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FOR DTC FOUNDERS AND OPERATORS · A FIELD GUIDE

THE RETURN TRIP

Returns as a retention system: **the policy is part of the price, and the portal is part of the loyalty program.**

ANDREW LAUCHNER Author of The Second Order and The Whole Machine

September 2026 · 15 chapters · About 65 minutes

A note before you start

Most brands run returns as a cost center: a warehouse queue, a label vendor and a policy page nobody has reread since launch. The research says that's backward. How you handle a return has a large say in whether that customer buys again.

~$850B	75–100%
of merchandise US shoppers were expected to return in 2025, 15.8% of retail sales (NRF and Happy Returns)	drop in spending over the next two years among customers who paid for return shipping, in Bower and Maxham's study of two online retailers

The first number says returns are not an edge case: nearly one dollar in six comes back, and about one in five online REPORTED . The second says what a clumsy return does to the customer who sent it. Customers who paid for their own return spent 75% to 100% less over the next two years; those whose return was free spent 158% to 457% of what they had before PUBLISHED . The gap is too large to be all policy, as chapter 3 explains, but the direction matches the rest of the research: a good return keeps a customer.

So this guide follows the return as a trip the customer takes with you, from the promise on the product page to the next order. Each stop can be measured, and each is cheap to fix compared with buying a new customer.

> **A return is the only time a customer tells you, in writing, what went wrong. Most brands pay to hear it and then don't read it.**

It builds on The Second Order for cohorts and The Whole Machine for contribution margin, and links to them rather than repeating them.

How to read it

Start with The Returns Audit, or with the one-page map just below. Or follow a path:

- **Founder:** A Return on One Page, What Lenient Policies Do, The Economics of One Return, The Fee Wave.
- **Retention or CX lead:** The Portal Is a Flow, Exchange First, Refund at the First Scan.

- **Operations or finance:** Keep It, Resell It, Trade It In, Serial Returners, The Legal Floor.
- **Analyst:** Repeat Rate by How the Return Ended, then For Your Analyst.

Three calculators and a scored audit run in the page. Nothing you type leaves your browser.

What's proven and what isn't

- **Published:** peer-reviewed research, books and papers by the researchers themselves, official law and regulator guidance, with the date it was true.
- **Reported:** what a named company, research firm or outlet published. Returns software and logistics companies publish much of the data in this field, and they sell the thing they measure, so the text says "vendor data" each time.
- **Derived:** my arithmetic from stated inputs, with the inputs shown.

Examples that open with Say or Picture use made-up round numbers. Every source is listed in Appendix C.

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FRONT

TEN POSITIONS

What this guide argues, and what would prove each claim wrong.

A position says what would prove it wrong. Test each on your own store.

01 **The return policy is part of the price.**

Wrong if tightening it leaves conversion unchanged.
The Policy Is Part of the Price

02 **Lenient policies usually pay, because many of your heaviest returners are also your best customers.**

Wrong if customers who returned something early are worth less over the next year than similar customers who didn't.
What Lenient Policies Do

03 **A refund, an exchange and store credit are three different events, and should be counted separately.**

Wrong if contribution and repeat rate are the same whichever way the return ended.
The Economics of One Return

04 **Judge a policy change by what it does to repeat purchase, not only by what it does to return cost.**

Wrong if cutting return cost has never moved your repeat rate.
Repeat Rate by How the Return Ended

05 **Offer the exchange first, and keep the refund one tap away.**

Wrong if putting exchange first doesn't raise the share of returns that end in an exchange.
Exchange First

06 **Refund when the carrier scans the parcel, not when the warehouse gets to it.**

Wrong if customers refunded at first scan, in a holdout, repeat no more than those refunded at receipt.
Refund at the First Scan

07 **Return reasons are a defect log, and the cheapest return is the one the product page prevents.**

Wrong if a quarter of fixes leaves your top reasons unchanged.

Reasons Are a Defect Log

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08 **Add friction only for the few customers whose returns cost more than their purchases earn.**

Wrong if the customers above your threshold are profitable at your own numbers.

Serial Returners Without Punishing Everyone

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09 **Never charge everyone a return fee without a holdout.**

Wrong if a fee tested against a holdout shows no loss in repeat purchase or order value.

The Fee Wave, and How to Test a Fee

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10 **The law is a floor, and the policy you advertise must be the policy you run.**

Wrong if your portal, your policy page and your product page all state the same terms today.

The Legal Floor

FRONT

A RETURN ON ONE PAGE

Eight stops on the trip a return takes. Each has a number that tells you how it's going, and a way it quietly goes wrong.

Every return passes the same eight stops. Most brands measure the return rate and the cost, and nothing in between.

STOP	THE QUESTION	THE NUMBER THAT TELLS YOU	WHERE IT LEAKS
1. The promise	Did they know the terms before they paid?	Tickets asking about returns, per 100 orders	Terms that differ between product page, policy page and portal
2. The request	Can they start a return in under a minute?	Portal start-to-finish rate; return tickets per 100 returns	An order lookup that needs a number nobody kept
3. The choice	Were they offered something better than money back?	Share of returns ending in exchange, credit or refund	A hidden refund button, or a bonus paid to people who'd have exchanged anyway
4. The trip	Is sending it back easy?	Days from request to first carrier scan	Labels that need a printer; drop-off points far away
5. The money	When does the refund land?	Days from first scan to refund	Refunds waiting in the warehouse queue
6. The goods	What happens to what came back?	Share back on sale within 14 days; recovery rate	Returns sitting in a corner losing season
7. The reason	What did it teach you?	Top three reasons by product, and "other" as a share	Vague reason codes nobody reads
8. The next order	Did they come back?	Twelve-month repeat rate by how the return ended	Nobody measures it, so every policy is set on cost alone

The stops interact. A fee at stop 3 lowers cost at stop 6 and can quietly empty stop 8. Strict inspection protects stop 6 and stretches stop 5 by a week. Fixing one stop in isolation often moves the cost rather than removing it.

Do this

- **Write the eight numbers** for your store, from whatever you have today. Leave blanks blank. Most brands can fill in two or three, and stop 8 is almost always empty.

START HERE · CHAPTER 1

THE RETURNS AUDIT

Twelve checks on whether your returns keep customers or lose them. About forty-five minutes with your returns app, your order data and a phone.

The audit isn’t about your return rate. A low rate can mean a great product, or a policy so hostile that unhappy customers keep the item and never come back. It asks what each return costs, what it does to the next order, and whether the trip is one a customer would take twice.

Open your returns app, twelve months of orders and refunds, and your policy page. Score each check 0 to 2: 0 if it failed or nobody can answer it, 1 if partly true, 2 if clean. “Our vendor handles that” isn’t an answer.

> **A return rate on its own tells you almost nothing. What happened to the customer afterward tells you almost everything.**

The twelve checks

01 You know your return rate by product and by customer · 5 min

Look at: Twelve months of returns, by product and by customer.
Good: Someone can name the ten products with the highest return rate and the share of customers who returned anything.
Cost if wrong: One bad product hides inside a healthy average.
Read next: Reasons Are a Defect Log

02 Repeat rate is split by how the return ended · 5 min

Look at: Twelve-month repeat rate for customers whose first return ended in a refund, an exchange, store credit, or no return at all.
Good: The four numbers exist and someone reviews them each quarter.
Cost if wrong: Every policy is set on cost alone.
Read next: Repeat Rate by How the Return Ended

03 You know what one return costs · 4 min

Look at: Label, handling, inspection, repackaging and write-off, per returned order.
Good: One number per return, from finance, with the share of returned items that go back on sale at full price.
Cost if wrong: You can't price a bonus credit, a returnless refund or a fee.
Read next: The Economics of One Return

04 The terms match everywhere · 3 min

Look at: The return terms on your product page, checkout, policy page, order confirmation and portal.
Good: Same window, same fees, same exclusions, stated plainly before the customer pays.
Cost if wrong: Surprise fees, angry tickets and legal exposure.
Read next: The Legal Floor

05 A return starts in under a minute · 4 min

Look at: Start a return on your phone as a customer who has only an email address.
Good: No account, no order number hunt, no call to support; done in under a minute.

Cost if wrong: Customers email support instead, or give up and dispute the charge with their bank.
Read next: The Portal Is a Flow

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06 **Exchange first, refund one tap away · 3 min**

Look at: The outcome screen in your portal.
Good: Exchange for another size or item appears first, store credit second, refund plainly visible.
Cost if wrong: Customers who would have taken the right size take their money instead.
Read next: Exchange First

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07 **Refunds move at the first carrier scan · 3 min**

Look at: Median days from first carrier scan to refund, last 90 days.
Good: Same day for most customers; only flagged returns wait for inspection.
Cost if wrong: The customer waits a week for money they consider theirs, and remembers it.
Read next: Refund at the First Scan

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08 **Reasons are specific and read weekly · 4 min**

Look at: Your reason list and last month's reasons.
Good: Reasons are specific (runs small, color differs from photo), "other" is under 10%, and someone reviews the top reasons by product every week.
Cost if wrong: The same fixable problem ships thousands of times.
Read next: Reasons Are a Defect Log

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09 **Low-value returns have a keep-it rule · 3 min**

Look at: Whether any return is refunded without the item coming back.
Good: A written rule: below a value you set, for customers in good standing, the refund is issued and the item stays.
Cost if wrong: You pay $15 to bring back a $12 item you'll throw away.
Read next: Keep It, Resell It, Trade It In

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10 **Serial returners are found by rule · 4 min**

Look at: How you decide a customer returns too much.
Good: A written threshold based on your own margin, applied automatically, with a warning before any penalty and a route back.
Cost if wrong: You subsidize the few, or punish everyone for them.
Read next: Serial Returners Without Punishing Everyone

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11 **Any fee was tested against a holdout · 3 min**

Look at: Your return fees and how they were decided.
Good: No fee, or a fee that was tested on a random share of customers and read on repeat purchase, not only on return cost.
Cost if wrong: The fee saves a visible dollar and loses an invisible five.
Read next: The Fee Wave, and How to Test a Fee

12 **The legal floor was checked this year · 3 min**

Look at: Whether counsel has reviewed your policy for each country you sell to.
Good: Yes, within twelve months, including the EU withdrawal button if you sell into the EU.
Cost if wrong: A policy that promises less than the law gives, or a “money back guarantee” you don’t honor in full.
Read next: The Legal Floor

Score as you go; your band appears when all twelve are in.

RUN YOUR NUMBERS

Score the twelve checks

0: failed, or nobody can answer it. 1: partly true. 2: clean. Scores stay in this browser.

01 You know your return rate by product and by customer 5 min	0	1	2
02 Repeat rate is split by how the return ended 5 min	0	1	2
03 You know what one return costs 4 min	0	1	2
04 The terms match everywhere 3 min	0	1	2
05 A return starts in under a minute 4 min	0	1	2
06 Exchange first, refund one tap away 3 min	0	1	2
07 Refunds move at the first carrier scan 3 min	0	1	2

08 **Reasons are specific and read weekly** 4 min	0	1	2
09 **Low-value returns have a keep-it rule** 3 min	0	1	2
10 **Serial returners are found by rule** 4 min	0	1	2
11 **Any fee was tested against a holdout** 3 min	0	1	2
12 **The legal floor was checked this year** 3 min	0	1	2

0 of 24 points	0 of 12 checks scored

Score all twelve to read your band. 12 to go.

RESET SCORES

Read your score

SCORE	WHAT IT MEANS	READ NEXT
20–24	Your returns already work as retention. Your job now is to prove it with holdouts and push the exchange share up.	Exchange First, then The Returns Scorecard
14–19	The flow is decent but you can't yet see what it does to the next order. Measure that first, then fix the zeros.	Repeat Rate by How the Return Ended, then the chapter linked from your lowest check
8–13	Returns are run as a cost center. Customers who return are probably leaving at a rate you	Part one, starting at What Lenient Policies Do

SCORE	WHAT IT MEANS	READ NEXT
	haven’t measured.	
0–7	Start with the basics: one set of terms, a portal that works on a phone, and refunds that don’t wait on the warehouse.	The Portal Is a Flow, then The First Thirty Days

If you sell consumables that rarely come back, score checks 6 and 9 on how you handle damaged or wrong deliveries instead.

PART ONE · WHAT A RETURN IS WORTH · CHAPTER 2

THE POLICY IS PART OF THE PRICE

A shopper who can’t touch the product buys insurance along with it. The return policy is that insurance, and it has a measurable value.

Online, every purchase is a small bet. The customer can’t try the shoes on or hold the sweater to the light. The return policy tells them what the bet costs if they lose, which makes it part of the price.

The option has a dollar value

Eric Anderson, Karsten Hansen and Duncan Simester put a number on it. Using a catalog retailer's purchase and return data, they modeled the right to return as an option the customer holds, like insurance. For women's footwear, the option was worth more than $15 per purchase on average, and having it raised purchase rates by more than 50% PUBLISHED . The value varied a lot by customer and by category, which is the useful part: the option is worth most where the customer is least sure, on a first order, in a category with sizes, colors or textures that photographs don't settle.

> **A return policy is insurance the customer buys with every order. Price it like insurance, and write it so they can read it.**

Five dimensions of a policy

"Lenient" isn't one setting. Narayan Janakiraman, Holly Syrdal and Ryan Freling reviewed the research on return policies and found that it describes leniency along five dimensions. Their meta-analysis of 21 papers then asked what each dimension does to purchases and to returns PUBLISHED .

DIMENSION	WHAT IT MEANS	WHAT THE META-ANALYSIS FOUND
Money	How much of the price comes back: full refund, fee deducted, restocking charge	More lenient raises purchases
Effort	How hard it is: printer, box, drop-off distance, forms, receipts	More lenient raises purchases
Scope	What can come back: sale items, opened items, worn items	More lenient raises returns
Time	How long the window is	Longer windows reduced returns
Exchange	Whether you can swap rather than refund	Exchange options reduced returns

PUBLISHED Janakiraman, Syrdal and Freling, Journal of Retailing, 2016. Overall, leniency increased purchases more than it increased returns.

Two findings deserve attention. Time works the opposite way from what most operators assume: longer windows went with fewer returns, possibly because of the endowment effect (the longer you own a thing, the more it feels like yours). And the dimensions that sell (money and effort) differ from the one that drives returns (scope). Be generous where it buys orders and firm where it only buys returns. One caution: many of the studies are scenario experiments, in which people read a policy and say what they'd do. Treat the table as a map of where to test, not a result.

What this means for a DTC brand

- **Be generous on money and effort:** free, printer-free, box-free where you can.
- **Be clear on scope.** Worn, washed or altered items are where cost hides. Say plainly what can't come back.
- **Don't shorten the window to cut returns.** The evidence suggests a longer one doesn't raise returns. If you change it, test it (chapter 5).
- **Show it where the bet is made:** a one-line summary next to the add-to-cart button. The Honest Test covers the product page.

Do this

- **Write your policy as five short answers:** how much comes back, how hard it is, what's excluded, how long they have, and whether they can swap. If any answer takes more than one sentence, that's the one customers are confused by.

WHAT LENIENT POLICIES DO

Four lines of research point the same way: a good return experience makes the next purchase more likely. None of them says returns are free.

The usual view is that a customer who returns a lot is a cost to be managed. The research says that's incomplete, and sometimes backward: returners are often your most engaged buyers.

Returns up to a point: Petersen and Kumar

J. Andrew Petersen and V. Kumar studied individual customers' buying and returning over several years. Their 2009 paper in the Journal of Marketing concluded that returns are "inevitable but by no means evil": they are part of the buying relationship, and up to a threshold, allowing them raises profit PUBLISHED . Their 2010 article for MIT Sloan Management Review makes the same case for managers: a lenient policy, managed well, can earn more than a strict one PUBLISHED .

Read it as a curve with a peak. Choke returns off and you lose the purchases the safety net made possible; let them run and the cost overwhelms the benefit. The peak is not near zero. Their 2015 paper in the Journal of Marketing Research reports a six-month field experiment with 26,000 customers of an online retailer, in which accounting for the risk-reducing effect of returns raised both short- and long-term profit PUBLISHED .

Fees and free returns: Bower and Maxham

Amanda Bower and James Maxham followed customers of two online retailers over 49 months, combining two surveys with actual spending. Customers who paid for their return shipping cut their spending with the retailer by 75% to 100% over the next two years. Customers whose return was free spent 158% to 457% of their pre-return level PUBLISHED . The retailers charged for return shipping when they judged the customer to be at fault.

So the customers who paid weren't a random group; they were the ones the retailer blamed, and some of the gap is who they were. What survives is the direction, and the mechanism the authors point to: regret over paying for a return was the strongest predictor of whether a customer bought again PUBLISHED .

Speed and the returns process

Stanley Griffis and colleagues used an online retailer's order and return records and found that customers who had a return went on to buy more often, bought more items per order and bought higher-value items. The faster their refund was processed, the larger the increase PUBLISHED . That's an association, not an experiment, but it's consistent with the others, and it's the reason chapter 8 exists.

People who run returns for large retailers say the same thing in plainer words. Amena Ali, chief executive of Optoro, a returns technology company, told the Associated Press in 2024 that "your most profitable customers tend to be high returners" REPORTED .

> **Customers who return are often the ones who buy the most. A policy built to punish returns punishes them first.**

What the research doesn't say

- **It doesn't say returns cause loyalty.** Heavy buyers return more because they buy more, so much of the link is selection. The few field experiments are the strongest evidence that policy itself matters.
- **It doesn't say more is always better.** The curve has a peak.
- **It doesn't tell you your number.** Each study is one or two retailers in one era, which is why this guide keeps asking for a holdout.

Do this

- **Pull every customer whose first order was 12 to 24 months ago.** Split them into those who returned something from their first order and those who didn't, and within each, by first-order value band. Compare contribution over the following twelve months. If returners are worth more at the same first-order value, your policy is protecting your best customers, and every tightening needs a test.

PART ONE · WHAT A RETURN IS WORTH · CHAPTER 4

THE ECONOMICS OF ONE RETURN

A refund, an exchange and store credit look alike in the portal. On the ledger they are three different events, and an exchange is usually worth far more than it costs.

Most brands know their return rate. Few know what one return costs, or what it's worth to turn a refund into an exchange. That second number decides how much bonus credit you can afford.

What a return costs

Every return carries the same basic costs, whatever the outcome: the label, receiving and inspection, repackaging, and a write-off on the share that can't be sold again at full price. The

Wall Street Journal reported in 2021 that processing an online return can cost $10 to $20, excluding freight REPORTED . Ask your 3PL for your own number, and finance for the share written off.

Three outcomes, three ledgers

OUTCOME	WHAT HAPPENS TO THE MONEY	WHAT HAPPENS TO THE GOODS	EXTRA COST
Refund	The sale is gone	Back on sale, or written off	None beyond the return
Exchange	The sale stays	One item back, another out	A second shipment, and a chance the new item comes back too
Store credit	Stays with you until spent	Back on sale, or written off	The goods and shipping when the credit is spent; any bonus

Store credit needs care. Unspent credit is a liability, not income, and state rules on unused credit vary. Don’t plan on breakage (credit never spent) as profit, and have counsel and your accountant set how credit is recorded and whether it expires.

A worked example

Say a brand ships 10,000 orders a month at an $80 average item price, with a 65% product margin, so each item costs $28. Fifteen percent of orders come back: 1,500 returns a month. Bringing one back and processing it costs $12, and 20% of returned items can’t be sold again at full price.

- **A refund** costs $12 plus 20% of $28 in write-offs: $17.60 per return, on top of the lost sale. At 1,500 a month, that’s $26,400 DERIVED .
- **An exchange** keeps the $80 sale. The replacement costs $28 in goods and $9 to ship, and 15% of exchanges come back again. Against a refund, each exchange is worth about $32.56 DERIVED .
- **A $10 bonus** for exchanging (customers can pick $90 of goods) costs $3.50 at product cost, which cuts the value of each exchange to about $29.48 DERIVED .

If 20% of returns end in exchange today and the bonus lifts that to 30%, the brand gains about $3,500 a month, after paying the bonus to everyone who would have exchanged anyway DERIVED . The bonus pays for itself if it lifts the exchange share to about 22%. That's the tool's default below.

RUN YOUR NUMBERS

What an exchange is worth, and what bonus you can pay

Example numbers. Replace with yours. Costs are per returned order; the bonus is store credit on top of the exchange.

THE RETURN

Average price of a returned item

$ 80

Product margin (price minus product cost)

65 %

Cost to bring a return back and process it

$ 12

Returned items you resell at full price

80 %

THE EXCHANGE

Cost to ship the replacement

$ 9

Exchanges that come back again

15 %

Bonus credit for choosing an exchange

$ 10

Returns ending in exchange now, no bonus

20 %

Returns you expect to end in exchange with the bonus

30 %

$17.60	$32.56	$29.48	22.1%
cost of a refund, per return, beyond the lost sale	value of turning one refund into an exchange, no bonus	value of turning one refund into an exchange, with a $10 bonus	exchange share the bonus must reach to pay for itself

$2,332

gain from the bonus per 1,000 returns, at your expected share

> **The bonus pays if it lifts the exchange share to at least 22.1%. At your expected 30.0% it gains $2,332 per 1,000 returns. Test it against a holdout before trusting the lift.**

An even exchange: the replacement sells at the same price. The bonus is spent on goods, costed at product cost. If an exchange comes back again, it's refunded and handled like any return. Future orders are left out, so the value is conservative if exchangers repeat more than refunders.

With the defaults, a refund costs $17.60 beyond the lost sale, an exchange is worth $32.56 more than a refund, and a $10 bonus pays if it lifts the exchange share from 20% to about 22.1%. At 30%, it gains about $2,330 per 1,000 returns. Raise the second-return rate and watch the value erode: an exchange should be for the right size, not a random swap.

Do this

- **Get one cost-per-return number from finance this week,** with the share of returns that go back on sale at full price. Put it and your current exchange share into the tool. The number in the second box is the most you should ever spend, per converted return, on the exchange flow in chapter 7.

REPEAT RATE BY HOW THE RETURN ENDED

Split your customers by the outcome of their first return, watch what they do next, and judge every policy change by that, with a holdout to keep you honest.

Return cost shows up on this month's P&L. The benefit of a good return shows up months later, as an order from someone who might have left. Measure only the first, and every policy decision drifts toward cutting cost and quietly losing customers.

The four-way split

Take every customer who made a first purchase in a given quarter, and split them by what happened to their first return: none, refunded, exchanged, or store credit (add returnless refunds if you use them). Track each group's repeat rate at 90 days and twelve months, and their contribution. Appendix A has the query; The Second Order covers cohorts in depth.

Expect the exchange group to look best, and don't read too much into it: customers who exchange were already more committed. The split is a map of where the value sits, not proof of what caused it.

> **The split tells you where to look. Only a holdout tells you what a policy did.**

Test policy changes against a holdout

Almost every change in this guide can be randomized by customer: bonus credit on or off, refund at scan or at receipt, fee or no fee. Keep a random 10% to 50% of customers on the current policy and compare repeat purchase and contribution per customer. The Honest Test covers reading a test without fooling yourself.

Repeat rate is slow and noisy, so size the test first. To see twelve-month repeat move from 30% to 33%, you need roughly 3,700 customers per group DERIVED , from the rule of

thumb 16 × p(1 – p) ÷ d² (80% power, 5% significance). Read a signal at 90 days; decide at twelve months.

What a change must do to pay for itself

A more generous policy has a cost you can count: labels you now pay for, a few more returns. The tool below turns that cost into the repeat-rate lift it has to buy. For a fee you're considering, enter its expected income as the cost of not charging it: the answer is how much repeat purchase the fee can lose before it loses money.

RUN YOUR NUMBERS

What must a policy change do to repeat rate to pay for itself?

Example numbers. Replace with yours. The example is moving from customer-paid to free return labels.

WHAT IT COSTS

Orders a year: 50000

Orders returned now: 15 %

Extra cost per return under the new policy: $ 6

Extra returns it causes, in points: 0.5 pts

Net cost of each extra return: $ 18

WHAT IT HAS TO EARN

First-time customers a year: 20000

Contribution from a repeat customer in their next 12 months: $ 75

Twelve-month repeat rate now: 28 %

First-time customers who return something: 20 %

$49,500	3.3 pts	16.5 pts	2,962
cost of the change a year	rise in repeat rate needed to pay for it, from 28.0% to 31.3%	rise needed among returners, if only they respond	customers in each group to see that rise in a holdout

> **Repeat purchase needs to rise 3.3 points, or 16.5 among returners. Plausible for a change customers notice, but not certain. Run it as a holdout with about 2,962 customers in each group.**

Counts only repeat purchase. It ignores any lift in first-order conversion from a better policy, so it asks more of the change than it needs to. Holdout size uses 80% power and a 5% two-sided significance level on the overall repeat rate.

With the defaults, free labels cost $49,500 a year, which repeat purchase repays if the twelve-month repeat rate rises 3.3 points, from 28% to 31.3%. If only the 20% of customers who return something respond, their repeat rate must rise 16.5 points. A holdout needs about 3,000 customers in each group to see the overall lift. Whether that's plausible is exactly what Bower and Maxham's numbers suggest and don't prove.

Do this

- **Build the four-way split** for customers acquired 12 to 24 months ago, and add it to a quarterly report.
- **Before any policy change,** run it through the tool and write down the lift it needs. If the needed holdout is bigger than a year of first-time customers, make the change bolder or don't make it on this evidence.

PART TWO · THE TRIP · CHAPTER 6

THE PORTAL IS A FLOW

Treat the return portal the way you treat checkout: a sequence of steps, each with a drop-off rate, ending in an outcome you can raise.

Brands spend months on checkout and install a returns app in an afternoon. Yet the portal is where a disappointed customer decides whether you're worth another try. It has steps, a conversion rate (to exchange) and abandonment: the customer who gives up and emails support, or calls their bank.

The steps

01 **Find the order**

A link in every shipping and delivery email that opens the return for that order. Failing that, email and ZIP or postal code. Never require an account or an order number the customer has to hunt for.

02 **Pick the items**

With photos, sizes and colors shown, so a multi-item order isn't a guessing game.

03 **Give a reason**

One tap from a specific list, with an optional line of detail. A photo only for damage or a wrong item. Chapter 10 covers the list.

04 **Choose the outcome**

Exchange first, store credit second, refund plainly visible. Chapter 7.

05 **Choose how to send it**

Box-free drop-off, printed label, or pickup, with any cost shown here and, earlier, on the policy page.

06 **Confirm**

What happens next and when the money or the new item moves, in dates, not “processing times vary”.

Then the messages: at first scan, when the refund or credit is issued, and when an exchange ships. They’re transactional, with no promotions stacked on top; anything promotional goes only to customers who agreed to marketing.

Make the trip itself easy

Effort is one of the two dimensions that raised purchases in the meta-analysis in chapter 2. In the 2024 NRF and Happy Returns survey, 84% of consumers said they were more likely to shop with a retailer offering returns with no box, no label and an immediate refund REPORTED . Happy Returns, a UPS company, runs box-free drop-off points, so that’s vendor data, and stated preferences run ahead of behavior. The direction is still right.

> **The customer who can’t finish your return portal doesn’t disappear. They email support, post a review, or call their bank.**

Skip the return when you can

A damaged, wrong or missing item isn’t a return; it’s your mistake. Send the replacement, ask for a photo if the carrier claim needs one, and don’t make the customer ship anything back.

What to measure

Starts to completions in the portal; return tickets per 100 returns (every “how do I return” email is a portal failure); days from request to first scan; and the outcome mix, weekly.

Do this

- **Return something from your own store on your phone,** starting from the delivery email, with a stopwatch running. Count taps and seconds, and note every moment you’d have

emailed support instead. Then do it again as a customer who deleted the email.

PART TWO · THE TRIP · CHAPTER 7

EXCHANGE FIRST

Order the choices so the right size comes before the money back, pay a bonus only where it changes the answer, and never hide the refund.

Most returns in sized categories aren't a rejection of the brand; it didn't fit, or the color was off. An exchange keeps the sale and the customer, and in chapter 4's example was worth about $33 more than a refund. The portal's job is to make it the easiest right answer.

Order the choices

01 **Exchange for the right one**

Same item, other size or color, pre-selected from the reason. "Too small" should open with the next size up already chosen.

02 **Store credit, with a bonus if you use one**

For customers who want something else. Let them shop from the portal and apply the credit at once.

03 **Refund to the original payment method**

Visible on the same screen, in the same type size. Hiding it doesn't keep customers; it teaches them to distrust you, and in some places it breaks the law (chapter 13).

In the meta-analysis in chapter 2, exchange leniency reduced returns PUBLISHED . A 2026 study of a fast-fashion retailer found that customers who visited a store to collect or return an online order were more likely to exchange; follow-up analyses suggest seeing the product reduced uncertainty PUBLISHED . Without stores, borrow the mechanism: at the moment of exchange, answer the fit question, for example with what customers who returned for "runs small" chose instead.

Instant exchanges

An exchange that ships only when the old item reaches the warehouse can take two weeks, and by then the customer has bought elsewhere. Ship at the first carrier scan, or at the request for trusted customers, using the trust tiers in chapter 8.

Bonus credit

Loop, a returns platform for Shopify stores, reports that across more than 4,000 merchants in the year to October 2025, 73.6% offered exchanges and 49.2% let customers shop with their credit in the portal; of those, 51.7% added a bonus, averaging $11.28 REPORTED . That's vendor data: it tells you what's common, not what works.

What works depends on how many customers the bonus moves, since it's paid to everyone who exchanges, including those who would have anyway. The chapter 4 tool gives the break-even share. Keep it a flat amount, spent at once in the portal, not on deeply discounted items, and tested against a holdout.

> **A bonus is paid to everyone who exchanges.**
> **It only earns on the ones it changed.**

Make sure the exchange sticks

An exchange that comes back is a refund with extra shipping. If “too small” exchanges come back as “too big”, your size guidance is the problem; that’s a fix for chapter 10.

Do this

- **Reorder your outcome screen** this week: exchange, then credit, then refund, all visible. Record the outcome mix for four weeks before and after.
- **Set up the bonus as a holdout,** with the break-even share from the chapter 4 tool written down before it starts.

PART TWO · THE TRIP · CHAPTER 8

REFUND AT THE FIRST SCAN

To the customer, the money is theirs the moment the parcel leaves their hands. Pay it then for most customers, and wait for inspection only where the risk is real.

A refund that waits for the parcel to reach the warehouse, sit in a queue and pass inspection can take two or three weeks. The customer spends that time checking their bank balance and thinking about you. It’s the last impression of the trip.

What the evidence says

- **Faster refunds go with more buying afterward.** In Griffis and colleagues' study of an online retailer's records, the faster a refund was processed, the more later buying increased PUBLISHED .
- **Instant refunds raised satisfaction without raising return intentions,** in scenario experiments with an online panel PUBLISHED . That's stated intention, not behavior.
- **Customers say they want it.** In the 2025 NRF and Happy Returns survey, 76% of shoppers said they're more likely to choose a return option that gives an instant refund or exchange REPORTED . Vendor data, and stated preference.

Three tiers, set by rule

TIER	WHO	WHEN THE MONEY MOVES
Instant	Customers with a long, clean history and a low return rate; low-value items	When the return is requested
At first scan	Most customers	When the carrier or drop-off point first scans the parcel
At inspection	Customers above your serial-returner threshold, high-value items, categories with known fraud	When the warehouse receives and checks it, within a stated number of days

> **Pay at the scan for most, wait for the warehouse for a few. Decide which is which by rule.**

The risk, and how to contain it

The risk of paying before inspection is the empty box, or a different item sent back. In the 2025 NRF and Happy Returns survey, 65% of retailers that track return fraud saw more empty-box returns REPORTED . Box-free drop-off, where a person scans the item itself, removes the empty box; weight at first scan catches obvious mismatches; and the tiers keep scan refunds away from the few customers where fraud concentrates (chapter 11).

In the EU, the scan may start the clock anyway

Under the EU Consumer Rights Directive, a trader must refund within 14 days of being told the customer is withdrawing, and may hold the refund only until it has received the goods back or the customer has supplied evidence of having sent them, whichever comes first PUBLISHED . A carrier's tracking scan is the kind of evidence that can end your right to wait. Have counsel confirm how that applies in the countries you ship to.

Do this

- **Measure median days from first scan to refund** for the last 90 days. If it's more than two, move most customers to refund-at-scan, keep a random 10% on the current timing, and compare repeat purchase at 90 days and twelve months.

PART TWO · THE TRIP · CHAPTER 9

KEEP IT, RESELL IT, TRADE IT IN

Some returns cost more to bring back than they're worth. Some come back and lose value every week they wait. And some customers want to bring things back that they bought years ago.

What happens after the customer lets go of a return is invisible to them and expensive for you. Three decisions matter: whether to bring it back at all, how fast to get it back on sale, and whether to invite old products back as trade-ins.

Returnless refunds

The Wall Street Journal reported in January 2021 that Amazon, Walmart and Target were telling some customers to keep items they wanted to return, because for cheap or bulky items it was often cheaper to refund the price than to ship the item back. Walmart said it decided using the customer's purchase history, the value of the product and the cost of processing the return REPORTED . By 2024, the Associated Press found returnless refunds used widely and quietly, described by people in the industry as an unofficial, discreet loyalty benefit REPORTED .

The rule is arithmetic: bring an item back only if what you recover is worth more than the trip. Say an item sells for $18, costs $6 to make, and 80% of returns can be resold. You recover about $4.80 of goods. If the label and handling cost $11, every return of that item loses $6.20 more than letting the customer keep it.

- **Set the line by product,** from that arithmetic, not one dollar amount for the store.
- **Limit it to customers in good standing,** with a yearly cap per customer.
- **Ask them to donate or pass it on** in the refund message.
- **Don't advertise it.** A published keep-it rule is an invitation.

Resell what comes back, fast

A returned item loses value every week it waits: its season ends, its color gets marked down. Measure days from receipt to available for sale. Sort returns at receiving into back to stock, seconds sold at a discount, recycling, and bulk liquidation. Every stream but the first loses margin, so the fastest win is usually a shorter queue for the first.

Trade-in, briefly

Some brands invite products back years later. Patagonia's Worn Wear program buys back eligible used Patagonia gear to give it a new home REPORTED . For durable goods with a resale market, such as outerwear and bags, trade-in credit works like store credit: it brings the customer back to shop. Run it as its own program with its own economics, not as part of the returns policy.

Do this

- **List your twenty cheapest products** with product cost and resale share, and work out which cost more to bring back than they're worth. Put those behind a keep-it rule for customers in good standing.
- **Measure days from receipt to back on sale** for last month's returns. If the median is over a week, fix the queue before anything else in this chapter.

PART THREE · FEWER RETURNS, FEWER ABUSERS · CHAPTER 10

REASONS ARE A DEFECT LOG

Every return comes with a free report on what went wrong. Most of the defects it finds are in the product page, not the product.

A factory that shipped the same defect thousands of times would stop the line. Online brands ship the same wrong size chart and misleading photo every week, with the reason sitting in a database nobody opens. The cheapest return is the one you prevent, and the reason code tells you how.

Most returns aren't defects

Petersen and Kumar note that only about 5% of products are returned because they're defective PUBLISHED . The rest are gaps between what the customer expected and what arrived. The "defect" is usually in the information, so the product page is the first place to look.

Two studies show how the gap gets made. Alec Minnema and colleagues found, at an electronics and furniture retailer, that reviews more glowing than a product's long-term average raised purchases and returns, by setting expectations the product couldn't meet PUBLISHED . Edlira Shehu, Dominik Papies and Scott Neslin found that free-shipping promotions pushed customers toward riskier items and raised returns enough that, in their simulation, the promotions lost money PUBLISHED . The First Offer covers shipping as price.

A reason list that can be read

Vague codes ("didn't like it") can't be acted on. A good list is specific, short and tailored by category. For apparel:

GROUP	REASONS	USUAL FIX	OWNER
Fit	Too small; too big; too long; too short; fit in the wrong place	Size chart, fit notes, model measurements, fit-specific reviews	Ecommerce
Look	Color differs from photo; looks different in person	Photos in daylight, color notes, video	Creative

GROUP	REASONS	USUAL FIX	OWNER
Feel	Material or quality not as expected	Fabric weight and feel described plainly; close-up photos	Product, ecommerce
Fault	Damaged; defective; wrong item sent	Packaging, supplier quality, pick accuracy	Operations
Choice	Ordered more than one size; changed my mind; found it cheaper	Size guidance for bracketers; price consistency	Ecommerce
Late	Arrived too late	Delivery promise, carrier	Operations

Keep “other” below 10% of reasons. If it’s higher, the list is missing something your customers keep typing.

Ordering several sizes to keep one, known as bracketing, means the customer didn’t trust your sizing. In the 2024 NRF and Happy Returns survey, 51% of Gen Z shoppers said they bracket REPORTED . Better size guidance reduces it more than any fee.

A case: Revolve

Revolve, the online fashion retailer, sells in a category where returns are a large share of sales. For the fourth quarter of 2024, management said the return rate fell by more than two points year over year, credited size and fit initiatives and AI, and said lower returns helped cut selling and distribution costs to 16.5% of net sales, down 129 basis points REPORTED . The work isn’t described in detail, but a public company told investors that return prevention showed up in the P&L.

> **The best return policy is a product page that tells the truth.**

The weekly defect review

01 **Pull the twenty products with the most returns**

Last four weeks, with return rate and the top two reasons for each.

02 **Flag what changed**

Any product whose return rate or top reason shifted since last month.

03 **Assign one fix per flagged product**

An owner from the table above and a date. Copy, photo, size chart, supplier call.

04 **Check last month’s fixes**

Did the product’s return rate for that reason fall? If not, the fix was wrong.

Compare each product with itself before and after, and remember that promotions and seasons move return rates too.

Do this

- **Rewrite your reason list** using the table, and put the first weekly defect review on the calendar for next Monday with the people who own each fix.

SERIAL RETURNERS WITHOUT PUNISHING EVERYONE

A small group of customers causes most of the cost. Find them by rule, set the line with your own margin, warn before you charge, and leave everyone else alone.

When returns get expensive, the tempting fix is a rule for everyone. That charges your best customers for the behavior of a few. The better fix is to find the few.

Three different problems

- **Fraud:** stolen goods, empty boxes, a cheaper item sent back. Handled with evidence.
- **Abuse:** wearing an outfit to an event and sending it back (wardrobing), or returning used goods as new.
- **Heavy returning:** bracketing sizes, trying on at home. Allowed, often a keen customer, but past some rate every order loses money.

The industry numbers come from companies that sell fraud prevention, so treat them as direction. Appriss Retail estimates that of $706 billion in US returns in 2025, $100 billion was preventable loss from fraud and abuse, with abuse costing about six times as much as fraud REPORTED . Narvar, another returns vendor, says more than 90% of return fraud and abuse comes from less than 3% of shoppers, without publishing its method REPORTED . The shape is consistent: the cost concentrates in a small group.

Where to draw the line

Draw it with your own margin, not a competitor's rule. A customer earns you margin on what they keep and costs you shipping on everything, plus handling and write-offs on what comes back. Above some return rate, every order they place loses money. The tool finds that rate, then asks what friction above it would do.

RUN YOUR NUMBERS

Where’s your serial-returner line, and does friction pay?

Example numbers. Replace with yours. A return here means the whole order comes back.

THE CUSTOMERS ABOVE YOUR LINE

How many customers are above it

400

Orders a year, each

6

Share of their orders sent back

75 %

Average order value

$ 120

YOUR COSTS

Product margin

60 %

Shipping and fulfillment per order

$ 10

Cost to bring back and process a return

$ 15

Returned goods written off

15 %

THE FRICTION YOU’D ADD FOR THEM

Fee per return

$ 5

Orders you expect to lose from them

30 %

Share of their orders sent back afterward

55 %

65.8%	−$51.90	$54.35	$42,499
return rate above which an order loses money	contribution per customer a year, now	contribution per customer a year, with friction	change across all of them, a year

> **Above 65.8% every order loses money, and friction for this group adds $42,499 a year even after losing 30.0% of their orders. Apply it by rule, warn first, and let customers earn their way back.**

Kept orders earn product margin; every order pays shipping and fulfillment; every return pays handling plus the write-off share at product cost. The fee is counted as income on each return. It ignores any effect of the friction on customers below the line, which is why it should apply only above it.

With the defaults, an order loses money once a customer sends back more than about 66% of orders. The 400 customers at 75% each cost $51.90 a year. A $5 fee on their returns, even if it loses 30% of their orders, turns them into $54.35 a year each: about $42,500 more across the group. Now set both return rates to 40%, a heavy but profitable customer the fee doesn't change: the same friction costs about $14,150 a year. That's the case against blanket fees in one number.

A case: ASOS

ASOS, the UK online fashion retailer, shows a targeted rule in public. From October 2024 it began deducting £3.95 from refunds for customers with a frequently high return rate who keep less than £40 of an order, while most customers kept free returns REPORTED . Its fair use policy sets the line at a return rate of 70% or more by value over twelve months, with at least three orders; guest orders always pay; and customers whose rate falls go back to free returns automatically REPORTED . In January 2026 it began showing each customer their own return rate in the app REPORTED .

The design has the parts that matter: a line set by data, a rule the customer can see, and a route back. UK law keeps faulty items out of it regardless (chapter 13).

> **Warn before you charge, charge before you ban, and ban only with evidence.**

A ladder of responses

01 **Nothing**

For almost everyone.

02 **A plain note**

For customers nearing the line: their rate, what the line is, and what changes if they cross it. Appriss says 90% of consumers buy again after receiving a warning **REPORTED** , vendor data again, but a note costs nothing to test.

03 **Refund at inspection**

Above the line: no instant exchange or refund-at-scan. Slower money, same policy.

04 **A fee, or no free label**

Above the line, applied by rule, disclosed in advance, never on faulty items.

05 **Closing the account**

Only for fraud, with evidence, and reviewed by a person.

For wardrobing in occasionwear, a large tag that must be attached for a return to be accepted does more than any customer rule. Whatever you automate, have counsel check it against privacy law; automated decisions about individuals are regulated in the EU and UK.

Do this

- **Run the tool with your margins** to find your line. Count the customers above it in the last twelve months, and look at ten of them by hand before writing any rule. Then start with step 2 of the ladder.

THE FEE WAVE, AND HOW TO TEST A FEE

Most large retailers now charge for some returns. A DTC brand that copies them is copying a company with stores. Test a fee against a holdout before it goes to everyone.

Between 2024 and 2026, return fees became normal among large US retailers. Before you follow, look at what they have that you probably don't, and at what they said happened next.

Who charges what

In the NRF and Happy Returns survey of large retailers, 72% charged for at least some returns in 2025, up from 66% in 2024 REPORTED . Loop says 65.2% of its Shopify merchants charge on some return outcomes, averaging $9.04 REPORTED . Coverage of the 2025 holidays listed these mail-return fees:

RETAILER	FEE, AS REPORTED IN DECEMBER 2025
TJ Maxx and Marshalls	$11.99 per mailed return
Macy's	$9.99 per mailed return, waived for loyalty members
Dillard's	$9.95 label fee
JCPenney	$8 per mailed return
J.Crew	$7.50 per mailed return
Abercrombie & Fitch	$7 on mailed returns
Urban Outfitters	$5 on most mailed returns
Zara	$4.95 on mailed returns
H&M	$3.99 on mailed returns

REPORTED CBS News, December 26, 2025; TheStreet, December 21, 2025. Fees change; check each retailer's current policy before citing it.

Note the word that repeats: mailed. Every retailer on the list has stores, and the fee falls on mailed returns, which steers customers to return in person, where they may buy something else. Amazon's 2023 fee made the logic explicit: $1 for returning at a UPS Store when a Whole Foods, Amazon Fresh or Kohl's drop-off was closer REPORTED . A DTC brand without stores that adds a mail fee isn't steering anyone. It's charging everyone.

What the fee-chargers said happened

In the same 2025 survey, of retailers that began charging, 47% saw more complaints, 37% said they lost customers, 34% saw average order value fall and 24% saw sales fall REPORTED . A year earlier, 54% said fees had cut return rates REPORTED . Both can be true. The question is whether a fee cuts returns more cheaply than it cuts customers, and Bower and Maxham's findings in chapter 3 are the reason to worry.

A case: L.L.Bean

For a century, L.L.Bean took back almost anything, at any age. In February 2018 it moved to a one-year limit with proof of purchase, while still covering manufacturing defects after that. The company said it had lost $250 million over five years on returned items that had to be destroyed, and that such returns had doubled over that period REPORTED . Its chairman said some customers had come to treat the guarantee as "a lifetime product replacement program, expecting refunds for heavily worn products used over many years" REPORTED . Within days a Chicago customer sued, seeking class-action status REPORTED .

The lessons carry to a small brand. The change targeted a specific abuse, the generous core survived (a year is still long), and the company explained itself with numbers. The lawsuit is the last lesson: a policy that has been part of the brand for years is part of the price customers think they paid, and taking it away feels like a price rise.

> **A fee cuts returns. The only question is whether it cuts them faster than it cuts customers.**

How to test a fee

01 **Decide what the fee is for**

Steering to a cheaper method (a free option still exists) or deterring returns. Steering is easier to defend.

02 **Assign by customer, at the first order**

A random half of new customers sees the fee in the policy, product page and checkout; the rest don’t. The assignment sticks to the customer.

03 **Set the decision metric in advance**

Twelve-month contribution per customer, including fee income, return costs and repeat orders. Watch first-order conversion, return rate, exchange share, tickets and chargebacks as guardrails.

04 **Size it**

Use the tool in chapter 5, with the fee’s expected income as the cost.

05 **Write the decision rule**

Before launch: “We keep the fee if twelve-month contribution per customer is no lower in the fee group, at the 90-day read and confirmed at twelve months.”

Different customers seeing different terms is a pricing test, with legal and reputational risk. Disclose each customer’s terms before they buy, never change terms after purchase, and have counsel review the design. If a customer-level test isn’t possible, use a before-and-after with a comparison group the change didn’t touch, such as another country you ship to.

Do this

- **If you charge a fee today without having tested it,** reverse it for a random half of new customers for six months and read the result. If you’re about to add one, run the chapter 5 tool first and write the decision rule.

THE LEGAL FLOOR

In the EU and UK, customers have a legal right to send most online purchases back. In the US, the law mostly asks that you do what you said. Either way, your policy can be more generous than the law, never less.

This chapter is a map, not advice, as the rules stood in September 2026. Have counsel review your policy for every country you sell to, and again whenever you change it.

The EU: fourteen days, no reason needed

The Consumer Rights Directive (2011/83/EU) gives consumers in the EU these rights for most goods bought online, with exceptions such as custom-made and perishable goods (Article 16) PUBLISHED :

- **Fourteen days to withdraw,** without a reason, from the day the goods arrive (Article 9), extended by twelve months if you didn't explain the right properly (Article 10).
- **A refund within fourteen days** of being told, including standard outbound delivery, by the same means of payment unless the customer expressly agrees otherwise (Article 13). You may hold it until you get the goods back or the customer shows evidence of sending them, whichever comes first.
- **The customer sends the goods back within fourteen days** and pays the direct cost only if you told them in advance (Article 14). They're liable for loss in value from handling beyond what's needed to see what the goods are and how they work.

So in the EU, credit or an exchange instead of a refund must be the customer's choice, and a return fee must be disclosed before purchase. And since 19 June 2026, Directive (EU) 2023/2673 requires a withdrawal function for contracts made through a website or app: a prominent "withdraw from contract here" function or an unambiguous equivalent, a confirmation step labeled "confirm withdrawal" or an equivalent, and an acknowledgment by email or another durable medium (new Article 11a) PUBLISHED . Each member state applies it through its own law. Your portal can host it, but it must work as a withdrawal, not a funnel into exchanges.

The UK

The Consumer Contracts Regulations 2013 give a similar fourteen-day cancellation period from the day the goods arrive PUBLISHED . Rights for faulty goods are separate and stronger; as Which? noted, ASOS's return-rate fee can't be applied to faulty or misdescribed items REPORTED .

The US: say what you do, do what you say

- **Advertised terms must be the real terms.** There's no general federal right to return, but the FTC Act prohibits deception, and "free returns" on the product page with a label fee in the portal is a mismatch.
- **"Money back guarantee" means all the money.** The FTC's guides say to use "Satisfaction Guarantee" or "Money Back Guarantee" only if you refund the full purchase price at the buyer's request, and to disclose material limitations PUBLISHED . A guarantee with a restocking fee needs counsel's review.
- **The FTC's 2024 fee rule doesn't reach return fees.** It covers live-event tickets and short-term lodging, effective May 12, 2025 PUBLISHED .
- **Some states set a default.** New York requires retailers, online ones included, to post their refund policy before billing information is requested, or be liable for a refund or credit for up to thirty days PUBLISHED . California requires a retailer that doesn't offer a refund, exchange or credit for at least seven days to display its policy, or be liable for returns within thirty days PUBLISHED .

> **The law is the floor. The policy you advertise is a promise on top of it, and the portal is where you keep it.**

Do this

- **Screenshot your terms in all five places** and put them side by side. Fix every difference, then send the set to counsel with a list of the countries you ship to.

PART FOUR · THE FLOOR AND THE ROUTINE · CHAPTER 14

THE RETURNS SCORECARD

Ten numbers, reviewed monthly, that tell you whether returns are keeping customers or quietly losing them.

Most returns reports show the return rate and a cost. The scorecard below follows the trip from the promise to the next order, so a problem shows up where it starts.

NUMBER	HOW TO COUNT IT	GOOD DIRECTION	WARNING SIGN
1. Return rate, by value	Refunded and exchanged value ÷ gross sales,	Stable or falling, for the right	Falling after a fee, with repeat falling too

NUMBER	HOW TO COUNT IT	GOOD DIRECTION	WARNING SIGN
	by category	reasons	
2. Top-20 product return rates	Each product against its own last quarter	Falling after fixes	The same product on the list three months running
3. “Other” as a reason	Share of returns with a vague or blank reason	Under 10%	Rising: the list is missing something
4. Outcome mix	Exchange, credit and refund shares of returns	Exchange share rising	Refund share rising after a portal change
5. Second-return rate on exchanges	Exchanges returned again ÷ exchanges	Low and falling	Rising: size guidance is off
6. Days, request to first scan	Median	Short	Rising: sending back has become harder
7. Days, first scan to refund	Median, and share refunded at scan	Same day for most	Any rise without a decision behind it
8. Cost per return	Label, handling and write-off ÷ returns	Falling	Falling while metric 10 falls
9. Return tickets per 100 returns	Support contacts about returns	Falling	Rising after any change to the portal or policy
10. Repeat rate by outcome	90-day and twelve-month repeat, split by how the first return ended	Returners close to non-returners	A widening gap between refund and exchange

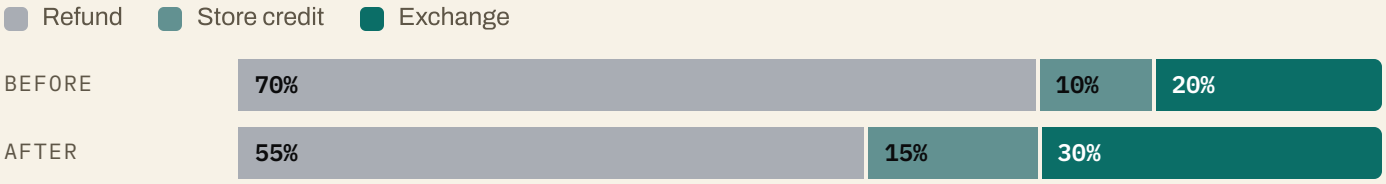
Quarterly, add the count of customers above your serial-returner line and any holdout results.

Reading the outcome mix

The fourth number is the one that moves fastest when you change the portal, so chart it. Picture a brand that reorders its outcome screen and adds a small bonus for exchanges:

Where returns end, before and after exchange-first

Share of returns by outcome. Made-up round numbers.



In the chapter 4 example, that shift was worth about $3,500 a month after paying the bonus. The chart shows the change happened; only the holdout shows it paid.

> **Report the outcome mix next to the return rate, every month. One tells you the cost; the other tells you what you kept.**

Do this

- **Build the ten numbers for last month** and put them on one page. Fill what you can; for each blank, note who owns the data. Review it monthly with operations, ecommerce and retention in the same room.

PART FOUR · THE FLOOR AND THE ROUTINE · CHAPTER 15

THE FIRST THIRTY DAYS

Week by week, from not knowing what a return costs to running returns as a retention system with a test underway.

Most of this guide can be done in a month without new software. The order matters: measure first, fix the trip second, deal with the few third, and test the expensive ideas last.

01 **Week 1 · Measure**

Run the audit in chapter 1. Pull twelve months of returns by product and customer, one cost-per-return number, and the four-way repeat split from chapter 5. Start the scorecard.

02 **Week 2 · Fix the trip**

Make your terms match in all five places. Return something on your phone and fix the worst step. Reorder the outcome screen. Turn on refund-at-scan, with a random 10% held on current timing.

03 **Week 3 · Reasons and the few**

Rewrite the reason list and hold the first weekly defect review. Run the chapter 11 tool to find your serial-returner line, look at ten customers above it by hand, and send the first plain notes. Set a keep-it rule for low-value items from the chapter 9 arithmetic.

04 **Week 4 · Test and check the floor**

Launch the bonus-credit holdout with the break-even share from chapter 4 written down. If you charge a fee, or plan to, run the chapter 5 tool and write the decision rule; reverse an untested fee for a random half of new customers. Send your terms to counsel. Hold the first monthly scorecard review.

> **Measure the next order, fix the trip, charge only the few, and test anything that costs money.**

At day thirty you should have a scorecard, one set of terms, a portal that works on a phone, refunds that move at the scan, a weekly defect review, a serial-returner rule and at least one holdout running. Most brands never find out what their returns policy does to the next order. You will.

Do this

- **Put the four weeks on the calendar today,** with one owner for each week's list, and book the first monthly scorecard review for day thirty.

CLOSE

DAY ONE

What whoever owns returns needs on the first day.

Whoever owns returns, a new hire, an agency, or you on the Monday you decide returns are a retention problem, needs six things on day one.

01 **Admin access to the returns portal**

With its settings for outcomes, bonus credit, fees, refund timing and reason codes, and a history of every change to them.

02 **A returns export**

Every return for twelve months, with order, customer, product, reason, outcome, request date, first scan date, receipt date and refund date.

03 **Cost per return**

From finance or the 3PL: label, handling, inspection and the share written off or sold below full price.

04 **Contribution per order**

From finance, so a bonus, a keep-it rule or a fee can be priced.

05 **The terms, everywhere they appear**

Policy page, product page, checkout, confirmation email and portal, with the date each was last changed.

06 **A name at counsel**

Someone who will review the policy for each country you ship to within two weeks.

Do this

- **Ask for all six in one message** today. Whatever comes back slowest is where the business knows least about its returns.

CLOSE

THE SHELF

The papers and books worth reading next, and what to take from each.

Can Product Returns Make You Money?

J. Andrew Petersen and V. Kumar, MIT Sloan Management Review, 2010

The practitioner version of their research: why returns raise profit up to a point, and how to manage for it. Start here.

Return Shipping Policies of Online Retailers

Amanda Bower and James Maxham, Journal of Marketing, 2012

What happened to spending after fee returns and free returns, and why regret over paying for a return mattered most.

The Effect of Return Policy Leniency on Consumer Purchase and Return Decisions

Narayan Janakiraman, Holly Syrdal and Ryan Freling, Journal of Retailing, 2016

The five dimensions of a policy, and which ones sell versus which ones bring things back.

The Option Value of Returns

Eric Anderson, Karsten Hansen and Duncan Simester, Marketing Science, 2009

How to think of a return policy as insurance with a price, and why its value differs by customer and category.

The Customer Consequences of Returns in Online Retailing

Stanley Griffis, Shashank Rao, Thomas Goldsby and Tarikere Niranjan, Journal of Operations Management, 2012

The operations view: returns processing, and refund speed in particular, as a driver of the next purchase.

Delivering Happiness

Tony Hsieh, 2010

Zappos's longtime chief executive on building a company around service. Read it for the idea that the unglamorous parts of the experience are the brand.

And the research: Petersen and Kumar (2009, 2015); Minnema and colleagues (2016) on reviews and returns; Shehu, Papies and Neslin (2020) on free shipping; Torkaman and colleagues (2026) on exchanges. Full references are in Appendix C.

CLOSE

ABOUT THE AUTHOR

Andrew Lauchner is a growth and retention operator for consumer brands and the author of sixteen free books on the method. He fixes the second-purchase problem through his practice, Growth Legend, as one engagement: The Second-Purchase Sprint. He is the author of The Second Order, on turning first-time buyers into second-time buyers, and The Whole Machine, on the fundamentals of DTC growth, along with a series of field guides for DTC operators at andrewlauchner.com.

As Senior Director of Growth and Retention Marketing at Gallery Furniture, he rebuilt the customer journey and the sales playbooks together. He has worked on growth and retention at Binance and 3Commas, and has been Head of Growth and Retention at Greatness Wins and at Nexus Agriscience.

WHAT COLLEAGUES SAY

“Andrew led retention, lifecycle, and email/SMS, but what separates him from most in this space is how deeply he understands the role retention plays in the overall growth engine.”

Akram Khan, Head of Marketing at Gallery Furniture, senior to Andrew but didn't manage Andrew directly

Andrew answers every note from operators working on this. Write to andrew@growthlegend.com or message him on LinkedIn.

APPENDIX A

FOR YOUR ANALYST

The formulas behind the three calculators, and four queries every brand should be able to run.

The formulas

FOR	FORMULA	NOTES
Cost of a refund	`H + (1 − r) × C`	H: cost to bring back and process. r: share resold at full price. C: product cost, P × (1 – m).
Value of an exchange over a refund	`−F + (1 − q)(P − C − B(1 − m)) − q(H + (1 − r)(C + B(1 − m)))`	F: replacement shipping. q: share of exchanges returned again. B: bonus credit, costed at product cost.
Break-even exchange share	e_0 × D(0) / D(B)	e_0: exchange share without the bonus. D: the value above, with and without

FOR	FORMULA	NOTES
for a bonus		the bonus.
Repeat lift a change must buy	`cost / (first-time customers × contribution per repeat customer)`	Cost: orders × return rate × extra cost per return, plus orders × extra return rate × cost per extra return.
Holdout size per group	`16 × p(1 − p) / d²`	p: current repeat rate. d: lift in absolute terms. 80% power, 5% two-sided.
Serial-returner line	`(a × m − F) / (a × m + h + a(1 − m)w)`	a: order value. F: shipping and fulfillment per order. h: cost per return. w: share of returns written off.

Return rate by product

```
-- value returned / value sold, by product, last 12 months
-- order_lines: order_id, line_id, product_id, quantity, price
-- refund_lines: refund_id, line_id, quantity, amount, created_at
WITH refunded AS (
  SELECT line_id, SUM(amount) AS amount FROM refund_lines GROUP BY line_id
)
SELECT ol.product_id,
       SUM(ol.quantity * ol.price)                    AS sold_value,
       COALESCE(SUM(rl.amount), 0)                    AS refunded_value,
       COALESCE(SUM(rl.amount), 0)
         / NULLIF(SUM(ol.quantity * ol.price), 0)     AS return_rate
FROM order_lines ol
JOIN orders o ON o.order_id = ol.order_id
LEFT JOIN refunded rl ON rl.line_id = ol.line_id
WHERE o.created_at >= CURRENT_DATE - INTERVAL '12 months'
GROUP BY ol.product_id
ORDER BY refunded_value DESC;
```

Refunds miss exchanges; add them from your returns app’s export.

Repeat rate by how the first return ended

```
-- first-time customers 12 to 24 months ago, split by first-return outcome
-- returns: return_id, order_id, customer_id, requested_at, outcome
--          ('refund','exchange','credit','keep'), first_scan_at, refunded_at
WITH firsts AS (
  SELECT customer_id, MIN(created_at) AS first_at
  FROM orders GROUP BY customer_id
  HAVING MIN(created_at) BETWEEN CURRENT_DATE - INTERVAL '24 months'
                             AND CURRENT_DATE - INTERVAL '12 months'
),
first_return AS (
  SELECT DISTINCT ON (r.customer_id) r.customer_id, r.outcome
  FROM returns r JOIN firsts f ON f.customer_id = r.customer_id
  WHERE r.requested_at < f.first_at + INTERVAL '90 days'
  ORDER BY r.customer_id, r.requested_at
)
SELECT COALESCE(fr.outcome, 'no return')                          AS group_,
       COUNT(*)                                                   AS customers,
       AVG(CASE WHEN EXISTS (
             SELECT 1 FROM orders o2
             WHERE o2.customer_id = f.customer_id
               AND o2.created_at > f.first_at
               AND o2.created_at <= f.first_at + INTERVAL '12 months')
           THEN 1.0 ELSE 0 END)                                   AS repeat_12m
FROM firsts f
LEFT JOIN first_return fr ON fr.customer_id = f.customer_id
GROUP BY 1;
```

Some returns apps create an order for each exchange. Exclude those from the repeat count, or every exchanger looks like a repeat buyer.

How long the money takes

```
-- median days from request to first scan, and first scan to refund
SELECT date_trunc('month', requested_at)                                AS month,
       percentile_cont(0.5) WITHIN GROUP
         (ORDER BY EXTRACT(EPOCH FROM first_scan_at - requested_at)/86400) AS days_to_scan
       percentile_cont(0.5) WITHIN GROUP
         (ORDER BY EXTRACT(EPOCH FROM refunded_at - first_scan_at)/86400)  AS days_scan_to
       AVG(CASE WHEN refunded_at <= first_scan_at + INTERVAL '1 day'
           THEN 1.0 ELSE 0 END)                                      AS share_refunded_
FROM returns
WHERE outcome = 'refund' AND first_scan_at IS NOT NULL
GROUP BY 1 ORDER BY 1;
```

Customers above the serial-returner line

```
-- each customer's share of orders returned, last 12 months
-- set :line from the chapter 11 tool, e.g. 0.66
SELECT o.customer_id,
       COUNT(DISTINCT o.order_id)                                  AS orders,
       COUNT(DISTINCT r.order_id)                                  AS orders_returned,
       COUNT(DISTINCT r.order_id)::numeric
         / COUNT(DISTINCT o.order_id)                              AS return_share
FROM orders o
LEFT JOIN returns r ON r.order_id = o.order_id
WHERE o.created_at >= CURRENT_DATE - INTERVAL '12 months'
GROUP BY o.customer_id
HAVING COUNT(DISTINCT o.order_id) >= 3
   AND COUNT(DISTINCT r.order_id)::numeric / COUNT(DISTINCT o.order_id) >= :line
ORDER BY return_share DESC;
```

The three-order minimum keeps one unlucky first order from flagging a new customer. The syntax throughout is Postgres.

APPENDIX B

TEMPLATES

Policy, portal copy, messages and a test brief. Have counsel review the policy.

The policy in five answers

```
RETURNS AND EXCHANGES

HOW LONG      You have [60] days from delivery to start a return
              or exchange.
HOW MUCH      Returns are free. We refund the full price to your
              original payment method. [If there is any fee, state
              it here, in dollars, and when it applies.]
HOW           Start from the link in your delivery email, or at
              [site]/returns with your email address.
WHAT          Items must be unworn and unwashed, with tags. We can't
              take back [final-sale or personalized items]. Faulty,
              damaged or wrong items are always on us, whatever the
              date.
SWAP          Want a different size or color? Choose an exchange and
              we'll ship it as soon as your parcel is scanned.
MONEY         Refunds are sent when the carrier first scans your
              parcel for most orders, and within [5] days of arrival
              for the rest.
EU AND UK     You also have the legal right to withdraw within 14
              days of delivery without giving a reason. [Link to the
              withdrawal function.]
```

The outcome screen

```
HEADING       How would you like to sort this out?

OPTION 1      Swap for a different size or color
              Ships as soon as your return is scanned. No charge.
OPTION 2      Store credit for something else   [+ $10 bonus]
              Shop now and use it right away.
OPTION 3      Refund to your original payment method
              Sent when the carrier scans your parcel.

RULES         All three visible, same size, no pre-selection of
              credit, no extra click to reveal the refund.
```

Email: return started

```
SUBJECT       Your Return Is Started
PREVIEW       here's your drop-off code and what happens next

Hi [first name],
```

```
Your return for [item] is set up. Take it to [drop-off] by
[date] and show this code: [code]. No box or label needed.
When they scan it, we'll send your [refund / exchange / credit]
the same day. Questions? Just reply.

[Brand]
[Postal address]
This is a service message about your order.
Unsubscribe from marketing emails: [link]
```

Email: refund sent

```
SUBJECT      Your Refund Is on Its Way
PREVIEW      $[amount] back to your [card ending 1234]

Hi [first name],

Your parcel was scanned at [time, place], and we've sent your
refund of $[amount] to your [card ending 1234]. Banks usually
show it within [3 to 5] business days.

You told us the [item] [ran small]. Thank you: we've passed that
to the team that writes our size guide.

[Brand]
[Postal address]
This is a service message about your order.
Unsubscribe from marketing emails: [link]
```

SMS: refund sent

```
[Brand]: Your return was scanned and your $[amount] refund is
on its way to your card ending 1234. Questions? Just reply. Reply
STOP to opt out.

SEND ONLY    To customers who agreed to texts about their orders.
             Straight apostrophes only.
```

Email: note to a customer near the serial-returner line

```
SUBJECT      A Quick Note About Your Returns
PREVIEW      nothing has changed yet, here's what to know

Hi [first name],

You've returned [7 of your last 9] orders with us in the past
year. That's completely allowed, and we're glad you shop with us.

We want to be upfront: when a customer returns more than [70%]
of their orders over a year, returns stop being free, and a
[$5] fee is taken from each refund. Faulty or wrong items are
always free to return.

Your current rate is [78%], and you can see it any time here:
[link]. If sizing is the problem, reply and we'll help you pick.

[Brand]
[Postal address]
This is a service message about your account.
Unsubscribe from marketing emails: [link]
```

The policy test brief

```
CHANGE              e.g. $10 exchange bonus / $6 mail fee
PURPOSE             steer / deter / retain
ARMS                policy vs holdout, assigned by customer at
                    first order; share in holdout:     %
DISCLOSURE          where each arm sees its terms before buying
PRIMARY METRIC      12-month contribution per customer
GUARDRAILS          first-order conversion / return rate /
                    exchange share / tickets / chargebacks
BREAK-EVEN          from chapter 4 or 5 tool:
SIZE                customers per arm:         read at 90 days
                    and 12 months
DECISION RULE       we keep it if:
COUNSEL REVIEW      name, date:
```

APPENDIX C

SOURCES

Every external source, by chapter. Web sources were read in September 2026.

Front and market data (front, chapters 6, 8, 10, 12)

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The trip (chapters 4, 6 to 9)

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Serial returners and fees (chapters 11, 12)

- InternetRetailing. “Asos to charge high returners £3.95 fee,” September 6, 2024. Which?, “Asos updates returns policy with new ‘personal return rate’ tool,” January 7, 2026. ASOS, fair use policy, read September 2026.
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Published figures come from peer-reviewed research, articles by the researchers themselves, statutes, directives and regulator guidance, as of the dates given. Reported figures come from named companies, research firms and outlets; returns software and logistics companies' figures are marked as vendor data. Derived figures are my arithmetic from stated inputs, with the inputs shown. Examples that open with Say or Picture use made-up round numbers. Consumer-protection, returns and privacy rules vary by state and country and change often; have counsel review your return policy, fees and any serial-returner rules. None of this is legal or financial advice.

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