

# The Takeaway

Policy Briefs from the Mosbacher Institute for  
Trade, Economics, and Public Policy

## The Rise of Organized Retail Crime in America

### Risks Resemble those Seen in Conflict Areas

ANDRES F. JOLA-SANCHEZ

Mays Business School, Texas A&M University

*Organized Retail Crime (ORC) is a \$94.5 billion problem in the United States.<sup>1</sup> ORC creates operations and supply chain issues, which, in many ways, resemble the issues and risks seen in conflict areas. Current legislation to address the issue is missing a clearer operations and supply chain component. This brief discusses what can be learned from the experience of businesses operating in conflict areas, and how addressing the ORC problem involves lowering inventory-shrink risk while avoiding supply failure.*

#### THE ORGANIZED RETAIL CRIME PROBLEM

In August, 2023, in broad daylight, much like in a Netflix series, around 50 people launched a mass-scale theft in the Los Angeles Westfield Topanga Shopping Center, taking home booty worth nearly \$300,000. Gang-style heists like this are rapidly spreading in America. The number of organized retail



#### WHAT'S THE TAKEAWAY?

**Organized Retail Crime (ORC) is a growing problem in America, estimated at \$94.5 billion.**

**Addressing ORC should include lowering inventory-shrinkage and supply risk by improving supply-chain coordination and information sharing.**

**Future research is needed to evaluate the impact of current legislation aimed at addressing ORC.**

**ORC-affected retailers in America see higher inventory and logistics costs that create operational inefficiency similar to armed-conflict retailers.**

crimes increased by 26.5% in 2021, with costs estimated at \$94.5 billion.<sup>2</sup>

ORC-related violence is also on the rise—with several cases featuring disturbing scenes similar to those observed in conflict areas. In December, 2022, an 83-year-old Home Depot employee was killed in Hillsborough, North Carolina, when he happened upon a burglar exiting the premises. In 2023, another Home Depot employee, Blake Mohs, was fatally shot in Pleasanton, California, while interfering with a theft-in-progress. Over the past five years, at least 50% of the retailers surveyed in the National Retail Federation Survey (NRFS) witnessed growth in guest-on-associate violence, mass violence, active assailant situations, and gun violence.<sup>3</sup>

### ARMED CONFLICT PARALLELS

Much like in a conflict area, mass and organized violence threatens the safety of personnel and customers, pushing retailers to go to great lengths to keep their staff, customers, and inventory safe. Retailers in America—and in conflict areas—spend millions on expensive technology and security items to protect their businesses. According to the NRFS, over half of the retailers surveyed are boosting their loss prevention and asset protection budgets, prioritizing technology, capital, and equipment purchases.

But inventory theft and damage do not occur only in stores. They also occur while inventory is in transit. In conflict areas, cargo robbing and damage are rampant issues. Trucks moving freight between distribution centers and stores often experience cargo destruction, theft, and vandalism.<sup>4</sup> Shockingly, in America, 47.7% of

the NRFS respondents experienced in-transit cargo theft between distribution centers and stores, while only 42.1% suffered in-store inventory theft. The upshot is that ORC increases inventory and logistics costs in similar ways that war-related events increase inventory and logistics costs in conflict areas.

### INSIGHTS FROM CONFLICT AREAS

Recent research in operations management<sup>5</sup> shows that firms operating in conflict areas deal with increasing inventory costs by rebalancing their working capital structure. Firms increase their cash holdings—kept in the safety of bank vaults—to facilitate transactions and operational processes, and to minimize inventory displayed in stores, especially low-rotation inventory. Retailers hold what is essential to satisfy planned demands and eliminate “unnecessary” inventory to fulfill unplanned customer orders. In some ways, these retailers feature the Nordstrom concept, an American *no-inventory* chain store that uses space for showrooms and customer service. The Nordstrom concept could be extended in America to products often targeted by ORC activity—items that are Concealable, Removable, Available, Valuable, Enjoyable, and Disposable (CRAVED).

Adopting a low-inventory policy can increase the risk of supply failures, but firms can mitigate these by improving the precision of their supply-and-demand forecasts. Retailers can safely lower surplus inventory when supply-chain partners improve information sharing and collaboration, reducing uncertainty about demand, supply-chain disruptions, and price changes.

It sounds feasible, but forecasting inventory and enabling information sharing are significant challenges in America.

Consider the COVID-19 years when the failure to collaborate and share information across the supply chain put America's supply stability at risk, allegedly over concerns about data privacy.<sup>6</sup> The resulting uncertainty forced retailers to place atypically large orders. As a result, retailers such as Target, Macy's, and Big Lots accumulated enormous inventories once supplies arrived in bulk after months of delays. The S&P 500 firms had about 25% more inventory at the beginning of 2022 than in 2020.<sup>7</sup> Is the sharp increase in inventories and ORC just a coincidence?

### **ORC SOLUTIONS ARE ON THEIR WAY**

The ORC issue has not gone unnoticed. Since 2022, nine states have passed legislation toughening penalties for retail-crime offenses. In June, 2023, the US Congress passed the Integrity, Notification, and Fairness in Online Retail Marketplaces for Consumers Act (INFORM). The legislation requires online retailers to collect and verify identification information from high-volume, third-party sellers in an attempt to deter stolen merchandise from being sold online, an alleged mechanism for reselling stolen goods. Other federal legislation, the Combating Organized Retail Crime Act, is being discussed to tighten penalties and facilitate ORC intelligence and cross-agency investigations. The 2023 legislative session in Texas created the Organized Retail Theft Prevention Unit and allocated the most significant investment in state history to address the ORC problem.

Clearly, ORC creates operations and supply-chain problems that increase inventory and logistics expenses, supply disruptions, and operational inefficiency. Responses to ORC should utilize Operations and Supply Chain Management (OSCM) solutions. The INFORM Act promotes information sharing aimed at slowing down the resale of stolen merchandise, but delinquents are likely to explore alternative mechanisms to cash out, leaving small retailers with a disproportional burden of new information gathering and reporting requirements with which to comply. In contrast, future legislation could help retailers balance their working capital structure, along with their inventory shrinkage and supply risks. Future policy actions could help build trust, partnerships, and the infrastructure needed to enhance information sharing between small and large supply chain participants, including local and federal governments.

*Responses to organized retail crime should utilize Operations and Supply Chain Management solutions.*

Transport, logistics, and in-store incidents that threaten inventory and people's safety require real-time and multi-agency coordination. If supply chain efficiency improves and retailers reduce supply uncertainty, the need to keep additional inventory buffers also declines, facilitating the operation of low or no-inventory stores.

The 2021 supply chain crisis demonstrated the importance of collaboratively working for stronger and more resilient supply chains.

The impact of these actions, and their shortcomings, will be a matter for future research, including the role of OSCM in tackling the ORC problem. Although further analysis, research, and debate are necessary, current scenarios where organized crime is prevalent could teach America the issues at stake, the risks, and the way forward.

## CONCLUSIONS

The unprecedented increase in ORC activity reported by the National Retail Federation is a problem that burdens the economy and threatens the safety of customers and employees. The rise in ORC coincided with unprecedented uncertainty in supply and demand, leading to higher-than-normal inventory levels.

Multiple policy actions are on their way to mitigate the ORC problem. These actions, however, need a clearer OSCM component because the ORC problem elicits operational inefficiencies and risks. This brief argues that keeping large inventory levels is risky for similar reasons as it is in other contexts, such as in armed conflicts. Thus, the experience of businesses experienc-

ing armed conflict—and their solutions in dealing with OSCM issues—can inform the path for America to mitigate the effects of organized retail crime and strengthen its supply chains.

**Andres F. Jola-Sanchez** is Assistant Professor of Information and Operations Management at the Mays Business School at Texas A&M University and a Mosbacher Research Fellow. He is a Texas A&M Research Leadership Fellow, and his research explores war and urban crisis in the field of operations and supply chain management.

### Notes:

<sup>1</sup> National Retail Federation Survey. (2022). *Retail Security Survey*. <https://cdn.nrf.com/sites/default/files/2022-09/National%20Retail%20Security%20Survey%20Organized%20Retail%20Crime%202022.pdf>

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Jola-Sanchez, A.F. (2022). How does warfare affect firms' productivity? *Production and Operations Management*, 31(5), 1940-62.

<sup>5</sup> Jola-Sanchez, A.F. & Serpa, J.C. (2021). Inventory in times of war. *Management Science*, 67(10), 6457-79.

<sup>6</sup> <https://www.washingtonpost.com/business/interactive/2021/supply-chain-issues/>

<sup>7</sup> <https://www.wsj.com/articles/retail-cfos-face-forecasting-challenges-as-inventory-hurdles-persist-11654680600>

Published by:  
Mosbacher Institute for Trade, Economics, and Public Policy  
The Bush School of Government and Public Service  
4220 TAMU, Texas A&M University  
College Station, Texas 77843-4220

Email: [bushschoolmosbacher@tamu.edu](mailto:bushschoolmosbacher@tamu.edu)  
Website: <http://bush.tamu.edu/mosbacher>

The views expressed here are those of the author(s) and not necessarily those of the Mosbacher Institute, a center for independent, nonpartisan academic and policy research, nor of the Bush School of Government and Public Service.



To share your thoughts on *The Takeaway*, please visit <http://bit.ly/1ABajdH>