

# Understanding Chargebacks



Shipping Delays  
Can Create Massive Complaints



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## A Perfect Storm

### Holiday Season Marred by Nationwide Shipping Delays From Online Retailers to their Customers

#### Prelude

IT'S CERTAINLY NOT A UNIQUE METAPHOR, but it all seemed so . . . well, so perfect as we entered the holiday shopping season. IBM set the stage with a bullish precursor, reporting a 21 percent surge over 2012 levels in online shopping during “Cyber Monday.”<sup>1</sup>

#### Pent Up Consumer Demand

The National Retail Federation followed by projecting that U.S. retail sales would rise 3.5 percent during the holiday season. Online transactions were particularly robust: Merchandise purchased via personal computers soared 10 percent in 2013 to \$42.75 billion.<sup>2</sup> The number of packages delivered as a result of online sales rose 14 percent to 365 million.<sup>3</sup> Online merchants were busy, in fact, they were very busy. But maybe it was all just a little too perfect.

#### In-store Desperation Discounts

Desperate retailers slash prices and extend store hours to attract consumers in final hours.

For the bricks-and-mortar merchant, the 2013 holiday season wasn't nearly as rosy . . . far from it. Declining store traffic, especially for apparel, ultimately spurred desperation discounts. Gap's Old Navy and even high-end retailers like Michael Kors Holdings and Neiman Marcus Group slashed prices as much as 75 percent. National retailers such as Macy's and Kohl's extended stores hours around the clock as U.S. store visits plummeted 21 percent and retail sales dropped 3.1 percent in the week ending December 21.<sup>4,5</sup> As a result, the expansion bypassed stalwart retailers such as Wal-Mart Stores and Target Corp. Target tried to lure shoppers with a 10 percent discount throughout the store. Yet the number of transactions at Target slipped 3 to 4 percent — Target had more serious problems. To capture shoppers' attention, retailers further deepened discounts, promoting deals in the last days before the Christmas holiday.



## Avalanche of last-minute packages

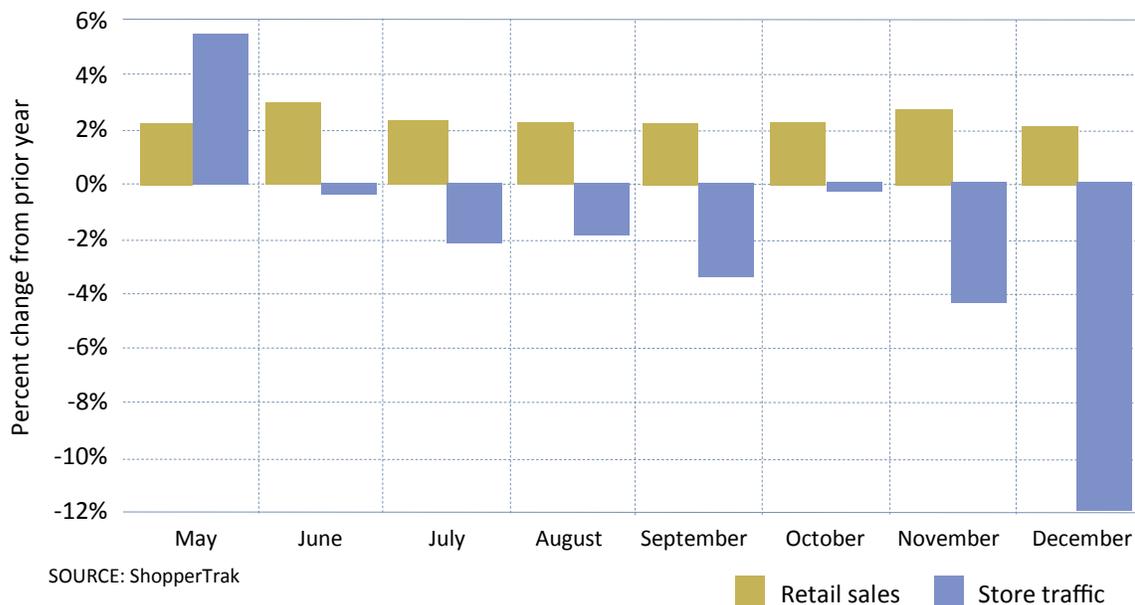
As the Christmas shopping window began to close, some retailers became desperate to move stockpiles of holiday inventories. Prices were slashed below Black Friday levels. So enticing were the deals that promises were made for “just in time” delivery of orders filled as late as 11 p.m. on December 23. The result was a massive increase in last-minute orders – to the patient goes the spoils! Or did it? Exacerbating this influx was a 37 percent jump in orders placed the last weekend before Christmas.<sup>6</sup> UPS was inundated with packages, overwhelmed by the “unexpected volume.” Apparently, the company had anticipated an 8% increase in package volume over the holidays. A UPS spokesman said, “UPS had planned all year to handle the annual increase in shopping volume during the holidays.”<sup>7</sup>

## Amazon Prime: A Contractual Culprit

Retailer promotions overwhelm the capacities of tradition shipping vendors such as UPS and FedEx.

UPS may have planned throughout the year but their performance was a fiasco, as *Forbes* reported.<sup>8</sup> Even the U.S. Postal Service reported increases in holiday volume of 19 percent.<sup>9</sup> On detecting the volume surge, the oft-criticized USPS upstaged FedEx and UPS by arranging special deliveries on Sundays and even on Christmas Day. In the company’s defense, it is likely that UPS was disproportionately affected because of its contract to fulfill the Amazon Prime contract which guarantees delivery in two days. Once again, Amazon Prime orders exceeded all expectations even though Amazon limited new signups for Prime membership during the peak shopping periods. However, Amazon did report that during the third week in December, over one million new subscribers were enrolled in their guaranteed and unlimited shipping enhancement for an annual fee of \$79.<sup>10</sup>

## Staying Home and Spending



## Mobile devices exacerbate last-minute frenzy

Mobile grabs 40% of Internet sales which rise to \$78.8 billion and worsens the last-minute frenzy.

It should also be noted that because Thanksgiving fell so late in November, the traditional shopping window was compressed by six days. Add to this poor weather conditions affecting shopping patterns and delaying scheduled air freight and the perfect storm gathered momentum. There was a final factor that asserted itself in 2013. Mobile devices accelerated last-minute transactions while accounting for roughly 40 percent of all Internet sales. The inclusion of the mobile transaction component allowed Forrester Research to project total holiday season online sales at \$78.7 billion.<sup>3</sup> At the end of the day, how many packages were delayed? Millions!

## A consumer firestorm

What followed was a consumer reaction of epic proportions. Retailers quickly learned that their customers could be unforgiving when they felt misled. Social media exploded with vociferous and often vitriolic posts. People felt betrayed; their loved ones were deprived of their gifts on the most special day of the year – goodwill was vaporized in a matter of hours. The only solution was to repurchase customer loyalty through refunds and gift cards.

Analysts estimate that United Parcel Services will spend a staggering \$50 to \$100 million this quarter on refunds, rebates, and higher operating costs directly attributable to holiday shipping delays. Chains from Kohl's to Amazon.com to 1-800-Flowers.com offered \$20 gift cards and refunds after angry shoppers took to social media to vent their frustrations at the missed shipments.<sup>2,11</sup>

## Amazon developing alternative shipping

Amazon is confronting the shipping issue proactively. The company intends to accelerate promotion of its proprietary delivery networks such as Amazon Locker where consumers can receive or return their packages to a secure location such as neighborhood 7-Eleven stores and other public drop boxes, similar in concept to Walmart To Go<sup>SM</sup>. It may also accelerate development of the Amazon Fresh delivery network for grocery orders, already deployed in the Seattle area. Clearly, the company is seeking alternatives to UPS and FedEx to lower the risk of subsequent delivery snafus.



## Avoid shipping snafus in your operations

The failure of UPS and FedEx to deliver packages in time for Christmas has exposed the peril of failing to fulfill promises made to customers. The backlash can be brutal: loss of goodwill and an avalanche of costly chargebacks. Merchants may also wish to consider diversifying their shipping vendors by including the USPS. Remember, UPS was also hammered with delays in 2004 when an ice storm crippled their Louisville distribution center – it could happen again at any time.

## References

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