**Return Fraud**

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Of all the thefts that he had to combat this was one of the most challenging. Russ, assistant store manager of a major national chain, listened carefully as one of his regular customers described a scene he had just witnessed and innocently asked, “Why would anyone be excited about finding a discarded cash register receipt in the trash?” Russ, thanked the customer for his concern, but with the afternoon rush in full force, he had only taken the time to give a cursory response. What he had passed off as just another customer encounter on yet another busy day, came back to haunt him when the afternoon rush finally died down and he had time to think about the theft problem that had been brought to his attention.

According to the customer, what had been witnessed, happened in a matter of seconds, but it seemed odd. Odd enough that he wanted to bring the sequence of events to a store manager’s attention. Two women were standing in front of the store visiting when a customer exited the store, removed her purchase from the store’s plastic bag and tossed it in the trash. Almost immediately one of the women who had been visiting grabbed the bag.

The customer asked Russ, “Why would a well-dressed woman so eagerly retrieve a discarded plastic bag from the store’s trash?” Surprised by the scene, the customer described how he had watched the woman pull the receipt from the bag and then “high-five” her companion after tucking the receipt into her purse. Then they quickly walked into the store, and headed toward beauty aids.

When the customer had finished describing the sequence of events he had witnessed to Russ, he asked with curiosity, what was going on? Russ suspected return fraud; a problem that had been discussed in the chain’s training updates with their employees, alerting them to be on the look-out for “serial returners” who wanted cash back on their purchases. Although this had been a training topic, it hadn’t seemed to be a big problem in his local store. Now this seemingly innocent customer question had brought the reality of the problem home.

When the customer asked what this little 60 second mini-drama was all about, Russ gave a noncommittal response. Although Russ strongly suspected that they were going to use the receipt to ask for a cash “refund” even though they had not bought anything, he was hesitant to provide another customer with that much information. Russ knew that if the actual real customer’s receipt had been for a cash transaction, all the bogus customers had to do was find the same item listed on the receipt and take it and the receipt to the customer service counter for a full “refund”. If the store were busy; to avoid confrontation and to keep the line moving, the customer service cashier probably wouldn’t ask any questions so the purported customer, pretending to return the merchandise, would indeed get money back.

# The National Retail Federation, trade magazines and the corporate office had reported that this type of scam was fairly simple and it had been estimated that anywhere between 5.2% on the low end and 8% on the high end could be fraudulent returns. (Customer Returns in the Retail Industry 2009)

In an industry that operated with single digit profit margins, preventing any type of loss was important. Preventing the growing problem of return fraud was proving to be especially difficult in an environment where bar codes were not present on cash register receipts. Still, there must be a way to prevent this type of theft, but what was it? With the store’s policy of guaranteed customer satisfaction, customers who returned unopened items were cheerfully accommodated, “with no questions asked.” If it had been a cash purchase, they really did get cash in their pocket!

Shrinkage due to shop lifting, employee theft, and damaged merchandise was a constant concern, and Russ was always seeking ways to bring it down. Now, he had the apparently increasing problem of return fraud to add to his list of inventory control and theft concerns. Other than following regular loss prevention measures and establishing a routine of regularly emptying the trash cans in front of the store, he was wondering what else could be done to prevent this type of fraud.

There had to be more that he and everyone else in his store could do to thwart what seemed like a “perfect theft.” The time to act was now before this small but seemingly fast growing problem got out of hand. Retailers selling higher-end merchandise had upgraded their pricing and check-out software so that bar-codes would be tied to each item sold, providing another barrier to possible return fraud. But, this level of level of complexity and additional costs seemed impractical for the lower-margin items sold in his store. A change like this could be expensive and would need to be initiated at the corporate level, and he didn’t want to wait. Wanting to act now, what would be a cost effective solution to constraining this type of theft without offending innocent shoppers seeking legitimate returns to the point where the store would lose their shopping loyalty?