MEETING CUSTOMER EXPECTATION AND RECAPTURING REVENUE:

eCommerce Returns Management

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Introduction

"American's think they have a constitutional right to have their products returned" is how Consumer Technology Association (CTA) Chief Executive Gary Shapiro described the dramatic increase in online purchases being returned. Shapiro, according to The Wall Street Journal, was speaking at a financial analysts conference and also noted that a friendly returns policy is the second most important factor, after price, for online shoppers.

While Shapiro may have been exaggerating – to a degree – his comment highlights the need for retailers to take the issue seriously and to have a carefully constructed, comprehensive, and well-communicated returns plan in place.

Just how many online purchases are being returned? Estimates vary, based on the nature of the product. Global management consultant Kurt Salmon found that among its clients, apparel and soft goods retailers saw a returns rate between 20 and 30 percent, while hard goods retailers (i.e., gifts, home products, toys) experienced a rate of less than 10 percent. Among technology products, CTA research reports communication devices (i.e., smartphones) have the highest return rate at 12 percent, while video products, including televisions and digital cameras, have the lowest rates at 6 percent. As a good rule of thumb, a retailer can expect to have between 5 and 7 percent of online sales returned.

The question though is how a business chooses to deal with its returns. It wasn't that long ago when a business would routinely write off product returns as an unavoidable cost of doing business. But smarter thinking has taken hold, and businesses today realize that pile of returns holds tremendous opportunity.

For one thing, the overwhelming majority of eCommerce returns are not damaged or in any way defective and can be returned to inventory. Or products can be sold in any number of secondary market venues, including outlet stores, online auction sites (i.e., eBay), off-price stores (such as TJ Maxx or Marshalls), or exported for sale overseas. Retailers and manufacturers can also recoup value for repaired or refurbished products. Consider the growing demand for refurbished smartphones: Gartner reports worldwide demand will grow to 120 million units, with a value of $14 billion by the end of 2017, up from 56 million units valued at $7 billion during 2014.

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Demand for refurbished smartphones is projected to grow to 120 million units by 2017. Photo Source: The Inquirer, 2013

Beyond financial reasons to address the growing volume of returns is the most compelling consideration of all – customer expectation. Returns management has become an integral part of the overall customer experience and a determining factor of future shopping behavior. Research by Harris Interactive found 85 percent of online shoppers would be unlikely to return to a retailer if the returns process was inconvenient. And in today's increasingly competitive environment, in which the "customer experience" is the new battleground, hassle-free returns policies are the expectation.

The key to success though lies in planning. A business can't begin to take control unless it has complete visibility into key factors, including the "what, why, where, and how many" issues regarding its returns. Technology is helping businesses capture critical information in each of these areas. Another critical component will be to enlist a highly experienced logistics partner to help use that data to build a comprehensive strategy. An experienced partner will work from the ground up to develop a process that takes into account customer expectations, a business's resources and priorities, and the logistics provider's capabilities.

As the following discussion will make clear, retailers can no longer afford to ignore the volume of online purchases that will be returned. With so many opportunities to use the experience as a way to connect with customers, and to recapture value on a secondary market, there's no excuse for failing to offer a customer-friendly, efficient returns process.

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Online Returns Management – Why Does it Matter?

Gailen Vick, Executive Director of the Reverse Logistics Association noted in a recent Wall Street Journal article the benefits of "good reverse logistics" on a company's bottom line, not just in the U.S., but around the globe.

"If they're doing nothing today," Vick said, "they're losing about 5 percent to 7 percent of their bottom line. It's just being thrown away."

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> *Gailen Vick, Executive Director, Reverse Logistics Association*
> *Source: Wall Street Journal*

Put in such stark terms, most business managers recognize the need to address the growing pile of returns that appear in their warehouses and retail stores each year. But before attempting to develop a strategy, a manager needs to have insight with regard to key drivers behind the growth in online returns and the tremendous opportunities that now exist to find value in the merchandise consumers are sending back.

Integral Part of Customer Experience

Customer experience is a term used quite often, but it's worth taking a minute to describe exactly what it means as it relates to the future of online commerce. In its most basic form, customer experience refers to the sum total of all interactions a customer has with a business. From advertising, to product offerings, to customer service, pricing, delivery, returns, website functionality – everything can affect a customer's impression of a company and determine perception and loyalty.

It has, in fact, become so integral to today's retail environment that Forbes magazine dubbed customer experience "the new battleground" and urged businesses to experience "offerings from your customer's perspective – not just the product or service itself but every touch point surrounding it."

In other words, if you were your customer, would you be happy with your company's returns policy?

Before answering, it's helpful to understand consumer expectations with regard to online returns – their reasons for returning products and how they expect their transaction to be processed.

Customer Preference, Not Damage, Behind Most Returns

Research by the Supply Chain Consortium reported consumers' six top reasons for returning a product. These categories represent nearly 75 percent of all reasons for returns:

- Customer order incorrect product or size
- Customer decided product not needed or wanted
- Customer returned with no reason given

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- Product did not fit the description on website or in catalogue
- Product did not fit customer's expectation
- Company shipped incorrect product size

Missing from this list are reports of damaged or defective merchandise. In fact, reverse logistics analyst Greve-Davis notes that damaged goods account for roughly 20 percent of consumer returns. This number changes dramatically though for consumer electronics businesses. Research by The NPD Group found as many as one in 10 smartphones are returned, with 57 percent of consumers claiming they were unable to get the devices to work properly. Worth noting is subsequent research indicating that failure by the consumer to operate a device correctly, or to understand directions, is most often the cause of a device's inoperability.

…many consumers order multiple sizes and colors of the same product – fully intending to return all but one…

Another important trend is the tendency of many shoppers to adopt an "in-home dressing room" approach to online purchases. Since the online experience prevents a consumer from trying on a particular piece of clothing or pair of shoes, or from seeing a product close-up, many consumers order or multiple sizes and colors of the same product – fully intending to return all but one. Consider this example from The Wall Street Journal: A Massachusetts woman ordered 10 pairs of corduroy pants in varying sizes and colors from the Gap website only to return seven on them. When asked about the costs to the retailer of her unusual shopping strategy, the shopper replied: "I feel justified, after all, I am the customer."

Consumer Expectations

Those few words set the stage for the current retail environment. Customers are very much in the driver's seat and expect retailers to accommodate their preferences when it comes to returns management.

According to 2013 research by ComScore, which focused on Canadian online consumers, key components of an ideal returns policy include the following:

- Free returns shipping – 63 percent
- "No questions asked" policy – 58 percent
- Automatic Refunds once Retailer receives return – 48 percent
- Return label included with original packaging – 44 percent
- Ability to return to a store – 36 percent
- Easy-to-follow process – 35 percent
- Easy-to-print returns label – 32 percent

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Not surprisingly, businesses that have adopted lenient returns policies, or offer free shipping for returns, tend to see higher rates of returns than businesses with less generous policies. Online footwear seller Zappos.com, among the web's most generous retailers with returns accepted free of charge at any time within 365 days of delivery, typically sees an average returns rate of 35 percent. That rate spikes to 50 percent among the company's most frequent shoppers.

Caption: Zappos.com has built its brand around a customer-friendly returns policy.

"Our best customers have the highest return rates, but they are also the ones that spend the most money with us and are our most profitable customers," says Craig Adkins, Vice President of Services and Operations at Zappos. Keep in mind – it costs the same amount for Zappos to ship a $30 pair of shoes as it does a $300 pair, so Zappos justifies its generous returns policy by pointing to its high rate of retention, especially among bigger spenders.

Amazon is another online retailer that has endeared itself to customers with a "friendly" returns policy. In early 2014, the company announced an "instant refund" policy, whereby consumers are issued credits or exchanges soon after notifying the company that a product is being returned – before the product arrives back at Amazon's warehouse. This way, consumers do not have to "pay twice" to exchange an item.

"Getting a fast refund is important," one Amazon shopper who had returned and then repurchased a $100 pair of boots told Bloomberg News. "That influences my shopping habits greatly."

The impact on shopping habits, in fact, can be significant. Research by Professor Amanda Bower of Washington and Lee University and Professor James Maxham of the University of Virginia found: "Customers who paid for their own return decreased their post-return spending at that retailer 75 percent -100 percent by the end of two years. In contrast, returns that were free to the consumer resulted in post-return customer spending that was 158 percent - 457 percent of pre-return spending."

"The findings suggest that online retailers should either institute a policy of free product returns or, at a minimum, examine their customer data to determine their customers' responses to free returns."

Online retailers that offer free returns shipping could be rewarded with post-return spending increases of more than 450 percent.

Source: Bower and Maxham, American Marketing Association Journal

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The Rise of Omni-Channel

Consumer attitudes about returns have been affected by the rise in omni-channel retailing. Consumers are making purchases via the mode that is most convenient for them, whether that be from a smartphone, laptop or, desktop or by visiting a brick-and-mortar store. Consumers expect seamless, fully integrated buying experiences in which they have full visibility into a retailer's inventory and the capability to determine date, time, and location of a delivery.

Businesses are responding to consumer demands for flexibility in making returns. The National Retail Federation reports 87 percent of retailers now allow customers to return merchandise bought online in their physical stores. "In some cases," noted retail consultant Kurt Salmon, "retailers encourage that option, as it is often less expensive to process returns in stores." In addition, retailers benefit from bringing customers into a store, since many will make purchases while enroute to making their return.

Preventing Returns

One sure-fire way of managing returns is to prevent them from happening in the first place. After all, returns management can be expensive! Best Buy, for example, estimates that returns, replacement, and damaged goods represented roughly 10 percent of revenue during 2014, costing the company an estimated $400 million.

To minimize costs – and to address the fact that most returns are not defective – businesses are taking a proactive approach to help customers make more informed buying decisions.

- Clothing retailers are enabling "virtual dressing rooms" that provide intricate sizing information and the ability to "zoom in" for a detailed look at product specifics.
- Increased investments in "help lines" staffed by knowledgeable operators who can assist customers with installation or product setup questions. As The Wall Street Journal reports, a Consumer Technology Association survey found 62 percent of consumers returning an electronic device believed it was broken. But providing links to instructional videos and sending devices pre-charged has helped reduce returns.
- Businesses are reviewing website product descriptions to ensure that text adequately describes the product. This includes reconfirming that all product specifications are correct and all component materials are listed accurately. As one analyst explained to Internet Retailer: "If it's not real leather, say so."
- Renewed emphasis on quality control. As Internet Retailer points out, lower-quality products tend to be returned much more often than well-made products and can "kill the integrity of the retailer's brand." A business needs to determine if a vendor is sourcing from a new supplier that may be using lower-quality materials.
- Businesses can also help minimize returns by ensuring that outbound packages are shipping on time. The more time that elapses between when an order is placed and its delivery, the more likely a consumer will have second thoughts or buyer's remorse.
- Restocking fees are another deterrent, particularly among electronics retailers. Consumers are assessed a fee for any undamaged merchandise return.

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Finding Value in That Pile of Returned Merchandise

A manufacturer or retailer who looks out and sees a warehouse full of returns can sometimes have a hard time realizing that within those boxes and pallets could be opportunity and revenue. This is at the heart of the revolution taking place within returns management. No longer are returns an unavoidable drain on the bottom line or an automatic profit loss. Instead, secondary markets now make it possible for businesses to recapture value from their returns.

eBay is a leading venue for the sale of unsold merchandise and product returns.

Secondary Markets

Secondary market venues include outlets, discount stores, overstock websites, offshore markets, auctions, flea markets, and other venues available to facilitate the "second" sale of merchandise to consumers. Secondary market sales account for an estimated 2 percent of the U.S. economy, with a value of roughly $330 billion.

How Do They Work?

Analysis by Dr. Dale Rogers of Rutgers University featured in Logistics Management compares the concept of a secondary market to a drain, whereby retailers are able to rid themselves of excess or unwanted materials. "Items are taken to retail destinations for sale, but not all of it will be sold," Dr. Rogers explained. "Some will be returned, and the system has to have a way to deal with those products. If there were no drains built into the system, no way to deal with the items, the system would drown in this unwanted material."

"Imagine," Dr. Rogers continued, "what a retail store would look like if all returned and unsold items had to stay at the shop until they were sold. The sleek and chic stores of an upscale mall would quickly look like thrift outlets."

The analysis also notes that while products are usually sold on a secondary market at a steep discount from their original price, it is still a win for the retailer or manufacturer, since any incoming revenue is better than the alternative – writing off the return as a loss.

To succeed in the secondary market, a business will need to do its homework. Knowledge is essential. A business needs to understand how secondary markets work and must establish contacts and partnerships to manage its market activities. As Dr. Rogers points out, partners will be vital to accomplish three vital tasks:

- Dispose of product in a timely manner
- Recover as much value as possible
- Protect brand equity

A secondary market component will be an important part of a comprehensive reverse logistics process. But to build that plan, a business must partner with a logistics provider that has the insight and experience critical to success.

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Managing Logistics – Developing Your Best Returns Process

The first issue a business must decide then is who is in charge? Is the business in a position to manage returns using internal resources, or does it make more sense to outsource to a logistics provider with reverse logistics expertise?

Many businesses choose to enlist a third-party partner. Analysis by Supply Chain Brain notes: "Returns can tie up costly resources across multiple functions of the business – from customer service to warehousing to accounting. Receiving, evaluating, and repackaging are labor intensive. Systems must be able to track the merchandise (receipts, value) and support the issuing of credits and disposition of inventory."

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> *Source: Supply Chain Brain*

Customize a Solution for Your Precise Needs

Once a decision about process "ownership" is made, a business – and its logistics partner – needs to take stock of several variables (volume of returns, seasonal factors, space allocations, inventory sourcing for replacements, potential for secondary market sales, competitors' returns policies) to determine the terms of its own returns policy. Should the business offer free shipping? While that is definitely the current trend, free shipping is expensive. Other issues to consider: How lenient or rigid will the returns policy be? Is a receipt mandatory? How long after date of purchase can an item be returned? Store credit only? And the list goes on.

Accommodations must also be made for accepting returns from non-U.S. customers. Canadian customers must have an easily accessible process to send a return. Accepting returns from international customers will trigger an entirely separate set of considerations, ranging from border clearance to distribution networks. A logistics provider with direct experience in the Canadian market will be best suited to help navigate the process of bringing goods back into the U.S.

Communication

Not to be overlooked is the critical importance of communication. A business needs to clearly state its returns policy, at several different opportunities, so there is no confusion with regard to expectations. The policy should be easy to find on a retailer's website and appear on a customer's receipt, with a hard copy included in all outgoing packages. A business that fails to communicate the details of its returns policy can expect customer ire when its policy fails to meet expectations.

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Technology

Not surprisingly, technology and "better thinking" have enabled many innovations in returns management logistics. Today a business can have in place a returns strategy that is every bit as effective and cost efficient as its outbound logistics plans. Among other things, a technology-driven returns strategy does the following:

- Allows business insight into the volume of returns
- Provides businesses with a "heads-up" to any potential product defect
- Prevents returns from being incorrectly addressed or delivered
- Triggers shipments that require special compliance or border clearance requirements
- Facilitates the returns process for consumers
- Allows 24/7 tracking capability for consumers

Clearly, technology has helped businesses gain control of their returns process. But as with most things, the devil is in the details, and a business must work closely with its logistics provider to develop a returns strategy that meets its unique needs.

A comprehensive returns strategy should include the following components:

Flexibility in Scheduling. Build a returns management strategy that gives you the level of service you need. Do you need to receive returns on a daily basis, or would a weekly or even biweekly schedule be more appropriate for your business?

Centralized Returns Centers. Where exactly do you want your returns delivered? A growing trend is to process returns at a dedicated returns center rather than via a traditional distribution center. For one thing, most distribution centers are geared toward outbound shipments rather than processing individualized returns. A dedicated returns center allows businesses to focus resources and build best practices. And problems associated with multiple retailers or consumers individually returning goods can be averted. In fact, having a dedicated returns center in place can be as much as 20 times more efficient than having multiple processing points.

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Border Consolidation. If a border crossing is involved, consider having your goods consolidated at the border so that many small shipments are allowed to clear customs as a single unit. Border consolidation can facilitate the customs review process and reduce costs as well.

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Integrated Returns Material Authorization (RMA). Through the RMA process, a customer must contact your business, either through an 800 number or a web-based portal, to notify you of his/her intention to return a product and receive a RMA number that will serve to track his/her package through the returns process. A returns authorization label can be preprinted and sent to customers with the outbound shipment, and the customer can fill in the RMA on that label. Or a web-based system can print a label after the RMA number has been assigned. There are many advantages to the RMA process:

- Preprinted labels ensure that returns are delivered precisely where you want them to go.
- Preprinted bar codes allow you to capture precise information about the reason for return and advance notice of exactly what is being returned and when.
- RMA numbers allow employees to easily track returns and serve as a reference point.

Tracking/Visibility. The effect that your returns process will have on customer satisfaction cannot be overstated. Customers are demanding that returns be handled quickly and with complete visibility into the process. As stated previously, 85 percent of shoppers will not return to a retailer if the returns process is not convenient. Allowing visibility into the process can give customers direct information about the process of their return and some degree of explanation should a delay occur. Some news is better than no news!

- Web-based portals allow consumers 24/7 access to information about their return. Key company systems – finance, customer service, warehousing – could be integrated to give customers updated progress reports.
- Carrier integration allows RMAs to be linked with carrier tracking numbers, which can then be linked to automatically generated notifications or made available on a web-based portal.

Sustainability. It's also important to incorporate sustainability wherever possible. An obvious place to start is by finding "second lives" for returned merchandise. The 80 percent of goods that are returned with no defects can be sold in an outlet, in a dollar store, or on an "overstock" website.

For returns that are defective, sustainability can be attained by repairing the good or by breaking it down to its component parts, which can then be sold on a secondary market. But sustainability can easily be incorporated into your logistics process:

- Use of web-based processing eliminates paperwork
- Dedicated returns centers reduce number of deliveries and reduce instances of products being rerouted
- Reusable envelopes and packaging eliminate waste
- Steps can be taken to ensure that repairs and replacement items are returned to customers in size-appropriate packaging

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Processing Your Returns

Once a customer's return arrives at a designated processing center, a business will have a very short window in which to identify and resolve the reason for the return. One study found that 70 percent of consumers expect service on their returns within 48 hours!

Expedited Problem Identification. Considering that only about 20 percent of returns goods are actually defective, it is essential for returned merchandise to be received, evaluated, and processed as quickly as possible. As discussed above, a dedicated returns processing center will have trained personnel who can initiate the proper response:

- **Refund/Credit:** If a refund or merchandise credit is due, this can easily be accomplished by integrating internal business functions. Off-the-shelf software solutions are available that can manage the process.
- **Replacement:** An ample inventory should be maintained at your processing center to ensure that items returned because of sizing and other non-performance issues can quickly be processed.
- **Repair:** Be sure that your returns center has a complete supply of spare parts necessary to make repairs. Managing the repair process has traditionally been the weak link for many businesses. In fact, a report by the Reverse Logistics Association found that "managing 'return and repair' processes alone contribute to 10 percent of overall supply chain costs." But ineffective processes can compound this cost and reduce profit by as much as 30 percent. Businesses are rectifying this problem by outsourcing their repairs or contracting with repair centers.
- **Secondary Market Sales:** The explosive growth of secondary markets has enabled many businesses to recoup lost revenue – and even turn a profit – from product returns. Goods that were previously written off as a cost of doing business can be refurbished, repackaged, and resold.

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Returns from Canada

Returns management becomes even trickier when the items originate outside of the U.S. Products reentering the U.S. from Canada are international transactions and must comply with all applicable customs requirements. It should be noted though that instances of products being returned to the U.S. from Canada are hardly unusual. According to the U.S. Trade Representative, "returns" was the fifth-largest import category during 2013, behind fuel and oil, vehicles, machinery, and plastic. Total returns from Canada during 2013 were valued at $10.2 billion.

In addition to the regulatory hurdles that Canadian returns must clear, there are other issues. A U.S. business must be certain that its logistics provider can guarantee service and has a capable distribution network in place. Equally important, a U.S. business must be able to meet Canadian consumers' high expectations for customer service and convenience.

In preparing your returns management strategy, it is essential to be aware of, and to plan for, several considerations:

Returns from Canada are "International Transactions." And like all international transactions, goods must be in compliance with all necessary paperwork filings, security procedures, and duty and tax requirements. In addition, returned goods may face additional obstacles including the following:

- Some defective goods may be ineligible for export or may require additional export licenses
- Goods being imported back into the U.S. may require payment of additional duties and taxes
- Goods being returned for repair may be regarded as "temporary imports" and therefore subject to preferable treatment (which requires completion of proper paperwork)
- Border officials may require proof of original purchase

Intra-Canada Consolidation. An intra-Canada consolidation plan is a good way to gain control over your Canadian returns. Returns can be brought to a designated facility near the border and then held until a predetermined date. Advantages to intra-Canada consolidation include cost efficiencies, reduced border clearance wait times, and greater flexibility.

Canadian Distribution Network is Essential. Canada accounts for 3.8 million square miles, making it second only to Russia in terms of territorial size. Fortunately for U.S. businesses trying to reach the Canadian market, most of Canada's 35 million residents are located in urban areas, with 90 percent of the population living within 100 miles of the U.S. border. But in order to reach Canadian consumers living in less populated regions, an extensive intra-Canada distribution network will be needed. Many U.S. businesses make the mistake of assuming that their U.S. logistics provider will be capable of handling their Canadian shipments. Unfortunately, this is usually not the case. As these U.S. businesses have learned the hard way, there is no substitute for genuine experience.

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Conclusion

The National Federation of Retailers reports that 49 percent of retailers now offer free returns shipping, a figure expected to significantly increase as, The Wall Street Journal points out, "companies that had long been resistant to footing the bill for returns are being forced to do so by their customers."

The 49 percent figure also underscores the front-burner status product returns now occupy. Returns have become an important part of customer expectations and the overall customer experience. This means they must be important to retailers trying to build loyalty with their customers and distinguish themselves from competitors.

Smart businesses are rising to the challenge and crafting policies that – while designed to ultimately minimize returns through "virtual dressing rooms," detailed product information, and live, skilled operators – portray the retailer as highly sensitive to customer service.

Good returns policies don't just happen. They are the result of a clear organizational buy-in; carefully crafted, data-driven review; and strong partnership with a highly experienced logistics partner. Each of these components is vital to building a highly effective, cost-efficient returns process.

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Purolator. We deliver Canada.

Purolator is the best-kept secret among leading U.S. companies who need reliable, efficient, and cost-effective shipping to Canada. We deliver unsurpassed Canadian expertise because of our Canadian roots, U.S. reach, and exclusive focus on cross-border shipping.

Every day, Purolator delivers more than 1,000,000 packages. With the largest dedicated air fleet and ground network, including hybrid vehicles, and more guaranteed delivery points in Canada than anyone else, we are part of the fifth largest postal organization in the world.

But size alone doesn't make Purolator different. We also understand that the needs of no two customers are the same. We can design the right mix of proprietary services that will make your shipments to Canada hassle free at every point in the supply chain.

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