4 RETAIL TRENDS:

The Link Between Returns and Customer Loyalty

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Executive Summary

As reports of retail bankruptcies flooded the news over the past year, brands and retailers turned to new and innovative ways to engage and retain their customers. From providing unique in-store experiences to investing in new technologies, many retailers and brands will spare no expense to keep their customers happy. And consumers, now more than ever, expect a positive and seamless customer experience from beginning to end. This means that consumers don't only look at price and product information, but also at the return and shipping information, creating a total cost of ownership for any single item.

With return rates growing every year, this phase of the customer journey becomes increasingly important. Each year, Optoro estimates that there are $390 billion in returns in the US alone—up 10% from last year. In a recent consumer survey, we found that 71% of shoppers made a return in the last six months.[1] But according to the results from a survey conducted with Supply Chain Dive of 117 top retailers, only 32% are quantifying the full cost of returns.[2]

1 Do Returns Drive Customer Loyalty, Consumer research, Optoro, 2019
2 Supply Chain Dive & Optoro research, 2019

Returns and Customer Loyalty

When discussing customer loyalty strategies, plans to improve the returns experience is not usually what comes to mind. But in a recent survey, we found that consumers view the returns process and return policies as major factors in driving customer loyalty. 97% of respondents said that they would continue to shop with retailers that provide a positive returns experience (i.e. free returns, longer return windows, etc), and 55% said that they chose not to shop with a retailer who didn't offer a flexible enough return policy.[3]

> Retailers understand this. In our survey of 117 top retailers, **64% of respondents** indicated that improving the end customer experience is the most important returns-related goal.[4]

In analyzing industry efforts to improve the customer experience over the past year, four trends stand out—particularly as they relate to incorporating returns as part of a customer loyalty strategy:

1   Using the store to drive brand loyalty

2   Enabling a seamless shopping experience

3   New technology innovations

4   Supporting sustainability through secondary marketplaces

In this report, we'll take a closer look at these four top trends in retail and explore how retailers incorporate the desires of their customers into their returns management strategies.

3 The Returns Experience Evaluation, Optoro, 2019
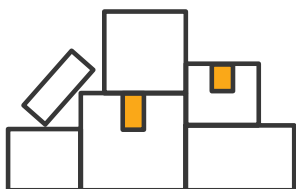*4 Supply Chain Dive & Optoro research, 2019*

① Using Stores to Drive Brand Loyalty

With the rise of ecommerce and the closure of malls and brick and mortar stores across America, many say that the store is dead. But research shows that stores actually drive higher conversions: the average conversion rate for department stores is between 35 and 60%, while the online rate is only 3%.[5]

Some retailers have developed innovative ways to cultivate strong relationships with shoppers by enticing them into their physical stores. For example, Nordstrom debuted a concept called Nordstrom Local, a store with no inventory. These stores focus solely on the customer experience by offering nail salons, bars, and tailoring services. They also serve as a hub for online pickups and more critically, returns. Meanwhile, Nike offers instant checkouts linked to the Nike app, a customizable "sneaker bar," and basketball courts for customers to trial shoes. Even several consumer electronics brands, such as Harman, who have historically sold through retailers and ecommerce avenues, have recently opened their own physical locations to strengthen their direct-to-consumer strategy.

Retailers drive their customers into the store for unique shopping experiences they can't find online, but often do not capitalize on the returns opportunity or neglect them altogether. Here, we see a large disparity between consumer expectations and retailer offerings. 87% of consumers would rather return an item to a physical store instead of mailing it back.[6]

But of the retailers we surveyed,
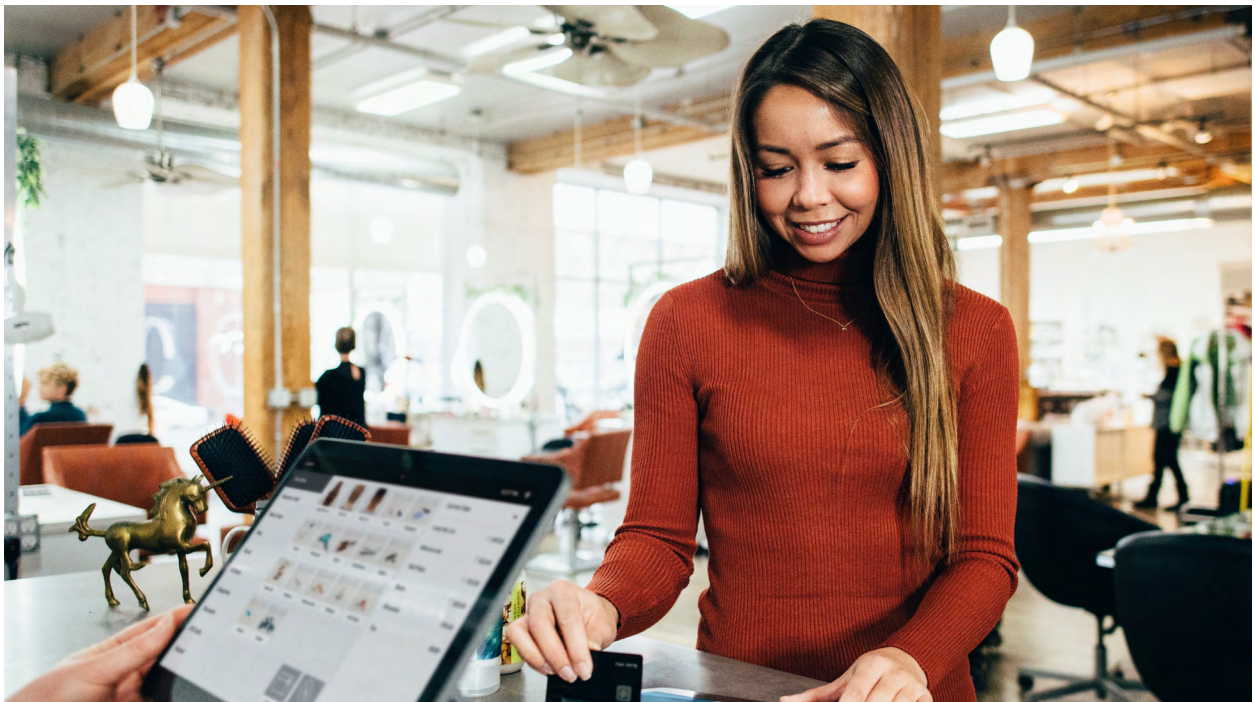
only **59% offered in-store returns**.

5 *ETP Group, Brick and Mortar Stores,* 2016
6 *Retail Returns and the Consumer Experience, Optoro, 2018*

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Given these factors, retailers should strive to make the returns experience as positive as the initial shopping experience. They should also note that it's likely their customers will purchase other items while they are in the store initiating the return. In fact, 71% of consumers reported doing this, according to a consumer study we conducted in 2018.[7]

A few retailers recognize that the store returns experience is important to their shoppers and are setting the standards for the rest of the industry. Walmart, for example, has taken steps to provide a positive in store return experience by allowing customers to return items with an associate at the store entrance.

7 Retail Returns and the Consumer Experience, Optoro, 2018

② Enabling a Seamless Shopping Experience

Providing a positive store experience is important. Retailers should ensure that it is tied to their other channels and even consider expanding the physical blueprint of their returns strategy beyond just their own brick and mortar stores.
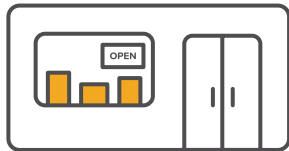
Customers expect retailers to provide a seamless shopping experience across channels. Commonly, customers may browse a website, see that a certain item is in stock at their local store and expect to pick it up immediately. Some retailers like Brooks Brothers take it one step further by providing a mobile concierge service in stores that allows store associates to pull up customers' past order history and provide a personalized shopping experience.

> Our research shows that **70% of retailers** plan to make some investment in the omni-channel shopping experience this year. And as returns increasingly become an inevitable part of the customer journey, providing an omni-channel returns process is also a necessity. But, **only 47% of retailers** surveyed plan to invest in their returns strategy this year.[8]

8 Supply Chain Dive & Optoro research, 2019

Companies like Happy Returns allow consumers to send back their online returns by dropping them off at a kiosk for their convenience. UPS offers a Universal Returns program that allows customers to drop off their unpackaged returns at a UPS store where a store associate scans the returns slip and completes the return for the customer. Some retailers without physical locations are partnering up to provide an in-person returns experience. After the initial success of its joint pilot, Kohl's is expanding the program allowing customers to return Amazon packages to all of its stores. The pilot resulted in a 9% increase in new customers visiting Kohl's stores and an 8% increase in revenue.[9]

Ultimately, consumers want choice and flexibility. Soon it won't be enough to only offer physical returns at the store. According to our research, nearly a quarter of consumers would prefer to return an item to a third party drop off location, whether that's a locker, a UPS store, or a returns bar.

40% of consumers

would choose a third party location for the convenience and ease of use that it provides.[10]

We also discovered that gaining a quick refund by returning an item to a physical location is important to shoppers, with 35% listing it as the most important criteria when considering where to return an item.

In the future, we believe that more and more retailers will enable their customers to take returns to third party locations in order to drive customer loyalty, increase customer ease of use, and provide an immediate refund on a returned item.[11]

9 "Here's Why Kohl's Is Rolling Out Amazon Returns Nationally." The Motley Fool, 2019.
10 Retail Returns, Survey of 2,000 Retail Consumers, Optoro, 2019
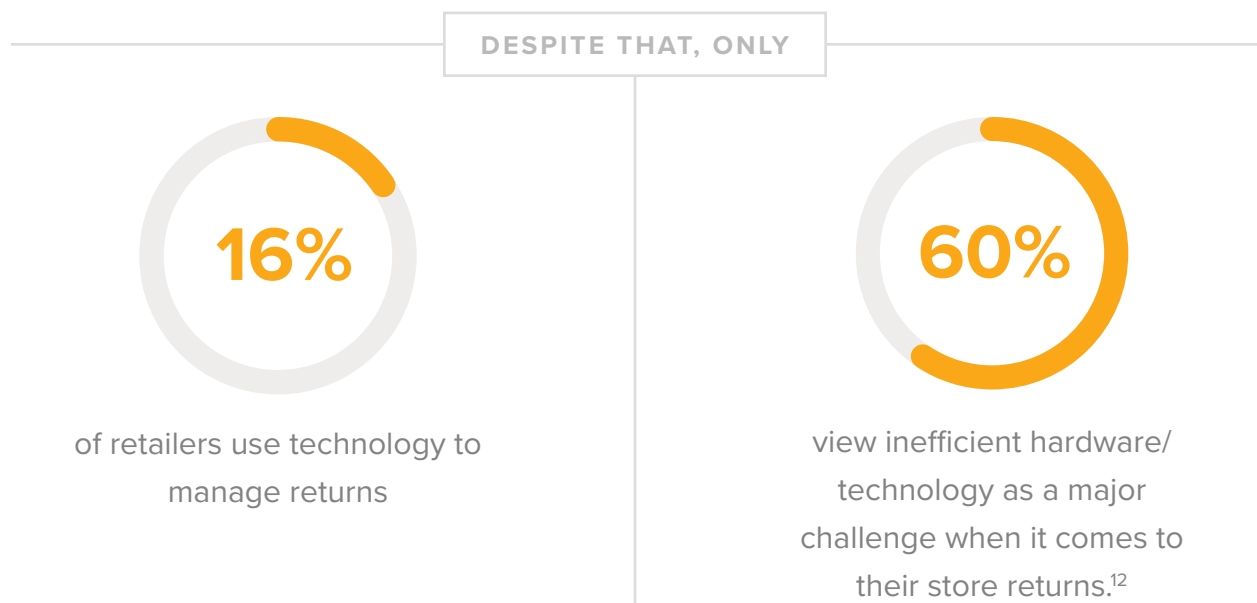11 Do Returns Drive Customer Loyalty, Consumer research, Optoro, 2019

③ New Technology Innovations

A typical retailer's technology ecosystem looks nothing like it did a few short years ago. To provide customers with personalized experiences, retailers invest in technology that can help them analyze customer intent and behavior data, provide customers with a fit estimate or access a mobile app.

On the reverse side, there are fewer technologies available. But with returns costing retailers $50 billion in lost profit margin, managing returns shouldn't be left to manual processes.

DESPITE THAT, ONLY

16%

of retailers use technology to manage returns

60%

view inefficient hardware/ technology as a major challenge when it comes to their store returns.[12]

Adopting a returns optimization platform to manage and process returns allows retailers to efficiently route their returns to the most optimal channel, using a data-driven dispositioning engine that provides unit-level visibility, improves profit margin, and cuts down on operational cost.

12 Supply Chain Dive & Optoro research, 2019

Automating returns routing also allows retailers to process returns faster, allowing their store associates to spend more time serving customers. This also gives retailers and brands the opportunity to credit customers faster; a high priority for consumers.

Another area that many retailers are investing in is an online returns portal that enables a customer to get an automatic refund and print out a return shipping label.

In our latest research, we found that **54% of consumers** say user-friendly online return portals have improved the returns experience .[13]

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Innovative technology will continue to drive the retail industry forward. While retailers will primarily be focused on technologies that improve the shopping and store experience, they shouldn't neglect the returns experience. By investing in a returns optimization platform they can **drive additional value** in their reverse supply chain, while ensuring that consumers have a **positive returns experience.**

④ Supporting Sustainability through Secondary Marketplaces

The retail industry has repeatedly come under fire for destroying returned and excess inventory instead of routing it to another channel, such as donation or a secondary marketplace. Consumers will no longer stand for these practices. 64% say a company's environmental reputation impacts their purchase decisions[14], while 87% will purchase a product because a company advocated for an issue they cared about.[15]

In recent years, many retailers have taken strides to ensure that their practices are environmentally sound. In our study, we discovered that 63% of retailers view their sustainability efforts as either important or very important as it relates to their returns strategy.

In addition, 49% reported that they throw away **less than 10%** of returned or excess inventory.[16]

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14 "*Think. Feel. Do.*" Shelton Group, 2017
15 "*2017 Cone Communications CSR Study.*" Cone Communications, 2017
16 Supply Chain Dive & Optoro research, 2019

With this focus on sustainable shopping, secondary marketplaces have exploded. The resale market has grown 21 times faster than the standard retail apparel market in the past three years.[17]

Shoppers flock to resale sites like ThreadUp, the RealReal, and Poshmark to buy used products at steep discounts. Traditional retailers have taken note, as evidenced by Neiman Marcus's recent investment in the resale site, Fashionphile.

And for some inventory categories, like consumer electronics, secondary marketplaces serve as a sustainable option for extending the life cycle of returned products, while unlocking access to new customer bases. Creating alternative channels for returns is increasingly relevant as global e-waste continues to grow, totaling nearly 45M tons in 2018.[18]

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Despite all these strides, only 43% of retailers believe that they manage their sustainability efforts well.[19] By tapping into secondary marketplaces, such as their own outlet, a white-labeled site on a marketplace like eBay or Amazon, or a third party channel such as Blinq.com, retailers can not only decrease their environmental footprint, but also recover otherwise lost value. Tangentially, customers appreciate the opportunity to buy non-new products at a discount and enjoy the comfort of shopping with a brand that values their environmental impact.

As returns continue to grow, retailers should consider the impact of their returns processes on customer loyalty. From leveraging a store or physical locations to attract and retain customers, to considering their environmental impact, there are many opportunities to forge deeper relationships with consumers through returns and keep them coming back.

17 *"2019 Resale Report."* ThredUp, 2019
18 *"The Global E-waste Monitor 2017."* United Nations University, 2017
19 *Supply Chain Dive & Optoro research, 2019*

Optoro is a technology company that connects a seamless online returns experience with efficient supply chain processing and resale. From providing an online portal to improve customer returns to technology that streamlines processing by routing inventory to its next best home, we offer solutions for retailers and brands looking to improve outcomes across all points in the returns process. Learn more at **www.optoro.com**.