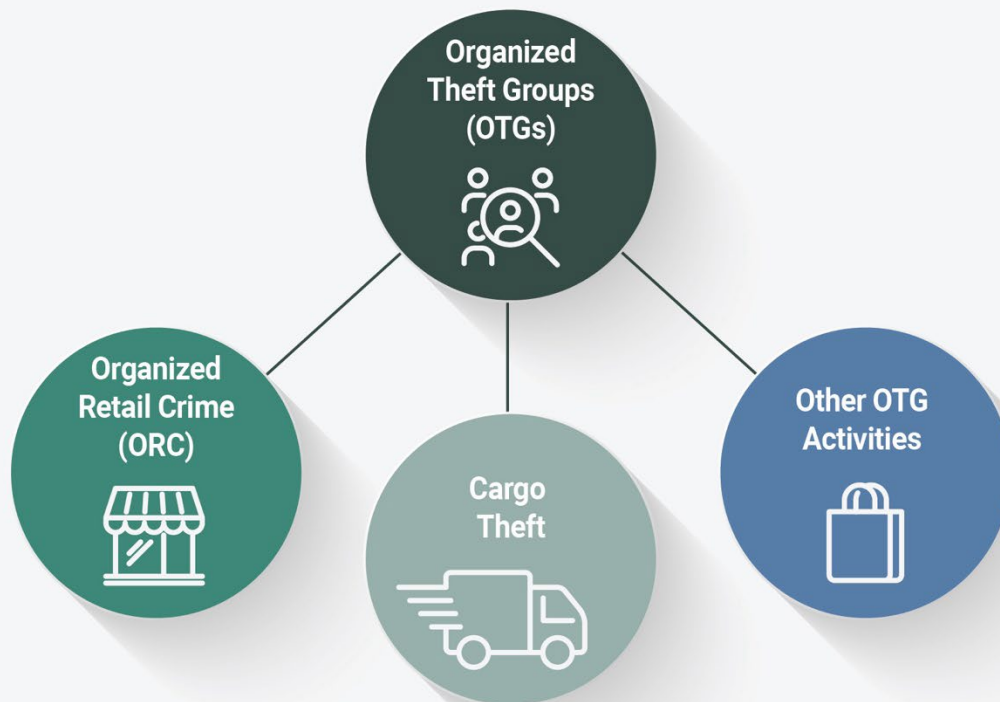


Retail Shrink & Organized Retail Crime

Mitigating Financial Losses and
Lowering Safety Risks



We are hearing a lot about organized retail crime (ORC) in the media these days. However, as retailers and supply-chain professionals, this type of crime is not new to us and is part of what are called Organized Theft Groups (OTG). OTGs are divided into three main theft related activities that include organized retail crime, cargo theft, and other theft and fraud-related criminal activities.



Homeland Security Investigations defines ORC as “the association of two or more persons engaged in illegally obtaining items of value from retail establishments, through theft and/or fraud, as part of a criminal enterprise.” These criminal enterprises operate with a clear agenda, utilizing sophisticated methods to steal merchandise, resell it on the black market, and launder the proceeds. As ORC continues to evolve and expand, it poses a substantial threat to retailers, consumers, and society at large. However, ORC is only part of what makes up total retail shrink.

[Operation Boiling Point takes on Organized Theft Groups | ICE](#)

The Components and Magnitude of Retail Shrink

According to the National Retail Federation (NRF), shrink or shrinkage is the measurement of losses calculated by a retailer during a specific period of time, categorized across various means of retail loss. Measured as a percentage of sales, shrink percentage includes losses mainly caused by:

- External theft including organized retail crime
- Internal theft
- Operational errors



SOURCE: National Retail Federation

Shrink Rates Have Increased by 30bps Since 2017

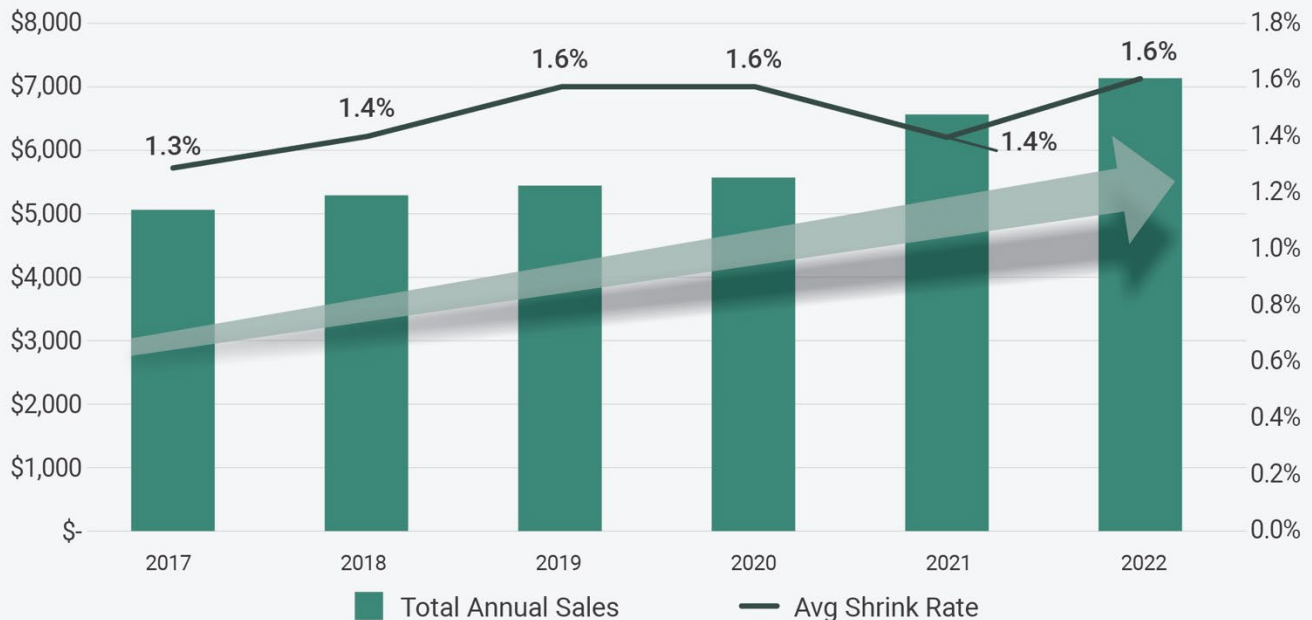
The average rate of shrink has gone from 1.3% in 2017 to 1.6% in 2022 (+30bps). While this seems like a relatively small change, it is actually massively impactful, especially when considering that shrink dollars have increased by \$41 Billion or 58% over this same time period. The retail sales base is massive (\$7.1 Trillion in 2022), so small increases in the shrink rate results in a large dollar impact.

Importantly, nearly all this loss is hitting stores as e-commerce (eCom) fulfillment centers are much more secure. This is creating an outsized impact on physical retail stores 4-wall-profit. This is what several major retailers have recently been struggling with when considering the closure of stores due to unsustainable losses.

	2017	2018	2019	2020	2021	2022	22v17 \$	22v17 %
eCom Sales	\$ 450	\$ 519	\$ 596	\$ 760	\$ 962	\$ 1,040	\$ 590	151%
Store Sales	\$ 4,635	\$ 4,774	\$ 4,854	\$ 4,820	\$ 5,600	\$ 6,058	\$ 1,423	32%
Total Retail Sales	\$ 5,084	\$ 5,293	\$ 5,449	\$ 5,580	\$ 6,562	\$ 7,098	\$ 2,013	42%
Total Shrink \$	\$ 72	\$ 75	\$ 83	\$ 91	\$ 94	\$ 112	\$ 41	58%
Average Shrink %	1.3%	1.4%	1.6%	1.6%	1.4%	1.6%		30bps

Numbers are in Billions

Total Retail Sales Average Shrink Rate Have Increased Since 2017



SOURCE: National Retail Federation and US Census Bureau
Numbers are in Billions

Characteristics of Organized Retail Crime

ORC groups often consist of multiple individuals working together to maximize their impact. These groups communicate effectively and divide roles among members, making them difficult to apprehend. Unlike casual shoplifters, ORC criminals engage in theft and fraud on a consistent basis. They move from one target to another, demonstrating a pattern of repetitive criminal behavior.

ORC typically targets high-value merchandise, such as electronics, designer clothing, and pharmaceuticals. These items provide a significant return on investment in the underground market. Criminals use advanced tactics to achieve their goals. This includes distraction theft, counterfeiting, identity theft, and online resale, among others.

Motivations Behind Organized Retail Crime

Financial gain is the primary motivation behind ORC. Stolen goods are resold on the black market at a fraction of their retail value, generating substantial profits for criminals. These groups perceive their activities as low-risk endeavors. They believe they can evade law enforcement due to their sophisticated methods and the difficulty of tracing stolen merchandise.

A thriving underground market exists for stolen merchandise. Consumers looking for discounted products drive this demand, creating a lucrative opportunity for criminals.

Retail Categories Most Frequently Targeted by ORC

Category	Top ORC Items Include...
Accessories	Backpacks, handbags, hats, jewelry, sunglasses
Clothing	Athletic clothes, denim, graphic t-shirts, lingerie, underwear, outerwear, suit jackets, workwear
Electronics	Mobile devices and tablets, audio, batteries, cell phone accessories, connected technologies, gaming consoles, and games, office printers, printer ink and toner
Food and Beverage	Alcohol, candy and gum, energy drinks, frozen seafood, fresh meat, and seafood
Footwear	Branded athletic shoes, designer footwear, high-end Western boots, work boots
Health, Beauty, and Personal Care	Body cream, body wash, cosmetics, deodorant, fragrance, grooming needs, health, oral care over-the-counter medications (especially pain), respiratory care, shave products, shower gel, Vitamins, and supplements
Home Furnishings and Home Improvement	Bedding, candles, drop-front shoeboxes, fragrance, home electronics, household chemical, household paper, small electronic appliances, mechanic tools, electrical wire, flooring, hardware, plumbing, tools, inflatable mattresses, kitchen accessories, laundry detergent, branded appliances, vacuums, swimming pools
Infant Care	Diapers, infant formula
Other	Ammunition, baseball bats and gloves, cash, fuel, gift sets, golf balls, lottery tickets, luggage, party supplies, costumes and masks, trading cards, toys

Source: National Retail Federation

States and Cities Most Impacted by ORC

Rank	City or Metropolitan Area
1	CA – Los Angeles
2	CA – San Francisco
3	TX – Houston
4	NY – New York
5	WA – Seattle
6	GA – Atlanta
7-8	CA – Sacramento, IL – Chicago
9-11	CO – Denver, FL – Miami, NM – Albuquerque

Source: National Retail Federation

Retailers Suffer from Operational Disruptions

Dealing with ORC forces retailers to divert resources away from core operations. A significant portion of the operations budget must be allocated to security measures, investigations, and loss prevention efforts. These operational disruptions can affect the ability to provide an optimal shopping experience.

The presence of ORC activities can negatively impact the shopping experience. High theft rates and visible security measures can make customers feel uncomfortable or unsafe. As a result, some customers may choose to avoid stores where theft is prevalent, leading to a decline in foot traffic and sales.

Impacts on Consumers Include Higher Prices and Safety Concerns

Consumers indirectly bear the burden of ORC in the form of higher prices. To recoup their losses, retailers often raise prices for goods and services, passing on the costs of theft to their customers. This price inflation can impact household budgets and reduce consumers' purchasing power.

In stores targeted by ORC groups, consumers may become concerned about their safety. The potential for theft-related violence or disruptions can deter shoppers from frequenting certain retailers, impacting the overall sense of security in their communities.

ORC Impacts on Society, Economics, and Public Safety

The effects of ORC extend beyond the retail industry, leading to broader economic consequences. Job losses and reduced tax revenue can result from retail closures caused by ORC-related losses. Communities and regions can experience economic instability as a result.

While most ORC activities involve theft and fraud, some cases escalate into violence. This puts store employees and innocent customers at risk. Public safety is compromised in communities where ORC activities are prevalent, creating a pressing concern for law enforcement agencies.

Methods and Tactics of Organized Retail Crime

To combat ORC effectively, it is crucial to understand the methods and tactics employed by these criminal groups. ORC actors utilize various strategies to achieve their objectives:

- ORC groups often deploy shoplifting rings where multiple individuals simultaneously steal merchandise from a store. They may use distraction techniques to divert store employees' attention, enabling theft on a large scale.
- Cargo theft involves stealing goods during transit. ORC actors may obtain inside information regarding shipment routes and schedules, allowing them to intercept and steal valuable merchandise. This method extends the reach of ORC beyond individual stores and into supply chain vulnerabilities.
- Return fraud is a common tactic where criminals exploit lenient return policies. They steal merchandise from stores and then return it for cash or store credit, effectively converting stolen goods into liquid assets.
- With the rise of online shopping, ORC has expanded to encompass e-commerce fraud. Criminals create fake online storefronts or use stolen credit card information to make online purchases. They then resell the stolen items on the black market or legitimate online marketplaces, taking advantage of the anonymity and reach of the internet.

Prevention and Mitigation Strategies

Addressing organized retail crime requires a multi-faceted approach involving retailers, law enforcement agencies, and industry stakeholders. Several strategies can be employed to prevent and mitigate the impact of ORC:

- Retailers can invest in advanced surveillance systems, RFID tagging, and data analytics to identify suspicious activities. These technologies can help detect patterns of theft and fraud and enable a rapid response. Real-time monitoring and data analysis are critical components of this strategy
- Training staff to recognize ORC tactics and respond appropriately is essential. Employees should be educated in identifying suspicious behavior, understanding the latest theft methods, and implementing loss prevention measures. Informed and vigilant employees can serve as a valuable line of defense against ORC
- Retailers should establish strong partnerships with local law enforcement agencies. This collaboration can lead to timely responses to incidents, increased information sharing, and the dismantling of ORC networks. Law enforcement agencies, in turn, can benefit from retailers' insights and support in investigations
- Implementing inventory control measures can help track and secure high-value items. This may include locking up high-theft items, using electronic article surveillance tags, and closely monitoring inventory levels. By making it more difficult for criminals to access and steal merchandise, retailers can deter ORC activities

Legislative and Legal Measures

Efforts to combat ORC should also include legal measures to address the issue at its core. Enforcing harsher penalties for ORC-related offenses can serve as a deterrent to criminals. By increasing the legal consequences of ORC activities, the criminal justice system can dissuade potential offenders.

Promoting information sharing between retailers and law enforcement agencies is also crucial. Data sharing can help identify and track criminal networks, enabling more effective investigations and prosecutions. Some jurisdictions have introduced comprehensive legislation that specifically targets organized retail crime. Such legislation may include provisions for defining ORC as a distinct criminal offense, establishing penalties, and providing resources for law enforcement agencies to combat ORC effectively.

Conclusion

Organized retail crime is a multifaceted and growing threat that impacts retailers, consumers, and society at large. It necessitates a comprehensive approach involving prevention, collaboration, and legal measures to effectively combat. Retailers must invest in technology, train employees, and work closely with law enforcement and industry partners to mitigate the impact of ORC and protect their businesses and communities. Legislative and legal measures should also be considered to create a robust framework for addressing organized retail crime at its core. As ORC continues to evolve, it is imperative that stakeholders remain vigilant and adaptive in their efforts to combat this pervasive criminal activity. Failure to do so could have far-reaching economic, social, and safety implications for communities and industries alike.

Ankura Performance Improvement Fundamentals

We have a proven track record of executing on strategic plans to achieve sustainable performance improvement and targeted operating results aimed at maximizing EBITDA, cash flow and ultimately shareholder value.

We work side-by-side with management and other stakeholders to guide companies through periods of uncertainty and subsequently accelerate growth and value creation.

Ankura's Performance Improvement professionals leverage the deep expertise across the firm to bring the appropriate specialized resources to deliver solutions to complex problems to create optimal outcomes.

Our Experts



Keith Jelinek

Senior Managing Director
keith.jelinek@ankura.com



Tom Clarke

Senior Managing
tom.clarke@ankura.com



Rick Maicki

Senior Managing Director
rick.maicki@ankura.com



Jesse Lehman

Senior Director
jesse.lehman@ankura.com

Ankura Consulting Group, LLC is an independent global expert services and advisory firm that delivers end-to-end solutions to manage conflict, crisis, performance, risk, strategy, and transformation. Ankura has over 2,000 professionals serving 3,000+ clients across 55 countries. Collaboration and experience drive our multidisciplinary approach to Protect, Create, and Recover Value™.

For more information, please visit: ankura.com

© 2023 Ankura Consulting Group,