BEYOND THE MYSTERY: UNVEILING THE WHY AND HOW OF RETURNS FOR EFFECTIVE MANAGEMENT AND FRAUD PREVENTION IN RETAIL

Abstract

Returns are crucial for fostering customer satisfaction and building trust in the ever-changing consumer preferences. However, their growing prevalence is leading to two unique situations: increased returns and fraudulent returns, both significantly impacting the retail industry's profitability. This paper explores the factors driving the surge in genuine customer returns and return fraud. It presents effective strategies to minimise losses and optimise the return process, to make it resilient and profitable. Ultimately, this paper seeks to strike an optimal balance between meeting customer expectations and mitigating the impact of returns.

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Introduction

In retail, a seamless return experience empowers customers and builds trust, ultimately contributing to market share growth. However, retailers face undeniable challenges from the increasing prevalence of returns, especially in omnichannel environments. Online shopping, while offering unprecedented convenience for consumers, also facilitates easier returns. This surge translates to financial losses through lost revenue, additional shipping costs, and restocking fees, while also increasing employee workload and straining supply chain management.

According to the National Retail Federation (NRF), for every $1 billion in sales, the average retailer incurs $165 million in merchandise returns. Retailers also lose $10.40 in return fraud for every $100 of returned merchandise. To put things into perspective, of the $1.29 trillion in US online retail sales in 2022, an estimated $212 billion was the value of merchandise returned. Of that $212 billion, $22.8 billion was fraudulent.[1]

Minimising the impact of returns on business operations is crucial for thriving in the competitive retail industry. Accepting returns is essential for retailers to maintain and foster customer loyalty. Customers with negative return experiences may leave unfavourable reviews on social media, tarnishing the retailer's reputation and hindering customer acquisition and retention efforts.

[1]2022 Consumer Returns in the Retail Industry (nrf.com)
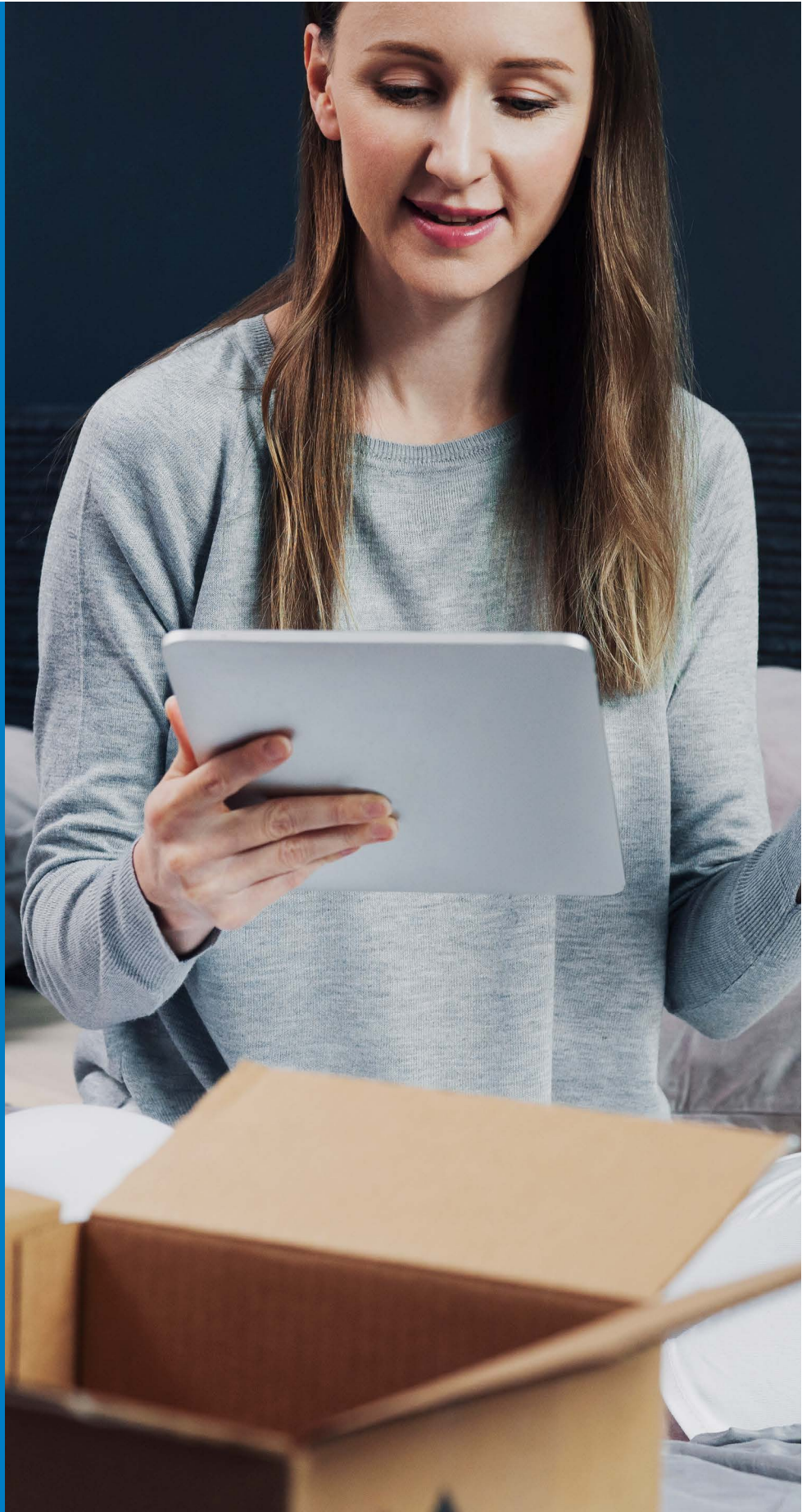
Why do customers return products?

Below are some frequent reasons that contribute to product returns.

- **Product did not fit well:** This accounts for 30–40% of all returns. It poses a challenge particularly for clothing and footwear brands, as determining the correct size or fit when shopping online can be difficult.

- **Bracketing:** A customer may intentionally purchase variations of the same item (different sizes, colours, or styles) with the sole intention of keeping only one and returning the others. Despite not technically being fraudulent, bracketing increases the costs associated with returns in significant ways. It is particularly prevalent in e-commerce, where customers cannot physically try on or examine items thoroughly before purchase.

- **Product was damaged or defective:** This can occur during shipping or manufacturing and can be a major inconvenience for customers. Return policies that are not customer-friendly, especially for damaged or defective products, can negatively impact brand loyalty.

- **Item was not as described:** The product description failed to accurately reflect the actual product.

- **Customer changed their mind:** Occasionally, customers will change their mind after receiving an item after discovering a better deal elsewhere or finding the item unsatisfactory.

- **Wrong item was shipped:** A customer may receive the wrong product due to a warehouse error. The customer should be able to return the product hassle-free in such cases.

- **Shipping took too long:** If an order takes an excessive amount of time to arrive, the customer may no longer require or desire the item.

While the above are genuine reasons for returns, retailers must also keep an eye out for fraudulent returns, which significantly erode retail profitability.

What are the different types of return fraud?

The following is a list of different types of return fraud, each with its unique characteristics and methods; hence, it is essential to understand all of them.

- **Wardrobing:** Wardrobing refers to the practice of buying an item, using it for a short period, and then returning it. This is often seen with expensive clothing and electronic devices.

- **Receipt fraud:** Receipt fraud is when someone returns merchandise for a refund by using a receipt that was not issued for the item being returned or by altering an existing receipt.

- **Merchandise not received:** In some cases, customers claim they never received an order they did receive, resulting in a refund or replacement without returning the item.

- **Merchandise exchange:** Merchandise exchange is when someone returns an item for a different item of equal or greater value to get a newer or more expensive item or an item that is not in stock.

- **Bricking:** Bricking refers to intentionally damaging an electronic device so that it becomes unusable and can be returned for a refund.

- **Receipt switching:** Receipt switching is when someone swaps the receipt for an item with a receipt for a different item to return the item for a higher refund than it would otherwise be worth.

- **Employee return fraud:** Employees may return stolen merchandise or partner with fraudsters to return merchandise with duplicate receipts.

- **Return of stolen merchandise:** It refers to the act of returning an item that has been stolen from a store, often to obtain a cash refund or gift card.

- **Returns made by organised retail crime (ORC) groups:** Organised retail crime (ORC) is a growing problem in the retail industry. ORC groups comprise professional thieves who steal merchandise from stores and return it for a refund, costing retailers millions of dollars each year.

How can retailers manage and minimise returns?

For retailers to manage and minimise the rising cost of returns, they must implement effective strategies. This section will delve into key strategies that can demonstrably reduce return rates, thereby enhancing profitability and fostering customer satisfaction.

- **Setting reasonable, realistic policies and tightening the loopholes:** Retailers should set return policies that are fair to both customers and the retailer, easy to understand, and consistently enforced. Policies should be free of loopholes, which could involve requiring customers to provide identification, receipts, or proof of purchase.

- **Analytics & AI-driven return and fraud management:** Retailers should analyse the return behaviour of their customers, identify the reasons for returns, and address them. For example, retailers can identify customers who frequently return items or tend to return extensively used items. For customers returning products that do not fit, retailers can add more detailed sizing information to their product pages. The use of AI will further enhance the efficacy of managing returns and fraud.

- **Providing clear and accurate product information:** Having accurate product descriptions, sizing charts, and photos reduces the likelihood of customers returning the products.

- **Avoid shipping out damaged or defective products:** This can be done by inspecting products carefully before shipping them out, packaging them securely, and including clear instructions for the logistics partner.

- **Using technology:** The use of an RMS (returns management system) can help give better control over processing returns. Several software solutions use data analytics to identify suspicious patterns of behaviour and verify the authenticity of receipts and other documentation.

Apart from the above-mentioned strategies, separating fraudsters from loyal customers using data analytics to identify customers who are likely to commit return fraud and flag them for additional scrutiny is key to reducing fraud and ensuring customer delight.

In conclusion, an effective returns management process is more than just logistics; it's a key element of retail success, impacting customer satisfaction, revenue, and brand image. The use of AI, analytics, and a specialised team of experts can help improve the bottom line and optimise inventory, benefiting both customers and businesses.

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Anu is a Senior Consultant for retail industry solutions at Infosys BPM. She is a seasoned retail expert with over 15 years of experience, helping retailers navigate the ever-changing retail landscape.

Anu has a deep understanding of various retail functions, from merchandising and assortment planning to store operations, marketing, e-commerce, and even loss prevention. She leverages best practices from different segments of retail to drive tangible results and help businesses not only adapt to changes but become pioneers in the evolving market.

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