

How Verify-1 Reduced Return Rates for Five National Retailers

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Verify-1® from The Return Exchange is a real-time software solution that allows retailers to authorize merchandise returns. During a return transaction, a consumer provides a state-issued identification, passport, or other form of accepted identification. The authorization occurs while the customer is at the counter by accessing an individual consumers' return history and applying advanced statistical models to detect patterns of fraud and abuse as well as violations of a retailers' return policy. Verify-1 returns a message to the cashier to either accept the return, reject the return, or to provide a warning to the consumer that future returns may be denied.

The Return Exchange closely monitors all applicable state and federal laws pertaining to returns to help retailers maintain legal compliance. We also provide a call center to answer any questions a consumer may have about the Verify-1 program.

How Do Return Rates Change after Verify-1 Implementation?

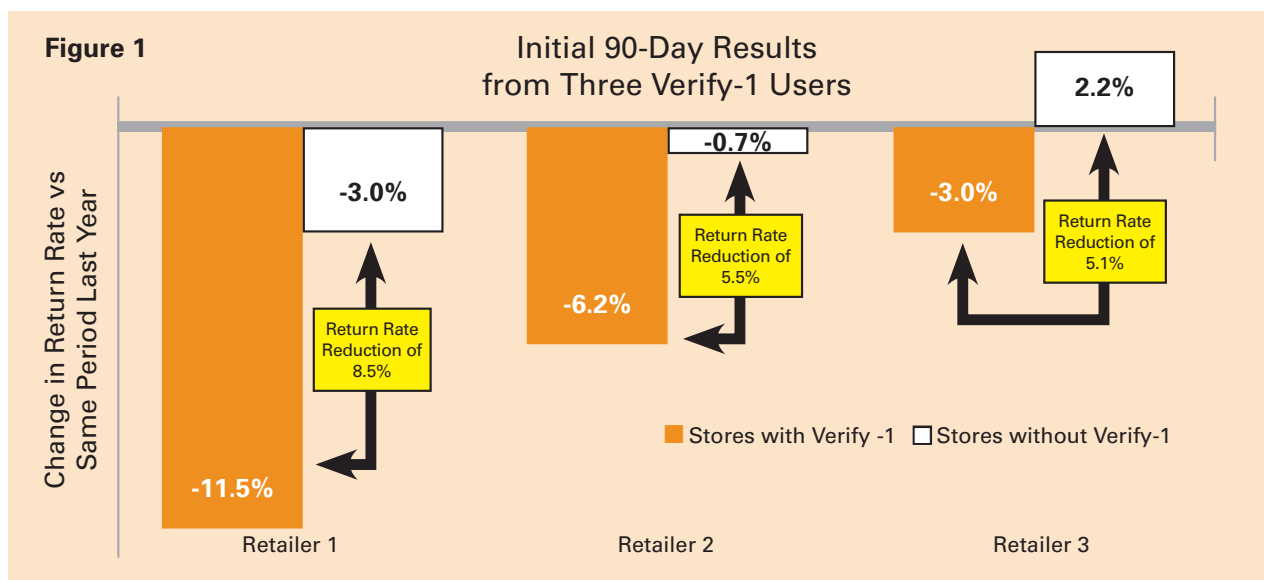
In the five years since the first widespread adoption of Verify-1 by a retailer, we have spent considerable time measuring the impact of Verify-1 on return rates. Time and time again, we have seen the program reduce return rates significantly for our retail customers. The return rate impact results in the table at right

are shared for five representative retailers.* The data has been summarized to protect the identity of the actual retailer. These results represent apparel, footwear, department stores, and auto parts retailers showing the Verify-1 program's effect for a diverse customer base.

Retailer	Return Rate Reduction
1	8.5%
2	5.5%
3	5.1%
4	5.2%
5	13.4%

In each case, we see a substantial decrease to return rates. The average decrease for five retailers with varying periods of program usage is 7.5 percent. For a retailer with an 8.69 percent return rate (as reported from our 2003 annual survey of retailers), this improvement equates to a reduction to returns of \$6.56 million for every billion dollars in gross sales.

Figure 1 (shown below) shows initial details from three Verify-1 users comparing stores with the program to stores



*For retailer 1, 2, and 3, we looked at initial 90-day results for the Verify-1 usage period versus the same period the year prior in stores with and without the program. For retailers that have long-term use of our solution in all stores, we looked at return rate for the last 52 weeks compared to return rate for the 52-week period before Verify-1 implementation in any stores.

without the program. For each retailer, the year-over-year change in the return rates for the Verify-1 stores is compared to the year-over-year results from stores without Verify-1. In all cases, the stores with Verify-1 greatly outperformed the stores without the program.

While the results shown in Figure 1 are from initial usage of Verify-1, return rate reduction has increased over time for several of our long-term clients as shown in Figure 2 below. Figure 2 represents the average change for retailers with Verify-1 over a long period of time. All retailers saw an upward trend in return rates prior to installing Verify-1 and a clear downward trend in return rates since the introduction of the product. Additionally, this downward trend continued over the last three years.

What Are the Key Elements to a Successful Implementation?

Like any other loss prevention program, Verify-1 requires monitoring and feedback to be most successful. If the store associates don't have a positive attitude and are left unchecked, many LP programs that would normally be successful can lose their effectiveness. We equate it to electronic article surveillance tags that set off alarms as a customer nears the door. If employees routinely ignore the alarm, the program is not likely to be effective. We utilize two areas of program monitoring to insure the success of our program.

Reporting on System Usage. We have built into the product and its reporting services a feedback loop to measure the ongoing usage of the system by the retailer. We report on the regions, districts, stores, and even individual store employees

with regard to system usage. We provide this information to our retail customers along with best practices as to how to maximize the value of the system.

Store Employee Feedback. To make necessary adjustments to the program, feedback from the store employees is an important element to ensure a successful return authorization program. We periodically survey store employees randomly to track key elements of the system.

What Is Next at the Return Counter?

Since Verify-1 flags less than 2 percent of return customers as fraudulent or abusive, this begs the question, "What should we do with the remaining 98 percent?"

In our pursuit to learn everything we can about the characteristics of a return customer, we discovered one striking fact. Within the top half of the customers returning merchandise, we found a pocket containing the retailer's best customers. The same segmentation capabilities we use to make sure we never deny a retailer's best customers can be used to strategically market to good customers at the return counter. This progression naturally led to Return Rewards®, a product developed by The Return Exchange that creates customer-specific discount coupons during a return transaction to encourage shoppers to remain in the store and shop. We believe that the return counter is an overlooked marketing opportunity.

For more information about Return Rewards and the comprehensive returns management solutions from The Return Exchange, call 888-371-1616 or visit www.thereturnexchange.com. ■

Figure 2 Long Term Trends in Return Rates with Verify-1
Average Results for Retailers with Verify-1 in All Stores

