



A COVID-19 Tsunami Threatens to Overwhelm Retailers

As economic and social woes increase, the retail sector is faced with unprecedented criminal risk

By Steve Lasky



It is not like challenges to the retail sector haven't been coming in waves the last couple of decades. The bottom line is that panic and fear always create opportunities for criminals. Following the terrorist attacks in New York City, Washington D.C. and over the skies of Pennsylvania on September 11, 2001, and the financial crisis that engulfed the global markets in the mid-2000s, retail crimes increased as economic conditions and high unemployment triggered crimes of opportunity and also galvanized an already growing organized retail crime (ORC) contingent.

Before the onslaught of the coronavirus began its march across the United States in early February of this year, retailers were already reeling from the dismal results reported in the 2020 National Retail Security Survey, which showed retail shrink totaled \$61.7 billion in 2019, a significant increase from the \$50.6 billion reported the year before. Conducted by the National Retail Federation (NRF), the survey included responses from 69 loss prevention and asset protection executives from across a variety of retail sectors. The average shrink of 1.62% of sales during 2019 was a new all-time high in the survey's history. Prior to 2019, shrink levels had remained relatively flat, hovering around 1.4% over the past several years. Almost 70% of retailers reported a shrink rate of 1% or higher last year, compared with just slightly more than half in 2018, and almost twice as many reported shrink rates of 3% or higher.

Threats to retail markets include skyrocketing theft and a growing organized retail crime factor.

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Some of the most disturbing upward retail crime trends reflected in the just-released survey figure to only get worse as the specter of COVID-19 continues to hang over U.S. retail markets and exacerbates store closings and stokes consumer fears. The challenges that have grown in priority for loss prevention teams over the past five years are in the key areas of ORC (61%), eCommerce and cybercrimes (59%), internal theft (58%) and return fraud (54%). The survey added that 49% of those polled reported that the largest increase in fraud occurred in stores, 26% said

it happened online and 19% cited multichannel sales, including those where the purchase is made online, but the merchandise is picked up in-store. Typical fraud incidents range from the use of stolen credit cards or card numbers and gift card scams to the return of stolen merchandise for refunds.

Organized Retail Crime Will See a Big Spike

As retailers and other commerce organizations plan for reopening strategies, loss prevention professionals realize that the same pandemic that has interrupted the flow of retail goods and closed down stores has also choked off the same merchandise channels retail criminals count on for their livelihoods. And according to loss prevention and security consultants like Joshua Skule, that criminal element is anxious to get back to work. Skule, who is a Senior Vice President at Allied Universal Risk Advisory and Consulting Services, knows a thing or two about bad actors. He spent 21 years with the FBI stationed in Chicago and Washington D.C., working a host of sectors from violent crime and public corruption to gangs. He later transitioned into the national security world of counterterrorism, and then finished his career as the chief of intelligence for the FBI.

"I think the difficult dynamic right now is certainly with COVID. We are engaged with a host of retailers that are reporting organized retail crime on the rise. And so, in addition to that, you're seeing different aspects to dynamics in stores with mandatory mask requirement that has led to an extra level of stress and potential violence," says Skule, adding that distracted and short-handed retailers will also be hard-pressed to stymie the expansion of ORC as the virus festers. "Retail crime losses due to organized crime averaged about \$700,000 to \$1 billion in sales at least in 2019.

"The most difficult aspect of ORC is, well, it is organized. They are sophisticated, they're more mature at it in their illegal activities than what would be a traditional shoplifter. The volume is significantly higher. The points where they may attack a client's supply chain are higher. And we're really seeing it spanning the globe now. It doesn't happen just in the store. It happens on the docks, in transit, and then in the stores. A shoplifter is much more isolated. Not isolated in the sense it's not frequent, but the volume and cost to a client is likely not as high nor is it as expansive as would be with organized retail crime."

of Crime

How much of a priority are the following risks playing in your retail risk strategy?

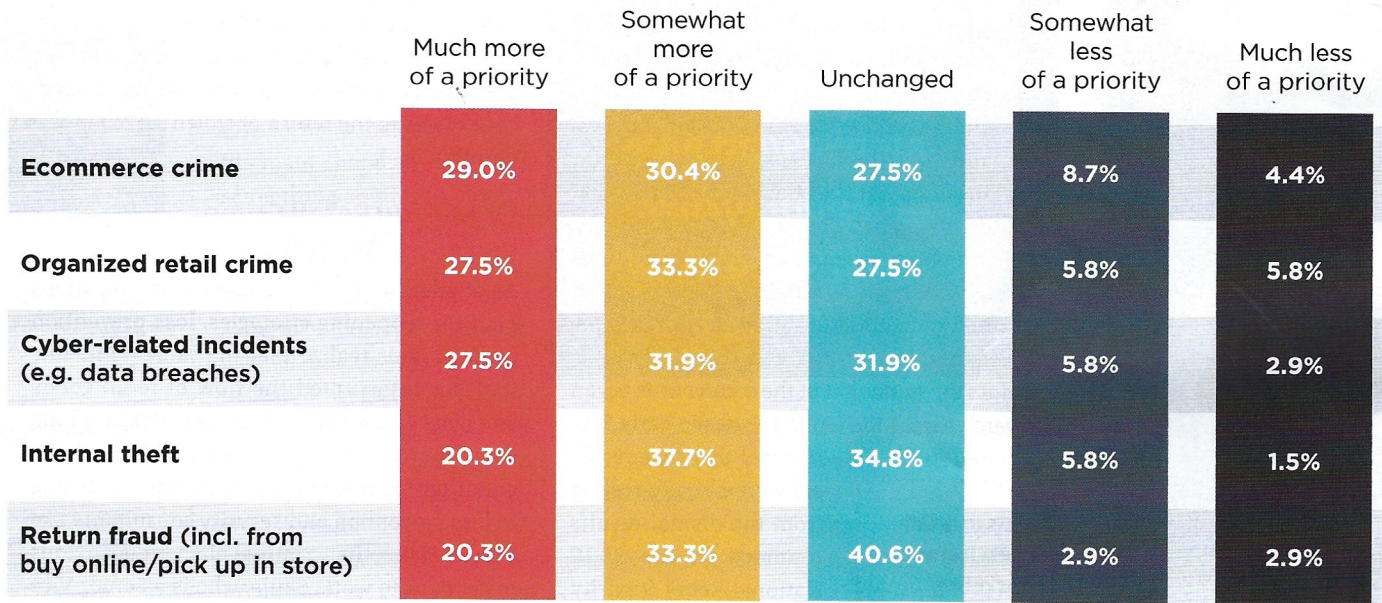


Chart courtesy of the 2020 National Retail Security Survey

During a recent webinar conducted by Loss Prevention magazine on the subject of ORC and the impact the financial chaos caused by COVID-19 will have on the retail sector, Caroline Kochman, executive director at the National Association for Shoplifting Prevention (NASP) said that she and her team at NASP believe the tsunami created in the wake of COVID-19 as it relates to retail businesses will be far worse than 9-11 or the financial woes of 2007-08 and that organized crime will be surfing the wave.

that theft is, in fact, a low-risk, high-reward endeavor, and they'll continue to push the envelope."

Converging Threat Vectors

The uncertainty of the economy and the emerging social justice movement that has morphed into retail crime in form of looting and arson by those on the fringe has created an even more intense threat matrix for retail vendors of all sizes – from mom and pop stores to the big box retailers. For Skule, this has expanded the security and risk landscape for him and his associates.

"We are experiencing threats that many retail executives and staff have never encountered before. We have the ability and are doing this for several clients, where we are conducting a high-risk, high-value transport escort. We are making sure that the merchandise that they're trying to transport from point A to point B actually gets from point A to point B without any interruption. Traditionally, you've seen that activity more in high-end jewelry," explains Skule, citing the difficulties many states have making cases against transport hijackings and cargo theft since federal investigations are limited in scope and priority.

Skule is also extremely concerned with the potential impacts of a growing contingent of nation-state criminals from places like Russia and China that are infiltrating not only the retail supply chain but seeking to disrupt the overall economy through the retail markets. As a former FBI agent, he realizes the havoc organized nation-state gangs can wreak on almost every form of retail commerce through conventional hardgoods theft to devastating cybersecurity breaches.

"We need to take a serious approach with Russia and China and the impact of them going after our private

» The uncertainty of the economy and the emerging social justice movement that has morphed into retail crime...«

"We believe the existential threat we're now facing with COVID-19 will be both financially and emotionally traumatic and could lead to even greater increases," Kochman said. "Times of hardship makes it easier for ORC teams to recruit regular people and employees. We know going forward that even after this crisis subsides, once a person allows themselves to make excuses and justify their behavior due to the economic situation, they don't just stop when the economy gets better. They've already formed a habit and confirmed for themselves

sector. I don't think that the big-box retailers are immune from that both on the virtual and supply chain aspects of the issue. We've seen open-source reporting talking about Russia trying to steal the vaccine for COVID and China undoubtedly is trying to do the same. I would say that the myriad threats being faced by the private sector, which include, obviously, the big-box stores, is universal. They have to deal with organized retail crime, they have to worry about point-to-point sales, they have to worry about protecting their remote workforce. And then on top of worrying about not just the localized crime, now there is the organized retail crime and now the nation-states who are looking to, frankly, disrupt the United States economy for the betterment of their own economies," Skule warns. "That's a lot of risk and vulnerability across the spectrum that folks in security departments and that CISOs and business leaders have to entertain. So just helping them prioritize that, manage that, and mitigate that is something that our risk advisory practice does for clients every day.

"We have subject matter expertise across the retail space that really helps our clients understand the

potential threat they're facing. Then the client can decide whether or not they're comfortable with the analysis that has been done and if they want to employ a service or want to do a pilot to see whether or not it really impacts their business the way they think it would. We are really just striving to have a good dialogue with the

client so that they understand what we're seeing. We can help them, candidly, reduce their losses. And for those that don't have a robust analysis capability, that's where our intelligence team comes in. We can do a specific analysis of a business or a company in order to help them better understand what their exposure is."

As Skule explains, it is a new world out there when it comes to retail crime, and having the analytics and proactive strategies to mitigate potential risk might mean the difference between keeping a business up and running or shutting its doors. 

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