Online Retailers Feel Trapped Between Keeping Loyal Customers and Dwindling Profits: 90% Losing Money to Policy Abuse

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90% of online retailers say consumer misuse of return policies, coupon and loyalty programs is affecting their bottom line, but 93% say they must maintain generous policies to keep customers

NEW YORK--(BUSINESS WIRE)--Sep. 14, 2023-- Riskified (NYSE:RSKD), a leader in ecommerce fraud and risk intelligence, today published "Policy Abuse and Its Impact on Merchants: Global Benchmarks 2023," revealing how consumer misuse of refunds, returns, and promotional programs, alongside resellers, is forcing retailers and other merchants to strike a difficult balance between keeping customers and accepting an inevitable loss in profits.

The report found that policy abuse–behaviors such as excessive returns, refund scams such as claiming an item was not received or returning empty boxes, abusing promotions like coupon codes or loyalty program rewards, or reselling limited-inventory items–is soaring: **90% of online merchants believe policy abuse is a significant problem for their bottom lines.**

The Wall Street Journal reported that the cost to process $100 of returned merchandise is about $26.50. Riskified's survey found that this number is likely even higher. **Two-thirds of retailers (67%) said they can recoup less than half of the total value of a returned item.** A representative from a leading fitness apparel brand that Riskified interviewed even said that, depending on item cost, their company might be better off financially if the customer broke into their warehouse and stole an item, rather than purchase and then return it.

Lenient return policies and promotion programs are driving lost profits, yet merchants feel they must maintain their approach: **93% of retailers said it is "somewhat important" or "very important" for their organizations to offer generous refund and return policies** to win new customers and retain loyal ones. **90% of respondents said they are reliant on promotions** to drive sales and remain competitive.

Other key findings from the Riskified's policy abuse benchmark report include:

- **9 out of 10 online retailers said they face significant costs due to policy abuse.**
- **Policy abuse "peaks" at certain times of year.** 70% of online merchants experienced a rise in all forms of policy abuse during the summer shopping season, and two-thirds (67%) saw more policy abuse during the post-holiday returns season.
- **Losses from policy abuse have increased year-over-year (YoY).** 57% of merchants faced increased costs from INR (item-not-received) abuse between 2021 and 2022, compared to a 45% YoY increase for reseller abuse, a 38% YoY increase for promotional code and loyalty program abuse, and 37% YoY increase for returns abuse.

Customer-centrism at a tipping point

Amidst the challenging economic climate for ecommerce enterprises globally, the report identifies the key trends that are contributing to the rapid rise in policy abuse in 2023.

According to Riskified's data, the motivation for committing policy abuse is due to a mix of economic factors (such as inflation or entering a holiday period during which consumers have stretched disposable income) and emotional factors (such as a bad customer experience with a retailer).

Policy abuse is a unique problem for merchants to tackle because, unlike traditional fraud, it can be committed by people who are otherwise good customers, and in most cases it requires no special skills or access to stolen credentials or accounts. An analysis of Riskified client data, for example, shows that on average 20% of all refund claims are abusive. Notably, policy abuse can cost some merchants even more than traditional fraud chargebacks, resulting in over $100 billion in losses for ecommerce merchants worldwide.

Merchants are also burdened by the operational impacts of processing refunds and returns, most of which are handled manually. 62% of merchants said they do not currently have automated systems (including machine learning) to accurately identify and address policy abuse, and 65% of respondents use a manual review process for the majority of refund and return claims. It takes most retailers (68%) three to four days to process a refund or return.

"Between Amazon fast and free returns, and popular deep discount flash sales, it has been a race to the bottom for merchants who feel that they must offer increasingly lenient programs in order to remain competitive," said Jeff Otto, CMO at Riskified. "Although a wonderful experience for good consumers, a growing spectrum of hidden policy abusers have tipped the scales — deeply hurting merchant profitability. The key to solving this challenge is resolving the true identity of the consumer, extending trust and frictionless experiences to good customers, while curbing the abusers, and stopping the fraudsters."

Click here to download Riskified's "Policy Abuse and Its Impact on Merchants: Global Benchmarks 2023."

Methodology

Riskified commissioned WBR Insights, the custom research division of Worldwide Business Research, to interview more than 300 leaders from across a variety of online merchant organizations across the world, including United States, Australia, China, Japan, United Kingdom, Germany, Austria, Switzerland, Brazil, and Mexico. The companies represented report at least $500 million in total annual revenue from a variety of industries including

fast fashion, sporting goods, food delivery, consumer electronics, and travel, among others. The respondents consist of director-level and above management personnel who are in charge of fraud & risk, customer care, ecommerce, digital, asset and loss protection, IT, and payments and finance functions.

About Riskified

Riskified (NYSE:RSKD) empowers businesses to grow ecommerce revenues and profit by mitigating risk. An unrivaled network of merchant brands partner with Riskified for guaranteed protection against chargebacks, to fight fraud and policy abuse at scale, and to improve customer retention. Developed and managed by the largest team of ecommerce risk analysts, data scientists and researchers, Riskified's AI-powered fraud and risk intelligence platform analyzes the individual behind each interaction to provide real-time decisions and robust identity-based insights. Learn more at Riskified.com.

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