

RETURNS & REFUNDS

imrg

An IMRG Report

The Returning Conundrum

Exploring the latest returns trend data and customer insight with expert opinion from ReBOUND Returns

Supported by

 ReBOUND®

June 2021

The Returning Conundrum

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The Returning Conundrum

Biographies

1.1 IMRG

For over 20 years, IMRG (Interactive Media in Retail Group) has been the voice of e-retail in the UK. We are a membership community comprising businesses of all sizes – multichannel and pureplay, SME and multinational, and solution providers to industry. We support our members through a range of activities – including market tracking and insight, benchmarking and best practice sharing.

Our indexes provide in-depth intelligence on online sales, mobile sales, delivery trends and over 60 additional KPIs. Our goal is to ensure our members have the information and resources they need to succeed in rapidly-evolving markets – both domestically and internationally.

1.2 ReBOUND Returns

ReBOUND Returns is a retail returns solution combining smart returns technology with a global logistics network, to give a fully managed end-to-end returns solution for online retailers. Powering millions of returns every year for over 500 retailers and brands including the likes of ASOS, Gymshark and Missguided, ReBOUND is revolutionising returns for some of the worlds biggest brands.

ReBOUND's mission is to help retailers achieve smarter and more sustainable returns, whilst enhancing the customer experience. Their core proposition takes the returns journey online via a branded returns portal so shoppers can access return labels. With a number of value-added returns services on offer, retailers are able to extract value from returns, minimise loss and make the returns process more sustainable. This includes smarter stock routing, facilitating recycling or charitable donations, as well as enabling retailers to go carbon neutral for returns with custom carbon emissions reporting.

Now in their 7th year of trading (at the time this report was published) ReBOUND are recognised as a truly global brand, ranking 19th in The Sunday Times International Track 200 in 2021.

2. Foreword

Returns is an integral part of the customer proposition. For customers it is one of the most important factors when considering a purchase or choice of merchant. For the merchant, providing the right level of service is a 'hygiene' factor whilst managing the process internally can both make or destroy the brands relationship with its customers. This report explores the key data points that illustrate the issues and opportunities of a professionally run returns proposition. This insight is supported by expert comment from the reports supporters, ReBOUND Returns.

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Introduction

To say that the last 18 months has been tumultuous for retailing is probably an understatement. Even before the impact of the pandemic we were seeing some major high street brands hitting the buffers for a number of reasons, not always connected to the rise of online. However, an inter/national lockdown has focused attention on digital outlets for all of retail, not just 'non-essential'. Whilst this is not the place to go into the pros/cons of past investment policies it would be remiss not to mention the accelerated rate of change required by brands large and small. The pandemic was the catalyst, consumer demand was the fuel.

According to the IMRG CapGemini eRetail Sales Index, growth in online retail soared by 36% in 2020, driven in part by online veterans increasing their spend and by new shoppers coming online for the first time. An IMRG Maru customer survey in March 2021 saw 76% of shoppers saying they increased their online shopping frequency. Of course, the flip side of any sales growth online is what happens to the corresponding returns rate.

Whilst the pandemic changed retail shopping behaviours, there is also an assumption that it changed customers' expectations. Part of this could be a 'charitable' perspective or feeling of 'entitlement' where consumers feel that brands should reflect the difficult circumstances they find themselves in. For example, with many people on furlough, customers could be watching their finances more closely and feel that brands should be reflecting this with offers and discounts. The brands themselves would also be facing a myriad of challenges, such as physical stores mothballed, excess stock and unforeseen overheads and those based on budgets drawn up in different times.

The balance for retail then is to maintain margin, meet or exceed customer expectations and minimise or manage a returns process that provides for these often-competing elements.



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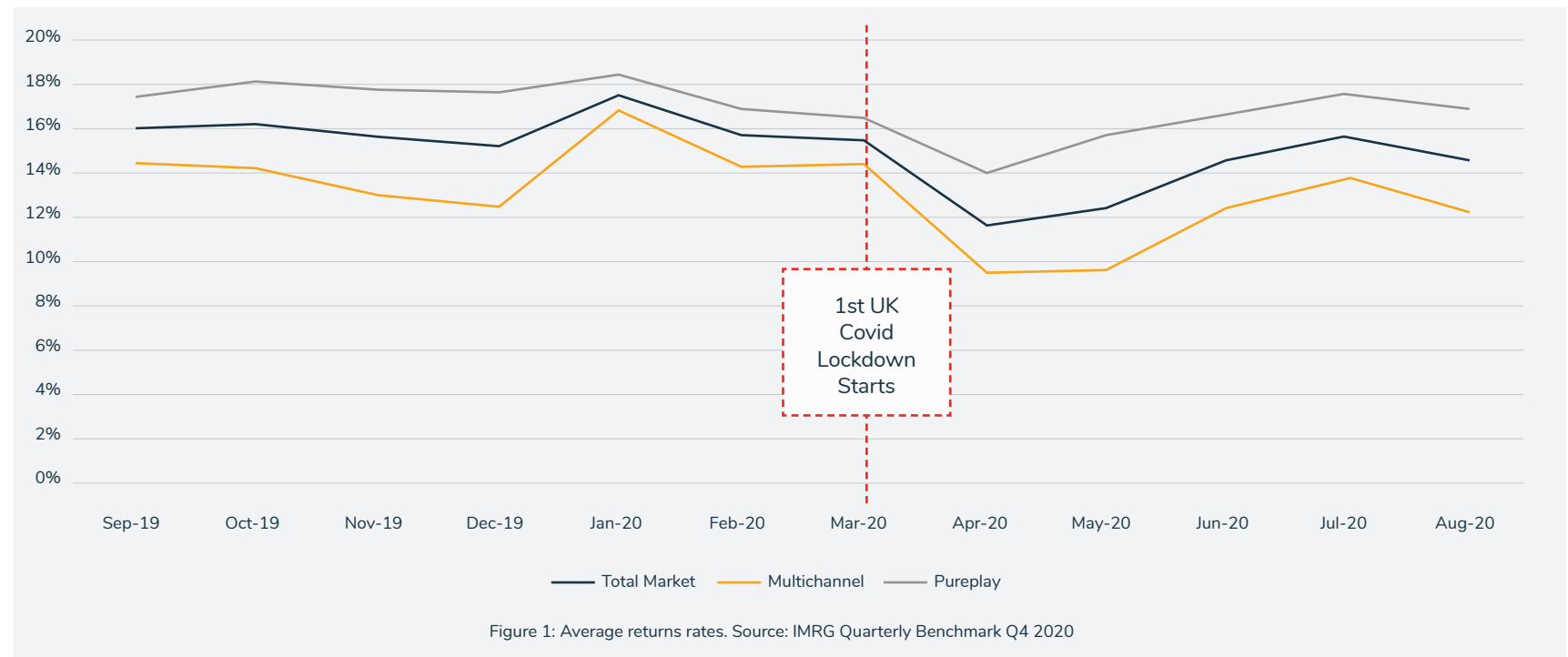
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Categories For Comparison

Drawing on data from recent benchmarking data provided by the IMRG eRetail Sales Index, we can see the expected split between retail sales type. Across all retailers return rates averaged between 15 and 17% in September 2019, with multi-channel retail averaging 15% and pureplay's at 17%.

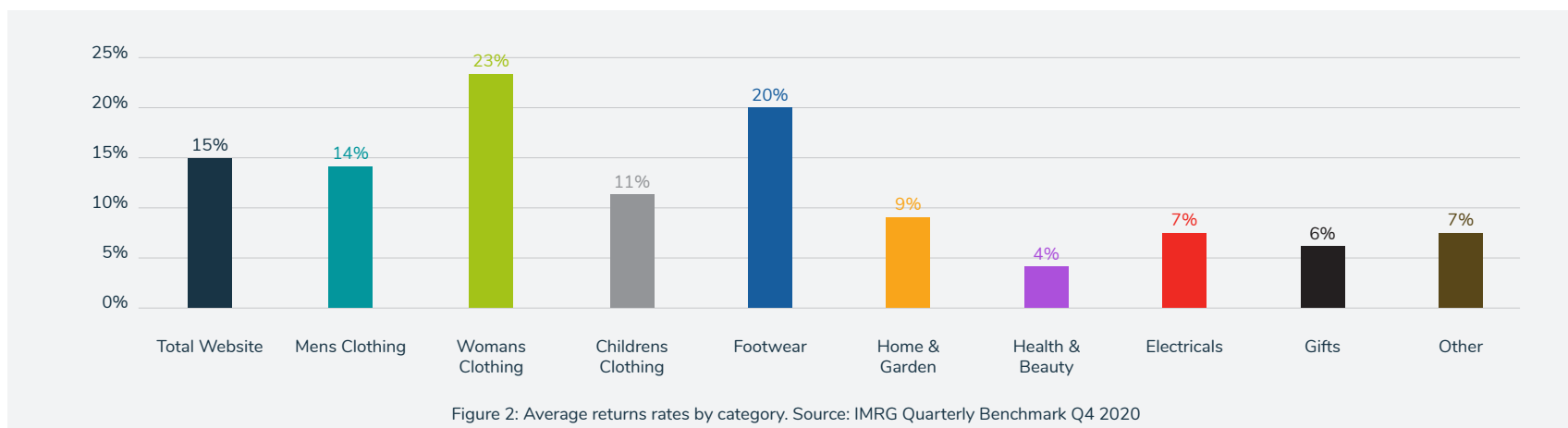
Interestingly, by August 2020 the range had opened up but the average had tracked downwards; driven predominantly by a fall in multi-channel returns.



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A review of return rates by category also shows a relatively typical split, with womenswear seeing a returns rate of 23%. Footwear was next highest at 20%. Health & Beauty looks like an outlier here with a returns rate of only 4% however, we should remember that there are restrictions on what products can be returned in this sector. Whilst the figures presented here represent multichannel and pureplay combined product categories, they reflect the trend across digital sales.



Another factor to consider is the impact that multi-item orders have on return KPI's. For example, an order of the same items in 3 sizes could see a return rate of 66% if only the item of the correct size is retained. IMRG Benchmark data showed that in practice, for fashion categories, 52% of multi-size orders are returned. Indicating that typically, customers will purchase two sizes of the same item. Interestingly, the data set also shows that 22% of all items in a multi-size order are returned. Perhaps showing that the customer was not overly convinced about the purchase in the first place.

Of course, the benefit for in-store shoppers is that they can try, touch and feel products before they purchase. It is widely known that this is harder to replicate online, but there are techniques employed that can help to reduce returns rates. For example, user generated content where customers suggest how the sizing works, videos showing fall and cut of fabrics and sizing information that supplements the 'standard' Size x (UK) categorisation.

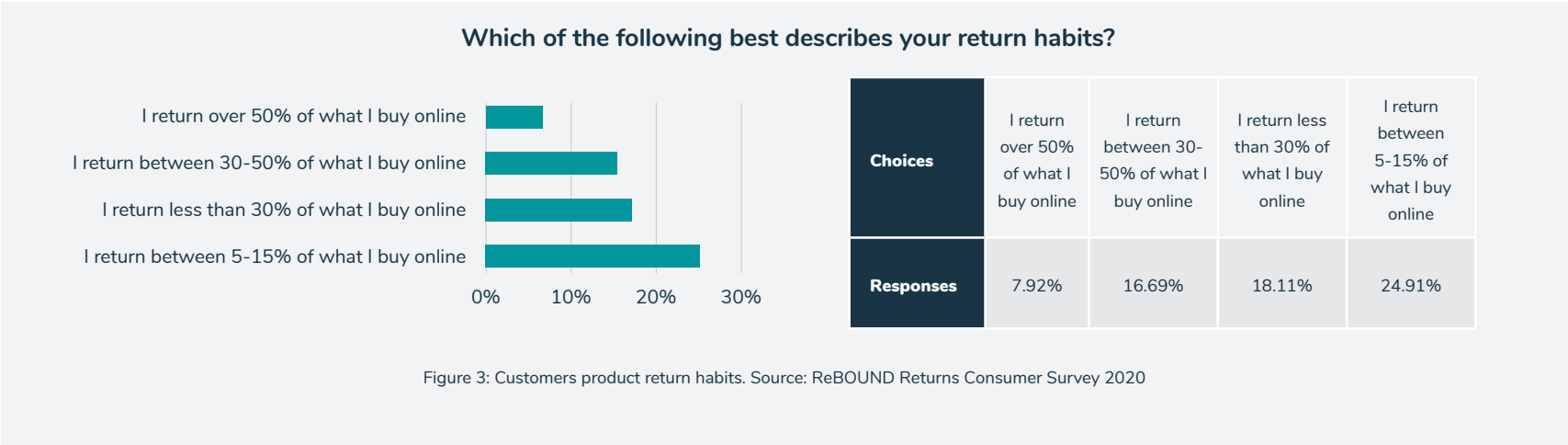
This also means that categories where size or emotional engagement is not such an important factor in the decision to retain a product will see naturally lower returns rates such as electricals. For example, if you're ordering a 50" TV, chances are you've well researched specifications and functionality before purchasing, so there is little room to be disappointed when it arrives. The same cannot be said if you're ordering a blue dress in a size 12, where pictures and size charts can be deceiving, and there's still a wide variety of factors such as fabric, fit, and condition that could all ultimately lead to being disappointed with the purchase.

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Now, looking at the customer perspective it would appear that the picture is more complicated. 25% of customers believe they return between 5% and 15% of everything they purchase. 8% think they return over 50% of what they buy online. Of course, this isn't allowing for category differences but 86% of the sample purchase fashion online, which probably reflects the industry view that this category is most susceptible to returns.

Interestingly, pre-Covid, returns were seen very differently, with 84% of respondents to ReBOUND's Consumer survey in 2019 saying they Rarely or Occasionally returned online purchases. This is only a snapshot view of the difference between 'then and now'. As discussed at an IMRG retailer 'Planning for 2021' roundtable in Q1 2021, comparisons on this basis alone may well be mute, as so much in consumer and business behaviour has changed. For example, which year should be the baseline to predict future growth or investment requirements and what level should be included in a budget?.



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ReBOUND Insight

It's no secret or surprise that online fashion returns carry the highest return rates. With so much room for error when it comes to meeting the shoppers expectations of the products, it can be hard for retailers to get it right.

Retailers are already making headway to address the issue of size and fit related returns. Initiatives such as enhanced size guides, fit analytics tools and AI are all geared towards helping the shopper get their hand on the right size the first time around. Given that 70% of returns are size and fit related (an increase of 9% since 2017!), it's a great way to start. Especially when you consider that the pandemic has turned us all into either fitness fanatics or couch potatoes, so all concepts of body sizing have gone out the window!

However, retailers can be guilty of driving their returns rate in a number of other ways.

There's a real culture of blame around shoppers, with retailers shaming 'serial returners', but actually retailers should be looking inwards at their own returns data to understand more about how they can fix the problem. Is a dress always being returned because it's faulty? If so, that's vital information to feed into your manufacturers so you can stop sending out faulty goods. Are they always damaged? That's something to take up with your outbound carrier. Not as expected? Perhaps it's time to give your product photography and descriptions an update. By taking returns online and capturing returns data in a consistent way, retailers can make all sorts of decisions that will help them get their returns rate under control.

This activity, whilst providing valuable insight to buying and merchandising teams, is also good for other customers. User Generated Content can

provide useful insight for customers through the buying process.

For example, "This garment is cut slightly larger, I ordered a size up and the fit is great"

By allowing this feedback, the retailer is getting useful insight, the customer becomes a brand ambassador and a serial returner could actually be your most profitable customer segment.



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Returning Reality

Firstly, the ‘boring’ bit. Legally, under UK Consumer Rights legislation, online customers have a minimum period of 14 days to notify a merchant that they want to return a product, at their own cost for non-faulty returns, to the retailer. The customer is then expected to return the product within another 14 days. The retailer then has 14 days from the point of receipt to issue a refund. Retailers are obviously free to extend their own terms beyond the minimums required. The difference between in-store and online rights around returns was designed to allow for the major difference in the shopping experience i.e. not physically seeing the product at point of purchase.

Analysis of IMRG’s benchmarking data in March, shows a range of returns periods being offered to customers. Pre-Covid, 10% of merchants were offering the basic level of 14 days. Most of these were multi-category retailers. The biggest proportion were offering 28 days; above the legal minimum but just short of customer expectations of 30 days. There were even a few examples of 180 or 365 days; all of which are in the clothing category.

At the time of writing, it is still too soon to talk about post-Covid. When ‘Lockdown’ started in the UK, many merchants with an online presence reflected on the returns period that they were offering. Partly due to uncertainty about how soon customers would be allowed out to send products back and also to take into account new customers and customer sentiment at the time. 83% of the merchants involved in the survey changed their returns periods. Those merchants offering 60 days return periods increased from 17% to 27%. 90 days also increased in popularity, moving from 7% of merchants to 20%. Changes were made predominantly by clothing retailers in both multi-channel and pureplay categories equally.

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Retailer split of Pre-Covid Return Periods

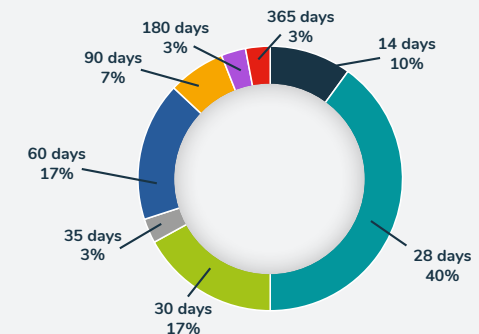


Figure 4: Return periods offered by online retailers before Covid.
Source: IMRG Quarterly Benchmark. Q1 2021

Retailer split of Current Return Periods

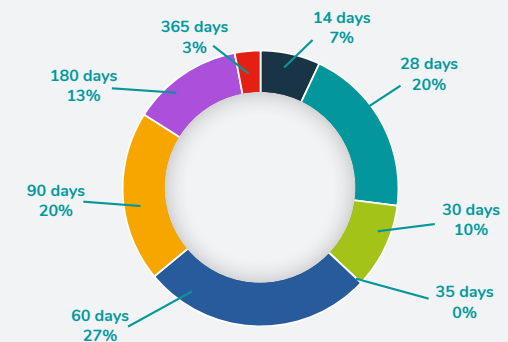


Figure 5: Return periods offered by retailers during Covid.
Source: IMRG Quarterly Benchmark Q1 2021

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Customer expectations reflect the current market provision of the returns period. Pre-Covid returns periods typically did not meet this level, with 63% of customers surveyed expecting to be able to return in a window of up to 30 days. A quarter of respondents expected the legal minimum of 14 days.



Now, it is always interesting to compare what survey respondents ‘feel’ is their behaviour and the data of what actually happens; with the caveat that of course the people answering the shopper survey might not have shopped at those brands included in the industry side of the equation. However, we can see in the table adjacent a clear trend in 57% of returned orders are received within 2 weeks of the sale being recorded. A close correlation to the customers perceptions. Fashion items however reflect a slightly different picture, with 24% being returned 3 weeks or more from the purchase date. By the same token, 76% of items are returned within three weeks!

Customer return to retailer timeframes

Return Time Frame	Item Return date is less than 1 week after purchase	Item Return date between 1 and 2 weeks after purchase	Item Return date between 2 and 3 weeks after purchase	Item Return date is more than 3 weeks after purchase
Total Market	22%	35%	22%	20%
Clothing	11%	39%	26%	24%

Figure 7: Customer return to retailer timeframes.
Source: IMRG Returns Benchmarking Survey, January 2021

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There are also a lot of visibility gaps in the returns journey. For example, ReBOUND looked at two important elements of the journey. First, the time taken for a customer to register their return request. Secondly, how long it then took for the parcel to be dropped off or collected and start making its way back to the retailer.

Before Covid, the typical time to register a return online and then drop it off was 7.5 days. Post Covid, this period extended to nearly 12 days. The more leisurely approach to this process can be down to a number of factors. Whilst registering a return is edging downwards towards its pre-pandemic levels, it is still nearly double where it was. Drop off time is also getting nearer to original levels. It could be assumed that the whole process is now planned around other activities. For example, a focus on reducing unnecessary journeys and better planning of these is leading to an increased time to register, but then a shortening window to the actual point of drop off.

To evidence the shift in consumer behaviour since the outbreak of the CoronaVirus pandemic, ReBOUND observed the preferred carrier split amongst their retailers just offering ASDA ToYou, which allows shoppers to return as part of their weekly shop, and Royal Mail, the usual firm-favourite return option amongst shoppers.

Unsurprisingly, before the pandemic Royal Mail carried the lion's share of volume, with 65% of shoppers choosing that as their return method. Interestingly, Two weeks after the first lockdown period commenced, this had dropped to 34% whilst ASDA ToYou's share had risen to 66% as shoppers were combining their returns process with the essential grocery shopping. It will be interesting to see how these trends evolve as lockdown starts to ease.

	Average time to register a return	Average time to drop off
Pre-Covid	4.53 days	2.95 days
During Covid (2 weeks after)	9.55 days	4.99 days
Post-Covid	8.17 days	3.62 days

Figure 8: Comparison of consumer return timeframes.
Source: ReBOUND Returns Data Snapshot

Pre COVID Carrier Split (%)		Carrier Split 2 weeks after lockdown started (%)	
Asda ToYou	Royal Mail	Asda ToYou	Royal Mail
34.9%	65.1%	65.9%	34.1%

Figure 9: Comparison of returns volumes split between Royal Mail and AsdaToYou.
Source: ReBOUND Returns Data Snapshot

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With consumer preference shifting so rapidly in such a short space of time, retailers still opting for a pre-printed return label dispatched in each outbound order will have found themselves struggling to adapt quickly enough, especially where in-parcel paperwork was bulk printed with returns policies that suddenly became out of date. Meanwhile, retailers with an online returns solution will have found themselves in a favourable position, being able to quickly and easily amend their returns policy at the flick of a switch - whether this is extending their returns policy, switching from free to paid returns, or adding new carrier services.

ReBOUND Insight

When it comes to returns, it can be tempting for retailers to merely offer the legal minimum of a 14 day returns policy in a bid to get returns back and on-sale quicker. Whilst the COVID-19 pandemic certainly saw retailers becoming more generous with their returns timeframes, we're encouraging retailers to not snap back to their old ways. It's important to remember that as much as you want your goods back, your shoppers want their money back more, evidenced by the fact that in our 2019 Consumer Survey, 67% of shoppers revealed that they expect their refund within 3 days of making a return.

Extending the returns policy can seem like a big step, but it can actually go a long way towards meeting customer expectations, and may actually have little bearing on the actual average time it takes customers to return.

At ReBOUND, we observed an increasing number of retailers that offer extremely generous return windows and have seen that pre-covid, the average time taken to return when a 30 day returns policy is on offer is just 12 days. What's interesting is that by doubling the returns window to 60 days, the average time taken to return was just a few days longer at 15 days. We've even seen that when a 365 day returns policy is offered, still 95% of customers are returning within the first 30 days of receiving their item.



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Perceptions Versus Reality

Customers often undervalue the delivery element of the online purchase and this is particularly true of the return. Customers don't realise the actual costs associated with providing delivery and returns options. A key issue with the return is that the purchase hasn't met with the initial expectations, so the return process is a chore and treated as such. Again, referring back to consumer legislation, the customer is due to pay the cost of a 'no-fault' return which won't help with the demeanor of the customer.

The default position for many online merchants is the provision of 'free' returns via a third party or where available, to the brands store. According to the IMRG benchmark data, there appears to be some correlation between offering these free returns services and increased returns rates. However, this sample also included a slight skew towards apparel. A category which we have seen has a higher incidence of returns. Why the free returns then? Why facilitate the ease of returns? For one, provision of these services is about customer service and brand experience. According to UPS, 73% of consumers agree that the overall returns experience impacts their likelihood

of buying again, with 42% of shoppers also indicating that free return shipping contributed most to a positive returns experience. At another level, it also ensures stock is returned to inventory and sold on again. This is particularly important where fashion items are seasonal and the window for sale, return and resale is short.

Of course, provision for these returns services is not free as the retailer shoulders the costs for the operations and processing and this is where customer expectations and reality diverge considerably.

In the ReBOUND survey looking at post-Covid expectations, nearly 50% of customers now expect returns to be free.

There are some nuances around these expectations once the item value is considered. For orders less than £50, 76% of respondents expected to pay £3.00 or less. Moreover, a quarter of this sample expected free returns.

This attitude is reflected in orders over £50 as well, with 56% still expecting returns to cost less than £3.00.

What is the maximum you are prepared to pay to return an item costing more than £50?

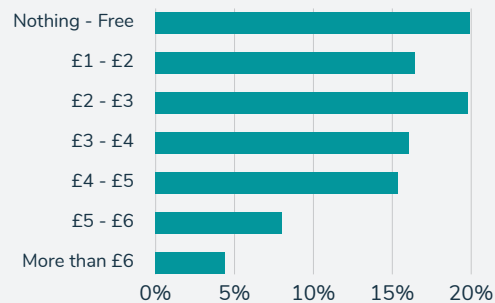


Figure 10: Consumer appetite for payment premiums based on return options.
Source: ReBOUND Returns Consumer Survey 2019

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Customers concerns around sizing and cashflow goes part of the way to explain the rapid increase in structured payment options where customers are only charged for the items they retain. This is reflected in the return rates broken down by payment method. By far the highest return rates are on those orders where 'buy now, pay later' payment options are chosen. In the IMRG Benchmark data, these services see return rates around 22% averaged out across categories..

So, the perception by customers is that the return service is of a low value. If the customer were to dispatch the items themselves it would cost them £5.99¹ using the Hermes drop-off service for an item between 2-5 Kg taking 3-5 days. Royal Mails offering for a similar weight would be £10.55 for their tracked service. Both organisations also offer a doorstep collection service to consumers. The weight used for the examples were based on IMRG's Consumer Delivery Report which shows across 3.8 million orders, 23 carriers and 190 service types, the average per order is 3.65 Kg. Whilst these costs don't reflect rates that are available to commercial operators, they provide a comparison which highlights the lack of understanding on behalf of customers as to the value of the service they expect.

ReBOUND Insight

It's no secret that refund chasers are the second highest, if not the highest, cause for customer contact. Whilst you and I know there's a number of complexities that go into transporting and then processing a return, this side of the journey is completely foreign to shoppers. This is where consumer expectations become out of kilter with the physical returns process. However, retailers can still work to reach the expected 3 day refund time, often to the mutual benefit of both them and their shoppers.

Let's get something straight - shoppers often don't care if you've got your goods back. It's a harsh, but true, reality. When those calls hit your customer service teams they're not checking you've got your product, they're asking when they will have their money back. Merchants utilising an online returns process have full visibility over what their customer is returning, and when they've dropped it off. By offering your customers a

refund at the point it is first dropped off, shoppers can have their money in the bank in a matter of hours, and you can take your sweet time processing it. This is an increasing trend we saw during the Brexit transition period, when nobody knew how long border delays were going to be. Retailers recognised their shoppers shouldn't be punished for border delays, so just refunded them right up front.

Of course there's always the 'What about returns fraud?' worry. However, with shoppers getting their refund almost instantaneously, those WISMR (Where is my refund?) calls almost completely disappear. With CS calls often costing a couple of pounds a pop, the cost saving soon stacks up - so much so that you'll likely find this CS saving far outweighs any costs incurred/lost by receiving a fraudulent return. It's the classic message of trusting your shoppers until they give you a reason not to, and don't penalise the many for the few.

¹ Prices for Hermes and Royal Mails services taken from their online calculators as of 29th March 2021

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Is there any such thing as a free return?

The term 'free return' is thrown around a lot in the world of retail, particularly eCommerce. Of course, we all know that there is no such thing as a completely 'free return', someone's having to pay for it somewhere. But of course, the cost to a retailer isn't the only 'cost of return' that needs to be considered, there is of course the cost to the planet as well.

Concern for the planet is growing among customers, with shoppers now being more environmentally conscious than ever. ReBOUND's 2020 Consumer Survey found that 74% of consumers say that they intend to shop more with brands that are making their delivery and returns processes more sustainable. Interestingly, the same survey revealed that 77% of shoppers even support retailers no longer despatching return labels to

reduce packaging waste - proving that even in the eyes of the shopper, the pre-printed return label has had its day.

So what's driven this shift? In the last year alone there's been a wave of activity across the globe that has woken consumers up to the urgency of sustainability. From the Australian Bushfires at the start of 2020, followed by the release of David Attenborough's Netflix Documentary 'A Life On Our Planet' - there's no shortage of compelling events.

Of course, sustainability doesn't come for free - a notion that consumers seem to be well adjusted to, with 71% of shoppers revealing in ReBOUND's 2020 consumer survey that they'd be willing to pay more to return via a more sustainable return option.

ReBOUND Insight

Retailers can no longer afford to push sustainability to the bottom of their agenda. Where previously it might have just been enough to make returns free and refunds fast, consumers are becoming increasingly aware of a brands sustainability ethos, with 57% of consumers saying they check a retailers sustainability policy before making a purchase.

Whilst ordinarily shoppers would expect free returns, it's now the case that free isn't the be all and end all, providing the customer understands what they're paying for and the impact this is having. We speak to retailers time and time again about the importance of a returns policy - if it's written by a lawyer, you're likely way off base with your messaging. If we take ASOS as an example, last year we supported them going completely paperless - a huge change to the way their returns were done. However, they took the

time to explain to shoppers why they were making this change, the amount of paper and subsequently carbon emissions they would save by making this shift to paperless returns. The result? ASOS shoppers took to social media to praise them for the decision, and many retailers have followed suit since.

If shoppers can see the value that paying for their return is having, or are told why they no longer receive a pre-printed returns label, they're much more receptive to what your brand is trying to achieve. By putting sustainability front and center on your returns policy, you might find that you're favoured over brands that offer a free returns policy but that are ignoring the pressing issue of sustainability.

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² 25% of shoppers say that a delay in refund contributes to a negative returns experience - UPS Pulse Of The Online Shopper

³ 92% of Shoppers say the range of return options is an important consideration when deciding where to shop - ReBOUND

Conclusions

As always, the majority of customers want all the choices with no additional cost. Of course, at some point the costs associated with these services are wrapped up in the sales price of a product. As industry adapts to the requirements there will always be margin erosion. As the market settles, provision of the services becomes the norm and margins can be maintained. That is not to say that costs can't be optimised and no matter how slick the returns mechanism becomes, the biggest impact on reducing the associated costs is reducing returns in the first place.

However, they will never be completely eliminated, so what should merchants be looking to do? It is clear that every merchant will have different requirements. For example, higher returns rates come with fashion, whilst electricals and homeware are more conservative. Key areas to consider are the range of returns options; free/low cost, length of returns period, speed of refund¹ and the systems and processes required to fulfil this service².

A retailers returns process is becoming a 'hygiene factor' in the proposition. The lack of the appropriate options is more likely to be noticed than their provision. Merchants therefore need to look at efficiencies in the process, control and visibility of inventory and a clear customer proposition.



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