HOW IMPORTANT ARE RETURNS TO CUSTOMERS?

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Returns are a thorny issue for retailers, and the prevalence of returns fraud is a big part of the problem. According to Appriss Retail and National Retail Federation (NRF) data, total U.S. retail returns for 2023 amounted to $743 billion, of which $101 billion (or 13.7%) was fraudulent.

Instances of fraud in claims and appeasements, in particular, are on the rise.

Claims and appeasements — which occur when a shopper files a claim that an item was damaged, defective, or not received and/or when a retailer provides a credit to appease the shopper — was the fastest-growing category of online returns fraud and abuse in the 2023 Appriss Retail and NRF research. Depending on their vertical, retailers spend between $21 billion and $35 billion on claims and appeasements alone — of which $2.2 billion to $3.7 billion is fraudulent (10.5%).

> "Claims and appeasements involve a lot of moving parts, including reships. That means that the retailer loses revenue on both sides: on the original order, and on the follow-up orders. They're very complicated, and a lot of them are handled as refunds and repurchases. We see a lot of fraudsters and abusers get reshipments on products and then return the same products in store."

Pedro Ramos
Chief Revenue Officer of Appriss Retail

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Retailers are taking action to get returns, claims, and fraud instances under control. New research from Appriss Retail and Retail Dive, for example, finds that within the last year, 83% of companies have made changes to their return policies to decrease overall returns, and 84% have made changes to their return policies to decrease return fraud.

What retailers may not be considering, however, is whether the efforts they're undertaking to deter returns and fraud are more detrimental to customers than they need to be — which ultimately puts customer satisfaction at risk.
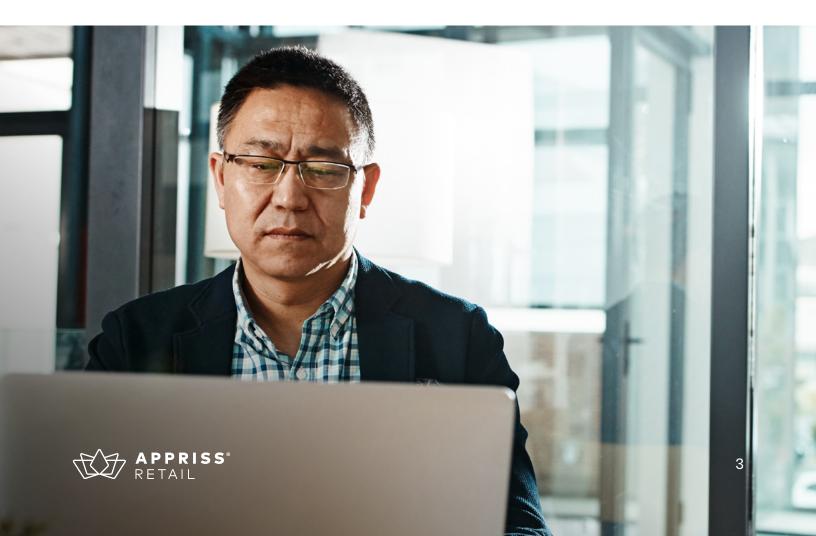
This report uses the results of two surveys (one of 150 retail executives, and one of 1,000+ North American consumers) to explore how retailers are currently contending with returns, the impact of returns on consumers' shopping decisions, and how retailers' return policies are holding them back.

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How companies are restricting customers

The most frequent types of return fraud or abuse experienced by retailers are wardrobing (customers returning used merchandise) (60%), returns of merchandise purchased on fraudulent or stolen tender (55%), and returns of stolen merchandise (48%).

Wardrobing is a particularly difficult ecommerce problem for retailers to address, given consumers' embrace of the practice. More than half (52%) of consumers, for example, report that they are comfortable with returning used merchandise.

"The act of using a product and then later returning it is more prevalent in the digital space simply because there isn't a human interaction involved," says Ramos. "You would probably be less likely to wear a garment for a period of time, for example, and then go return it within the return policy window, if you have to interact with somebody face to face."

Other common types of return fraud or abuse reported by retailers include returns using counterfeit receipts or e-receipts (48%), bracketing (customers buying items in multiple sizes/colors with the intention of returning some) (47%), and employee return fraud and/or collusion with external sources (39%).

Retailers' efforts to prevent these kinds of abuses by implementing blanket return policies or automated ecommerce fraud prevention solutions, however, may ultimately prove detrimental to their customer relationships — as they neglect to factor in customers' past interactions with retailers.

The most frequent types of return fraud or abuse experienced by retailers are **wardrobing** (60%)

Ways retailers determine returns are fraudulent or abusive.

31%
Empty boxes or non-purchased items returned

22%
Individual buyers with high return rates

19%
Product never making it back

19%
Credit card chargebacks after returns received

8%
Counterfeit receipts or e-receipts

As companies take action to decrease all types of return fraud and abuse, the top four fraud prevention efforts they're currently deploying are requiring receipts/proof of purchase from customers in order to return (67%), limiting return windows to 30 days or less (59%), using return merchandise authorizations that require reasons for return (58%), and monitoring transaction data for signs of fraudulent customer behavior (54%).

The two most popular prevention efforts among retailers — requiring receipts and limiting return windows — ultimately place restrictions on customers regardless of their unique shopping histories.

Restricting customers when it comes to returns can have negative consequences:

More than half of consumers (55%) have decided not to buy from retailers or ecommerce stores due to the restrictions of their return policies.

"Return policies carry a risk to consumer satisfaction," says Ramos. "In stores, for example, they are highly dependent on the store associates enforcing the policies, which introduces the potential for bias."

Ultimately, almost all retail executives (97%) believe that offering customers a positive return experience is extremely or very important to their companies. Even more (99%) believe that their companies' customers are satisfied with their return experiences — even though consumers report otherwise.

What retail customers think about returns

More than one out of three consumers (36%) report that they have had at least one in-person or mail-in return experience that they would characterize as a negative experience.

The factors most often contributing to these experiences are:

- **Poor customer service** 45%
- **Long waits for refunds** 42%
- **Shipping or restocking fees** 34%
- **Confusing return policies** 26%
- **Restrictive return policies** (such as short time windows) 20%
- **Receipts/proofs of purchase required** 16%
- **No in-person return option** 15%
- **Difficult to use online return portal** 11%

Negative return experiences can impact both the likelihood and value of future sales for retailers. Almost a third of consumers (31%), for example, have stopped shopping at certain retailers or ecommerce stores due to negative return experiences.

"If you keep having negative experiences due to the stringent enforcement of a retailer's policies, you will change your buying habits — even if you're a great customer," says Ramos. "Consumers also expect a consistent experience in store and online, and not getting that leads to confusion, frustration, and brand damage."

On the flip side, positive return experiences are more likely to lead to future purchases from consumers.

Seven out of ten consumers (70%), for example, say that they have made at least one additional purchase from certain retailers or ecommerce stores because they had a positive return experience with those brands. Almost nine out of ten consumers (89%) say they would be more likely to make additional purchases from certain retailers or ecommerce stores if they were to have a positive return experience with those brands.

Finding the right returns balance

Offering customers a positive return experience is important, but companies' current efforts to reduce fraud and lower returns overall are clearly missing the mark on customer experience.

> "Retailers think they're getting returns right because when they make policy changes, they see behavior changes. But the data point they're not measuring is consumer satisfaction, and I consider that the 'silent complaint.' If I am dissatisfied with my experience with a retailer [enforcing their policy], I'm just going to go to a competitor. And for that first retailer, even enforcing that policy will eventually take a back seat to another initiative, and returns will come back to their prior rates."
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> **Pedro Ramos**
> Chief Revenue Officer of Appriss Retail

The better solution for reducing returns is using AI to help offer customers a more intelligent, unbiased experience.

Appriss Retail's AI-driven technology, for example, can manage returns for retailers in a manner that protects their relationships with customers. The key is keeping customers' individual shopping histories at the forefront and giving them the experience they deserve and expect.

"Our returns and claims application is objective, and it has the full 360-degree view of the consumer," says Ramos. "It looks at all of the consumer's interactions with a specific retailer and takes actions on their returns based on total customer value. It treats loyal consumers as they should be — giving them the best experience possible. Conversely, it identifies and declines bad consumers who return more frequently or deliberately take advantage of the retailer's good nature."

Conclusion

With total U.S. returns reaching $743 billion last year and claims and appeasements on the upswing — increasing 1.5% in 2023, according to Appriss Retail–NRF data — retailers can't afford to let their efforts to deter returns and fraud keep customers away.

Taking a data and AI-driven approach to returns allows retailers to drive down fraud and abuse without compromising customer satisfaction by applying blanket return policies.

"Not all customers are the same," says Ramos. "Professional, organized criminals are going to know every single loophole, understand every policy, and act on every workaround they can find in those policies. Good consumers aren't thinking that way, which is why retailers should consider alternatives to strict policies. There's plenty of data available to guide them in the right direction."

The Appriss® Retail Platform helps retailers turn returns into positive experiences for shoppers and greater profitability for their bottom lines. **To learn more, go to apprissretail.com.**

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Appriss Retail provides retailers with protection against fraud and abuse for every transaction, no matter where it happens.

With more than 20 years of retail data science expertise and experience, we've built a collective, omnichannel intelligence platform that is trusted by over 60 of the top 100 U.S. retailers, covering one-third of all U.S. omnichannel sales across 150,000 locations.

Globally, Appriss Retail reaches 45 countries across six continents. The company provides relevant, actionable, and profitable collective intelligence to retail operations, finance, marketing, and loss prevention teams. Appriss Retail's performance-improvement solutions yield measurable results with a significant return on investment. For more information about Appriss Retail, visit apprissretail.com.

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