

Narvar eBook

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# The Essential Guide to Retail Returns



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## Chapter 01:

# The current state of retail returns

Raise your hand if you've returned an online purchase. We recently surveyed U.S. online shoppers, and nearly half of them had done so in the last 12 months. The more consumers buy online, the more they return. But this is not all bad news for retailers. A return offers another touchpoint in the buyer's journey, creating a new opportunity to build a customer's trust in the brand. In this ebook, we take a look at the overall state of returns, how consumer behavior is evolving based on [our survey findings](#), some of the challenges and potential solutions, and what retailers can do to create a great returns experience.

## Sizing the returns business

Returned merchandise costs the US retail industry over \$260 billion a year<sup>1</sup>. To put that number in perspective, the National Retail Federation (NRF) noted that if retail returns were a corporation, they'd rank #3 on the Fortune 500. Although return rates vary across different categories, retailers, and geographies (some apparel retailers, for example, report as high as 20% in the US and 40% in Europe), the average is 8%. Online, it's reported to average 12%<sup>2</sup>.

**Return Rate by Retail Category**

RETAIL CATEGORY	BLENDED RETURN RATE <sup>(1)</sup>
Apparel	10.5%
Auto Parts	21.9%
Beauty	5.21%
Children's Apparel	9.88%
Department Stores	14.05%
Footwear	9.56%
Hard Goods	12.33%
Home Improvement	11.35%
Housewares	12.29%
Sporting Goods	9.25%
Women's Apparel	11.13%
<b>NRF Survey Median <sup>(2)</sup></b>	<b>8.0%</b>

<sup>(1)</sup> Retail category rates derived from TRE analysis of 34,000 stores in the specialty and general merchandise retail segments. TRE reviews return data direct from POS T-Logs—so all returns, exchanges, online returns, employee sale returns, and every other refund scenario is considered to build an actual return rate.

<sup>(2)</sup> Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

<sup>1</sup> National Retail Federation, 2015

<sup>2</sup> The State of Retailing Online 2017: Key Metrics, Business Objective and Mobile, a joint study by shop.org/NRF and Forrester Research



## What a difficult returns process for consumers means for retailers

Besides this huge liability, an inefficient or unfriendly returns experience can impact a retailer in a few other important ways:

- A **slow returns cycle can cause issues** with inventory management and availability as saleable merchandise is kept out of circulation. This can be especially challenging with seasonal products including **apparel**.
- A restrictive or complicated returns process can actually prevent an initial conversion - at least half<sup>3</sup> of **customers check the returns policy *before* making a purchase**.
- It can also cost repeat business - 85% of customers have said **they will not do repeat business** with a company if **the returns process is complicated or inconvenient**<sup>4</sup>. And according to the Adobe Digital Index, repeat customers generate 3 to 7 times higher revenue per visit, making up 40% of all ecommerce revenue.
- **Lack of consumer visibility** into their return status and refund means **more customer contacts and call center costs**.
- **“Blind returns”** for retailers means **higher labor costs and less efficient disposition**. Packages just show up at the warehouse with no advance warning or clue as to what’s in the box and why it’s being returned.



# 85%

of customers have said they **will not do repeat business** with a company if the **returns process is complicated or inconvenient**.

<sup>3</sup> Narvar consumer study, “Making Returns a Competitive Advantage”, June 2017

<sup>4</sup> Endicia: <http://online-shipping-blog.endicia.com/package-returns-infographic/>



## The returns experience is a critical opportunity to drive loyalty—just ask Nordstrom

But are returns all bad? In this age of convenience when more shoppers are buying online without the opportunity to feel or try products in person prior to a purchase, returns are becoming the new normal. And smart retailers take advantage of this additional touchpoint to delight their customers and keep them coming back. In a recent Narvar study, “[The State of Post-purchase Experience](#)”, 70% of consumers said an easy returns experience would make them a repeat customer of a retailer.

To optimize this oft-neglected part of the customer journey and make the most of this additional opportunity to influence the customer, it may be helpful to think about returns as “reverse checkout”. When retailers approach the checkout flow, they ruthlessly identify points of friction and remove them to ensure that customers can buy their goods and complete the transaction as seamlessly as possible. Although with returns there is obviously a reasonable amount of friction required to prevent frivolous, unqualified, or fraudulent returns, the mission should still be to make the overall process as painless as possible to generate trust and encourage future business.

Think about the classic Nordstrom story: this successful high-end department store established an incredibly strong, loyal client base as they expanded in the 70’s and 80’s by building a reputation with their “no questions asked” returns policy. ([According to lore](#), they even once took back a set of snow tires - a product they never even sold.) This policy helped make Nordstrom a first-stop destination for shoppers across the country, and fundamentally changed the way many other retailers did business. Similarly liberal returns policies became the norm rather than the exception, in the interest of building stronger customer relationships.

With 95% of customers saying that generous return policies motivate repeat purchases—and 83% of them saying they would recommend a brand based on a good returns experience<sup>5</sup>—retailers have a lot to gain by getting this part of the post-purchase experience right. Returns are a critical part of the shopping experience, and one of the most important drivers of customer loyalty.



# 70%

of consumers say an  
**easy return or  
exchange**  
is likely to make  
them a repeat  
customer.

<sup>5</sup> Endicia: <http://online-shipping-blog.endicia.com/package-returns-infographic/>

## Chapter 02:

# Changing consumer behavior

## Returns are the new normal

Returns can be a huge pain point for consumers—it's frequently a frustrating, complicated process marked by customer service phone trees and fine print on the website, a hunt for packing materials, and a trip to the mall or carrier office.

Yet returns are now an integral part of the overall online shopping experience. According to the NRF, returns volume by merchandise value has increased over 50% in the previous 5 years. UPS's "Pulse of the Online Shopper" 2016 study showed that nearly three-quarters of customers ranked simply knowing they could return an item for free as an "important option at checkout". More than half of consumers say they actively check a retailer's return policy before making a purchase, and there are a few policies which will actually prevent them from converting in the first place, including restocking fees and having to pay for return shipping<sup>6</sup>.

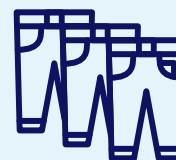
As a retailer, how do you accept this new normal and turn it to your advantage?

**48%**

returned an online purchase in the last 12 months.

**49%**

actively check the retailer's return policy before buying.

**40%**

have bought multiple items expecting to return some.

<sup>6</sup> Narvar consumer study, "Making Returns a Competitive Advantage", June 2017



## Understand the trends

The first step is to understand how consumer behavior is evolving, especially among high-value customer cohorts. In a recent consumer study, Narvar found some significant emerging consumer trends, being led by millennials and the affluent.

### Trend 1: The bedroom is the new fitting room

Online shoppers today are buying to try, ordering multiple versions of a product—whether that’s multiple sizes, colors, or styles—with the intention of keeping their favorite item and returning the rest. This trend, which we call “bracketing,” is most common among millennials, affluent, and female shoppers, and in the apparel and home goods categories. There is a significant opportunity for retailers to transform returns into an experience catered toward the consumer’s needs.

- **44 percent of women** surveyed have done this in the past year, compared to **30 percent of men.**
- **44 percent of shoppers aged 18-29** have done this in the past year, compared to 38 percent of shoppers over the age of 30.
- **48 percent of high-income shoppers (over \$100k)** have done this in the past year, compared to 31 percent of the rest of the population.

**Younger, affluent or female shoppers are most likely to bracket their purchases.**



Shoppers who have purchased multiple variations of an item with the intention of returning some.

## Trend 2: Ecommerce drives in-store foot traffic with convenient returns

Consumers like returning online purchases in stores, and retailers who make this process easier earn a competitive advantage—one that Amazon cannot provide. Shoppers like to return items to stores for two key reasons: they get immediate credit back for their return and they can shop for other items while they are in the store. This, again, is especially true for high-income consumers and shoppers under the age of 30.

- Nearly half (47 percent) of shoppers say that it's **easier to return an online purchase to a store.**
- Shoppers like returning items to stores so they can **get immediate credit (35 percent)** and so they can shop for other items (28 percent).
- Millennials and affluent shoppers are even more likely to go in-store to return an online purchase. 55 percent of **under-30** shoppers and 50 percent of **affluent shoppers** say it's **easier to return an online purchase in-store.**
- 28 percent of shoppers surveyed said they would like to **return items to convenient places like a grocery or convenience store**; this number jumps to 41 percent among **shoppers under the age of 30.**

**Shoppers like returning items to stores for 2 key reasons:**



**35%**

They get immediate credit



**28%**

They can shop for other items



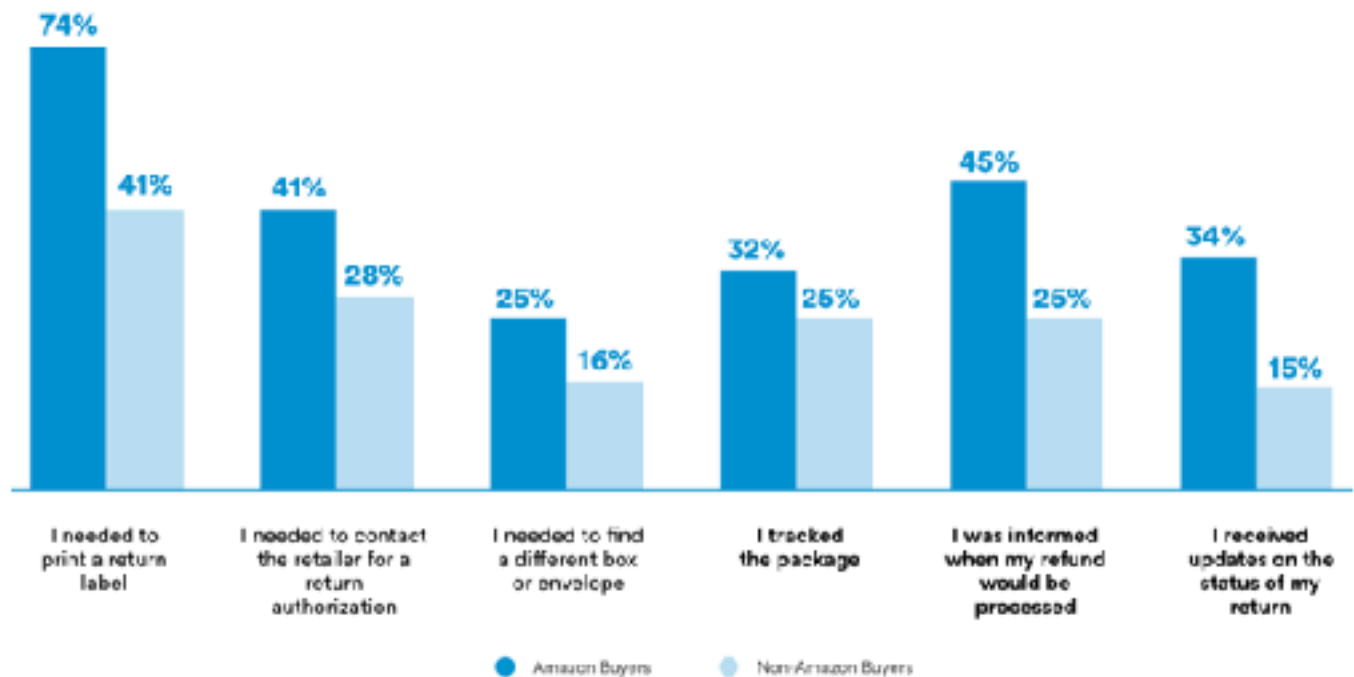


### Trend 3: Transparency helps shoppers forgive a difficult returns process

Amazon's return process is a hassle, requiring shoppers to take more steps such as contacting the retailer for return authorization. Despite this, consumers are satisfied with the process and call it "easy", largely due to strong communication about package and refund status. What can other retailers learn from this?

1. **Keep customers informed during the returns process**, same as you would during the order delivery. Proactively communicate refund status and provide return package tracking services to reduce anxiety.
2. This paradox in how consumers perceive Amazon's returns process versus how it actually is, is classic cognitive dissonance. **Other retailers can play offense by communicating how their process is better than Amazon's.**

Amazon shoppers jump through more hoops.  
But transparency keeps them happy.





## Attitudes towards fees and timing

It is not hyperbole to say that free shipping on orders is now table stakes for retailers; this also holds true for return shipping. Three-quarters of shoppers say that they will NOT make a purchase in the first place if they will be required to pay for return shipping. This is second only to the hurdle of restocking fees, which 83% said would prevent them from buying an item.

A study from the University of Texas-Dallas found that extended-time return policies led to fewer returns ultimately. UT researcher Ryan Freling explained to *The Washington Post*, “Since [customers] don’t feel pressure to take it right back to the store, they kind of sit with it and live with it and say, ‘Well it’s not that bad.’” While different policies for different verticals, products, and types of returns are necessary to maximize a company’s bottom line, generous policies are no longer optional for retailers that want to excel. How long is long enough? Our research shows that consumers overwhelmingly agree that 30 days is a fair policy, and that 75% are returning items much sooner than that, generally within a week.

In the insatiable customer economy, retailers can’t afford to lose even one opportunity to delight a shopper. A single moment of dissatisfaction is a customer lost, and as a consequence, returns are often the trigger for a customer to look to another brand rather than seek an exchange or future purchase. The rule about first impressions holds true here; when consumers have a bad returns experience their first time shopping with a retailer, nearly half said they would not shop there again, whereas more familiar customers are more forgiving, with 95% of them giving the retailer another chance.



# 74%

of shoppers say that they **will NOT** make a purchase in the first place if they will be required to pay for return shipping.



## Chapter 03:

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# Retail challenges and complexities

Retailers feel the pain of returns as well. It can cost 2-3 times more for a product to be returned than it does to deliver the original package<sup>7</sup>. When returns start pouring in, products are often routed to the least optimal location, using a shipping option that's more expensive than it needs to be. All this adds up to low cost efficiency for retailers as they attempt to balance their business operations with customer experience in the reverse logistics process.

## Key challenges for retailers and how to solve them

### 1 - Cost

Besides the cost of return shipping and revenue liability for goods sold which may come back, there are a few other costs associated with returns which, fortunately, can be mitigated.

#### **Return labels**

Providing pre-printed return shipping labels in all outbound packages reportedly costs somewhere between \$0.25 and \$0.40 cents per package, whether a return is initiated or not. Generally speaking, these labels do NOT expire which creates an opportunity for customers to violate returns eligibility rules. Not to mention the accounting liability of having all that potential shipping cost out in circulation. It's also very common for customers to use whichever return label is handy to return whichever items they've ordered, making it difficult to track what's coming back prior to its arrival at the retailer's facility.

By switching to offer an on-demand returns label online which the consumer can print or scan at the carrier office, a retailer can save huge sums. Besides eliminating the pre-printed label expense, retailers can select a more efficient shipping method and weight based on what's being returned and the condition it's in. This method also increases the chance of getting return reasons from your customers since they can easily be prompted for that information during a step-by-step online returns process.

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<sup>7</sup> <http://www.supplychainquarterly.com/topics/Strategy/201201reverse/>



### **Customer support**

Customer contacts and call center costs can often be an invisible expense. What prompts these contacts? Often it's lack of consumer visibility into the status of a return package and refund. Also, when a consumer loses a pre-printed returns label, that will also drive an additional call or email to customer service. At an average of \$6 per customer support contact, this is another major cost which can be mitigated with proactive communication and a simple returns process.

### **Acquisition cost**

If you lose customers in this phase, you are out hunting again—and as we all know it costs five times more to acquire a new customer than retain the one you have.

## **2 - Timeliness**

A slow returns cycle can cause issues with inventory management and availability, as saleable merchandise is kept out of circulation for an extended period. Especially with the increase in “bracketing” behavior, in which customers are buying multiple versions of items with the intent to return some, this means 2-3 units of an item in tags-on new condition being taken out of inventory for at least a week, if not longer, depending on shipping and processing times. This can lead to “inventory obsolescence,” which devalues the goods.

The more visibility a retailer can get *before* items come back, and the more efficiency that can be built into the system to get that brand-new-condition inventory back out “on the floor” so to speak, the more chance there is to recover the maximum profit from that inventory.

### **Out of style or season**

This can be especially true in categories like apparel, outdoor, home decor, and for items like color cosmetics, holiday-themed, or novelty items. Though it happens with less frequency, when updated models of electronics or media are released, the previous version often becomes obsolete. Out-of-season inventory is harder to sell and in many cases is not even merchandised until the following year.

### **Dated products**

Any product with an expiration date or “best buy” date often can't be resold if it takes too long to get back into inventory even if it's unopened. This can include beauty products, vitamins, pet treats, and other consumables. However, with better visibility and flexible return policies, retailers can make customers happier by asking them to keep products which cost more to get back than it's worth.



## Markdowns

If inventory spends too long in the “back room” of the returns process, it can fall into discounting range, getting marked on sale and reducing the profit margin for a perfectly good, though now obsolete, item.

## 3 - Disposition of inventory

When a product is returned, it needs to be disposed of based on its condition and suitability for resale.

### Blind returns

“Blind returns” for retailers mean higher labor costs and less efficient disposition. Packages just show up at the warehouse with no advance warning or clue as to what’s in the box and why it’s being returned. Currently items in any condition all go back to the same place to be sorted out, losing time and incurring labor and potentially additional shipping costs as sorted returns go to the appropriate next destination. Although in some cases a product is broken, damaged, or otherwise unusable, 70% of apparel, for example, is returned due to wrong size or color rather than any defect.

### Incongruent returns

“Incongruent returns” refers to the case in which a consumer returns an online-only item to a physical store. The store is challenged with a sku they don’t technically carry and, as a result, have trouble merchandising it for resale. Often these random individual items will end up on a sale rack or other location where they may not get good visibility and do not yield their full profit potential. Or the store needs to get it back to the warehouse where it can be re-shipped to another online customer.

## 4 - Transparency

Lack of *retailer* visibility into the returns process increases labor costs, causes longer cycles to get product back into circulation, and creates challenges with efficient disposition. Lack of *consumer* visibility into the returns process increases anxiety and customer support contacts, and reduces the chance they will come back to buy again.

### A simple way to improve the consumer experience

To improve consumer perception and reduce anxiety caused by returns, retailers should simply keep their customers in the loop. Customers express frustration with not knowing the status of their return package, worrying it will get lost on its way, and having to keep checking that



their refund has been processed. By proactively communicating return package and refund status as diligently as during the order shipment process, retailers can win consumer faith and future visits.

### **Advantages of retailer visibility**

Retailers who gain better real-time visibility into what's coming back could feasibly set smart routing rules to reduce the time back to market, as well as reduce transportation costs by getting the item to the best location at the right speed. Imagine if a store in Boston has sold out of a popular winter jacket in Large, and a customer in Portland is returning one they ordered online? It would be ideal to route that package directly to the Boston store where it will get snapped up at full price, rather than spending weeks going back to a warehouse in Nevada and waiting to be processed and re-posted for sale on the website—winter could be over by then. Or, if a product being returned is damaged, a retailer could provide a return label for a slower, less expensive shipping method.

Another key advantage of real-time visibility for retailers is the ability to quickly see trends in return reasons for certain products and be able to fix those issues upstream. Is a specific shirt being returned frequently due to being too small or too large? Retailers can indicate that as additional fit info on the product detail page (PDP), or even make improvements further up in the manufacturing process. Retailers can also use this data to better manage inventory. Do you see that 10 pairs of these jeans in a size 34 are coming back? Perhaps the next product replenishment order can be delayed a week.

## **5 - A balanced policy**

### **The benefits of a good returns policy**

Retailer logic has traditionally tended towards protecting margins and dissuading customers from returning items. But the idea that “you don’t want to make it too easy to return, lest consumers take advantage of the system” is obsolete. A Washington and Lee University study proved that the long-term impact of an easy, free returns policy increases customer confidence and in turn, increases average spend by as much as 357% per year<sup>8</sup>. Consumers do check the returns policy before making a purchase, and explicitly say that certain restrictions—particularly restocking fees and return shipping fees—will actually prevent them from buying in the first place.

Besides a restrictive returns policy being a barrier to conversion, which is still the bread and butter of the retail industry, it can cost repeat business: 85% of customers have said they will not do repeat business with a company if the returns process is complicated or inconvenient<sup>9</sup>.

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<sup>8</sup> <http://www.cnbc.com/id/49379910>

<sup>9</sup> Endicia: <http://online-shipping-blog.endicia.com/package-returns-infographic/>

**Combating fraud**

The concern with having a “no questions asked” policy is abuse by bad actors. Certainly there will always be some people who try to take advantage of the system, as well as those who are simply too lazy to abide by the rules. But by providing a more transparent online returns process which guides the consumer step-by-step and gathers important information for the retailer along the way, there is a better opportunity to enforce policies like final-sale merchandise not being returnable.

Ideally, a retailer will set a policy that protects margins and guards against fraud but does not create barriers to initial conversion or prevent customers from shopping again—a fine balance to strike.



## Chapter 04:

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# Roadmap to a successful returns experience

What does all this mean to you, and how do you turn this liability into an advantage? Here are some quick tips for designing an excellent returns experience.

## Make the customer returns experience as effortless as their checkout

At a most basic level, retailers should treat the returns experience as “reverse checkout”, and pay the same level of attention to every aspect of the experience to remove friction. An ideal returns experience walks consumers through an intuitive step-by-step process with clarity on what specific items are being returned and why. By immediately highlighting any ineligible items or other guidelines during that process instead of having customers search around for returns rules & protocol, you can speed up the experience, and provide accurate refund info and an optimized shipping label based on what’s coming back. Ongoing communication regarding status of both the return package and refund is critical to a positive experience.

On a more advanced level, think about how to enhance the returns experience to provide some of the benefits consumers like with in-store returns: quicker refunds (perhaps just for your most valuable customers as a perk for loyalty) and an easy way to exchange or buy something else. If someone is returning a black vest because it’s too small, can you let them know you have the same item in the next size? If someone’s indicated that an item is damaged, can you present a checkbox for them to request an immediate replacement be shipped? If they decided the style or color isn’t right, can you provide an array of similar product suggestions?













Proactive communication regarding status of both the return package and refund is critical to a positive customer experience.





# 10 hallmarks of a best-in-class returns experience

Based on our research, here are 10 key elements that contribute to a best-in-class returns experience:

-  **30-day window for returns**
-  **No restocking fees**
-  **No return shipping fees**
-  **Proactive communications about refund status and return package tracking**
-  **Easy to return in store**
-  **Immediate refunds online**
-  **Easy to exchange or shop for additional products online**
-  **Step-by-step online returns process instead of pre-printed labels**
-  **Ability to leverage data from returns reasons to improve product information further up the funnel**
-  **Ability to optimize disposition based on information captured during the online returns process**



## Chapter 05:

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# Making returns a priority

It costs five times more to acquire the interest of a new customer than to focus on satisfying a current one. In addition, focusing on customer retention pays big dividends: increasing customer loyalty by 5% can lead to a whopping 75% more revenue, according to a Bain study. With so many consumers placing great value on a positive returns experience and explicitly saying that it can determine whether or not they will continue to shop at a retailer, it is only logical to focus on making that experience as delightful as it can be.

Beyond offering a flexible, effortless returns process, the most important element is to provide proactive communication regarding the status of the returned package and refund to put customers at ease. Making it easier to exchange items or shop for additional products now that a customer knows a refund is on its way can increase revenue. By implementing a step-by-step online process with returns tracking, retailers have been able to increase customer satisfaction scores (CSAT) by 10-15%, drive 5-10% of that traffic back to their website, and reduce transportation costs by 20-30%<sup>10</sup>. This is in addition to reduction in costs due to fewer unqualified returns, fewer support contacts, and more efficient disposition of inventory.

Given all the evidence, it's high time retailers made the returns experience a top priority.

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<sup>10</sup> Narvar industry data

Our Mission

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# Simplify the everyday lives of consumers.

We help the most admired brands and retailers build lifelong relationships beyond the “buy” button. As an enterprise-grade SaaS platform serving 400+ retailers like Sephora, Neiman-Marcus, Crate & Barrel, and GameStop, Narvar drives brand loyalty at scale by enabling immersive and emotional post-purchase customer experiences. From effortless order tracking, proactive communications, and seamless returns, Narvar applies machine learning across billions of interactions to simplify the everyday lives of consumers.

**Learn more:**

[www.narvar.com](http://www.narvar.com)

