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Blog

Unboxing a Solid Retailer Return Policy: Refunds, Store Credit, or Exchanges?

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So, what makes a good return policy? And, how can that policy either hurt or help the retailer's reputation with potentially unhappy customers?

Cash Refunds in a Return Policy: Happy Customer, Lost Opportunity – and Possible Fraud

"Cash is king" – and it's one of the simplest ways in which retailers can stand behind their products in a return policy. A customer returns the item, the retailer returns their money, and both part amicably.

There's a lot to be said for keeping customers happy at all costs, but **defaulting to cash refunds as part of return policy can hurt more than just the bottom line**.

For example, if a former customer returned the product due to a defective part, then they leave with the wrong impression of the product line. At best, they have an ambivalent opinion of the brand.

Solely using cash refunds also **may encourage return fraud.** According to the National Retail Federation, $22.8 billion of returns are fraudulent or otherwise abuse return policies. Therefore, offering straight refunds first may increase those chances for fraud.

Store Credit Return Policies: Keep It in the Family

Store credit – or offering a spendable balance at a retailer's store to spend on a new product – is a popular option of many major retailers' return policies.

Credit keeps the customer's former cash in a retailer's ecosystem without the headache of fund reversals. Retailers get the **mythical second chance of a good first impression** when customers purchase products a second time.

Plus, there's always a chance to upsell, increasing the value of the interaction. 59% of Millennial shoppers report buying another product when they're in store to pick up an item – it makes sense that they'd do the same when returning to spend store credit.

However, depending on the return rationale, store credit may harm a retailer's reputation. If customers feel "forced" to continue shopping at a retailer, they may feel worse instead of better. That's why **store credit return policies work well for retailers with wide selections** – and white-glove customer service initiatives.

Having direct exchange policies can encourage "power shoppers." These customers **purchase many goods online, try them at home, and return at higher-than-average rates** when they find their perfect product. (Apparel retailers understand this pain quite well.)

While power shoppers impact the reverse supply chain expenses with an increased number of returns, they also represent a loyal shopping base that can serve as brand advocates. Think of **supporting power shoppers as the costs of generating word-of-mouth advertising**, as they tell others of their shopping experiences.

Plus, studies show that 95% of customers will make another purchase *if* their return experience is positive. Retailers who keep those power shoppers happy can expect to see increased revenue.

How a Smart Reverse Supply Strategy Empowers Your Return Policy

Any of these return policies leave retailers with the same problem: Too many returned goods taking up space in stores, warehouses, or that odd alley between the employee bathroom and the shop floor.

No matter how retailers decide to implement their return policies, they must ensure the reverse supply chain is optimized they can *afford* the policies that keep customers coming back. By minimizing costs of returns, retailers can pass those savings along to customers in generous policies.

For retailers examining their return policies, consider what you'll do with a possible increase in returns. Make sure you have a dedicated location to store returns and an efficient way to recover return costs. Otherwise, you'll wish *you* could return those returns to sender.

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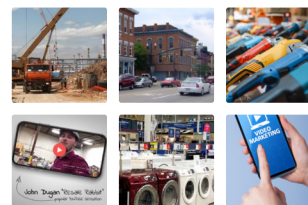**ABOUT US**

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Industry: Retail

Topic: Return strategy

Reader takeaways:
- A prime way retailers encourage shoppers to purchase are customer-friendly return policies, which can be a range from refunds, to store credit, to exchanges.
- Refunding a purchase can be the best for your customer service, but hit your bottom line the hardest. Store credit offers stores the chance to upsell and keep the customer within the retailer's ecosystem, but can feel inhibitive. Promoting exchanges as an alternative – especially for apparel stores – can encourage repeat shoppers, but also folks who abuse the system.
- Whichever you choose, having a solid returns strategy builds customer relationships and loyalty, but can be costly if you're not planning ahead – or partnering with a more experienced third-party firm.

Funnel Position (Pick One):
- **Top** (Educational, Entertaining)

*I want this post to (Pick up to two):
- **Teach readers** about reverse logistics in general and about specific tactics/skills

*Note: All blogs should strive to build LSI's brand as a trusted expert and funnel readers to the LSI site/other content pieces through distribution strategy. These are perennial goals that do not need explicit articulation, but rather should be kept in mind while drafting.

Primary Reader Call-to-Action: Sign up for blog/eNewsletter
Secondary Reader Call-to-Action: Read related Liquidity Services content

Related internal content (both marketing & sales):
- https://www.liquidityservices.com/resources/liquidity-services-provides-complete-returns-management-for-outdoor-retailer/
- https://www.liquidityservices.com/solutions/retail-solutions/returns-management/

External content/sources:
- https://archive.nytimes.com/www.nytimes.com/allbusiness/AB4353479_primary.html?pagewanted=all
  - Types of return policies:
    - Exchange Only: While you will lose revenue from the replacement product, you won't have to process a refund and give back the revenue from the sale.
    - Store Credit: If a customer is unhappy with their product, they can return the item to you and receive a credit for the amount of their purchase, usually less shipping costs. However, this may not appeal to a customer who has had a bad experience with your product, and it may not be effective if you only sell one type of product.

- - **All Sales Final:** An as-is policy may save you money in the short term - protecting you against merchandise being damaged in shipping and fickle customers - but in the long run, it will assuredly cost you money.
    - **Complete Refunds:** When a customer returns an item, especially if they used a credit card to purchase it, you will still need to pay the processing fees for the purchase, increasing the amount you will need to pay for the return.
    - **Restocking Fees:** Many businesses charge a restocking fee of 10 to 20 percent to help cover any processing fees, handling, and other costs associated with processing returns. Restocking fees are normally charged only on returns and exchanges made at the customer's discretion, not on returns of defective merchandise.
  - Unlike visitors to brick-and-mortar stores, online consumers don't get to see and hold the physical product before they buy it. So e-commerce sites must ensure that their return policies are fair and appealing to their customers.
  - A concise and clear return policy gives consumers a feeling of security; that what they are buying is guaranteed to be what it is represented to be. If a retailer doesn't give this guarantee, then consumers often become suspicious and avoid buying the product.
- https://www.bigcommerce.com/blog/create-a-returns-and-exchanges-policy-that-sells/
  - About 6.5% or $22.6 billion of the returns were labeled fraud or abuse of store return policies. That includes falsifying receipts to profit or buying something with the intention of wearing it once before returning it.
  - https://www.sciencedaily.com/releases/2012/10/121009101344.htm -- One study featured in the Journal of Marketing found that customers who received free shipping on returns increased their purchases over the next two years by 58 to 357%.
  - This is a potential differentiation factor between you and your competitors.
- https://appriss.com/retail/wp-content/uploads/sites/4/2017/12/2017_Consumer-Returns-in-the-Retail-Industry-Report.pdf
- https://support.bigcommerce.com/articles/Learning/Creating-a-Shipping-and-Returns-Policy/?_ga=2.262249548.1915007789.1570537459-1559272663.1570537459
- https://www.moneyunder30.com/retailers-with-the-best-and-worst-return-policies
- https://technologytherapy.com/important-return-policies-customers/
- http://business.time.com/2012/09/04/why-a-good-return-policy-is-so-important-for-retailers/
- https://www.smartinsights.com/ecommerce/ecommerce-strategy/37-indispensable-ecommerce-stats-to-inform-your-2017-strategy/
  - An Inconvenient returns policy deters 80% of shoppers (Source: comScore https://www.trueship.com/articles/study-finds-that-convenient-online-product-returns-improve-profits-exponentially/)
  - Studies show that of the 60% of online shoppers that make at least one return or exchange per year, 95% will make another purchase if the return experience is positive. (https://www.practicalecommerce.com/4-Tips-for-Better-Ecommerce-Returns-and-Exchanges)

Intended Publication Date: 11/07/19

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However, depending on the return rationale, store credit may harm a retailer's reputation. If customers feel "forced" to continue shopping at a retailer where either the product isn't what they want or felt unsupported, they may feel worse instead of better. That's why **store credit return policies work well for retailers with wide selections** – and white-glove customer service initiatives.

<h2>Direct Exchange Return Policies: Support Power Shoppers</h2>

Finally, direct exchange is a straightforward return policy: The customer returns the item, and the retailer offers a similar item in exchange. This policy works best when the return is due to a defective part, an incorrect size, a bad color, or similar error.

Having direct exchange policies can encourage "power shoppers." These customers **purchase many goods online, try them at home, and return at higher-than-average rates** when they find their perfect product. (Apparel retailers understand this pain quite well.)

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For retailers examining their return policies, consider what you'll do with a possible increase in returns if you advertise a more generous policy. Make sure you have a dedicated location to store returns and an efficient way to recover return costs. Otherwise, you'll wish *you* could return those returns to sender.

Word Count: 689

###

Content Funnel

Readers will find this blog through:
- Regularly scheduled email campaigns (enewsletters, etc.)
- "Organic" methods (SEO/Social/Email shares)

Readers will then go to related Liquidity Services content.

Readers at the end of this content path will:
- Fill out the "contact us" form for general information
- (Eventually) download Retail Returns whitepaper.

SEO

Targeted Keywords:
- Return Policy (7.2K, hard – Shopify's ranking #1)
- Retailer Return Policy (70, medium -- .org's & .net's ranking)
- Note: "store credit" is a bad key phrase, since it's all credit cards

Metadata
- **Title Tag:** Retailer Return Policies: Refunds, Store Credit, or Exchanges?
- **Meta Description:** 60% of online shoppers make at least one return a year. Should retailers offer refunds, store credit, or exchanges in their return policies?
- **Slug:** retailer-return-policy-refund-credit-exchanges
    - https://www.liquidityservices.com/retailer-return-policy-refund-credit-exchanges

Website Tag:

- Retail
- Return Management
- eCommerce

Hashtags:
- LinkedIn
  - #Returns (4,584)
  - #OnlineShopping (4,447,349)
  - #Retail (83,766)
- Twitter
  - #ecommerce
  - #supplychain
  - #Operations
  - #OnlineReturns

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Facebook	• 95% of customers will come back to make a second purchase – if the returns experience is positive: https://www.liquidityservices.com/retailer-return-policy-refund-credit-exchanges • Should retail return policies include refunds, store credit, exchanges, or all three? The pros and cons to each: https://www.liquidityservices.com/retailer-return-policy-refund-credit-exchanges
Twitter	• 60% of online shoppers make at least one return a year: https://www.liquidityservices.com/retailer-return-policy-refund-credit-exchanges #eCommerce #OnlineReturns • 95% of customers will come back to make a second purchase – if the returns experience is positive: https://www.liquidityservices.com/retailer-return-policy-refund-credit-exchanges #eCommerce #SupplyChain • 59% of Millennial shoppers say they purchase another item when they're picking up another item – is your #returns process upselling your brand? https://www.liquidityservices.com/retailer-return-policy-refund-credit-exchanges #SupplyChain #Operations
LinkedIn	• Should #retail return policies include refunds, store credit, exchanges, or all three? The pros and cons to each: https://www.liquidityservices.com/retailer-return-policy-refund-credit-exchanges #OnlineShopping #Returns • 60% of online shoppers make at least one return a year – and 95% will make a second purchase if their return experience is good. Learn more about the pros and cons of retailer return policies:

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