported they had been a victim of cargo theft. While this does not reach 2012 levels — when 52% of those surveyed reported cargo theft — it is on the rise again after two years of decreases.

▼ Has your company been the victim of cargo theft in the 12 months?



Why is Cargo Theft on the Rise Again?

One supply chain practitioner offered three reasons:

- 1** More career drug dealers are moving into cargo theft. Cargo theft does not carry mandatory minimum sentencing, as drug crimes currently do. "Many first- and second-time offenders are released immediately and then placed on probation."
- 2** A driver shortage is leaving trucks in less secure areas. "When loaded trailers sit at a DC warehouse door waiting for pickups, it halts production in the facility. Warehouse operators are taking these trailers and staging them in less secure areas to allow for normal operations to continue inside a facility. These trailers sit vulnerable off-site. The trucking capacity issue has increased the number of loads that go to brokerage boards, a favorite 'hunting area' for these cargo thieves. They can simply steal a legitimate carrier's identity, drive into a facility and gain access to their loaded trailers."
- 3** Less enforcement from police. "As police departments squeeze more and more out of budgets, cargo theft task forces are one of the first areas cut, as that crime is viewed as victimless."

▼ Where does this crime most likely to occur?



New Trends in ORC

Shoppers are becoming more aggressive. Only 3.4% saw a decrease in aggressive tactics while 96.5% reported an increase or the same levels of aggression. About one in six retailers — 17.2% — felt that the level of aggression was much higher than the previous year.

Organized retail criminals have become bolder, riding a wave of decriminalization efforts that have reduced shoplifting to a misdemeanor in many states. Many seem to know their rights — and ride just below the line of a felony if caught.

According to research from The Pew Charitable Trusts, 30 states and the District of Columbia increased the threshold for felonies between 2001-2015. Retailers responding to the survey offer thoughts on other trends:

- ▶ **Decriminalization of shoplifting has led to higher theft per ORC incident.** “The felony limit used to be \$500, so they would steal \$490 per store. Now, with many states having increased the felony limit to \$1,500, they steal \$1,490 per store.”
- ▶ **Online fraud rates have increased.** “Our online fraud rates have tripled. We use software to highlight risky transactions for loss prevention review prior to shipping. We have stopped over \$350,000 from being shipped due to fraud.”
- ▶ **E-gift cards purchased with stolen credit cards is a growing problem.** “People have been purchasing e-gift cards with stolen credit card information in large amounts. They then re-sell the cards or use them.”
- ▶ **ORC is turning toward credit card and gift card fraud.** “Frequently these individuals are people known to us from prior shoplifting incidents. The gift cards are used online and the packages shipped to the same area. Generally, not the same addresses, but multiple addresses within a few-block radius.”
- ▶ **Gift cards purchased on reseller sites often are based on merchandise stolen and returned to store for a store credit.** “Over the past 12 months we have seen more and more gift cards being sold on sites. When researched, all come back to no-receipt returns in stores.”
- ▶ **Law enforcement may have difficulties determining proper jurisdiction for these crimes.** “Laws need to be updated on these types of credit card fraud scams.”

New Trends in ORC

Changing Felony Thresholds

STATE	YEAR OF CHANGE	PREVIOUS THRESHOLD	ENACTED THRESHOLD
Alabama	2003, 2015	\$250	\$1,500*
Alaska	2014	\$500	\$750
Arkansas	2010	\$500	\$1,000
Arizona	2006	\$250	\$1,000
California	2010	\$400	\$950
Colorado	2007, 2013	\$500	\$2,000*
Delaware	2009	\$1,000	\$1,500
Georgia	2012	\$500	\$1,500
Illinois	2010	\$300	\$500
Indiana	2013	\$250	\$750
Kansas	2004	\$500	\$1,000
Louisiana	2014	\$500	\$750
Maryland	2009	\$500	\$1,000
Mississippi	2003, 2014	\$250	\$1,000*
Missouri	2002	\$150	\$500
Montana	2009	\$1,000	\$1,500
Nebraska	2015	\$500	\$1,500
Nevada	2011	\$250	\$650
New Mexico	2006	\$250	\$500
North Dakota	2013	\$500	\$1,000
Ohio	2011	\$500	\$1,000
Oklahoma	2001	\$50	\$500
Oregon	2009	\$750	\$1,000
Texas	2015	\$1,500	\$2,500
South Carolina	2010	\$1,000	\$2,000
South Dakota	2005	\$500	\$1,000
Utah	2010	\$1,000	\$1,500
Vermont	2006	\$500	\$900
Washington	2009	\$250	\$750
Wyoming	2004	\$500	\$1,000

* Raised in two separate legislative actions.

Source: "The Effects of Changing State Theft Penalties," The Pew Charitable Trusts, February 2016.

<http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/02/the-effects-of-changing-state-theft-penalties>

California Schemin'

California's Proposition 47, which reduced shoplifting of less than \$950 to a misdemeanor, has led to a number of issues for retailers operating in the state.

- ▶ **An overall increase in activity.** A number of retailers cited an uptick in thefts in California.
- ▶ **More brazen thefts.** "Shoplifters are more confrontational with our LP officers. Even if we do catch them it's just a slap on the wrist. Short of pulling a gun on our LP team they will always be cited and released in the field by police. Even if they attack our team they are not charged with a battery or robbery anymore. It's all just considered part of the theft crime."
- ▶ **Challenges in dealing with repeat offenders.** "We are a victim of Proposition 47. We now use trespass as the only means of dealing with repeat criminals at our stores."

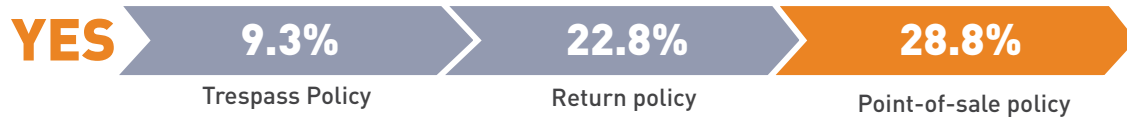
Retail Strategies to Combat ORC

Though eight in 10 retailers have seen ORC increase, half have not devoted additional resources to address it. There are increases in staff and technology resources compared with the previous two years. However, policies related to returns, point-of-sale and trespass continue to remain largely untouched as a response to ORC.

Is your company allocating additional resources to address ORC?

YES	2014	2015	2016
Technology Resources	35%	31.8%	40.7%
Staff Resources	23%	31.8%	40.7%
Other Budget Resources	17%	24.2%	22%

Within the past 12 months, has your company changed any of the following policies to address ORC?



Point-of-sale is the only policy to see an increase from 2015, when 21.5% reported changes. Changes to return and trespass policies declined slightly from 2015.

The average dollar amount of company personnel allocated to combating ORC is the highest yet totaling over \$545,694

Signs of Success

Retailers must continue to develop new tactics to combat ORC. Some of the successes in the past year:

“We have had some issues with online fraud involving third-party gift cards. However, where we make the deliveries ourselves losses are limited.”

“Our aggressive refund management and POS policies have limited the impact in these areas.”

“We return to the same tender item was purchased on.”

“We limit number of gift cards purchased with credit cards.”

“We lessened the allowable timeframe for returns (60 days) and eliminated cash returns for no receipt and e-commerce. We also increased our aggressiveness with refund management to include receipted returns.”

Legislation to Combat ORC

Los Angeles continues to hold onto its spot as the “top” city for organized retail crime — a position it has held since 2012. With the exception of 2013, when Atlanta briefly replaced Houston, the top five cities for ORC have remained the same since 2012.

The rest of the top 10 showed more movement. Atlanta, which had been in the top 10 since 2012 — including that top five ranking in 2013 — fell out of the top 10 last year. It returns in 2016, landing at number eight. Philadelphia has moved up in the rankings as well. Prior to 2015, the City of Brotherly Love had not appeared in the top 14. In 2015, it debuted at number 11 before jumping into the top 10 this year. Orange County dropped a spot to number 10.

Other cities dropping as problem spots for ORC were Baltimore and San Diego. In 2015, 34.4% of retailers surveyed mentioned Baltimore as a problem spot; that is down to 24.6% in 2016. San Diego dropped from 37.7% in 2015 to 19.3% in 2016.

Retailers mentioned increased ORC activity in California several times throughout the survey. This ranking puts data behind the anecdotes. Los Angeles was mentioned as a problem spot by 64.9% of retailers in 2016 compared with 52.5% the previous year. San Francisco was mentioned as an ORC issue by 42.1% of retailers in 2016, up from 31.1% the previous year. And Orange County was mentioned by 24.6% of retailers, up from 16.4% the previous year. Outside the top 10, Sacramento also was mentioned frequently (14.0% in 2016 compared with 11.5% in 2015).

It wasn't all bad news for the Golden State, with some retailers seeing decreases in areas including:

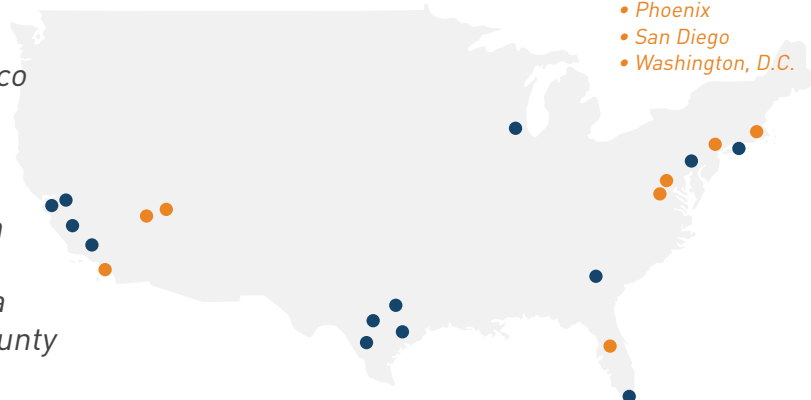
- **San Diego**
(from 37.7% in 2015 to 19.3% in 2016)
- **Riverside/San Bernardino/Ontario**
(from 16.4% to 14.0%),
- **San Jose**(from 14.8% to 14.0%)
- **Fresno** (from 8.2% to 7.0%).

▼ Top Cities of ORC

- 1 Los Angeles
- 2 New York
- 3 Chicago
- 4 Miami
- 5 Houston
- 6 San Francisco
 - Oakland
- 7 Arlington
 - Dallas
 - Fort Worth
- 8 Atlanta
- 9 Philadelphia
- 10 Orange County

The following cities/ metropolitan areas were mentioned by more than 15% of those surveyed:

- Baltimore
- Boston
- Las Vegas
- Northern N.J.
- Orlando
- Phoenix
- San Diego
- Washington, D.C.



Additional Law Enforcement Support

▼ The Declines are at all levels:

A bar chart comparing support for 'additional support' across three levels of government (Local, State, Federal) for the years 2015 and 2016. The chart uses a color-coded system: grey for 2015 and orange for 2016. The y-axis represents the percentage of support, ranging from 0% to 60% in increments of 10%. The x-axis lists the levels of government. For each level, there are two bars: a grey bar for 2015 and an orange bar for 2016. The values are: Local (2015: 43.1%, 2016: 40.7%), State (2015: 24.6%, 2016: 22%), and Federal (2015: 15.4%, 2016: 11.9%).

Level of Government	2015 (%)	2016 (%)
Local	43.1%	40.7%
State	24.6%	22%
Federal	15.4%	11.9%

Retail support continues to grow for a federal law to combat organized retail crime, with nearly 80% believing it is needed to combat ORC.

In the past year, four more states — New Mexico, Oregon, New York and Vermont — have added organized retail crime legislation.

Map of the United States showing the distribution of the 100,000+ population threshold in 1990. States are colored dark blue (met the threshold) or light blue (did not). States meeting the threshold include Washington, Oregon, Nevada, Arizona, New Mexico, Texas, Minnesota, Wisconsin, Illinois, Michigan, Ohio, Pennsylvania, New York, New Jersey, Delaware, Maryland, Virginia, North Carolina, South Carolina, Georgia, Florida, Louisiana, and Maine. States not meeting the threshold include Idaho, Montana, Wyoming, Nebraska, Kansas, Oklahoma, Arkansas, Mississippi, Alabama, and West Virginia. The map also shows the 1990 population distribution of the 100,000+ population threshold.

Legislation to Combat ORC

Impact of ORC Legislation on Retailers

Decriminalization at the state level as well as the complexity of jurisdictional issues related to ORC are driving the need for a federal law, those surveyed said. Yet, they believe that competition for resources — law enforcement investigative time and prison space for those convicted — will continue.

Overall, do you believe a federal ORC law is needed to effectively combat this issue? (n=59)

YEAR	NOT SURE	NO	YES
2015	9.1%	12.1%	78.8%
2016	8.5%	11.9%	79.7%

“While state laws have clearly made an impact, jurisdictional issues continue to plague the industry, absent a federal ORC law.”

“If the value isn’t high enough the local agencies won’t take it seriously. Jurisdiction questions always arise. For example, if an online order is done in California and shipped to another state, there is debate on where to file and who will take the case.”

“A consistent federal law would prevent ORC from traveling to other more lenient states.”

“There are no federal resources to proactively investigate, arrest or prosecute ORC unless certain dollar thresholds are met.”

“Most high-level boosters operate nationally.”

“We are unable to get one passed in California. They are decriminalizing theft crimes and our only hope is for a federal-level law to supersede the state’s lack of laws.”

Legislation to Combat ORC

Organized retail criminals have a decided preference for the products they steal, with a mix of high-end luxuries and everyday commodities.

▼ Most Popular Items of ORC



1
Designer clothes
45%



2
Designer handbags
35%



3
Infant formula
Laundry detergent
25%



4
Allergy medicine
Razors
22.5%



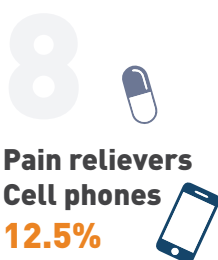
5
High-end liquor
Denim pants
20%



6
Energy drinks
Teeth whitening strips
17.5%



7
High-end vacuums
15%



8
Pain relievers
Cell phones
12.5%



9
Laptops/tablets
10%

About the National Retail Federation

NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and Internet retailers from the United State and more than 45 countries. Retail is the nation's largest private sector employer, supporting one in four U.S. jobs — 42 million working Americans. Contributing \$2.6 trillion to annual GDP, retail is a daily barometer for the nation's economy. NRF's This is Retail campaign highlights the industry's opportunities for life-long careers, how retailers strengthen communities, and the critical role that retail plays in driving innovation.



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