E-commerce Returns 2024

Measuring online retail's returns reaction

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Introduction

As e-commerce has grown, so have e-commerce returns. The issue was always present, but it seems to have reached a fever pitch in the last year. For a time, it seemed like free returns and generous policies were the solution. By making returns free and giving customers a long time to make returns, retailers paid a cost in returns processing but were rewarded with more easily acquired customers, who were more loyal and spent more than they otherwise would have done. That was the theory, anyway, put into practice by major players like Amazon.

That didn't last. In the last couple of years, we've seen a sea change as leading businesses rolled back their free returns, implemented or increased fees, and tightened up their policies. In the last 12 months, 89% of our US retail respondents have done exactly that.

So returns ought to be in a better place now. Retailers have taken concerted action, almost as one, trying to disincentivize returns and limit their impact on margins. And yet, the majority of US retailers saw return rates increase in the last 12 months — just 13% say they dropped. Almost two thirds of retailers (63%) say that returns remain a significant issue for their business.

It appears that e-commerce returns remain a pressing issue for retail, and that the set of policy levers that retailers are using are not enough, on their own, to overcome the complex and cross-functional challenges posed by returns.

Digging under the surface, we find that the majority of US retailers (53%) haven't digitized some key returns functionality, imposing limitations on their ability to reduce the cost of returns and maximize their profitability. Almost two thirds (63%) aren't looking at customer lifetime value as a key performance indicator for returns — perhaps because the data to draw these conclusions simply isn't available to them.

This report offers a comprehensive overview of the scale of the challenge of e-commerce returns, how retailers are prioritizing returns, how they have reacted thus far, and what their proposition to customers actually entails; all based on responses we received to a survey of US online retailers.

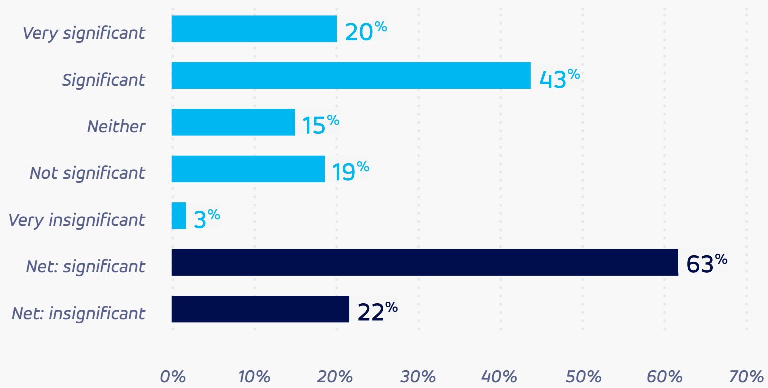
Our customers have told us that returns is a critical issue, and we're committed to solving e-commerce returns challenges for retailers, helping them to create and power a returns process that makes returns profitable, sustainable and effective.

Tim Robinson,
Corporate Vice President,
Blue Yonder

The Data

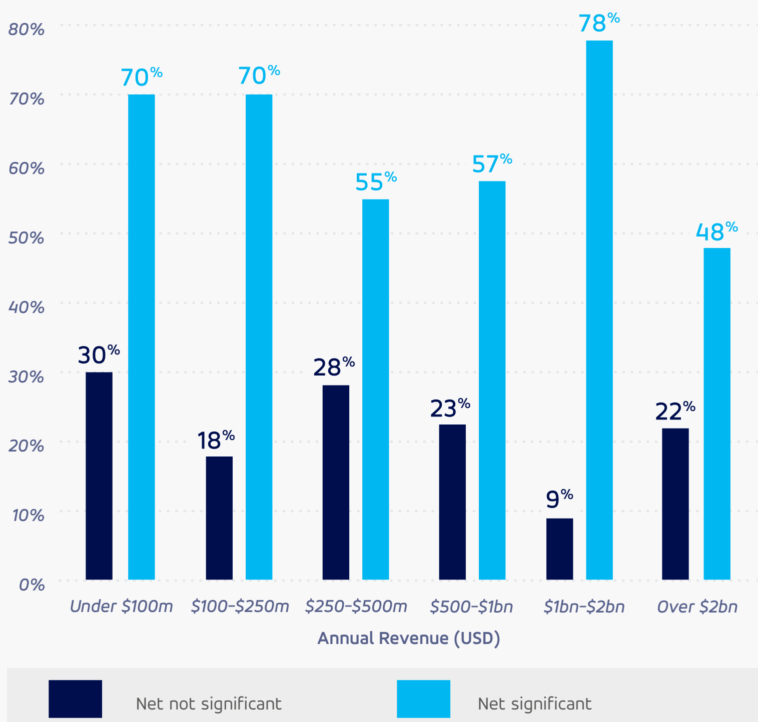
Returns are a major problem for e-commerce businesses — at every scale

To what extent are e-commerce returns a significant problem for your business?



63% of US online retailers say returns are a "**significant**" or "**very significant**" problem.

Significance of returns by business size



Returns were most likely to be deemed a significant issue by respondents working in businesses transacting between $1 billion and $2 billion in annual revenue.

Smaller retailers were more likely than average to be significantly affected — 70% of those whose annual revenue was below $100m said returns were a significant issue.

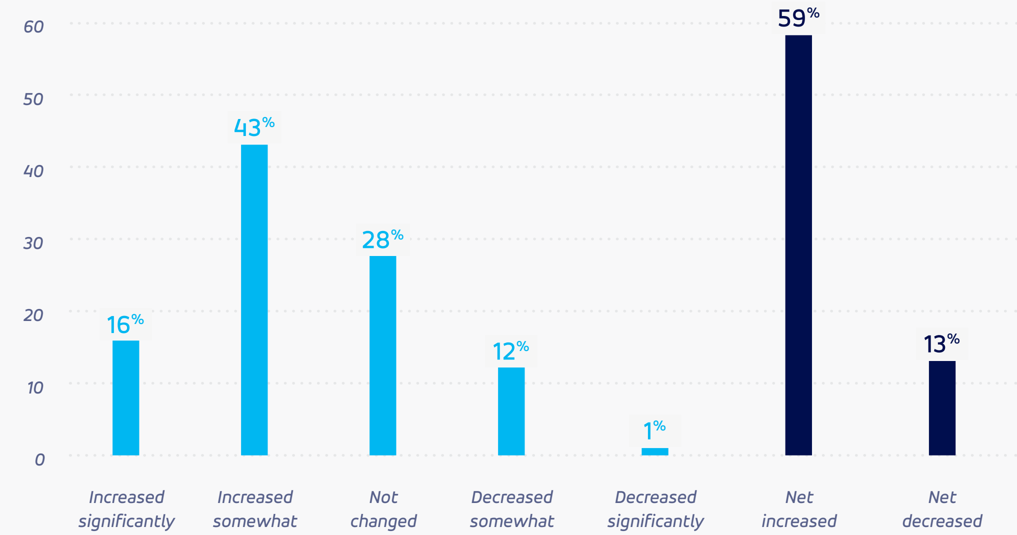
The very biggest retailers (over $2bn annual revenue) were the least likely to say returns were a major pain point in 2023, although 48% still reported significant challenges, and just 22% of respondents at this level said they were not a significant problem.

What return rates are online retailers experiencing?

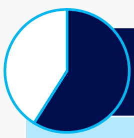
The average estimated return rate reported by our survey respondents was **22%**

A worsening issue

In the last 12 months has the rate of returns changed?

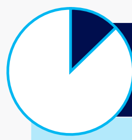


This is consistent across businesses of different sizes. Retailers with $250–$500mn in annual revenue were most likely to have seen an increase in return rates in the last 12 months (65%), while those with over $2bn were the least likely — albeit the majority of this group still noted increased returns (52%).



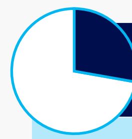
59%

say return rates have increased in the last 12 months



13%

see them dropping

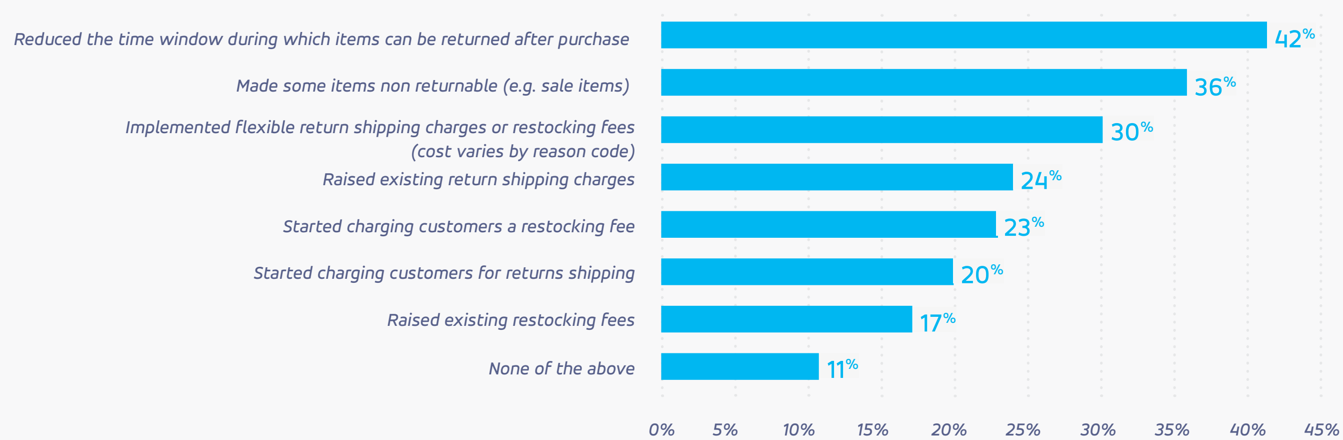


28%

report no change

What actions are retailers taking?

In the last 12 months, which of the following have you done?



89% of retailers have taken action to restrict return windows, increase charges/fees or restrict return eligibility in the last 12 months.

42% The most common change has been to reduce the length of time in which items are eligible for return after purchase, made by 42% of respondents in the last 12 months.

How can customers make returns?

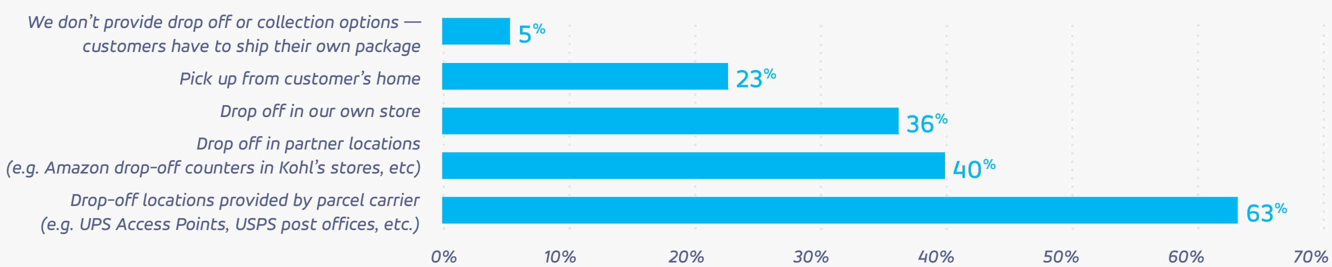
How do your customers start the process of a return?

The most commonly offered method for customers to initiate a return is **via customer support**, used by 29% of retailers.

Less than a quarter of retailers use an in-house digital solution to allow customers to begin the process of a return, and even fewer are using a third-party solution.

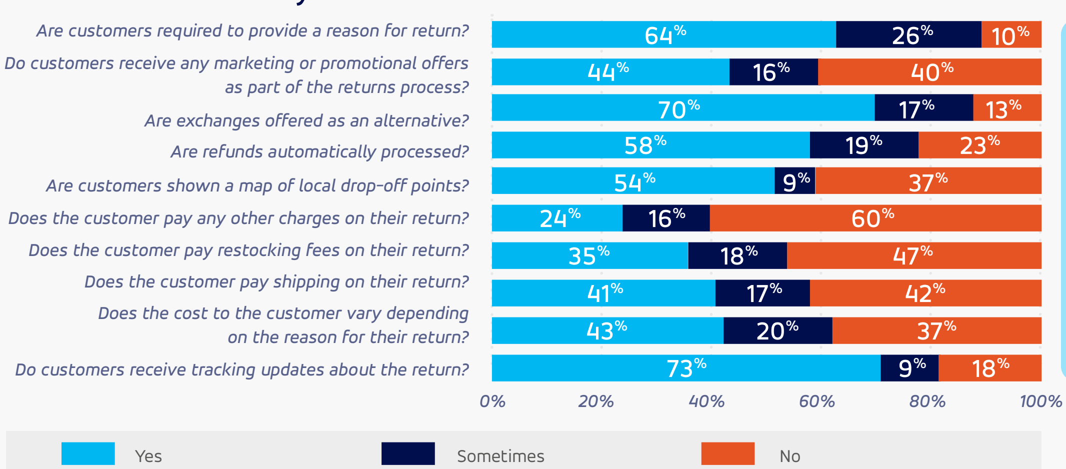
There's no predominant solution in the market — approaches vary from fully digital self-service to manual customer support-based returns initiation.

Which of the following options do customers have to physically hand over their return?



Parcel carrier-provided drop-off points are the most popular option offered by retailers, with 36% using their own stores and 40% partnering with other businesses to offer drop-off locations.

The Customer Journey in Returns



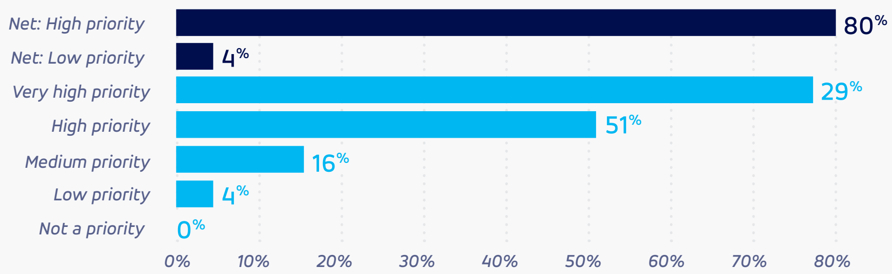
Retailers are split on returns charges — 58% charge for returns shipping at least some of the time, and 53% charge for restocking at least some of time. 40% charge another form of fee in at least some cases.

63% vary these charges depending on the reason given by the customer for the return.

42% are still manually approving at least some refunds.

Are retailers prioritizing making returns better?

In your e-commerce business, improving returns is a:



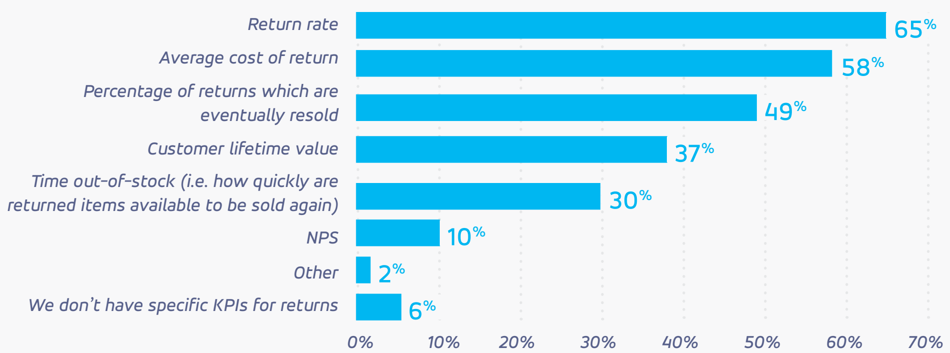
51% More than half said it was a “high priority” and an additional 29% said it was a “very high priority” to improve returns.

Returns is overwhelmingly a high-priority issue for retailers.

None of our respondents said it was not a priority at all.

What KPIs do retailers use to understand returns performance?

When it comes to improving e-commerce returns, what key performance indicators (KPIs) do you use to measure progress?



65% Return rate is the primary metric, used by the majority of retailers. Easy to measure, return rates provide a clear starting point for analysis.

Profitability measures like customer lifetime value (37%) and time out-of-stock (30%) aren’t used by a majority of retailers yet, perhaps because they’re harder to measure and influence without a fully digitized returns process and integrated returns management software.

Key themes for retailers

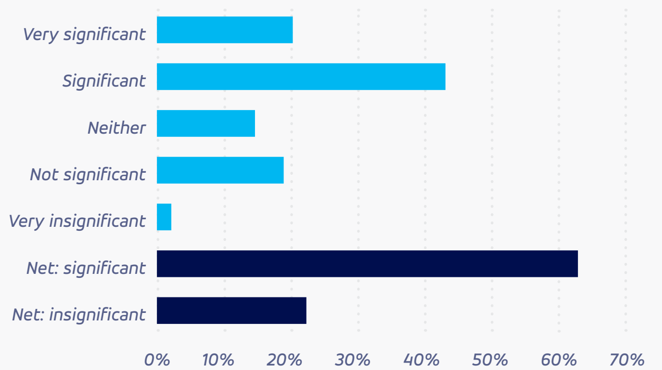
- E-commerce returns are a major barrier to success for most e-commerce businesses, who are treating it accordingly as a high priority area to address
- The application of technology to this space is fragmented, and solutions vary in sophistication
- Many retailers are missing out on key benefits of digitization, lacking visibility and control over returns, leading to a focus on visible elements like return rates when it comes to reporting
- Customer journeys vary widely from the most mature, where sophisticated technology allows for automation and profitability-oriented strategy, to the least, where manual processes cause friction for customers and expensive inefficiencies for retailers

The Context of E-commerce Returns

A severe challenge across verticals and business sizes

Just under two thirds (63%) of our survey respondents told us that returns were a significant or very significant problem for their e-commerce business. That shows just how broadly the effects of returns are felt, stretching well beyond the verticals we typically associate with problematic returns, like fashion and apparel.

To what extent are e-commerce returns a significant problem for your business?

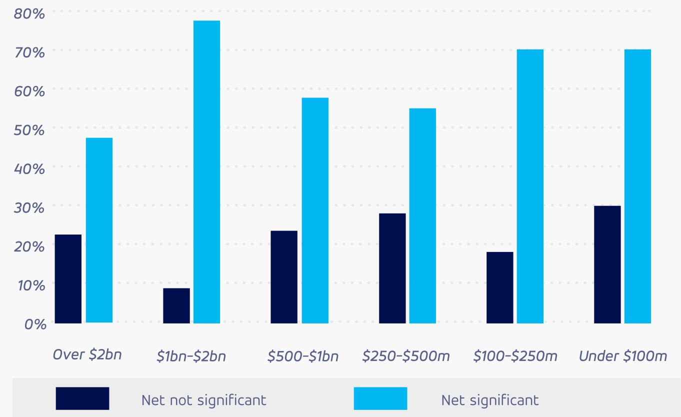


“26% of retailers reported return rates of over 25%”

Over one quarter (26%) of our sample told us that their returns rate was over 25% — these were most likely to be retailers operating in categories like fashion, music/film/TV and homeware. With returns at such a high rate, it’s massively challenging to stay profitable. When more than one in four orders is not only unprofitable, but actually generates no revenue at all and incurs additional costs to manage, it’s clear to see why this is a challenge retailers are prioritizing.

Looking at the impact on different sizes of business, it’s unsurprising that retailers in the highest annual revenue bracket ($2bn and over) have been best placed to adapt to the difficulties of e-commerce returns.

Significance of returns by business size



Only 48% of retailers of this scale reported finding returns a significant or very significant problem in 2023. These businesses have more resources to marshal and more data to learn from when it comes to tackling returns and building solutions to help mitigate their impact. Despite that, nearly half still rate returns as a significant issue, and this was the only size of business for which no respondents rated improving returns as a low or non-priority.

“No retailer with annual revenue over $2bn rated returns improvement as a low priority or non-priority”

This suggests that the largest online retailers have been more successful (in making returns a less significant issue) by prioritizing it highly in the last several years and bringing their resources to bear — and yet nearly half are still struggling.

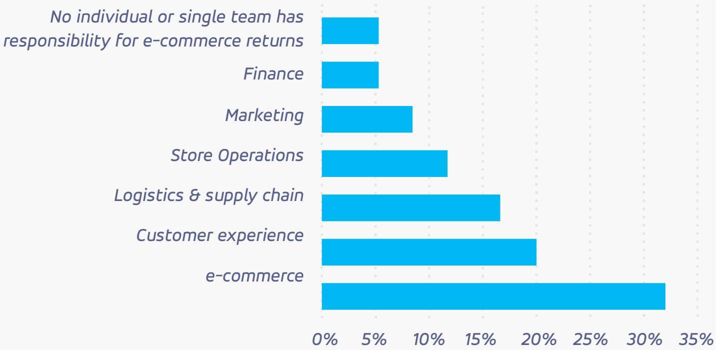
The problem is even harder for the rest of the market. The group of retailers with annual revenues between $1bn and $2bn were most likely to rate returns as a significant issue, with 78% doing so. At this scale, increasing return rates by a very small percentage adds up to a massive impact on the bottom line, but unlike businesses with more than $2bn in annual revenue these retailers may not have had as long to consistently focus on and address the issue.

At the smaller end of the e-commerce market, businesses with less than $250m annual revenue were the next worst-affected, with 70% rating returns as a significant issue. These retailers are less likely to have the dedicated internal technical resource that the largest e-commerce businesses can bring to bear on a problem like returns. These businesses were also the most likely to report that they did not have an individual or single team with responsibility for e-commerce returns.

Responsibility

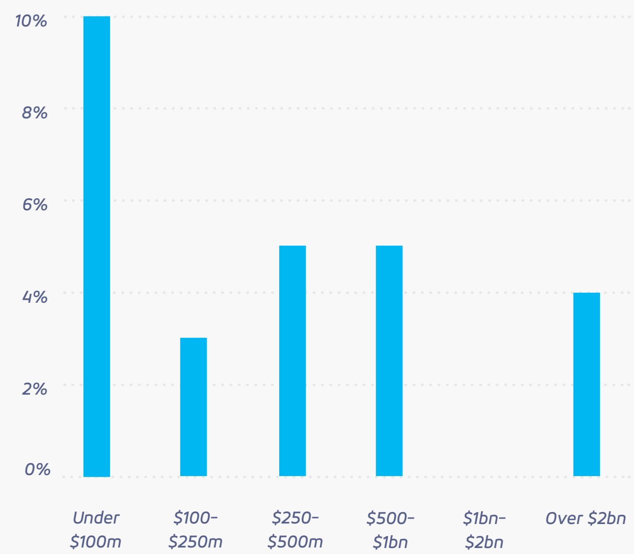
Across our survey respondents, the team most likely to be responsible for returns was e-commerce, with customer experience in second, closely followed by logistics and supply chain. However, there was no majority answer, illustrating that online retailers have not adopted a unified best practice in dealing with returns as an issue. That's likely because the lifecycle of an e-commerce return is influenced by many different business areas, and it can be hard to work across organizational silos to create a clear overall picture.

Which department or department lead is primarily responsible for e-commerce returns, if any?



Unsurprisingly, as annual revenue increased, so did the likelihood that retailers had a team or person responsible for returns.

Retailers with no dedicated returns team or role

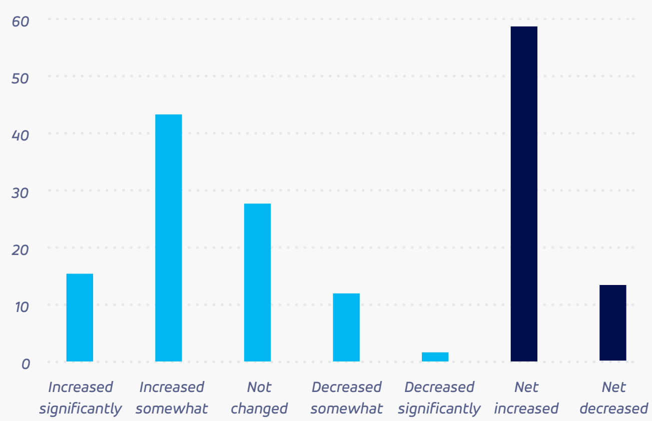


Return rates worsening

The average estimated return rate was 22%, although the median estimate was 15%. The top quartile of respondents included some reported rates of over 50%, pushing the average higher. These estimates of return rates over 50% were distributed fairly evenly across categories, which defies conventional expectation that such rates are the exclusive province of fashion and apparel.

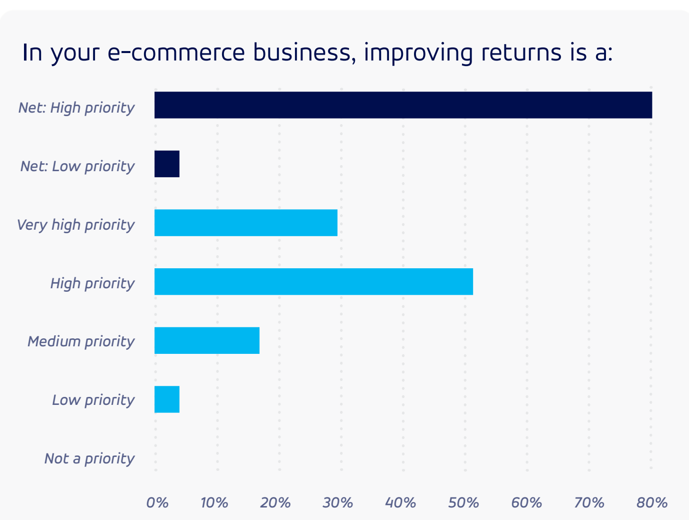
The rate of returns is also reportedly increasing for a majority of online retailers, 59% of whom say they have seen an increase in the last 12 months. Just 13% say they have seen a decrease in the rate of returns. As we will come on to later, return rate is a key KPI for most e-commerce merchants when it comes to returns, so the admission that rates have increased for most (despite the concerted action that has been taken) suggests that retailers' strategies, and perhaps their capacity to execute, are limited.

In the last 12 months has the rate of returns changed?



The Retailer Response to Returns

An urgent challenge prioritized

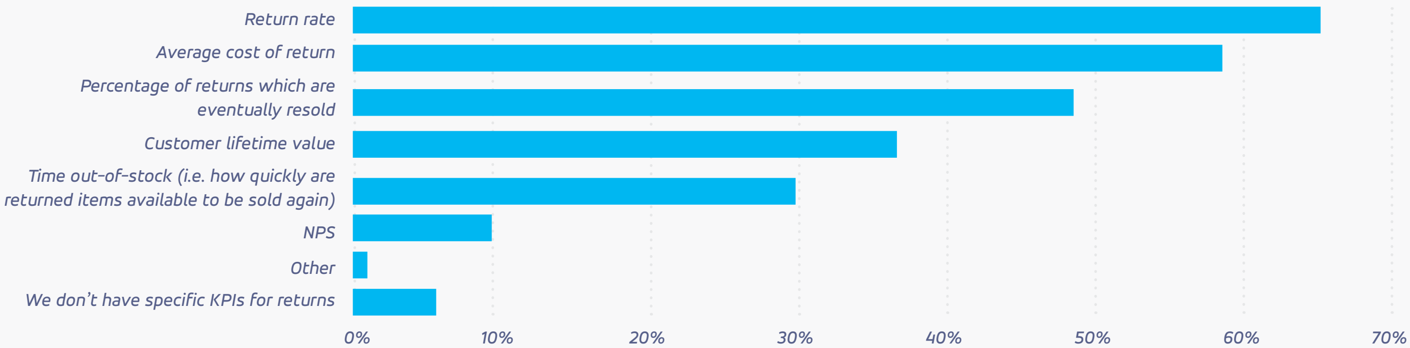


Four out of five e-commerce retailers said that improving returns was a 'high' or 'very high' priority. Just 4% said it was a 'low' priority, 16% said it was a 'medium' — and none said it was not a priority at all. That illustrates just how impossible the issue is to avoid in e-commerce, and how so few retailers feel comfortable about their existing returns process.

That holds true across categories and scales of e-commerce business. The size of business with the least urgency around returns was the group with $500m-$1bn in annual revenue, and even in this segment more than two thirds (70%) of respondents rated it a 'high' or 'very high' priority.

Key performance indicators

When it comes to improving e-commerce returns, what key performance indicators (KPIs) do you use to measure progress?



When it comes to metrics, US online retailers are primarily focused on reducing the rate of returns and reducing the costs of processing those returns, using return rate (65%) and average cost of return (58%) as their most common KPIs. Less than half track the percentage of returns which are eventually resold (49%), and less than a third (30%) look at the time it takes for items to be available and in stock again after a return.

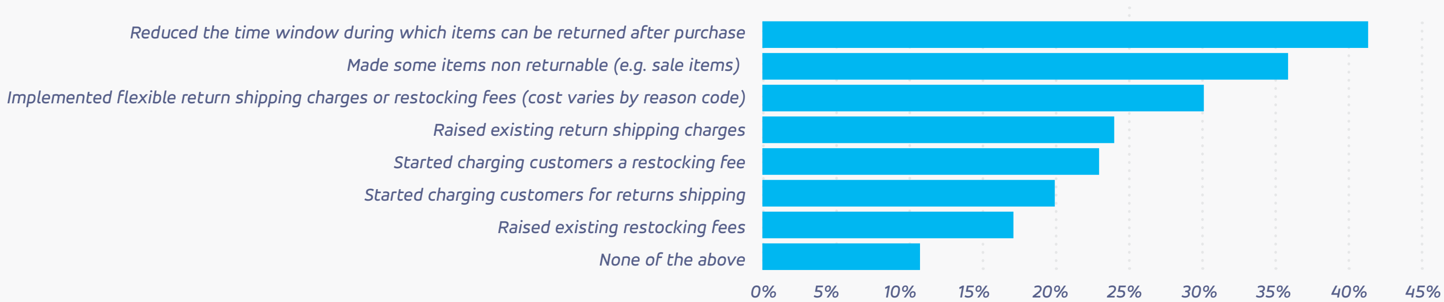
Those metrics are key to efficient and sustainable returns processes, and they're interlinked. Items that take a long time to become available for sale again are more likely to go unsold as they're potentially out-of-season or might have missed the peak of demand; and they're especially unlikely to sell again at full price, often required expensive markdowns.

Just 37% of retailers track customer lifetime value in relation to returns, which means almost two thirds don't have clear data about the impact going through the returns process has on a customer's long-term value to the business. Without that insight, how can an e-commerce business evaluate the value of their current returns proposition, let alone evaluate the impact of potentially changing that proposition?

Judging by what retailers actually measure when it comes to returns, visibility is a key issue. Retailers are making decisions about their returns proposition without having access to data that show what it's currently worth, instead judging primarily on what returns costs, and likely factoring in what the wider market and their specific competitors are doing.

Online retailers look to policy changes to turn the tide

In the last 12 months, which of the following have you done?



In response to the margin erosion caused by online returns, retailers have overwhelmingly looked to use policy tools to recover revenue, discourage returns and limit the overall cost of returns to their business.

The most notable takeaway from our survey in terms of policy changes is that just 11% of online retailers in our sample haven't started charging fees, increased fees, tightened their return window or made more items non-returnable. Such a huge majority having taken recent action on their returns policy speaks to the urgency with which the issue is being addressed, as well as the popularity of these charges and other policy responses as a preferred method to address it.

Fees

Just under a third (32%) of our sample started charging consumers for returns in a new way this year — whether through shipping fees (20%), restocking fees (23%) or both (10%). A little over a third (34%) increased existing fees — 24% raised shipping fees, 17% raised restocking fees, and 7% raised both. Overall, 79% of respondents said that they charged customers a fee associated with their return.

Time and other restrictions

The most popular changes were not about introducing fees, however. The top two changes made to returns policies in the last 12 months were reducing the length of time during which items were eligible to be returned post-purchase; and making certain items non-returnable. Both of these act to limit return rates without an explicit monetary cost to consumers — although consumers who had less time than they realized to return an item and missed out on a refund might argue that they experienced a monetary loss.

The impact of policy changes

Clearly these policy changes will have impacts both short-and long-term. To some extent, increasing or starting to charge fees for shipping and restocking returns will contribute to the bottom line in two ways. Firstly, the fees recover some of the cost of processing each return; and secondly, they will discourage some customers who would have returned items, but consider it not worthwhile to pay to do so, theoretically reducing the rate of returns.

> "The perception of individual retailer's brand will also shift somewhat in response to a stricter returns policy, as consumers feel less trusted or supported by their chosen retailer."

That return rates increased (for 59% of our sample) seemingly in spite of these efforts does not necessarily mean that they failed to reduce rates — we cannot know the outcome of the counter-factual scenario where none of these policy changes were implemented, which may have seen even greater and more widespread increases in return rates.

However, these changes will also have harder-to-forecast implications. Customer satisfaction is likely to drop when they experience the frustration of an item not being correct for their needs and then are charged for the dubious pleasure of seeking redress.

Over time, conversion and purchase behaviour might change in response to the new returns policies as they have an effect on consumer confidence or willingness to risk fees or just an inconvenient experience. That adds up to a potential negative impact on customer lifetime value. The perception of individual retailer's brand will also shift somewhat in response to a stricter returns policy, as consumers feel less trusted or supported by their chosen retailer.

To understand why the success of policy change alone might be limited, it's necessary to understand the processes that attempt to enforce them. The processes themselves are just as important as policies in determining how customers experience returns — and how they affect retailers.

How E-Commerce Returns Work Today

How can customers start the process of a return?

In understanding the experience of returns, it's useful to break down the customer journey into two sections. The first is return initiation, the process by which a customer can start making a return. The second is return execution, the process by which a customer actually hands over the item they want to return.

To begin with, let's look at how retailers allow customers to initiate their returns.

Customer support

In our sample, the most common way for retailers to handle returns initiation is to require customers to contact customer support (29%). The fact that this is the most popular method illustrates two things. Firstly, retailers have a strong desire for visibility and control of returns. They want to know what is coming back, whether it's allowed, and to be able to say no.

Secondly, it shows that retailers don't have a technology solution to create that visibility and control, but it's important enough that they're willing to do it manually, at the expense of their customer's experience. It also perhaps implies a willingness to add friction to the customer journey in returns, in exchange for a lower overall return rate — even if there are implications to lifetime value, conversion and brand reputation, as discussed in the previous section.

The best and the rest

The segment of our sample with more than $2bn in annual revenue (the largest businesses sampled) were the least likely group to make their customers contact customer support to initiate a return. Just 19% of this segment did so, compared with 32% doing so in the rest of our sample. This was also the segment with by far the lowest rate of responses saying that returns were a significant problem at 48%, versus an average of 66% for all businesses with annual revenue below $2bn.

This was also the segment most likely to use a digital returns initiation journey, built in-house and sitting on their website (as opposed to purchased from a third party or existing on the site of a parcel carrier or other logistics provider).

Return labels in all outbound packages

One of the other most popular methods to deal with returns initiation was for retailers to practically opt out, by including returns shipping labels in all outbound parcels alongside purchased goods (used by 18% of our sample). This inverts the dynamic of the customer support contact method, where visibility and control are prized at the expense of the customer experience.

When returns labels are included in every package, retailers instead sacrifice visibility and control for the sake of customer experience. This method leaves retailers unable to prevent out-of-policy returns and gives them no insight into incoming returns volume. Additionally, customers cannot be mandated to fill out the return reason codes or the rest of the form correctly before sending the package back, resulting in poor quality returns data, which has to be manually input into a system before it can be understood and analyzed by the retailer at all.

> "When returns labels are included in every package, retailers instead sacrifice visibility and control for the sake of customer experience."

Digital initiation

Just under a quarter of retailers (24%) have an in-house digital solution that sits within their website to enable customers to start the process of a return. As with any in-house solution, these will vary widely in capabilities and be highly customized to the needs of the individual retailer. They're surprisingly common across different sizes of business but are the most popular solution with our $2bn+ annual revenue segment.

Another 11% operate a digital returns initiation solution purchased from a third party, and 12% direct customers to a digital journey on the site of a parcel carrier to obtain a shipping label there.

The digital divide

More than half of US online retailers (53%) are using non-digital methods of returns initiation. Either they require customers to contact customer support (29%), include return labels with purchases (18%) or require customers to find their own way to send an item back (6%).

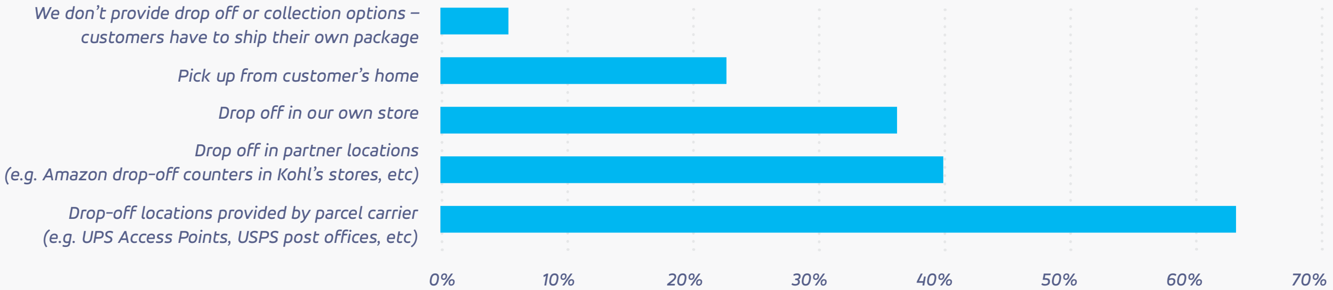
Digital returns technology exists to give retailers visibility and control over their returns, as well as giving customers a seamless and convenient experience. But today, the majority of e-commerce businesses are still choosing between one or the other because they lack this technological capability.

Even when it comes to digital solutions, there are levels of sophistication and maturity. For example, one key differentiator is whether or not the returns initiation journey is integrated with order data, so that customers are only shown items from their recent orders which are actually eligible to be returned, according to the retailer's policy. That prevents out-of-policy returns at the source just as well as a customer support agent, without the cost of using customer support resources.

53% "More than half of US online retailers are using non-digital methods of returns initiation."

Drop-off options

Which of the following options do customers have to physically hand over their return?

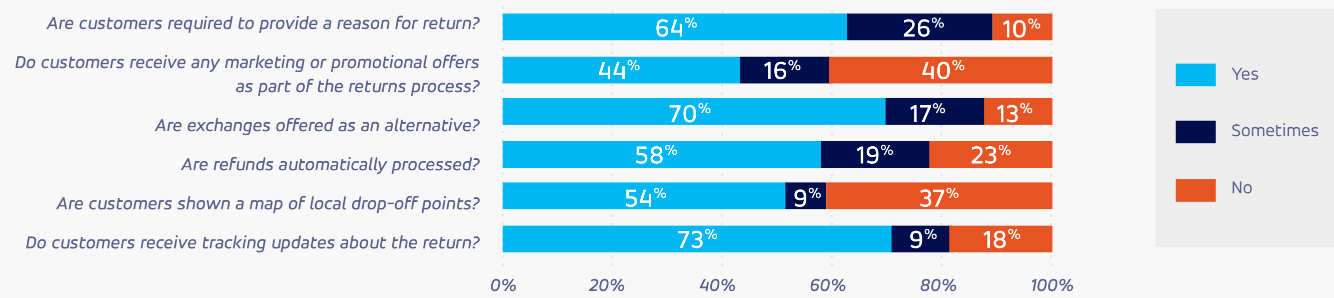


The most commonly offered drop-off options are parcel carrier locations, followed by third-party partner locations. More than one in five retailers offered to collect returns from consumers' homes, unsurprisingly this was most popular with home and industrial appliance retailers.

36% of retailers offered drop-offs in their own stores, an increasingly common tactic for retailers with store estates to try to drive additional revenue from the returns journey. Data from Blue Yonder's 2023 consumer survey shows that 74% of consumers always or sometimes make impulse purchasing decisions when returning items in-store.

The customer experience during a return

The Customer Journey in Returns



In the overall journey, retailers have the opportunity to gain valuable insight from their customers, provide them with communications that reassure and inform them, and ensure their overall experience is as seamless as possible. The data indicate that by and large, retailers are doing a reasonable job on these points. The vast majority (90%) require a reason for return, though it's perhaps still a surprise to see that one in every ten retailers does not ask customers why they are sending back an item.

More than four fifths (87%) of online retailers say they always or sometimes offer exchanges as an alternative to refunds. However, in practice it may be the case that exchanges are not proactively offered as part of the returns initiation process, and consumers may need to seek out the option of an exchange themselves. This could be an opportunity for retailers to rescue the sale for many returns where customers simply need a different product variation, for example size, color or style.

Almost one fifth (18%) of retailers do not offer any tracking updates about returns. This results in additional customer support center contacts with customers seeking updates about the progress of their return (and most importantly, their refund). Most (58%) of e-commerce retailers always process refunds automatically, and an additional 19% do so some of the time. That leaves nearly a quarter (23%) manually releasing each and every refund, meaning every return drains more resource at the final step.

Less than half of US online retailers (44%) always send customers marketing or promotional messages as part of the returns process, missing a key touchpoint in which customers are typically much more likely to engage, and missing out on the opportunity to profitably direct their returns and purchase behaviour. For example, encouraging customers to return in-store drives additional impulse purchases, as referenced previously.

Conclusion

After a year of change, what next?

There is a huge degree of potential for short-term improvement in how retailers manage e-commerce returns.

The fact that a majority have yet to upgrade to a digital returns initiation process shows just how basic some of these improvements are, but the level of potential sophistication that this first step unlocks is significant. If more retailers are able to digitize their returns process and connect the resulting data and insights to their existing systems, they'll find it much easier to manage returns in a way that goes beyond the visibility and control that they're seeking today.

Today, control of returns tends to mean controlling whether something can be returned, or will be refunded. What it could become is control over the future lifespan of that returned item, from the minute a customer decides to make a return. That control can be exercised by incentivizing the customer to take different actions: returning it faster by offering free returns within 10 days, for example, or returning it to a store location. It could mean routing higher value items through faster shipping channels or to a nearby distribution center for faster restocking and resale, and consolidating other returns to ship more cost-effectively in bulk.

Visibility shouldn't simply be a question of knowing what is being returned before it arrives at the warehouse — though this is something some retailers still lack today. It should become visibility of how different customer cohorts return items, what impact this has on their lifetime value, how new customers or prospective new customers should be marketed to based on their returns profile. It should become the ability to forecast and predict returns volumes, to make staffing and resourcing simpler.

In 2024 and beyond, retailers will need to do more to improve their returns proposition, processes and policies to attract and retain customers without damaging their bottom line. The last 12 months have seen a focus on policy, but with many elements of the returns process still not digitized for most retailers, they are fundamentally restricted in how effective any strategic decisions can be.

Putting in place the digital foundation for returns management will be an essential step for retailers in order to truly understand, and then control, their returns costs.

Methodology

Blue Yonder surveyed 210 respondents from e-commerce retail businesses across United States. Candidates were vetted to ensure they were active employees of e-commerce retail businesses with knowledge of ecommerce returns. Respondents filled out 5 demographic questions and 12 survey questions.

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