

The background of the cover is an aerial photograph of a coastline, showing a mix of land and water. A diagonal gradient is applied, transitioning from a deep blue on the left to a lighter, greenish-blue on the right. The text is overlaid on this background.

The Illicit Market in Stolen Fast-Moving Consumer Goods

A Global Impact Study

Summary Report

Introduction

This summary report presents an overview of findings from a research project conducted in 2003 by Perpetuity Research & Consultancy International (PRCI) Ltd, a spin-out company of the University of Leicester, on behalf of The Gillette Company. It concerns the global market in stolen fast-moving consumer goods (FMCG) and presents a strategic response that involves manufacturers, distributors, law enforcement and consumers.

We all suffer from the illicit market in stolen goods. The direct cost of this trade to the FMCG industry is estimated to exceed \$56 billion (€47 billion), but there are wider social and human costs. Thieves rob, attack or abuse store staff, and bargain-hunters unwittingly buy stolen goods, only to discover they are unable to exercise their consumer rights. All over the world, citizens suffer from loss of tax revenue that illicit traders evade, and from the price rises retailers may impose to recover their losses. Perhaps most sinister of all, there is evidence that many of those involved in illicit trading are members of organised crime syndicates, some of which use their criminal proceeds to fund terrorism and other harmful activities.

This research discloses for the first time something of the nature of the market in stolen FMCG. It draws on a wealth of information gathered from direct observations in sixteen countries on six continents, and interviews with over 500 experts and participants in licit and illicit markets. The study describes and demonstrates how co-operation between various agencies and organisations can disrupt the trade in stolen goods and alleviate the social and economic harm it causes.

As a leading manufacturer of consumer goods, The Gillette Company recognises its responsibility to act. Yet the company is also looking to broker and sustain global solutions that depend on close co-operation with many other interested parties. The study assists in two ways:

- First, it presents the evidence to provoke, inform and guide public debate
- Second, it sets out a range of options for investigation, education, co-operation and influence to ensure disruption of the complex network of relationships upon which illicit trade depends.

Structure of the illicit market

Figure 1 (opposite) presents a diagrammatic representation of the relationship between the licit distribution chain on the left (coloured blue) and the illicit goods network to the right (coloured red).

Goods leave all points of the licit chain and enter the illicit network as represented by the red arrow, 'stealing'. Once in the illicit network, stolen goods are mixed with counterfeit product produced by illicit manufacturers (shown in green), as well as damaged and end-of-line product emanating from licit manufacturers or their agents, and licit and illicit imports. Participants in the illicit network handle and sell goods of various degrees of legitimacy, and it is difficult to distinguish the illicit market in stolen FMCG from the grey and counterfeit markets. Further, stolen goods may re-enter at all points of the licit chain, as represented by the return arrows.

The research discovered many case studies that illustrate the complexity of the relationships between illicit market participants and the licit chain. Retailers in South Africa were found to be selling goods stolen from competing retailers, as well as illicit imports. Many of the sellers were small, local, one-man stores, although one major retailer was also implicated. In the USA, a large drugstore chain bought stock stolen from its own stores. In Belgium, a retailer's commercial buyers were found to have bought discount stock on

Licit and illicit grey markets

The grey market lies between the licit supply chain and the illicit network. 'Licit grey' products can be end-of line surplus, surplus from purchasers who have over-bought, and goods intended for one market within a tariff-free trading bloc (such as the EU) that reach another market in the same bloc. Many countries have legislated to prevent organisations continuing to exert control over where their goods are sold. Goods finding their way under protection of this legislation into markets for which they were never intended are also licit grey.

Crossing the line, illicit grey products can also take various forms. They may be goods destined for export that never leave the country of origin; goods destined for one market but that reach another without payment of taxes and/or with inappropriate labelling, or goods imported into a country without permission of the local trademark where such legislation exists (e.g. Russian Federation).

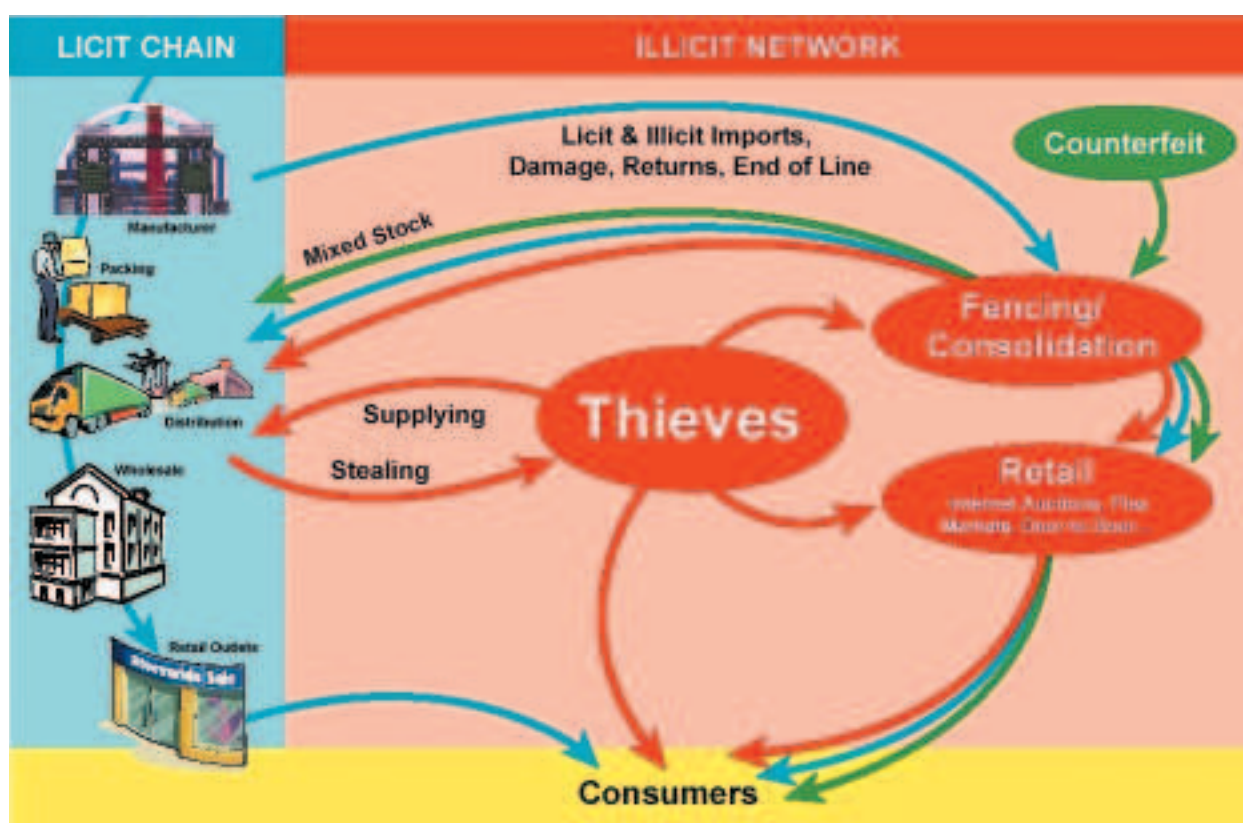


Figure 1: The relationship between the licit chain, the illicit network and consumers

‘the wire’, unaware that it had been stolen in transit between Germany and the UK.

Distribution chains in the illicit network can be very short. For example, where thieves sell the goods they steal direct to consumers (denoted by the red arrow from thieves to consumers), or else consume the goods themselves. Perhaps more commonly, thieves sell the goods to illicit vendors or fences and consolidators who find and sell to illicit or licit retail outlets seeking cheap supply. This network of fences and consolidators is at the heart of the illicit market. Again, case studies describe the kinds of relationships that exist.

In the Netherlands, a team of shop thieves was arrested in possession of large quantities of FMCG and a ‘shopping list’ of desired goods, with notes on the price they could expect to receive for them from traders in a local flea market. The list revealed that the thieves could expect almost 60% of the retail price of the goods they supplied. A visit to the flea market in question revealed that goods were sold on to consumers at around 83% of retail price. This illustrates the advantage to the thieves in setting up a short distribution chain. In this case, only three sets of participants took a cut of the profit and the thieves themselves took well over half.

However, a far more complex network is illustrated by the American Dream case study (page 4).

There is no clear dividing line between fences and illicit retailers. Either category can conduct transactions more commonly associated with the other if the opportunity arises. Consumers range from ‘victims’ of the illicit market (who are entirely unaware they are buying stolen goods), to willing participants. Yet throughout all the countries visited, the researchers heard evidence that entirely innocent buyers of stolen goods are rare indeed. Many people are now prepared to admit they buy goods at flea markets or on the internet without concerning themselves with the products’ origins.

What drives the illicit market?

The FMCG industry enriches people’s lives by continually developing and marketing desirable products. Yet at the same time it sustains illicit markets in stolen and counterfeit goods and pressure to trade on ‘grey’ markets. Examples from the field show that the very characteristics that make FMCG attractive to shoppers also make them irresistible to thieves, grey traders and counterfeiters. Many FMCG retail at

Case study – 'The American Dream'

J¹ owned a small store that made an adequate profit. Over time, people approached him offering 'discount' pain relievers and other FMCG. This was J's induction to a retail crime network that spanned many states. Professional shoplifters began to offer him a growing product range, so J consulted with other 'fences' to learn new techniques and gain access to lucrative wholesale markets. He needed large quantities of cash to maintain his thieves' loyalty and to buy 'muscle' to maintain discipline - particularly regarding competition. Another important asset was corrupt law enforcement, from whom he bought tip-offs and other favours. However, J began to cheat his thieves, skim product from his buyers, and to leap-frog the criminal chain of command by selling to higher levels of the wholesale structure.

His downfall came when the FBI recruited him as an informant. His contribution resulted in two of the largest organised retail crime cases in North America: American Dream I and II. Twenty-nine gang members were indicted for stealing over \$10 million from stores over five years and re-selling the goods back to legitimate retailers. The fences sold mixes of legitimate and stolen or counterfeit goods, and met at small business conventions to work out pricing and shipping. Teams of professional shoplifters (almost all heroin addicts) would take as much as \$50,000 worth of stolen goods to retailers/fences for payment. The goods were then sent to 'factory' locations where electronic security tags were removed and goods re-packaged if necessary. The cleaned goods were shipped elsewhere as part of a money laundering operation and moved on to legitimate and illegitimate buyers.

Forty-one individuals (including an Atlanta police officer) were arrested (with informants identifying at least 12 more who they paid for protection). In American Dream II, 48 more subjects were arrested (and over \$3 million in shoplifted goods recovered) in Florida and Georgia.

premium prices, but the truth is that those who cannot afford them desire FMCG just as much as those who can. There may even be a view in the market place that FMCG are over-priced and therefore fair game for illicit traders and manufacturers, and those who buy from them. As a result the profits of all participants in the licit distribution network, from producer to retailer, are threatened.

The characteristics of those goods (e.g. as shown in Figure 2) that are most attractive to the illicit market are best summarised using the acronym CRAVED¹. They are easy to steal (because they are Concealable, Removable and Available) and easy to sell (because they are Valuable, Enjoyable and Disposable). The need for thieves to dispose of what they steal is the main driving force behind the illicit market. The disruption of such markets is therefore a strategy that can severely inconvenience thieves who steal to sell, without adverse effect on buyers. The challenge for the FMCG industry is to develop strategies that reduce theft of and trading in stolen goods, without compromising the qualities that make FMCG attractive to consumers.



Figure 2: Stolen FMCG on sale in a flea market

In summary, the research describes a process in which stolen FMCG are sold and re-sold by a network of thieves, fences, consolidators and illicit retailers. The illicit network is characterised by a multitude of relationships (as illustrated in the American Dream case study). Although this complexity makes it difficult to understand the exact nature of the illicit market, each of the relationships presents an opportunity for intervention and disruption. The response to the challenge is to take concerted action to disrupt each relationship in the expectation that if illicit market participants cannot dispose of stolen FMCG profitably then the pressure to steal them will be reduced.

1. Clarke, R. (1999) Hot Products: understanding, anticipating and reducing demand for stolen goods. Police Research Series Paper 112, London: Home Office.

Case study

One investigation involved the follow-up to a series of bulk thefts by three professional thieves who when caught admitted to supplying a local market for stolen goods. The team used a very simple method for stealing and they used it on five occasions before being caught.

The investigation revealed a number of important issues ranging from an unfounded belief in the effectiveness of RF tags even in the face of evidence that the devices would not have prevented the thefts; a lack of systematic stock counting to accompany new merchandising initiatives; unwarranted belief about the effectiveness of some key security precautions which observation demonstrated had failed to operate properly, and the need for the manufacturer to deal more closely with store and operational management.

Among solutions that were proposed and accepted were:

- Tighter but simple controls about staff access to the stock room
- Higher levels of compliance monitoring by operational rather than loss prevention staff
- Removal of plastic protectors and RF tags and replacement with new clam shell packs which were more attractive, easier to handle and did not require additional protection
- Moving the display to a better supervised part of the store
- More regular refilling of stock on display
- More regular stock counts to determine whether there were any losses and to react more speedily
- Closer collaboration with store manager and operations team who:
 - Have more significant impact on development of procedures and compliance than the loss prevention team
 - Are better equipped to be ambassadors for promoting best practice to other stores
 - Benefit directly from the reduced losses and higher sales

Early results show a sales increase of 50% sustained for three months and with losses of all types below 1%.

A call to action

The call to the FMCG industry is to disrupt the illicit stolen goods market using seven methods.

- Reduce vulnerability in the supply chain to choke off supplies of stolen goods to the illicit network
- Dissuade commercial buyers from purchasing from the illicit network and to deny illicit sellers opportunities to sell stolen goods back into the licit chain
- Dissuade fences and thieves from illicit market activities and increase the risk for offenders
- Disrupt physical sites where illicit trading in stolen FMCG takes place
- Disrupt Internet sites where illicit trading in stolen FMCG takes place
- Promote to consumers the benefits of buying goods only from licit retailers
- Persuade politicians and law enforcers to take the problem of illicit trading in stolen FMCG seriously, and to investigate, detect and prosecute offenders.

Seven action plans are described below: one for each of the seven aims set out above. Each action plan relies on four processes:

Investigation to gather intelligence to inform action in particular local markets

Education and training to raise awareness of the damage caused by the illicit trade in stolen goods

Influence to persuade those with the power to act against illicit markets to prioritise such action

Co-operation to ensure the strategy offers licit traders appropriate support by the industries that supply them.

The action plans

1: Choking off supply

Choking off the supply of stolen goods to the illicit market is potentially the most efficient way of disrupting it. An essential first step is to investigate where leaks occur and assess how well existing controls work. There is a need to collate examples of best practice and for the industry to ensure wider application of techniques that work. Companies within the FMCG industry need to strive for and achieve world-class standards for loss prevention.

FMCG manufacturers can work with customers to apply proven anti-theft techniques, such as crime prevention through environmental design, and the industry can also assist by sharing the cost of developing and applying new technology to protect the most vulnerable goods on retailers' shelves. Continuing research to assess the relative risks affecting different products is needed, especially for new products. This process will analyse the extent to which the new product possesses CRAVED characteristics, especially disposability.

Retail staff training is particularly important. Those responsible for the security of stock must know which products are most at risk, and the techniques offenders use to steal them. Investigations of major losses will identify these, resulting in improved training. Another priority is proper evaluation of security technology and its impact on sales of particular products. Recognition of the opportunity for the industry to develop best practice loss prevention standards led to the formulation of the ECR Europe Road Map (Figure 3)².

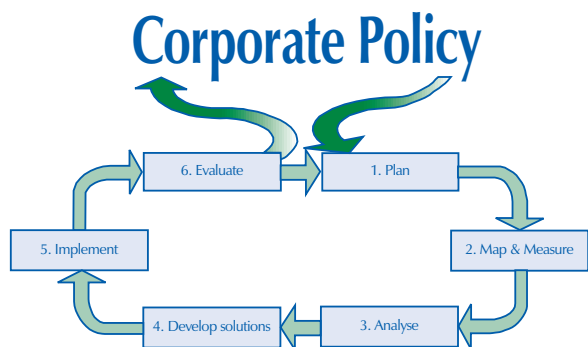


Figure 3: The ECR Shrinkage Reduction Roadmap

2: Commercial buyers

Under pressure to improve profitability, commercial buyers are often tempted to buy grey goods; some of which may actually be counterfeit or stolen.

Buyers need to be made aware that in buying illicit stock they risk forming a relationship with the illicit network that helps to sustain the illicit market and encourages theft. More case studies need to be developed to illustrate the risks. The industry also needs to investigate the activities of commercial buyers suspected of buying illicit goods.

3: Fences and thieves

The drivers of the illicit network are far too strong to be tackled by moral exhortation alone. Illicit networks exist throughout the world, but the nature of relationships within the fencing and consolidation process is likely to vary widely according to cultural context and national laws. Despite this, there are techniques that can be universally applied.

Some fences and illicit retailers operate openly, in the belief (often justified) that the illicit origins of their stock cannot be proved. One counter to this is applying technology to track and trace goods into and through the illicit network. This would facilitate 'sting' operations to recover stolen stock and undermine trust between illicit traders.

Following major instances of theft, the industry needs to investigate the routes through which the stolen stock is dispersed. Such investigation will also inform sting operations and further alarm illicit traders. This will encourage some to desist.

4: Physical sites

Illicit traders need to meet with each other and with prospective purchasers to buy and sell goods. Traditional venues are physical markets which may be entirely illicit or, more often, semi-licit or with the appearance of complete legitimacy.

Action is required to raise awareness of illicit activity in legitimate sites, thereby motivating concerned proprietors to ban illicit traders. Owners can be influenced by the FMCG industry, perhaps through intermediaries such as regulatory bodies, to adopt and enforce codes of practice to disrupt and drive out illicit trade, and publicity can be given to such action. Legitimate markets should be encouraged and the public needs to be educated about where they can be sure of buying licit goods, and where they are risk of being sold counterfeit or stolen products.

5: Internet sites

The extent to which operators of internet auction houses are willing or able to prevent the sale of illicit goods online is unknown. Therefore, an audit of what powers and obligations exist is urgently required. Auction houses could be influenced by the industry to impose controls or to make use of any powers that already exist, and any precedents created by such action should be collated.

2. Beck, A., Chapman, P. and Peacock, C. (2003) Shrinkage: A Tried and Tested Collaborative Approach to Reducing Stock Loss in the Supply Chain, Brussels: ECR Europe

The industry could also work to develop protocols to govern the acceptance by internet sites of goods for sale and influence sites to adopt them. The research disclosed that some FMCG manufacturers dispose of their own surplus stock on the Internet. Such trade should also be subject to control.

6: Consumers

Offered a bargain, many consumers are unable to resist. The problem for the industry is that it is not obvious to consumers that buying stolen goods causes real harm. Addressing this requires education of consumers by the industry, perhaps through the publication of appropriate media reports and articles on the scale of the illicit network and its links with terrorism and drugs. At the same time legitimate traders should be supported by assistance with advertising and measures to improve customer loyalty. The benefits of buying from reputable sources, such as the availability of warranties and other consumer rights, must be stressed.

7: Politicians and law enforcement

Governments, their agents (such as trading standards enforcers) and regulatory bodies may have the power

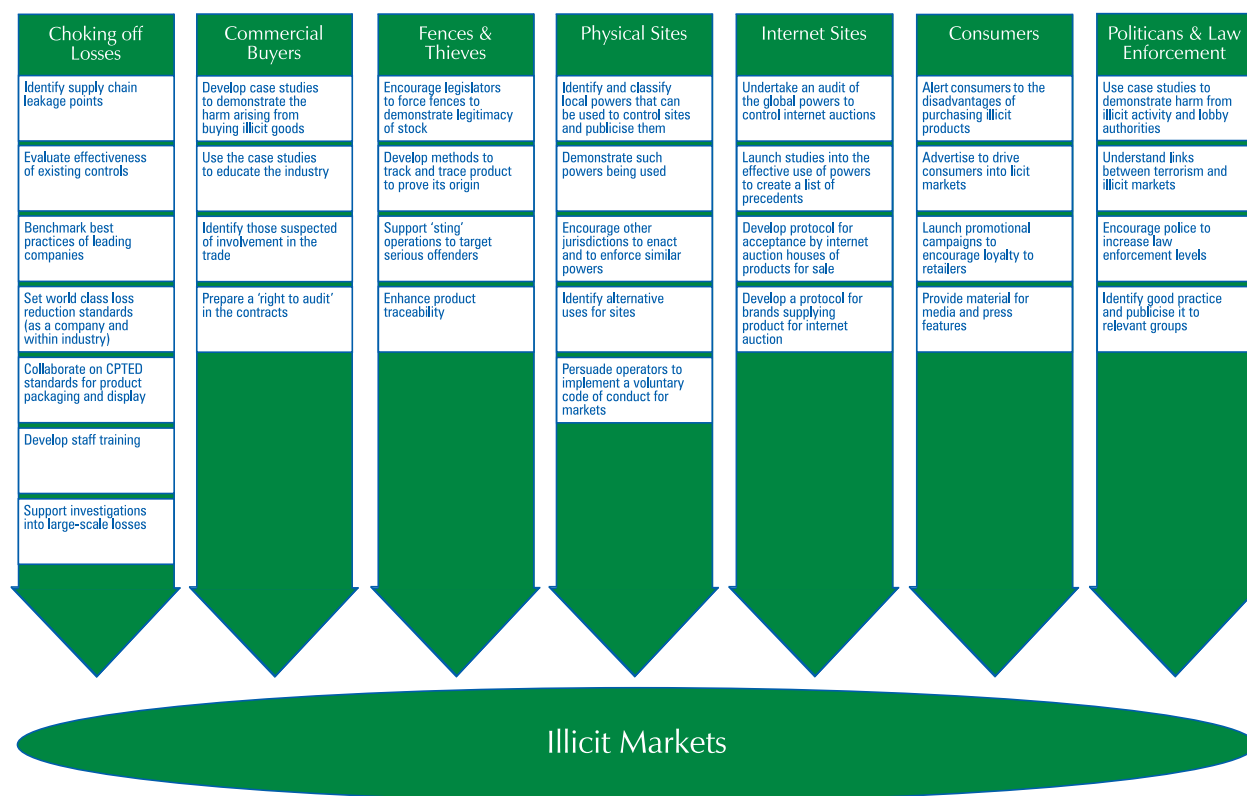
to disrupt illicit trading, but they need to be persuaded that such action is a priority. The same publicity used to influence consumers not to buy illicit goods will be useful in persuading the authorities to use their existing powers or to create new ones. Governments are particularly responsive to threats at the macro-level such as terrorism, and the links between the illicit market and such threats need to be emphasised.

Conclusion

This unique study demonstrates that illicit markets cause social and economic harm, but suggests there are positive steps that can be taken to disrupt this. Effective action needs concerted effort by manufacturers and retailers, law enforcers and politicians, and a constant dialogue with consumers. By a combination of investigation, education, influence and co-operation, the FMCG industry can disrupt the very profitable careers of thieves, fences and unscrupulous vendors and buyers. In this way the profitability of those who sell licit goods and the welfare and rights of consumers can be protected.

Individually, the seven strategies presented here can make a difference; collectively they can have a dramatic impact.

Figure 4: Action plans for disrupting the illicit market



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This Summary Report provides only a brief overview of a research project conducted in 16 countries from 6 continents. To obtain a copy of the full report, please contact Professor Martin Gill at m.gill@perpetuitygroup.com or at the address below.



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