How Can Retailers Quell the $101B Storm of Returns Fraud?

How Can Retailers Quell the $101B Storm of Returns Fraud and Abuse Without Disappointing Customers?

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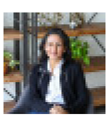

By Amena Ali

The pandemic accelerated a massive rise in e-commerce, and with that, retailers have experienced a significant uptick in returns — reaching $743 billion in the U.S. last year alone. This sea change has contributed to both increased costs for retailers and a new era of returns behaviors from shoppers. Many retailers are facing shopper habits that hurt revenue, and some downright fraudulent activity. Last year, retailers lost $101 billion to returns abuse and fraud — 13.7 percent of total returns, up 20 percent from 2022.

The returns quandary has become a balancing act for retailers. How can they delight customers with policies that drive purchases, convenience and brand loyalty, without taking an unreasonable financial hit? How can they differentiate between unwanted, abusive and criminal behaviors? And how can they develop policies and systems that help retain their best customers without inviting more abuse by bad actors? After all, more often than not healthy returners are retailers' most loyal and profitable customers.

The Fine Line Between Habitual Returners and Fraud

Retailers often conflate fraud with unwanted returns behaviors, such as consumers who make frequent returns or take too long to send goods back. However, it's important to understand the key differences across returns behaviors and to formulate a plan to address them. Returns behaviors, and subsequent impacts on profitability — including restocking delays, transportation costs, lost revenue, and landfill waste — fall along the following spectrum:

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1. **Unfavorable (but expected) Behavior:** We've all been there — lugging that return you need to drop off in your car and then remembering it a week later. For shoppers, returns delays are innocuous enough: 35 percent struggle to find time to make returns and 32 percent cite inconvenient options, like distance from a drop-off location, as a pain point. But for retailers, late or delayed e-commerce returns can negatively impact an item's resale value, especially when seasonal items come into play. Whether or not an item goes back-to-stock or is ultimately sold to a secondary resale channel, all returns cost money. Though delayed returns don't constitute abuse, there are ways to incentivize faster returns lifecycles to mitigate the cost of returns. With that in mind, sometimes issues on a retailer's end contribute to delays, such as unclear returns policies or slow shipping that can be misattributed to the shopper.
2. **Abuse:** Returns can begin to look abusive when they become more frequent; this can compromise a retailer's bottom line. Bracketing, or purchasing an item in many different colors or sizes and returning unwanted options, is prevalent among apparel shoppers. This can lead to backlogs of returns that need processing, on top of the additional cost and environmental impact incurred with shipping individual items back to a warehouse. However, bracketing isn't prohibited by a typical return policy. Retailers overwhelmed by this type of behavior should make sure they're providing more information to prevent avoidable returns in the first place, such as the use of predictive analytics to provide advice on which item may fit best for the shopper. Understanding which SKUs have a high return rate, and why, can enable retailers to provide better product, sizing information, virtual try-on, etc., to address the root cause of returns.

3. **Fraud:** Returns fraud is the most problematic and costly behavior. It comes in many forms — e.g., sending stolen merchandise back with fake receipts, claiming an item was never received only to resell it for profit, swapping luxury items for knock-offs, or returning completely different items. According to the National Retail Federation, the most common form of retail fraud (49 percent) is wardrobing — returning non-defective goods after use for a short period or certain event. This includes everything from buying extra TVs for the Super Bowl to evening gowns returned after being worn for a special event. Not only does this fraud cost retailers, but if the fraud isn't detected, a used or incorrect item could ultimately be shipped to another unwitting shopper, damaging brand perception and loyalty.

How to Mitigate Bad Return Behaviors While Keeping Customers Happy

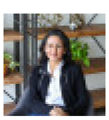
One major misconception is that all returns are bad for business. In fact, 65 percent of shoppers make the most returns at a place they shop frequently, and 95 percent of shoppers say a poor returns experience will make them less likely to shop from a brand again. Retailers need tools that help them mitigate the negative impact of returns, without angering or disillusioning their best customers. Here are some tips for doing that:

1. **Provide better pre-purchase insights for preventable returns.** Retailers must take some responsibility for habitual returns. Sometimes it's hard to properly gauge a product online. Retailers can help limit returns with detailed size charts, better photography and product descriptions, more customer reviews, and user-generated content. Brands like Houzz and Warby Parker are going a step further, leveraging "try-on" and augmented reality so shoppers can get a better sense of a product before purchase.
2. **Make returns convenient and easy.** Delays are one of the most easily remedied issues. It should be as easy as possible to make a return. In fact, 64 percent of shoppers will choose a retailer based on their returns policy, with 24 percent saying their biggest frustration is printing a label or finding packaging. Retailers are increasingly tapping third-party drop-off networks and package-less, label-less return options — which also have the added benefit of consolidating returns for shipping back to the warehouse. In fact, 71 percent of shoppers prefer a drop-off return option to a traditional mail-back return, largely because of convenience. Some retailers will even pick up returns at customers' homes. If returning is easy and convenient, retailers can restock valuable inventory into available-to-sell status faster.

3. **Reward customers with personalized returns offers.** E-commerce technology is all about personalized journeys, and that shouldn't stop at the buy button. With the right data and systems, retailers can personalize return experiences based on each shopping history, segments, and more. For example, retailers could charge abusive returners a restocking fee. They can also reward their best customers with extra perks like free return shipping or instant refunds (providing a credit or refund even before the item makes it back to the distribution center). Rewarding shoppers can go a long way. After all, healthy returners are 4x more profitable than non-returning customers. Therefore, returns policies shouldn't be one-size-fits-all.
4. **Catch fraud in the moment.** There is a time sensitivity challenge when it comes to fraud: ideally you catch it in the moment, or better yet before it happens. Many distribution and returns centers aren't equipped with the systems and technology to evaluate return goods quickly as they come in to the warehouse. Oftentimes, a refund is issued before the return is inspected. Retailers can leverage software that automatically notifies warehouse workers and walks them through a close inspection — even verification of authenticity for designer brands — before issuing a refund.

The spike in returns fraud can feel like a daunting challenge for retailers, and it will continue to eat into profitability if not properly addressed. Retailers should avoid creating a customer satisfaction problem in their effort to solve a fraud problem. Retailers must put dynamic returns policies in place to ensure they're not penalizing their customers while they're racing to block clearly fraudulent returners. This enables retailers to guide and set clear expectations and boundaries, curbing negative behaviors in a targeted manner instead of having an inflexible approach. Returns fraud success is all about establishing a healthy balance to encourage and reinforce positive returns behaviors while preventing the nefarious and most costly ones.

As CEO of Optoro, the leading software platform for retail returns, Amena Ali is leading the company to record growth, overseeing new product launches and partnerships as well as major customer wins.



Amena Ali Author's page

Amena Ali has an exceptional track record with more than 25 years experience in delivering value for customers, spearheading software innovation, and growing SaaS and software businesses. As CEO of Optoro, the leading software platform for retail returns, Amena is leading the company to record growth, overseeing new product launches and partnerships, and major customer wins. Optoro's Returns Management System, used by retail's most iconic brands, such as GAP, American Eagle and Best Buy,

recently surpassed 200M returns. The company's software platform makes retail returns simple and efficient, reducing waste and enabling circularity. In 2023, she was named to the Forbes 50 Over 50 Innovation list as well as DC's Tech Titans. Amena previously served as CEO of Airside Mobile and VividCortex.