



## Optimizing the Value in Return Transactions

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Written by retail analysts from an independent, third-party consulting group based upon their analysis of return optimization business cases presented for their client base.



**Retailers who have recently optimized their return transactions have increased consumer conversions while reducing loss, resulting in increases of over 1–2% in net sales.**

# Optimizing the Value in Return Transactions

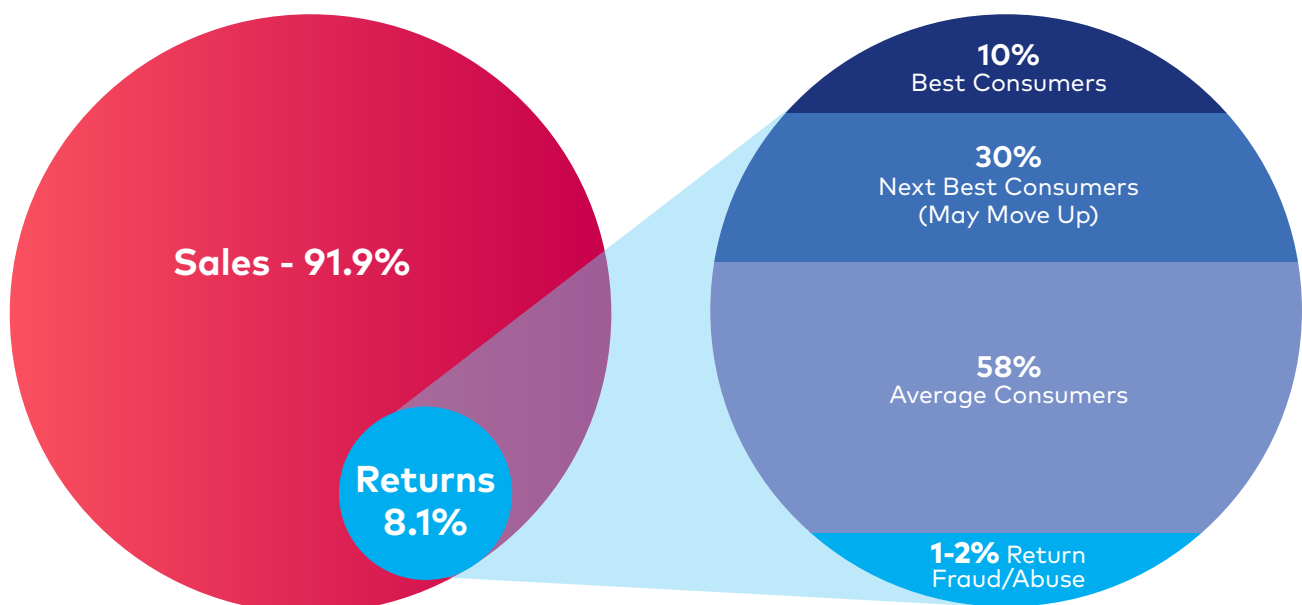
There are only so many dials that can be turned to increase sales and reduce expenses, and most have been turned at least twice already. But what about returns? Historically, return transactions have just been “a part of doing business”—however, they can unfortunately cause BOTH a negative sales impact AND an increase in expenses. But, what if new value could be created—previously ignored in return transactions—adding new sales? Or what if fraud and abuse could be reduced without creating stricter policies that can frustrate good consumers—and still save costs by reducing return rates? What if a NEW omnichannel dial could be turned? Think about it, if providing a higher level of consumer service and generating both revenue and increased margin during the stressful return or exchange process could be possible, then an improved bottom line and a competitive advantage would have just been created.

Return and exchange transactions are a dark part of the retail environment—accepted out of necessity and/or consumer service pressures, yet often left unexamined. Most multi-channel retailers are so accustomed to seeing the returns bucket on weekly reports that they simply gloss over it, or grumble about the negative effect returns have in transforming gross sales into net. But returns hold significant promise, and we believe that the concept of return optimization may be one of the keys to unlocking their extraordinary value.

## What Is Optimal Return Rate?

The optimal return rate occurs when a retailer creates an environment that encourages consumers to purchase with confidence yet prevents problematic returns. This optimal level accepts all legitimate returns and strikes the right balance between a situation that permits too many returns that lead to net losses or fraud, and a situation that allows so few returns that it limits consumers' desire to make purchases, leading to lower revenue.

### Cross Section of Returns



\* Percentages Based on Number of Transactions

## A New Perspective on Returns

Traditionally, retailers have utilized policies and procedures to manage returns and try to curb fraudulent return transactions. In the past few years, returns management applications, focused on receipt validation, have been introduced to help contain the losses from returns—yet returns and return fraud and abuse continue to grow.

To compound the problem, most retailers who are trying to “manage” fraudulent returns by implementing stricter policies and procedures are often alienating good consumers and causing additional headaches as they try to enforce them. Retailers may have strong return procedures and policies in place and empowered store managers or robust web sites to apply discretion when processing returns, but still many have not examined the numbers that drive their stagnant or, worse yet, growing return rate. Shouldn't there be a better way to minimize fraudulent returns and ensure adherence to return policies while maximizing consumer service?

Retailers already spend a lot of their time and marketing, operating, and training budgets trying to get shoppers into the store and then convert them to paying consumers. With a return, the shopper is already in the store, plus they have money to spend; why not encourage them to spend it in the store immediately? It is the perfect time for a conversion attempt.

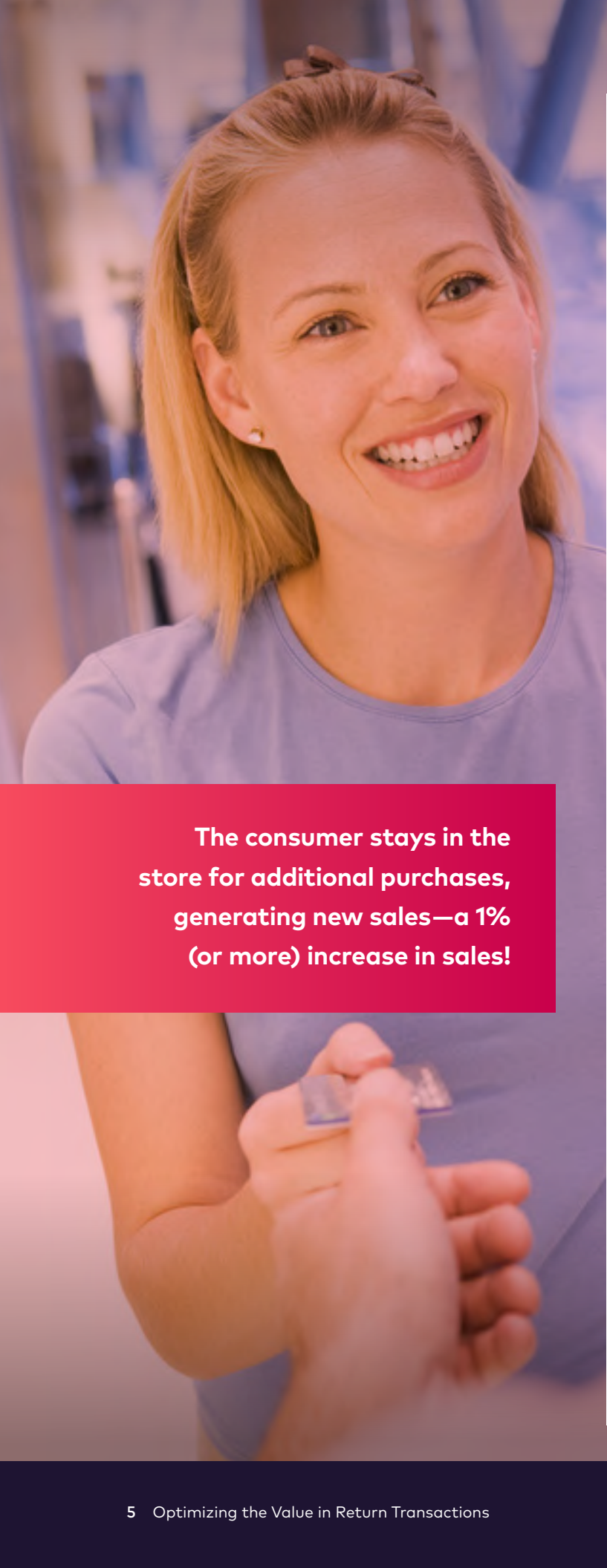
**“If you have not focused on managing return dollars as a method of protecting your profits, then you may be leaving money on the table . . . it was the highest and quickest capital ROI in the company.”**

**—Paul Jones**

*(commenting on implementing a solution while at Limited Brands)*

In this age of advanced communications and technology, we believe that returns can now be examined and even exploited to further reduce the amount of red ink. Part of the awareness comes when considering that returners are a cross section of that retailer's regular shoppers. The trick is to improve consumer service and convert the 99% of good consumers, while still deterring return fraud and abuse. Return optimization can provide retailers with these benefits in addition to generating new revenue.

Return optimization is a process that tracks purchase and return histories at that retailer and combines them with statistical models to discourage fraudulent and abusive return behavior, while at the same time encouraging good consumers to continue their shopping experience by issuing incentives. Traditional Returns Management solutions verify the consumer receipt for validity; however, return optimization goes above and beyond by also examining a consumer's data and purchase history against products and trends to discourage abuse and fraud while utilizing predictive behavior and retailer-specific business objectives to generate incentives and reward thresholds.



**The consumer stays in the store for additional purchases, generating new sales—a 1% (or more) increase in sales!**

## **Opportunity to Generate New Revenue**

How can retailers minimize the negative impact of a return transaction? What is needed is an improved return experience—an opportunity to win consumer confidence and earn their loyalty at a critical point in the relationship. It's also a huge sales opportunity: *The shopper has cash in-hand from the recent return, so keep them in the store... spending!*

### **Here's how to convert a previously "un-convertible" return consumer:**

When a profitable consumer returns a product, give them an incentive that rewards them if they stay in the store and spend money. The byproduct of this incentive is also a significant boost to consumer satisfaction.

### **Here is what happens next:**

The consumer stays in the store for additional purchases. As seen in retailers who have deployed Incent, this generates approximately a 1% increase in sales!

There is no better time to retain a good consumer and ensure their ongoing patronage than when they are standing inside the store or on your web site. Rewarding them says, "We apologize that the product wasn't what you wanted," and can simultaneously defuse an awkward and potentially stressful transaction. Use the return transaction to enhance the consumer relationship by offering an intelligent incentive to convert the consumer and keep the money in your brand. Use return optimization to identify the consumer and point them back to you with a specific promotion tailored to the consumers' and the retailer's needs, not just a generic discount to be redeemed anytime. By offering an intelligent discount to be applied immediately, you can raise consumer satisfaction and create the "wow" factor that retailers and consumers continuously seek.

A woman with dark hair, wearing a black top and an orange patterned scarf, is looking down at a receipt in her hands. The background is a blurred retail store.

**Fraudulent and abusive returns cost retailers approximately \$25 billion annually, accounting for nearly 6% of return value.**

*Source: 2020 Consumer Returns in the Retail Industry, NRF*

## **Opportunity to Reduce Fraud, Costs, and Shrink**

Fraudulent and abusive returns cost retailers approximately \$25 billion annually, accounting for nearly 6% of return value (Source: 2020 Consumer Returns in the Retail Industry, NRF). Most retailers wrestle with return procedures on the consumer "service versus strictness" spectrum, but the decisions that get applied as policies may do more harm than good. Enacting stringent across the board policies impacts good shoppers as well as potentially fraudulent shoppers.

Some retailers have chosen simple receipt verification, provided that their point-of-sale system will validate that the item was in fact purchased at the store. These host-based databases can verify if the receipt and the original purchase are valid, but they cannot make an intelligent recommendation to the associate whether or not to accept the return. This simplistic focus is a good starting point and certainly improves the management of returns; however, the problem with this approach is:

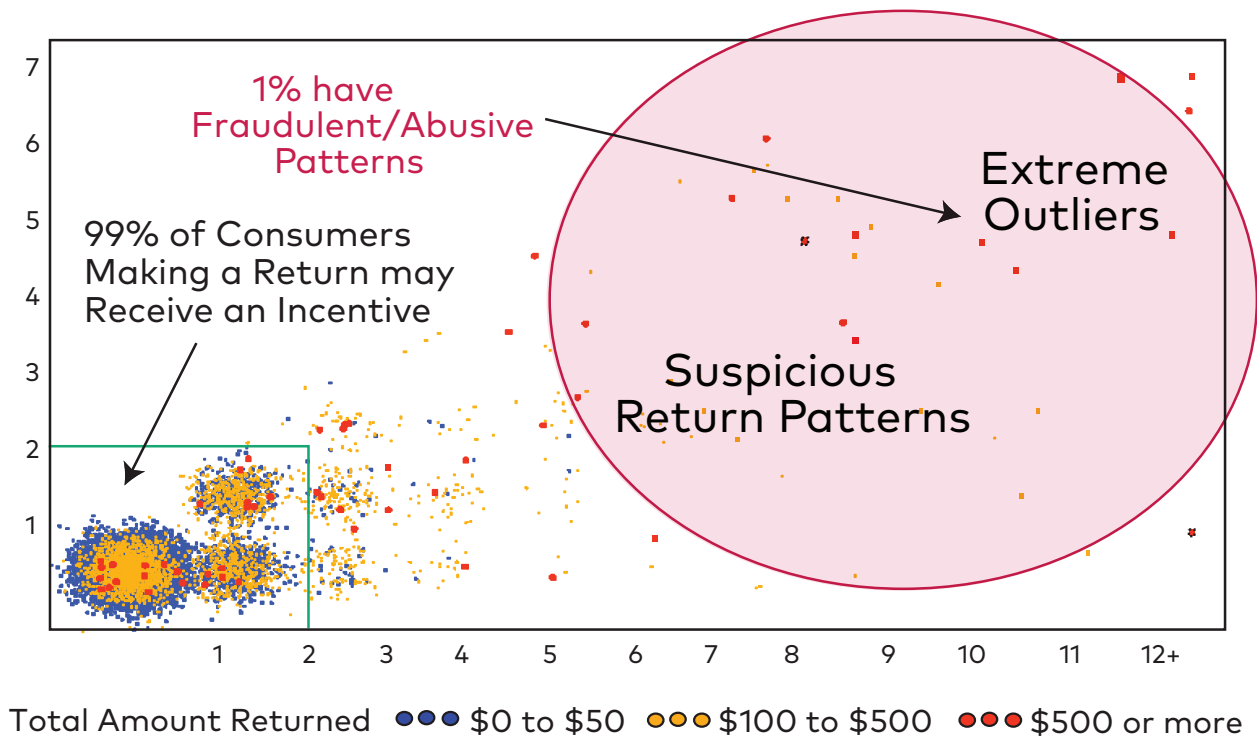
- **It does not account for shopper return trends and behavior; there are many examples of return abuse where every receipt may be valid, but the returner is clearly exhibiting negative behavior.**
- **Employee-level decision-making introduces subjectivity and accountability issues which may be applied or enforced very differently across an entire chain.**
- **Problems associated with "non-receipted" and "no-consumer-identified" return transactions.**

Instead, what is needed is a statistical modeling approach that helps more accurately determine true return fraud, eliminating abusive returns while allowing legitimate returns. Using the same type of statistical algorithms that have transformed price management, return optimization is now available to help you identify which consumers to reward for their patronage during the return process and which consumers are potentially abusing services and/or defrauding the business.

Progressive retailers who have implemented Verify® Return Authorization have realized an average of 8% overall reduction in returns (and a 13% reduction in shrink) without negatively affecting consumer service ratings. They continue to offer

high consumer service to their good consumers, while discouraging potentially abusive consumers (through education and warnings) and preventing fraudulent returns.

Retailers appreciate return optimization because they are able to deliver good service to good consumers but let the system recommend actions appropriate to the retailer's thresholds for abusive or fraudulent returns. The enforcement of the corporate returns strategy is seamless and data-driven, deflecting confrontation between the retailer and the consumer. The process has helped many retailers reduce loss much the same way Check Verification Systems did in the 1990s.



## Returns Opportunities

Returns represent a major untapped opportunity in retail. Omnichannel retailers now have a new dial to turn—one that can increase conversions and revenue and also reduces fraud and abuse, without negatively impacting consumer satisfaction.

What are the next steps to discover the opportunities and address the challenges in the current environment? Retailers need to ask themselves the following questions:

- **How is the consumer return experience at your store? On your site? Across your brand?**
- **What are your current return policies?**
- **Do your return policies adversely affect your best consumers?**
- **Do you have a method for receipt validation at the point of return?**
- **Can you identify what actions and overrides are being performed during the return process?**
- **How do associates feel about the return process?**
- **What is your current consumer conversion rate?**
- **How are consumers being rewarded for their patronage?**
- **Does anyone review "good consumer" returns?**
- **Do you incorporate the return transaction into your loyalty system?**
- **Do you have a process in place to help move an "average consumer" up to be a "best consumer?"**
- **How much impact could return optimization make to your bottom line?**


**"Surprising and delighting the customer and converting those returns into purchases is a must, this will help turn a bad customer into a good customer, while creating good customer service and keeping the sale."**

**—Ken Morris**

*Retail Industry Consultant*

The ability to properly manage abusive and fraudulent return behavior by identifying, educating, and then deterring unwanted consumers within your brand without negatively impacting good consumers can significantly increase sales. When you combine that ability with a reward system based on converting returns into purchases and creating positive interaction at a touch point that can often be frustrating for both the consumer and the associate, the impact to the bottom line can be dramatic.

"Retailers should have systems that not only discourage poor consumer return habits, but also provide the key performance indicators that identify and reward good consumers. Creating a new 'Returns KPI' centered on surprising and delighting the consumer and converting those returns into purchases is a must," remarks Ken Morris, retail industry consultant. "This will help turn a bad customer into a good customer, while creating good customer service and keeping the sale."

Retailers have a real opportunity to put more on the bottom line AND increase consumer satisfaction. Instead of just trying to manage returns, there is a better way to minimize fraudulent returns and consumer frustration, while maximizing return transactions' untapped value—return optimization. 

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