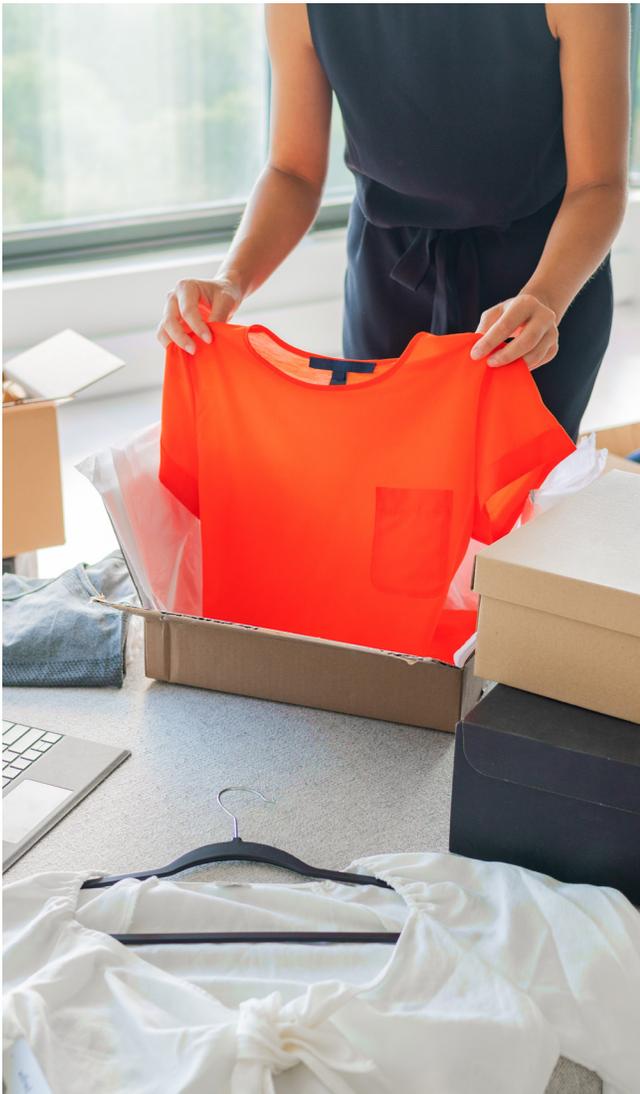


Reverse Logistics: Containing Costs Without Losing Customers





Retailers are caught between managing the cost of returns — a burdensome, albeit inherent aspect of a thriving eCommerce market — and risking losing customers by making returns more difficult.

Intro

Easy, free returns became a key factor in eCommerce conversion rates as it minimized the risk of online shopping. When the pandemic shut down brick-and-mortar locations, it drove a surge in online sales that resulted in enormous amounts of goods being returned to retailers. The living room became the new fitting room. Consumers often ordered multiple items with the intent of returning those that did not fit their needs. Likewise, BORIS (buy online, return in store) made online shopping more conducive. It was a win-win for retailers and consumers; until it wasn't. The flood of merchandise pouring back into stores and warehouses grew so fast that some retailers asked customers to keep the unwanted merchandise as they issued refunds.

Returned merchandise became a significant, costly problem. In 2022, retailers processed \$800 billion in returns, according to the National Retail Federation. In eCommerce, returns spiked at 21.7% in 2021, then declined to 19.3% in 2022, and were expected to settle at 18.2% in 2023. It is forecast to fall to 14.7% by 2026, according to Insider Intelligence.

Retailers may have felt compelled to accommodate free returns during the uncertainty of the pandemic. But, as conditions began to normalize, the majority of retailers have been quietly rewriting return policies with an eye on cost containment and deterrence.

By mid-2023, more than 81% of retailers were charging for at least one return method – and the numbers are expected to increase.

This wide-spread strategy to curtail returns has paid off as 53% of retailers that implemented return fees saw a reduction in return rates. However, 48% have also seen a drop in average order value and in sales overall. If this trend continues, retailers will need to reconsider how they charge for returns and their overall reverse logistics strategy.

What Consumers Have to Say



68% of consumers say the return policy is extremely or very important



80% of consumers check the return policy before making a first-time purchase



55% of consumers will abandon a shopping cart if the return policy isn't convenient

76%

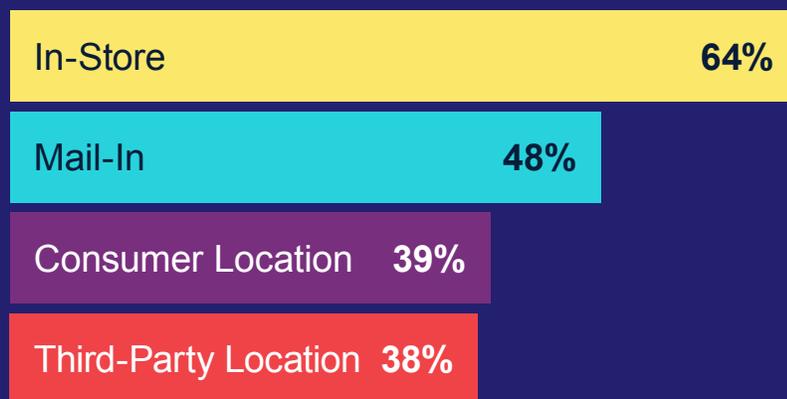
of consumers want retailers to offer free returns with the brands covering the return shipping cost



64%

of consumers want free returns at store

Where do consumers prefer to return items?



59% increase of shoppers choosing the free return option



39% of consumers expect free returns to compensate

In short: return policies drive purchase decisions. In a [recent survey](#), Radial found that 68% of online consumers consider a brand's return policy to be extremely or very important in determining whether they would shop with a brand. A [PayPal study](#) found that 80% of consumers check the return policy before making a first-time purchase with the retailer, and 55% will abandon a shopping cart if the return policy isn't convenient.

Further, 76% of online consumers want retailers to offer free returns with the brands covering the return shipping cost, and 64% want free returns at store.

Ultimately, consumers want choice. Of the retailers charging for at least one return method while still offering a free option, 59% reported that they saw an increase in shoppers choosing the free return option. If retailers are not offering free shipping, 39% of consumers would expect free returns to compensate.

Where do consumers prefer to return items? Nearly two out of three (64%) favor in-store returns, likely for convenience. However, 48% would still choose mail-in returns, 39% want pickup by a carrier at consumer location, and 38% are happy to drop off returns at a third-party location.

Retailers Struggle with the Returns Dilemma

In a Radial survey, three out of five retail executives reported that the biggest challenges they face in reverse logistics are the cost to repackage/restock (60%) and returned inventory that cannot be exchanged (60%).

Additional challenges were maintaining healthy profit margins (43%), customers returning too much inventory without exchanging it (39%), and limited warehouse or storage space (14%).

When asked what change they would make to the returns process to improve profitability, again, three out of five retail executives reported that they would streamline the returns process (61%) and offer shorter return windows (61%).

Of those NOT charging for returns, 42% said they would charge, while 32% said they would partner with a returns partner to take reverse logistics off their plate, and 15% indicated they would implement a resale platform or discount channel.



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Additional challenges include:



43%

Maintaining healthy profit margins



39%

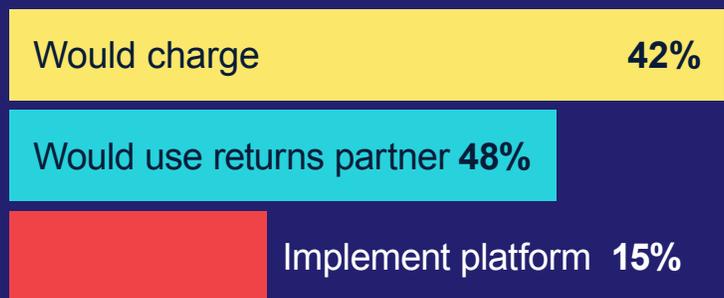
Customers returning too much inventory without exchanging it



14%

Limited warehouse or storage space

Of those NOT charging for returns:





It's clear that
retailers need
to continue to
strategically
address
the returns
process.

It's Not Just About Profits

A secondary issue that is less discussed is returns impact on the environment. One study estimated that in 2022, returned inventory in the United States created 9.5 billion pounds of landfill waste and 24 million metric tons of carbon dioxide emissions. Mail-in returns create double the transportation while any return that goes back to a warehouse incurs the same. Goods that are returned to the store and that can be repackaged and resold in-store do not generate that waste.

While charging return fees helps to offset the cost of processing returns and the hit on revenue, it does not address the environmental impact.



At a time when many retailers are highlighting their sustainability policies through using recycled packaging and reducing their carbon footprint, reverse logistics currently works against these efforts.

As we've noted, there are multiple factors at play. For retailers, the number one driving factor in shaping returns policies and processes must be customer experience. Without keeping this front and center, retailers will lose customers and profits. They must strike a delicate balance of keeping customers happy and doing what is best for the business. While many go straight to revising returns policies, there are other issues that need addressing before you can institute a new policy.

Gaining Customer Buy-In for Change

Before updating policies, retailers need to take the time to understand the psychology and relational aspect of customer loyalty. Customers want right pricing, convenience, personalization, product availability, respect, and omnichannel choices. They shop from brands that hit all or enough of these points to make them feel positive about their experience. Brands that do the work of creating a true sense of relationship with customers get a deeper level of loyalty.

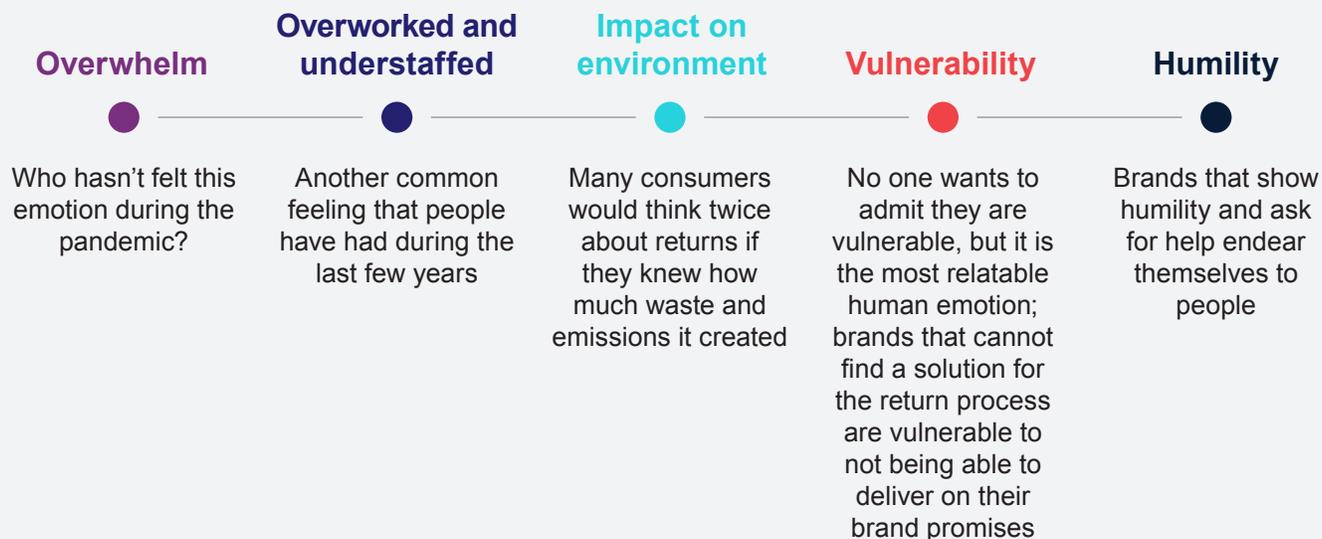
However, it's important to remember that customers are not loyal to brands, they're loyal to how the brand makes them feel. Mess up bad enough, or one too many times, and customers will go elsewhere. It's their experience they are ultimately loyal to. Brands that have built enough relational equity over time often get more chances to make a mistake, be forgiven, and make up for it. But not always.

People are generally more willing to accommodate undesired change when they have empathy for the reason behind it. In the pandemic overwhelm of a staggering number of returns, and the financial pressure retailers were facing, few retailers that implemented return fees gave any explanation to consumers.

Brands need to tell their story and give consumers the opportunity to understand the why behind the need for change; then invite them to be part of the solution.

Tell the Returns Story

From a human empathy point of view, the returns story is one that consumers can identify with. Let's break down the components that offer opportunity to gain emotional buy-in from consumers:



All of these emotions are part of the returns story. And all of them, when shared from a place of authenticity and honesty, will gain people's buy in to accept and make changes that don't feel good, but that are necessary for a sustainable future.

Getting the "why" out in front of consumers in a sincere and relatable way is a crucial step to successfully implementing change without offending or turning away consumers.

Without a relatable explanation, shoppers will see charging for returns as greedy, self-serving, and as rescinding on the customer experience promise. So, how do you strike that balance?



Creating a Sustainable Returns Process

Returns are an inherent aspect of retail. But what do they truly signify?

- A mismatch between what the customer wanted and what they received
- Lack of adequate information about the product
- Lack of confidence in the buying decision
- Damaged or defective products

All of these represent an opportunity where the brand could have provided more information, helped ensure confidence in the buying decision, or should have delivered an intact, accurate product. While there will always be some cases of buyer's remorse, for the most part people do not return an item unless it failed to meet their needs in some way.

Reducing returns is less about containing costs and more about delivering a precise, positive customer experience. Consumers will not return items that fit their needs and desires.

To reduce returns overall, brands need to focus time and attention on improving the customer experience. A better customer experience naturally leads to fewer returns.

The top reasons customers return items:

70%

It didn't fit

65%

Item was damaged or defective

49%

Item not matching the description



Effective Ways to Reduce Returns

The following are ways to shape how, why, when, and where consumers return items. Used as part of a comprehensive strategy to simultaneously improve CX and reduce returns, they help shape consumer behavior towards desired outcomes without damaging the customer experience.



Provide More Detailed Information

Consumers want a smooth, seamless, and informed buying process — which means the more information a brand can provide, the more informed the consumer can be. Design the customer experience to include as much information as possible, including user generated content (UGC), such as reviews, photos, videos, and Q&As, so that shoppers can gather the data they need to make more confident and accurate buying decisions. When consumers can order accurately (for example, use

a sizing chart to compare measurements to ensure they order the right size, and then read customer reviews that indicate sizing accuracy), it reduces the likelihood of returns. Nearly two-thirds of consumers say that UGC would make them less likely to return products.

preferred by the brand. Want to drive returns to in-store? Make in-store returns your only free option. By charging for the least-desirable (most costly) return method and providing cheaper or free returns for the desired process (least costly) for the brand, retailers can shape consumer behavior to preferred outcomes.



Shape the Return Policy So It Rewards the Behavior You Want

Consumers want options. Retailers can craft the return policy so that it motivates consumers to choose the return method that is most



Make Free Returns a Members' Perk

Loyalty or reward membership programs are ideal places to offer free returns, especially for eCommerce brands that do

not have stores. Consumers that value free returns will be incentivized to sign up or pay an annual membership fee, which can help offset the costs of returns. Some retailers are also placing free shipping within the perks of their membership programs.



Put Timeframes on the Acceptable Return Period (or Not)

Some retailers are shortening the return timeframe to 30 days, which encourages buyers to make return decisions within that timeframe and takes advantage of people's tendency to procrastinate and miss the deadline. A study did find, however, that "no deadline" return policies actually reduce returns — likely because people are not pressed to make a decision and don't get around to doing so.



Limit the Categories and Condition of Items That Can Be Returned

Electronics, beauty products, and some furniture cannot be returned unless unopened and within very limited timeframes at most retailers. Limiting items that are costlier to process in returns or more difficult to resell can help reduce reverse logistics cost and deter returns.



Donate Returned Products to Charity

Some retailers may find that donating returned items to charity, rather than processing them, is a wiser use of money. If so, retailers

can inspire consumers to donate rather than return, and encourage recycling unwanted items within the economy.



Collect Data on Returns

The more you can understand the reasons customers return products, the more you can adjust your processes to address those causes. Routinely ask customers for the reason for return and then pay attention to trends to identify areas to improve. This can also highlight potential fraud. While consumers prefer a "no ask" policy, requiring them to provide a reason can be highly beneficial to the retailer. Equally important is to regularly seek feedback from employees processing returns to help identify areas to automate, streamline, or improve.

Crafting a return policy to naturally hinder returns — even if the returns are free — will help reduce costs. The next step is to make sure your policy is clear, visible, and easy to understand.

Make it Obvious and Easy

The return policy is part of the buying decision and consumers need to know what it is before they checkout. Make the return policy obvious and easy to understand —put it in front of consumers at multiple stages of the buying process and make sure the language is clear. Include messaging about your returns story and let them know what their options are.

When shoppers know and understand the return policy, they can make a confident decision.

They also cannot claim that they were not informed. Requiring a checkbox “agree to” the return policy during checkout can help prevent fraudulent returns and consumers from saying they were never informed of the policy.

The consumer side of returns is only half of the issue. Retailers also need to address returns with supply chain, logistics, and transportation partners.

Negotiate Return Policies with Suppliers

With the customer experience designed to reduce returns, retailers must evaluate their backend supply chain processes to help minimize the cost of reverse logistics. Choose suppliers, in part, based on their return policies and what it will cost to send products back to them, get replacements, or be compensated for damaged products.

Leverage Transportation Space & Cost

Retailers should regularly evaluate their transportation methods, policies, and costs. For reverse logistics, they can determine if trucks delivering products can also pick up returns. Discuss rate negotiations with carriers, as well. Anywhere the order fulfillment and reverse logistics processes can be integrated or shared in transportation will help reduce costs and speed up the time it takes for product to be restocked, replaced, refurbished, or recycled.



Prepare Year Round for Peak Season

The post-holiday season is the peak season for reverse logistics. However, retailers must prepare year-round and have a solid return policy and process in place to support peak scale. Optimizing returns is a continual process, but retailers that do so are better positioned to reduce returns and keep customers happy during the process. Consumers are not mindful of the cost of reverse logistics to a brand and from their perspective, they shouldn't have to be. Brands that can support shoppers through an improved buying experience with ample content, information, and UGC, as well as clear and obvious return policies will be well positioned to reduce costs and help them make confident buying decisions. Optimizing supply chain management and logistics will help reduce the cost of wrong items or damaged/defective items from being sent to the consumer.

Returns is a complex process that involves many parts working together to achieve a positive outcome for the consumers. Retailers may choose to handle all aspects of reverse logistics themselves or outsource part, or all of it, to a partner.

Scale & Streamline with a Reverse Logistics Partner

Many retailers outsource their order fulfillment management to third-party logistics companies that serve as fulfillment experts — handling all aspects of order fulfillment on behalf of their customers. These providers often also offer reverse logistics management and work closely with brands to ensure a smooth, streamlined, and cost-efficient reverse logistics process. Having a returns partner handle reverse logistics for you may be the most cost-effective way to reduce returns expenses without impeding on the customer experience.



Radial Takes the Pain Out of Customer Returns

Radial has been helping retailers streamline their reverse logistics for more than 30 years. We have the technology, partners, and operational expertise to set up a program that is customized for your business needs and makes the experience as easy as possible for your customers. Returns are inevitable, but we can reduce the costs and hassles associated with the eCommerce returns process — ensuring a successful post-peak and all year-round experience.

[Talk to us today.](#)

About Radial

Radial is the pre-eminent B2C eCommerce fulfillment solution provider powering some of the world's best customer experiences. Global brands have trusted us for 30+ years to help them deliver a distinctive consumer experience through tailored, personalized, and scalable solutions. We partner with clients across Europe and North America with technologies such as advanced order management and omnichannel, payment and fraud management, and customer care services. Learn about our solutions at radial.com.



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