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Thought Leadership Series

Growing Wave of eCommerce Returns Presents a Challenge to Profitability



Growing Wave of eCommerce Returns Presents a Challenge to Profitability

The recent pandemic rapidly accelerated the growth of eCommerce three to five years ahead of schedule. Over two-thirds of U.S. shoppers expect to buy essential goods online after the health threats of COVID-19 have subsided¹. With the increase in eCom orders comes an increase in returns. eCommerce returns average 15% to 30% of online purchases². That is two to three times the rate of in-store purchases. Globally, 73% of shoppers say the returns experience affects their likelihood to buy again from a particular company³. Returns are often complex and unpredictable, creating reverse logistics challenges and potential service failures. Returns tend to increase in proportion to eCom volume. This highlights the need for an efficient and profitable returns process that is easy, fast, free, and seamless for the customer.

1 <https://www.salesforce.com/company/news-press/stories/2020/5/salesforce-research-results/>

2 <https://chainstoreage.com/cbre-online-holiday-returns-could-hit-416-billion>

3 UPS Pulse of the Online Shopper Report

Customers Expect A Seamless Returns Experience

Online shoppers are hesitant to make purchases without the ability to try-on, touch and experience the product the way in-store shoppers do. Companies encourage online purchasing with free shipping and lenient returns policies because it encourages online customers to shop with confidence. Consumers expect easy, no cost returns. They often “bracket” purchases, buying multiples (size, color, brands, and/or products) for comparison knowing they can return the ones that don’t fit or don’t fit the need. The onus is on the business to not only bear the cost of the return, but also make the process easy and provide the refund quickly. BORIS is a popular option for customers who want credits to be issued quickly. But that often leaves companies in a quandary over how to redeploy inventory for maximum value.



“Retailers worldwide are losing a whopping \$1.75 trillion each year because of inventory distortion— the combined impact of overstocks and out-of-stocks—and needless returns. The combined impact of the inventory fails amounts to roughly 11.7% of annual revenue for the majority of retailers.”

IHL, Retailers and the Ghost Economy

Returns Add Complexity to Distribution

As store footprints shrink and customers' concerns over health risks remain high, a significant number of returns will require parcel shipping. Receiving, evaluating, and re-packaging are labor-intensive functions when performed in quantities of one and two, which are typical quantities for eCommerce returns. Systems must be able to track the merchandise (receipts, inventory, value, etc.) and support the issuing of credits and intake of inventory. Does the item retain the same SKU number as before or is it assigned a new SKU number? Should the item be transferred to a different DC or channel due to demand patterns? Will the item be returned to the vendor or scrapped based on its condition? These decisions are complex in nature and can have a material impact on an organization's bottom line and cash flow.

Brick and mortar retailers have the option to accept returns in store, but then what? Do you put them on the sales floor at full price, mark them down or perform additional handling tasks to ship them back to the DC? What if the store doesn't carry that SKU? Some companies encourage returns to the store because it brings shoppers back into a sales environment where they are likely to make additional purchases. Other brand owners choose instead to destroy all returned merchandise because the cost of all that handling and repackaging is too high or out of fear that the brand image might be tainted by discounting. And then there's the issue of how to handle returns safely without endangering the health of workers. Is it necessary to disinfect or quarantine inventory for a period of time?

Sarbanes Oxley (SOX) requires tighter control of the returns process. All movements of inventory must be recorded in a timely fashion given their financial impact. Returns inventory awaiting receipt, inspection, and disposition is likely current season merchandise which has a shelf life. Fashion apparel depreciates by 20% to 50% of its value within 8 to 16 weeks and electronics between 4% to 8% per month.⁴ The sooner you can make it available for sale, the greater the opportunity to sell it at full margin.

4 <https://www.supplychaindive.com/news/reverse-logistics-flood-returns-warehouse/580304/>

Case Study: Zappos Uses Returns for Competitive Advantage

Zappos, an online retailer of shoes and apparel, built its success on the promise of free and easy returns. The company encourages customers to order two sizes of shoes to make sure they end up with one pair that fits. Zappos' use of logistics as a competitive service advantage is one reason 75% of the retailer's shoppers are repeat customers. While this policy drives up return volumes and shipping costs, it reduces customers' hesitancy to place an order and results in more sales overall.

Returns as a Competitive Advantage

For some companies, returns are a critical element of their brand promise. Zappos considers its one-year, free-return shipping policy key to building customer loyalty. L.L.Bean considers reverse logistics to be a core competency – and an integral part of its brand marketing. The company’s returns facility rivals many distribution centers in size. Unfortunately, for many companies returns are regarded as a necessary evil and dealt with only when they start to impede the business. Returns tie up costly resources across multiple functions of the company – from customer service to warehousing to accounting.

So, how do you turn handling returns into an opportunity for competitive advantage? Read about it in Part 2 of this series: [6 Things You Can Do to Make Returns a Competitive Advantage](#).

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FORTNA CAN HELP

FORTNA helps companies improve their distribution operations, build a business case for investment, and implement solutions that drive business results.

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