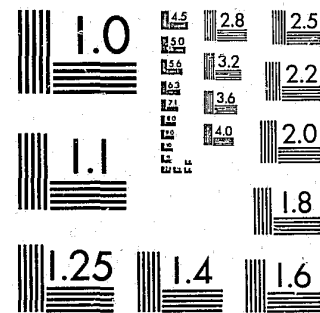


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National Institute of Justice
United States Department of Justice
Washington, D. C. 20531

FBI LAW ENFORCEMENT BULLETIN

MAY 1982

U.S. Department of Justice
National Institute of Justice

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Boat Theft

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Coupon Fraud: Profiting from "Cents-Off" Coupons

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In 1979, a California entrepreneur created a bread mix and produced 10,000 packages of his product to test the market. To create public awareness of the mix, he placed advertisements in local newspapers. These advertisements included a "cents-off" coupon entitling the purchaser of the product to receive a portion of the purchase price back from the retailer at the time of sale. When the number of coupons redeemed exceeded double the number of packages of the item manufactured, the businessman realized he had become another victim of fraudulent coupon redemption—a scheme that can involve consumers, grocers, truckdrivers, and redemption "middlemen."

All levels of law enforcement are involved in the fight against fraudulent coupon redemption which can include fraud by trick or deceit, fraud by wire, mail fraud, grand theft, and theft from interstate shipment. Coupon abuse is possible in any part of the country where merchants redeem coupons.

The Coupon System

Most major manufacturers of food and household products use "cents-off" coupons as a method of advertising. Over 80 billion coupons were printed in 1980 in an attempt to encourage consumers to buy specific products.¹ According to marketing surveys, 80 percent of shoppers occasionally use "cents-off" coupons, and some retail outlets encourage coupon trading among customers.²



Special Agent McChesney

Of the 80 billion coupons printed annually, it is expected that approximately 20 percent will be redeemed.³ The average face value of a coupon is about 18 cents, making coupon fraud a multimillion dollar business that presents the opportunity for illegal redemption at various levels of the process.

Until recently, law enforcement had little involvement in this type of fraud. In 1980 and 1981, 19 individuals involved in coupon fraud operations were convicted in San Diego and San Francisco as a result of FBI and Postal Service investigations. The subjects were convicted of various counts of mail fraud, conspiracy, and receiving stolen goods in interstate commerce. Several other investigations are currently in progress throughout the country.

Coupons are generally printed in newspapers or magazines but are also printed as "freestanding inserts"—glossy pages of coupons and advertisements placed inside a newspaper. Less frequently, coupons are obtained through costly direct mailing from manufacturer to consumer or from inpackage distribution, where the consumer finds a "cents-off" coupon inside the packaging for future purchases of the product.

In the legitimate use of "cents-off" coupons, the consumer purchases a newspaper or magazine, removes the coupon, and takes it to the retailer, where it is remitted at the time of purchase of the product depicted on the coupon. Some coupons are dated, and it is the responsibility of the retailer to insure that the coupon presented has not expired and that it is presented with the purchase of the required item.

Nearly all coupons contain directions from the manufacturer to the retailer, indicating the method of redemption and a warning that any use of the coupon other than in combination with the purchase of the specified product constitutes fraud.

While some manufacturers will not process their own coupons, others allow retailers to submit the coupons directly to them for redemption. The usual method for retailer redemption, however, is to separate the coupons by manufacturer or price and submit them to a coupon redemption center or clearinghouse.

There are approximately 70 coupon redemption centers in the United States. The bulk of these centers' business is with retailers and manufacturers by mail. Upon receipt, the coupon is processed to determine the appropriate payment to the retailer. The retailer is then paid the face value of all legitimate coupons submitted, plus 7 cents per coupon for handling. Deductions are made for rejected coupons, if any, from previous submissions of the particular retailer.

Coupons are also checked at the clearinghouses for signs of fraud, such as submissions of large quantities of a particular coupon, all appearing to be in mint condition or "gang cut." Mint condition coupons are those which are clean and unwrinkled, not typical of the coupon which has been in a consumer's wallet or purse for some time. "Gang cut" coupons are identical coupons that have been piled on top of one another and cut simultaneously with the same apparatus.

"Miscounting, overpayment, and ignorance of the signs of fraudulent coupon redemption can produce greater profit for the center or its employees."

Coupon redemption centers sort submitted coupons, and in some instances, forward them to manufacturers or make them available for manufacturer review. Manufacturers may refuse to pay redemption centers for coupons which they believe were gang cut, in mint condition, expired, counterfeit, or submitted by a retailer who does not stock the manufacturer's product.

Participants of Fraudulent Coupon Redemption

Consumers participate in coupon fraud by submitting expired coupons when purchasing products or by redeeming coupons for items they have not purchased.

Retailers participate in coupon fraud in a number of ways. They may "buy" coupons from consumers or magazine and newspaper vendors and then redeem them with manufacturers. The retailer may also accept coupons for products they do not carry or accept coupons for one product while actually selling a competitor's product.

Coupon "middlemen" sort, count, package, and mail a retailer's coupons to manufacturers or coupon redemption centers. Middlemen charge a fee for their services and may work for one or more stores.

Providing this service for retailers is not illegal. What constitutes fraud is "padding" the coupon submission—taking coupons from magazines or newspapers and combining them with coupons used legitimately by consumers to make a larger submission to the coupon redemption center. In some cases, middlemen buy or steal large quantities of coupons and submit those in place of legitimately used coupons.

Coupon redemption centers and manufacturers will only mail coupon payments to retailers at the street ad-

dress of the market, precluding middlemen or others from setting up false-front stores for submission purposes. Middlemen receive their fees from the retailer once the payment has been received from the coupon redemption center or manufacturer.

Newspaper and magazine companies do not sell large quantities of papers or magazines to individuals; however, some newspaper truckdrivers have sold as many as 10,000 newspapers per week to coupon middlemen. A truckdriver who steals 10,000 newspapers and sells them for 20 cents per copy receives a tax-free profit of \$2,000. The sale of freestanding coupon inserts, which generally contain coupons worth \$5.00, amounts to a 25-percent profit per insert.

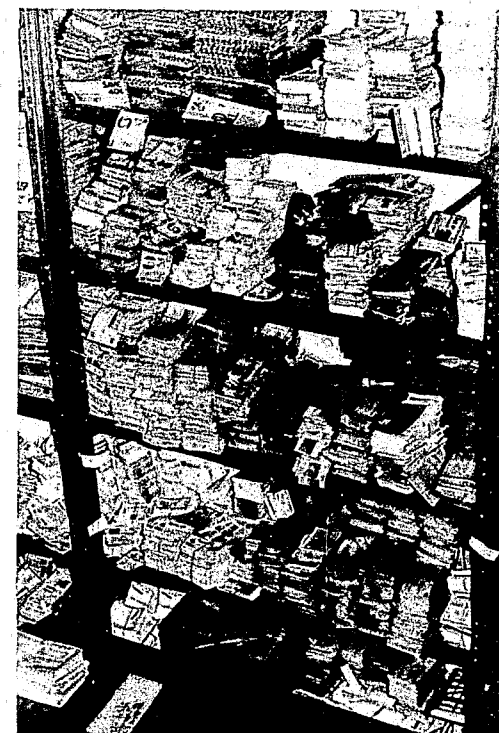
The opportunity to participate in coupon fraud also exists at the level of the coupon redemption center. Miscounting, overpayment, and ignorance of the signs of fraudulent coupon redemption can produce greater profit for the center or its employees. Payments are sometimes made "under the table" to center personnel from coupon middlemen who want their coupons to be redeemed without question.

In 1980, a joint FBI/Postal Service investigation conducted in San Francisco uncovered four major fraudulent coupon redemption operations. Each of the operations, headed by coupon middlemen, operated in a similar manner.

The middlemen, who were former grocers, obtained large quantities of coupons or coupon inserts from newspapers and magazines. They then hired individuals to clip and sort the coupons. The cutters and sorters were

usually persons who did not speak English or understand the coupon redemption system. The middlemen then made arrangements with various grocers to use the names of their stores to submit coupons to various redemption centers. Occasionally, middlemen submitted coupons provided by the grocer, along with coupons from the middleman's source of supply, to coupon redemption centers. In most instances, however, the middleman was the sole provider of the coupons submitted.

The middlemen made several submissions of coupons, generally by mail, to various redemption centers each week, keeping records of the dates and volume of submissions from each store to each coupon redemption center. This process allowed the maximum number of submissions, while using as many coupon redemption centers as



These clipped and sorted coupons were found in a subject's home during the execution of a search warrant. Shelves were installed for the purpose of holding coupons.



One of hundreds of "mom and pop" markets in San Francisco involved in the fraudulent redemption of coupons. Coupons submitted from this store greatly exceeded the normal number of coupons that should be submitted from a store this size.

possible to achieve a higher rate of return. One middleman handled as many as 80 stores at one time, redeeming coupons worth \$350.00 several times per week in the names of particular retailers. When the coupon redemption centers mailed the payment to the market, the middleman would take his share of the check in cash.

These newspapers, stripped of coupons, were sold in bulk to independent paper companies.



Controlling Coupon Fraud

The security of coupons is the starting point for eliminating coupon fraud. Coupons stolen from printers, truckdrivers, and newspaper and magazine companies are generally stolen in large enough quantities to generate profit for middlemen and grocers. Stricter accountability and control of coupons, particularly free standing inserts, have been the result of coupon investigations throughout the country.

Manufacturers are attempting to reduce the problem of coupon fraud by developing new methods to detect and prevent counterfeit coupons, making inspections of retailers who redeem

their coupons, and by verifying stock purchases of coupons redeemed.

Coupons more difficult to obtain are less likely to be fraudulently redeemed. Coupons found inside packaging are most often legitimately redeemed. While this is not the most popular method for coupon advertising, it is a good way to increase the number of bonafide redemptions.

Retailers can help curb coupon misuse by submitting coupons used only in legitimate purchases at their stores and by dealing only with reputable middlemen. Some stores require clerks to initial and date each coupon as they are remitted. This assists in pinpointing unusual redemptions by particular clerks.

Consumers may report coupon misuse to manufacturers or law enforcement agencies. Many successful investigations may be credited to cooperation between investigative agencies at the Federal and local levels. Since fraudulent redemption of coupons may involve both State and Federal violations simultaneously, it is important to conduct joint investigations rather than leaving the entire investigative burden on a single agency or department. With the support of the consumers and manufacturers who bear the cost of coupon fraud, and through aggressive investigation and prosecution, the outlook is good for making fraudulent redemption schemes a thing of the past.

FBI

Footnotes

¹ "Why is this Market Down on Coupons", *San Mateo Times*, June 3, 1980.

² "Cashing in at the Checkout," (New York) *Stonesong Press*, 1979.

³ *San Mateo Times*, June 3, 1980.

END