



State of the Industry

Returns as an Engagement Strategy

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Is this report for me?

Incisiv's "2022 State of the Industry: Returns as an Engagement Strategy" report presents key findings and analysis from a study of 130+ retailers.

The study was designed to understand:

- Retailers' outlook and readiness towards using returns as a customer engagement opportunity.
- Their strategies and challenges related to improving overall returns performance.
- Their current capabilities and future plans to offer key customer experiences pre-purchase and at the point-of-return.



You will find this report especially valuable if you are focused on:

- Reducing revenue loss, enhancing profitability and improving customer experience by strengthening returns performance in a unified commerce environment.
- Offering shoppers a differentiated customer experience at the point-of-return while reducing operating cost and business risk.
- Converting return transactions into positive, loyalty-building experiences (save the sale, save the return).
- Influencing the pre-purchase workflow to shape meaningful shopper behavior.

Let's dive in.

What's in the report?



Pages 4 - 6

NEW OMNICHANNEL RETURNS ENGAGEMENT MANDATES

How a convergence of forces is pushing retailers to rethink returns as a strategic customer engagement opportunity.



Pages 7 - 13

STATE OF THE INDUSTRY: RETURNS AS AN ENGAGEMENT STRATEGY

Key takeaways from a study of 130+ retailers to understand the state of customer engagement at the point-of-return.

The status quo of returns is untenable; retailers can no longer treat returns as an unmanaged cost of doing business.



Returns will only rise in a digital-first world order.

In 2021 retail trade grew by 14% compared to 2020. Returns increased by 78%. As the digital's share of wallet increases further, return rates will continue to rise exponentially as shoppers return online purchases 3–4 times more than store-bought purchases.

Understanding the true total impact of returns.

Every time a customer returns an item, the retailer loses revenue and incurs processing and inventory holding costs; the customer's experience suffers; and, the environment is harmed. The true cost of returns spans economic (financial), environmental (sustainability), and emotional (brand) vectors.

Returns performance impacts business performance.

A strategic approach to overall returns process performance management offers a rich flywheel of value—from reducing returns incidence to redirecting returns into exchanges, reducing the cost of reverse logistics, and preventing customer churn through an improved returns experience.

Returns are an integral part of the new-age customer experience, and a unifying agent for omnichannel commerce.



Competing on convenience alone can be costly.

Fast, free and easy returns are an integral part of the “ultra-convenient” promise of modern retailing. However, as today’s exceptional becomes tomorrow’s expected, the cost of delivering just the table stakes continually rises. Retailers have the opportunity to rethink returns as a personalized service they offer customers based on the overall context of their relationship, rather than as a one-size-fits all process.

Keeping is better than returning.

Even though shoppers appreciate a seamless returns process, they would much rather not have to return in the first place. Retailers must provide pre-purchase assistance – both digitally (e.g. fit guides, accurate descriptions, customer reviews) and in-person (e.g. stylist consultation, in-store trial, in-store product experts) – that help customers make more confident purchase decisions that lead to fewer returns.

Returns are a true omnichannel workflow.

Returns is a customer-facing operational process that cuts across digital, store and contact centers. It is an ideal use-case for retailers to pilot and scale their next-generation unified commerce processes, capabilities and experiences.

Enhancing customer retention and improving profitability are retail's new growth mantras; and returns are central to both.



Return transactions are a form of paid media.

Whether a customer initiates a return online, in person at a store, or via the contact center, retailers must treat the ensuing returns transaction as paid media. On top of the customer acquisition fee already paid, there are obvious costs associated with the return process as well. Not taking total control of customer engagement at the point-of-return is akin to paying top dollar for a Google keyword, and then allowing clicks to go to a 404 “page not found” error.

Returns are a leading indicator of customer churn.

It has never been more expensive to acquire new customers, and never easier to lose loyal ones. Returns are a major trigger for customer churn; 42% of shoppers will stop shopping a retailer upon multiple retailer-induced returns. Retailers must therefore treat return transactions as an opportunity to prevent churn.

Optimizing returns performance helps improve profitability.

Retailers can reduce revenue impact of returns by encouraging shoppers to exchange instead of returning, save logistics cost by incentivizing them to return in-store, and improve profitability by reducing returns incidence.

How strategically do retailers approach their overall returns performance? And, are they equipped to convert return transactions into customer engagement opportunities?

Incisiv surveyed senior retail industry executives to understand their outlook, priorities and challenges related to improving customer engagement at the point-of-return.

131

Total respondents

53% from companies with more than 1 billion in annual revenue

91% Director level or above



Findings from this survey form the basis of the analysis presented in this State of the Industry report. Unless stated otherwise, all data in this report is from the “Incisiv and Appriss® Retail State of the Industry Survey: Returns as an Engagement Strategy”. [Detailed survey methodology](#), industries covered, and respondent firmographics are available at the end of the report.

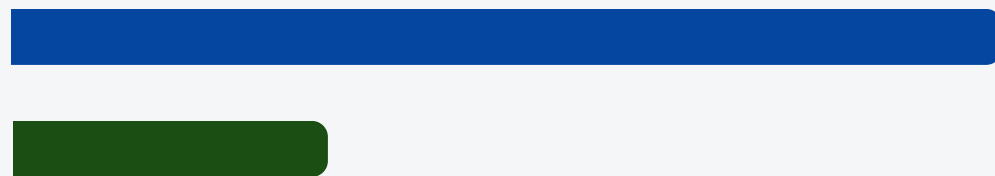
Even as the strategic importance of returns rises, retailers are flying blind, head-first into uncharted territory.

Online order return rates are 3x - 4x higher than store-bought purchases. A shift in channel share towards digital means retailers' return rates are growing faster than their revenue.

Retailers treat returns as a "cost of doing business". However, they see a significant improvement opportunity in terms of optimizing returns.

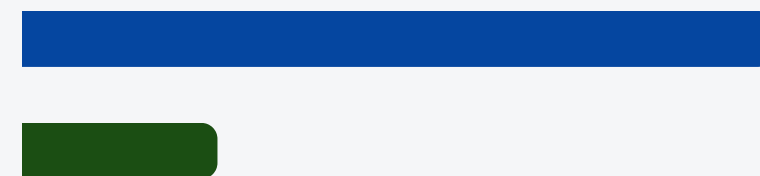
Retailers have limited understanding about their returns performance, and are therefore ill-equipped to improve returns performance.

Return rates are growing faster than revenue growth rates for **91% of retailers**.



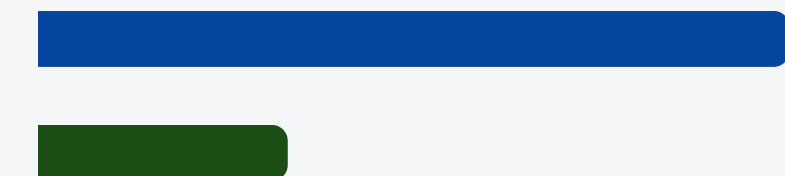
29% have an end-to-end strategic returns management program in place.

69% of retailers treat returns as a cost of doing business.



Only 18% operate their major categories at optimal return rates.

69% of retailers lack a good understanding of the root cause of their returns.



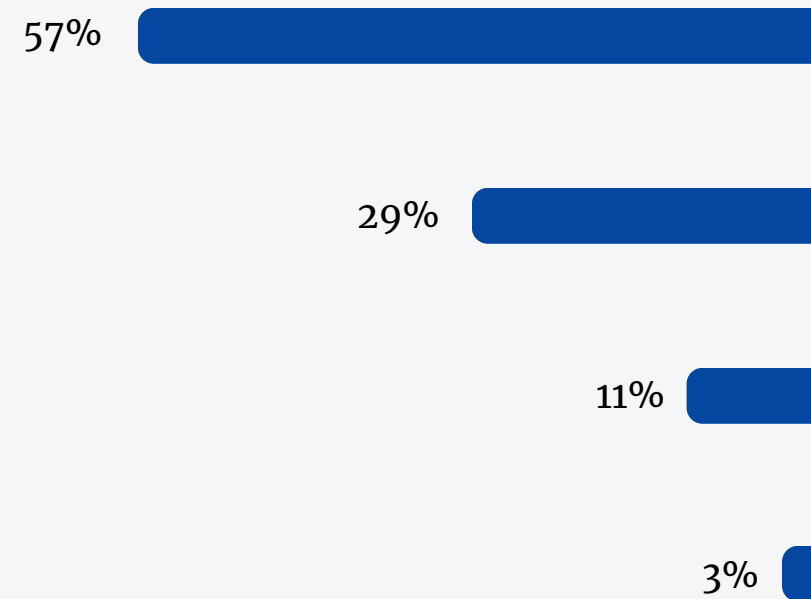
And, only 23% use returns intelligence to make smart customer experience decisions.

Retailers treat the point-of-return with a "one-size-fits-all" approach, which is a massive missed opportunity.

Consider these scenarios: Shopper A, who has a history of frequent returns, bought three sizes of the same item to try for size, and then seamlessly returned two within the standard return window. Shopper B, who is in the 90th percentile of the retailer's highest spenders, faces resistance returning an item that is out of the standard return window.

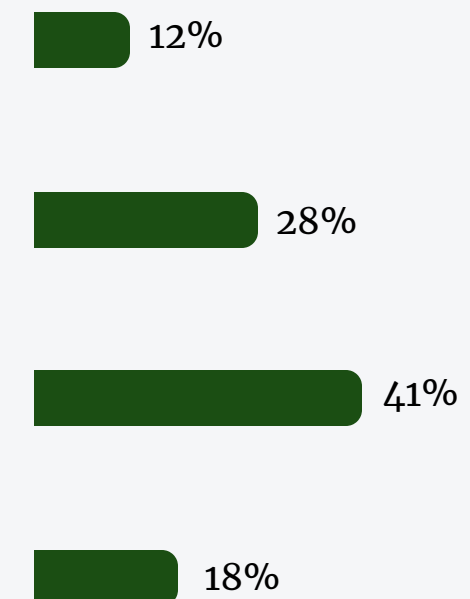
Standardized returns processes are blunt instruments that tend to penalize high-value shoppers. Retailers must move towards precise, contextual, personalized experiences at the point-of-return.

How retailers handle return transactions at the point-of-return **today**.



- Fairly standardized, with a one size fits all returns process with rare judgment-based exceptions
- Somewhat flexible, with rules-based human decisions, offers and incentives based on basic customer or order data
- Quite flexible, with artificial intelligence assisted human decisions, offers and incentives
- Highly personalized, with automated artificial intelligence decisions, offers and incentives

How retailers would like to handle return transactions at the point-of-return **in the future**.

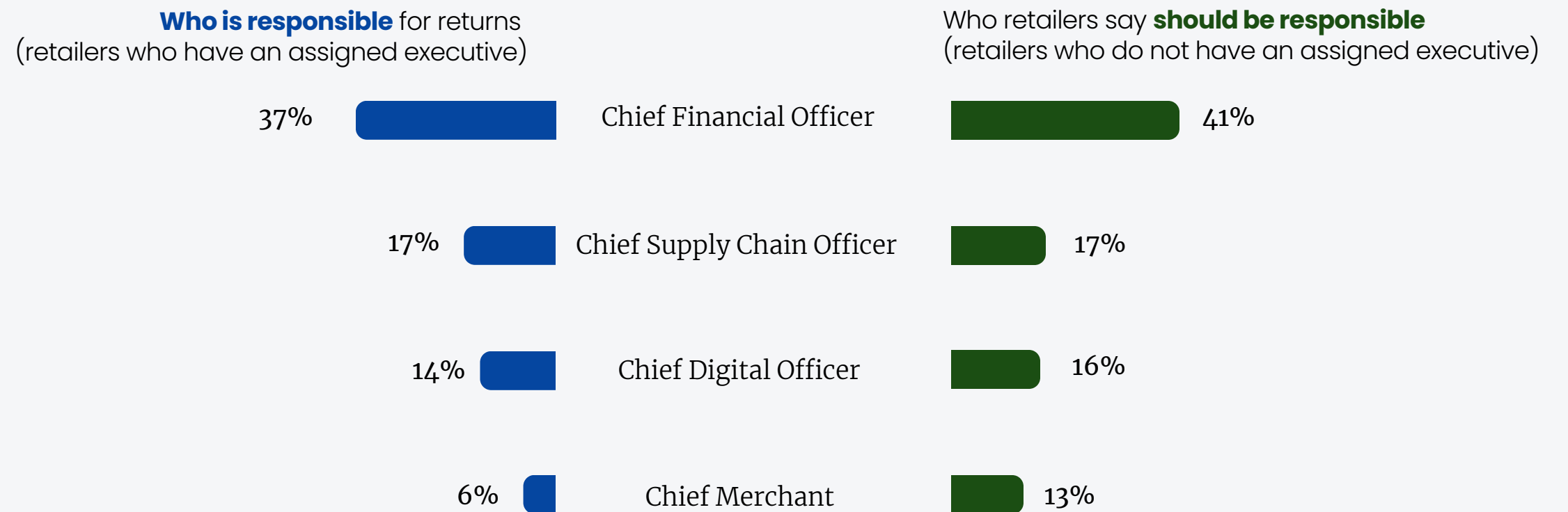


Lack of clear executive ownership is at the heart of retailers' myopic view of returns.

Even though retailers understand the strategic importance of returns, few know who to turn to internally as there is a lack of executive ownership for overall returns performance.

Those with assigned executive responsibility overwhelmingly favor the CFO as the primary custodian of overall returns performance. While this makes sense from a purely financial perspective, retailers may want to consider business executives such as the Chief Digital Officer, the Chief Supply Chain Officer, or the Chief Merchant as an alternative to, or a close ally of, the CFO to ensure customer experience aspects are well represented.

64% of retailers say returns is a problem they have been tasked to address, but only **27%** have an executive responsible for overall returns performance.



There is a huge gulf between retailers' intent and their ability to execute in terms of improving overall returns performance.

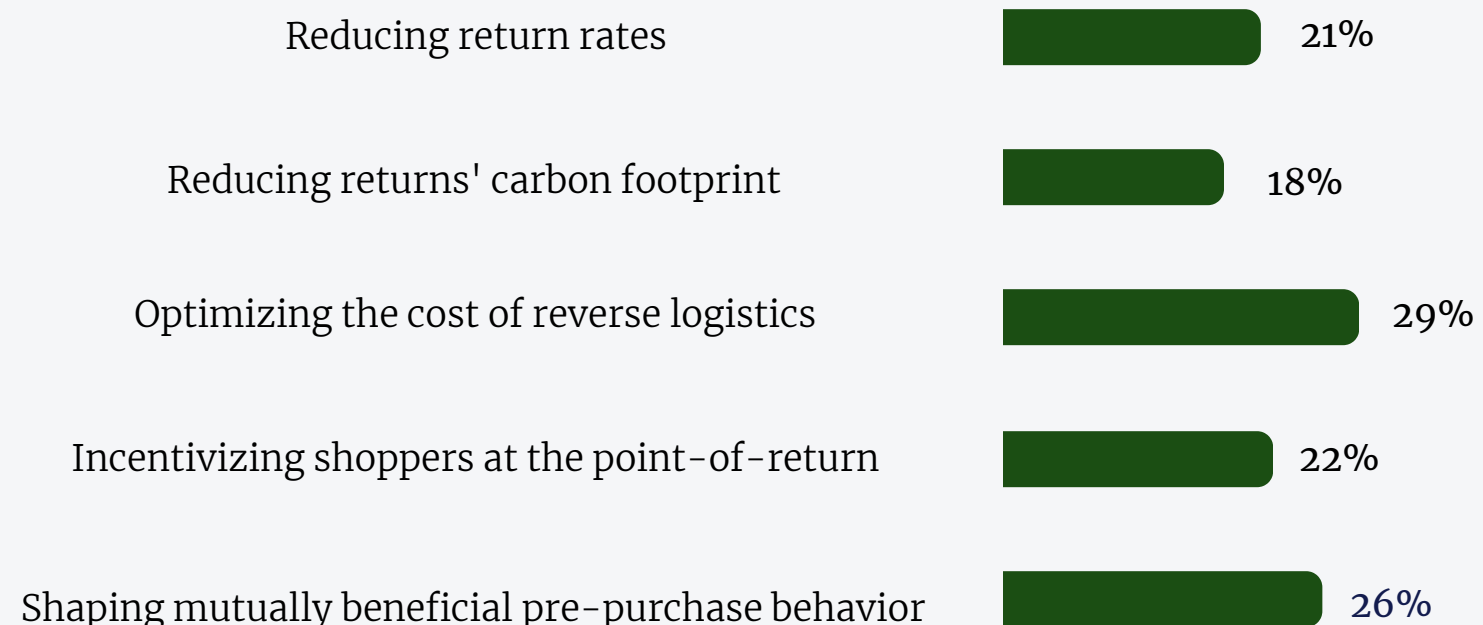
Retailers clearly recognize the value of improving returns performance – from the most strategic objective of reducing return rates to the more tactical opportunity of incentivizing shoppers at the point-of-return.

However, they are currently equally inept at both the strategic and the tactical. This significant gap between intent and capability is a clarion call for targeted investment in process improvements and technologies to help improve overall returns performance.

How **important** retailers say each of the following are in terms of improving returns performance



How **effective** retailers say they currently are at each of the following parts of the returns process



A framework for shaping pre-purchase shopper behavior to improve returns performance.

Offer digital assistance

Use digital technologies and insights to provide assistance and tailored experiences to shoppers online. **22% of retailers** offer digital fit guidance and other shopper assistance to help reduce "bracketing" (the act of buying multiple similar or identical products, intending to keep one and send back the rest).

Use advanced analytics to make highly relevant product recommendations, discounts and offers. **Only 9% of retailers** offer discounts at the point-of-purchase to shoppers who are willing to waive their right to return specific products.

Use stores as showrooms

Use stores as showrooms and hubs of service to reduce friction points that cause returns in the first place. **21% of retailers** offer an incentive to shoppers to convert an online order to store pick-up.

Nordstrom Local is a convenient service hub that offers easy online order pickup, alterations, returns and exchanges, try-on, and styling services under one roof.

Even though **61% of retailers** offer products and pricing, **only 17%** encourage shoppers to visit a store for product trial and discovery in the pre-purchase journey.

Detect ordering anomalies

Understand shopper behavior patterns to detect and address anomalies across the ordering journey. **6% of retailers** recommend shipping insurance to shoppers with higher than average history of lost or other order claims.

Identify orders at high risk of future return, and intercept them in a manner that reduces risk without impeding the customer experience. For instance, **19% of retailers** offer customized order workflows for high-risk purchases offering an additional order confirmation page with right-to-return waiver for an order with outlier item quantities.

A framework for turning return transactions into engagement opportunities at the point-of-return.

Personalize the returns experience

Forward-thinking retailers personalize the returns experience based on context, including customer lifetime value and order profitability. For instance, DSW offers extended free online return windows to its VIP gold (90 days) and VIP Gold Elite (365 days) customers.

41% of retailers offer shoppers an exception to return policies at the point-of-return based on their past shopping history. However, **only 23%** take the next step by personalizing returns policies pre-purchase based on similar customer data.

Encourage in-store returns

Improve profitability by encouraging in-store returns that reduce reverse logistics costs and increase odds of incremental "attachment" sales.

A [study](#) conducted by Appriss Retail, using 2019 and 2021 data, shows purchase after return rates when the consumer returns in-store stand at 20%, but at only 1% when returning online. However, **only 29% of retailers** encourage shoppers to make an in-store return versus an online return.

Once in-store, offer alternative possibilities such as a "one-time-only" exclusive offer for a higher-value exchange.

Expand "save-the-sale" to returns

While retailers have invested heavily in "save-the-sale" capabilities as relates to out-of-stock scenarios, "save-the-return" continues to be an underinvested but highly valuable opportunity area. **Only 18% of retailers** provide a time-bound offer in lieu of a refund at the point-of-return.

Incentivize shoppers to exchange instead of returning by offering a variety of options ranging from extended store credit to exclusive promotions for their next purchase. However, **only 21% of retailers** have the capabilities in place to redirect a return into an exchange.

What's Next

The research makes it clear that retailers can benefit from flexible returns policies, as well as intelligent pre-purchase strategies designed to reduce the chance of returns.

With advances in machine learning and artificial intelligence, retailers now have options to adapt policies and incentives in ways that were not possible in the past. Technology solutions deliver real-time, data-driven insights, allowing retailers to recognize low-risk behaviors and offer more lenient policies at the time of purchase. Retailers can exceed customer expectations while protecting profits from high-risk behaviors like return abuse or claims fraud.

The same behavior data can be used to tailor purchase-after-return incentives based on the profitability of the consumer or the retailer's desired return path. In short, a strategic returns strategy is the retailers' secret weapon for converting returns into engagement opportunities and improving overall returns performance.

To learn more, book a meeting with Appriss Retail, or visit <https://apprissretail.com/solutions/engage/>



Survey methodology.

Incisiv conducted a hybrid online + Computer Aided Telephonic Interview (CATI) survey of 131 retail executives in the United States. The study was conducted from July 26, 2022 – Aug 18, 2022.

Respondent Distribution by Number of Stores

51 - 200	15%
201 - 500	21%
501 or more	50%

Respondent Distribution by Annual Revenue

\$100 MM - \$499 MM	29%
\$500 MM - \$999 MM	18%
\$1 B - \$4.9 B	31%
\$5 B +	22%

Respondent Distribution by Designation

C-Level or SVP/EVP	18%
VP	26%
Director	47%
Manager	9%

Retail Segments Included in Survey

Apparel & Accessories Retail	General Merchandise Stores	Toys & Games
Automobile Parts Stores	Home Improvement & Hardware Retail	Vitamins, Supplements & Health Stores
Consumer Electronics & Computers Retail	Jewelry & Watch Retail	Wholesale Retailers & Warehouse Clubs
Department Stores	Office Products Retail	
Drug Stores & Pharmacies	Pet Products	
Furniture	Sporting & Recreational Equipment Retail	



ABOUT INCISIV

Incisiv is a peer-to-peer executive network and industry insights firm for consumer industry executives navigating digital disruption.

Incisiv offers curated executive learning, digital maturity benchmarks, and prescriptive transformation insights to clients across the consumer and technology industry spectrum.

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ABOUT APPRISS RETAIL

Leveraging more than 20 years of data science expertise, Appriss® Retail transforms ecommerce and omnichannel consumer interactions by providing real-time, actionable recommendations that reduce fraud, drive efficiency, and maximize profitability. The company's Software-as-a-Service (SaaS) solutions for behavior-based recommendations (BBR) and exception-based reporting (EBR) allow retailers to use machine learning and artificial intelligence to stop, modify, redirect or reward the actions of employees and consumers. Appriss Retail serves a global base of leading specialty, apparel, department store, hard goods, big box, grocery, pharmacy, and hospitality businesses in more than 150,000 physical and online locations in 45 countries across six continents.

For more information about Appriss Retail visit:

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