

STATE OF RETAIL RETURNS 2018:

INSIGHTS ON THE RETURNS INDUSTRY

RETURNS REPORT
2018

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EXECUTIVE OVERVIEW

Technology is changing the landscape of the retail industry. New digital amenities, including mobile applications and complex product filters, are now expected by today's shoppers. These features make it easier than ever before to purchase products online.

As consumers purchase more products online, retailers and brands will see an increase in returns. Unlike the forward supply chain where inventory is consistent and uniform, the reverse supply chain is dynamic and unpredictable; items come back to the retailer in a variety of conditions (e.g., new, open-box, used), providing brands and retailers with insufficient information to predict which products will be returned. The unpredictable nature of returns can slow down a retailer's ability to react to customer buying patterns and may paralyze forward sales. As a result of these complexities, brands and retailers have historically viewed returns as a liability to be managed.

Modern technology, however, allows retailers and brands to solve the increasingly complex problem of returns. In this report, we will demonstrate how using modern technologies to handle returns can improve sales margins and that a seller should use the returns experience as a differentiator in the market.

01

IMPORTANCE AND IMPACT OF RETURNS

The impact of returns on American brands and retailers is growing by the year. Optoro estimates Americans return about \$380 billion in merchandise each year, and that number is expected to rise as e-commerce sales grow.¹ Moreover, depending on the size of the company and the type of inventory, the return rate can easily exceed 30%. Companies that specialize in selling clothing and accessories, for example, often have return rates over 40%.²

What has caused this huge uptick in return rates and what does it mean for retailers and brands? One of the largest contributors to high return rates is the rise of online shopping. Customers who cannot try on or physically see items before purchasing them tend to return their purchases at a higher rate.

Another reason for the huge influx of returns is, in part, due to the adoption of customer-centric policies, like free return shipping, which approximately 49% of retailers now offer.³ As these customer-centric policies become increasingly common, returns will continue to increase even further.

Consequently, retailers and brands build up more distressed inventory, which they need to sell through in order to hit company targets and continue introducing the latest products to consumers. Without the proper means to accommodate distressed inventory, retailers and brands will face ballooning costs.

The next section of this whitepaper details to what degree the retail industry is prepared for a growing wave of returns.

- 1. Optoro analysis based on U.S. Census, NRF, and other industry data, 2018*
- 2. Try Before You Buy: A Returns Tsunami for Retail, Bright Pearl, March 2018.*
- 3. Try Before You Buy: A Returns Tsunami for Retail, Bright Pearl, March 2018.*

INSIGHTS By focusing on returns, retailers and brands have the opportunity to recoup lost profit while increasing recovery and sales velocity, reducing warehouse costs, and gaining visibility into the reverse logistics lifecycle.

02

STATE OF RETURNS

Returns are not currently a priority in the retail industry. Our research with Supply Chain Dive shows that a mere 3% of retailers cite reverse logistics as their biggest supply chain investment in 2018. ⁴

This trend appears to carry over from a lack of visibility into the industry. We found that over half of the almost 120 major retailers that participated in the survey do not have any sort of reporting or tracking method for their returns. Perhaps as a result, only 45% of respondents think they are currently doing a good job extracting additional value or profit from returned inventory. ⁵

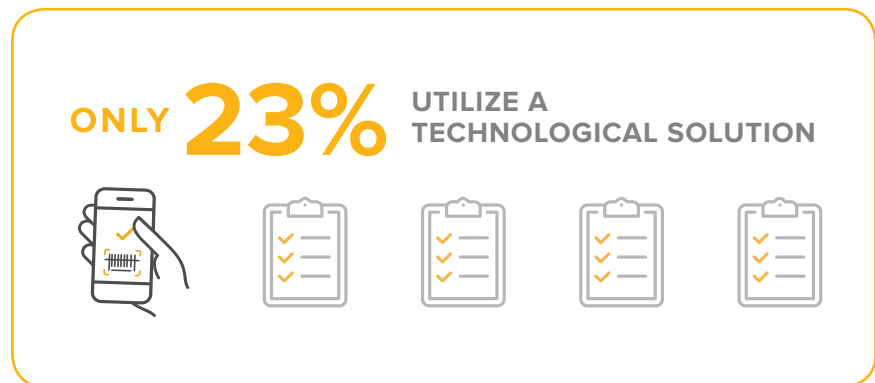
A PRG survey suggests that part of this visibility problem could be a lack of focus. According to the survey, 68% of respondents do not have any sort of corporate representation or established position for reverse logistics. ⁶ According to our survey of almost 120 of the nation's largest (\$500M+ revenue) brands and retailers, only 30% quantify the full cost of returns. **This figure indicates that in many cases the benefits of a fully optimized reverse supply chain remain untapped.**



Some companies have realized the value of addressing the reverse supply chain and are now capitalizing on returns to draw in new business. For example, the recent Kohl's-Amazon partnership, which allows Amazon shoppers to return inventory at Kohl's stores, has already led to an 8.5% increase in new customer traffic to Kohl's stores. ⁷

Other retailers and brands are deploying new software management systems to better manage returns. These technologies help reduce

transportation costs, enable higher recovery on damaged and excess inventory, lower labor cost savings, improve brand control, and allow retailers to expand their forward sales. According to our survey, only about 23% of retailers utilize a technological solution to help them manage their returns.⁸



Returns Optimization Platforms (ROPs), are a new category of software solutions that span the entire reverse logistics lifecycle and help create more value from returned and excess inventory. These ROPs are removing cost from the supply chain as they operate, and are essential for retailers looking to increase inventory recovery and velocity, reduce warehouse costs, and increase visibility.

4. 2018 Industry Outlook: Managing Returned Goods, Optoro, 2018.

5. 2018 Industry Outlook: Managing Returned Goods, Optoro, 2018.

6. Reverse Logistics Practices, PRG, February 2018

7. Rupp, Lindsey. "Amazon Returns Called 'No-Brainer' Buoying Kohl's Traffic." Bloomberg, May 2018. <https://www.bloomberg.com/news/articles/2018-05-07/amazon-returns-boosting-shopper-traffic-at-kohl-s-analyst-says>

8. 2018 Industry Outlook: Managing Returned Goods, Optoro, 2018.

9. Reverse Logistics Practices, PRG, February 2018

INSIGHTS All retailers and brands should be focused on the growing size and importance of the returns market. Despite the many solutions available, many businesses have yet to prioritize returns as a key supply chain concern. 75% of brands and retailers say that reverse logistics is important to their supply chain, but many are not prioritizing action when it comes to returns.⁹

03

USING RETURNS TO APPEAL TO CUSTOMERS

The benefits of installing an ROP are both direct and indirect. Direct benefits, such as reduced warehouse costs and increased visibility, have an immediate effect on processes and indirect benefits tied to the customer and buyer experience will follow. Research shows that a positive returns experience encourages shoppers to become repeat customers. In our own study, we found that 71% of consumers said a positive returns experience greatly encourages them to shop at a store again.¹⁰ Consequently, an investment in ROPs is an investment in your customers. Our survey revealed that 69% of retailers believe that returns are vital to creating a good customer experience.¹¹



69% BELIEVE THAT RETURNS ARE VITAL TO CREATING A GOOD CUSTOMER EXPERIENCE.

With more retailers offering free shipping, almost nine in every ten shoppers have come to expect the same level of service when it comes to returns.¹² Further, 86% of consumers say they would resent having to pay for returns.¹³ Consumers take this expectation into account when they are choosing where to shop. In one study, almost 58% of consumers said a retailer's returns policy impacts their purchase decision when shopping online.¹⁴ In another, 74% of consumers said return shipping fees would prevent them from making a purchase.¹⁵



However, simply offering a free return policy is not enough; customers also want the process to be fast and easy. In the next section we will review other customer expectations around returns.

10. Consumer Returns Report: How flexible return policies can drive customer loyalty, Optoro, 2016.

11. 2018 Industry Outlook: Managing Returned Goods, Optoro, 2018

12. Try Before You Buy: A Returns Tsunami for Retail, Bright Pearl, March 2018.

13. Try Before You Buy: A Returns Tsunami for Retail, Bright Pearl, March 2018.

14. Barclaycard. May 2017. The changing face of today's consumer. <https://www.mendeley.com/guides/web-citation-guide>

15. Making Returns a Competitive Advantage, Narvar, June 2017.

INSIGHTS Retailers and brands should take note that customers value a positive and seamless returns experience. Retailers should capitalize on the returns experience to drive customer loyalty and engagement.

04

HOW DO YOU IMPROVE THE CUSTOMER EXPERIENCE AROUND RETURNS?

Our findings outline three methods to ensure a good returns experience for customers: (1) provide a variety of flexible return options; (2) communicate frequently throughout the returns process; and (3) process your returns quickly.

1 PROVIDE RETURN OPTIONS TO SHOPPERS.

Return options may include mailing, in store, and third-party returns drop-offs. Generally, with returns, the more options you can provide to a customer, the better.

Certain drop off options are either non-negotiable or essential for some shoppers. One survey found the majority of customers--or 74%--prefer to make their returns in-store as opposed to mailing them in or third-party drop-offs.¹⁶

Customers also prefer having a variety of return options. ReBOUND found that over 60% of shoppers rate their return experience “very convenient” when a retailer offers three or more return options.¹⁷

2 COMMUNICATE TO ESTABLISH TRUST IN YOUR PROCESSES.

Retailers and brands should clearly communicate with customers throughout the entire returns process, from pre-purchase to return reimbursement. This communication starts with the businesses’ website.

Ideally, a return policy should be featured across each web page. In reality, studies have found that it can take three “clicks” for shoppers to navigate to a brand’s return policy on

a desktop, four “clicks” on a mobile phone, and three “clicks” on a tablet device.¹⁸ Given that 49% of shoppers actively check the retailer’s return policy before completing an online transaction, retailers should ensure their policy is featured across all web pages in order to raise conversion rates.¹⁹

3 PROCESS YOUR RETURNS WITHIN FIVE DAYS.

Consumers like knowing how long it takes for a refund to be processed. When a business’s refund policy is not clearly communicated on its website, shoppers are left without a timeline, providing them no sense of when they might be refunded if they return an item.

A majority of consumers of all ages believe that a timeframe of three to five days is acceptable for processing returns.²⁰ However, our survey of retailers and brands demonstrates that this is not the reality that exists today.

More than 50% of our respondents say that it takes at least one week or more to process a return and get refunds back out to customers.²¹



MORE THAN 50% SAY IT TAKES
ONE WEEK OR MORE
TO PROCESS RETURNS AND REFUNDS

Retailers and brands that do not work to build better experiences for their customers are at risk. One study found that unhappy customers are three times more likely to abandon a retailer. ²²

16. *Consumer Shopping Expectations are Rising. Brands Take Notice*, CGS, 2018.

17. *ReTHINKING ReTURNS: The Ultimate Guide to Consumer Expectations*, ReBOUND, 2018.

18. *ReTHINKING ReTURNS: The Ultimate Guide to Consumer Expectations*, ReBOUND, 2018.

19. *Making Returns a Competitive Advantage*, Narvar, June 2017.

20. *Try Before You Buy: A Returns Tsunami for Retail*, Bright Pearl, March 2018.

21. *2018 Industry Outlook: Managing Returned Goods*, Optoro, 2018.

22. *Making Returns a Competitive Advantage*, Narvar, June 2017.

INSIGHTS As a brand or retailer, evaluate your return policy to determine if it may be hindering a positive customer experience. If you have a very stringent return policy, what you may see as a cost-saving strategy for the present could actually be costing you more in the long-run as you lose customers to competitors with more flexible return policies.

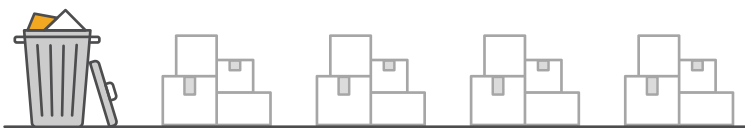


05

CONSIDERING SUSTAINABILITY

Another growing consumer trend connected to returns is a focus on sustainable goods and practices. According to a report by Sustainable Brands, 86% of U.S. consumers expect companies to act on social and environmental issues.²³ In order to meet these expectations, retailers and brands must work to ensure they have a robust and ambitious sustainability strategy.

What does this have to do with the reverse supply chain? In the traditional returns process, products are often touched multiple times before they reach a secondary consumer. Retailers that lack the core capacity to test and remarket their own inventory often return goods to distribution centers and then rely on third party liquidators. Liquidators sell goods to middlemen, such as wholesalers and resellers, who transport goods thousands of miles, often in less-than-full truckloads. Finally, the goods are resold to a consumer on a secondary market or thrown away. However, antiquated retailer systems often make reselling costly and inefficient meaning that disposal is usually the cheaper option. Waste is created at each touchpoint in the traditional returns process and the fallout from the reverse supply chain is often sent to the world's landfills. In the U.S., this leads to five billion pounds of landfill waste per year.²⁴ Almost half of the retailers we surveyed said they are throwing away 25% or more of their total returns.²⁵



25% OR MORE OF TOTAL RETURNS ARE THROWN AWAY

Transportation factors into the sustainability equation as well. Heavy trucks are responsible for 23% of transportation-related emissions in the U.S., and each additional heavy truck trip in the reverse supply chain needlessly wastes fuel and emits carbon into the atmosphere.²⁶

Without proper management, returns can have an extremely large and detrimental impact on the environment. However, with the right tools and mindset, returns can be leveraged to cover a broad range of sustainability goals and reduce waste up to 70%.

Many retailers are already aware of this trend. Sustainable Brands found that approximately 75% of these brands and retailers believe that optimizing their reverse logistics system/platform would have a positive impact on their environmental footprint.²⁷ Accordingly, 82% of brands and retailers consider reverse logistics to be an important element to consider when reducing waste, and 64% associate reverse logistics data with their sustainability goals.

23. CSR Study, Cone Communications, 2017.

24. Analysis done by Environmental Capital Group and Optoro, 2017.

25. 2018 Industry Outlook: Managing Returned Goods, Optoro, 2018.

26. "Fast Facts on Transportation Greenhouse Gas Emissions." EPA. <https://www.epa.gov/greenvehicles/fast-facts-transportation-greenhouse-gas-emissions>

27. Reverse Logistics Member Survey, Optoro and Sustainable Brands, 2018.

INSIGHTS Returns traditionally have a negative impact on the environment, both in terms of product waste and fuel emissions. However, when a reverse logistics system is optimized, returns can have a high potential for environmental benefit. Thus, for brands and retailers that are focused on corporate social responsibility ("CSR"), managing returns is essential to meeting corporate goals.

06

FUTURE OF RETURNS

Optimizing returns and the reverse supply chain is directly tied to customer satisfaction, the success of the forward supply chain, and corporate sustainability goals. Many point solutions exist to deal with returns, but few holistically cover the entirety of the reverse supply chain and its many nuances. Retailers and brands that want to continue to see growth in the future should invest in holistic solutions today that will allow them to leverage all the benefits of properly maintaining their reverse supply chain.

KEY TAKEAWAYS:

1. Returns and reverse logistics are a huge industry that encompass billions of dollars and only a fraction of this industry is being addressed by brands and retailers today.
2. Managing returns correctly can be a huge opportunity to recoup lost profit.
3. Utilizing technology solutions for returns processing is an effective way to simultaneously improve profitability, streamline costs, and reduce waste.
4. Investing in returns is also an opportunity to invest in the customer experience and carries significant weight in the retail space.
5. Returns also affect those retailers and brands who are investing in a triple bottom line and are looking to improve their CSR metrics.

Readers are encouraged to
contact Optoro to learn more:
solutions@optoro.com

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ABOUT OPTORO

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.

