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Refund fraud in retail stores

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Abstract

Retail stores that provide customer satisfaction by allowing refunds may also provide opportunities for fraudsters. During the early 1990s such frauds became a major issue for retailers worldwide. This paper discusses that phenomenon, its impact, the types of offenders, and public criticism of retailers for providing opportunities. It indicates how a major Australian retailer introduced a tighter refund policy to successfully prevent many refund frauds through reducing opportunities for offenders. Following introduction of the policy some fraudsters adapted their activities and further ways of closing off those new opportunities are discussed. The considerable benefits to retailers are presented.

Keywords: **Crime prevention; Fraud; Refund; Displacement; Credit cards**

1. Introduction

Allowing customers to return merchandise for a refund is one of the major ways in which retailers increase customer satisfaction. However, it also provides considerable opportunities for the dishonest to take advantage of the retailer by fraudulently claiming such refunds. One commentator describes that practice as involving 'unscrupulous people ... (who) take advantage of a company's zeal for customer service' (Dacy, 1994, p. 27).

This paper explores the refund fraud phenomenon in retailing and looks at the way in which Australia's leading retail company, Coles Myer Ltd, has been addressing it. The company has more than 1700 retail outlets and sales of almost $17 billion last financial year. Like many retailers around the world, Coles Myer has been exposed to the activities of refund fraudsters in recent years.

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2. Fraud and advantage taking

The commission of fraud is seldom spontaneous. It generally requires some thought and planning, so fraudsters can be confidently described as reasoning criminals who can be seen as exercising 'rational choice' in determining where, when and how they will commit their offenses. In turn, that means that situational crime prevention techniques are appropriate to reduce the opportunities for fraud as previous research has shown to be true. For instance, Smith and Burrows (1986) showed that 'inexpensive revisions of administrative procedures were able to reduce fraud' in two distinct environments. Such action falls into the category of what Clarke (1992) refers to as 'rule setting', an important strand of situational crime prevention that reduces the rewards from offending.

In fact, refund fraud is no different from the variety of other frauds that are perpetrated precisely by people taking advantage of the generosity or loopholes provided by facilities which provide convenient or streamlined facilities to consumers. Typical of these are fraudulent applications for telephone services or provision of utilities where the identity of customers is not verified, or fraudulent insurance claims where

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detailed documentation relating to stolen goods may not be required.

Such frauds also include the careless provision of credit cards without thorough vetting of applicants, a procedure that has led to a new variation of credit card fraud called true name fraud. It occurs when a fraudster obtains the personal details of a real person and uses them to acquire house brand credit cards in that name which the fraudster then uses to purchase expensive items. It has been suggested that true name fraud arises because 'in their frenzy to get consumers to spend more money, retailers will give virtually anybody who applies approval to start buying on credit immediately provided they have what appears to be legitimate identification and their past payment history is okay' (Perry, 1995, p. 38).

This broad generalization is precisely that. Most credit providers not only have in place procedures to ensure that they do not leave themselves vulnerable to true name fraud, but also keep tightening procedures to guard against other frauds involving credit cards. Nevertheless, outside observers such as Perry can continue to be critical mainly because of the success of those seeking to circumvent procedures for instance by engaging in true name fraud instead of attempting to use stolen credit cards. Such successes invariably lead to revision of the procedures that allowed the offender an opportunity and sometimes also occasion public criticism.

3. Public criticism of the victim

Public criticism of the refund policies of Australian retailers started to appear early in 1993 when the Chief Magistrate of the State of Western Australia was reported in the business press as 'fining people who have stolen goods and then claimed cash refunds, but has refused to order them to give the money back'. The magistrate says the refund policy, 'proudly advertised,' encouraged people in difficult financial circumstances to steal' (Business Review Weekly, 1993, p. 12). That report describes 'trouble-free refunds' as a 'key sales pitch' which the retailers might find too expensive and, therefore, might have to drop.

In the State of Victoria another Magistrate was similarly critical in January 1993 when he heard the case of a 19-year-old woman who had pleaded guilty to 97 charges of obtaining property by deception, 59 charges of theft, and eight counts of handling stolen goods. She was sentenced to 12 months imprisonment but the Magistrate refused to order that she repay the $7000 involved to the department store victim. He claimed the store had to 'wear the consequences' of its negligence in letting the woman repeatedly get refunds for stolen merchandise. He said the store made it 'far too simple for people to go into the store, steal property and ask for a refund … It doesn't say too much for the system in place in the store … I think the store needs to learn a lesson as well as the accused'. (Truth, 1993, p. 11).

Another Magistrate dealt with a 17-year-old girl reported as having obtained $1282 in cash by visiting a department store and taking goods direct from the shelves to cashiers for refunds on 17 separate occasions. 'I am amazed that she could get away with these types of offences so many times' he said, adding that 'department stores made it too easy for people to return goods' (The Age, 1993, p. 18).

In a 1993 retail industry publication, police in the State of Victoria criticized a discount department store for promoting cash refunds to customers unable to supply a receipt with goods they returned. A senior police officer claimed that the promotion contravened an agreement between police and major retailers that the latter would insist on seeing receipts before giving cash refunds. He further suggested that retailers not doing so was a key factor in escalating theft from shops and claimed that the customer-friendly policies of some retailers were promoting a culture of dishonesty among young people. (Inside Retailing, 1993, p. 7).

4. A commercial decision

It could be suggested that these critical police and judicial officers themselves were, like the majority of customers, happy enough to be able to return goods to stores. They may even have expected that facility to be extended to them. However, the commercial reality is that the provision of any facility to customers has to be seen in a financial context. Thus, only if it can be shown to produce more negative effects than positive, will it be discontinued. In this context negative effects include not only real financial losses, but also loss of sales and public patronage through, for instance, adverse publicity such as that above.

In this case, the above publicity arose precisely because the courts were faced with an increasing number of fraudulent offenders; in turn, those offenders were causing increased losses for the Company. In addition, feedback from the Company's focus groups of customers found that there was actually support for a tightening of the refund policy and no sympathy at all for those who were ripping off the Company. Taken together, these factors enabled a commercial decision to be made to tighten the refund procedures across the company.

Such a decision needs the active co-operation of staff and the experience of the American retailer J.C. Penney provides an interesting illustration of this point. When Penney's introduced a 'no questions asked' return policy under which customers received refunds 'even if the merchandise was not purchased at the store or was clearly used improperly' (Levy and Weitz, 1992, p. 619), some loyal Penney staff refused to give such refunds. They did so because they saw some customers taking advantage of the company by cashing in goods they had not bought. However, they apparently followed the new policy when the commercial reality was explained to them; that is, the policy generated more sales than the losses due to customer abuse of it.

Despite that, it is hard not to see staff morale declining if the staff can still see that what they are asked to do will directly cause losses for their employer. This is particularly important because low staff morale is known to be related to a store's overall shrink or losses (Hollinger and Dabney, 1994). However, the level of losses is what is crucial here, and the assumption that those losses can be accurately measured is by no means certain.

5. The extent of losses from refund fraud

The effects of refund fraud are effectively hidden in the financial records compiled by retailers. There is no single place in a store's accounts where retail fraud losses appear, although depending on the accounting systems used, such losses may insidiously reduce sales figures (since they constitute negative sales), or cause increased expenses, both of which impact upon gross margins and profit.

The difficulty in providing a clear measure of the problem explains why it is generally not included in research on retailers' losses such as the British Retail Consortium's Cost Of Crime Survey or the University of Florida's annual National Retail Security Survey, even though detected cases indicate that losses through refund fraud are considerable. The virtual invisibility of these losses also helps explain why some retailers appear to remain unconcerned about refund fraud as a major source of loss and in the only published study of refund fraud, Bickerton and Hodge (1992) note that 'most retailers believe that refund fraud has historically been under-reported.'

Those authors report an American study that revealed annual refund fraud losses of $472 million from 11 million separate fraudulent returns for a sample of 17 retail companies with stores having sales of $233 billion and some 5 billion transactions annually. That study also cites American retailer Dayton Hudson reporting in 1992 that their refunds without receipts amounted to 36% of the total number of refunds, and that 9% of them were conservatively estimated to be fraudulent, leading to losses at that time of close on $4 million.

The level of refund fraud activity is indicated by the number of fraudulent refund incidents that are actually detected in the stores. There is a direct parallel here with statistics related to detected customer thieves (or shoplifters). In neither case are the detected incidents any more than indicators of the actual activity and pretty poor indicators at that. For instance, the value of goods discovered in the possession of customer thieves detected in a year is often around 1% of the annual unexplained losses or shrinkage.

Another important comparison of these two offence types is provided by the average loss for each. Within the company, the average value of goods stolen by customer thieves in 1993/94 was less than a third of the average loss from a detected refund fraud. In the 1994/95 year that ratio was closer to a fifth. The main reason for detected refund fraud cases involving larger sums of money is that they are often only identified after multiple offending. The consequences of that offending is that losses are considerable. Not untypical is the 19-year-old woman with no prior criminal history who pleaded guilty to 132 counts of theft from department stores, 115 of obtaining property by deception and six of possessing an article to steal (a plastic shopping bag in which stolen goods were presented at the counter for refund), having caused the company losses of $11700.

A further way to gain an indication of the extent of the problem is to measure the proportion of all refunds sought that are fraudulent. As noted above, Dayton Hudson's estimate of its refunds that are fraudulent is substantial. Over 20 years ago, when refund fraud was arguably far less of an issue than it is today, Zabriskie (1972) undertook a small study of 134 complaints taken to a customer service department in an American store. He found that ten of them could be described as provable fraud, six as suspected fraud, and 14 reflected unrealistic expectations about the product being returned. In turn, the ten provable frauds involved only two that he called criminal, the other eight being called 'household cheating' (which is discussed below). Conversely, it is plain, and should not be forgotten, that the vast majority of requests for refunds in retail stores are quite legitimate and a source of no aggravation.

All these indicators suggest that refund fraud is a considerable problem for retailers, but possibly the most convincing reflection of the gravity of the problem is demonstrated by the increase in sales that is recorded in retail companies after they have succeeded in reducing the activity in their stores, of which more will be discussed later.

6. Types of offenders

It is useful to consider the more common types of refund fraudsters before considering the strategies to prevent the offense. The following crude typology of refund fraudsters is necessarily based on the characteristics of those people who have been detected making fraudulent refunds, as is the case with most criminological typologies of offenders.

Professional shop thieves are those who steal goods from shops and then return them for cash refund at any obliging store. From their point of view, their financial returns were far greater from this practice — realizing 100% of the value of the stolen goods — than through their previous practice of getting 20 or 30% of the goods' value from a receiver (a fence), or a customer in a pub or bar. These thieves have not actually changed their past stealing behavior but are simply using the laxity of some refund procedures to increase their revenue flow from their stealing — a good example of the reasoning criminal in action.

The prevalence of this practice is supported by business consultants Ernst and Young who in the USA in 1993 found that 'a growing number of shoplifters are taking advantage of liberal return policies to elicit refunds for stolen merchandise' (Dacy, 1994, p. 27). And the shift from shop thief to fraudster is not a giant step for some, as reflected in a study reporting similarities in the psychodynamics of women who steal from shops and women who commit fraud (Women Who Shoplift, 1986). However, that study is based on only a small group of offenders who were referred for some sort of psychiatric assessment, so by definition they could all expect to be described as suffering some form of neurosis or character disorder, though not generally an acute psychiatric disorder.

In no way does this mean that refund fraudsters are different from the normal population. Their very ordinariness allows them to ply their trade in a concerted way as indicated by Western Australian Police who reported uncovering 114 teams involved in the 'no-receipt refund' racket in Perth stores in the 12 months up to April 1993.

Staff thieves who engage in processing fraudulent refunds for their own benefit are also taking advantage of a different opportunity to steal. They may retain a receipt from a previous sale and later process a refund with it, or depending on the in-store procedure may be able to process a false refund even without a receipt. Mostly, they take cash for the refund although it is possible to credit their own or another's credit card. The latter might be offered as a service to third parties for a lesser cash payment to the staff member outside the store.

Drug related offenders are offenders who are active in order to finance their drug habits. Some admit to having been functionally displaced from their previous money-raising activities of armed robberies or house burglaries owing to increased security in those areas. Others have simply learned of the opportunities provided by generous refund procedures.

Check fraudsters are those who regularly pass stolen or forged checks to 'buy' goods from stores. Like the professional thief they can improve their revenue by then refunding those goods for full price instead of taking what they can get from receivers.

Opportunistic fraudsters buy goods at sale prices or at cheaper prices in some other store, and obtain full refunds for them at a later time. Bickerton and Hodge (1992) relate an example of a retired American who relied upon this practice to supplement his retirement income.

Manipulative thieves are amateur or occasional offenders who wish to acquire goods that are too well protected to steal directly. They, therefore, steal other more accessible goods and obtain refunds for them. They also are happy with gift or credit vouchers and exchange those vouchers for the goods they actually wanted.

Temporary thieves actually buy some product, use it, and then subsequently claim a refund for it. In his 1972 work, Zabriskie refers to these sorts of activities as 'household cheating,' although he is somewhat generous in his use of that description. He included the traditional instance of young women buying bail gowns, and returning them after the ball with 'make-up, perspiration and lipstick stains' on them. This practice known as 'wardrobing' would appear to be common. Cole (1989) reports two random surveys of shoppers reporting 22% and 24% participation in the activity.

Zabriskie also included as household cheating the man who bought five sports coats of the same colour and pattern, but different sizes, for members of a band. Four days later he returned them for refund because they didn't fit (anybody!). 'By chance a man from the store's security department was a photography fan and had taken a picture at a trade show with the men using the jackets in one of the exhibit booths' (p. 26). It was the day after the trade show that the refund was sought, however, on seeing the photograph, the exhibitor company involved apologized and paid for the coats. By today's standards that event would certainly be seen as constituting a fraudulent offense.

Some Australian retailers have responded to that sort of activity by adopting no-refund policies and displaying signs to this effect. However, those are actually illegal actions as there are circumstances in which the law requires refunds be made. Specifically, retailers cannot deny refunds: where the purchased goods were unsuitable for the purpose for which they were bought and this purpose had been made known to the retailer; where the goods are defective; where goods differed from the sample goods that were shown to the customer; or where the customer has described to the retailer what it is they wanted, but when received by the customer the goods do not conform to that description.

7. Responses

The above typology indicates the sorts of ways in which offenders are able to take advantage of retailers' refund procedures. It, therefore, also allows the development of changes to the procedures that will reduce opportunities for frauds. In the last 2 years retailers around the world have been tightening their procedures to do just that and these are reflected in the cash refunds policy developed by the Retailers Council of Australia in May 1993, for the guidance of their members. It comprises the following requirements:

1. Inform customers that proof of purchase is required for later refund (by signage or warning printed on register docket).
2. Require presentation of proof of purchase when refund requested.
3. If no proof of purchase is provided when refund is requested — (a) proof of identity must be seen; (b) the customer should provide a signed statement in their own handwriting detailing their identity, address, and details of the purchase; (c) a cash refund should not exceed a specified value set by the retailer and greater amounts should be paid by check; and (d) if the purchase had been made with a check, a refund should not be processed until the check is cleared.

This policy plainly constitutes 'rule setting' in the situational crime prevention context as it categorically sets requirements which, if faithfully followed, remove some of the opportunities for offenders. After consideration of its own commercial considerations, the Company promulgated its own refund policy to be implemented in all Company stores from 1 March 1994. It was not as extensive as the above; for instance, it says nothing of payment by check or maximum value of cash refunds, but it does set clear rules. It reads:

> Coles Myer is committed to excellence in retailing. Customer satisfaction is an integral part of that commitment.
> In the event that a customer is not entirely satisfied with goods purchased from any Company business those goods will be cheerfully exchanged or a credit voucher provided.
> A customer who produces a valid receipt and does not wish to accept an exchange or credit voucher may be provided with a refund. Where the original purchase was made in cash, a cash refund may be given. Cash refunds will not be given for credit card sales.

It will be observed that the requirements of the policy addressed all the offender types described above but without introducing any burdensome requirement for legitimate refunders. Indeed the policy actually streamlined the refund procedures for the legitimate customer as proof of purchase led to a less complicated refund procedure than before. In that way, customer satisfaction was actually increased.

Notwithstanding that the commercial realities of retailing require flexibility and commonsense, there are obviously occasions when rigid application of the policy is inappropriate. For instance, a known regular customer who happens not to have proof of purchase would not be refused a refund from a salesperson who remembers the purchase the day before. So it is necessary for store management to have and to exercise some flexibility with the policy, especially insofar as it relates to cash refunds.

8. Impact of introduction of policy

When viewed as a crime prevention initiative to reduce the opportunities for fraudulent refunders, the policy would be successful if detected fraudulent refunds did decrease in number and value after its introduction.

To assess this, data was collected from the Company's 500 supermarkets, 391 discount stores, and 70 department stores as they were the type of stores in which refund frauds had been most problematic. Those data are presented in Figs. 1 and 2 and clearly show a marked reduction in fraudulent refund activity after the introduction of the policy. In the figures, the quantum of losses are not specified as they are commercially sensitive data. Suffice it to say that in the peak months around 600 fraudsters were detected and the associated losses ran into six figures. The relatively low statistics for supermarkets reflects the fact that only some of them sell apparel and general merchandise products which are those more likely to be the subject of fraudulent refund claims.

Apart from showing reductions in fraudulent refund activity following the crime prevention initiative, the figures also show that some such activity continues. But the data cannot show whether those continuing offenses are committed by new offenders or by previous offenders who may have changed their methods of offending to counter the new procedural requirements of the policy. This latter adaptation by offenders, often called tactical displacement, was to be expected as refund fraud had become a lucrative activity for many offenders, and as Clarke points out 'where the stakes are high, criminals are likely to test the limits of the new defences, and in due course may succeed in identifying vulnerabilities' (Clarke, 1992, p. 33).

9. Adaptations following the policy

The ways that refund fraudsters have adapted to

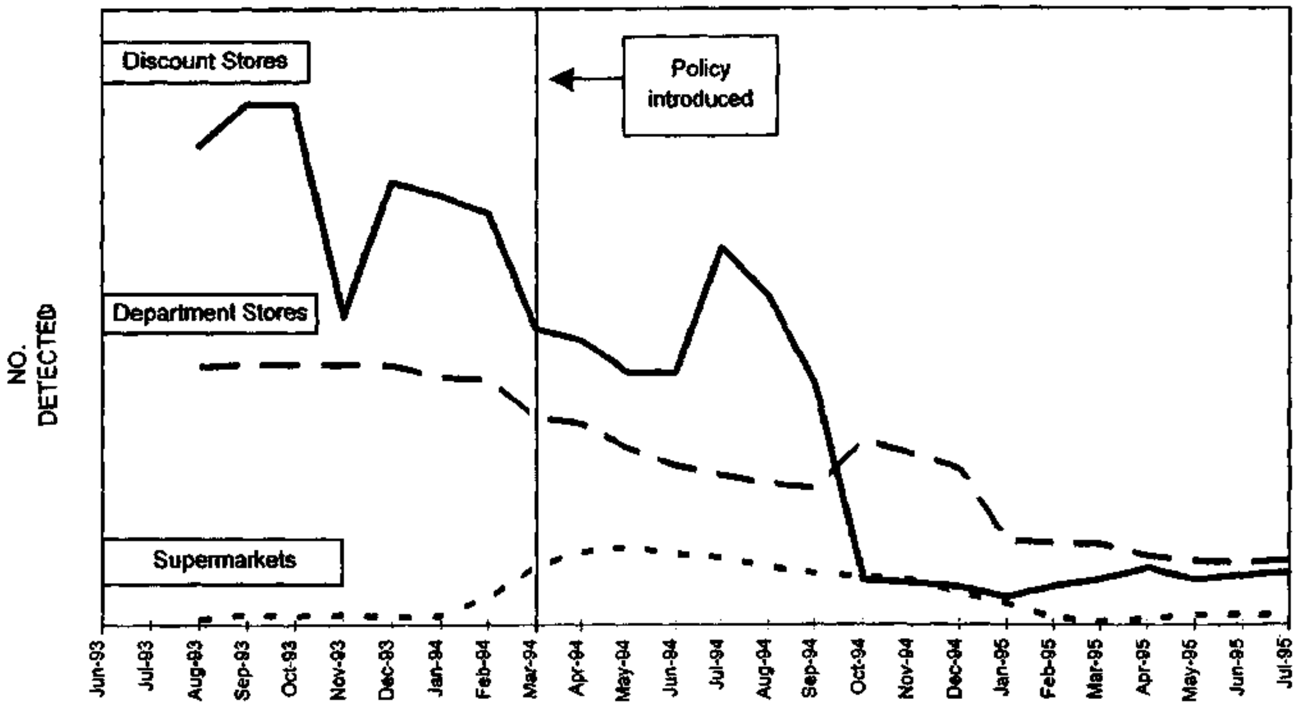

Fig. 1. Number of detected refund frauds 1993–1995 (3 monthly moving averages).

beat the new policy have been, and continue being, identified and addressed. They are summarized below in the context of the elements of the policy.

The requirement for proof of purchase is fundamental to the success of the policy and has been widely publicized to customers. It has also produced a variety of activities by offenders. One frequent practice is what is referred to as double-docketing, de-

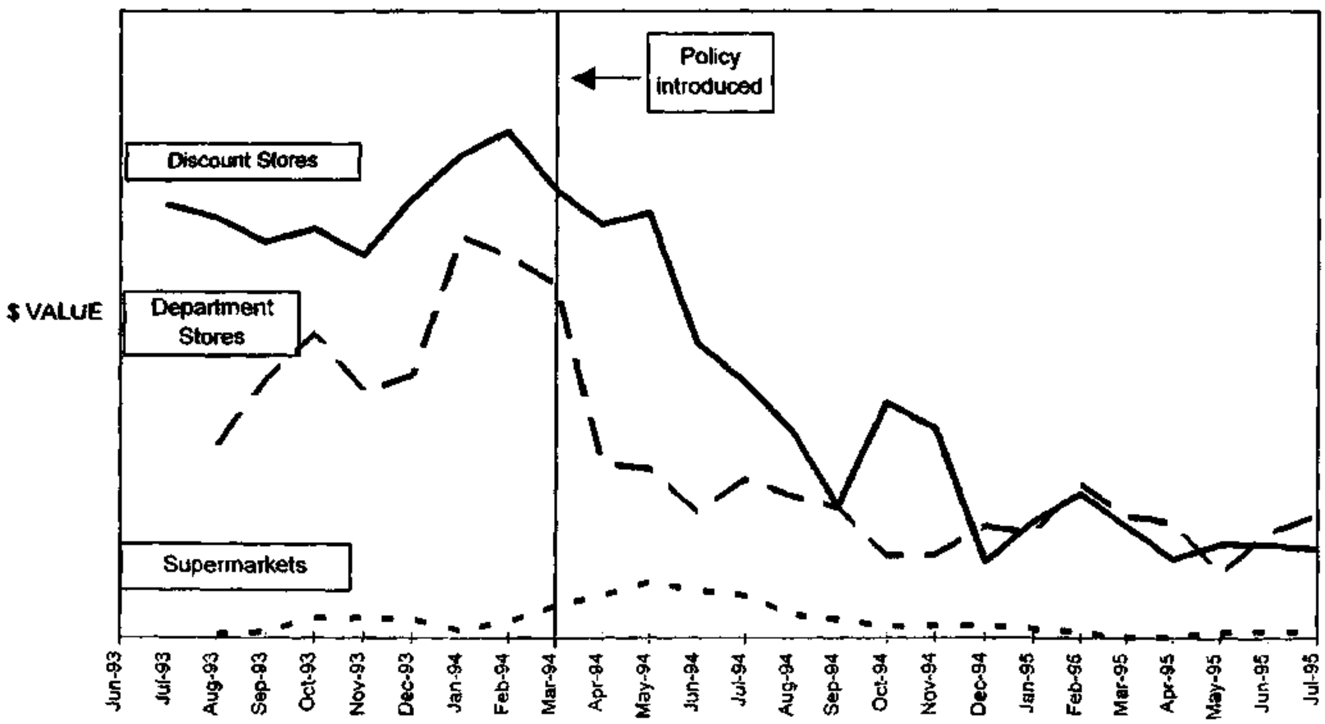

Fig. 2. Value of detected refund frauds 1993–1995 (3 monthly moving average).

scribed by one American retail loss prevention director as when 'shoplifters will come into a store, pick up two of the same items, and buy only one of them. Then they will come back with the receipt and return the stolen item for cash. We end up buying back stolen merchandise' (Dacy, 1994, p. 27).

The more common practice in Australia is for the offender to actually buy an item, then re-enter the store, steal another of the same items, and present it with the quite legitimate receipt for a cash refund, although if the offender had been stealing the second item they could, of course, be charged with theft. If the original receipt is returned unmarked to the offender, they can then also get a cash refund on the first item, and they can then continue stealing and returning items, usually to different company stores until the receipt is retained, marked or defaced in some fashion by one of the stores.

At its simplest, offenders can simply collect legitimate receipts left in shopping trolleys or dropped outside the store, return to the store and steal the item described on the receipt, and claim a cash refund. Some offenders deliberately deface receipts they may have obtained by using a bad check so that it is not clear whether a cash sale and, therefore, a cash refund is involved, but there has also been more direct forgery of receipts.

To date those forgeries have not reached the extraordinary proportions of the professional offender described by Berlin (1993) as active through Canada, New York, and Massachusetts in 1993. That offender was alleged to travel around and send details of local store names and product information (stock codes, prices, and other information) to an unknown location via overnight mail. He would then receive forged printed cash and/or charge receipts back via express mail at designated locations the next day, steal the described goods at the specified stores, and use the forged receipts to obtain cash refunds or credit to a credit card in one of five different names. It is unlikely that the unknown supplier of these detailed forged receipts was supplying only this one detected offender, suggesting that this operation may have generated considerable losses for retailers.

Giving a cash refund only if the refunder can prove that cash which originally paid for the goods is the crucial part of the crime prevention thrust of reducing the rewards for the offense. However, some offenders have discovered that they can sometimes effect a refund without a receipt and have the refund credited to a credit card which they claim was used to make the original purchase. They then contact the credit card provider pointing out their card is in credit, requesting and receiving a reimbursement.

The company's preference is for refund applicants to accept gift or exchange vouchers in preference to cash. This is a most unattractive proposition for a fraudster, as it means that without proof of purchase they would only get vouchers not the cash that is their real aim. In some stores, customers are provided with green exchange vouchers if they have a cash receipt for the merchandise they have returned, and a red voucher if they do not. The green voucher can be used as cash in the store, the red can only be used to purchase goods and if those goods cost less than the red voucher's value, they will not be given cash as change but are given a lower value red voucher. This has led to some legitimate customers in the stores being offered red vouchers at a discount, presumably by thwarted refund fraudsters.

The greater problem has been the emergence of a secondary market in ordinary gift vouchers which are sold at a discounted price in other locations like pubs and bars to customers who are openly solicited in the stores, and to some pawnbrokers or cash converters. The policy has thus reduced the rate of return for offenders. On the other hand, the increased use of such vouchers in the stores does open the way for the successful use of forged vouchers which are less likely to draw attention than previously, when they were used sparingly.

An associated issue that has come to light is the tendency for some staff to fail to view gift vouchers as equivalent to cash. In practice, some staff appear quite ready to happily give vouchers to a person seeking a refund with no receipt, where they would never consider passing them cash of the same value. This is sometimes especially so if the person's demeanor is aggressive.

Customer satisfaction is the major thrust of the company's refund policy — a fact of which refund fraudsters are well aware. They also know that store managers have some discretion with the policy and are very concerned about the ambience of their stores. Accordingly, some fraudsters are often unashamedly loud and aggressive, hoping to harass store staff into giving them a cash refund when they have no proof of purchase. There is some indication that this tactic works more often than it should, although it is easy to be critical from afar. The reality is that some of these offenders can be extraordinarily aggressive and disruptive, and if sales to legitimate customers are lost because they go elsewhere to avoid the unpleasant environment, then the commercial value of a hard line can be negative.

It should not be thought that the offender necessarily enjoys creating a scene in a store. Indeed, offenders are likely to avoid returning to a store where it has been a hassle. The greater problem is that if a professional refund fraudster finds a weak manager who will quickly cave in to them, they will visit that store often. That such managers exist is supported by the existence of two Company discount stores geographically close to each other with roughly the same refund rates before the introduction of the policy, but one of which now has a greatly increased rate, while the other's rate has similarly decreased. Local knowledge is that the manager at one of those stores is an easy touch.

10. Tightening up further

The adaptations outlined in the previous section indicate that further action is necessary to counter the determined offender who has worked out ways around the policy. There is nothing novel about this; the continuing battle between credit card fraudsters and credit providers is another illustration of offenders adapting their activities to continue gaining rewards from their offending. Smith and Burrows (1986) put it well. They say that given 'the intractable nature of crime, and the scope that exists to exploit opportunities for crime in even the tightest administrative arrangements, it would of course be foolhardy to assume that reductions can be maintained without constant review' (p. 21).

Precisely because retailers are aware of the above adaptations, various responses have been taken around the world to push refund fraudsters out of stores. They include the following:

An on-line refund authorization program is a particularly powerful tool. It effectively tracks all sales, can verify them as genuine, and note any refunds claimed against them. Such a program exists in the Target chain of stores in America, where each sales transaction is given a unique identifier, the purpose of which is 'to deter the use of duplicated or counterfeit receipts that can be used by shop thieves to obtain cash refunds' (Robins, 1994, p. 48). However, the program has further merit as it can supply valuable information on product returns for company buyers and it streamlines the refund process for the legitimate customer.

A refunders' database highlights frequent refunders to allow legitimate customers to be fast-tracked but also causes suspect refunders to be identified. At present, the company is using only negative refunders' databases, which could be said to be incomplete as they depend upon somebody deciding that a particular refund is suspect and should, therefore, be entered onto the database. Nevertheless, the databases do provide valuable information, not only for other stores through bulletins identifying possible and proven fraudsters, but also for use by police in interviewing suspects concerning their documented unusual refunding patterns.

A typical example of a suspect fraudster identified through the refunders' database is the woman who in an 8-week period early in 1995 visited three different Company discount stores close to her home, on ten different occasions seeking no-receipt refunds for computer games and toys. This professional refund fraudster succeeded in getting $2849 in cash refunds for those goods. Accompanying those details, which were given to police, were details from the stores' merchandise records which showed that no copies of the particular computer games she was returning had actually been sold in any of the three stores in the period in question. (It was later discovered the goods were actually stolen from her husband's small retail business!)

There are a number of in-store changes that would make life harder for fraudulent refunders, and hopefully drive them away. They include: changes to store layout to ensure that the point at which refunds are processed does not allow easy access to stock on the selling floor; introducing gift refund cards that can be provided to purchasers of gifts instead of receipts and allow the recipients of those gifts to effect a no-receipt exchange without delay; and upgrading receipts to make their forgery very difficult, perhaps by including some form of electronic branding like an infra-red trace.

An in-store change that specifically targets the previously mentioned 'wardrobing' is the use of special labels which are prominently placed on garments sold in the store. Printed on these labels is a message thanking the customer for shopping in the store, and explaining that a refund is only available if the garment is returned with the label intact. The label of course cannot be removed in one piece and the garment would not be worn with it intact.

Staff adherence to policy is a particularly powerful weapon against the fraudulent refunder (and the computer game refund case cited above would not have reached the proportions it did if staff vigilance had been greater). As noted earlier, such refunders look for stores where they have a greater chance of getting a refund and will return to those which provide them with a service. If all stores were resolute in their use of the policy, even allowing for discretion to be used, then only the most brazen fraudster would continue.

It has been argued that staff adherence could be improved if refunds were somehow linked to staff compensation. This occurs at Nordstrom, the American retailer, where sales staff are paid by commission on sales that they make. It means that they have a personal 'stake in making every sale the final sale' as any merchandise that is returned for refund brings a loss of income for the original salesperson (Levy and Weitz, 1992, p. 651). This lack of staff application could in part be explained by the general difficulty in getting fraudulent refunds taken seriously in the community. If those who commit the offense, those who are the victims of it, those who should enforce the law against it, and those who should punish it, all see it as minor, then it will be difficult to get rid of it.

But do those groups think that way? Strutton et al. (1995) suggest 'the consequences of being found out for unethically returning a product are probably perceived to be less serious than the consequences of being caught stealing an item.' So a fraudulent refunder might feel that the consequences of being charged with obtaining a financial advantage or property by deception will not be viewed by others — store staff, police, and even the courts — as seriously as theft from stores, which is an offense more readily recognized as wrong but still not itself seen as particularly bad.

This is a fine state of affairs for the fraudulent refunder who sees that the risks involved in the offense are low precisely because the offense itself is not seen as serious. It is, therefore, important that store staff in the first instance are made well aware that fraudulent refunds are a major source of loss for retailers and must be handled courteously but rigorously.

11. The value of tackling refund fraud

The dynamic nature of retailing makes it difficult to state unequivocally that the introduction of a stricter policy is responsible for positive changes in a store's financial performance. Changes in selling strategies, store display, product range, consumer sentiment, and merchandising methods occur all the time and their effects too cannot be easily isolated. Nevertheless, the American retail company Dayton Hudson Corporation, which through its Target stores has to be seen as the world's leader in tackling refund fraud, has no doubts about the contribution of their approach. As indicated above, they have in place a sophisticated refund authorization program which they claim has produced an increase in sales of two percentage points for them (Gantenbein and Rogers, 1995). That is a remarkable result and even if only half of that increase resulted from preventing refund fraud, it emphasizes that the offense does in fact cost retailers dearly.

A further success of Target's crime prevention approach to refund fraud is a diffusion of benefits in that there has been 'a reduction in crimes not directly addressed by the preventive measure' (Clarke, 1992, p. 25). In particular, theft of stock has decreased apparently because there were a number of offenders who were stealing from stores simply so they could then effect a fraudulent refund. With the refund option cut off, theft became pointless (or insufficiently rewarding) for them.

From a retailer's point of view, there are further positive results from clamping down on refund fraud. The company's statistics show that since the policy was introduced there has been a considerable drop in the value of soiled and damaged stock that is written off or marked down. That would appear to result from customers no longer bringing back damaged goods for refund as they could when the refund practice was so open.

These are three considerable and positive results of the crime prevention approach to refund fraud. And the approach itself indicates how far retailers have moved from their suggested stance 20 years ago when Zabriskie extraordinarily wrote: 'famous retailers have been known to say that it is the privilege of a good customer to take advantage of the store a couple of times a year' (Zabriskie, 1972, p. 22).

Good customers today do not view fraud as a privilege but they do expect professional service and a satisfying shopping experience. In that sort of environment they are happy to assist retailers reduce their losses. This is evidenced by the way that customers have readily adopted the practice of retaining their receipts until the possibility of a refund has passed. By doing that, they have assisted reduce refund fraud by making it more difficult, and helped prevent many offences from occurring.

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