



Increase Revenue Through Better Returns Processes and Improved Fraud Detection

Holiday sales are here and expected to be bigger than ever. The National Retail Federation (NRF) predicts \$680 billion in November and December holiday retail sales (excluding auto, gas, and restaurants), up 3.6%-4.0% from 2016. More impressive, however, is the year-over-year 18-21% online retail sales growth expected by consulting firm Deloitte for the 2017 holiday season. With the growth in online sales, retailers need to be ready with smooth fulfillment processes to handle this increased activity.

Not all online purchase activity during the holidays sticks, of course, as many purchases are returned. And not all purchases are legitimate, with some amount of fraud anticipated by retailers. Returns and fraud are inevitable, but efforts to reduce their occurrences can also easily reduce sales in the long term.

To better understand these issues, Radial recently teamed up with CFI Group to conduct a survey of 500 online shoppers to find out what they expect from retailers related to return options and fraud detection. It turns out many retailers can improve how they manage returns and fraud.

RETURN OPTIONS ARE IMPORTANT

Offering flexible return options is costly, but it also generates high customer satisfaction. Customers expect the online purchase process to be smooth from checkout through delivery and returns. For a retailer to be successful in the current market, customers need to be empowered with options.

A large majority (86%) of respondents say that having multiple return options affects their decision to make an online purchase. About half (53%) say the availability of multiple return options makes it much more likely that they will make a purchase, while another 33% say it makes it somewhat more likely to affect their purchase decision.

IN-STORE RETURNS ARE INCREASING

Customers place a high importance on having the option to return online purchases at a physical store. When returning online purchase items, 57% of respondents say that the option to return items to a physical store is very important, while still another 31% say that the store-return option is at least somewhat important. Only 13% say the option is not important.

And customers are increasingly taking advantage of the in-store return option. In 2016, 34% said that they usually or always returned online purchases to the store. In 2017, that number is up 7 points to 41%. Meanwhile, customers who usually ship their returns are down from 42% in 2016 to 36% in 2017.

SHIPPING RETURNS REMAINS POPULAR

Despite the trend toward in-store returns, however, shipping continues to be popular for returning online purchases. A full 23% say they always opt to ship their returns back rather than going to a store. These customers have their return patterns down and prefer sticking to the shipping option for returns.



These always-ship customers are a satisfied group. On a 0-100 scale used to measure customer satisfaction with the online purchase experience, customers who always opt to ship returns have a satisfaction score of 82, compared to just 69 for all others. Those who always ship are also more likely to tell others about their great e-commerce experience, giving a likelihood to recommend score of 84, compared to just 71 given by all others.

CUSTOMERS APPRECIATE CONVENIENCE

Convenience continues to drive customer preferences when it comes to returning online purchases. For customers who opt to ship returns for online purchases, 80% prefer to use a prepaid label, rather than handle the return process on the retailer's website. And 83% prefer to pay to ship the items back using a prepaid label for a fee, compared to the 17% who prefer to take care of the cost of the return shipment on their own.

Customers also do not want to be inconvenienced by drawn-out return processes. They expect returns to happen quickly. A whopping 98% of customers expect their returns to process within ten days, and 80% expect the process to take five days or less. About one-third (35%) expect the process to take just a couple of days.

CUSTOMERS EXPERIENCE MISTAKEN FRAUD

Fraud attacks are clearly a problem. Experian estimates that in 2016 there was roughly one fraud attempt for every three online orders. This prevalence of online fraud makes sophisticated fraud detection capabilities critical for retailer e-commerce success.

However, while undetected fraud can be costly for retailers, mistaken fraud detection can also be expensive. Misidentifying purchases as fraud is frustrating for customers and causes them to lose trust in the brand. Fraud detection that delays legitimate orders can lead to a loss of revenue far more significant than letting fraudulent transactions through.

Good fraud protection is certainly about preventing illegitimate purchases, but it is also just as much about not turning away good orders by mistake. Retailers must be careful to strike a delicate balance between restraint and vigilance when protecting consumers from fraud.

LOYAL CUSTOMERS REACT TO MISTAKEN FRAUD

Customers appreciate the need to flag potential fraud, but they

become frustrated when a mistaken fraud alert impacts the processing of an online order. For those who have had an order mistakenly considered potential fraud, 33% (up from 27% in 2016) say that they would not shop with that retailer again if that errant fraud alert caused a delay in the order delivery. Another 38% say that such a delay would at least make them hesitant to order from that retailer again.



Surprisingly, this frustration with mistaken fraud seems especially acute for a retailer's most satisfied customers. For highly satisfied customers (satisfaction score of 89+), 17% have had at least one mistaken fraud event before, and 43% will not shop with a retailer again if mistaken fraud causes a delivery delay. For all

other customers, just 10% have had a misidentified fraud issue, and only 17% would not to shop at a retailer again if mistaken fraud causes a delay.

TAKEAWAYS

Retailers increasingly need to offer flexibility and options to make it easy for customers to return online purchases. Retailers should promote these options and the convenience that they offer to customers. Charges for shipping returns should be calculated within the context of future potential purchases stemming from a satisfying and convenient purchase experience.

In a similar vein, retailers must carefully balance the direct costs of missed fraud with the costs of misidentified fraud. Retailers should consider taking advantage of cutting-edge fraud detection software to ensure a balanced approach. Retailers can also set default processes to continue an order when fraud is deemed possible but not likely.

Fraud management is a complicated but necessary process that should combine both manual review and machine learning to be efficient. Customers recognize that fraud detection needs to happen; they just do not want it to interfere with their order delivery. Depending on customer order history, retailers may want to consider discount coupons, quicker shipping, or similar offers when an order is wrongly identified as fraud. This simple compensation will go a long way toward retaining a customer.

As online sales continue to grow, so do the complexities of order fulfillment and fraud detection. Retailers should review in-house and third-party solutions for delivering on back-end processes that can support continued growth in online sales.

About CFI Group (www.cfigroup.com)

Since 1988, CFI Group has delivered customer experience measurement and business insights from its Ann Arbor, Michigan headquarters and a network of global offices. Using its patented technology and top research experts, CFI Group uncovers business drivers and the financial impact of customer experience.

About Radial (www.radial.com)

Radial is the leader in omnichannel commerce technology and operations, enabling brands and retailers to profitably exceed retail customer expectations. Radial's technical, powerful omnichannel solutions connect supply and demand through efficient fulfillment and transportation options, intelligent fraud, payments, and tax systems and personalized customer care services.