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Online returns eat into retailers' bottom lines

Article

The trend: Online returns cost retailers an average 21% of their order value, per a Pitney Bowes survey of US online retailers.

- That's a growing challenge given that **online returns are on the rise**: US consumers returned more than **$761 billion** in goods purchased in 2021, which accounts for an average of **16.6% of total US retail sales in 2021**—an increase of 6 percentage points from 2020, per the National Retail Foundation.

More on this: A large share (**70%**) of retailers in the Pitney Bowes survey are actively attempting to **lower the cost of returns** by addressing their reverse logistics processes (moving goods from the consumer back to the retailer or manufacturer), including their transportation and/or processing fees.

- The need to examine their returns processes is magnified in certain **categories with high return rates,** including **auto parts** (19.4% average return rate in 2021), **apparel** (12.2%), and **home improvement** and **housewares** (tied at 11.5%).

A delicate balance: With customer acquisition costs rising, it's increasingly important for retailers to avoid frustrating their customers with their returns processes.

- But that requires a delicate balance between convenience and cost, because if returns are too easy, consumers may simply order extra items with the intention to return some of them.

That puts the onus on retailers to find innovative ways to cut costs and keep shoppers satisfied. For example:

- **Target** recently began rolling out the option to make returns through its Drive Up curbside service.
- **DSW**, **Ann Taylor**, and dozens of other retailers use third-party returns management platform **Narvar**'s Home Pickup service that allows shoppers to schedule a courier to pick up return packages from their home.
- **Ulta Beauty** is teaming up with PayPal-owned **Happy Returns** to enable shoppers to return items at over 1,300 stores across the US.

US Digital Buyers' Most Recent Method of Product Return, 2019-2021
% of respondents

	2019	2020	2021
Mail (took to carrier to mail back)	40%	35%	37%
Designated alternative drop-off location (e.g. pharmacy, locker)	13%	22%	20%
In-store	11%	12%	9%
Returned to different retailer (e.g. Amazon/Kohl's)	3%	7%	15%

Note: ages 18-65 who have made an online return in the past 6 months
Source: Narvar, "The State of Returns: Finding What Fits," Nov 4, 2021
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The big takeaway: If done well, returns can represent an opportunity for retailers to build customer loyalty, said **Patty Soltis**, eMarketer principal analyst at Insider Intelligence.

- “Retention costs are always less than acquisition costs,” she said. “A seamless process for returns gives a retailer the opportunity to retain a customer. If a retailer analyzes the reason for the customer’s return, it opens up the ability to further personalize marketing, increasing the likelihood of repurchasing.”
- Of course, the best way to cut costs is to limit returns. Retailers can do so by ensuring they offer a **wealth of content** that provides shoppers with a clear sense of what a product is, how it works, and what it looks like. For some categories, such as makeup, apparel, and furniture, they might also leverage technology such as augmented reality to help shoppers ensure they want the product they’re planning to purchase.