

RETAIL

How can luxury retailers combat return fraud?

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Bloomingdale's is one of the luxury retailers that has worked to combat fraudulent returns. Image credit: Bloomingdale's

By SARAH JONES

The growing popularity of cross-channel returns is creating more complexity for retailers, opening the door to greater fraud risk.

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According to the National Retail Federation's 2018 Organized Retail Crime Survey, while retailers expect less of their returns to be fraudulent this year, three in 10 anticipate fraud rising among purchases made online and returned to stores. From returns of stolen goods to wardrobing, fraudulent returns represent billions in losses for retailers, but companies can combat scams with heightened training and technology.

"Fraudulent returns can significantly erode the margins of luxury retailers, as there is a high price for each returned item," said Ken Morris, principal at [Boston Retail Partners](#), Boston. "Fraudulent returns are executed in several ways: returning clothes worn for a special occasion with no intention of keeping, returning items purchased at another store, fake receipts, found receipts and the list goes on.

"Retailers can guard against many of these tactics with proper controls and policies," he said. "The key to guarding against fraudulent returns is to validate that the specific item returned was actually purchased by the customer.

"Serialized inventory is common for electronic products but hasn't been adopted by luxury fashion retailers. With each individual product identified with a unique serial number that is embedded in the product and recorded on the transaction log and receipt, retailers can reference the serial number on returned items and confirm the customer that purchased the item."

Return problem

According to a report from Appriss, 10 percent of retail industry sales in the United States are returned, leading to a collective loss of \$369 billion for companies. About 5 percent of these returns are fraudulent, representing an \$18.4 billion hit on retailer's bottom lines.

"Return fraud has a huge impact on the retail sector," said Monica Eaton-Cardone, cofounder and COO, [Chargebacks911](#). "NRF identified \$22.8 billion in losses due to return fraud and other abuse in 2017, representing

about 6.5 percent of all product returns.

"Of course, that's just identified fraud," she said. "The real impact of return fraud could easily double that figure. In fact, according to experts, credit card fraud worldwide will reach \$31.67 billion by 2020.

"The effect is especially damaging for retailers carrying high-value items. With luxury goods, for example, there is a tendency to see lower conversion rates than other verticals, yet higher average transactions due to the nature of premium goods.

"The Ingenico data showed that even though items costing more than \$1,000 represented just 18 percent of all chargebacks, they ultimately cost 0.3 percent more in total than the other 82 percent of all chargebacks combined. Each return carries a greater net impact on the business's bottom line."

The most common form of return fraud is the return of stolen merchandise, which about 77 percent of retailers have experienced. The next most common is employee fraud or collusion.

About six in 10 retailers have had consumers return items that were purchased with fake or stolen tender.

Another common forms of return fraud is wardrobing, in which consumers wear a garment and then return it. Retailers cannot put the merchandise back on the sales floor, and they end up taking a loss for the item.

In 2013, Bloomingdale's began putting black plastic tags on its dresses, looking to combat this practice. Once removed, the dresses cannot be returned, preventing any question about the eligibility for return.



Bloomingdale's started attaching tags to some of its dresses to combat wardrobing. Image credit: Bloomingdale's

About 12 percent of returns are made without receipts. The portion of these returns that are fraudulent are higher than average, with one in five being illegitimate.

Often retailers put obstacles in consumers' way of returning too much merchandise without proof of purchase. This may include requiring a driver's license for a non-receipted return, or offering only in-store credit.

As noted by NRF, this is not doing enough to ward off would-be fraudsters, as they can still get their hands on cash by selling the gift cards.

Luxury brands often have liberal return policies as a service to shoppers. It can therefore become more of a challenge to put limits on returns.

A scene in "Ocean's Eight" shows Sandra Bullock's thief character picking up cosmetics at Bergdorf Goodman and attempting to "return" them without a receipt. At the end of the exchange, in which the sales associate refuses politely, the shoplifter ends up leaving with all of the items in a shopping bag.

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"I think a woman owes it to herself and everyone around her to be deliciously perfumed." Don't miss @dianavreelandparfums at @bergdorfs in the divine new @oceans8movie

A post shared by Diana Vreeland Parfums (@dianavreelandparfums) on Jun 11, 2018 at 11:44am PDT

Instagram post from Diana Vreeland Parfums

"Luxury retailers need to have liberal return policies to meet customer expectations," Mr. Morris said. "However, they should have good controls to ensure that customers don't take advantage of the system and policies.

"Serialized inventory guards against several fraud tactics, but it doesn't protect against customers wardrobing items," he said. "Maybe a partial credit on worn items is a fair compromise, as the retailer can't resell worn merchandise, unless they establish a used clothing program, which some retailers have done."

Ms. Eaton-Cardone suggests that retailers offer free shipping return labels and give customers a 10 percent bonus if they accept store credit instead of cash, allowing stores to recoup sales.

Festive fraud

The holiday season is a busy time for shoppers and criminals alike, as consumers are at a higher risk for fraud at the

end of the year, with brands such as Christian Louboutin and Balenciaga seeing double the number of attempted attacks.

According to Forter's [2018 Fraudster Wish List](#), spikes in fraudulent activity correspond with the peak holiday shopping seasons. Designer watches and shoes are the luxury goods most at risk for fraud ([see story](#)).

Around the holidays, promoting alternative gifting can be a way for retailers to prevent returns.

For instance, Diane von Furstenberg and Lancme are among the retailers that have used Loop Commerce's egifting tool during the holiday season to let consumers send a thoughtful gift without worrying about specifics such as size or color.

Through the SaaS solution, which uses a turnkey, consumers can "egift" an item from the product page, sending the gift to the recipient's email, allowing them to make the final selection or any adjustments. For luxury brands, this offers a more personal gifting option than gift cards while still ensuring that giftees get what they want ([see story](#)).

"Luxury buyers are already seasoned professionals, and the buying cycle is typically slower and involves more steps than mass-market sales," Ms. Eaton-Cardone said. "The key to stemming return fraud is adherence to standards.

"You need to craft reasonable, realistic policies applicable to a wide range of scenarios, and stick to them," she said. "This means accounting for variables like location, currency and any anticipated exceptions.

"These policies should be clearly presented to customers. You may think most don't bother reading your return policy ahead of time. In reality, more than two-thirds of online shoppers will review and take your return policy into account before completing a purchase.

"Define your expectations for customers. Lay out the timeframes in which returns are accepted, what documentation is needed, and how to address the return. Also, be sure to note any products that are final sale or require special circumstances for return."

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