Ecommerce Returns Help Shape the Customer Experience

by **Douglas P. Clement**

The Pantone Color Institute declared "greenery," a foliage-inspired shade of green, the color of the year for 2017. It's the new black for fashion, or it would be if not for the backlash. Fashion Week snubbed greenery in favor of yellow, for example, while NBC's "Today" show declared orange the new black (the color, not the Netflix series).

These "new black" contenders have something in common. The apparel they sell is less often getting scrutinized, tried on and judged in a cubicle with a few hooks and a bench in a store or boutique. The definitive new dressing room is customers' bedrooms or living rooms.

As older millennials and even baby boomers continue to migrate to omnichannel ecommerce for clothing and accessories—a 2016 Goldman Sachs report forecasts $50 billion in sales growth in the next four years—mastering the fulfillment process becomes even more critical for brands.

Built into the DNA of the process is a circumstance that presents a challenge and an opportunity in equal measures: Upwards of 20% to 30% of items ordered online are typically sent back for a refund or exchange.

"It's easy to calculate the cost of a return. It's much harder to calculate the cost of a bad returns experience," said Todd Everett, President and Chief Executive Officer of Newgistics. "If a consumer has a bad returns experience, they're not going to come back and shop."

"The good will engendered by an easy return is only going to be paid back by a customer coming back to us," agreed Mark Stoye, Director of Ecommerce Fulfillment Operations for Tobi.com, an online designer label fashion brand for young women.

"It never fails to come up as an agenda item at the board table," Chris Halkyard, CEO at Aries Supply Chain Consulting, said of returns policies and the reverse logistics supporting the process. The perennial question, he added, is, "What's the right thing to do?"

That question is continually applied across a spectrum of related issues for ecommerce retailers:

- Ensuring customers feel they come first in the fulfillment and returns process
- Gaining a better understanding of how customers think and what brand interaction enhancements they want

- Optimizing communication throughout the fulfillment process and providing effective engagement in the post-purchase experiences to enhance brand loyalty
- Encoding new branding and marketing opportunities into the returns process
- Making post-purchase interactions easy and convenient
- Crediting returns quickly
- Improving the returns process for both customers and retailers through effective parcel tracking
- Managing the reverse supply chain in the best and most cost effective way

A Critical Area Customers Never See

Everett, who joined Newgistics in 2005 from a background in supply chain management and logistics, said returns may not be the sexy part of the ecommerce equation but it's one of the most important for retailers.

A lot of big retailers began as exclusively bricks-and-mortar operations and then added catalogs and, eventually ecommerce in their push toward providing an omnichannel experience. "That creates a number of challenges," Everett said, giving the example of a customer who buys something online but returns it to a store. "Where does the inventory go?"

Everett said Newgistics employs its own reverse supply chain network—including, for example, a direct contract with the U.S. Postal Service—to make sure retailers get the right data during the post-purchase process and items arrive in the right condition at the right loca-

8 Ways to Lessen the Profit Impact of Ecommerce Returns

In deciding whether to shop direct or in brick-and-mortar stores, more than 80% of consumers say that ease of returns is an important in their decision. The numbers are even more telling after a return is made, with an even higher percentage of customers likely to shop with an online merchant again if the return process is convenient.
Who wants to buy a product that can't be returned or carries many conditions?
Fitted apparel and color/size items can have high return rates between 15% and 30% where customers choose different colors and sizes.
You can't expect to totally eliminate all ecommerce returns, but here are 8 ways to lessen the profit impact:
Understand your rate of return: Measured as a percent of gross demand, product categories will vary. Ride herd on the controlled problems that cause returns such as creative and photography, carrier damage problems, picking errors and vendor/supplier problems. Develop reason for returns reporting by vendor and SKU. Return information also comes from correspondence, email and chat messages and contact center reps.
Returns cost more than orders to process: If the return isn't an exchange transaction you lose the gross margin, processing costs and customer acquisition cost. Streamline the return process in your order management or warehouse management system to process them more efficiently. This includes credit refunds or exchanges, updating the customer file and determining the product

disposition. Apply barcode reading to access customer records from carton labels and return processing documentation will cut down on errors and save time.
Credit customer accounts quickly: Customers are often at their credit limits. Intentionally lagging credits and refunds to aid your cash flow may add to customer dissatisfaction and reduce future purchases.
Reverse logistics: For businesses with high return rates, consider using a third-party returns processing service such as Newgistics or FedEx GENCO to gain efficiency, reduce costs and improve the customer experience. UPS research has shown a positive impact on customer loyalty when a merchant provides free return labels.
Make returns part of your purchase plans: As part of your inventory control, you should purchase based on net of planned returns rather than gross demand to avoid ending up with end-of-season overstocks.
Workstation design: Design your workstations with efficiency in mind, including allowing room for removal of returned boxes and other trash. Consider the desired flow of product and provide sufficient operating space.
Warehouse space: Many warehouses are not planned with sufficient space to receive returns, including the ability open, process and inspect returned products. In high-return businesses this can significantly slow down DC production.
Returns in, backorders shipped out: Cross-dock returns whenever possible. If the returned item is on backorder, you can ship it right out to the waiting customer rather than restocking it, thus replenishing your forward pick locations.
Curt Barry is Founder and President of F. Curtis Barry & Company

tion to be made available for purchase again.

He noted that for many retailers the issues involved in reverse logistics—accounting, inventory management, warehousing, etc.—remain "incredibly challenging."

"There are all kinds of points where systems and processes just aren't connected," he said. "Retailers are making large investments to solve that."

Having a shipment at a known scale arrive at a warehouse, rather than a variable stream of returns arriving constantly, allows a retailer to plan better and schedule manpower more efficiently, Halkyard said.

"Variable labor is one of the biggest line items on an ecommerce P&L," said Halkyard, whose past experience includes supply chain leadership roles at Gilt and Rent the Runway. "Now they can staff it right and increase productivity by 50%."

Stoye said Tobi partners with Newgistics to handle all of the items coming back parcel select, which are collected from post offices and returned to the Tobi warehouse in the San Francisco Bay area.

What's on the Minds of Consumers?

How retailers handle returns once consumers have applied the prepaid shipping label and sent them on their way is the back end of the process. The issues that get all the attention are naturally the ones at the forefront of consumers' minds.

Free shipping and free returns, with convenient packaging, easy instructions and pre-printed returns label, seem to be an industry prerequisite that almost all ecommerce retailers have decided they must honor.

Stoye said Tobi is always working on improving its returns and reverse logistics, seeking to anticipate and

meet the needs of its core demographic, young women and college students ages 18 to 24. When it comes to clothing, they want trendy, something new on a regular basis and very affordable pricing.

"We want to make it as easy as possible for them," said Stoye. "They are the demographic that's shopping online," said Stoye. He added Tobi.com has an 18% to 20% return rate, which is very good for the fashion industry, something he attributes in part to the reasonable price points.

"It's very easy to just go onto our site and print a label and return a product," Stoye said. "We also ship the majority of the garments in a reusable polybag. That's always been a challenge for anybody. They usually throw away the individual wrapping."

Tobi offers a wealth of details about the returns policy on its website, in part because it offers items that can't be returned, such as intimates. The biggest issues seem to be the condition of returned items. "We do have a very large blue bin on our floor and send a lot of products to Goodwill," said Stoye.

"Our next step is providing international service that's as good as domestic," he said of the company's goal of driving growth globally, beginning with Canada. Marketing and unique offers will be part of that, but so will returns, which currently are not free internationally. The question is how to partner with shippers in different parts of the world to make the process better.

For customers everywhere, the biggest hiccup in the returns process is speed, Stoye said. While Tobi's orders go out as priority mail, returns come back parcel select, a necessity in the equation allowing free returns but one that slows things down. Credits are made with-

*In some markets, **offering local payment methods** is the only way to reach a critical mass of customers.*

in 14 days of receipt of a returned item.

"They would like to see everything processed as quickly as possible," Stoye said of consumers. "We're not anything like Amazon, where you can see your credit even before the item is back. We'd like to get there."

"Customers have been spoiled by Amazon," said Halkyard. In addition to the speed of credits, he said other front-burner issues for returns are integrating the massive growth in use of mobile technology as part of a seamless experience, and ongoing enhancements to online security.

Everett of Newgistics also highlighted the importance of speed to credit. "Faster credit is always something consumers are pushing for," he said. "The main thing they want back is their money."

Within that process and all other aspects of returns that affect customers, Everett stressed the critical importance of providing information, fostering a highly engaged stream of communication and solidifying consumers' connection to the brand.

"Consumers want to be informed, they want to know what's going on," Everett said. "When you're really talking about a brand's loyal shoppers, they do want a relationship with that brand. They want to feel like they are part of that community."

Newgistics supports such integration in many ways, including continual brand messaging and dialogue all the way through the returns and post-returns experiences.

Stoye said marketing prompts are built into Tobi's system, encouraging customers to go straight from returns to making a new purchase. "We do daily emails to the majority of our purchasers," he added. "We're constantly trying to stay on top of that flow of communication."

"With digital customers you know a lot more," Everett said of the opportunities to be harnessed through good communication that are increasingly built into the DNA of the returns process. "You know who they are. You've got good data on what they're interested in."

In fact, as things get more sophisticated the process of ecommerce, including the post-purchase experience, will include more targeted messaging for different consumers. "That's where retailers are trying to get to," Everett said.

When it comes to customers, the Holy Grail is their lifetime value to a given retailer, Everett said, and perfecting the returns process is a key part of the strategy. Doing it in a way that makes each customer feel like a part of the brand family builds trust, and encourages customers to come back and shop again over the long haul.

Fine-tuning the formulas involved in both the first and second halves of the ecommerce business model is more critical than ever, given that the rate of returns signal that consumers are truly and vigorously shopping online—ordering different sizes to get the preferred fit, different colors to gauge the look in that bedroom "dressing room"—rather than carefully buying just-right items based on the fear of getting stuck in a returns nightmare.

"People are comfortable picking out a few things and checking them out which means the process of returns is working," Everett said. "We're seeing that in the growth of returns overall, and the frequency and timing of returns."

Getting returns right and making them a seamless part of the overall customer experience will become even more important than ever on the next several years, with Goldman Sachs saying $50 billion is on the table.

"Returns are going to be the largest focus of overall supply chain volume," said Halkyard in weighting the importance of this arena of ecommerce. "Reverse logistics integration will be a $650 billion business."

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