

The Apparel Executive Primer

What Retailers Need to Know When It Comes To Returns

MARCH 2023

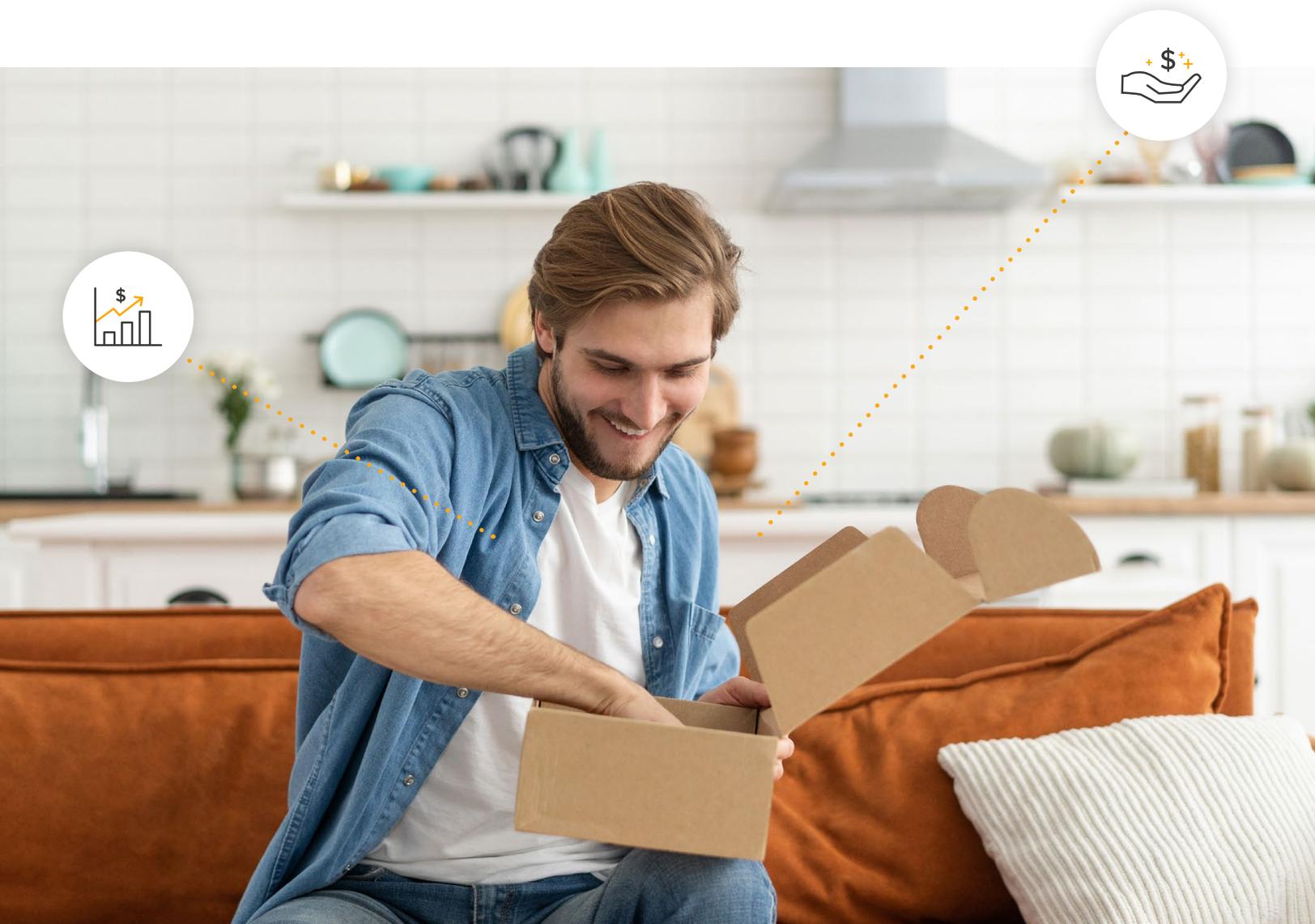


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ANALYZING THE APPAREL MARKET

Why Are Returns Growing?



State of the Industry

Let us set the scene. In 2022, apparel made up nearly 20% of all U.S. retail sales, totaling \$816B¹. The apparel industry as it moves into 2023 is in the throes of its biggest shakeup, with established brick and mortar retailers competing against digital superstars who are disrupting the industry. With fears of a recession looming on the horizon, retailers are equally as focused on growth as they are on retaining revenue by cutting costs and seeking out new ways to leverage their existing assets. As retailers and customers alike settle into a new post-Covid normal, retailers are grappling with the emergence of what has been dubbed the “Amazon expectation”: a growing sense among shoppers that retailers should offer free unlimited returns, despite how costly returns have historically been for retailers. With more customers looking to shop online, retailers have seemingly been asked to choose between customer satisfaction and profitability, as the number of returns continues to creep upwards.

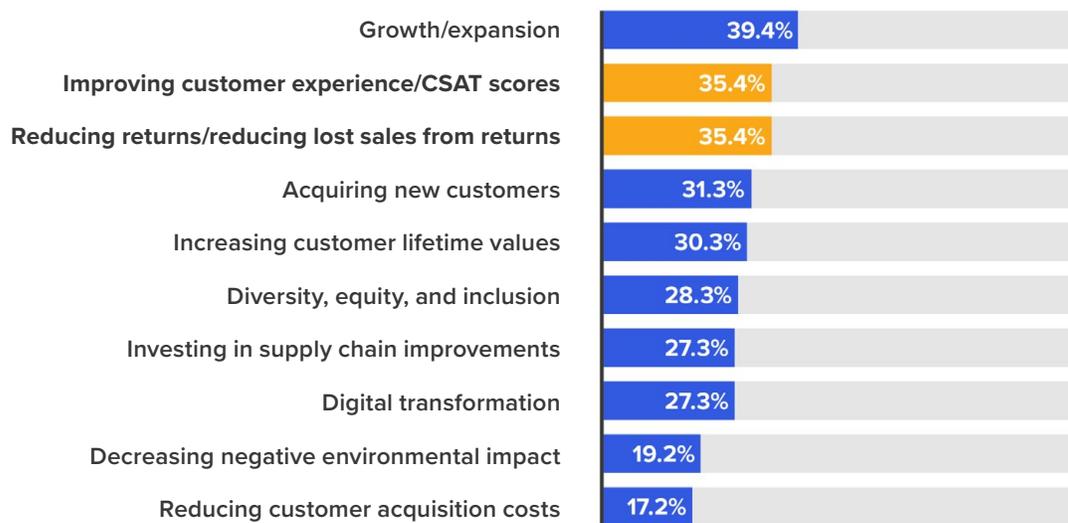
¹ “2022 Retail Returns Rate Remains Flat at \$816 Billion.” National Retail Federation. National Retail Federation, December 14, 2022.

Growth of eCommerce

Covid forced shoppers to familiarize themselves with online shopping, and eCommerce looks like it is here to stay. Online shopping continues to expand, with 2022 Q4 results pushing total eCommerce sales past the \$1 trillion mark for the first time in history.² While the pandemic-fueled record online sales spikes have slowed, they have been replaced by a steady, gradual growth in online purchasing that shows no signs of slowing down. In particular, online apparel sales have grown. According to Shopify, fashion accessories and clothing are the most purchased items on the internet,³ with consumers forecast to spend over \$1 trillion in 2023.

Retailer Priorities

So, with \$1 trillion in apparel sales on the horizon, what are retailers focused on? This 2022 poll shows where retailers hope to see improvements:



For many of these factors—customer acquisition costs, digital transformation, and CSAT scores, among others—retailers know that returns are the major sticking point causing friction when it comes to improvement. Retailers want to improve their returns. They want to offer their customers the best possible experience, but they have to balance that against the need to retain revenue. So, what do returns really cost retailers?

² Conley, Paul. [US Ecommerce Q4 Sales Hit Record High](#). Digital Commerce 360. Digital Commerce 360, February 17, 2023.

³ Staff, Shopify. [Top Online Shopping Categories in the US](#). Shopify, Shopify, April 26, 2022.

What Returns Cost Retailers

Returns Analysis

Retailers know that returns are a problem...unfortunately, not all retailers know exactly how big of a problem they can be. Here are some statistics to set the scene: **at least 20% of online purchases are going to be returned.**⁴ Items purchased online pose a particularly thorny problem: only 9% of items purchased in brick and mortar stores are returned, while more than double that are returned online. This is due to a number of factors, among them ‘bracketing’—a process through which shoppers buy multiple sizes of the same item with the intention of returning one or more. 77% of consumers have bracketed in the past 12 months.⁵ In fact, 54% of customers said that they had been ‘repeat returners’ at retailers where they shop at least somewhat often.

All of these statistics mean one thing. Returns cost retailers a lot of money. However, customers having a negative experience and choosing to shop elsewhere also costs retailers dearly, which leaves retailers in a conundrum as they go into 2023: do they cut returns costs, or risk losing customers?

A whopping **78% of online shoppers have returned at least one online purchase.**⁶ When discussing the costs of returns, it is imperative to consider that almost 4 in 5 shoppers will make a return at some point in their shopping journey, and their interaction with a brand will determine their CLTV. It is important to know that:

- 50% of consumers reported they would be unlikely to shop with a retailer again after a bad returns experience
- 60% of consumers would wait less than a week for an item to come back into stock before seeking it out from another retailer

Retailers are spending
an average of
319%+
more to acquire customers
than to retain them



\$11-\$25

average cost of retaining customers

\$51-\$100

average cost of acquiring customers

4 Look, 3D. [Counting the Cost of Fashion Ecommerce's Unsustainable Apparel Return Rates](#). 3D Look. 3D Look, n.d.

5 Optoro. "A Tale of Two Returners: Optoro Data Report." Washington D.C.: Optoro, 2021.

6 Optoro. "The Anatomy of Great Retail Returns." Washington D.C.: Optoro, 2022.



Why Do Returns Cost So Much?

As professor Lauren Beitelspacher of Wellesley College explained, “It’s something that I think we often take for granted, but it has huge implications for the consumer experience as well as the supply chain **because the supply chain was not designed to take merchandise upstream.**”⁷

Simply put? Apparel was made to be sold, not to be returned.

In dealing with returns, retailers have a number of costs to consider. There are processing costs, shipping costs, restocking fees, not to mention the costs of not being able to get seasonal merchandise back on shelves in a timely manner. **It can be tempting to view returns as a necessary evil: one to be reduced, but one that is, after all, inevitable.**

Digitally optimized retailers, however, are beginning to reshape the way they think about returns. Remember the 78% of customers who perform returns? Those same customers represent a new potential source of revenue. What if you could upsell them while completing a return, or what if you could encourage an exchange rather than a pure return? That’s where software solutions come in.

Some of the most successful retailers are looking outside the box when it comes to returns, and have started viewing them through the lens of retaining revenue rather than simply as a loss. How do retailers shift returns from a loss leader into a competitive advantage?

First, they understand what their customers expect.

⁷ Peiser, Jaclyn. “The Age of Free Online Returns Is Ending.” Washington Post, December 9, 2022.

WHAT DO CUSTOMERS EXPECT?

How to Meet Customer Expectations

Did you know that your most frequent shoppers are also your most frequent returners? The customers who are most loyal to your brand are also the ones who are most likely to bracket and most likely to return quantities of items while buying high-value carts. This makes it imperative that retailers meet consumers' shopping and returns demands, or else risk losing their highest-value customers to competitors elsewhere. Customers have strong beliefs when it comes to returns and exchanges:

- ➔ **67% of consumers** will choose to make an online exchange rather than request a refund if they can do so in a few clicks⁸
- ➔ **61% of consumers** believe they should receive a refund in 3 days or less after returning an item⁹
- ➔ Access to an online returns portal and easy exchanges are **consumers' top two biggest returns priorities**¹⁰

As one JC Penney customer put it, **"I am going to pay a lot closer attention to what return policies are from which store, and that will definitely make a decision whether I purchase that item or not."**

“ While retailers have indicated that they are seeing an increase in items returned to stores and online, the upside is that it also provides them with additional opportunities to to connect further with customers and provide a positive experience.”

- MARK MATHEWS, NRF'S VP OF RESEARCH AND DEVELOPMENT AND INDUSTRY ANALYSIS¹¹

Flipping the Script: Using Returns As A Competitive Advantage

So, with customer expectations at an all-time high when it comes to online returns (thanks, Amazon), how do retailers turn their returns into a competitive advantage?

They invest in software that is purpose built to drive revenue via returns. **75% of retailers saw a higher ROI on returns technology than on other customer experience technologies.**¹² There are three areas in which retailers are optimizing their returns: their customer-facing returns processes, their internal distribution center returns processing, and in their reselling of returned merchandise.

8-9 Optoro. "Returns Strategies to Help Retailers Combat A Potential Recession." Washington D.C.: Optoro, 2022

10 Optoro. "A Tale of Two Returners: How To Create A Single Returns Experience That Delights Every Customer." Washington D.C.: Optoro, 2022

11 Staff. "Retail Returns Increased to \$761 Billion in 2021 as a Result of Overall Sales Growth, Survey Says." Vision Monday. January 26, 2022.

12 Optoro. "2022 State of Returns: How Good Returns Processes Are Driving Customer Loyalty - and Revenue." Washington D.C.: Optoro, 2022

Shoppers are 67% more likely to exchange an item than to return it if that option is easily available, allowing retailers to keep that sale.¹³ In fact, if instant exchanges or on the spot refunds are offered, shoppers are likely to spend 33% more in shopping on that site.

Historically, retailers have viewed these as three disparate pieces. Their returns portal was often considered a part of the digital experience, while supply chain handled returns processing in the warehouses. But what if retailers had systems that talked to each other across the board? By investing in a holistic system that covers the full life cycle of a return, retailers are able to improve their repurchasing rates, have visibility over every step of their returns life cycle, and have complete control over the dispositioning of returned items in order to ensure that they are sent to their next most valuable home, whether that be returning to stock or being sold on to a third party seller.

**The 3 R's of Returns:
the returns experience,
returns management,
and recommerce.**

How To Assess Returns Software

We know that retailers have a few primary concerns when it comes to implementing new software, beyond reducing costs and offering their customers a delightful experience. We know that they are looking for:

- Technology that Grows with Them
- Ease of Implementation
- Rapid Return on Investment
- Fraud Protection, particularly with exchanges

More than anything, they are looking for a one-stop solution that is a best practice leader in the returns space. Top executives at companies including Tuckernuck, Gap, and Target as well as emerging digitally native brands have shared that optimizing the individual pieces of their returns process has been critical to their success, but that as they grow, the next step to reach the second phase of their goals is to have a holistic approach to returns. They have to be able to quickly stand up these new technologies and see results, and if they activate exchanges and instant refunds, they have to protect themselves from bad actors.

13 Optoro. "Returns Strategies to Help Retailers Combat A Potential Recession." Washington D.C.: Optoro, 2022



What Should A World Class Returns System Look Like



For customers:

- A delightful UI
- Instant Exchanges (leading to 2-3x higher repurchase rates)
- No out of stocks
- Third party drop off locations
- Refunds in 4 days or less

For DCs:

- Relist and resell items fast for highest recovery
- Reduce labor costs via efficient processing tools
- Optimize and automate returns decisions
- Surface process and product insights with unit-level end-to-end visibility
- Add processing power as needed during peak



Exploring customer expectations and DC needs

Customers want to engage with their favorite brands, and by deploying a returns portal with a 90%+ CSAT score, they can. By offering customers the ability to exchange instantly, retailers are able to save their sales rather than having to simply refund. Third party drop off locations and fast refunds have become something that customers expect, and by offering them, retailers are able to keep their customers loyal. By enabling a seamless returns process, customers can return their items easily so that retailers can get them back into stock.

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.¹⁴ Having a seamless data integration allows sites to immediately relist an item the second it hits a warehouse, ensuring that items don't languish in a distribution center, and reducing the out of stocks that drive customers to shop with competitors.

Improved decision making driven by automation algorithms ensures that items are routed to the right facility and provide an end to end view of inventory in real time, which allows retailers to flexibly handle returns. By addressing both the front and back end returns processes at once, customers shop more, and returns are processed more efficiently.

By leaning into an all in one solution, retailers turn returns into a competitive advantage. They get inventory back into stock faster than their competitors, reduce their logistics costs by consolidating shipments, and reduce human errors through automation. Perhaps most importantly, they attract and retain more customers.

For instance, **clients using Optoro's Instant Exchanges saw a 2-3x increase in repurchase rates, and were able to relist 95% of eligible returns on their website on their first day of processing.** Retailers using Optoro for returns processing saw a 40% average reduction in returns processing times. One CEO said that he was able to order less inventory because he was able to get returned inventory back into stock faster.

Suddenly, returns have become less of a headache to be ignored and have transformed into a competitive advantage that helps retailers grow their margins. Retailers are able to employ connected intelligence upstream and downstream to take advantage of economies of scale—and if they partner with Optoro, they are 100% protected from fraudulent returns.

The proof is in the pudding—see how retailers including Tuckernuck have turned themselves into industry leaders when it comes to returns.

¹⁴ ECommerce Logistics Staff, Shopify. [The Plague of Ecommerce Return Rates and How to Maintain Profitability](#). Shopify. Shopify, August 25, 2021

CASE STUDY

Shopify-Native Merchant Tuckernuck Invests In Returns Tech



TUCKERNUCK

CHALLENGE

Slow Refunds, Out of Stocks & Manual Returns Processes

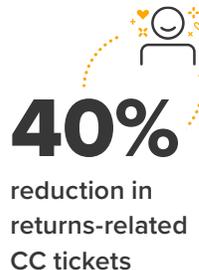
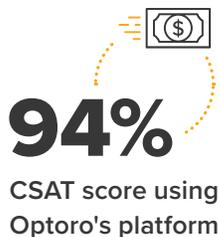
Tuckernuck, a Shopify merchant, experienced exponential eCommerce growth that left them with a thorny problem: **as sales grew, so did returns**, which meant slower refund times and increased out of stocks due to a fairly manual returns process. Tuckernuck knew that to solve their problem, they would need a holistic approach that both delighted customers with a beautiful front end and provided a back end that could automate refunds and exchanges and get items back into stock quickly.

SOLUTION

An All-in-One Returns Solution

Tuckernuck turned to Optoro's full platform **Returns Management** and **Returns Experience** solutions, which integrated seamlessly into their Shopify eCommerce flow and allowed them to process returns at scale and greatly reduce out of stocks. By turning to an all-in-one solution, they were able to provide their customers with a best-in-class returns experience that kept customers loyal and reduced customer care complaints while also reducing returns processing costs and times on their back end.

RESULTS





The Benefits of Ideal Returns

An ideal returns process marries revenue retention with a delightful customer experience. Customers are able to experience a returns process that matches the excellence of their initial experiences with a retailer while exchanging, refunding, or purchasing replacement items.

How Do Customers Benefit?

- They enjoy a consistent brand experience, from initial purchase to returns
- Seamless exchanges let them buy the items they want without having to look elsewhere
- Fast refunds make sure that they aren't left wondering where their money is



With an optimized returns processing platform, retailers are able to accept returns and get them back into stock immediately to prevent out-of-stocks and seasonal markdowns, while also keeping an eye on their returns at the SKU-level. The ideal returns platform offers retailers the ability to flexibly expand their capacity as needed during peak seasons while encouraging customers to remain loyal to their brand.

How Do Retailers Benefit?

- By automating decision making, retailers save on labor costs
- Retailers can order less inventory by getting items back into stock faster
- Flexible processing during peak season removes post-holiday blues
- SKU-level visibility means that retailers have visibility into every inch of their supply chain



Conclusion

Retailers have settled into their post-pandemic stride by expanding their digital footprints, and are now catering to customers who have sophisticated expectations when it comes to online shopping. Historically, retailers have seen returns as a pain point to be dealt with with the minimum amount of muss and fuss, but are now starting to see returns as a way to interact with their customers and to set themselves apart from their competitors.

As eCommerce continues to grow and online returns swell, retailers are choosing between being left behind, fixing their returns challenges piecemeal, or investing in an all in one solution. Retailers who fix even one aspect of their returns process can realize huge financial gains, as Tuckernuck did—and by choosing a partner who can offer an all in one solution as they continue to grow, they set themselves apart from the competition.



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