

RETAIL

## How luxury retailers can leverage the holiday returns opportunity

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*After the gifting rush comes a spike in returns. Image credit: Nordstrom*

By SARAH JONES

Returns are an almost inevitable end to the holiday shopping season, but with the right strategy retailers can turn what could be considered a negative into a positive.

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As consumers ship packages back or crowd into stores for returns, retailers have the opportunity to upsell shoppers who are planning to use newly received store credit. With a significant portion of shoppers likely having their first interaction with a retailer during the returns process, this crucial aspect of customer service is a means to make a good impression.

"An opportunity for retailers comes in seizing the moment of return," said Jeff Warren, vice president of retail solutions management at **Oracle Retail**, Minneapolis, MN.

"When customers enter the store to make returns, each one carries a history, and thus an opportunity," he said. "With that customer history and insight at hand, retailers' store associates can be key to a turnaround, either by saving the sale through an exchange or through an upsell at the point of sale.

"Returns can also generate a high level of foot traffic. Retailers should take advantage of both customers making returns in their stores and those who drop in while making returns nearby, as both present the opportunity to connect and capture information that can inform their businesses and improve customer satisfaction."

Online and in-store

Showing the surge in online gift ordering, the United Parcel Service projects that ecommerce returns will reach a record high this year, as it expects consumers to ship about 1 million packages back to retailers daily in December.

A spike in returns in December a week before Christmas is partly due to promotions that encouraged consumers to buy gifts earlier.

The high point of the return season is likely to hit on Jan. 2, when UPS expects to process 1.9 million packages, 26 percent more than last year.

"The continued rise in ecommerce sales is driving the volume of returns up exponentially," Mr. Warren said. "Pre-omnichannel, a typical retailer might have seen return rates of 8 percent on average. By comparison, today's omnichannel retailer sees return rates upwards of 30 percent, rising to over 40 percent for apparel.

"There are a number of macro trends at play here, but shifts in consumer buying behavior, such as the desire to try before you buy, or shoppers buying three of something and returning two, are becoming increasingly pervasive," he said. "Another driver for returns is vanity sizing; it's virtually impossible for a consumer to answer a simple question like 'What size are you?' so attempting to do that for someone else on your holiday gift list is even more complex.

"Finally, most analysts would agree that consumers started their shopping earlier in the season this year, which means a higher likelihood of returning the first choice for something slightly different, better or cheaper as the season ticked on."

With many consumers shipping merchandise back to retailers, making the ecommerce return process as simple as possible will make a positive impression.



*Returns are an inevitable part of the holiday season. Image credit: Neiman Marcus*

Retailers can start with having easily findable return information on their Web sites. This is especially important for consumers who might have received a gift from a retailer that they are unfamiliar with.

Another best practice is including shipping return labels and gift receipts in the package so that consumers do not need to print out their own.

Once the item is in the mail, retailers should keep customers up to date with notifications and tracking.

The return experience influences whether shoppers will buy again from a particular retailer. Three-quarters of consumers in a UPS study said that the return process influences their loyalty likelihood.

"I suppose this is just a math problem," said Paula Rosenblum, managing partner at [RSR Research](#), Miami. "First off, the more ecommerce sales, the more ecommerce returns. So if it was bought online, it's most likely to be returned that way.

"While retailer would certainly prefer buy on line return in store (BORIS), in truth, online sellers make it really easy to return products via ecommerce channels," she said. "So as the percentage of gifts bought online increases, of course the percentage of gifts returned that way will go the same way.

"Plus, it's well-documented that items bought online have a higher return rate at least triple for apparel than items bought in store, so that will arc the curve even more."

Beyond shipping gifts back, many consumers will travel to a bricks-and-mortar environment to pursue a refund.

Offering an in-store return option for online purchases and creating a omnichannel return process can help to simplify the transaction for gift recipients.

Per data from NRF, 55 percent of shoppers say they will return or exchange any unwanted gifts or holiday items within the first month after receiving them. The vast majority (80 percent) prefer to make returns and exchanges in stores ([see story](#)).

According to a study from Narvar, while shoppers tend to rate in-store returns of online purchases as easier, the number who made their last return at a bricks-and-mortar location was 10 percent, down from 17 percent in 2017.

Offering a seamless buy online, return in-store experience can lead customers to make more planned or spontaneous purchases when they visit the retailer to get their refund ([see story](#)).

Seventy-four percent of consumers surveyed by NRF said that they would be likely to purchase something else while making a return.

Beyond visiting stores for returns, a lot of consumers will be shopping immediately after the holidays to spend gift cards and take advantage of discounts.



*Many consumers will shop as they return items to a store. Image credit: NRF*

Research from Oracle Retail found that 20 percent of consumers planned to return about half of their gifts before they had even seen what they received.

"[Post-holiday returns are] inevitable, really," Ms. Rosenblum said. "I think that's why retailers embraced gift cards. On the one hand, they don't get to take the revenue until the gift card is redeemed, but on the other, the likelihood of a return might go down.

"Now having said that, there's still a potential revenue hit. This is where what I call 'markdown chicken' really comes into play," she said. "The retailer has clearance sales after Christmas. Therefore there's a financial hit for every item they sell in that period, even though revenue is going up. There's a gross margin hit.

"The consumer gambles that what she wants will still be in stock. So the retailer and consumer 'play chicken.' The retailer tries to create an urgency to buy through better inventory management. The consumer bets she can wait the retailer out. Honestly, most of the time the consumer wins."

One of the opportunities for retailers in minimizing the financial impact of returns is data.

"Retailers need to put their customers at the core of every business process and decision from advertising and marketing campaign targets to assortment decisions and fulfillment strategies," Mr. Warren said. "If retailers pivot their business to customers they will alleviate a number of pains that eat away at margins including markdowns and returns.

"The truth of the matter is that markdowns are borne out of bad planning," he said. "The traditional assortment plan takes historical transactions into consideration, but misses the most critical element the customer.

"Obviously, returns and markdowns will never be eliminated completely, as consumer behaviors like buyers' remorse will remain, but retailers have a tremendous opportunity to minimize margin erosion by connecting customer data, attributes and behaviors to their assortment, pricing and promotional decisions."

Staying in touch

One of the most crucial aspects of returns is communication from retailers. Ms. Rosenblum stressed the importance

of having well-manned customer service centers.

With the addition of new technology, keeping in touch at each step of the process has become easier.

While the weeks leading up to Christmas are brands and retailers' busiest times in terms of sales, the days immediately following the Dec. 25 holiday are some of most active for returns.

On Dec. 26th, brands and retailers typically see some of the highest numbers of returns and exchanges as consumers return gifts of wrong sizes and colors or make other corrections. For brands and retailers, chatbots can be one way of easily handling the increased load of Web traffic as customers float questions and concerns about how to return their gifts ([see story](#)).

According to a Klarna survey, it is much easier for consumers to decide to never come back to a retailer than it is to always return. The most shoppers, 46 percent, say that a bad returns process is the top way to drive disloyalty, followed by online checkouts without payment options at 28 percent ([see story](#)).

"Returns are a fact of life, and given Generation Z plans to return a whopping 29.7 percent of gifts on average, compared to 11.5 percent for baby boomers, it's safe to expect returns will remain consistent if not grow in the future as younger generations take on more purchasing power," Mr. Warren said.

"With this in mind, the best thing retailers can do is take the facts at hand into account and plan ahead," he said. "Our data shows that 65 percent of consumers plan to return gifts in-store, and 32 percent will make returns via mail, so brick-and-mortar and omnichannel retailers should be prepared to accept returns through both channels.

"When consumers come in-store to make returns, associates with the right technology and information can play a critical role in instilling a positive sentiment. The right technologies can help associates identify the next-best offer for the customer to ensure they walk away with a great experience, if not a replacement for the gift they returned. Online and via mail, retailers should strive to make returns as seamless as possible, and use the opportunity to capture data to help them improve in the future."

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