



ORGANIZED RETAIL CRIME SURVEY



www.nrf.com/organizedretailcrime

About the Survey

The National Retail Federation's annual Organized Retail Crime survey is a tool to bring awareness to a pervasive crime occurring across the country. The survey serves to educate all levels of retail, law enforcement, policymakers and the news media. Completed by 76 retail loss prevention executives representing department stores, big box stores, discount, drug, grocery, restaurant and specialty retailers, this is NRF's 10th annual survey and was conducted from March 17-April 21, 2014.

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 States 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 \$2.5 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. www.nrf.com.

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Open Letter from Richard Mellor & Vicki Cantrell

More than a decade ago, organized retail crime (ORC) was an issue that few outside the retail loss prevention profession could fully grasp. But thanks to hundreds of loss prevention professionals who have participated in NRF's Organized Retail Crime survey for 10 years and who have fought tirelessly for their own companies, the problem has been put into perspective for millions of Americans with the hope of highlighting the impact these types of crimes have on the retail industry, the economy and ultimately consumers.

With our 10th annual survey, we can say with confidence that this study has identified not only emerging trends but has also reinforced how influential strong partnerships between retailers, the law enforcement community and lawmakers can be in the fight against ORC.

This survey has served as an important benchmark for retailers to collectively measure the impact of ORC. Over time, companies have responded by allocating additional resources to combat these crimes, but criminal methods for illegally

obtaining merchandise have evolved right along with advances in technology. The challenge for retail loss prevention professionals lies in being vigilant and proactive while looking for trends that are not always immediately apparent. The criminal mind and creativity never stops, and just when you think you have shut down a vulnerability they find another way of stealing from and defrauding retailers. It is essential to keep training focused on the criminal methodology as we know it, and to always make sure the lines of communication include soliciting information and ideas from those being trained.

Combating organized retail crime is a full-time job, and industry-wide it is a constant battle 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 over the past decade. We look forward to working with you in the years to come.



Vicki Cantrell

Senior Vice President, Communities
and Executive Director, Shop.org

National Retail Federation



Richard Mellor

Senior Advisor, Asset Protection

National Retail Federation



Summary of Findings

A decade has passed since NRF first asked its community of loss prevention and retail security experts about the impact organized retail crime had on their store and business operations. Since then the survey has grown to become the industry's benchmark for tracking ORC activity.

Eight in 10 retailers were victims of ORC activity in past year.

For the first time since 2008, fewer than 90 percent of survey respondents say they were victims of ORC in the past year. While this is positive news, there is still unanimous support for a federal law that would help reduce criminal activity across the country.

Fencing operations still pose significant threats to retail companies.

As the primary methods used by criminal enterprises to sell stolen goods, physical and e-fencing operations still pose significant threats to retailers around the country. The survey found six in 10 retailers say they have identified or recovered stolen merchandise from fence locations, including pawn shops, flea markets, fake store fronts and third party and auction websites.

ORC state laws positively impacting retailers.

Three in 10 retailers said they've seen a reduction in ORC activity in states where there are state-level ORC laws, and more than half say state laws have had a noticeable impact on their ability to prosecute ORC cases. But the ability of ORC gangs to transport stolen products through multiple states and even overseas, the need for a federal ORC law is greater than ever.

Retailers' financial investment in fighting organized retail crime tops \$400,000 on average.

For years, retailers have dedicated specific resources to organized retail crime, with some companies even creating designated crime labs and task forces. According to the survey, the average case value for organized retail crime is \$2.8 million, with 8 percent saying the overall case value exceeds \$10 million. Retailers are now investing heavily in staff, technology and budgetary resources to combat these crimes.

Concerns over store merchandise credit and gift card fraud schemes remain high.

After discovering a troubling new trend involving gift card and store merchandise credit fraud in recent years, retailers are attempting to combat this new issue by working with the third party sellers criminals rely on to get their cash. Consumers are also affected when they unknowingly buy these cards for a discounted rate through online portals.

Top cities for organized retail crime.

Houston, Los Angeles, New York and Miami have frequently appeared on the list of top cities for ORC activity since NRF added this portion to the survey five years ago. Detroit joined the list for the first time this year.



Impact of Organized Retail Crime on Retailers

Methods of Operation

ORC perpetrators often engage in illegal and dangerous activities associated with bigger criminal enterprises. These retail crime rings generally consist of “boosters” – who methodically steal merchandise from retail stores or trucks on their way to retail stores (cargo theft) – and fence operators who convert the merchandise 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 at lower prices during checkout as a new way of “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 to retail stores.

ORC rings are clever, using designated roles such as driver, lookout, picker, packers and supervisor. They use hand signals, cell phones, GPS devices, online information to develop and transmit merchandise target lists, and have tools of the trade that include foil-lined shopping bags (“booster” bags), purses, boxes and signal jammers to defeat inventory control tags. Some use computers to replicate fake receipts for the purpose of making cash returns, and in some cases, employees are recruited to look the other way or provide details about camera or security systems.

Criminal Tactics

Do you believe your company been the victim of organized retail crime in the past 12 months? **YES**



| 2011 | 2012 | 2013 | 2014 |
|------|------|------|------|
| 94% | 96% | 93% | 88% |

Eight in 10 retailers still impacted 10 years later

This year, 88 percent of retailers reported they had been victims of ORC in the past 12 months, down from 93 percent in 2013. NRF believes specialized task forces created to fight ORC across the country and an increased awareness of the issue among senior leaders at companies have played roles in decreased activity. Additionally, select state laws may be positively impacting how retailers are able to prosecute criminals tied to ORC groups who have stolen from their stores. While there is some optimism that state laws are helping curb ORC activity, NRF believes there is still a strong need for a federal law in the fight against organized retail crime since the crimes often go beyond state lines, even reaching overseas.



Fencing Operations

Fencing operations are used by criminals to sell stolen merchandise. These operations can include physical locations such as flea markets, pawn shops, fictitious and temporary store locations, as well as online locations known as eFencing. Both the physical and online operations continue to pose a threat to retailers and consumers. According to the survey, 63 percent of retailers have identified stolen merchandise or gift cards at physical fence locations, and more than two-thirds (68%) have identified stolen items for sale online.

Store Credit Scams Still Troubling for Retailers

Savvy criminals with intricate knowledge of retailers return policies are taking their criminal tactics to new levels with scams that involve selling store credit for cash. Seven in 10 (76%) companies replied they have experienced gift card or store merchandise credit fraud, essentially flat with the 77 percent who said so last year.

Boosters steal merchandise or take items from the shelf, then return it to customer service for merchandise credit. Once they receive that credit, they sell the store merchandise gift card for cash to secondary markets such as pawn shops, check-cashing locations, gift card-buying kiosks and online sites.

This issue puts retailers at a loss and potentially impacts innocent consumers who buy discounted gift or store merchandise cards from third party websites without knowing they are fraudulent.

Impact of Cargo Theft

Cargo theft is another troubling component of organized retail crime. More than one-third of those who responded this year say they have been a victim of cargo theft in the past 12 months. More than half of those who have been victimized by cargo theft say it occurred en route from the distribution center to the store, and 41 percent say the theft occurred en route from the manufacturer to the distribution center. This year's survey also found a significant increase in the number of retailers who say cargo theft occurred at the store: 24 percent of respondents reported store-level cargo theft, compared with 8 percent last year.

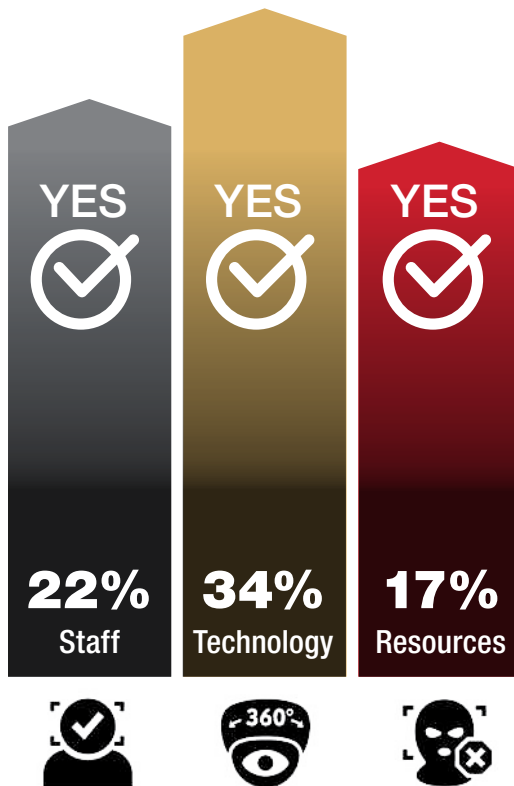


Retailers Allocating More Resources to Fight ORC

Organized retail crime is a \$30 billion-a-year problem, and even the biggest companies in the country grapple with it in terms of allocating enough resources to prevent, track and prosecute criminal enterprises that steal millions of dollars worth of merchandise each day. Resources are spread out through retail operations, ranging from store-level staff, security personnel, technology resources monitored in the back of the house by a team of ORC investigators, and other business investments.



Is your company allocating additional resources to address organized retail crime? (select all that apply)



For the first time, NRF asked retailers the approximate value of resources dedicated to fighting organized retail crime, and it's clear that this issue rises to the top of the priority list for many companies: on average companies report they allocate \$430,500 to hire and train staff, purchase the technological needs and budget for other necessities to combat organized crime gangs.

** NRF phrased the question differently in 2014, opting to break out the type of resources retailers are investing in, and as such, comparable data is not available.*



Advocacy, State Laws & Organized Retail Crime

▶ As of May 2014, 25 states have enacted legislation related to organized retail crime, a focus of states and retailers for the better part of the last decade.



Here are states that have enacted ORC legislation since 2008:

25



Impact of legislation on retailers

In an effort to gauge the impact these laws have had on retailers' ability to prosecute criminals associated with ORC and the level of support they receive from law enforcement, NRF asked retailers this year if they felt state organized retail crime laws were having any impact on their efforts to curb ORC activity.

According to the survey, three in 10 have noticed a reduction in ORC activity in states where laws are present. Of the retailers who have a presence in states where there are ORC laws in place, more than half

52% – Retailers who say state organized retail crime laws have positively impacted their ability to prosecute criminals and retail crime gangs

One in five (22%) – Retailers who are aware of retail crime gangs illegally exporting stolen goods outside of the United States

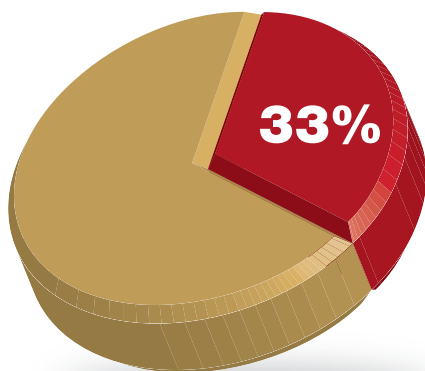
said the laws have had a positive impact on their ability to prosecute ORC offenders more effectively.

Since it was the first time NRF asked these questions, there is no comparable data from past years to completely gauge the real impact state laws on minimizing organized retail crime. However, industry experts and loss prevention executives who regularly work with law enforcement to monitor ORC activity speculate that these laws are, in fact, helping. Additionally, partnerships at the federal level with agencies like the Federal Bureau

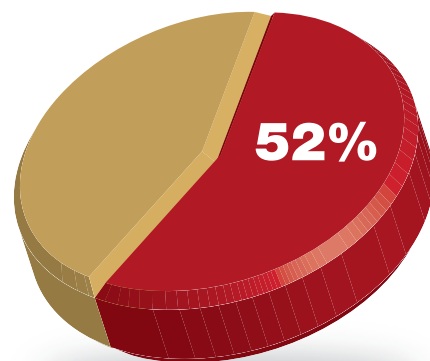
of Investigation and Immigration, Customs and Enforcement are aiding retailers' efforts to dismantle well-known, dangerous and large criminal enterprises.

The survey found that nearly nine in 10 (88%) said they have noticed an increase in support from law enforcement agencies when actively investigating organized retail crime cases. But in states that do not have ORC laws and where retailers have a presence, 63 percent have not noticed any changes in support.

Because organized retail crime gangs have the means available to transport stolen products through multiple states and even overseas, the need for a federal law is greater than ever. According to the survey, one in five respondents say they know of instances where stolen products have been illegally exported outside the United States.



33% of retailers noticed a reduction in ORC activity where state laws exist



52% of retailers who have seen a noticeable impact on prosecutions where state laws are in place



Cities Most Affected by Organized Retail Crime

For the fifth year, retailers were asked which cities rank the highest for organized retail crime activity. Many of the metropolitan areas listed in this year's survey have appeared on this list for five consecutive years including Atlanta, Chicago, 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, new cities have emerged in the past few years. As a multi-state enterprise, organized retail crime groups rely on large, national roadways to target retailers in various states and to transport their stolen goods. Detroit, Baltimore and Orange County, Calif., were among the new areas listed in this year's survey.

Other notable cities you could include:

- Northern New Jersey
- Las Vegas
- Philadelphia
- Seattle
- Orange County, CA
- Orlando



1. LOS ANGELES



6. ATLANTA



2. MIAMI



7. BALTIMORE



3. CHICAGO



8. SAN FRANCISCO



4. NEW YORK



9. DALLAS/FORT WORTH



5. HOUSTON



10. DETROIT

Top Stolen Items by Organized Retail Crime Gangs



Grocery

Cigarettes
Energy drinks
High-end liquor
Infant formula

Health and beauty

Teeth whitening strips
Pregnancy tests
Razors



Over-the-counter medicine

Allergy medicine
Diabetic testing strips
Pain relievers
Weight loss pills

Clothing

Denim pants
Designer clothing
/handbags

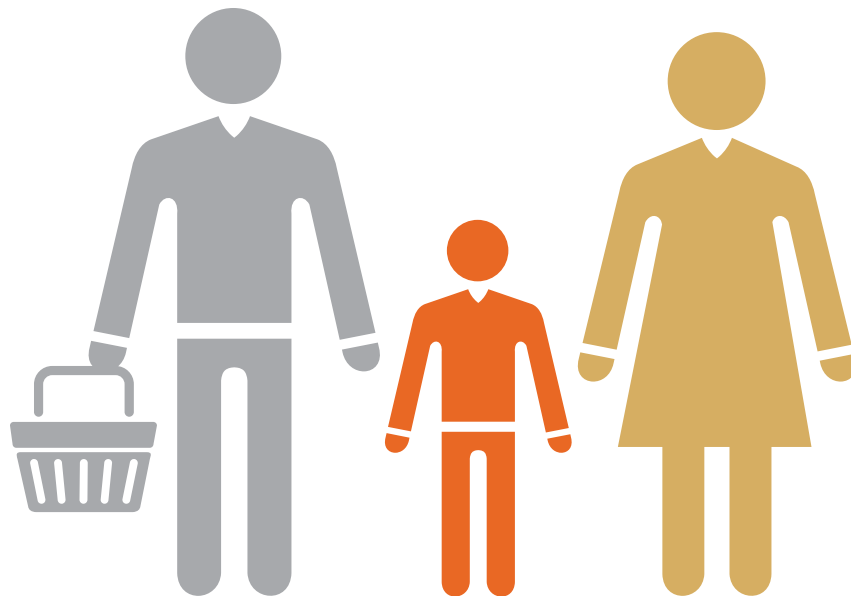


Home

High-end vacuums
High-end appliances,
mixers, Children's
electronic toys
Laundry detergent

Electronics

GPS devices
Laptops/tablets
Cameras/recorders
Cell phones



Conclusion

Organized retail crime is a serious issue for large and small retailers nationwide, as evidenced in the 88 percent of retailers who say they have been victimized by organized crime gangs. Operational strategies must be put in place, employee training must be consistent, and local and federal law enforcement agencies must be looped in when a pattern is determined. Fighting the problem takes more than a keen eye and support from law enforcement.

NRF understands how crucial it is to strengthen our partnerships with law enforcement agencies, opinion leaders, legislators, state retail federations and the industry's business partners, and we are committed to furthering our efforts in advocating for a federal ORC law. A federal law would be an important weapon in the fight against ORC and the prosecution of criminal offenders.

Visit NRF.com to learn more about NRF's Loss Prevention committees and its efforts to combat ORC.





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