

# Why Amazon, Zara, and H&M Are Losing Customer Loyalty and Paying a Very Costly Price



Opinions expressed by Entrepreneur contributors are their own.

Why risk obliterating customer trust for a few dollars? That's the high-stakes gamble that's plaguing the business landscape as companies increasingly implement return fees. In a bid to curb a burgeoning problem of product returns, businesses have inadvertently stepped into a loyalty minefield. The trend, prevalent yet contentious, warrants scrutiny through the lens of behavioral science to grasp its long-term ramifications.

So, here's the conundrum: businesses are hemorrhaging money on returned goods. Happy Returns, a logistics company, released a survey that found 81% of retailers have implemented some form of return fee in the past year alone. On the surface, charging

return fees seems like a logical step. It's a move aimed at deterring frivolous returns, and according to many companies, it's working.

Amazon, H&M, and Zara, retail giants in their own sectors, are among many that have started charging return fees and are promoting in-store returns. Amazon levies a \$1 fee for shipping returns through United Parcel Service, while H&M charges \$5.99 for returns sent through the U.S. Postal Service. Zara takes \$3.95 off your refund for mailed returns.

### **Related: Amazon Is Now Charging a Fee For Some UPS Store Returns**

On one hand, these fees are modest, but they are potent enough to disrupt the shopping experience. Consumers are savvy; they calculate the entire cost of shopping, including the hassle and expense of potential returns. Happy Returns also found that about a third of companies surveyed lost customers due to these new fees. According to their survey, more than 80% of consumers check a retailer's return policy before making a purchase with a retailer for the first time and 55% of the consumer population surveyed have abandoned a shopping cart if the return policy wasn't convenient.

Blue Yonder, a supply-chain software provider, further substantiates this in a different survey, revealing that 59% of consumers are deterred from making a purchase if they're faced with tighter return policies. So, while you might stop the bleeding in the short term by charging return fees, you're creating a less hospitable shopping environment that drives customers away in the long term.

## **The intricacies of cognitive biases in return fee decisions**

While financial metrics and logistics often dominate corporate

decisions about return fees, cognitive biases play an underrated but influential role in this complex equation. Recognizing these biases not only sheds light on why businesses might opt for such fees but also offers insights into how these choices can adversely affect customer behavior.

First, consider the cognitive bias of hyperbolic discounting. This bias explains our natural propensity to opt for immediate rewards over future benefits. When a business is dealing with the costly logistics of managing returns, the immediate relief provided by implementing a return fee can be overwhelmingly tempting. It's a quick fix that shows immediate results, thereby satisfying shareholders and seemingly tightening up a leaky supply chain process. However, by focusing so intently on the here and now, companies often overlook the long-term consequence, which is the gradual erosion of customer loyalty.

Next, let's delve into the empathy gap. This cognitive bias refers to the difficulty of understanding and predicting the emotional states of ourselves and others in situations that are different from the present. When board members discuss implementing a return fee, they may find it challenging to fully comprehend the emotional toll such a fee takes on consumers. Often encapsulated in corporate bubbles, decision-makers may not grasp that for many consumers, the fee is not just an economic cost but an emotional one. It feels like a betrayal, a breaking of the tacit trust between consumer and brand.

Finally, we must discuss the anchoring effect, where we grow used to a certain anchor and feel that it's the normal and appropriate state. For years, many consumers have grown accustomed to a no-fee return policy, viewing it almost as a retail standard. When they're suddenly confronted with return fees, even seemingly nominal ones, their reactions can range from surprise to betrayal. This anchoring effect – where customers have mentally pegged their shopping experience to the absence of return fees – means that the introduction of

such fees creates cognitive dissonance and a negative emotional response.

This form of customer anchoring can have significant repercussions. Not only are these customers likely to reconsider future purchases, but their overall perception of the brand may also shift negatively. They may even become vocal critics, sharing their displeasure in reviews or across social networks, thereby influencing potential customers. Brands need to recognize that they're not just introducing a new fee; they're deviating from a consumer expectation that has long been anchored to a no-fee experience. This pivot can create ripples that extend far beyond a single transaction, eroding hard-won customer loyalty and affecting long-term profitability.

By taking the time to understand these cognitive biases, businesses can arm themselves with the nuanced insight necessary to make better decisions about implementing return fees. It serves as a reminder that decision-making, especially on matters that affect customer trust and long-term loyalty, should never be taken lightly or made in a cognitive vacuum.

**Related: Want to Return Clothes? At this Fast Fashion Retailer, It Will Cost You**

## The case for dropping return fees

By analogy, consider Southwest Airlines. I love flying with them. Perhaps I'm revealing my age, but I started flying when airlines didn't charge bag checking fees for less than two checked bags. When other airlines started to charge fees, I felt a real reluctance to fly with them. I tried to take Southwest everywhere it flew, not even checking other airlines if I had a decent option with Southwest. And I'm not alone. Many travelers like myself became anchored to no bag checking fees and won't even consider other airlines if Southwest flies to their desired destination. Sometimes they – and I – end up

paying more for a Southwest ticket, but the absence of baggage fees and the added layer of trust make all the difference. Southwest stands as a vivid example of how a company can benefit by not nickel-and-diming its customers.

So, what's a future-forward retailer to do? In a world where brand loyalty is the golden ticket, consider zigging while others zag. Instead of aligning with the immediate benefit of return fees, invest in enhancing the overall customer experience. In doing so, you're not just retaining a customer for one transaction; you're retaining them for life. Understand that businesses don't merely sell products; they sell experiences. And you'll steal the customers pissed off at the Amazons of the world who nickel-and-dime them over return fees.

## Conclusion

In the relentless race to maximize immediate profits, companies charging return fees risk long-term loyalty, the cornerstone of sustainable business. While the initial numbers might seem favorable, they mask an undercurrent of consumer dissatisfaction that could eventually morph into a full-fledged backlash. In a landscape punctuated by volatile consumer sentiments, the question businesses need to ask themselves is simple: Is the immediate monetary gain from charging return fees worth the irreversible damage to customer loyalty? Southwest Airlines already has its answer. What's yours?

<https://www.entrepreneur.com/growing-a-business/why-amazon-zara-and-hm-are-losing-customer-loyalty-and/464483>