

FINDING THE ROI

Ecommerce merchants face unique challenges when it comes to returns. This report delves into how online shoppers view returns, retailers' return policies, how retailers make returns easier, and ways merchants can reduce returns in the first place.



IN ONLINE RETURNS



EXECUTIVE SUMMARY

MAKE RETURNS A SUCCESS

RETURNS ARE A PART OF RETAIL.

With all the work that goes into marketing, customer acquisition, website features, inventory management and fulfillment, all retailers hope customers keep the products they buy.

But that's not always the case. Online retailers have to be especially thoughtful about returns because they may get more of them than store-based retailers and face greater challenges in how they handle returns.

First, shoppers can't see and touch a product in person before buying it online. And often that means the item they receive is not what they expected. Perhaps the size is different than what they imagined, the color wasn't represented well online, or the quality didn't match expectations. Also, shoppers are used to returning products to stores, and retailers without many stores need to find ways to make returns easy—otherwise, many shoppers simply won't make the purchase in the first place.

It's a cliché, but nonetheless true, that in every challenge there is an opportunity. And so it is with returns, which online

retailers can turn into a positive. Retailers agree that a return offers an opportunity to further chat with their customers, understand their needs, gain useful product insights and further engender loyalty to the brand and increase customer lifetime value.



Success requires applying the same care to managing returns that retailers take with delivering orders to shoppers. That starts with setting a returns policy that fits your business, providing the information and imagery on your website that will minimize returns, and developing processes for handling returned merchandise that can maximize the value of the items sent back. This report is designed to help online retailers manage returns effectively by providing insights into shopper return behavior, online retailers' return policies, the ways retailers reduce returns and strategies retailers employ to make the return process easier.

As the examples in the following pages demonstrate, online retailers are discovering ways to turn the inevitable occasional return into an opportunity to please customers and keep them coming back.

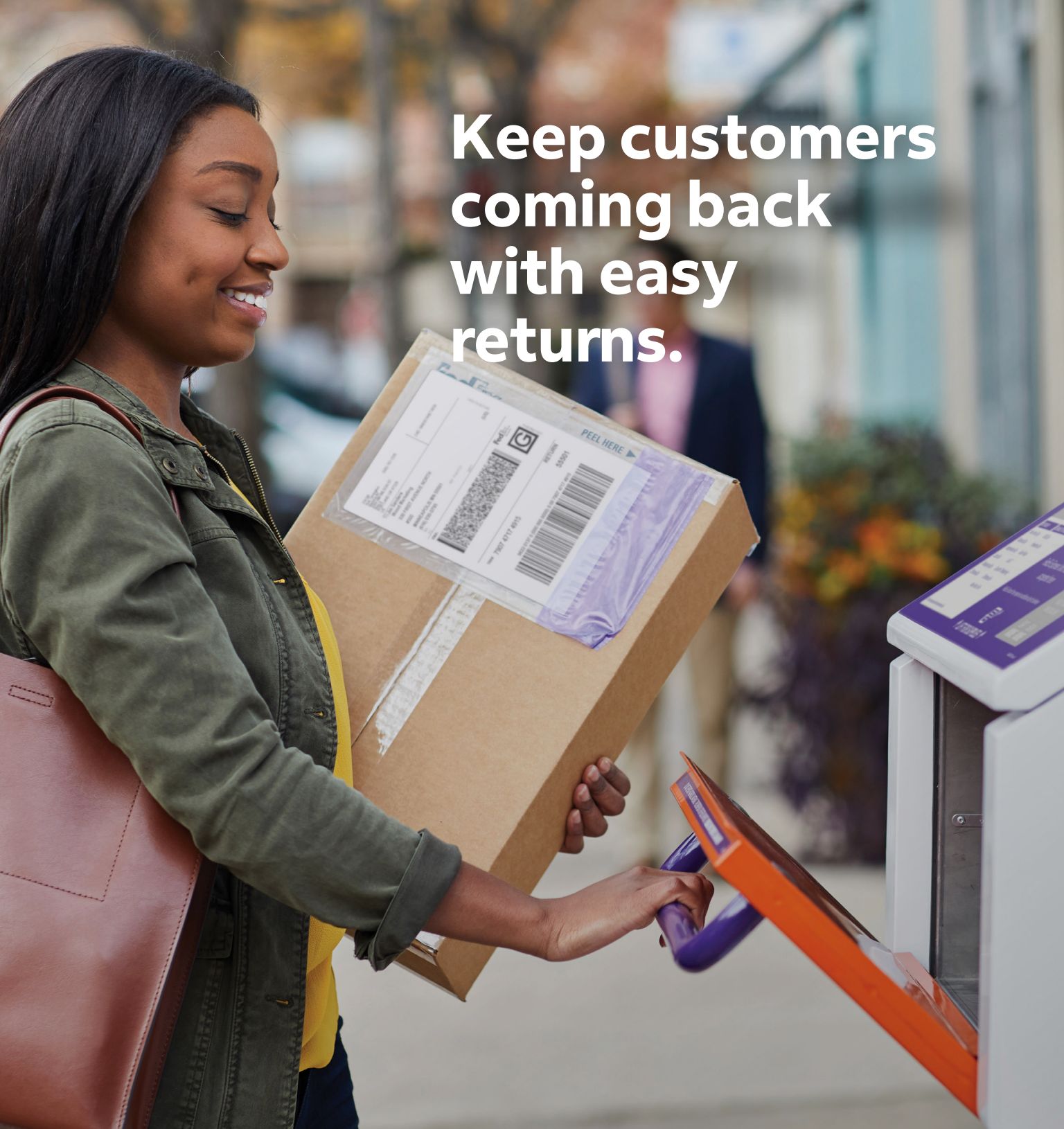
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Keep customers
coming back
with easy
returns.



Easy return shipments build customer loyalty
Simplify the process with return label options,
advanced returns

technology, and easy dropoff at retail locations like FedEx Office,
Walgreens, and Dollar General.

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FINDING THE ROI IN ONLINE RETURNS

Shopper return behavior and preferences

How frequently consumers return online orders varies by category. For example, apparel has a much higher return rate than most other product categories because fit varies widely from person to person and retailer to retailer. The electronics category, on the other hand, has fewer returns because consumers can review exact product specifications online and rarely are surprised when the product is delivered.

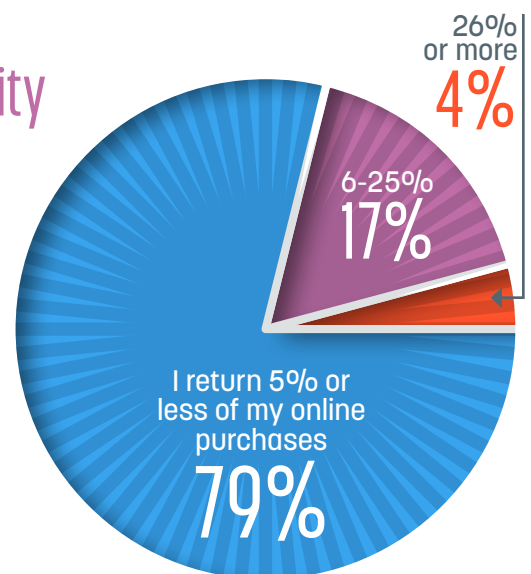
The first bit of good news for online retailers is this: Most shoppers don't return that many of the items they purchase on retail websites. Overall, 79% of consumers say they've returned 5% or less of products they've ordered online, according a June 2019 Digital Commerce 360/Bizrate Insights survey of 1,188 online shoppers. Of the remaining shoppers, 17% say they returned 6-25% of their online orders, and 4% say they returned 26% or more of their online orders.

In other words, there are certain shoppers much more prone than the average consumer to make a return. Depending on how a particular e-retailer views returns, it can adjust policies based on customer behavior. For example, some will forgo offering free return shipping to customers who routinely send items back. However, other retailers welcome returns as a form of customer service, and would not penalize shoppers who make frequent returns.

CONSUMER SURVEY

A large majority of shoppers return 5% or less of their online orders

What percent of all of your online purchases do you typically return?



Source: 2019 Digital Commerce 360/Bizrate Insights, 1,188 online shoppers

Finding the ROI in online returns

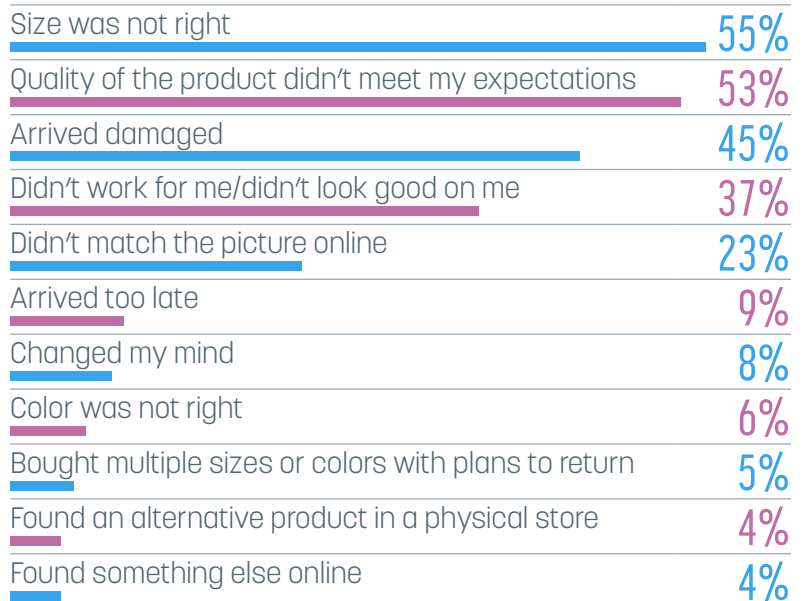
Whatever their policy, all retailers benefit from knowing why a shopper returns a product, as that helps the retailer take steps to minimize returns. In the Digital Commerce 360 survey, the top three reasons shoppers returned a product were size, cited by 55%; product quality, 53%; and damage, 45%. Shoppers could pick more than one response.

This dovetails with a 2019 survey of 3,519 global consumers by Narvar Inc., which provides product-tracking and return-management services to online retailers. Of consumers in that survey, 46% said the No. 1 reason they returned an online order was because the size, fit or color was wrong.

CONSUMER SURVEY

Size, quality and damage are top reasons shoppers return online orders

What are the top 3 reasons you return online purchases?

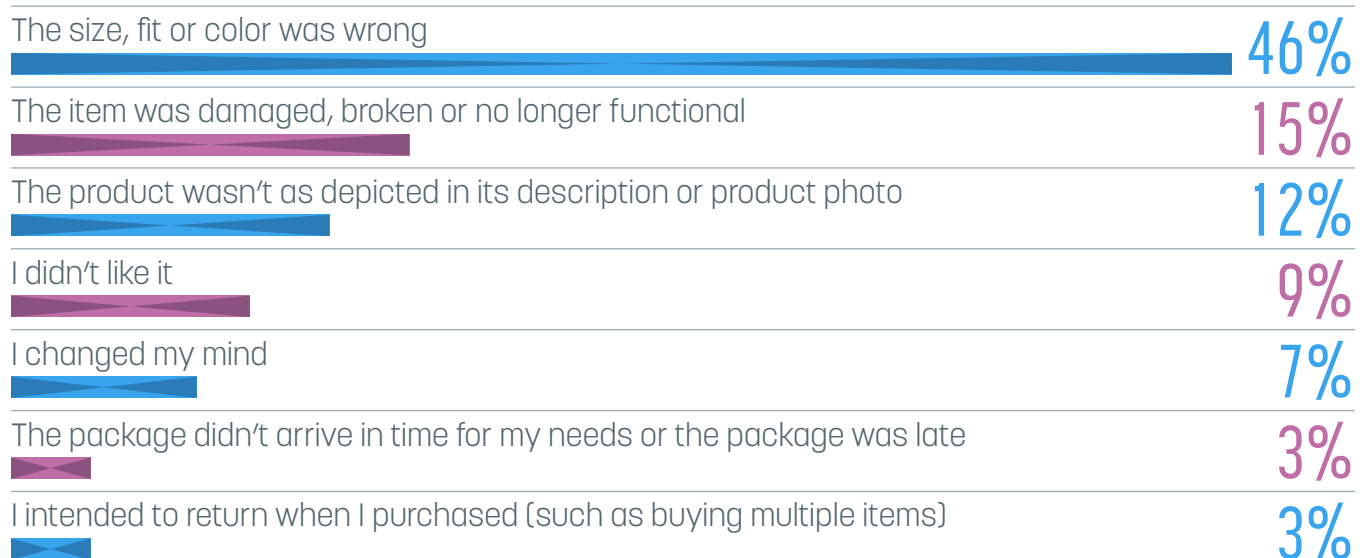


Source: 2019 Digital Commerce 360/Bizrate Insights, 1,247 online shoppers

CONSUMER SURVEY

Fit is the most common reason for returning an online order

My No. 1 reason for returning an online order is:



Source: 2019 Narvar, 3,519 global consumers

Finding the ROI in online returns

The phenomenon known as “bracketing” also leads to more returns. Bracketing is when a shopper orders two or more of the same garment in different sizes, bracketing her size by ordering items that might be slightly smaller or larger than her normal size. This is common among online apparel shoppers who frequently are not confident a garment will fit. By ordering a couple of sizes they’re more likely to get an item that fits. Other product categories may see similar shopper behavior, for example, if a shopper purchases two similar cameras and returns the one she doesn’t want.

In the Digital Commerce 360/Bizrate Insight survey, 11% of shoppers say they have bought multiple sizes or colors with plans to return some of them.

While this does lead to higher returns, many retailers are okay with bracketing, as it increases the likelihood that the shopper will click the Buy button in the first place and ultimately keep one of the products. Lingerie retailer



COSABELLA VIEWS SHOPPERS BUYING TWO SIZES OF A PRODUCT AS A POSITIVE SHOPPING HABIT

“It’s not a negative that she is going to send one back, you’ve got a better chance of one sticking.”

—Guido Campello, co-CEO, Cosabella

Cosabella, for example, views shoppers buying two sizes of a product as a positive shopping habit, says co-CEO Guido Campello.

“That’s the sign of a customer that has more initiative to find a solution,” Campello says. “That’s the customer that you want to engage with the most—she’s already discerning. It’s not a negative that she is going to send one back, you’ve got a better chance of one sticking.”

How online retailers minimize returns

Because fit is a top reason for returns, many apparel retailers employ several tactics to ensure a garment fits. Retailers will show how a product fits on a person, such

as a professional model or with an actual customer wearing the garment via user-generated photos. Retailers also can survey shoppers who are returning products and use

Finding the ROI in online returns

augmented reality technology to give shoppers a better idea of how the product would look on them.

Anton von Rueden, chief operating officer at TechStyle FashionGroup, says product images on people who are not models is especially effective at giving shoppers an idea about how a garment will fit. TechStyle operates athletic apparel brand Fabletics.com, as well as brand JustFab.com, Fabkids.com, ShoeDazzles.com and Savagex.com.

TechStyle encourages employees and customers to upload pictures of themselves in a Fabletics outfit so shoppers can see how it looks. Plus, at Fabletics.com, shoppers can filter reviews by their size to see what shoppers of similar build have to say about a product.

“Instead of just showing the picture on the shiny, great professional models, you can pick your size and we will show it on someone that is not a model, on someone you can relate to more than a professional model,” von Rueden says.

This user-generated content helps to keep returns to between 5% and 10% of sales, a return rate von Rueden is proud of.

Shoe giant Nike Inc. developed an augmented reality tool called Nike Fit



Shoppers using the Nike Fit augmented reality tool can scan their foot and Nike will display their shoe size for that particular shoe.

to help shoppers find the right fit. In its shopping app, a consumer can scan her foot using her smartphone camera, and the app will collect 13 data points that map the consumer's foot. It will then translate those measurements into dimensional data and compare it against its footwear assortment, says Michael Martin, Nike's vice president of digital products.

The Nike app will then recommend the best fit of shoes for that shopper depending on what Nike shoe the shopper is looking at. For example, after a consumer scans her foot, a Nike product detail page will only show the shopper her size, rather than a range of sizes.

LULUS HAS A 30-DAY RETURN POLICY, BUT ONLY OFFERS FREE RETURN SHIPPING IF THE SHOPPER RETURNS THE ITEMS WITHIN 10 DAYS OF RECEIVING IT.

“We really try to incentivize the customer to return the product quickly.”

—Colleen Winter, co-founder and CEO, Lulus



If a shopper goes to a different product page, Nike may show a different size, depending on the fit of the shoe, which may vary because different shoes are made to achieve different performance goals. A running shoe, for instance, works best when it is snug, while a sportswear shoe is designed to provide more room for everyday wear. In testing, the recommended size can range a size and a half, Martin says.

“Nike Fit will significantly impact the existing customer behavior of buying several pairs online to try on at home and then shipping back the remainder,” Martin says.

Fit is a particular pain point when it comes to buying shoes online. About 500,000 consumers each year complain about purchasing the wrong shoe size, according to Nike’s U.S. customer service team. Nike says the industry return rate for shoes is around 27%, although Martin declined to reveal Nike’s return rate.

There are much less costly ways to reduce returns than developing an augmented reality app. For apparel retailer Lulus, a simple survey of shoppers making returns is effective. The retailer asks each shopper returning a product the reason for the return, and she can select from such drop-down options as changed my mind, quality wasn’t what I expected or it didn’t fit. If a shopper says the item didn’t fit, Lulus will ask specifics, such as if the garment was too short, tight, etc. Shoppers can also write in their feedback, which co-founder and CEO Colleen Winter says provides the most helpful information.

Lulus makes adjustment to its products based on what consumers say. For example, if shoppers consistently say they are retuning a product because it is too big, Lulus will adjust the manufacturing process to make the garment fit more snugly, Winter says.

Retailer return policies

The first part of the returns process revolves around the retailer's policy, including any fees for return shipping, the length of time a consumer has to return a product and where the consumer returns the product. An analysis of 50 top online retailers shows exactly half, 50%, offer a window of 45 days or longer for returns, according to returns service Oporto. Next most popular is a 30-day policy, offered by 38% of the retailers studied.

Apparel retailer Lulus takes a more nuanced approach. The retailer has a 30-day return policy, but only offers free return shipping if the shopper returns the items within 10 days of receiving it.

"We really try to incentivize the customer to return the product quickly," Winter says.

This way, it keeps Lulus operations moving quickly. As Lulus sells fast-fashion merchandise, it wants to ensure that its products are on trend, Winter says. If shoppers return items quickly, it's easier for Lulus to resell those items.

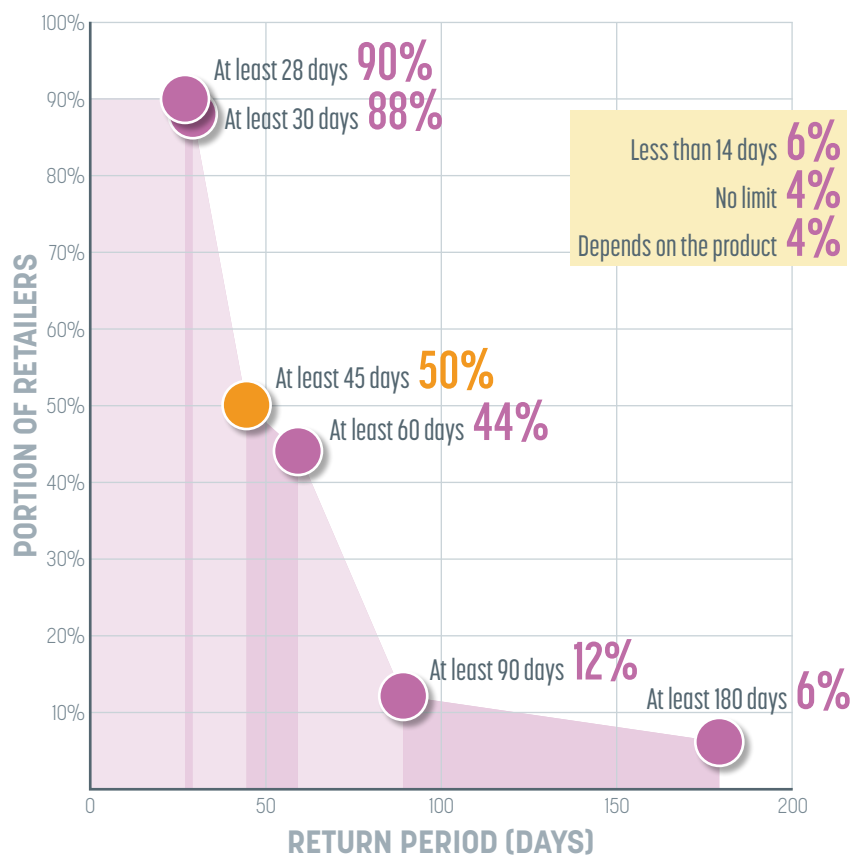
This is a huge issue for retailers that sell seasonal product, says Amit Sharma, CEO of Narvar. For example, if a shopper buys a winter parka

over Black Friday to give as a gift at Christmas and it doesn't fit the recipient, the shopper may not return it until mid-January. Then, the retailer has to sell a winter coat at a time when many consumers already have one and are not looking to buy another. The retailer may then have to sell it at a discount just to move the merchandise along, Sharma says.

RETAILER SURVEY

Half of retailers offer a 45-day or longer return period

How long is the return period?



Source: 2018 Oporto, 50 retailers

Finding the ROI in online returns

Besides offering an incentive for consumers to return items quickly, retailers can adjust their policies when they know reselling certain returned items will dramatically cut into profit margins, Sharma says. On the product detail page and in the shopping cart, merchants can clearly note which products have a shorter return policy or are nonrefundable. Athletic apparel retailer Lululemon, for example, rarely discounts products online. But when it does, it often notes that the sale is final.

Regardless of the retailer's return policy, it should clearly state it to consumers, because consumers likely are looking to see whether they will be able to return an online purchase. In fact, 56% of consumers said they always (at 28%) or often (at 28%) check a retailer's return policy before making a purchase, in a 2018 Optoro survey of 600 U.S. consumers. Thirty-three percent said they sometimes check the return policy, and 11% never do.

55%

Portion of consumers who decided to not purchase an item in the last year because the return policy was not flexible enough



An online retailer's return policy will impact conversion rate. In that same survey, 55% of consumers said they had decided not to purchase an item in the last year because the return policy was not flexible enough.

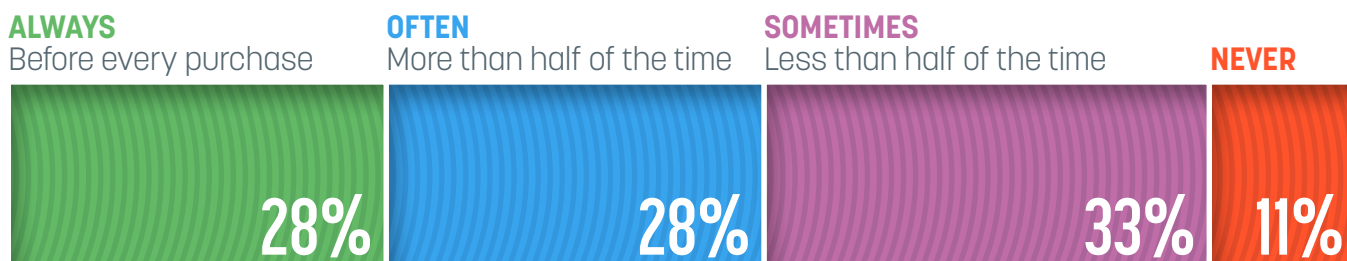
Matt Maasdam, co-founder and chief operating officer at apparel retailer Revtown, knows that its return policy is a game-changer for shoppers. It offers free return shipping, and Maasdam believes Revtown sells more as a result.

"It gives [shoppers] comfort that they aren't taking a big risk," Maasdam says. "It gives us at least a 1-percentage point bump in conversion."

CONSUMER SURVEY

89% of shoppers will check a return policy at least sometimes before purchasing

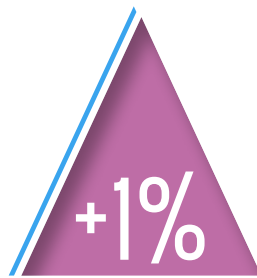
How often do you look at the return policy of an item before purchasing online?



Source: 2018 Optoro, 600 U.S. consumers

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Plus, for a digital native brand like Revtown, free return shipping is a customer expectation, he says. “The bedroom is our dressing room, and people shouldn’t have to pay for that,” Maasdam says.



Conversion rate increase for apparel retailer Revtown because it offers free returns

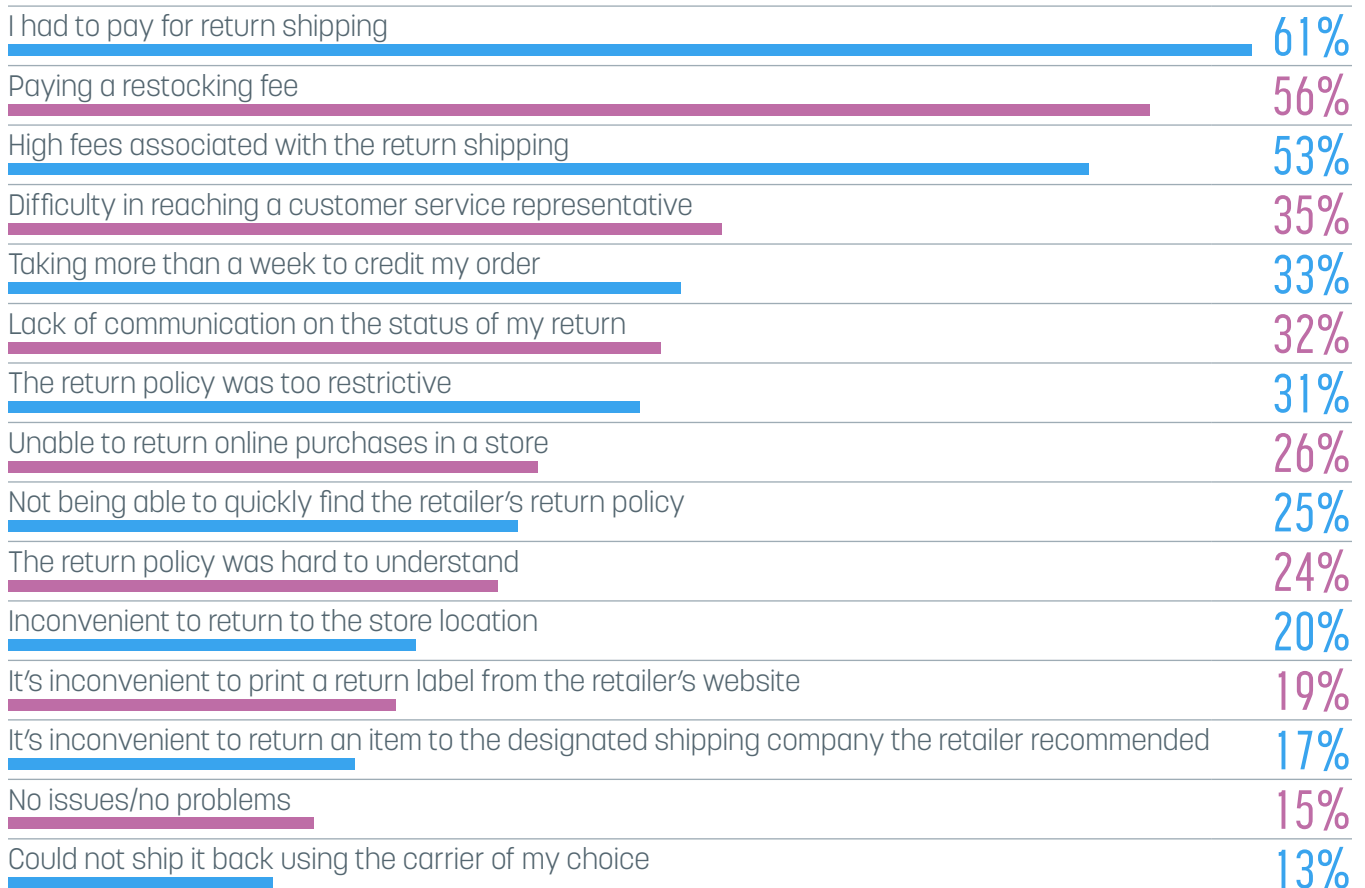
In fact, shoppers rank free return shipping as the most important factor they look for in a retailer’s return policy, according to a 2019 Digital Commerce 360 /Bizrate Insights survey of 1,249 consumers.

On the flip side, shoppers grumble about paying to ship orders back. That same survey found that 61% of consumers said they were frustrated they had to pay for return shipping.

CONSUMER SURVEY

Paying for return shipping is the most frustrating part of online returns

What do you find frustrating when returning products that were purchased online? Multiple responses allowed



Source: 2019 Digital Commerce 360, 1,249 consumers

Finding the ROI in online returns

While shoppers may expect free return shipping, only a minority of top retailers offer it. A Digital Commerce 360 analysis of the Top 1000 online retailers in North America finds only 34.4% of those merchants offered free return shipping in 2018. However, this is a large increase from the prior year, when only 11.1% of Top 1000 merchants offered free return shipping.

And these policies vary by merchant type. Consumer brand manufacturers lead the group with 40.3% of Top 1000 consumer brand manufacturers offering free return shipping.

That may reflect the fact that brands often sell online at full price so as not to offend the retailers that sell their products by competing on price. That gives manufacturers higher profit

Only a third of Top 1000 online retailers offer free return shipping

Free return shipping by merchant type



Source: 2019 Digital Commerce 360 Top 1000 retailer analysis

margins as a rule, which allows them to offer perks like free shipping both ways. Manufacturers are also the most likely Top 1000 retailers to offer free shipping on all orders, which is offered by 25.5% of brands but only 14.6% of the Top 1000 retailers.

Strategies to ease the returns process

Online shoppers will sometimes return items, and web merchants can benefit in the long run if they make the returns process convenient.

“It’s counterintuitive, but making returns easier is actually great for the lifetime value of your customer,” says David Sobie, co-founder and CEO of returns processing vendor Happy Returns.

Many retailers agree, including Helen Nightingale, director of ecommerce at apparel retailer Draper James.

“Obviously no one wants to enter into this process thinking, ‘I hope our customers make a return,’” Nightingale says. “I want them to have a good experience with the product. I want them to keep it in their hands and love it forever.”

Finding the ROI in online returns

But the truth is in the data: Customers who order from Draper James and have made a return historically shop with the brand 25% more frequently than those who haven't sent an item back to the retailer. Aiming to boost that order frequency even more, Draper James worked to streamline the returns process to make it just as smooth as its front-end logistics.

Retailers can employ several tactics to make the return process easier, such as shipping the product to the shopper in a package that can be reused for return shipping. In a Digital Commerce 360 test of 52 retailers' fulfillment and return practices, 42 of them, or 80.8%, shipped products in a reusable package.

To also make it easier, retailers can include a return label with the initial shipment. However, in the Digital Commerce 360 test, only seven, or 13.5% of retailers, did this. Bag retailer Dagne Dover, for example, does not include a return shipping label with the initial order because its carrier charges extra for that service, and because responding to a request for a return label provides another touchpoint with its shoppers, says Deepa Gandhi, co-founder and chief operation office.

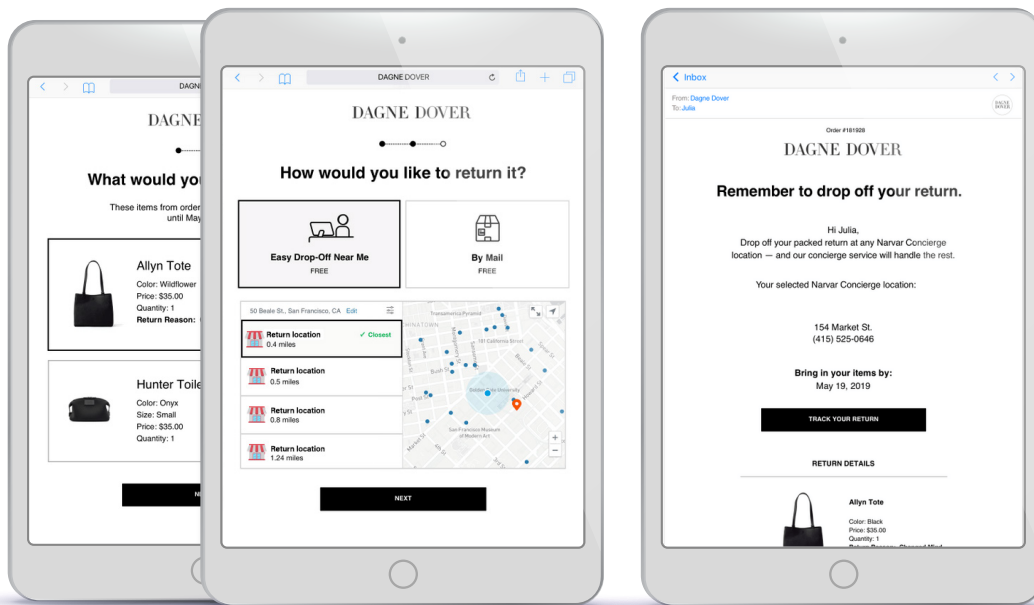
"We're always looking for ways to have a two-way dialogue," Gandhi says.

When a shopper returns a product, the retailer will ask the reason why, she says. Like apparel merchant Lulus, Dagne Dover will adjust its products based on what customers are saying about why they are making returns, Gandhi says. For example, the retailer reduced the weight of one of its bags after hearing it was too heavy, and it made adjustments to the color on a product detail page when it heard that the imagery wasn't accurately representing the product's color, Gandhi says.

If a retailer has stores, offering online returns to stores also makes it easier for the shopper to return a product. In fact, a majority of shoppers who buy online return items to a store, according to the Optoro survey.



Finding the ROI in online returns



Dagne Dover uses Narvar's retailer network so shoppers can return products to physical stores.

But what about web-only retailers without stores? They can partner with some operators of brick-and-mortar stores that will take returns on an online retailer's behalf. The stores benefit by attracting more foot traffic from shoppers wanting to make returns.

For example, FedEx and Narvar offer a package pickup and return service for consumers at thousands of physical retail stores. Retailers including Urban Outfitters Inc., Levi Strauss & Co., Timbuk2, Arezzo & Co., Cole Haan and Dagne Dover allow their shoppers to return online orders to these pickup points.

For shoppers offered this physical store option, roughly 25% of them will choose this way to make returns without any incentive or prompting, Sharma says.

Dagne Dover decided to offer this service as a way to provide superior customer service, Gandhi says. Making returns easy will help drive loyalty and increase customer lifetime value, she says.

"Not everyone has easy access to a drop-off location," Gandhi says. About 15% of customers that are returning an item will opt to do it at a physical store, she says.

Some retailers with no stores, or only a handful, offer the convenience of returns to physical locations by working with returns service Happy Returns. The vendor operates 700 "return bars" within physical stores in 143 metropolitan areas nationwide for an in-person return and immediate refund. Retail chains, such as Paper



“The industry spends so much time thinking about the fulfillment of getting your initial purchase in your hand, but doesn’t take time for what happens if it’s not the perfect item ... and the whole reverse logistics side.”

—**Heather Howard**, vice president of operations and people, Rothy’s



Source and Cost Plus World Market, house these Happy Returns hubs, which also drive foot traffic to the store, the vendor says.

Draper James, which has less than a dozen stores, has used Happy Returns since January 2019 to help ease the return processes for its shoppers. Since launching the feature, 30% of customers who are returning an item have chosen the in-person return option, Nightingale says. The retailer’s conversion rate and order frequency have increased since it began working with Happy Returns, she says.

Shoe brand Rothy’s has reduced its return rate and increased shopper conversion and lifetime value since beginning to use Happy Returns in May 2018, says Heather Howard, vice president of operations and people, without revealing specific figures.

“The industry spends so much time thinking about the fulfillment of getting your initial purchase in your hand, but doesn’t take time for what happens if it’s not the perfect item ... and the whole reverse logistics side,” Howard says.

Easy returns also help with customer retention, she says. Repeat customers return less because they know their size and what their fit is, Howard says. That makes it critical to assure the first-time customer that returns would be easy, and then hoping to build their loyalty over time, she says.

Shoppers can choose to receive a refund, store credit or exchange, and since Rothy’s started offering the return service bars as an option, shoppers choosing an exchange has increased 33%, Howard says. That suggests the easier return process is building customer loyalty.

Once merchandise is returned

The merchandise returning to the retailer's warehouse is the other bookend of this process. At the warehouse, the retailer must evaluate the quality of the product to ensure it can resell it, and, if not, determine what to do with it. For example, the retailer could sell it to a liquidator, donate it or throw it out.

The liquidation channels available to retailers often depend on their category. For example, safety regulations may limit what a food retailer can donate, while an electronics retailer can sell a refurbished product. Optoro estimates that about half of returned products are restocked and resold by the retailer.

In a 2018 Optoro survey of 120 retailers with \$500 million or more in annual revenue, more than half of retailers say they throw away less than 10% of their returns.

If a retailer decides to resell a returned item, it needs to inspect it for quality. Revtown estimates this only takes a few minutes.

"We assess it, spruce it up, rebag and retag it, and get it back on the shelf as soon as possible," Maasdam says.

Dagne Dover also estimates that its team only takes a few minutes examining each item before deciding

RETAILER SURVEY

Retailers keep most returns out of the trash bin

What percentage of your total returns are thrown away?

Source: 2018 Optoro Inc. survey of 120 retailers with \$500 million or more in annual revenue



Finding the ROI in online returns

whether to resell it or to categorize it as second- or third-quality merchandise.

Second-quality merchandise means that Dagne Dover will sell it as “lightly used” product through its website, and third-quality merchandise means the retailer will have to throw it out. In the next year it is looking to find organizations to which it can donate returned merchandise. The majority of its returned products are resold, Gandhi says.

Meanwhile, the retailer, which operates one distribution center on the West Coast and one on the East Coast, sends all returns to the West Coast facility. That’s because it only wants to train the staff in one facility to handle returns, Gandhi says.

Bra retailer ThirdLove donates a “large percent” of its returned bras to nonprofits including I Support The Girls, Living Beyond Breast Cancer, Dress for Success, Bra Recyclers and St. Anthony Foundation in San Francisco, says Heidi Zak, co-founder and co-CEO. In 2018, ThirdLove donated \$10 million worth of product, which includes returns as well as a portion of its end-of-season-product and new product.

Some of Narvar’s retail clients will tell a customer who wants to return a low-cost item to keep it or donate

8.7

Average number of days for a retailer to process a refund

Source: 2018 Digital Commerce 360 test of 40 ecommerce orders



it themselves, Sharma says. Some retailers calculate that’s less expensive than covering the cost of shipping the item back, inspecting the quality and reentering it into the system, Sharma says.

Retailers that tell shoppers to keep the item instead of shipping it back could market the policy as a way to thank loyal customers or as a part of the retailer’s sustainability efforts, he says.

Processing the refund also is a critical component to the shopper experience with returns. In a Digital Commerce 360 test of 40 ecommerce merchants, it took 8.7 days on average for a retailer to process a refund, from the time the researcher sent the return to the time he received a credit to his credit card.

Finding the ROI in online returns

The faster a retailer can refund money to its customers the better, as retailers know “where is my refund?” is a common question at call centers.

Rothy’s noticed this benefit once it started instantly issuing refunds via the Happy Returns service bars. Previously shoppers didn’t receive their refunds until the package reached a Rothy’s warehouse, which could have taken anywhere from 14-18 days, Howard says.

Now with instant refunds, shoppers calling into its customer service center asking about their refund has “significantly” decreased to almost none, Howard says.

What these examples show is that retailers don’t have to view returns negatively. Instead, they can be an

opportunity to showcase superior customer service and logistical execution prowess. Making returns easy engenders loyalty to a retailer and gives shoppers confidence they can purchase again from the merchant, secure that they will be satisfied with the product. Plus, a return may mean that a shopper kept one product she ordered and is still a loyal customer.

And so retailers should think how they can make every step in the return process as easy as possible for shoppers. That includes evaluating return policies and packaging, offering convenient return locations and processing refunds fast.

Retailers that make returns easy are being rewarded with online shoppers’ repeat business. ●



Go beyond delivery.

Growing an online business means delivering more than packages. We'll help with everything from order fulfillment to delivery options to returns, allowing you to deliver your products *and* a great customer experience.

Find ways to go beyond delivery at [fedex.com/ecommerce](https://www.fedex.com/ecommerce).

