

Testimony of

**Karl Langhorst
Director, Loss Prevention
Randall's /Tom Thumb
a Safeway Company**

**before the
House Judiciary Committee
Crime Subcommittee's hearing**

"Organized Retail Theft: Fostering a Comprehensive Public-Private Response"

**October 25, 2007
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**2141 Rayburn House Office Building
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Chairman Conyers, Chairman Scott, Congressmen Smith and Forbes, and members of the committee, good morning. Thank you for the opportunity to testify before the Crime Subcommittee today on the growing problem of organized retail crime. My name is Karl Langhorst, Director of Loss Prevention for Randall's/Tom Thumb of Texas, a division of Safeway. Safeway Inc. is a Fortune 100 company and one of the largest food and drug retailers in North America. The company operates 1,738 stores in the United States and western Canada and had annual sales of \$40.2 billion in 2006.

I have been invited here to share with you our experience with the increasing problem of organized retail crime (ORC). Retailers have always had to deal with shoplifting as part of doing business, but let me be clear, ORC is not shoplifting. It is theft committed by professionals, in large volume, for resale. It is being committed against retailers of every type at an increasing rate. Safeway estimates a loss of \$100 million dollars annually due to ORC. According to the FBI, the national estimate is between \$15-30 billion annually.

Let me describe for you how sophisticated and organized these enterprises are. In a typical scenario that repeats itself hundreds of times each day, teams of boosters, or hired thieves, come into the store with a shopping list of desired product provided by the fence – the person behind the organization. Typical items stolen from Safeway stores include over the counter medicines such as Prilosec, Tylenol, and Abreva, razor blades, Crest White Strips, Oil of Olay and other beauty products, diabetic test strips, and baby formula. Using well coordinated efforts and highly sophisticated methods to elude store security and law enforcement, they sweep the shelves clean of hundreds of dollars of product at a time. They are in and out within a matter of 3 to 4 minutes. They often leave undetected and move on to other stores. Typically, boosters will hit 10 to 15 retailers a day, in many areas criss-crossing state lines and jurisdictions, before going back to the fence to get payment for the goods they have stolen and to receive their marching orders for the next day. Their payment usually amounts to about twenty cents on the dollar. The fence then sells the items at traditional brick and mortar stores, flea markets, or - increasingly – online. They have great incentive to sell online because they know that they can operate anonymously and are protected, they can move more merchandise more quickly and to a broader audience, and they can receive the highest return for items sold online.

You may ask what Safeway is doing to prevent ORC at the store level – why don't we just hire a few more guards? The simple answer is that guards posted at store entrances provide only so much protection. In addition, Safeway has taken a step unprecedented in the grocery industry of creating a whole division to combat ORC, employing special investigators across the US and Canada. This is in addition to the loss prevention teams

based in each of our divisions. Because of the prevalence of ORC in our stores, special teams of ORC undercover agents have been trained and deployed into the stores. These agents understand the difference in detecting and apprehending the boosters versus simple shoplifters. Additionally, store personnel are trained and spend significant time in the store performing additional steps to prevent ORC at store level. There are special markings on high theft items to help deter theft. We limit quantities of this merchandise on the shelf to try and minimize losses, and we have invested in specialized shelving and display fixtures to thwart theft within the store. Unfortunately, these measures also make it difficult for customers to shop as easily as we would like and severely restricts the sale of these items. Safeway has implemented additional layers of security throughout the supply chain – from warehouse, to the loading dock, to the shelves. We have spent a tremendous amount of money in training and awareness campaigns among other retailers and law enforcement. Further, state of the art digital camera systems are installed in all of our stores at a cost of millions of dollars in order to aid law enforcement and our own investigators and store management teams in identifying the boosters who repeatedly steal from our stores.

In spite of our extraordinary efforts, our company continues to see a steady increase of our health, beauty and cosmetic goods sold on the internet in high volume and offered below cost of what retailers can obtain it directly from the manufacturer. Fences have quickly learned that the anonymity of the internet presents an extremely low risk way to sell stolen goods and are abandoning the previous model of brick and mortar locations and flea markets that were once used to dispose of this type product. Online marketplaces such as eBay are being used as internet pawn shops, and are largely unregulated.

We have had some successes in fighting ORC. In 2001 the Portland division of Safeway opened an investigation of three major fences and presented the information to the FBI. Over the course of the next three years Safeway and the FBI continued the investigation and successfully broke up a multistate ORC network operating from Oregon to Texas to Florida that ultimately resulted in the seizure of over \$3 million in product, \$950,000 in cash and federal criminal prosecution of 49 suspects. The suspects told federal investigators that they resold much of the stolen product on eBay because of the anonymity assured by the site.

Last year, in cooperation with Walgreens, Wal Mart and other retailers, our Northern California division worked a case with ICE agents that resulted in the seizure of product valued at \$5 million dollars and the arrest and prosecution of Yemeni nationals. These individuals operated a warehouse containing 12 tractor trailers full of merchandise - 850,000 pieces of HBC product, as well as a website for internet sales.

Just this week, state agents in Texas and Safeway ORC investigators completed an over year long investigation and shut down a long time fence that was taking in an estimated 4 million dollars in stolen HBC product and who employed over 100 boosters. The fence was selling to another individual who was marketing it over the internet on both his own web site and eBay. In this case, many of the boosters were known drug users and the stolen product was stored under conditions that were not approved for these items. Storing these items in unregulated conditions can render the products ineffective, or in the worst case actually harm unsuspecting consumers, as in the case of baby formula.

In each of these cases, we could have had quicker, more thorough investigations and clearer rules under which the suspects could be prosecuted if we had a federal law in place specifically to address ORC. Federal law enforcement and prosecutors are interested in prosecuting ORC cases, but they lack the tools and resources necessary to bring these cases to bear. Investigation of these types of cases is extremely difficult. A federal ORC bill would establish a definition of ORC in statute, help eliminate the state to state jurisdictional cherry picking by thieves, and would be especially helpful in making fencing a less attractive option for criminals to sell stolen property. Operators of sites such as eBay have historically failed to provide any meaningful information to retail investigators. Without this cooperation, we are severely hampered in securing the evidence needed by federal investigators to even open an investigation.

The need for a federal solution to address the current “free for all” of electronic fencing is obvious. The information we are seeking from online marketplaces is no more cumbersome than is currently in place for brick and mortar providers of the same type operations. In many states sellers of product such as HBC must have proof upon demand of where they acquired the product and if they are pawning it they must have valid identification and serial numbers of the product, if any, are noted. Legitimate retailers - both those operating online and as brick and mortar businesses - as well as consumers have a right to this type of protection.

As I am sure you are aware, retail is an extremely competitive environment and the grocery industry is no exception. In spite of that competitiveness, retailers understand that without cooperating with each other and working together on the investigations of boosters and fences we will not be able to effectively combat this problem. Because of the complexity of ORC cases and the many obstacles that stand in the way of investigating fences, especially internet based fences, it is not unusual for ORC investigators from several different retailers to work together to help gather evidence for law enforcement so that a fence can be shut down.

In spite of Safeway’s best efforts and unprecedented alliances with other retailers to combat ORC, we continue to suffer significant losses. If we are to be successful in curtailing this enormous criminal enterprise that threatens the businesses of retailers across the country, costs millions of dollars in lost sales tax revenue and impacts consumers through adulterated product, higher prices and lack of availability of merchandise, we must have strong federal legislation that more clearly defines ORC and requires the same level of accountability on internet sellers as that of traditional retail sites.

I thank you very much for your attention and I look forward to answering any questions you may have.