



A white paper presented by

**RetailWeek**

**Clippa**

# The future of returns



FOREWORD



It has been said that returns management is the new battleground for competitive advantage and an area in which retailers must continue to plan and innovate to compete in the constantly evolving multichannel marketplace.

Amongst considerations, rethinking warehousing has to be a top priority. Most retail logistics facilities were designed with 'supplier best practice' as a key component in order to allow for the efficient and cost effective flow of product through the distribution centre.

The reality of today is that a retailer's return stream is likely to be its largest volume 'supplier'.

The high volumes of unanticipated, disparate stock, from an assortment of inbound carriers and without the benefit of 'supplier compliance', does pose a significant problem.

That problem is made more challenging by the fact that the returning customer has an expectation of a quick process to refund his or her money – an efficient and slick app for ordering needs to be matched by an equally slick returns process.

Returns are a real and growing challenge. And with overall online return rates of between 25% and 50%, it's a challenge that is business-critical.

Consumers view their homes as changing rooms and therefore expect that returning goods should be

easy and rapid – the final customer touch-point with a retailer is the returns process. A good experience will create repeat orders, a poor experience can create damaging social media noise.

Before the explosion of online activity, retailers could have been willing to treat returns as a black hole – unwanted and frustrating, but ultimately a cost of doing business and a loss they had to bear. Now, the scale of the problem is too large to ignore.

However, if handled correctly, an efficient returns process can promote customer loyalty while maximising resale value and minimising losses.

To tackle the issue without the need for re-engineering a retailer's existing distribution centre, a partnership approach with a specialist returns centre could be the answer.

A returns hub is set up to allow for the rapid processing and reworking of goods – repacking and getting ready for resale at the original, or a similar retail value.

Process time is key – the customer is seeking a refund and the retailer wants the inventory back for resale as soon as possible. The returns hub needs to be extremely flexible, be interfaced directly to the retailer's systems and be seamless in operation.

But ultimately, getting returns right can take cost, complexity and risk out of the multichannel supply chain.

• **Tony Mannix, chief executive, Clipper**

INTRODUCTION

There are many battlegrounds in today's multichannel world, but returns management is one of the latest to emerge in the fight for customers' spend and loyalty. No longer the forgotten part of the retail journey, retailers are increasingly looking at how to improve their returns process and use it to rise above the competition.

Returns have always been an inevitable part and parcel of a retailer's operations. While they have always posed operational headaches, in the multichannel landscape, returns management has become increasingly complex as well.

Today, unsuitable, faulty or undesired items are not always returned to the store they were bought in for a face-to-face refund, and long gone are the days of catalogue shopping with 28-day returns options.

Returns are, unfortunately for retailers, big busi-

ness. According to the IMRG report *Are returns the biggest threat to commerce?*, industry analysts have predicted online return rates of anywhere between 25% and 50%.

But many retailers are yet to appreciate the true impact returns have on their business and the benefits they can reap by optimising the returns process – an optimisation that goes beyond mere reverse logistics. It encompasses an end-to-end business process and can have a very real impact on net margins. Putting the right systems and processes in place to improve efficiency is no small task and can involve significant financial investment. But the retailers that make that commitment are finding they not only reap financial rewards, but also provide an expected level of customer service that is vital in keeping ahead of the competition.



## THE CHALLENGE OF RETURNS

**T**he rapid rise of multichannel has had an enormous impact on returns management. Today's multichannel shopper wants convenience, flexibility and speed.

The sophistication of the front-end buying experience across different platforms has resulted in equally high customer expectation about the returns process, as Clipper chief executive Tony Mannix points out. As more retailers make the buying process ever-slicker, they create the impression that returns can be just as quick.

Consumer behaviour has also evolved. Online shoppers increasingly adopt a 'buy now, return later' approach. In fashion especially, buying an item in multiple sizes to try on at home has contributed to rising returns numbers.

According to recent IMRG figures, 25% to 50% of goods sold online are returned, and according to Verdict research, 43.4% of clothing and footwear shoppers have returned items bought online in the past year. Verdict also claims clothing returns were worth £1.16bn in 2013, while electricals returns totalled £733m in the same year.

"What online shopping has done is make people acutely aware of logistics as part of the service experience," says Sean McKee, head of ecommerce and customer service at Schuh.

"Ease of delivery and ease of bringing things back is probably more of a hygiene factor than a competitive advantage, but if you get it wrong you get it very publicly wrong," he adds.

And of course it is no longer acceptable multichannel practice to run a retail business in silos, adds Louise Salt, head of ecommerce at Whistles. Whether in shops, concessions or online, customers see the brand as one and expect to be able to shop – and return – the same way via all channels.

In addition, says Ben Dreyer, operations director of fashion retailer Boden, "people are all the time

expecting it to be easier and more immediate".

Meeting this customer expectation is crucial. A survey of more than 1,000 online shoppers by Collect+ found that three quarters of online shoppers are more likely to shop with a retailer that offers free returns.

In addition, 66% of online shoppers said they were put off buying from a retailer if the returns process was unclear or complicated.

"Returns are the new battleground for retail," says Mannix. "The sending back piece is the final touch-point a customer will have with a retailer, and therefore that experience, good or bad will resonate with them."

With the power of social media providing instant feedback to a large audience, that final touch-point is especially important.

However, the returns process is not only worth getting right to satisfy consumer expectation. It has a tangible effect on the bottom line.

"In the past, it's been very much a forgotten part of the retail world," says Neil Ashworth, chief executive of Collect+ and former operations director at Tesco. "But as cash flow and working capital become increasingly important to retailers, returns give the retailer a real opportunity to recover from the consumer what are called 'unwanted items', but often very valuable items, back into the supply chain – and back into full value."

Rising returns rates mean that the returns stream is often a retailer's biggest supply stream, so returns should be managed that way.

James Harper, head of returns at Shop Direct, says that the retailer handles more than £500m of stock in returns every year, which "makes returns the largest single supplier to our business. It's crucial to reprocess returns to minimise waste".

In fact, every function within Shop Direct's business has an impact on minimising returns.

**THE ROLE OF WAREHOUSING**

Despite the growing realisation of the impact and value of returns on customer perception, many retailers are still slow to overhaul the systems and infrastructure associated with them, especially their warehousing set-ups.

Dealing with returns is a complex operation, involving numerous processes (see Clipper Returns Hub infographic below). These include identifying items, often un-boxed, sorting and grading them, repackaging, testing or re-labelling them, repairing, redistributing and reselling them.

In addition, items that are not suited for resale in-house are often re-worked for sale via other channels, such as eBay.

These processes are costly and many retailers struggle to dedicate the right resources, including warehouse space, to them. In addition, the returns stream itself is “always chaotic”, says Mannix, and “massively more complex” than a traditional, well-disciplined and orderly supplier stream.

Yet many retailers are not geared up to deal with this change of requirements. “Most retailers tend to

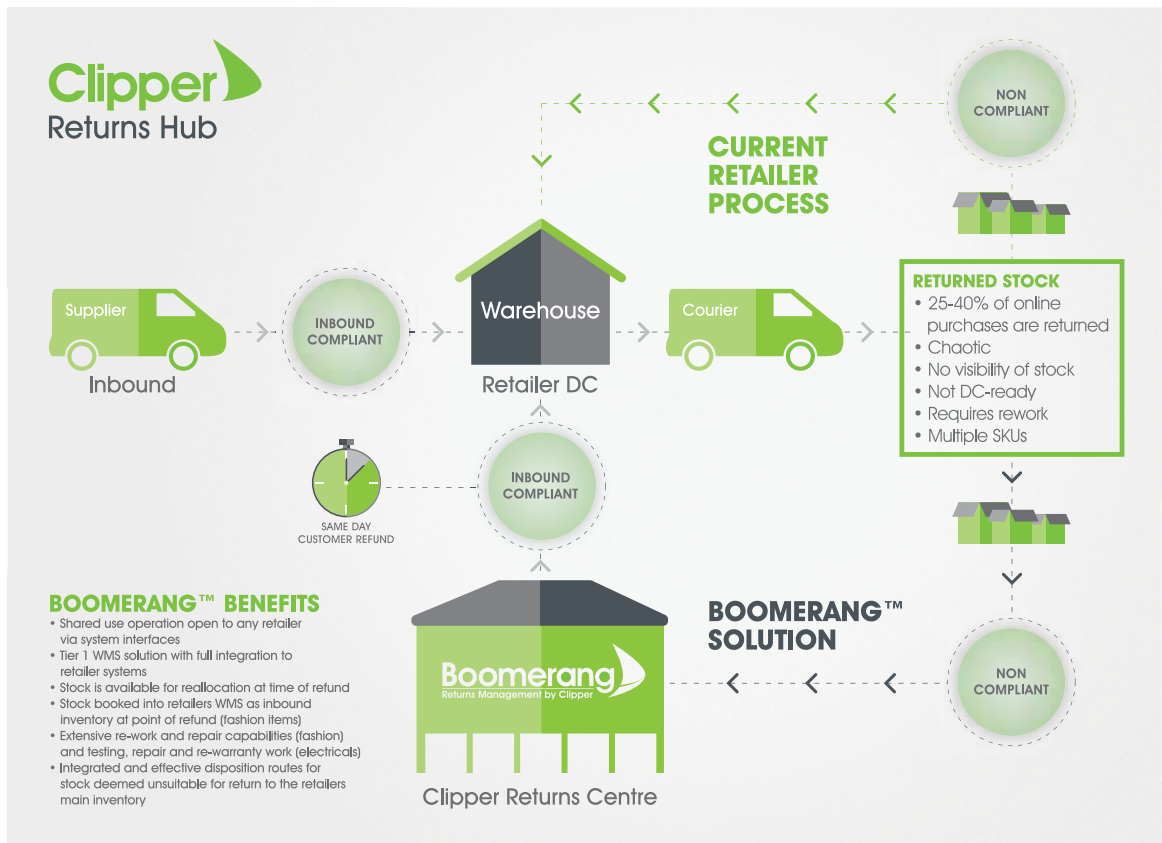
put their returns operation tucked away in a corner of their normal distribution centre, and because it’s a very complex process, it tends to become a bit of a forgotten corner of the operation,” Ashworth says.

“Returns are a huge logistical challenge, and putting them into a normal operation that’s really dedicated to outbound logistics can be difficult, because you’re trying to swim against the flow.”

Those that have already invested in state-of-the-art returns operations include Dixons Retail, which handles outgoings as well as returns for Currys and PC World in its distribution centre in Newark, Nottinghamshire. Paul Read, head of central operations and reverse logistics at KnowHow Home Services, which provides the after-sales support for Currys PC World, describes the centre as a “truly one-stop shop”.

“This has allowed us to streamline the process, and has had great benefits for us and our customers as well as our suppliers,” he adds. “The fact that we have everything under one roof is the most important thing.”

However, not all retailers want – or are able to –





## European Returns Hub

### EUROPEAN RETURNS HUB BENEFITS:

- Improved customer experience - stock checked and refunds credited faster
- Optimises the returns flow
- Shorter returns lead times frees up inventory and improves working capital
- WMS integrated with retail systems to provide stock visibility
- European Returns Hub acts as a European fulfilment centre, minimising stock returns to the UK
- Extensive re-work capabilities
- Shared use operations supports multiple retailers
- Stock is consolidated before transportation to the UK in a DC-compliant state - reduces cost and complexity
- Stock deemed unfit for re-sale can follow a European disposition route



### CURRENT RETAILER PROCESS

- Customer returns from EU to UK
- Multiple stock receipts
- Longer lead times
- Outbound e-fulfillment back to EU

### EUROPEAN RETURNS HUB

- Customer returns from EU to Germany
- Stock received, checked and ready for re-sale faster
- Stock held for EU fulfillment or consolidated prior to return to UK

make such a financial and operation commitment to overhaul their warehouse set-up, so increasingly retailers look to outsource their returns processing to dedicated returns distribution centres run by logistics service providers.

Clipper's Boomerang™ service, for instance, which has attracted Asos as its flagship client, handles, reprocesses and repackages returns, identifies faults and rectifies them, and reworks items. For other clients, Clipper also disposes of items not fit for conventional resale via other portals, such as Genesis-UK, its eBay store dedicated to its retail customers.

Such operations allow retailers to access expertise in a variety of processes, without having to set them up themselves, and take advantage of significant scale efficiency. In addition, more retailers are selling internationally, with European online retail sales forecast to grow 11% a year over five years from 2012, to €191bn (£151.8bn) in 2017, according to Forrester Research and eMarketer. Clipper has also launched a multi-user returns hub in Germany, so returns can be re-deployed nearer to the customer (see Clipper European Returns Hub infographic above).

# 87%

of online shoppers rate a free and easy returns policy as important or very important

(Source: Verdict's *The Future of Online and Multichannel Retailing* report)

### ACHIEVING STOCK VISIBILITY

The solutions from logistics providers can only be as good as the systems put in place by retailers themselves. Ensuring that the underlying IT, systems and processes are robust and can deal with an increasingly complex retail and returns environment is one of the key pillars of a successful returns management system, says Read. And achieving accurate, real-time stock visibility across all channels is one of the main goals.

Schuh, for example, has a single pool of stock that is channel-agnostic and operates in real time, says McKee. So if an item is returned, whether online or in-store, it is scanned back in and immediately added to the live inventory in that location. Items that arrive back in the Schuh distribution centre are processed by a sophisticated sortation system and can be turned around on the same day. "It becomes live very quickly," he adds. "And that's key, because inventory that's in transit, or inventory that is inaccessible, is useless."

Some retailers are able to re-sell their stock as it is on its way back to their operation, with return management authorisation processes allowing them to anticipate exactly which items are unwanted.

#### Shop Direct: a lesson in returns



Shop Direct has a long-established, standalone returns centre in Oldham, Greater Manchester, employing more than 500 people. Capitalising on returns is part of the retailer's strategy, says James Harper, Shop Direct's head of returns, and central to that is getting goods back on sale quickly. Shop Direct succeeds in reselling more than 96% of returned fashion items, he adds.

Every return is examined and immediately credited back to the customer's account. After initial inspection, further processes at the centre include steam-cleaning, spot-cleaning, re-boxing or re-bagging and minor repairs. The average turnaround time, from receiving an item at the returns centre to shuttling it back to one of the fulfilment centres to be resold, is around six hours.

66%

of online shoppers are put off buying from a retailer if the returns process is unclear or complicated

(Source: Collect+ Returns and Click & Collect report)

### COLLABORATION IS KEY TO SUCCESS

Another crucial element of returns management is ensuring the customer gets the refund as quickly as possible.

As Boden's Dreyer puts it, speed and accuracy of the refund is a key area all retailers need to get right, because "when you start messing around with people's money, people aren't happy about that". It's all about systems management and making it as seamless and clear to the customer as possible.

Working closely with logistics service providers can also make a great difference in speeding up the refund process. For example, some retailers credit a customer's account as soon as they drop off their items with third-party service providers, such as Collect+, which allows customers to return items at more than 5,500 local corner shop locations across the UK.

Such collaboration is also a growing emphasis among retailers on the logistics side, as speed and efficiency rely heavily on the correct approach by those service providers.

"Maintaining a faultless relationship with logistics partners is crucial," says Salt. "It is a real benefit that they not only provide the required service but have a real understanding and passion for the brand with a need to drive sales."

Dixons also works hard to build strong relationships with couriers and third parties, including ensuring that all processes are aligned, says Read, and that there is collaboration on any issues that might occur. "This allows us to stay on top of the process, address any issues as they arise, and continue to have a good oversight of the products, returns and data. Importantly, it also ensures that the customer experience remains of high quality."

## UTILISING DATA

**C**ultivating and mining the right data to minimise returns in the first place is another area retailers are increasingly focusing on. “The need for absolute accuracy in product data is hugely important,” says Ashworth.

“Not just so you can create the right image and impression online, but so you can make sure the customer is buying the right product, and product data actually reduces returns.”

Up-front help on sizing and product information plays an important part in Schuh’s drive to minimise returns, with the retailer about to roll out peer reviews and sizing feedback from customers on its website, in addition to existing video content and sizing guidance.

“We want to sell customers the item as best we can in the first instance, and there is no room for complacency in returns,” says McKee.

“Customers will be happier if you get the right thing first time.”

At Dixons Retail, minimising returns is about expectation management, says Read. This entails excellent service and advice around the products as well as the return policies and processes.

“It is important that the customer receives all relevant information and detail prior to purchasing a product, to ensure they are making informed decisions.” Customer support and education is also important, he adds.

Increased personalisation will start to play an interesting role within returns, just as it has within retail sales, maintains Ashworth. For example, if someone consistently orders the wrong size, a retailer should eventually be in a position to send products that are more appropriately sized as it starts to know the customer at a more granular level.

“A lot of the challenge is around understanding consumers, and managing data in different ways so that you can start to personalise the experience,” says Ashworth.

## CONCLUSION

**W**ith IMRG predicting UK online sales will grow in size up to four times over the next eight years, to £125bn, it’s clear returns will remain a significant part of retailers’ operations. Schuh’s McKee believes free returns will be the norm in a few years’ time for all retailers. “Look what’s happened with free delivery,” he says. “It might not swing a sale but it will lose you one if you don’t offer it.”

Returns can also be a good thing. “I don’t see returns as a ‘dirty word’,” says Salt. “The easier you make it, the better it is in terms of customer retention and, if an item is bought online and returned to store, which is increasing significantly, then it’s a footfall driver with the potential of additional sales.”

Understanding the costs associated with returns and the opportunities that retailers write off if they don’t deal with returns effectively will only become more important, especially as retailers increasingly look to international growth.

At Whistles, around 15% of its online business is now international and receipting those returns back efficiently is key, says Salt. Dealing with international returns is also Boden’s main challenge, says Dreyer, with more than half its sales being abroad.

So it is imperative that retailers get on top of the returns challenge. If they do, it can have a great impact on net delivered margins. “Net margin improvement of 0.1% to 0.3% is not unusual in a retailer, and that’s a retailer delivering somewhere between 3% to 6% net margin,” says Ashworth.

“That would be a 10% improvement on their net delivered profitability, so getting hold of returns is hugely important.”

Returns can no longer be languish in a forgotten warehouse corner. The UK is a leader in multichannel retail, so offering the returns experience to match should be at the forefront of business thinking. More retailers are realising this, to the great advantage of the consumer – and the bottom line.



## **About Clipper**

Clipper is a leading provider of value-added logistics solutions and e-fulfilment services to the retail sector, with an expanding presence in Europe.

The business provides a partnership approach to its customers within the fashion and general merchandise multichannel sectors, and its blue chip client base includes Asos, The John Lewis Partnership, Asda, SuperGroup, Tesco, Whistles, Morrisons, New Look, Harvey Nichols and Liberty.

By working to understand the complex needs of the retail industry, Clipper looks to innovate within the retail supply chain by developing bespoke solutions to solve unique challenges. Boomerang™ is Clipper's proven reverse logistics solution, which can help retailers to reduce the cost, complexity and risk created by returned goods.

To find out more visit [www.clippergroup.co.uk](http://www.clippergroup.co.uk) or call our chief executive officer, Tony Mannix, on 0113 204 2050.

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