

# Returns Strategies to Help Retailers Combat a Potential Recession

AUGUST 2022



## As the U.S. endures an economic downturn, both consumers and retailers are feeling the heat.

According to the U.S. Commerce Department, the economy shrank for the second straight quarter this year, raising alarm bells that a recession is likely on the horizon.<sup>1</sup> Even giants like Amazon are pre-emptively investing in non-retail revenue streams in preparation for the imminent financial storm.<sup>2</sup>

These fears are further magnified by their proximity to the holiday season—a time notorious for big consumer discounts and even bigger retail profits. **67% of U.S. consumers are already somewhat concerned with how inflation will impact their holiday spending**, with more than a quarter of that crowd being very concerned. On the other hand, retailers, who largely ranked revenue growth as their top priority just a few months ago<sup>3</sup> are now setting their sights on simply staying afloat. Companies like Walmart<sup>4</sup> and Google’s parent company, Alphabet,<sup>5</sup> reported below target earnings for Q2, citing inflation and “economic headwinds.” And as manufacturing production continues to slump,<sup>6</sup> a sudden retail rebound would likely require a holiday miracle.

With these financial concerns in mind, it’s time for retailers to move their previously ranked second place priority up to number one—reducing returns and their resulting costs.<sup>3</sup> When done well, improving returns processes doesn’t just save money, but also provides an experience that attracts new customers and keeps them coming back. **More than half of U.S. consumers (55%) typically check a retailer’s returns policy before making their first purchase**—if shoppers care that much about returns, retailers should, too.

## So, what do consumers look for when sizing up where to shop, especially during a recession-ridden holiday season?

Optoro surveyed 1,000 U.S. consumers to learn what they seek from their shopping (and returns) experiences, including:

- **When they plan to start holiday shopping (and why)**
- **What they define as a “good” returns policy**
- **The three most important shopping features they’ve come to expect**

Keep reading to see how retailers can learn to adapt.

<sup>1</sup> “US economy shrinks for a 2nd quarter, raising recession fear.” The Associated Press, July 2022

<sup>2</sup> “Amazon leans on non-retail business as e-commerce sales fall for the second straight quarter” Retail Dive, July 2022

<sup>3</sup> “2022 State of Returns: How Good Returns Processes Are Retaining Customers—And Revenue” Optoro, March 2022

<sup>4</sup> “Walmart shares slump after retailer cuts profit outlook on inflation concerns” CNBC, July 2022

<sup>5</sup> “Google parent Alphabet’s profit slips again after CEO warns of ‘economic headwinds’” Axios, July 2022

<sup>6</sup> “U.S. retail sales beat expectations; manufacturing production slumps” Reuters, July 2022

## Deck the Halls With Big Demands

Every holiday season poses new challenges – from inventory shortages to supply chain disruptions – and this year’s financial outlook is no different. For retailers eager to get ahead of these economic twists and turns, understanding how their customers plan to shop (and make returns) during this holiday season is a vital first step.

In 2021, large retailers like Amazon and Walmart started holiday deals as early as October, encouraging consumers to shop earlier amidst massive supply chain challenges. This year, consumers are largely planning to continue this behavior, with **46% wanting to start holiday shopping even earlier than last year**. While avoiding shipping delays is still the motivating factor for some, even more are shopping earlier to extend the amount of time they have to bargain hunt or spread out their spending. As penny-pinching takes precedence, retailers who wait until the “traditional” holiday sales season risk losing revenue and repeat customers to competitors who jump on the early promotion bandwagon.

### WHY ARE HOLIDAY SHOPPERS STARTING SOONER THAN LAST YEAR?



**34%**

want enough time to properly bargain hunt



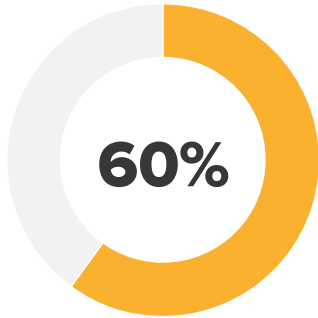
**19%**

are worried about shipping delays



**17%**

want to spread out their spending over a longer period of time



of consumers reported NOT shopping with a retailer because they didn't like their returns policy

However, consumer's holiday expectations don't stop at the shopping experience—they also apply to returns policies. In fact, meeting customers' returns demands are a huge factor in whether they decide to shop at all. **Nearly 60% of consumers reported NOT shopping with a retailer simply because they didn't like their returns policy.**

So, what makes for a combined shopping and returns experience that customers will actually like? When asked about their expectations of retailers during the holiday season...



**71%**

agreed retailers should offer free returns



**69%**

agreed retailers should provide fast/free exchanges



**63%**

agreed retailers should have more items in stock and restock faster than normal

Consumers are accustomed to fast and free when it comes to their shopping experiences, and economic burdens are not creating an exception to that rule. Although it may feel counterintuitive to cost-conscious retailers, now is not the time to cut corners in customers' shopping experiences. With revenue targets at the forefront, the smartest brands will harness these expectations to attract and, more importantly, retain customers to weather the financial storm through the holidays and beyond.

# It's Beginning to Look A Lot Like Returns Season

How can retailers fulfill holiday shoppers' wish list of demands without sacrificing precious profits? Strong returns processes can be the revenue and retention gift that keeps on giving.



## Holiday Shopper Wish #1: Free returns

### Recession-Conscious Returns Strategy: Third party drop-off locations

As shipping costs continue to skyrocket, the thought of not only losing revenue to returned purchases, which amounted to a whopping \$761B in 2021,<sup>7</sup> but also paying to get each item back is a tough pill for retailers to swallow. Some, such as Zara,<sup>8</sup> are even going as far as charging customers to make e-commerce returns, a strong departure from the “fast and free” model many have come to expect. While this may save revenue on the front end, making customers pay may cost retailers big in the long run, as customers who highly value free returns opt to shop elsewhere.

By offering third party drop-off locations, retailers can consolidate multiple returned items into a single shipment. This not only cuts down the costs and resources required to ship returns to facilities, but also provides customers an easier, more convenient experience. In fact, **nearly 40% of shoppers who prefer to initiate returns online rather than in a retailer's store cite the convenience of third-party drop offs as their driving factor.**<sup>9</sup> Retailers can even consider offering free third party drop-offs while charging for other methods to further incentivize customer adoption.

7 "Retail Returns Increased to \$761 Billion in 2021 as a Result of Overall Sales Growth" NRF, 2022

8 "Zara starts charging shoppers for online returns" BBC, June 2022.

9 "A Tale of Two Returners: How to Create a Single Returns Experience That Delights Every Customer" Optoro, June 2022.



## Holiday Shopper Wish #2: Fast and free exchanges

### Recession-Conscious Returns Strategy: Instant exchanges

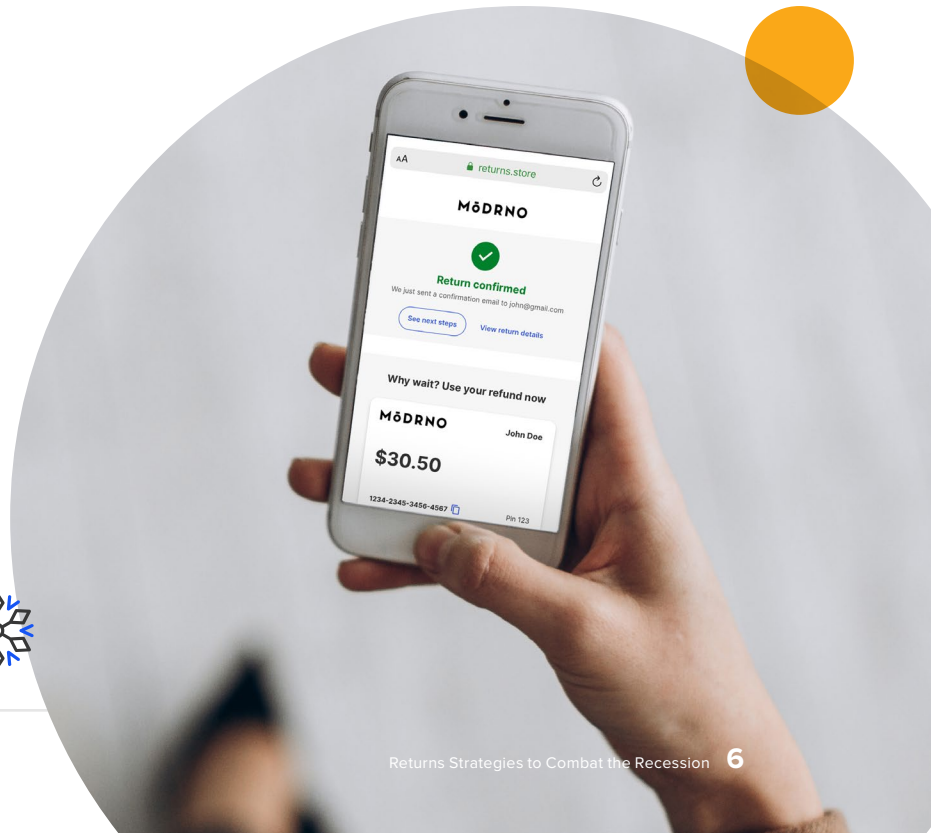
For retailers hoping to retain as much revenue as possible, implementing instant exchanges is one of the best ways to convert potential refunds into repeat purchases. Exchanges are wildly popular among consumers, especially if they can receive their new item quickly and without placing another charge on their credit cards. In fact, **more than two thirds of consumers would be likely to complete an exchange where they could pick and receive their new item before they return their original purchase.** That's in stark comparison to the measly 33% that would opt to return an item and make an entirely new purchase if exchanges weren't supported.

With returns valued at billions of dollars in 2021 alone, retailers who don't offer exchanges are missing out on a massive opportunity to retain revenue rather than give a refund. Best of all, shoppers leave feeling satisfied with their purchase, increasing their brand loyalty and likelihood of becoming a repeat customer.



**2/3<sup>+</sup>**

of consumers would be likely to complete an exchange where they could pick and receive their new item before they return their original purchase





## Holiday Shopper Wish #3: More in-stock items and faster restocking

### Recession-Conscious Returns Strategy: Automated returns processing

When asked how long they'd wait for a retailer to restock an item, **60% of consumers responded less than a week**, with nearly a third stating they'd immediately seek it out elsewhere. With retail sales already taking a dive, driving customers away with holiday out-of-stocks is a misstep retailers simply cannot afford.

#### HOW LONG WILL CONSUMERS WAIT FOR AN OUT-OF-STOCK ITEM TO COME BACK?



While retailers typically have inventory management systems, many systems don't consider returns, which account for 10% of brick-and-mortar purchases and a massive 30% of ecommerce orders.<sup>10</sup> Implementing an automated returns platform can enable retailers to quickly and correctly route returns as soon as they are received, using machine learning that's free from human error. This can reduce returns processing time to just days, replacing out-of-stocks with satisfied customers. As an added bonus, automated processing also reduces extraneous touches and shipping, further cutting returns costs.



<sup>10</sup> ["The Hidden Answer to Supply Chain Challenges: Using Returned Inventory to Solve Out-of-Stocks and Customer Experience Woes"](#)  
Optoro, December 2021.

The background of the page features a blurred image of a laptop keyboard in the lower half and a bokeh of colorful lights (yellow, green, orange, blue) in the upper half. A white rectangular box is centered on the page, containing the text.

## Conclusion

While all the U.S. wants for Christmas is a recession-free economy, recent financial trends are almost certainly removing that from the country's wishlist. Instead, retailers and consumers alike will need to carefully consider how to cut costs and maximize what they spend throughout the holiday season. Fortunately, good returns processes can meet the needs of both parties, giving consumers the convenient and cost-conscious shopping experience they seek while retailers retain revenue and build up brand loyalty for years to come.





Optoro is the leading provider of returns technology for retailers and brands, using data and real-time decision making to make returns better for customers, retailers, and the planet. From an easy online customer returns portal, to warehouse processing and resale, we offer powerful solutions to improve outcomes across all points in the returns process. Retailers and brands—including Best Buy, IKEA, and Staples—trust Optoro’s solution to make returns a strategic advantage for their business and enable sustainability initiatives across their supply chain.

Learn more about Optoro’s solutions at [www.optoro.com](http://www.optoro.com)