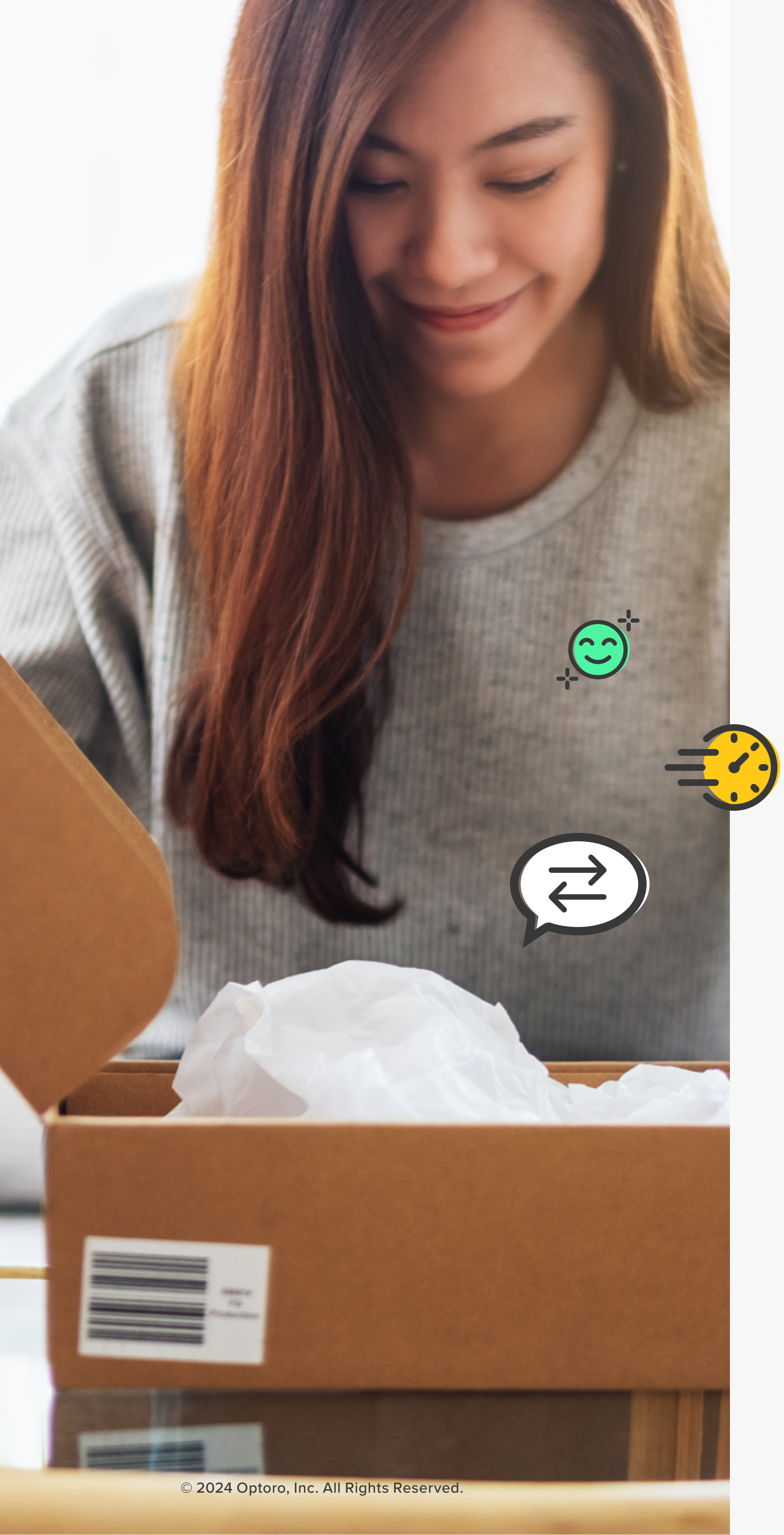
The State of Returns

2024

optoro



The Current State of Returns

Returns are in the most interesting state they have ever been in. For decades, returns have been viewed as a cost of doing business, and even an afterthought for retailers, brands, and third-party logistics (3PL) providers. But as the supply chain grew in complexity over the last five years, more organizations are shining a light on the inefficiencies, high costs, and margin-crushing impact of returns in retail. And with $743B in merchandise returned last year and average return rates for ecommerce as high as 17.6%, it's a sizable problem to solve—and costly to ignore.

Additionally, shoppers often dread the returns experience: calling customer support to request a return, finding the original packaging, printing a label, finding time to drop off a return, and avoiding the sometimes-narrow time window to get a full refund. Throw in the recent trend of retailers charging return shipping or restocking fees, and a small inconvenience becomes a **friction-filled experience that leads to unnecessary customer churn and low customer satisfaction (CSAT) scores.**

One conclusion is certain: As many pandemic-induced retail behaviors gain permanence, former norms are no longer true. A simple “return avoidance” strategy is no longer a sustainable lens through which to examine the returns challenge. **2024 prioritizes returns optimization, instead of curbing returns behavior.** Knowing this to be true for 2024, this report delves into the details of the retail and shopper marketscape and how to facilitate performance improvement with returns management.

Returns are too costly of a problem to ignore, and returns avoidance is too short-sighted of an approach.

Returns: the Roman Empire of Retail

Why are people constantly thinking about returns?

Up 50% since 2018, the rising cost of returns continues to be a serious concern. To use the viral social media "Roman Empire" trend, returns are a nagging thought for both shoppers and retailers. For retailers, returns are a business and operational headache that can crush margins and impact customer satisfaction. For shoppers, returns are the annoying thing on their to-do list that can deter them from shopping with a brand again—making convenience *paramount*.

Given the projections that digital commerce and non-store sales will grow between 7 and 9% over the next year, returns will continue to be a challenge for retailers to either deal with or resolve—ideally profitably.

To tackle the problem of returns, naturally, the first go-to solution is to reduce them. In fact, reducing returns is perennially identified as a top priority for retailers, and 3 out of 10 retail executives state that it is, in fact, their top priority. Yet, retailers also cite customer satisfaction and cost reduction as top priorities. Therein lies why returns are the Roman Empire of retail and supply chain—**customer satisfaction is critical to revenue growth and cutting costs is critical to operational excellence and profitability.**

How can retailers and 3PLs tackle the returns dilemma without shifting the problem elsewhere?

Why are returns a nagging thought? In 2023...

14.5% = **$743B** = **8.4B lbs**

Avg. return rate across channels

Total value of returns

of returns in landfills

17.6% Avg. ecomm return rate

10% Avg. brick-and-mortar return rate excluding BORIS

The Growing Tension Between Retailers and Consumers

In 2023, shoppers felt the impact of inflation and almost half (45%) of shoppers made at least one return to save money. This is where the antithetical dynamics of shopper behavior and retailer wishes begin to collide. Retailers are focused on profitability and therefore may charge for returns or charge a restocking fee in an attempt to curb returns. Yet, shoppers are more sensitive to spending in the first place and are very willing to return an unwanted item to recoup their spend.

83% of retailers say that returns are a concern when it comes to profitability—on average, it costs $26.50 to process $100 in returned merchandise.

What Retailers (Mistakenly) Do to Solve Returns

Focusing on Avoidance

One of the most common solutions retailers try in an attempt to mitigate the impact of returns is to avoid returns altogether. Yet, resolving the returns problem through returns avoidance alone is a short-sighted approach.

An alternative way of thinking about returns is categorizing them into different buckets:

- **Preventable returns:** Purchases where customers *may make a different buying decision had they been provided more or different information.* For example, if they are unsure of the "fit" for a shirt, they may bracket their order with a few sizes with the intent to return the ones that don't fit. Providing sizing information, virtual try-on tools, or models with a variety of body types can help mitigate the practice of over-ordering with the intent to return.
- **Unpreventable returns:** Purchases where customers are making a return for reasons outside of their control. Examples of this include damaged or defective items, receiving the wrong item altogether (size, color, SKU), or time-sensitive items arriving outside of the expected delivery window.

Retailers should seek to understand which products or SKUs may have higher return rates and low resale rates, to offer customer-facing optimization tactics to reduce unnecessary, or preventable returns. For example, the ability to understand return reasons at the unit level can help you make better merchandising decisions in the long run. Similarly, having insight into items that are often "bracketed" can help your digital team develop innovative front-end experiences like virtual try on or "see it in the room" technology.

Charging Universal Returns Fees

To fee or not to fee?

Another way retailers often try to mitigate returns is to intentionally introduce friction via fees, like return shipping or restocking fees. Retailers in 2023 were aggressive to start charging for returns, and the average extra fee consumers spent per return is just shy of $7. In the apparel world alone noteworthy brands like Abercrombie & Fitch, H&M, Zara, J.Crew, and Uniqlo enacted returns fees for customers. **However, there is a delicate balance between reducing returns and taking actions that may reduce your customer base.**

Frankly put: both shopper sentiment and shopper behavior indicate they clearly don't like return fees.

Frustration	37% of shoppers say the most frustrating thing about making a return is paying for returns shipping
Lower CLTV	Emarsys found that 49% **of shoppers are less loyal** to brands that charge for returns
Shopper Churn	As high as 88% of US consumers have stopped shopping with a retailer because of a paid returns policy being introduced
Fewer New Shoppers	62% of shoppers say they won't initially shop with a brand because they charge for return shipping

So, while introducing restocking fees and charging for shipping may curb returns a la the returns avoidance narrative, they may have a longer-lasting (and negative) impact on winning and retaining customers. It is important for retailers and brands to think of creative ways to reduce returns without impacting revenue.

Alternatively, personalizing the post-purchase experience to optimize returns benefits brands much more effectively than simply charging universal fees. Sara Richter, CMO at SAP Emarsys agrees, **"We need to fight the root cause of the problem, not just manage the symptoms...For me, that's where personalization comes in."**

5 Key Returns Trends & Insights for 2024

In order to truly optimize returns, there are several key trends and insights that retailers, brands, and 3PLs need to understand and consider in their approach.

1 Returns Fraud Threatens Margins

In 2023, the National Retail Federation (NRF) found that returns fraud cost retailers $101.91 billion, up 20.0% year-over-year (YoY). In fact for every $100 in returned merchandise, retailers lost $13.70 to returns fraud, threatening to crush overall profitability.

Fraud is a complex issue in retail, and takes on different forms. Among the most common types of return fraud retailers say they have experienced in the past year is wardrobing. Wardrobing is when an item is worn by the shopper and returned in worn/used condition. Nearly half of retailers (49%) cited returns of used, non-defective merchandise a la wardrobing, but it isn't the only type of fraud that is pervasive. 44% of retailers cited the return of shoplifted or stolen merchandise.

As returns behaviors evolve, the need to distinguish between the types of behaviors, and what classifies as fraud versus abuse, becomes increasingly important. The nuance in defining certain behavior as "abuse" and understanding the spectrum of behaviors in the context of why they happen becomes increasingly important in 2024.

Best Practices & Recommendations

- Identify common fraudulent behaviors such as wardrobing, returning "look-alike" products, or even returning a completely different item
- Identify high-risk shoppers based on previous shopper history and behaviors
- Connect return reasons to disposition status to better reconcile and identify fraudulent behaviors or if someone accidentally returns the wrong thing... like their cat
- With the right technology, you can personalize the returns experience based on shopper segments & risk scores (like charging customers likely to bracket return shipping)

"Identifying potential abusers requires robust data networks and collaboration with logistics partners to **strategically introduce friction where warranted.** Designing a future-focused returns strategy is not a one-size-fits-all pursuit."

Signifyd *Eleanor Ritchie // Staff Product Manager, Returns at Signifyd*

2 Shopper Convenience & Flexibility Reign Supreme

Ever had something to return and it sits in your trunk for a week? It's not surprising. Shoppers dislike making returns probably as much as retailers dislike receiving them. 35% of shoppers struggle to find the time to make a return, and 32% say inconvenient returns options, such as not being close to a drop-off location, are the reason it takes them longer to make a return. Additionally, keep in mind that 37% of shoppers say the most frustrating thing about making a return is paying for returns shipping.

Therefore, to speed the returns lifecycle and prevent inventory from getting stuck in the proverbial trunk, retailers need to attempt to make returns simple and convenient.

Additionally, retailers should aim to encourage an exchange instead of a return to save the sale while encouraging repurchase behaviors. 67% **of consumers will choose to make an online exchange** rather than request a refund if they can do so in a few clicks. Offering a few exchange options can also help protect margins while still providing shoppers the ease to rebuy. **Consider the following repurchase options:**

- **Instant exchange:** Replacement item ships immediately upon request, no credit card required
- **Ship-now exchange:** Shopper puts a credit card on file for item to ship immediately
- **Ship-on-receipt exchange:** Retailer ships replacement item on receipt of return

Best Practices & Recommendations

- Offer at least 2-3 return method options such as 3rd party drop-offs, home pick-ups, and/or omnichannel return options like buy online return in store (BORIS)
- Offer at least one free return method. They don't all have to be free, but by having one you can still cater to price-sensitive shoppers
- Consider dynamic return offers and methods based on profitability and customer status like loyalty
- Make sure your online and store returns policies are aligned to reduce unnecessary friction

3 Bracketing on the Rise

Some habits die hard, and when it comes to bracketing, pandemic-related behaviors continue to be a prevalent behavior for shoppers and retailers often bear the burden.

In the last few years, nearly two-thirds, 63%, of U.S. ecommerce consumers reported purchasing multiple items with the intention of returning some of them—an increase from the prior year's 58% percent.

Retailers with fewer brick-and-mortar stores or a regional presence are more at risk to face bracketing behaviors as shoppers have fewer options to see products in person or try on different sizes. Additionally, shoppers are most likely to embrace bracketing when shopping for apparel and accessories (35%).

Bracketing can be especially problematic for retailers as it disrupts accurate inventory numbers, by eroding reliable available-to-sell stock counts. This can be particularly challenge for popular, fast-moving SKUs, and make the case for retailers to focus on shortening the returns lifecycle and get resalable inventory back in stock as quickly as possible.

Best Practices & Recommendations

- Enhance product data in the shopping experience like product descriptions, photography, and sizing.
- Consider innovations like virtual try on, or shopper-sourced sizing feedback
- Identify often returned SKUs and consider alternative merchandise
- Proactively identify bracketing in your ecommerce storefront and suggest product information to help them narrow their purchase

"Bracketing can be a problematic behavior, but also something that is partially preventable. It's critical for retailers to strategically think through the entire order experience management (OXM) and put practices in place that **help shoppers feel confident in their purchases before and beyond the buy button.**"

PERFICIENT *Zach Zalowitz // OMS Principal, Perficient*

4 Effective Returns Dispositioning is Paramount

One often overlooked aspect of returns is a polished, systematic way to process and disposition returns. Because inventory is often the largest capital expense retailers have, ensuring that returned inventory is optimized for resale is paramount to protecting margin and profitability.

Yet often retailers and 3PLs lack a way to quickly and efficiently determine the condition of a returned item, and then how to determine the next-best destination for the product (aka dispositioning). Unfortunately, this can result in a backlog in a facility or a long queue of exceptions that are a headache for both the retailers (unsalable inventory and lost sales) and warehouse/store operators (backlogs).

While many retailers and 3PLs are leveraging their warehouse management system (WMS) or point of sale (POS) for returns, these systems tend to lack the functionality associates need to disposition inventory effectively, leading to error-prone processes, unnecessary markdowns, or higher influxes of recycling/destruction.

Best Practices & Recommendations

- Make sure you have an accurate understanding of recovery rates (dollar value) for returned merchandise and where you can see improvement
- Provide store and warehouse operators with a system to test/grade returns, and determine the next-best channel for returned merchandise *quickly and objectively*
- Focus on highest-margin channels first like resale and recommerce, then on liquidation channels to improve financial recovery
- Leverage pre-built workflows where possible to automate and speed the dispositioning process

"A strong disposition process is critical, but having the **flexibility to evolve disposition parameters** and constantly assess opportunities for new workflows and resale channels is vital."

nGROUP performance partners *Jake Duron // Division Vice President, Operations at nGroup*

5 Circularity in Full Force

With shoppers becoming more conscientious about where they spend their money and retailesr more cognizant of their impact— more organizations are leaning into circular and sustainable efforts. And the good news is that 57% of consumers are willing to pay more for products if they're produced and transported in a way that doesn't harm the environment.

For some retailers this will mean investing in sustainability efforts in their manufacturing or production facilities, for others, investing in ways to extend their products' life cycles (for instance, donating returns, or finding them a new home).

Best Practices & Recommendations

- Consider creative ways you can create circular initiatives like recommerce channels via Trove, Arrive, Recurate, and Rebelstork
- Invest in technology like a returns management system that play a large role in recouping returns that may have formerly been landfill-bound

Some inspiring brands investing in circularity:

Nike's "Move to Zero" refurbished program where shoppers can find stores that sell refur-bished shoes, preventing non-defective shoes from ending up in landfills.

H&M's Garment Collecting Initiative to "Close the Loop": The company encourages customers to return unwanted clothing for recycling or reuse, offering vouchers as incentives.

On Running's Onward initiative where runners can trade in and shop gently used premium gear, and their Cyclon™ program where they sell products meant to be recycled

STEVE MADDEN

Steve Madden's "Re-booted" program where shoppers can buy and sell pre-loved Steve Madden shoes, accessories, & apparel.

NESPRESSO

UPS Supply Chain's recycling initiative with Nespresso to distinguish single-serve from single-use

LEGO

LEGO's Replay initiative enables families to pass LEGO bricks to children in need of play.

> "To reduce waste from returns, find what you are throwing away or selling for pennies on the dollar, and **see how to reuse or move it up the reuse funnel.**"
>
> *Libby Johnson McKee // CEO & President, Evergreen Goodwill • Former Director of Worldwide Returns & Recommerce at Amazon*

From Burden to Boom

New Innovations in Returns Management

The evergreen challenges of returns coupled with the executive-level focus to improve profitability has spurred many exciting innovations for returns.

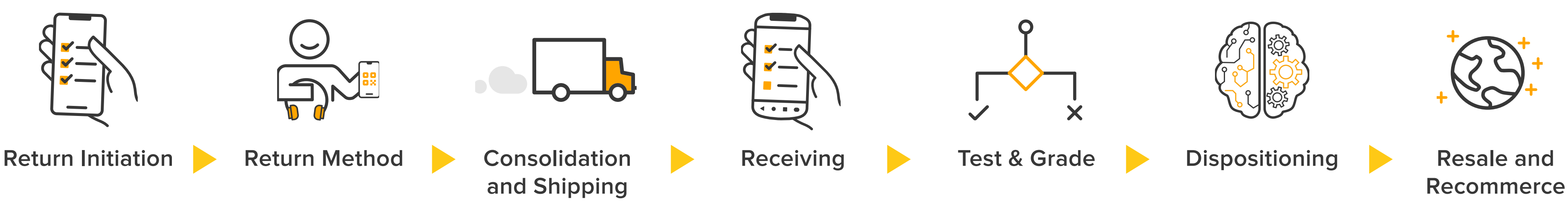
Holistic, Omnichannel RMS

Returns are a unique conundrum to solve as they can touch various teams within an organization including ecommerce, store operations, customer service, operations, supply chain, and finance. Yet, in the past software and solutions to solve returns have been broken up disparately throughout the various touchpoints in the returns lifecycle.

Now more than ever, savvy brands and 3PLs understand that to break new ground they need software that systematically addresses each touchpoint, with each other touchpoint in mind. There was a similar paradigm shift for order management in recent years in which Forrester noted as the time “every digital business fell in love with their order management system (OMS)” because of the purpose-built functionality and flexibility to mitigate complex challenges.

Complex problems usually require a built-for-purpose system with the bigger picture in mind, and **an omnichannel returns management system (RMS) is the key to balance the returns dilemma of leveraging returns to drive growth, without sacrificing a great customer experience.**

The Stages of the Returns Lifecycle



Rise of Personalization

In the context of retail returns, personalization refers to brands creating a unique experience for shoppers based on past return behaviors. For example, a loyal customer who is returning an item due to a sizing issue may have the option to do an instant exchange (where a replacement ships immediately with no credit card required) while a first-time customer who is returning for the “changed my mind” reason, may be given a different return option, or require a credit card hold to initiate an exchange.

Traditionally, personalization has been reserved for the shopping experience and outbound fulfillment. Yet, in 2024 we’ll continue to see savvy retailers leveraging customer data to personalize the post-purchase experience too.

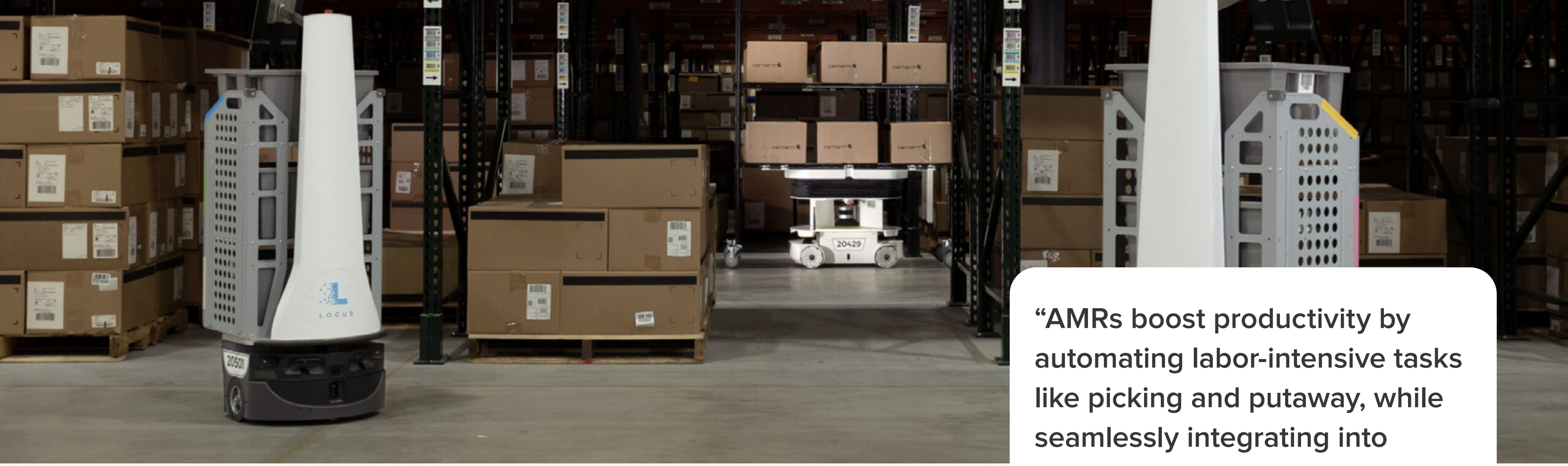
And it makes a difference with shoppers:

- 77% of shoppers prefer brands that make personalized offers.
- 78% of customers are more likely to repurchase from a company offering highly personalized experiences.

There are a few creative ways retailers can think about creating a personalized returns experience:

- **Dynamic Returns methods:** Offering different return methods to different segments based on loyalty, geography, proximity to a store, etc.
- **Dynamic Pricing:** Offering variable pricing to customers or different return fees based on their purchasing behavior, loyalty status, or other characteristics (I.e. Offering free returns to those in your loyalty program to reduce friction)
- **Dynamic Repurchases & Offers:** Offering a frictionless instant Exchange option *without processing another transaction or putting a credit card on hold* for your most loyal customers. Or offering bonus credit (i.e. $10 credit) to shoppers to save the sale and encourage an instant repurchase

Personalization for returns is a no-brainer in many ways. However, without the right technology, personalization can be challenging. **Retailers need a returns management system that touches all of the touchpoints in the returns lifecycle to tie front-end data (i.e. return reason), to back-end operational data (disposition status) to leverage personalization** for a better experience and better margin.



Robots + Returns

In the same vein of reverse logistics catching up to forward, many forward-thinking retailers are turning to the most futuristic of solutions to improve operational efficiencies—robots. In fact, the Autonomous Mobile Robot (AMR) market size is estimated to reach [$14.4 billion by 2030], growing at a CAGR of 21.4% during the forecast period 2023-2030. And automation pays off. According to Forbes, robots and humans working together are 200% more productive than humans alone.

While robots require an upfront investment, they tend to pay for themselves in productivity. Globally, by incorporating technology such as robots, 8 in 10 warehouse associates now meet and surpass productivity targets. Robotics companies, like Locus Robotics, are equipping retailers and 3PLs with robots for reverse logistics that can significantly speed restocking times, optimize available-to-sell inventory levels, and make their warehouse associates' jobs easier. In a recent report, Locus outlines the top ways AMRs improve productivity: including increasing daily throughput, reducing return order cycle time, improving units per hour (UPH).

With the right RMS, you can leverage robotics with returns processes. By applying robotic productivity gains to returns management — companies can improve efficiency, accuracy, speed, and customer satisfaction with returns.

"AMRs boost productivity by automating labor-intensive tasks like picking and putaway, while seamlessly integrating into existing workflows and enabling task interleaving. They excel at streamlining reverse logistics by expediting returns processing and restocking. With robotics, retailers and 3PLs are well-positioned to help warehouses **enhance throughput, reduce labor dependency, and future-proof their supply chains** through intelligent automation."

LOCUS ROBOTICS

Steve Simmerman
Head of Global Alliances, Locus Robotics

Conclusion

The state of returns in 2024 is the result of these driving factors: convenience for shoppers and cost-recovery for retailers. While returns may have a bad reputation with retailers and logistics providers, they continue to make an impact on the business. Whether the impact is positive or negative, depends on a variety of factors including the understanding of key data, insights, shoppers behavior, as well as the technology in place to address the challenges.

Tackling the problem of returns is one of the best ways a retailer can impact their bottom line. This illustrates the biggest question when it comes to returns: how do you really measure their cost? How do industry leaders measure it?

A modern returns management system creates a pipeline of information between every touchpoint of the return lifecycle, allowing you to maximize the dollar value of every interaction...but even investing in one modular solution (for instance, picking the perfect portal to handle your returns) can deliver significant cost savings and even drive revenue through numerous workflows least of which is to encourage shoppers to re-engage with your site after a return.

At the end of the day, returns are complicated — but they don't have to be. The right system can take a multi-headed problem and turn it into a competitive advantage.

Reduce costs and improve resource allocation

- → Identify when your returns are arriving, and staff facilities accordingly
- → Adjust for seasonal swings in returns

Increase forecasting accuracy and reduce merchandising costs

- → Know what returns are coming and use customer history to identify the likelihood of receiving an undamaged return, and use these insights order only what merchandise you need

Identify inefficiencies and risks

- → Spot problems before they snowball by tracking items at the SKU level so problematic items and inefficiencies are caught early
- → Identify customers with problematic or fraudulent returns histories, and flag suspicious returns orders that abuse your returns policy

Delight customers

- → Offer your customers painless exchanges to retain revenue instead of refunding (and use your insights into inventory to prevent out of stocks)
- → Offer an extensive network of dropoff points or home pickups to make returns a touchpoint that earns your customers' loyalty

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. Retailers and brands—including Gap, Tuckernuck, IKEA, and Staples—trust Optoro's solution to make returns a strategic advantage for their business and enable sustainability initiatives across their supply chain.

Talk to one of our returns experts

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