LEVERAGING E-COMMERCE RETURNS TO IMPROVE THE CUSTOMER EXPERIENCE

INMAR intelligence

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Online sales continue to fuel growth for omnichannel and pure-play e-commerce merchants, with no signs of slowing down. According to eMarketer, US e-commerce sales for 2021 were up 17.9%, totaling $933.3 billion, and this double-digit growth is expected to continue in 2022.

Despite supply chain disruptions, escalating inflation and increasing demand for sustainable business practices, the pandemic has forever changed consumer behaviors. However, with accelerated growth comes a host of new challenges, including:

- Unprecedented product return rates and changes in shopper behavior
- Difficulty differentiating your brand in a crowded marketplace
- Suboptimal return processes that lack visibility and erode margin
- Inability to capture returns-related data interfering with effective decision support
- Maximizing value recovery from returned goods

In other words, this digital windfall for online merchants is driving an industry-wide paradigm shift.

UNPRECEDENTED PRODUCT RETURN RATES AND CHANGES IN SHOPPER BEHAVIOR

According to Invesp, the return rate for goods purchased online is three times higher than products purchased in-store. Aside from the growth of digital commerce, consumer behavior is adding fuel to the returns fire. Bracket purchasing — when a shopper orders three of the same item knowing they're likely to return two — has become commonplace.

During the 2021 holiday season, we witnessed product hoarding in an attempt to circumvent supply chain shortages. Product hoarding is the practice of buying secondary items or gifts, in case the shopper can't find what they really want. If they did find their primary item(s), they'd buy it and return the previously purchased items. During this period, projected delivery dates were often widespread and inaccurate. Shoppers, wanting to hedge the timing of their purchases, would order the same product from multiple merchants, hoping at least one would arrive in time for the big day. Of course, subsequent orders would be returned.

On the surface, the easiest solution is charging for returns. But don't forget that the consumer is in charge. And consumer views have already been shaped by industry disruptors like Amazon and early e-commerce players like Zappos. The shoe e-tailer return window is a whopping 365 days, provided the shoes aren't worn and still have the tags attached.

Remember when free shipping was an incentive to purchase? Now free shipping is an expectation in the online retail world. According to a survey by PowerReviews, returns seem to be following suit. The survey revealed that 76% of consumers said free returns were an important consideration when purchasing online.

DIFFERENTIATING YOUR BRAND IN A CROWDED MARKETPLACE

Merchants need to improve their competitive position using new tools for engagement. Traditional competitive levers such as location, product mix and price have little impact in the digital marketplace. Shoppers, armed with smartphones, can shop endless aisles, buy from nearly anywhere in the world, and do price comparisons in real time. Free shipping and free returns have also been neutralized, with the exception of a few outliers. So what's the key to capturing market share and building brand or banner loyalty online? The Customer Experience (CX).

A recent survey by Gartner revealed that more than 80% of companies are expecting that customer experience will be their primary differentiator now and into the future.

This makes perfect sense, provided you recall who's in charge — the customer. And innovative companies providing the customer with the optimal online experience, pre- and post-purchase, will capture market share at disproportionate rates compared to the laggards. Once this loyalty is earned, it'll be extremely difficult to get shoppers to change. Amazon Prime, now in its 17th year, was possibly the first to leverage the online customer experience. According to BusinessofApps.com there are now 147 million Amazon Prime subscribers in the US alone, which is more than one subscription per US household. So Amazon Prime has astounding market penetration. But what about loyalty? Prime measures up there as well, with a 93% first-year renewal rate and a 98% second-year renewal rate.

FIVE Cs FOR OPTIMIZING THE POST-PURCHASE CUSTOMER EXPERIENCE:

COMMUNICATION, CONSISTENCY, CONVENIENCE, COSTS AND CONSERVATION

01 COMMUNICATION

The post-purchase experience begins once the user clicks “submit” to place an order. This activates communication, the first step in the post-purchase journey. This first step is critical considering pre-purchase activities often have little engagement with the shopper. The confirmation text or email is the first time the merchant (or merchant’s representative) interacts with the shopper on a personal level. The confirmation, aside from the little dopamine release that happens every time we get an email or a text (SMS), sets the stage for the remainder of the journey. The confirmation communicates confidence and care. It’s the equivalent of the system saying, “We got this. We’ll take it from here.” Intelligent systems will provide a predicted delivery date or inform the shopper if there’s a potential issue. It may even provide alternate choices.

FOR EXAMPLE:

Ms. Moore, the green knitwear you purchased is sourced from Copenhagen and will arrive in 2-3 weeks. We offer a similar product [with picture] that is sourced from Milan and will arrive in 5-7 days. We’ll honor the original price regardless of the item you select. We just wanted to let you know you have choices.

Routine, branded communications continue as the shopper’s order status changes. If the system detects a probable delay, the shopper is notified in advance.

Taking the post-purchase experience one step farther might include a final communication regarding the shopper’s level of satisfaction.

FOR EXAMPLE:

Ms. Moore, we see that your knitwear was delivered yesterday. We hope it’s everything you expected. If for any reason you’re not completely satisfied, you may exchange it or return it for instant in-store credit or a refund. Please indicate your preference below:

Love it. (This would take the user to a review page.)
Exchange*
Return for Instant In-Store Credit*
Return for Refund

*** In the example above, incentives may be added to encourage customers to exchange items or opt for in-store credit. This keeps the shopper engaged and reduces processing costs.**

02 CONSISTENCY

Customers must receive consistent, branded communications — even when merchants use third-party service providers for delivery and order tracking, returns initiation, returns processing and/or carrier services. This is accomplished by using a single, branded communications channel. In addition to the data mentioned above, this channel should also receive information from carriers, stores, and warehouses to give customers clear and consistent information. This reduces the number of customer support inquiries and provides a more memorable and useful brand experience, whether the customer is returning an item or waiting for a delivery. However, presenting a unified voice requires system integration and the ability to harmonize information coming from disparate datasets. Once data has been normalized, auto-generated messages will always carry the brand's or merchant's persona. This normalized data will also feed analytical engines for continuous improvement.

03 CONVENIENCE

Making returns easy and pleasant is a key driver of shopper loyalty. A recent survey by Inmar indicated that 83% of customers would no longer buy from a merchant due to a bad returns experience. One return misfire means a merchant is likely to lose the lifetime value of that shopper.

Avoiding a poor returns experience requires orchestrating systems and processes with a deep understanding of shoppers' preferences. For example, omnichannel retailers must understand that nearly 60% of their shoppers prefer to return their online purchases at the physical store. Armed with this knowledge, these retailers can offer added incentives for in-store returns. In addition to catering to their needs, it connects the digital experience with the physical store. The "in-store returner" is also likely to make additional unplanned purchases. Plus, aggregating returns at the store greatly reduces processing costs and is much more sustainable. In-store returns are not limited to omnichannel retailers. According to Retail Dive, in 2020 more than 2 million Amazon shoppers visited Kohl's stores to return an online purchase. Using round numbers, that means that more than 1,700 shoppers visited every one of Kohl's 1,160 stores to process a return — or in weekly terms, Kohls increased foot traffic by 33 shoppers every week for every store for an entire year . . . and that was during the height of the pandemic!

Carriers are aligning with other frequently visited outlets for product delivery and product returns. In 2019, UPS expanded its UPS ACCESS POINT® program to CVS Pharmacy, Michael's and Advance Auto Parts — more than doubling the total number of pick-up and drop-off (PUDO) locations. The move was a boon for UPS but also added value to the host retailers in terms of added convenience, more foot traffic and more revenue.

Archrival FedEx® created a similar PUDO network by aligning with Walgreens and Dollar General. PUDO networks are likely to continue expanding into less obvious channels like banks, supermarkets, convenience stores and gyms.

Other convenience-based options include self-service kiosks and lockers where customers scan their own parcel or barcode from an email to access their assigned storage space. But shopper convenience goes beyond offering multiple pick-up and drop-off methods. In the post-purchase experience, convenience is synonymous with choice. Shoppers want options — the option to print a shipping label or have a QR code sent to their smartphone. The option to choose where and when they receive shipments or process returns. Some merchants are giving shoppers the option to receive their order in eco-friendly packaging.

04 COSTS

Online returns have traditionally been viewed as an afterthought. The focus has always been on forward logistics. Specifically, merchants were continuously optimizing the outbound flow of bulk goods. Sophisticated processes and advanced technologies were deployed to make the forward movement of products as efficient as possible, with emphasis on accelerating the order-to-cash cycle. Consequently, returns were often processed by personnel from forward logistics, using makeshift systems and ad hoc processes. In the early stages, when online sales accounted for 1-2% of total sales, this approach sufficed.

Now responsible for approximately 25% of retail sales and growing, online sales have moved product returns to the forefront. Additionally, return rates for products purchased online are roughly three times higher than products purchased in-store. And every return erodes margin. In some cases, a returned item reduces $1 of online sales to $0.33.

While the impact on margin varies greatly by category, it's possible for the cost of processing a return to exceed the original sales price. In other words, sometimes a merchant would be more profitable if a shopper hadn't made a purchase at all. This may sound like an exaggeration but it's true. It's why some merchants issue a full refund and ask the shopper to donate the product, instead of processing their return.

Merchants implementing intelligence-driven post-purchase solutions also reduce costs by lessening the burden on customer support teams. Customers consistently receiving up-to-date, branded communications regarding their return status have no need to contact service representatives to ask "Where is my order?" or "Where is my refund?" This information is delivered proactively, giving the customer even greater confidence in the merchant's service levels. This too, translates to improved shopper loyalty.

UNDERSTANDING THE RETURNS PARADOX

The returns paradox is a simple, yet seemingly frustrating truth. The shoppers who return the most products usually rank among a merchant's most valuable customers. On the surface, this appears to be an oxymoron. However, it's nothing more than a numbers game. Case in point:

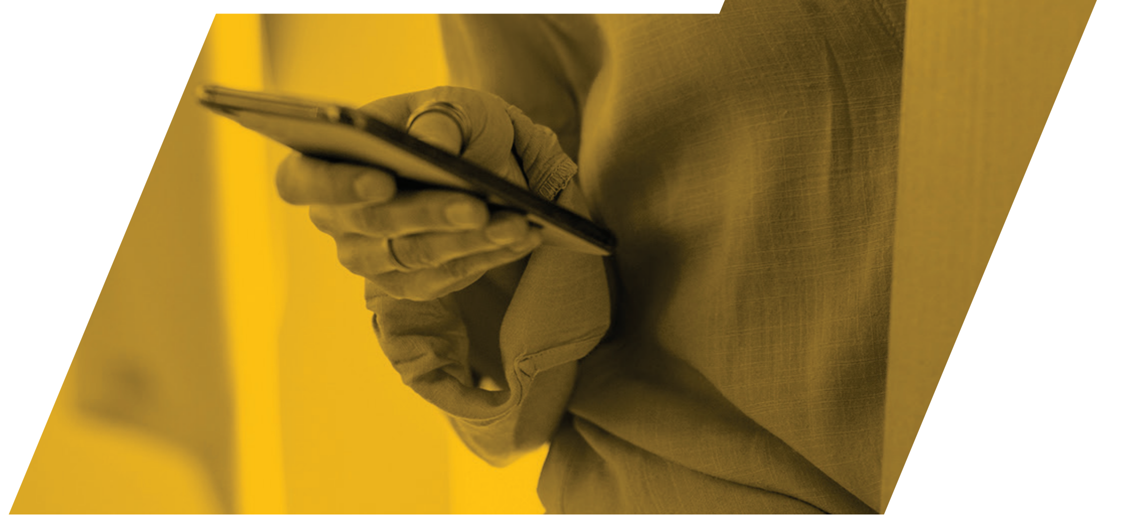
Two shoppers have the same return rate of 25%, which is close to average for online purchases.

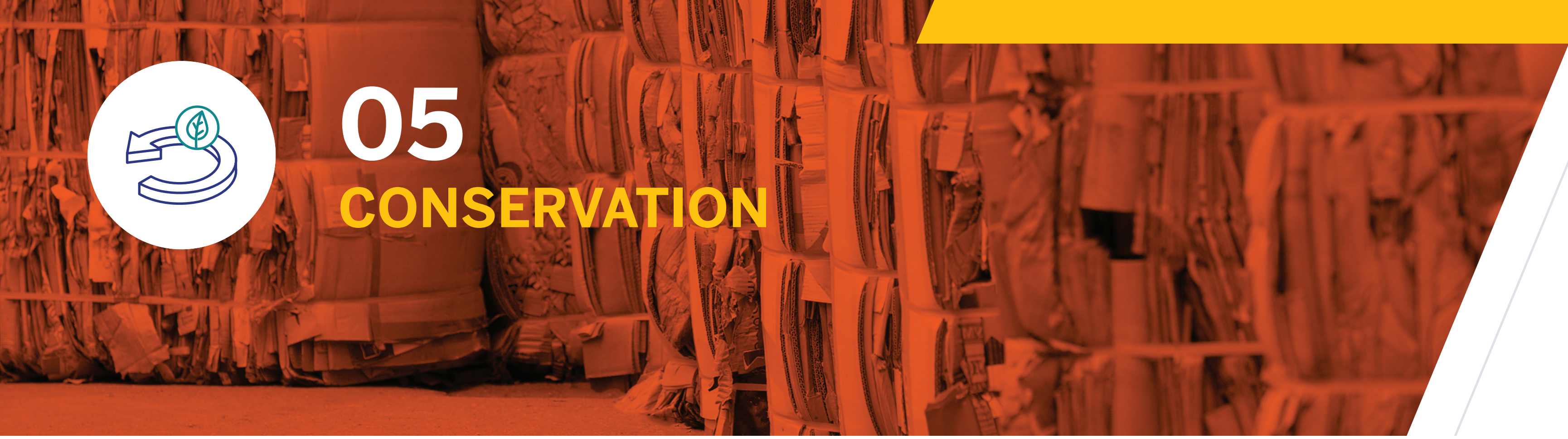
Shopper A buys 4 items a month and returns one and Shopper B buys 40 items a month and returns ten. For simplicity, consider the average product sale price is $20 and the cost to process a return is $5. In one month, the net sales[1] for Shopper A is $55, while the net sales[2] for Shopper B is $550.

Therefore, in this over-simplified example, Shopper B is ten times more valuable than Shopper A, despite having a higher return rate. In reality, Shopper B is even more valuable for a number of reasons. First is trust.
If Shopper B routinely places orders in this manner, he/she trusts the merchant. Second is familiarity. Shopper B is familiar with the merchant's pre- and post-purchase offerings, policies and experiences — and shoppers prefer to buy from familiar places, people or merchants. Third is cost. Processing 10 returns per month from the same individual reduces processing costs. These cost reductions may come from issuing a single refund or processing all 10 items in a single return, which reduces shipping costs, packaging, transportation and handling.

[1] 20 per item x 4 items = $80, minus $25 (price of the returned item plus returns processing costs)

[2] $20 per item x 40 items = $800, minus $250 (price of the returned item plus returns processing costs)





05 CONSERVATION

Shoppers have become more environmentally conscious; therefore, they seek businesses that have similar ideals and a shared commitment to conservation and sustainability. A survey by NRF and IBM found that:

- Nearly 80% of consumers report that sustainability is important to them
- Almost 60% are willing to change their shopping habits to be more sustainable
- More than 70% of consumers who report that sustainability is very or extremely important are willing to pay a 35% premium for more sustainable and environmentally responsible products

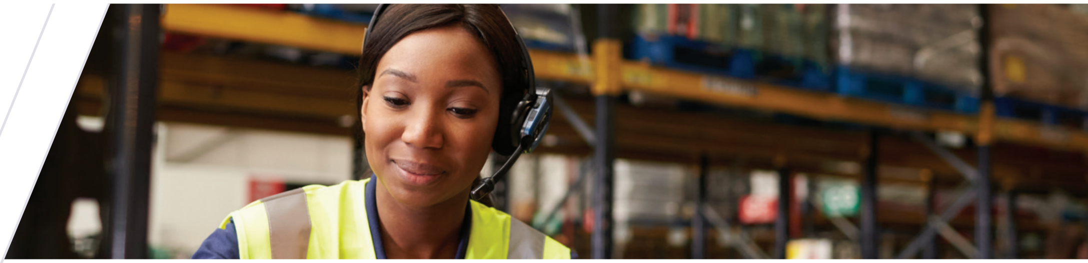
Similarly, research from the next-gen experience management firm First Insight, in partnership with the Baker Retailing Center at the Wharton School of the University of Pennsylvania, revealed that two-thirds of consumers said they'd pay more for sustainable products.

For retailers, this is an opportunity to market their sustainability credentials and highlight the benefits of pick-up/drop-off locations where consolidated deliveries and collections minimize the number of trips, thereby lowering the consumption of fossil fuels and greenhouse gas emissions.

Merchants using Inmar for return processing benefit from a number of environmentally sound business practices.

At the forefront of Inmar's sustainable practices is keeping returned goods in commerce. This is accomplished through several methods. First is return-to-stock. This program takes unopened returns or returns in pristine condition with original packaging and returns them to the merchant's stock, where they can be sold for full price. Inmar also provides a return-to-vendor program that helps merchants get credit for unsold merchandise. Our liquidation and remarketing service, the largest in the nation, sells returned goods, excess inventory, and obsolete merchandise into secondary markets. This prevents products from being disposed of in landfills and optimizes value recovery, which helps merchants offset returns-related costs. Inmar also supports refurbishment and donation initiatives. Remaining products are used in its waste-to-energy program. Collectively, these programs enable Inmar to maintain a landfill diversion rate of 99%.

Inmar's nationwide network of returns processing facilities further support clients' sustainability initiatives. Having 25 processing facilities across the country minimizes transportation costs, reduces the consumption of fossil fuels and greenhouse gas emissions. These strategically located facilities help merchants operate in a more environmentally and fiscally responsible manner.



CAPTURING RETURNS-RELATED DATA IMPROVES DECISION SUPPORT

Inmar's post-purchase experience solutions and returns processing services operate on a proprietary platform called The ProductLifecycle Cloud (PLC). The PLC enables data collection from disparate datasets. Data collected from key functions includes:

- Returns initiation, refunds and exchanges
- Order tracking and alerts
- Multimodal shipments
- Drop-off and return locations
- E-commerce and in-store returns
- Liquidation and remarketing
- Supply chain performance analytics

Normalizing data from these collection points enables the ProductLifecycle Cloud to:

- Reduce cost through integrated solutions
- Deliver a frictionless customer experience
- Determine the highest value recovery for returns
- Lower transportation costs
- Improve regulatory compliance
- Enhance sustainability initiatives

TREATING THE CAUSE, NOT THE SYMPTOM

Capturing digital returns data improves decision support for online merchants. Specifically, merchants can focus on the issues behind returns, such as a defect in the manufacturing process, misleading images or product descriptions and inaccurate sizing.

Other critical decision support functions include:

IDENTIFYING LAST-MILE BLIND SPOTS

- See every milestone across all carriers and modes
- Capture multiple shipments and handoffs within an order
- Surface issues not reported by carriers

LAST-MILE CONTROL TOWER

- Parcel, freight, courier, dropship and owned-fleet in a single pane of glass
- Provide a consistent experience across the network
- See network-level bottlenecks like stalled shipments

PROVIDING A PROACTIVE CUSTOMER EXPERIENCE

- Delivery issues trigger automated alerts to customers
- Collaborate with “in-platform” carriers for exception management
- Reduce customer service calls by providing timely order transparency

Digital commerce and shifting shopper behaviors will continue to redefine the rules of engagement for online merchants. And new rules of engagement require new tools of engagement. Those adopting integrated, end-to-end solutions will provide their shoppers with a superior post-purchase experience while extracting actionable insights that reduce costs, increase productivity, improve loyalty and win market share — leaving competitors in their dust.

Inmar Intelligence is a data and tech-enabled services company. We create insights and turn them into actions — to help brands, retailers and healthcare providers do more, save more, connect more and earn more… in the face of changing markets and consumer behaviors.

As a trusted intermediary for over 40 years, our data platforms have unmatched, real-time access to billions of consumer and business transactions that enable optimized engagement with shoppers, patients and partners.

GET IN TOUCH

For more information about Inmar visit INMAR.COM or call (866)440-6917