THE BATTLE ON RETAIL FRAUD: RETURN FRAUD IN FOCUS

Abstract

Return fraud is the practice of returning goods to a store in contravention of the merchant's stated return policy in order to receive a refund. There are several reasons why an item could not be eligible for a refund, including the fact that it is from another store, that it has been used, or that it was clearly labelled as such before purchase. Regardless of how the crime was committed, the end effect is the same: the fraudsters extort items or steal money from the seller of the goods. This POV examines the various types of return fraud and ways to combat them.

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The problem of return fraud

An annual survey conducted by the National Retail Federation (NRF) in 2021 revealed that US consumers returned well over $761 billion worth of products in 2021, corresponding to an average of 16.6% of all retail sales.[5] Businesses typically endure $166 million in returns for every $1 billion in sales. In addition, they incur an average loss of $10.30 through fraud for every $100 of returned goods.[2]

Return fraud has reportedly become more of a priority in the past five years for 43% of businesses. That being said, a lot of retailers choose to ignore potential return frauds. This happens for several reasons. For instance, if a customer falsely returns an item after tampering with it, a claim will simply pit the seller's word against the customer's. Customers may request returns with various justifications, but there is no reliable way for the merchant to confirm their claims. Furthermore, even if the sellers suspect fraud, they avoid offending customers who might level unsubstantiated accusations. Customer dissatisfaction harms a business' reputation, which prevents businesses from tackling return fraud effectively.[1]

Another major problem with return scams is that businesses face the challenge of determining how to deal with returned goods. The most straightforward option is to reintroduce them into the market, but doing so requires reverse logistics, which entails transporting items from the customer to the manufacturer or the retailer. On top of that, some returned goods aren't suitable for resale. As a result, retailers frequently increase prices to compensate for losses, negatively affecting customers' shopping experience.[4]

Types of return fraud

Even genuine and loyal customers expect returns on many occasions. The difference between a fraudulent return and a genuine return is not easy to figure out. Knowing some techniques that commonly plague the retail world could help. Such fraud can take many different forms. [2][3][4]

- **Item not delivered:** In this well-known scam, the perpetrator pretends the item was never delivered in order to obtain a complete refund from the merchant.

- **Returning stolen items:** Returning stolen goods entails shoplifting and requesting a full-price refund on the returned goods.

- **Receipt fraud:** Receipt fraud is the theft or falsification of receipts in order to return goods for compensation. Another variation of this involves getting products from one store for a bargain and then returning with them for more money at another to benefit from the difference.

- **Employee fraud:** Employee fraud is an insider fraud where employees help customers return stolen products at full price.

- **Open box return fraud:** Fraudsters purchase an item from the store and return an opened box to repurchase it at a lower price in accordance with the 'open box' store policy.

- **Price swapping:** Price swapping is the practice of marking up products with higher prices so that they can later be sold back for more money. This is comparable with the practice of receipt fraud, where perpetrators make money from price discrepancy.

- **Price arbitrage:** Price arbitrage is buying products that are visually identical but are sold at different prices and then returning the cheaper product as the more expensive one and making money off the difference.

- **Switch fraud:** Switch fraud refers to customers buying a functioning item and then giving away a previously owned broken or defective item.

- **Bricking:** Bricking is when customers buy a working electronic product, strip it of all valuable and necessary parts to render it useless, and then return it for a refund.

- **Cross return:** This happens when customers return or exchange a product purchased at one merchant for a product bought at another in exchange for money, shop credit, or an equivalent, more expensive product.

- **Wardrobing:** Wardrobing refers to the practice among customers wherein they buy merchandise for short-term use with the intention of returning it. For instance, an expensive piece of clothing worn only once before is returned, or a book is returned after reading.

Tips to prevent return fraud

To foster consumer satisfaction and loyalty, returns are essential in the retail industry. Unfortunately, such a policy makes it difficult to combat return fraud. To effectively combat return fraud, policies must be transparent and stringent yet flexible enough to avoid deterring valid returns and swaps. Additionally, it is imperative to gather as much information as you can from fraudulent returns in order to stop future offences and improve fraud prevention. By enhancing fraud prevention and detection services, companies can collect all the information and means they require to fight future fraud.[1][2][4] Here are some helpful steps that you can follow to effectively fight return scam.

- **Make your return policy more stringent:** Changing your policy is the simplest method to reduce return fraud in your organisation. This is especially crucial during the holiday season when merchants experience a 70% surge in fraudulent returns compared with other times of the year. You should change the policy to include a return deadline or impose limitations on popular purchases that call for a shorter timeframe for returning those types of goods.

- **Invest in software for analysis of returns:** Utilising software that analyses returns activity can be one way to prevent return fraud by assisting shops in determining whether a return is legitimate or not.

- **Introduce a Returns Management System (RMS):** By deploying returns management systems, most mid-sized and big sellers can lower their risk of fraud. A returns management system (RMS) is a specific type of supply chain technology that integrates and optimises every step of the returns process and after-sales care administration.* An RMS provides you greater control over processing, verifying, and managing returns from customers. With the help of an RMS, you can create standard workflows that ensure the staff is inspecting and monitoring returns appropriately. It acts as a single source of information for returns management, causes, and consequences from beginning to end.

- **Ensure that your policy is easily accessible:** The majority of online buyers will insist on reviewing your return policy before making a purchase. But if customers can't locate or understand that policy, it's better off being non-existent. When you have a clear return policy in place, you need to ensure that it is easy to find. This calls for conspicuously displaying the policy wherever possible. Your terms and conditions should be prominently displayed on all pages of your website, including the checkout page, as well as on invoices, packages, bills, and other customer records.

- **Substitute cash refunds with store credit:** Customers come first, but businesses must also consider their own sustainability when it concerns return fraud. To that end, in some cases, you might want to issue a store credit instead of a cash return so that there is less motivation for someone to send back a counterfeit item or engage in fraud. If properly tapped into, each return is a chance to expand sales and forge new bonds with clients. Consider letting customers exchange returned items for in-store credit worth 10% more than their actual value. This is advantageous to both you and your client. Even when the credit exhausts, it's typical for customers to make other purchases concurrently.

- **Request receipts and obtain delivery confirmation:** Pick a delivery service that provides a tracking number or even a picture of the product once delivered. After an 'item not delivered' or 'item delivered damaged' claim, you will have evidence that the product was actually received. This requires buyers to send back the invoice or receipt included with the order and reject any returns without it. By doing so, you will be able to compare the purchase with the receipt and ensure that you aren't refunding money for a false sale.

Conclusion

Machine learning-based fraud detection and management services assist retailers in safeguarding themselves from malicious practices. Smaller retailers might need to turn to more investment-efficient options that do not demand dedicated personnel. Machine learning-based tools can do that for you. The best case scenario is that retail fraud is completely contained and you don't incur any loss. Another satisfactory goal could be that the losses are not carried over to the customers leading to damage to the customer base.[5] Retail organisations must leverage the best possible expertise and insights into fraudulent transactions. Implementing services and tools with domain expertise and analytical skills combined with technology can help protect your organisation's revenue and brand image.

*For organisations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed organisational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like living organisms will be imperative for business excellence. A comprehensive yet modular suite of services is doing precisely that. Equipping organisations with intuitive decision-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, Live Enterprise is building connected organisations that are innovating collaboratively for the future.

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