

WHITE PAPER

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Reducing Organized Retail Crime with Return Authorization and Consumer Linking

Organized retail crime, or ORC, is a large, dangerous, and expensive threat to businesses nationwide—costing retailers over \$30 billion every year. The National Retail Federation's Organized Retail Crime Surveys routinely find that approximately 95 percent of retail companies are victims of organized crime activity. According to RILA reports, the merchandise stolen is often returned to the store for cash—or sold to unwitting buyers in person or through Internet auction sites.

To date, these organized retail criminals have typically been nameless, faceless individuals with no predictable pattern to their fraud. Some retailers have tried to link the offenders by reviewing incident reports or comparing security tapes, while others have made painstaking efforts to train employees on how to recognize behaviors associated with illegal consumer activity. Nevertheless, the individual crimes have remained difficult to connect because of their sheer size and scope, and the complexity of the data that could potentially link the individuals.

Focusing on Returns Can Stop a Large ORC Leak

The first step you should consider when protecting your assets is to identify—and then shut off—the largest leaks, the return counter being a major one.

Verify® return authorization from Appriss Retail is a solution that addresses one of the key ORC initiatives—stopping fraudulent returns (often associated with shoplifting activities). Verify return authorizations are performed in real-time, at the point-of-return, directly by the store clerk. It issues a return approval, warning, or denial to the shopper on-the-spot, so it's fast, a seamless addition to your current returns process, and requires no extra personnel to operate.

- No additional in-store personnel required, you can save or re-position your LP staff for other loss prevention/shrink/ORC issues.
- Real-time; it stops potential theft before it happens.
- Monitor every single return transaction using sophisticated analytic models. Plus, you can build cases from accumulated return history and known associations (see more below).
- Eliminates ORC's number-one, most profitable "fence", your own store (you offer full refunds + sales tax, not pennies on the dollar like Internet auction sites), so it will have the most significant impact on theft activities.

The second step in curtailing losses to ORC is to provide your analysts and investigators with the cutting edge technology to build solid cases quickly. Secure™ Store from Appriss Retail takes exception reporting to the next level with artificial intelligence models that can help you tackle complex ORC cases.

Consumer Linking Builds a View of Behavior and Associations

In the face of this rapidly growing organized crime problem, Appriss Retail developed Consumer Linking, a function within Verify return authorization. It is an automated process that intelligently sifts through all customer purchase and return transaction data, providing a way to link individuals to their own transaction history and to known associates. This consumer network may be as simple as their own household members to as complex as retail fraud rings.

Consumer Linking uses proprietary algorithms to measure and validate strengths of data relationships in order to construct links within and between customer identification data already collected during a purchase or return, including:

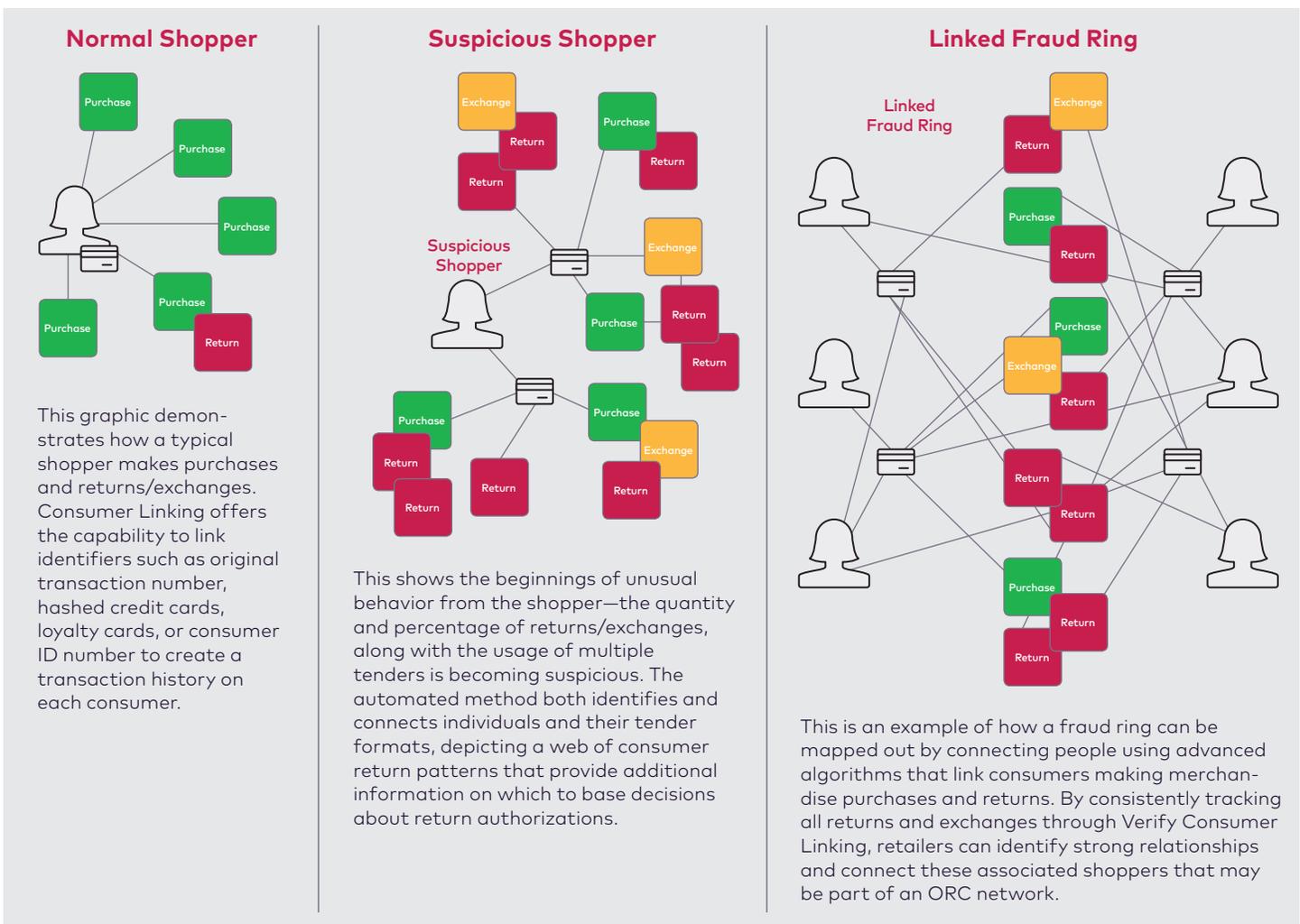
1. Original receipt number(s)
2. Driver's license
3. Shopper name/address
4. Loyalty card
5. Credit/debit/other trackable tender
6. Shoppers' purchase details

Consumer Linking Examples

Consumer Linking can revolutionize the methods in which you recognize and prevent organized retail crime. It will assist you in the following ways:

- As an evidence source that such organized crime ring is impacting your chain.
- As a means to measure the strength of relationships within the ring and the size of the impact.
- Ultimately to help determine patterns and predict future instances of premeditated theft.

The best way to visualize Consumer Linking is to consider some shopper examples. The graphics below show how consumers, their transactions, and any known relationships may be connected.

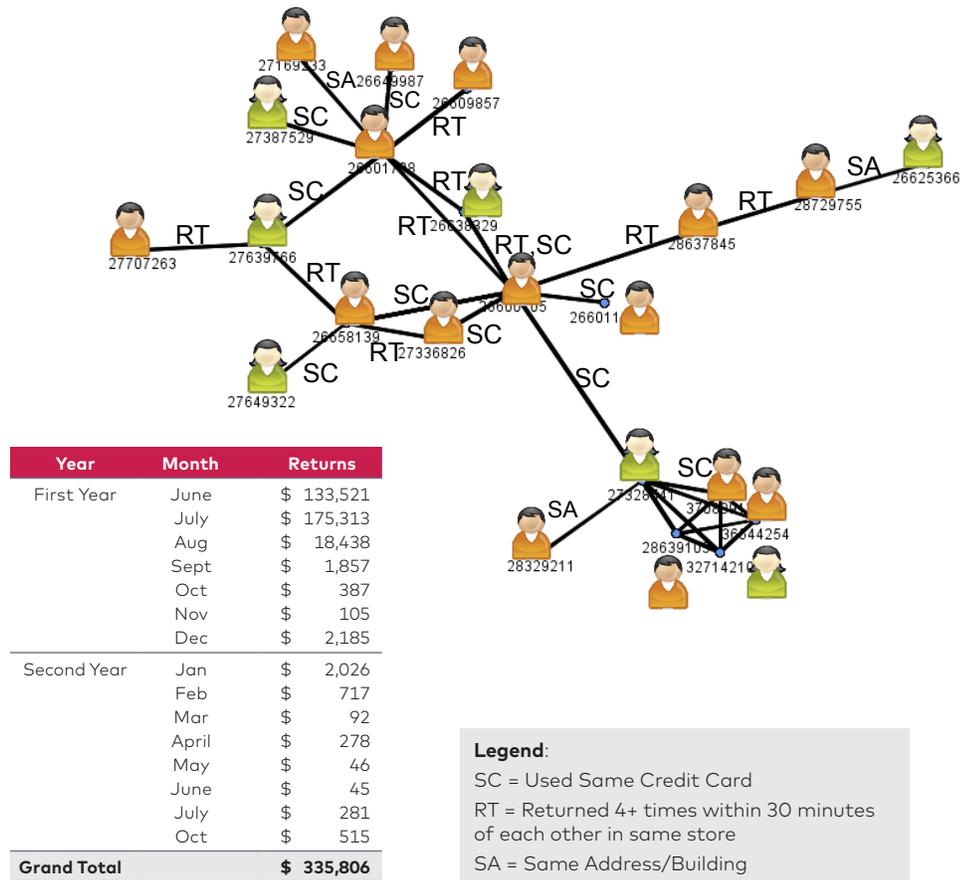


"An ORC scheme may be as simple as returning stolen items to store service desks for cash refunds or store credit," said Dr. Read Hayes, director of the Loss Prevention Research Council. "ORC offenders have been caught replacing stolen electronics like iPods with old batteries to simulate product weight, then re-sealing the items and returning them for a refund. Later, unknowing consumers may purchase these altered goods, only to return them as well. In these scenarios, retailers not only lose their original goods, they then pay out on two consumer refunds or exchanges."

Case Study: Specialty Retailer

One major specialty retailer in New York City has already reaped the benefits of this solution. In the attached image, where orange and green icons signify individually identified and known shoppers at point-of-sale, advanced algorithms linked consumers making merchandise returns who: 1) used the same credit card (SC); 2) returned merchandise four or more times within 30 minutes of each other, in the same store (RT); and 3) lived in the same building or had the same residential address (SA).

Example Return Fraud Ring



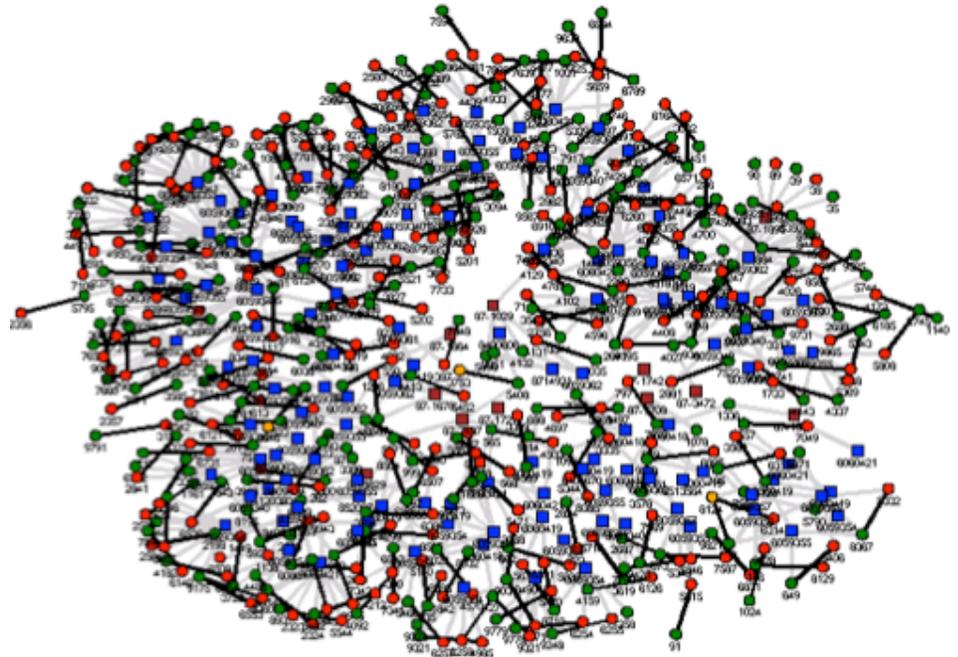
Graphic automatically created by advanced algorithms to help identify and reduce ORC.

As indicated in the graphic, numerous individuals were automatically connected by a statistical analytics model and plotted by the criteria listed above. While viewed separately these individual associations may have appeared insignificant, as a whole they painted a broader picture of ongoing fraudulent behavior. Through these findings, the retailer not only discovered it had fallen victim to return fraud, but ultimately identified and incarcerated members of a booming organized crime ring operating actively and successfully in New York. In addition, the chart in the bottom left of the graphic shows that return dollars peaked at \$175,313 in July, and then dropped dramatically to \$18,438 in August when the stores deployed Verify return authorization.

Appriss Retail's return optimization solutions are proven to significantly reduce return rates, and thereby return sales dollars, by preventing fraud and abuse. Be prepared to stop asset leaks, satisfy a core tenet of your ORC initiatives, and deliver the ORC justification that your executives require.

Case Study: Big Box Retailer

A second and equally bold ring was identified for a nationwide big box retailer in their San Francisco Bay area district. A group of people utilizing 11 different IDs and 138 different payment cards (credit and gift cards) visited 38 of this brand's stores in Northern California. As you can see from the spaghetti-like graphic below, each purchase and return combination is connected by black lines, while the light gray lines connect each transaction to a unique identifier, all weaving an intertwined network of relationships.



Verify's Consumer Linking skills lay in its ability to build those links over time and determine the strength of those relationships within the matrix of this social group. It was learned that within a very short time window this group accumulated purchases of \$33,000 and returns of \$30,000, with many members purchasing the exact same items, keeping them for less than 24 hours and performing returns. This ring was rapidly identified and shut down.

Produce Hard Facts for Law Enforcement

Law enforcement officials are often hesitant to take action against ORC claims due to a lack of substantiated evidence. But in the case of Verify, technology can augment existing staff and help resource-strapped retailers quickly build a solid case backed by comprehensive data analysis. Use of the results from Consumer Linking instantly puts a retailer ahead of the game in combating retail crime, equipping them to deliver hard facts about specific people in fraud rings to the state officials, district attorneys, and law officers with the power and authority to stop these crimes.

Verify Delivers Results that Are Measured and Proven

Today's retailers are taking responsibility for safeguarding their revenue and need to consider the analytical tools now available to detect organized retail crime, as well as other forms of fraud that affect their bottom line. Appriss Retail is ready to help you apply evidence-based asset protection efforts and implement more sophisticated ORC intelligence to deal with both basic and complex, evolving criminal networks and schemes.

While many agree that a variety of solutions are required, one of the main drawbacks to the traditional feet-on-the-street approach to ORC is its lack of accountability when corporate business metrics are applied to it. Sure, you are preventing crime rates from escalating, but what's the real dollar payback for these ORC teams? Where's the hard ROI? Verify is built upon a framework of monitoring every return transaction in real-time, combining that with data from all of your chain's transactions, and reporting the results back to the business. Secure follows up by discovering hidden links and using models to pinpoint suspicious groups and focus team efforts on the worst scenarios.

- Theft may be difficult to measure, but return rate is not. Using Verify, as return rate and return dollars decline you can point to direct ROI benefits and allocate a portion of such to ORC reduction (since you are preventing thieves from perpetrating fraudulent returns).
- Verify return authorization offers a guaranteed ROI, something you can bank on when presenting ORC strategy to your management team.
- The Consumer Linking crime ring tool even helps to put a value on specific groups of related theft issues, further validating your targeted efforts.

By being active in the battle against crime and loss, you can protect your business and also join in communicating the message that ORC offenders will be discovered and prosecuted. Modern ORC solutions are both collaborative and individual, and aimed at directly attacking ORC operatives as well as modulating their environment. Advanced technology solutions like Verify and Secure can and should be used to deter organized retail crime rings. With innovative, calculable solutions, all retailers can efficiently evaluate, validate and even predict a crime problem, and ultimately prepare for thieves—before it's too late. 

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