NRF® NATIONAL
RETAIL
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2018
Organized Retail Crime
Survey

Contents

Overview

Organized retail crime is an ongoing challenge for retailers, with losses continuing to mount. Adding to the concern: Retailers report ORC gang members are increasingly bold in their tactics. It is a combustible combination — one that requires loss prevention professionals to stay one step ahead during a time in which budgets are tight and laws are less and less of a deterrent.

ORC costs retailers $777,877 per $1 billion in sales — an all-time survey high.

While criminal rings have multiple ways of stealing from retailers, the most prominent type of return fraud involves taking merchandise and returning it for a refund. In all, survey respondents expect that about 11% of annual sales will be returned and 8.2% of those returns are fraudulent.

ORC criminals may have a myriad of techniques, but there is one commonality: Retailers report increased aggressiveness exhibited by ORC gangs.

Similar to 2017, roughly half (48.5%) of survey respondents said ORC gangs are exhibiting more aggression than they did the previous year. About 45% believe it is the same as last year.

Retailers employ a variety of methods to combat ORC. Almost six in 10 retailers say they will allocate additional resources to address ORC — up from four in 10 the previous year.

Technology solutions are the most frequent tool, with staff increases a close second. For the upcoming holiday season, staff training and awareness top the list for preventing loss, along with innovative ideas like working with product teams to ensure high-theft items are displayed away from doors. Policy changes — including returns, trespassing and point-of-sale — also have been adopted. More than one third — 37.9% — have made changes to their point-of-sale policy.

This level of investment in combating ORC is a mixed bag. The majority — 55.2% — of LP teams do not have staff dedicated solely to ORC. For those who do, the investment is high — an average of 11 employees.

A bright spot: More LP professionals say upper management understands the complexity and severity of ORC, up slightly over 2017.

More than seven in 10 — 72.7% — see the need for a federal law to combat organized retail crime.

In some ways, LP is going alone on this sizeable area of retail crime. In some states, the felony threshold has increased — raising the dollar amount of theft before the crime is considered more serious than a misdemeanor fine. In states where the felony threshold has increased, the majority of retailers report an increase in the average ORC case value.

Some states have enacted anti-ORC laws. But even in these areas, retailers report very little police assistance in the investigation; most often, it is from the local police force.

ORC'S HIGH PRICE

Organized retail crime is widespread for today's retailers, with over nine in 10 respondents saying they have encountered ORC in the last 12 months.

The 2018 National Retail Security Survey, released by NRF in the spring, showed shoplifting — including ORC — as the top source of inventory shrinkage for the fourth year in a row. In that report, retailers attributed 35.7% of inventory shrinkage to shoplifting and other external crimes.

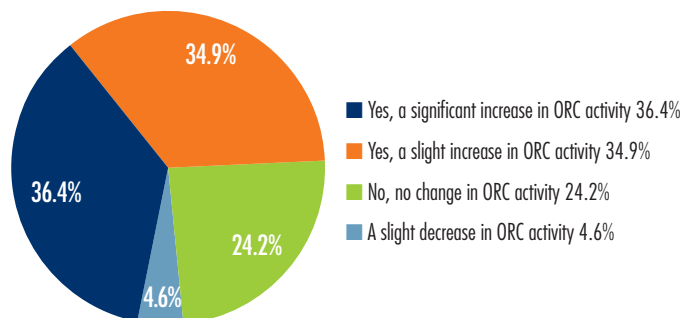This report focuses exclusively on ORC and its increasing impact on a retailer's bottom line.

PERCENT WHO HAVE BEEN A VICTIM OF ORC IN THE PAST 12 MONTHS

91.6%

ORC ACTIVITY CONTINUES TO INCREASE

Nearly three in four retailers (71.3%) have seen an increase in ORC in the past year, and more than one third of retailers who had experienced ORC activity say ORC has increased "significantly." Almost one fourth — 24.2% — say there has been no change in ORC activity over the past year. Only 4.6% have seen some level of decline over the past year.

Have you seen an increase in ORC activity in the past 12 months at your company?

- ■ Yes, a significant increase in ORC activity 36.4%
- ■ Yes, a slight increase in ORC activity 34.9%
- ■ No, no change in ORC activity 24.2%
- ■ A slight decrease in ORC activity 4.6%

34.9%
36.4%
24.2%
4.6%

Note: Only among ORC victims.

Average loss per $1 billion in sales:

$777,877

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ORC'S HIGH PRICE Continued

It's clear that ORC continues to be a growing and costly problem for the retail industry.

The increase in average case value to retailers is up over the previous year — from $726,351 per $1 billion in retail sales to $777,877 —and the average cost is up from 2015's $453,940. The median cost has held fairly steady over time.

Given the tight margins facing most retailers, any loss of revenue can negatively impact a company's stability.

Why does ORC retail crime continue to increase? Respondents offered their thoughts, which coalesced around a few broad trends:

- **Ease of theft/resale:** Ease of the activity is explicitly mentioned in terms of either stealing product or selling it, mostly online (with social media getting several mentions).

- **Gift cards:** Gift cards or policies related to them have made it easier to steal from retailers.

- **Laws:** Several states have raised the threshold for felony thefts, and criminals have responded accordingly.

- **Lowered defenses:** Retailers say they often are unable to counteract the problems due to staff shortages, a "do-nothing" policy and lowered supply chain security.

- **Product:** Brand names and/or demand for specific products can bring an increase in ORC cases.

Here is what some respondents said:

"

Police departments do not investigate very well. The chances of getting caught are very low, and if caught, the justice system does not punish them very much."

"High-end electronics inventory (Apple devices) are a highly desired product and are stolen for easy internet sales as well as for black market sales."

"We are carrying more products that boosters target."

"The risk versus reward is in favor of the ORC groups.

"

Top Targets

While retail criminals take advantage of opportunities, there are products they prefer and places they are more likely to target.

The listing of **top items stolen by ORC gangs shows they target a mix of high-end products** (designer clothes, top-shelf liquors and designer handbags) and day-to-day necessities (baby formula, deodorant and razors). The order of items desired by ORC gangs hasn't changed much over time, with designer clothes continuing to top the list.

TOP STOLEN ITEMS

Designer clothes	Laundry detergent
Infant formula	Razors
Designer handbags	Denim pants
High-end liquor	Deodorant
Teeth whitening strips	Cell phones

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Top Targets Continued

No surprise: The country's largest cities are the most frequent targets of criminals. New York returns to the top spot, trading places with Los Angeles. Miami inches up a spot to number three, while Chicago also lands a bit higher, tying with Houston at number four. San Francisco/Oakland rounds out the top five.

Outside the top five, other cities that are not among the largest populations emerge. By population, Orlando is the 72nd largest city, according to 2017 U.S. Census Bureau data,

but it lands at number eight on the list of places where ORC most frequently occurs. Baltimore, the country's 30th largest city, also appears in the top 10 of highest ORC activity.

Respondents were asked to list the top 10 cities where they were most impacted by ORC. In addition to cities most frequently mentioned, the rankings yielded an "honorable mention" category.

TOP CITIES WHERE ORC OCCURS

1. New York
2. Los Angeles
3. Miami
4. Chicago, Houston
5. San Francisco/Oakland
6. Atlanta
7. Baltimore
8. Orlando
9. Northern New Jersey, Washington, Philadelphia, Arlington/Dallas/Fort Worth
10. Ft. Lauderdale, Seattle

HONORABLE MENTIONS

Boston

Riverside/ San Bernardino/ Ontario

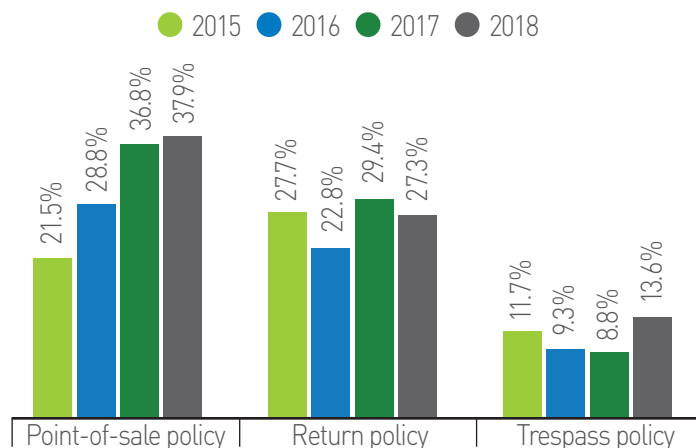**Denver**

Jacksonville

Detroit
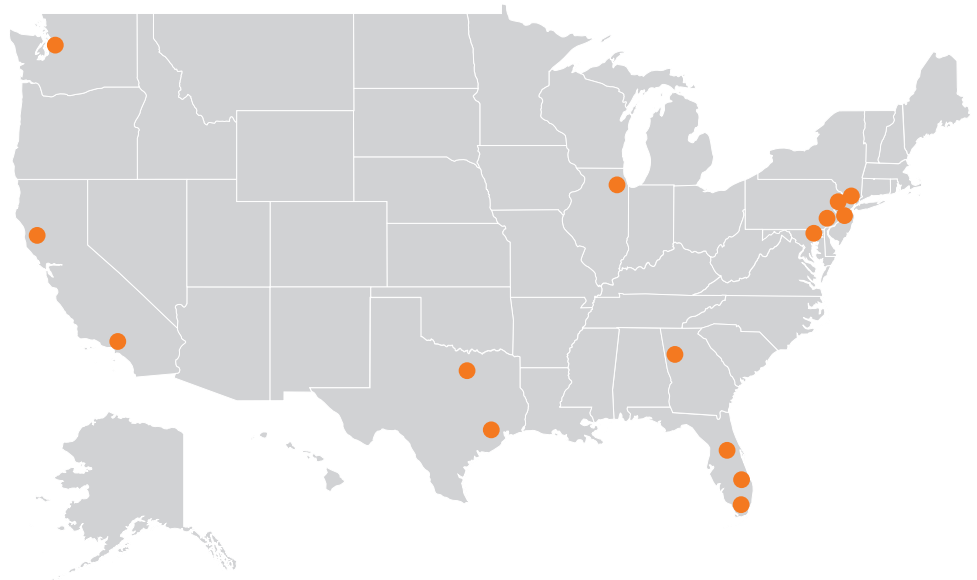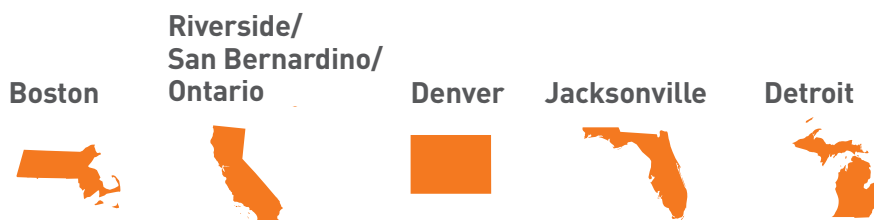
Combating Organized Retail Crime

More than one in four retailers have cracked down on their return policies to address ORC; **changes to point-of-sale policies have been made by more than one in three retailers (37.9%)**. That holds consistent with 2017 (36.8%) but is up significantly since 2015 (21.5%).

Changes to trespass policy also are up over the past year, rising to 13.6% compared with 8.8% in 2017.

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

● 2015 ● 2016 ● 2017 ● 2018

Point-of-sale policy: 21.5%, 28.8%, 36.8%, 37.9%
Return policy: 27.7%, 22.8%, 29.4%, 27.3%
Trespass policy: 11.7%, 9.3%, 8.8%, 13.6%

GIFT CARDS AND CREDITS

ORC groups have found workarounds for some policies. When returns are issued in a gift card or merchandise credit — an option for receipt-less returns — those often are sold on secondary markets like the internet, kiosks or pawn shops. Boosters may have to go an extra step, but they still are able to convert the stolen merchandise into cash.

Websites and pawnshops continue to be the most common locations for LP teams to recover these types of credits and gift cards.

Other venues mentioned were flea markets, gift card resellers and online gift card exchanges.

Loss prevention teams still have a better chance of finding merchandise in-store. Respondents reported that 59.6%, on average, of recovered merchandise is within physical locations, compared with 40.4% online.

OTHER TYPES OF THEFT

While stealing merchandise and then returning it may be one of the most prevalent forms of ORC, it is not the only one. Cargo theft has a different target: the supply chain. Three in 10 report being the victim of cargo theft in their supply chain. Still, this area of theft continues to decline.

Has your company been the victim of cargo theft within the past 12 months?

● 2015 ● 2016 ● 2017 ● 2018

Yes it has: 37.9%, 44.1%, 40.0%, 28.8%

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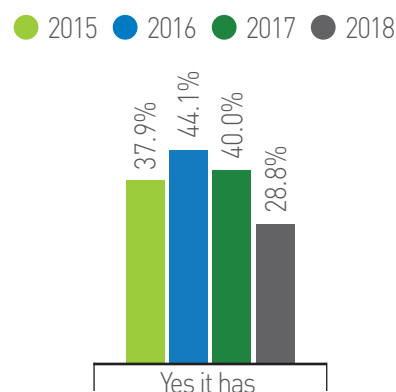
Combating Organized Retail Crime Continued

LP IMPACT ON ORC

LP professionals have many tools available to combat ORC — but over half do not have any team members devoted solely to this type of crime.
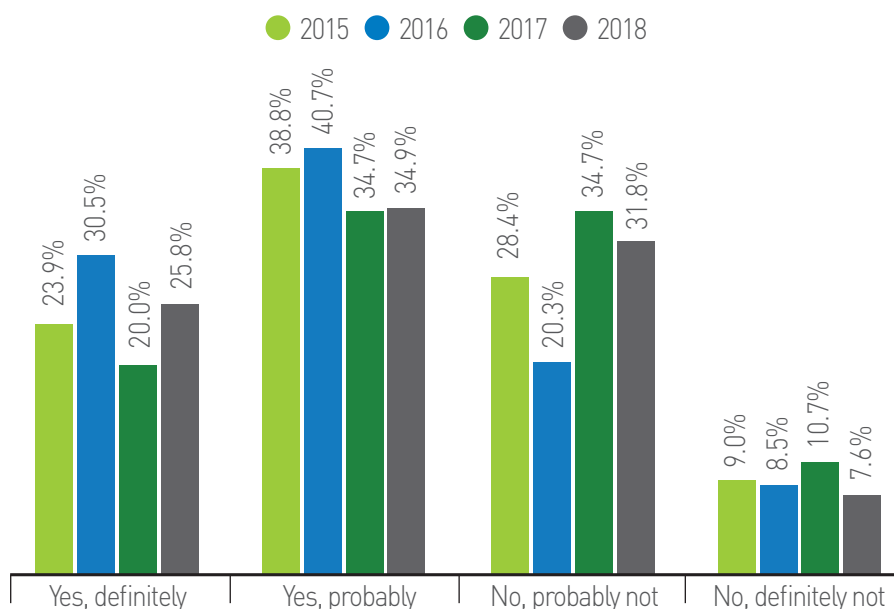
More than half (55.2%) responded that none of their LP employees have ORC as their primary job responsibility. Of those who do have dedicated, full-time ORC staff within their LP teams, they have an average of 11 employees with ORC as their primary focus.

Retailers spend an average of 10.2% of their LP budget to combat ORC, with about a quarter devoting over 10%.

What LP teams do have, however, is support from top management: Roughly six in 10 — 60.7% — said top management understands the complexity and severity of ORC. Of those, 25.8% said they definitely understand — up from 20% in 2017.

The number who feel that top management definitely does not understand ORC's many tentacles has dropped over the past year and over time. In 2018, only 7.6% classified top management as definitely not understanding ORC compared with 10.7% last year.

Do you believe top management in your company understands the complexity and severity of ORC?

Legend: 2015 · 2016 · 2017 · 2018

|	Yes, definitely	Yes, probably	No, probably not	No, definitely not
2015	23.9%	38.8%	28.4%	9.0%
2016	30.5%	40.7%	20.3%	8.5%
2017	20.0%	34.7%	34.7%	10.7%
2018	25.8%	34.9%	31.8%	7.6%

ADDITIONAL RESOURCES TO ORC

Perhaps because of that understanding from top management, LP professionals are able to devote more resources to combating ORC this year. Nearly six in 10 — 59% — said they were able to do so, significantly higher than in 2017 (40%).

Technology resources are the most cited method of improving inventory security (36.4%), with staff resources (30.3%) a close second.

Is your company allocating additional resources to address ORC this year?

|	
Technology	36.4%
Staff resources	30.3%
Other budget resources	16.7%
No additional resources	40.9%
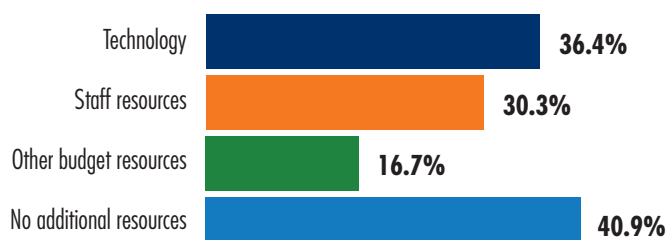
Laws and Enforcement

Combating organized retail crime requires assistance from local law enforcement. In some states, however, this has been offset as the threshold for what constitutes felony theft has increased.

In states where the felony threshold has increased, over half report an increase in ORC case value. None reported a decrease. **It appears that ORC criminals understand the new threshold and have increased their thefts to meet it.**

In states that do currently have ORC laws, retailers are more likely to see increased support on ORC cases from local law enforcement rather than state or federal law enforcement.

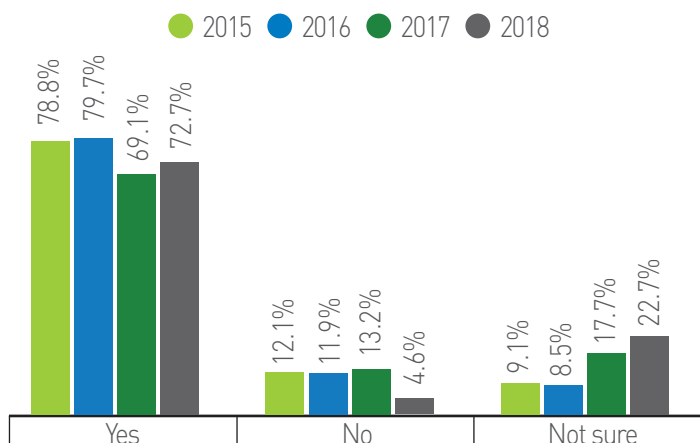Still, almost six in 10 in those states report no change in support from any level of law enforcement.

In states that do currently have ORC laws and where your company has a presence, have you noticed an increase in support from law enforcement agencies when actively investigating ORC cases?

Yes, local/county law enforcement	28.3%
Yes, state law enforcement	11.7%
Yes, federal law enforcement	1.7%
No changes in support	58.3%
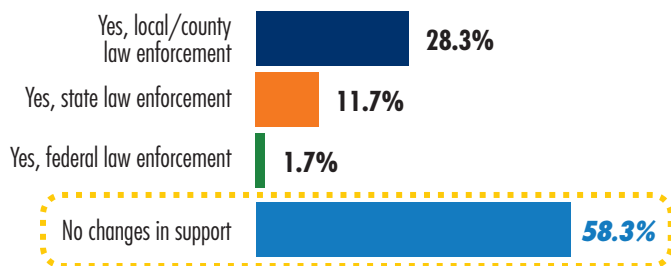
Responses only include those who operate in states where ORC laws have been enacted.

Support for a federal organized retail crime law has increased slightly from last year.

Would a federal law help combat ORC?

● 2015 ● 2016 ● 2017 ● 2018

	Yes	No	Not sure
2015	78.8%	12.1%	9.1%
2016	79.7%	11.9%	8.5%
2017	69.1%	13.2%	17.7%
2018	72.7%	4.6%	22.7%

Those who support enacting a federal ORC law do so ardently. Some comments:

"*Specifically, with habitual offenders.*"

"*Having a federal ORC law in place will assist in standardizing processes across jurisdictions/LE agencies resulting in consistent action taken with regard to the prosecution process.*"

"*ORC groups constantly travel across state lines and often target states that have more relaxed laws related to shoplifting. A federal ORC Law will help with this.*"

"*ORC components are highly organized and sophisticated, and even operate internationally or have current international connections. I cannot find any reason why ORC should not receive federal legislation attention.*"

"*It is less of a risk to steal versus selling drugs.*"

"*Most large ORC teams are working across state lines.*"

"*[Create] a national ORC database.*"

"*I believe that law enforcement has a desire to help but this crime is de-prioritized and resources are limited. With federal law I think this would increase the priority giving local LE the resources to commit more.*"

"*Especially to deal with ecommerce ORC; that area is far behind in legislation and enforcement.*"

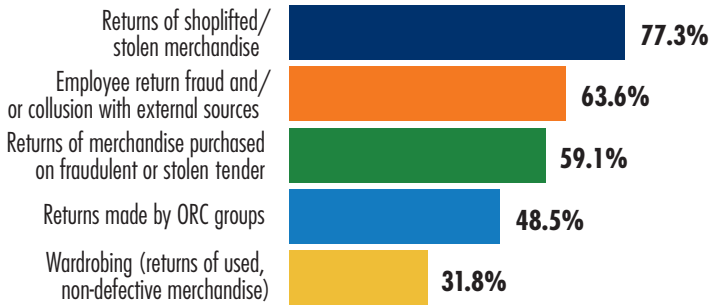"*On the opposite side of the spectrum: Federally prosecuted cases do not always stop the activity. Furthermore, criminals will be the first to tell you, if you have to get locked away, get locked away federally.*"

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Return Fraud

Return fraud comes in many forms. Retailers say they have experienced:

These are the TOP examples

|	
Returns of shoplifted/stolen merchandise	**77.3%**
Employee return fraud and/or collusion with external sources	**63.6%**
Returns of merchandise purchased on fraudulent or stolen tender	**59.1%**
Returns made by ORC groups	**48.5%**
Wardrobing (returns of used, non-defective merchandise)	**31.8%**

Of course, not all returns are fraudulent. But consumer behavior provides cover for criminals. Customers often attempt to return items without a receipt; an estimated 11.8% of all returns, on average, are missing the receipt. Of those, more than two in 10 are expected to be fraudulent.

Retailers may attempt to reduce fraudulent returns by providing a gift card or store credit rather than a refund, a popular option when a receipt is not present. But more and more, those gift cards and credits are sold, often online. This method may slow the thief from getting the cash, but the result is ultimately the same: They end up with the dollars from the stolen and returned merchandise.

Fraudulent returns, however, have dropped slightly to an estimated average of 8.2% of all returns. That's down slightly from 10.8% in 2017 and more in line with 2015 figures.

ANNUAL RETURNS

Of your total annual sales this year, what percentage do you estimate will be returned?

● 2015 ● 2017 ● 2018

	Average	Median
2015	10.2%	8.0%
2017	11.3%	10.0%
2018	10.6%	10.0%
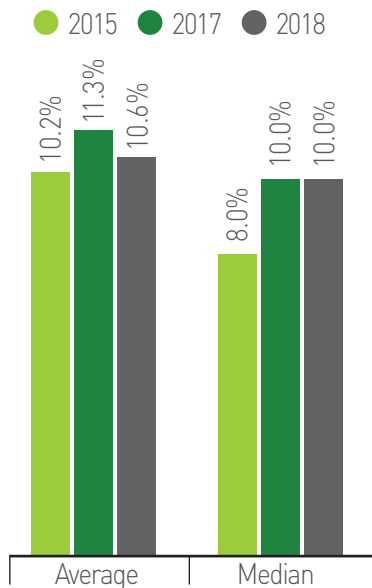
Of your total annual returns and exchanges this year, what percentage do you estimate will be fraudulent?

● 2015 ● 2017 ● 2018

	Average	Median
2015	8.8%	3.5%
2017	10.8%	5.0%
2018	8.2%	5.0%
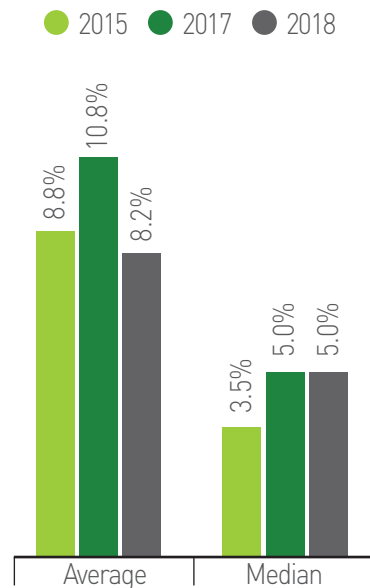
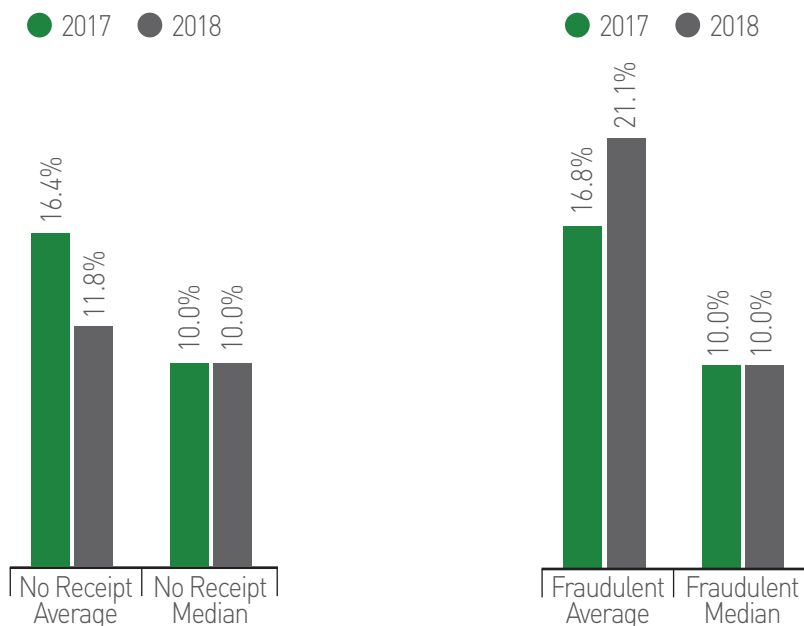*Note: This question was not asked in 2016.*

Return Fraud Continued

One of the areas most ripe for fraud is related to returns when a receipt is not presented. **The number of returns without a receipt accounts for an estimated 12% of returns —**

and fraud related to this type of returns has seen an increase. Retailers expect that 21.1% of all returns without a receipt are fraudulent.

Average % of No Receipt Returns and Related Fraud

● 2017   ● 2018

	No Receipt Average	No Receipt Median
2017	16.4%	10.0%
2018	11.8%	10.0%

● 2017   ● 2018

	Fraudulent Average	Fraudulent Median
2017	16.8%	10.0%
2018	21.1%	10.0%

Omnichannel shopping brings a level of additional complexity related to returns. Many retailers report seeing more online purchases returned to physical locations, with 37.9% reporting increases in buy online, return in store; about three in 10 say fraud is increasing in this area as well.

It is clear that this form of returns is growing, with 92.5% of respondents seeing the same or more returns. But only 86.4% see the same amount or more fraud.

Compared to last year, are you seeing more or less of online purchases being returned to physical store locations?

● Less   ● Same   ● More

	Less	Same	More
Returns	7.6%	54.6%	37.9%
Fraudulent	13.6%	57.6%	28.8%
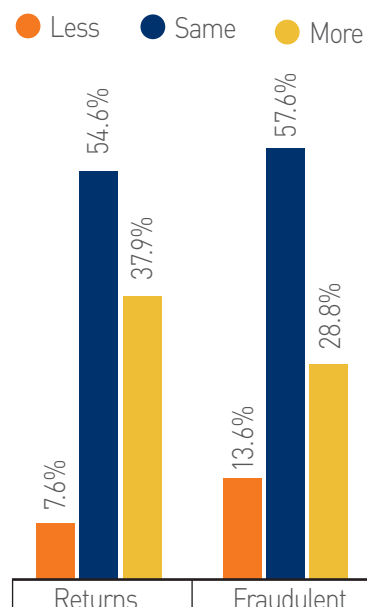
Return Fraud Continued

HOLIDAY 2018

The busy holiday season can present an additional challenge for returns — and an increase in fraud.

Retailers expect an average of 11.1% of sales to be returned during holidays, with about 10.3% of those returns being fraudulent. The number of returns has dropped over the past year, when 12.9% of holiday sales were expected to be returned, and is less than 2015, when nearly 15% was expected to be returned. Still, the expectation for fraud related to holiday returns remains consistent over 2017 and up from 2015.

The upcoming holiday shopping season provides LP's first opportunity to showcase those additional methods of combating ORC.

While it may be challenging this late in the game to deploy new technologies, LP teams will be relying on staff for the bulk of the additional emphasis. Respondents mentioned training/awareness, staffing changes, security infrastructure changes and more.

Additional noteworthy ideas:

"Working with the design team not to display our high-loss items in blind spots or too close to the door."
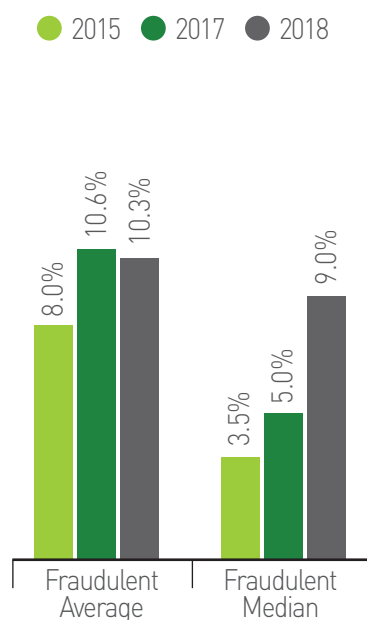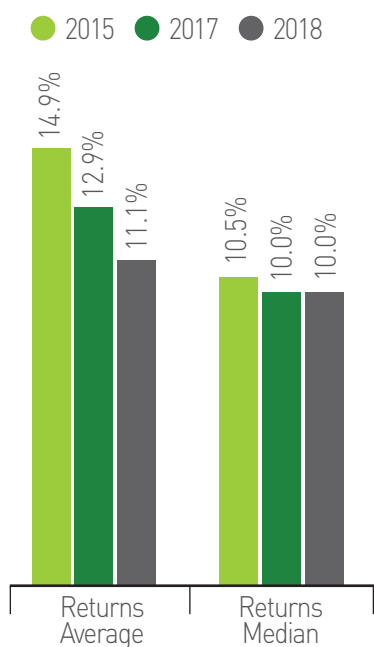
"Reducing shelf amounts."

"A new front end/cashier monitoring program that allows us to see returns or coupons related activity that may be ORC-related."

"Increased LP coverage, door greeters, finishing all physical security additions and enhancements by end of October."

"More manager presence at the door.

Average % of Holiday Returns and Related Fraud

● 2015 ● 2017 ● 2018

● 2015 ● 2017 ● 2018

Returns Average: 14.9% (2015), 12.9% (2017), 11.1% (2018)
Returns Median: 10.5% (2015), 10.0% (2017), 10.0% (2018)

Fraudulent Average: 8.0% (2015), 10.6% (2017), 10.3% (2018)
Fraudulent Median: 3.5% (2015), 5.0% (2017), 9.0% (2018)

Note: This question was not asked in 2016.

About the Survey

The 2018 ORC survey includes information from 66 full survey completes, from retailers who participated anonymously.

DATA LIMITATIONS

Findings are directional only. All findings are among the responding companies and have not been scaled as a reflection on the retail industry as a whole.

USE OF "AVERAGE" AND "MEDIAN"

The terms "average" and "median" are not interchangeable. Including both affords readers the opportunity to benchmark their own results to the aggregated survey.

- **Average**: The number that is calculated by adding quantities together and then dividing the total by the number of quantities.
- **Median:** The middle value in a series of values arranged from smallest to largest.

Participant Profile

Top Sectors

Apparel	18.2%
Supermarket and grocery	13.6%
Department store	10.6%
Consumer electronics, computers and appliances	6.1%
Auto parts, tires and accessories	3.0%
Drug store or pharmacy	3.0%
Sporting goods and recreational products	3.0%
Discount, mass merchandise or supercenter	4.6%
Jewelry and watches	3.0%
Specialty accessories	3.0%
Home improvement, building, hardware lumber and garden supply	3.0%
Household furnishings and housewares	3.0%

Number of Stores

Fewer than 50 stores	18.2%
50 to 200 stores	21.2%
201 to 500 stores	12.1%
501 to 1,000 stores	19.7%
1,001 to 2,000 stores	13.6%
More than 2,000 stores	15.2%

FY 2017 Sales Volume
(only shown among those who provided sales data)

$999 million or less	30.9%
$1 billion to $2.49 billion	14.5%
$2.5 billion to $4.9 billion	10.9%
$5 billion to $24.9 billion	25.5%
$25 billion or more	3.6%

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