

Retailers Viewing Returns Through the Lens of Strategy

by **Mike O'Brien**, Multichannel Merchant

A year into the pandemic-influenced explosion in ecommerce, and after the recent peak holiday season, one thing is abundantly clear: Retailers can no longer afford to view returns as a cost of doing business, but instead need to see it as a key business strategy driving customer loyalty.

Underneath that understanding, successful retailers are enhancing their returns policies and solutions to make returns a differentiator, with their experience during the 2020 holidays only reinforcing the critical nature of this relatively new imperative.

"Among the retailers we work with, there is a direct correlation between having a customer-friendly returns policy and seeing high growth in ecommerce sales," said Carmen Zamora, vice president of marketing for FedEx. "In general, we see these retailers are the growth leaders in ecommerce."

Sucharita Kodali, vice president and principal analyst with Forrester Research, agrees. In a recent report, she noted that consumers highly value a number of features in a returns policy, including convenient drop-off locations, free returns and fast refunds.

"Companies that offer those services often tend to have higher conversion and customer retention rates," Kodali said.

Observations from the 2020 Holidays

One of the key observations during the holiday season was the increased adoption of safe, frictionless re-



turns, such as QR code scanning and no-box, no-label returns. Retailers also found themselves taking advantage of networks with thousands of convenient drop-off locations, instead of making customers pack up the item themselves and wait in a post office line.

Amit Sharma, founder and CEO of returns solution provider Narvar, said COVID-19 has taken away the ability for millions of consumers to print return labels at their office and use it as a pickup location for returns.

"We saw a greater than 10% increase in adoption of printer-less or QR code-based returns, compared to 2019," Sharma said. "Beyond that, we also saw a 10% increase in adoption of no-box, no-label returns. That's

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because retailers know consumers often don't have the original packaging, because it was thrown away. Providing convenience is a competitive advantage for retailers to win over consumers and get them to shop again. It's not only a better customer experience, but you see tangible benefits for the merchant as well."

Overall, Narvar said holiday returns were up significantly in the 2020 holiday season, based on data from about 230 customers, including many high-volume retailers.

Zamora said for FedEx, holiday returns were up, but some categories lagged others, impacting the overall rate. "Although there was strong returns growth in December and January, it wasn't equally shared across all retailers," she said. "Apparel, for example, normally is one of the highest returns categories, but apparel sales are still down due to COVID-19's effect on buying behaviors. The resulting shortfall in apparel returns slightly tempered peak volumes."

Returns dropped off at retail locations were up significantly in 2020, Zamora said, representing a large amount of volume from FedEx's ground network, as consumers embraced this convenient option in droves. FedEx has a network of 63,000 drop-off locations between its own stores, drop boxes and alliances with retailers including Walgreens and Dollar General, with 92% of the U.S. population within five miles of one.

"Drop-offs are a win-win; they make returns more affordable for retailers, who don't have to pay a pickup fee," said Zamora. "And for consumers, it's a convenient experience. They get a receipt at the time of drop-off which proves the return was tendered, reducing their anxiety and making them more confident they'll get a refund."

According to a recent FedEx research survey, two-thirds of online shoppers said it was important to get a receipt when handing off a package for return.

Marshal Cohen, chief retail analyst for The NPD Group, said one telling result from its annual survey highlighted the growing importance of returns to retailers in 2020.

Free shipping was listed by U.S. consumers as the number-one reason for shopping at a retailer this past holiday season, followed very closely by ease of returns, with price further behind as number three.

"Almost every year, price is number one, followed by free shipping and returns," Cohen said. "It's gone from being the paramount reason to make a holiday purchase to now being dwarfed by shipping and returns. The message to [retailers] out there is, ease of returns plays an increasingly important part [in buying decisions]. Consumers want to be able to drop off a return, instead of putting on a label and putting it in the mail. That's what breeds continuity and loyalty for customers to re-engage."

Cohen said retailers should be very transparent when it comes to informing customers about their returns policy, as no one wants a surprise at checkout. They need to recognize that it's a huge driver in terms of the buying decision.

How Retailers are Upping Their Returns Game

In terms of store returns, retailers are making the process easier in different ways. For instance, return locations have become more visible, instead of always being stuck at the rear of the store. Also, Point-of-Sale (POS) systems are able to look up purchase history on a credit card, removing the need to produce a receipt and allowing for faster credit.

Additionally, allowing online purchases to be returned in a store has become a much more widespread practice, again adding to shopper convenience and choice.

"Retailers have used technology and their ability to store information to make the [return] process more efficient," said Cohen. "Some stores will take everything back, opened or unopened. It varies between retailers, but in almost all cases, the POS can more efficiently handle returns. And drop-off boxes have taken the place of mailboxes, including overnight locations and lockers."

Zamora said FedEx has seen notable growth for its solution that enables no-label and no-box returns, a popular option for shoppers.

"Demand for no-label, QR code return solutions is something we're seeing more of in market and is becoming more expected by consumers, so we've been expanding our offerings to meet these growing needs,"

she said. “And before, it was mainly large retailers who wanted to use these new technologies for returns. But now small-to-medium businesses are interested as well. They want to provide the same great experience as the big players.”

Returns prevention has also become a growing trend, with tools that utilize data analysis and artificial intelligence (AI) technology to proactively reduce the flow of products coming back. Companies like Returnalyze, ReturnLogic and Newmine have developed systems that scour data like reason codes, purchases and product information to recommend changes. FedEx also has data-pushing technology that allows shoppers to fill in return reasons, which helps merchants make better informed product decisions, such as ensuring accuracy of apparel sizing and color.

Also, startups like MySizeID, FitAnalytics, Fit:Match and 3DLOOK have focused on technology to help apparel shoppers make sure they’re getting the right-sized item, avoiding one of the main reasons for returning clothing and footwear.

“Sometimes, you can look at the data and see patterns emerging, such as more reason codes of a defect or issue,” Sharma said. “So instead of continuing to sell the item, it’s better to take it off the shelf. You can use different data and intelligence to predict a returns rate, or in other cases provide additional descriptions or not even sell those items.”

Returns and the Customer Experience

One reason that returns has been elevated in importance from cost center to strategic imperative is its undeniable impact on the overall customer experience and variety of metrics. According to a Forrester Research survey, 46% of U.S. consumers said a retailer’s returns policy was important in terms of influencing their decision of where to shop.

Zamora of FedEx said smart retailers will be reevaluating their return policy now in order to drive increased customer loyalty through 2021 and into the upcoming peak season.

“If shoppers look on a site and can’t find the return policy, or don’t think it’s good enough, they’ll go elsewhere,” she said. “You need to make it simple for them. If they have a positive returns experience, they’ll be more likely to shop with you again. This includes adding



a return label in the box, or letting them use a QR code that can be scanned when the return is dropped off. A nice, seamless experience paired with convenient drop-off locations will improve shopper loyalty.”

And clearly, customers today don’t expect to see a cost associated with returns. According to a FedEx research survey, 52% of U.S. consumers said they “definitely” or “probably” would not shop with a retailer that doesn’t offer free returns shipping. About the same number, 52%, said they had abandoned an online shopping cart due to the retailer’s returns policy. As ease and price are important to shoppers, this is all the more reason to find greater efficiency in the returns process, for instance by enabling customers to drop their items off at a nearby location.

Rich Pedott, a partner at Columbus Consulting, said order fulfillment and returns will be the “loyalty battleground” over the next several years, as retail continues to shift to digital and higher expectations become entrenched.

“Among the customer-facing touchpoints, [fulfillment and returns] probably matter more,” he said. “They want visibility to know the status of a return and refund. They want a seamless, hassle-free experience with free delivery and returns, and they want it fast, and now hygienic and safe with contactless. Customers expect more service and convenience, that’s what the game is all about.”

Case Study: Saint Bernard

Melissa Friday, ecommerce director for Saint Bernard, a Dallas-based specialty retailer of ski and outdoor clothing and accessories, said the company saw about twice its normal volume in November and December 2020, as customers were experiencing stock-outs of



certain gift categories found at other online stores. And that of course meant a huge volume of returns as well.

"We were already doing well before COVID, but when it hit, we boomed," Friday said. "The volume increased more and more. And in the 10 years I've been here, this was the craziest year for returns."

Saint Bernard had been using a major parcel carrier for its outbound and inbound shipping, getting a good rate on the former but being killed on returns, which were costing the company heavily.

After switching to FedEx in 2019, Friday said, Saint Bernard has realized significant savings per returned item, and the inbound process has been smooth, even with the increased volume this past holiday season.

"As far as the FedEx returns process, our customer service team loves it, saying it's the best they've ever experienced with any carrier," Friday said.

Conclusion

Both a growing body of market research and anecdotal feedback from retailers leads to an inescapable conclusion: Having a simple, painless returns program directly correlates with higher ecommerce conversion rates and stronger customer loyalty.

Pedott said at the end of the day, it's all about convenience, making the return as easy as possible for your customers. The two main components are the actual return processing, and then quickly issuing the customer a refund or credit – the latter a bar that's been set high by major online retailers, and others are rushing to replicate.

"In many cases, retailers have been expanding their services, like offering contactless curbside returns," he said. "Or if the customer is comfortable going into a store, it's more attractive to the retailer, with a chance to save the sale. There's also a lot of growth in terms of returns partnerships, giving customers additional options of how to physically do a return."

From a freight cost standpoint, retailers win with customer drop off through consolidation and volume, and consumers win with no-box, no label returns and flashing a QR code from their phone at the counter. "Anytime they don't have to box up or ship out a return, it's a plus," Pedott said. "And QR codes have made it so much easier to do contactless returns, taking the hassle out of having to make a trip to the post office."

Jim Okamura, a partner at retail consultancy MacMillonDoolittle, said based on its critical importance, retailers are starting to see returns as a key element of their broader customer approach. He said it's a way to differentiate themselves and create the consistently better experience that shoppers now expect.

"We'll see returns with a seat at the strategy table, whereas it had typically been a backend decision and an afterthought," he said. "A lot of retailers have been somewhat guilty in not giving it the attention it deserves. But after a year like 2020, a lot of them are taking a closer look at customer expectations in general and the entire [returns] experience. Return policies and how they're communicated become very important in terms of positioning their broader service offering."

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