



2017 Organized Retail Crime Survey

With bonus section on return fraud



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Introduction

The 2017 Organized Retail Crime Survey, an annual survey conducted by the National Retail Federation, continues to show the impact of organized crime (ORC) in retail. 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 many years. Their willingness to share their companies' data has helped to track ORC activity and develop proactive measures.

For any questions regarding the report or survey, please contact Bob Moraca, VP of Loss Prevention at moracar@nrf.com.

Methodology

The 2017 ORC Survey includes information from 63 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”

To provide more detail, we occasionally provide results as an 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. In our analysis of data, we removed extreme outliers that distorted the overall results.

Use of “median”

Throughout the report we have sometimes included the median to display the response to a question. A median is the value or response at the midpoint of all responses, where half of the responses fall below the median and half of the responses fall above the median.

Key Findings Summary

Each year retailers face significant financial loss from organized retail crime — which includes anything from professional shoplifting to cargo theft or other loss from organized crime gangs — and return fraud, deceiving a retailer specifically during the return process.

According to NRF's 2017 Organized Retail Crime Survey, this past year has been no different. In fact, organized retail crime is on the rise and gangs are showing an increased propensity toward violence. Yet according to respondents, knowledge surrounding the issue and resources to help fight it remain minimal. Security threats and product loss comprise an often-unseen part of the business.

Here are the key findings from this year's survey of retail leaders in loss prevention and asset protection:

- **The financial impact of ORC and return fraud is considerable.** Organized retail crime costs retailers an average of \$726,351 per every \$1 billion in sales. It's clear that retailers need to continue finding ways to combat these ever-present crimes that directly affect their bottom line.
- **Aggression shown by ORC gangs is on the rise — again.** Responding retailers report that ORC gangs are exhibiting more violence than the previous year. More than a quarter say these gangs are showing much more aggression compared to last year.
- **Loss prevention professionals report having an average of nearly 100 full-time LP employees at their companies,** with 43.1% reporting fewer than 10. Even with an average of 100 LP professionals, respondents said that their companies have an average of only three employees whose primary responsibility is fighting ORC; 62.3% said they have no LP employees who focus primarily on ORC.
- **Significantly fewer respondents this year believe that top management fully understands the complexity and severity of ORC.** With competing priorities in the retail business this year, it may not be surprising that only 20% report they believe management definitely has a solid understanding of the ORC problem, down from 30.5% in the 2016 survey.
- **Although retailers have seen increased losses due to ORC, fewer are finding their stolen merchandise online and in physical locations.** This could be due in part to diminishing resources allocated to fight ORC gangs and recover stolen merchandise. Nearly all specific areas in which retailers are finding lost items have seen a drop compared with previous years.
- **Retailers continue to change policies to counter ORC.** Significantly more respondents say their companies are altering point-of-sale policies and 29.4% are adjusting return policies to help fight the ORC issue.

Changing retail environments can make combating ORC difficult. There's no question that ORC and return fraud are very costly to the retail industry, but with all the changes happening throughout the industry, LP professionals have their work cut out for them. Resources are down as other areas of the business need greater attention by executives. Retailers must be creative in deploying resources, yet with the increased violence shown by gangs and the overall cost to their companies, this proves to be a difficult and increasingly important daily task.

Respondent Profile

Those responding to the 2017 Organized Retail Crime Survey reflect a variety of categories, number of stores and annual sales. Overall, the group mostly mirrors the 2016 survey population, with fewer drug stores and pharmacies and more supermarkets and grocery stores. Some large, multi-brand retailers reported figures collectively in 2017.

RETAIL SECTOR

	Percent
Specialty apparel	24.0%
Supermarket and grocery	12.0%
Department & discount department, mass merchandise or supercenter	10.7%
Household furnishings, furniture and housewares	9.3%
Sporting goods and recreational products	8.0%
Jewelry and watches	6.7%
Specialty accessories	5.3%
Consumer electronics, computers and appliances	2.7%
Home improvement, building, hardware lumber and garden supply	2.7%
Auto parts, tires and accessories	1.3%
Drug store or pharmacy	1.3%
Liquor, wine, beer or tobacco products	1.3%
Optical goods and services	1.3%
Pets and animal supplies	1.3%
Other	12.0%

NUMBER OF STORES

	Percent
Fewer than 50 stores	14.7%
50 to 200 stores	28.0%
201 to 500 stores	20.0%
501 to 1,000 stores	13.3%
1,001 to 2,00 stores	13.3%
More than 2,000 stores	10.7%

ANNUAL SALES SIZE

	Percent
\$999 million or less	43.5%
\$1 billion to \$2.49 billion	14.5%
\$2.5 billion to \$4.9 billion	15.9%
\$5 billion to \$24.9 billion	18.8%
\$25 billion to \$49.9 billion	4.3%
\$50 billion or more	2.9%

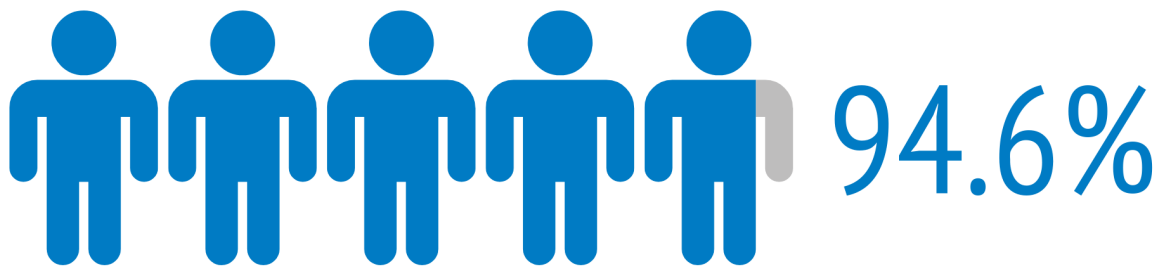
ORC Impact on Retailers

94.6% of surveyed retailers believe their company has been the victim of organized retail crime this year. Organized retail crime poses not only a threat to the bottom line, but also a threat to the millions of retail industry employees and their customers. Unfortunately, ORC is on the rise: 93.4% of victimized companies report no decline this year; two-thirds (67%) report an increase in activity within the last 12 months, and more than a quarter (26.4%) note there has been no change in ORC activity.

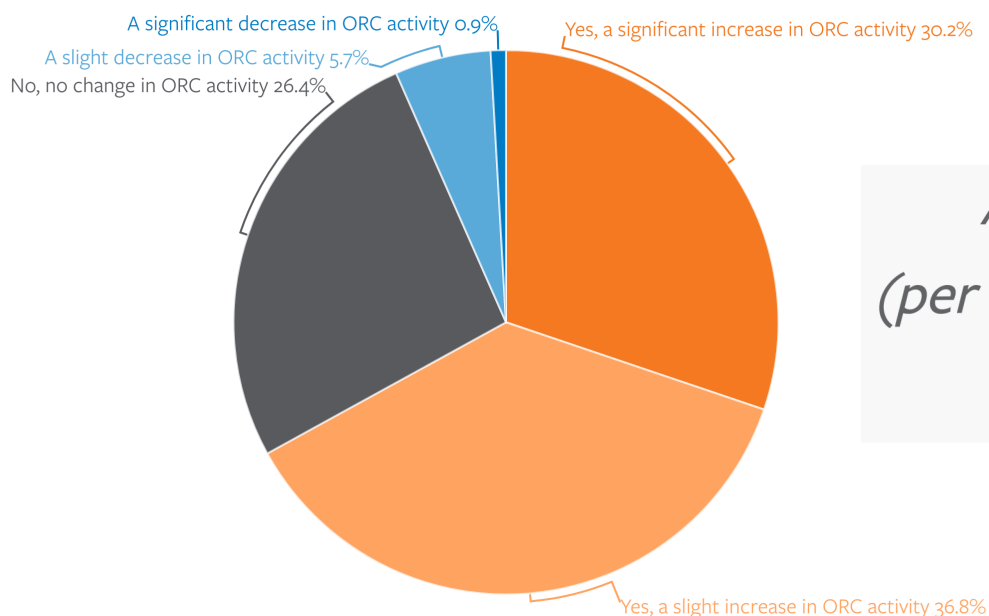
Responding companies report an average loss of \$726,351 per \$1 billion in annual sales volume due to ORC activity in the past 12 months, with a median loss of \$260,870 per \$1 billion in sales.

Shoplifting including ORC is the top source of inventory shrinkage for the second year in a row, according to NRF's annual National Retail Security Survey. This outpaces employee theft, administrative errors and other forms of shrink.

Percent who have been a victim of ORC in the past 12 months:



*Have you seen an increase in ORC activity in the past 12 months at your company?
(Only among ORC victims)*



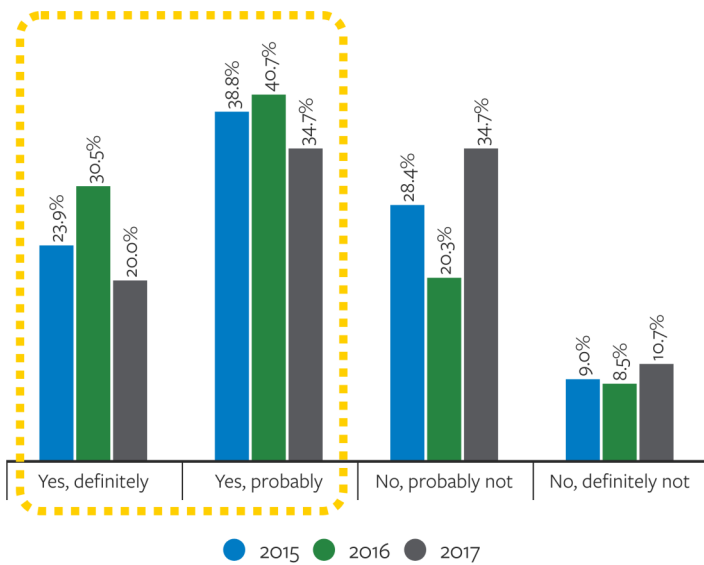
*Average Loss
(per \$1 billion in sales):*

\$726,351

Resource Allocation

ORC is on the rise, with retailers reporting greater loss each year. Unfortunately, top management's efforts to combat ORC may be waning. Only 54.7% of retailers surveyed said their top management understands the complexity and severity of the issue, which is down significantly from 2016 (71.2%).

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



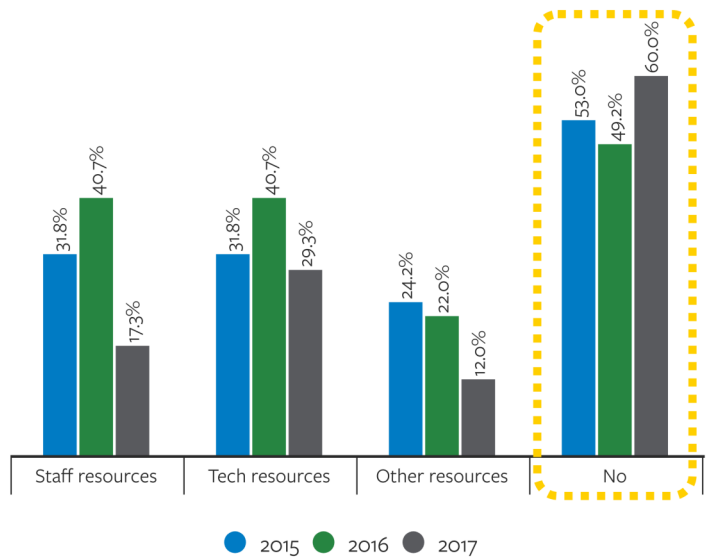
Though ORC alone makes up only a small percentage of total shrink, many companies are dedicating resources to keeping thieves at bay and their employees safe: 73.3% of retailers surveyed report that a percentage of their annual loss prevention budget is allocated to resources for countering ORC. Among those with LP budgets for countering ORC, it accounts for an average of 12% of the budget, ranging between roughly 1% and more than 30%.

2017 has been a busy year for retailers of all sizes. As a result, investments appear to be on the decline or leveling off. This year, after a rise in 2016, only 40% of responding retailers say their company is allocating additional resources to address ORC; 17.3% are allocating staff resources and 29.3% are making investments in technology resources.

On average, responding retailers reported nearly 100 full-time LP employees at their companies, though 43% have fewer than 10. While ORC is a function shared across multiple positions within these teams, companies have an average of three employees with ORC as their primary focus; 62% responded that none of their LP employees have ORC as their primary focus.

In 2017, we've seen retailers adjusting their organization structure across the business. As the retail business evolves, so do internal talent and skills needs — loss prevention teams are no exception. Expectations for the future loss prevention team may include more employees with LP as part of their job description but not their entire role, or turning to outside consultants for help — even an outsourcing of entire teams.

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



ORC Laws

Many retailers cite state legislation changes that are made as an effort to reduce prison populations yet result in increased retail crime. Thieves that keep up with the laws know value limits in order to avoid felony charges if caught.

With the help of state retail associations, **34 states** now have ORC laws in place to assist LP professionals partnering with law enforcement to combat this crime.

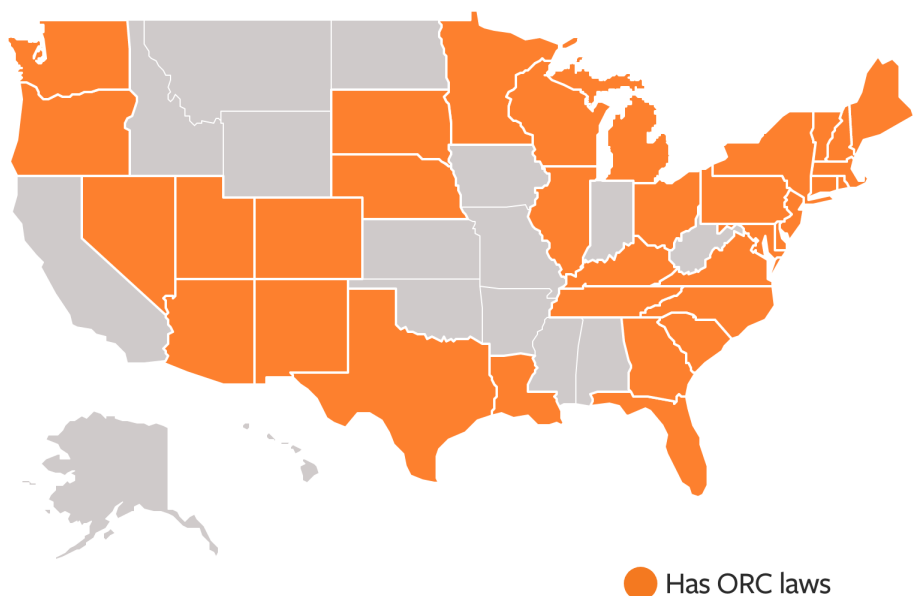
Consistent with prior years, most responding retailers have not noticed increased support from law enforcement in states that do not currently have ORC laws. Cross-jurisdiction hinders law enforcement's ability to take action — seven in 10 responding retailers believe a federal ORC law is needed. A federal law is believed to be effective in combating this issue due to the complexities of using local law enforcement resources to prosecute an often-interstate, as well as international, crime.

“Because it is a repetitive crime and a lucrative means for other crimes, stricter laws for interstate ORC need to be implemented to deter and thwart ORC.”

“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.”

34 STATES HAVE ORC LAWS

- | | |
|------------------|-------------------|
| 1 Arizona | 18 New Jersey |
| 2 Colorado | 19 New Mexico |
| 3 Connecticut | 20 New York |
| 4 Delaware | 21 North Carolina |
| 5 Florida | 22 Ohio |
| 6 Georgia | 23 Oregon |
| 7 Illinois | 24 Pennsylvania |
| 8 Kentucky | 25 Rhode Island |
| 9 Louisiana | 26 South Carolina |
| 10 Maine | 27 South Dakota |
| 11 Maryland | 28 Tennessee |
| 12 Massachusetts | 29 Texas |
| 13 Michigan | 30 Utah |
| 14 Minnesota | 31 Vermont |
| 15 Nebraska | 32 Virginia |
| 16 Nevada | 33 Washington |
| 17 New Hampshire | 34 Wisconsin |



Top Stolen Items

Organized retail criminals look for items that can be stolen and quickly resold. There is a decided preference for products, with a mix of high-end luxuries and everyday commodities.

Year to year, top stolen items continue to include designer goods, infant formula, detergent, jewelry and allergy medicine, though each retail sector sees its own version of this list.

TOP STOLEN ITEMS



Designer Clothing



Denim Pants



Razors



Infant Formula



Designer Handbags



Laundry Detergent



Cigarettes



High-end Liquor



Jewelry



Teeth Whitening Strips

Current ORC Activity

Despite a rise in organized retail crime and greater losses seen to retailers, fewer companies report recovering stolen merchandise through stores and online. Due to the onset of flat or declining LP budgets year over year, this is likely a result of diminishing resources to combat criminals and locate stolen items. Unchanged from previous years, **six in 10 have identified or recovered stolen goods from a physical fence location.** Stolen merchandise and gift cards are most commonly found in a pawn shop or flea market, though not as common as they once were among victimized retailers.

Stolen merchandise found in stores has dropped most dramatically compared with previous years' surveys; 17.1% have identified or recovered stolen merchandise or gift cards, a drop from 33.9% in 2016 and 33.3% in 2015.

Those recovering stolen goods that were "e-fenced" also dropped since last year: 55.7% of responding companies note that within the last 12 months they've identified or recovered stolen merchandise or gift cards that have been e-fenced, down from 74.6% last year.

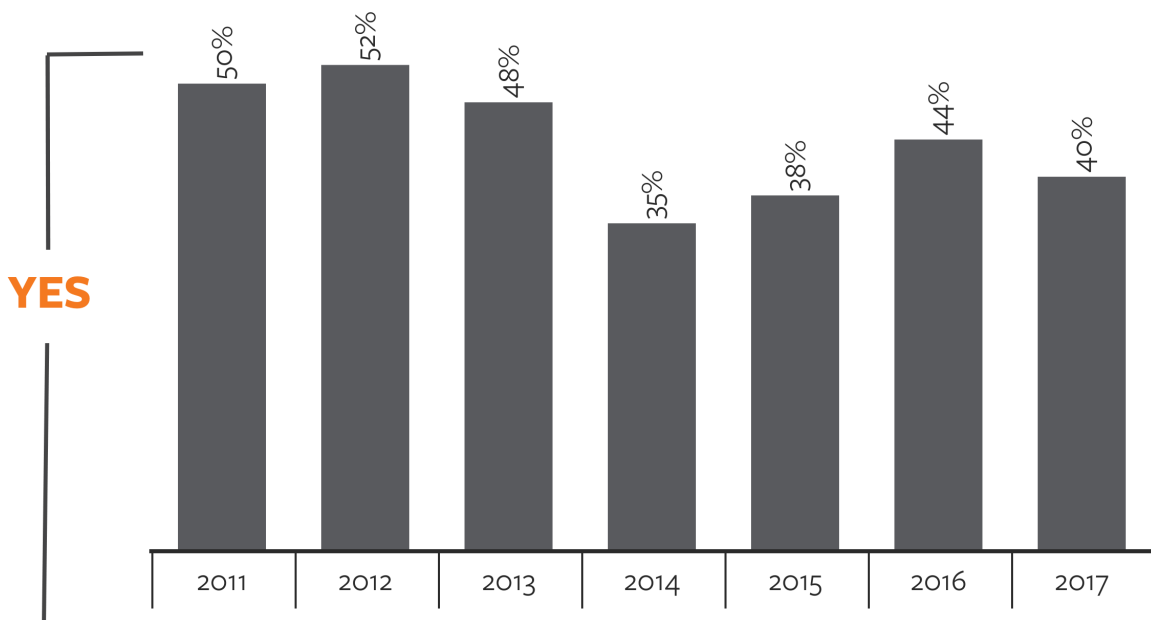
Stolen merchandise returned for gift cards or store credit then sold to secondary market buyers is an issue retailers continue to face, though it is also not as prevalent as in years past. **In 2017, 57.1% of responding companies reported experiencing fraudulent gift cards or store credit in at least one location,** down significantly from 2016 and 2015 when two-thirds of respondents reported the same.

Cargo theft can happen at many distinct points along the path to fulfillment, though most occurs between the distribution center and the store, according to companies that have experienced cargo theft within the last year.

The rise in the number of companies reporting cargo theft may be slowing. In 2017, 40% of surveyed retailers reported they had been a victim of cargo theft within the last year, down slightly from 2016 (44.1%).

Protecting and finding stolen goods takes on a new level of complexity when other countries are involved. In 2017, more than a quarter (27.9%) of responding companies noted that they know of their products stolen by ORC gangs then exported illegally to locations outside the United States.

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

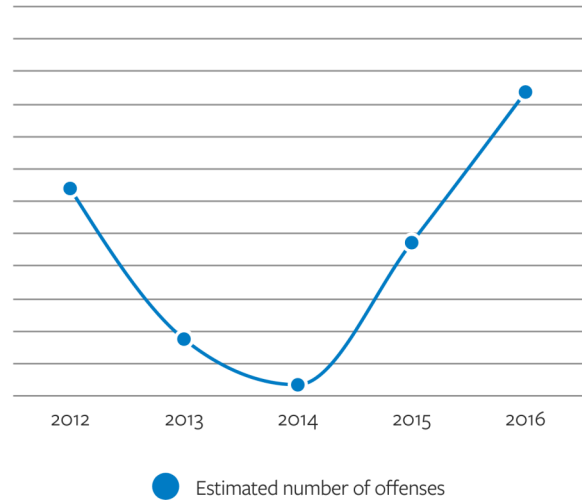


Keeping Employees Safe

Using last year as a baseline, ORC gangs continue to exhibit more aggression and violence, and retailers worry for the safety of their employees. 98.5% of responding retailers said ORC gangs are just as aggressive or more aggressive and violent when compared with last year. Over a quarter said they've seen much more aggression compared with last year. Retailers also noted an uptick in violence from thieves who use weapons such as mace and tasers.

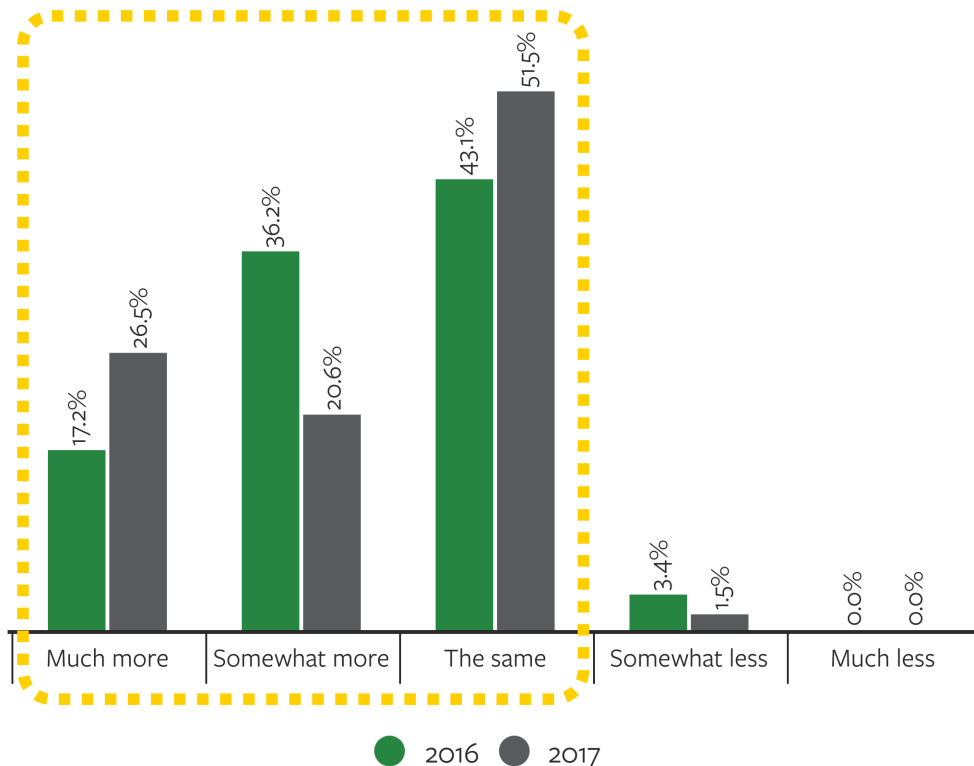
This uptick corresponds with FBI Uniform Crime Reporting data on violent crime. FBI data shows an estimated 1,248,185 violent crimes occurred nationwide in 2016, an increase of 4.1% from the 2015 estimate. Aggravated assaults accounted for 64.3% of violent crimes reported to law enforcement in 2016. In contrast, property crime offenses — nonviolent theft and destruction of property — saw a decline in 2016 of 1.5% over 2015 counts.

VIOLENT CRIME OFFENSE FIGURE



Source: FBI Uniform Crime Report

Are ORC gangs exhibiting more or less aggression and violence than they did last year?

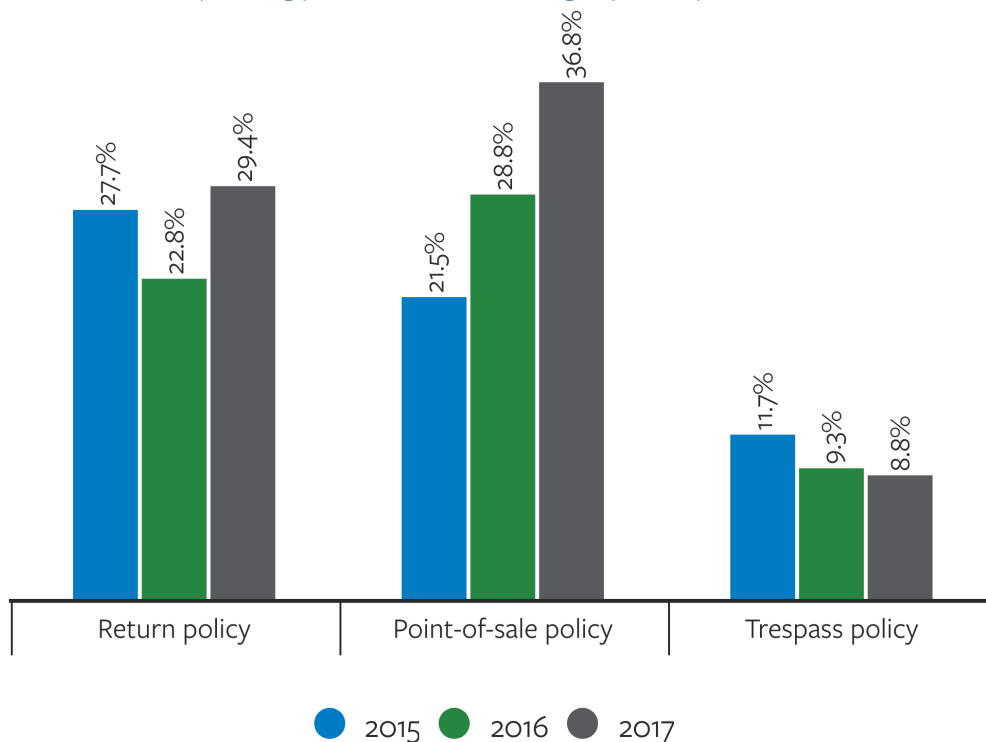


Policy Changes to Combat ORC

Retailers continue to adjust policies within their companies to combat ORC. Within the last year, 29.4% of companies have adjusted their return policy specifically to address ORC, more than in 2015 and 2016. Many return policy changes include receipts, days available to return and original packaging conditions.

Changes to point-of-sale policies are continuing to be more prevalent in retailers' strategies for combatting this theft. These policies impact payment and checkout procedures, where a theft of money or product may occur. Within the last 12 months, 36.8% have made changes to their point-of-sale policies, up from 28.8% last year and 21.5% the year prior.

Within the past 12 months, has your company changed any of the following policies to address ORC? (Showing percent who have changed policies)



Top Cities for ORC

As the home for a major retailer port, as well as manufacturing and retail action, it's unsurprising that Los Angeles continues to be the most-cited city for ORC. Though the "top 10" list is largely unchanged from previous years, with only the addition of Orlando and Northern N.J. and loss of Arlington/Dallas and Philadelphia, other cities have seen some shifts in standings over the past few years.

The Arlington/Dallas/Fort Worth metro area seems to be less of a location for organized retail crime than was noted in 2015 and 2016 when it was among the most-cited cities. The same goes for Baltimore, San Diego, Las Vegas and Phoenix, all of which have seen declines in the share of responding companies citing them as a top city for ORC activity.

HONORABLE MENTIONS

 **Philadelphia**

 **Baltimore**

 **Arlington/Dallas/Fort Worth**

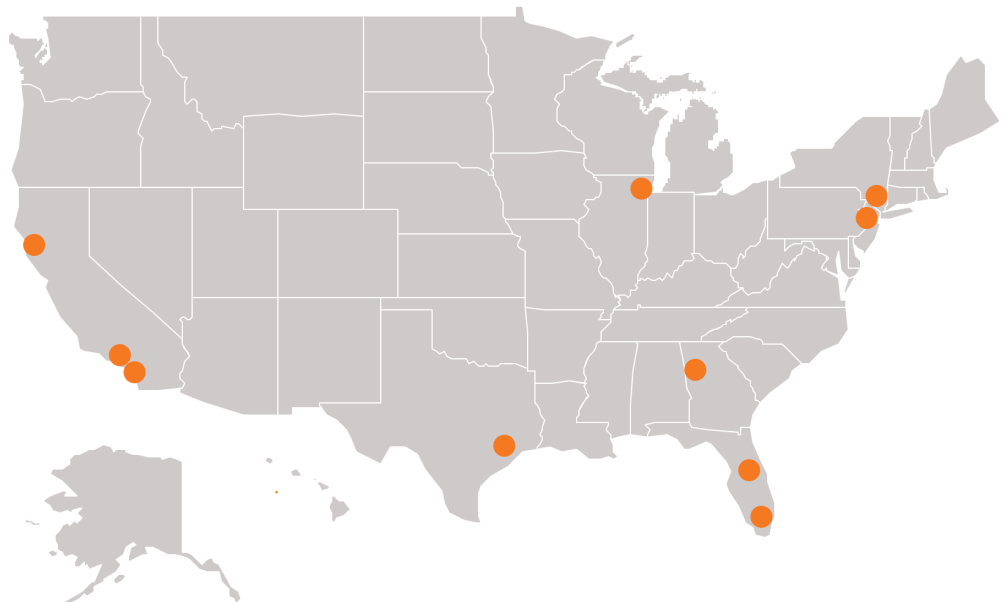
 **Washington, D.C.**

 **San Jose**

 **Ft. Lauderdale**

TOP CITIES OF ORC

- 1 Los Angeles
- 2 New York City
- 3 Houston
- 4 Miami
- 5 Atlanta
- 6 Chicago
- 7 Orlando
- 8 San Francisco/Oakland
- 9 Orange County, Calif.
- 10 Northern N.J.



Return Fraud

Regardless of where or when a sale takes place, return fraud continues to pose a serious threat to the retail industry.

For the first time, the ORC survey included questions surrounding the issue of return fraud with the goal of understanding the extent and impact of return fraud and abuse. This section can aid retailers by providing benchmarking to compare their own metrics and helping inform business decisions.

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, or to match firmographics of prior years' surveys.

Types of return fraud

In the past year, surveyed retailers have been victims of return fraud through a variety of methods. The most commonly experienced (mentioned by roughly two-thirds) is the return of stolen merchandise and employee return fraud. The least-used technique — although still prevalent — is criminals using counterfeit e-receipts to make returns, which two in 10 reported experiencing in the past year.

Overall annual returns

Retailers responded that they are expecting an average 11% of their total annual sales to be returned this year; of those, 11% are likely to be fraudulent returns. These rates are slightly up from the last time the questions were asked, in 2015.

ANNUAL RETURNS

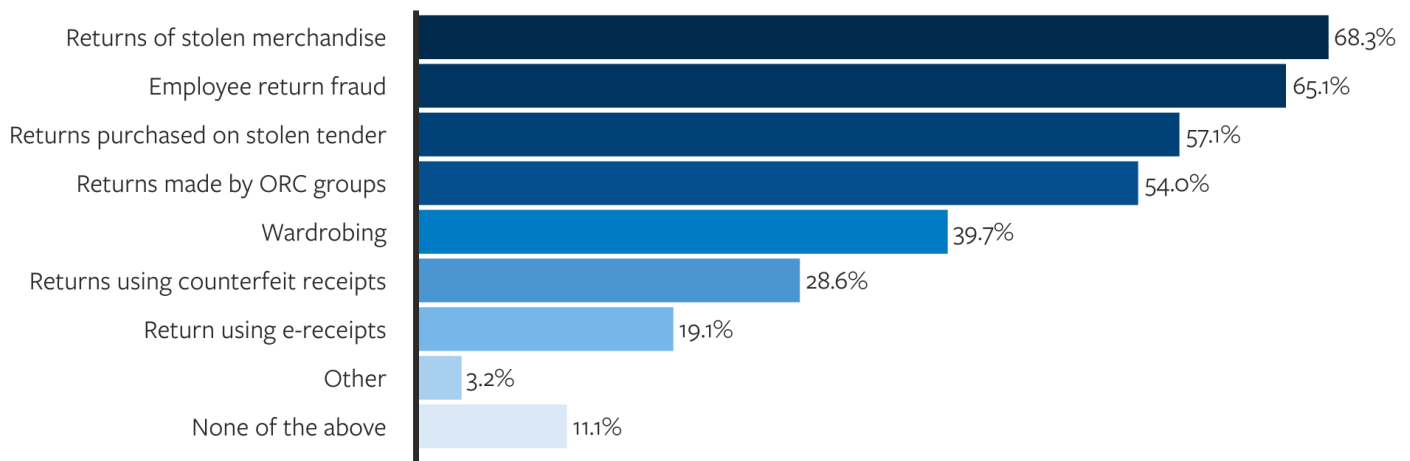
Of your total annual sales this year, what percentage do you estimate will be returned?

	Average	Median
2017	11.3%	10.0%
2015	10.2%	8.0%

Of your total annual returns and exchanges this year, what percentage do you estimate will be fraudulent?

	Average	Median
2017	10.8%	5.0%
2015	8.8%	3.5%

Which examples of return fraud has your company experienced in the past year?



Return Fraud Continued

Holiday returns

The holidays are just around the corner and retailers expect an average 13% of their holiday sales will result in returns. Of those holiday returns, an average of 11% will likely be fraudulent — double that of estimates five years ago but on par with the annual fraudulent return rate.



According to NRF's 2017 Holiday Planning Playbook, nearly two-thirds of consumers returned at least one item this past holiday season and 27% bought items specifically with the intention to return them later.

Online sales returned to bricks-and-mortar stores

Items that are purchased *online* but returned to a bricks-and-mortar location have an expected average return fraud rate of 9%.

ONLINE TO BRICKS-AND-MORTAR RETURNS

Of your total online sales this year, what percentage do you estimate will be returned to your bricks-and-mortar stores?

	Average	Median
2017	10.7%	5.0%

Of online purchases returned to your bricks-and-mortar stores, what percentage do you suspect is fraudulent?

	Average	Median
2017	9.4%	4.0%
2015	5.4%	1.0%

Returns made without a receipt

Allowing customers to return items without first presenting a receipt has resulted in higher fraudulent rates. Respondents estimated that nearly two in 10 of such returns will be fraudulent — the highest of any other type of return the survey looked at.

RETURNS MADE WITHOUT A RECEIPT

In your best estimate, what percentage of your merchandise returns is made without a receipt?

	Average	Median
2017	16.4%	10.0%
2015	n/a	10.0%

For your most recent fiscal year, what percentage of returns made without a receipt would you estimate is fraudulent?

	Average	Median
2017	16.8%	10.0%
2015	20.4%	10.0%

Conclusion

With the risk of fraud continuing to grow and exist in many forms, retailers and loss prevention professionals need to focus on creatively putting forth the resources needed to stop return fraud criminals in their tracks. Showcasing the growth of this problem will hopefully lead to best practices and solutions.



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