Kurt Salmon

The Experience Doesn’t Stop After the Gift Wrap Comes Off

Returns in an Omnichannel World

As competition increases and retailers look for new ways to differentiate themselves in the eyes of consumers, focusing on what is sometimes the last step a customer takes—returning an item—shouldn’t be overlooked.

In today’s omnichannel retail environment, an effective returns strategy that takes into account customer experience, inventory management and logistics across channels is an absolute necessity.

In fact, it’s even more important right after the holidays, when volume peaks and some customers are interacting with a retailer for the first time when they return a gift.

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But many retailers are lagging. A Kurt Salmon survey of nearly 60 retailers across segments found that many failed to deliver one or more of the elements of an efficient and easy returns experience. For example, while 68% offered prepaid return labels that could be printed out online, only 12% included those prepaid labels in the original packaging. One retailer even forced consumers to call a customer service hotline to initiate a return.

And as return volume increases, spurred in part by an increase in online spending, these policies can become increasingly risky to the brand. The National Retail Federation estimates returns to have increased 4% during the 2011 holiday season, to $46 billion, and that number will likely grow in 2012 and beyond.

Leading retailers are looking at omnichannel returns from both sides: customer experience and inventory management and logistics.

Making it easy: customer experience

From the customer experience perspective, ensuring returns are as easy as possible will help keep customers happy and coming back. If returns are a hassle, retailers are at best discouraging future purchases through that channel and, at worst, losing customers for good.

The best practice here is creating a seamless omnichannel return experience, regardless of the purchase channel.

For in-store returns, consider what technology, store design and labor requirements are necessary to create a compelling, consistent experience. For example, many retailers have two or more CRM systems, which creates a headache—and a long wait—when a customer tries to return an online purchase to a store. While costly, universal CRM systems are the best way to solve this problem and create a seamless experience across channels while also easing the logistical chaos of omnichannel returns.

It's also essential to strike the right balance between making returns easy for customers and encouraging additional purchases.

Sears, for example, offers a drive-through service that enables customers to return or exchange items without leaving their cars. Costco funnels returns customers through a separate entrance, removed from the rest of the store.

While tactics like these may facilitate a quick returns process, they don't increase potential interactions with the customer. Instead, view returns as an opportunity to re-engage with the consumer, ensure they are still happy with the brand and potentially make another sale. In fact, Kurt Salmon estimates that at least half of customers making a return make another purchase on the same visit.

For online returns that can be shipped back directly to the distribution center, the best practice is including a prepaid, preprinted return label with the original packaging, but as mentioned above, a Kurt Salmon study found only 12% of retailers currently provide this. Of course, this may be costly, especially for retailers with return volumes of 40% to 50% or more, but it can easily pay for itself with increased customer loyalty that will lead to future sales.

The same can be said for offering free return shipping—while expensive, it can pay off.

Zappos is one notable example here. They offer free shipping both ways, and in an interview with *Harvard Business Review*, CEO Tony Hsieh said the policy pays for itself.

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"The additional shipping costs are considerable for us, but we view them as a marketing expense. We also offer a 365-day returns policy for people who have trouble making up their minds. (Originally our returns policy was only 30 days, but we kept increasing it at the urging of our customers, who became more loyal as we lengthened the returns period.) Our returns run high—more than a third of our gross revenue—but we've learned that customers will buy more and be happier in the long run if we can remove most of the risk from shopping at Zappos."

This isn't the answer for every retailer, especially those with particularly bulky or heavy products. But for apparel and footwear retailers, encouraging consumers to become increasingly comfortable ordering products without trying them on first may mean creating a risk-free returns environment.

Finally, be sure to bake in any return volume spikes around the holiday season—this will have significant implications on labor and capacity for both online and in-store returns.

Making it profitable: inventory management and logistics

Once the customer has happily and easily returned an item, the question is, what do you do with it? Usually, retailers have two options: store or DC. The decision process generally revolves around timing and assortment.

Of course, online-only items should remain in the DC, but items available across channels could eventually end up in either a store or a DC.

If it's early in the season and the item has been selling well in a particular store and is returned there, keep it there. If online demand is stronger than in-store demand, or there's healthy stock in the store, send it back to the DC so it can be used to fulfill an online order or transferred to a different store. Just keep an eye on profitability—paying to send a $10 T-shirt across town—or across the country—can quickly drain margins. Of course, this all assumes that the item is in good condition; if not, it's back to the DC.

If an item is returned to a DC and online demand is strong, keep it there. But if the product is flying off store shelves, consider sending it there, timed to coincide with an existing store shipment to keep costs down.

Getting products back late in the season, or even past the end of the season, complicates the issue. Send them to whichever channel is most productive at clearing discounted merchandise. No matter what, the goal is to minimize the amount of time something is not available for purchase.

To make these logistical decisions, retailers need to have a very clear picture of both inventory availability and demand. But today, some retailers don't have enough visibility into these metrics to make efficient and cost-effective decisions.

Technology can help. Some retailers have turned to third-party providers to set up new tools for tracking and managing returns across channels.

Here, RFID can also be an incredible advantage, especially for core replenishment items. It enables precise visibility into inventory availability across all channels and store locations, so the decision about where to send a returned product becomes much easier.

Leading retailers are viewing returns not as the end of the road, but as a small bump in a long, healthy relationship. Getting there requires a truly omnichannel returns process, one that creates a hassle-free experience for the customer, provides opportunities for the retailer to reconnect to spur additional purchases and maintains profitability by getting the product into another customer's hands as quickly and efficiently as possible. ❖

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Kurt Salmon is the leading global management consulting firm specializing in the retail and consumer products industry. We leverage our unparalleled industry expertise to help business leaders make strategic, operational and technology decisions that achieve tangible and meaningful results. For more information, go to www.kurtsalmon.com.