INCISIV

2021 State of the Industry Report

Retail Returns

IN PARTNERSHIP WITH

newmine

Retail's worst kept secret: its growing returns problem.

Incisiv's 2021 Retail Excellence Playbook
In Partnership with Avanade and Microsoft

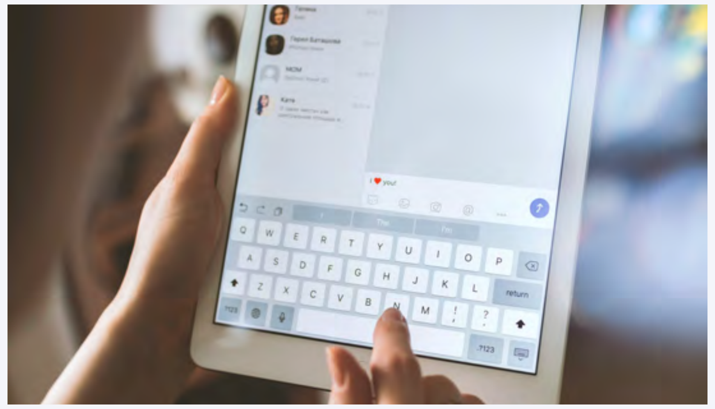
In 2020, U.S. retail returns totaled USD 428 billion. That's 10.6% of total retail trade.

Source: The National Retail Federation

Let that sink in.

And, it's only going to get worse.

As eCommerce adoption grows, so will returns.



Fueled by COVID-19, US eCommerce sales grew 32% in 2020 compared to the year prior. Even if relative growth slows in 2021 and beyond, eCommerce as a percentage of retail trade will continue to grow rapidly.

As will returns. eCommerce average return rates are 2-3 times greater than store-bought purchases within the same retail category.

Competing on returns experience will become costlier.

Shoppers expect fast, free and easy returns. 95% say a poor returns experience will make them less likely to shop from a brand again.

As fast, free and easy returns become the norm, shoppers will continue to push retailers to do more. Already, some retailers are experimenting with "returnless refunds".

For retailers without a moat - such as a subscription (e.g. Amazon) or vertically integrated brand economics (e.g. Glossier) - competing on returns experience is a slippery slope to unprofitability.

Most current conversations on returns are focused on how to improve shoppers' return experience. We wanted to explore a few fundamental questions:

Why do returns occur, and can retailers reduce the incidence (and cost) of returns?

To help gain a better understanding, Incisiv conducted a hybrid survey of US shoppers and retailers, exploring themes such as shoppers' reasons for return and retailers' returns management business practices.

2,507
shoppers surveyed

69%
in the 25-60 age range

45%
with annual income > $125K

107
retailers surveyed

73%
line of business respondents

45%
with annual revenue > $500M

Key insights from Incisiv's research are presented as commentary along with key data points across the 4 chapters of this report. The complete data readout of the survey is available to qualified retailers upon request.

Unless stated otherwise, all data in this report is from the Incisiv 2021 State of the Industry, Retail Returns Survey. See detailed survey methodology and demographics.

1. **The Size of the Prize**
   The retail industry could save $125 billion annually by focusing on returns reduction.

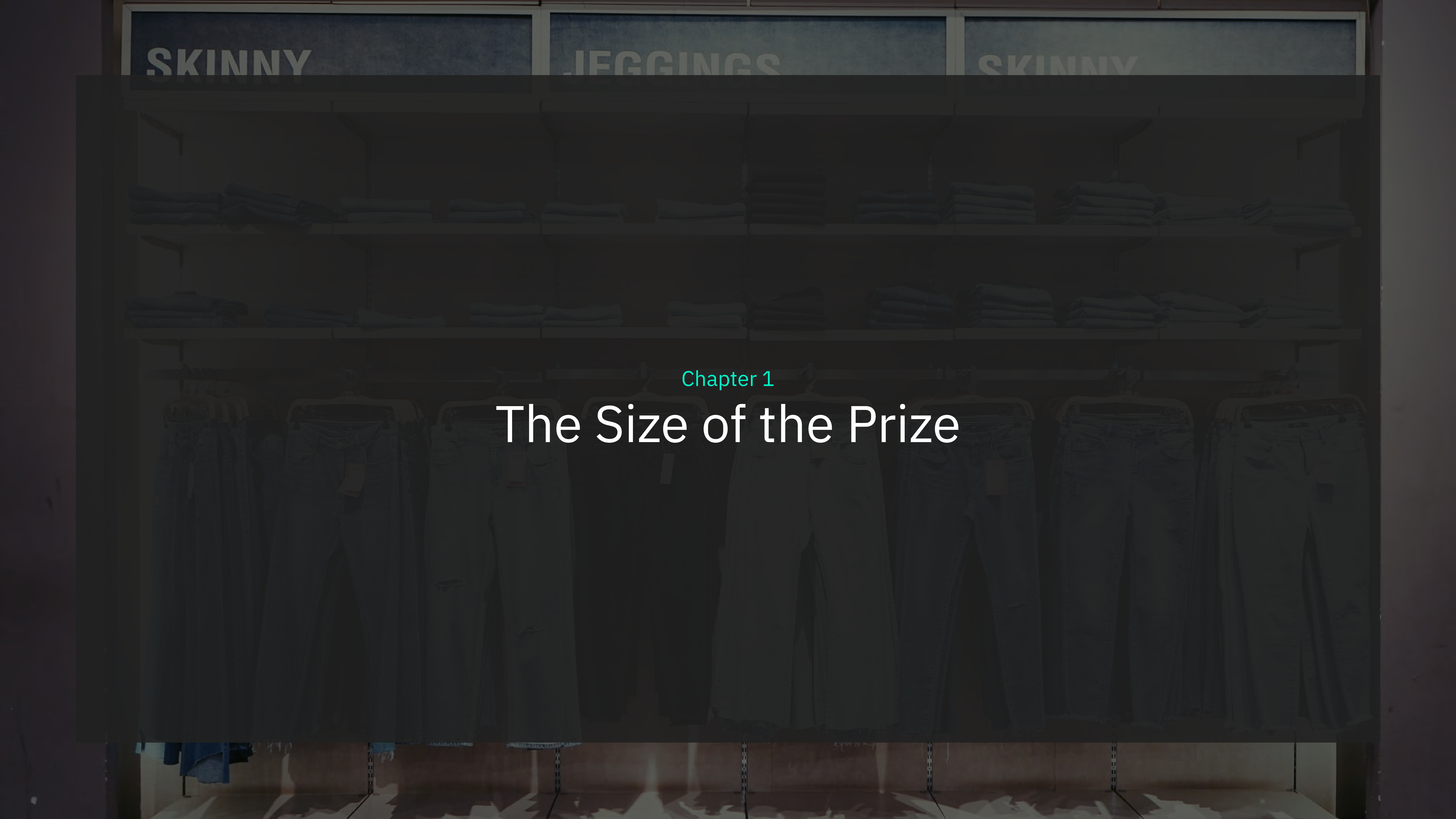
2. **A Big Blind Spot**
   Inadequate leadership focus and old habits blind retailers from the returns reduction opportunity.

3. **An Active Opportunity**
   Not all returns are shopper driven. 73% of returns occur due to a retailer controllable action.

4. **Overcoming Hurdles**
   A quick-start guide for retailers to overcome cultural and technology challenges that prevent them from optimizing returns.

Chapter 1

The Size of the Prize



The retail industry could save USD 125 billion* annually by focusing on returns reduction.

* Total industry returns reduction opportunity. Incisiv's analysis is based on multiple factors such as total non-fraudulent returns (data from the National Retail Federation), shoppers' reasons for return (data from Incisiv's shopper survey), and retailers' expectation of reduction in average return rates (data from Incisiv's retailer survey).

To learn more about Incisiv's estimation methodology, or to quantify your specific returns reduction opportunity, book a meeting with Incisiv and Newmine.

Retailers see a large improvement opportunity in return rates.

Retailers in Incisiv's survey reported an average annual return rate of 11%. Only 3% said current return rates were optimal. The remaining believe there is an opportunity to reduce return rates by an average 31%.

For an omnichannel retailer with a blended return rate of 10%, that amounts to 3% of annual revenue, or $30 million per $1 billion of sales.

Even a small change can have a big impact.

Average return rates vary by retail format, channel, category and merchandise price point. Retailers must avoid thinking of the returns reduction opportunity simply in terms of return rates.

A retailer with $10 billion in annual revenue and a "low" average return rate of 5%, can save $75 million by reducing returns by just 10%.

The total business impact of returns is even greater.

Beyond the direct financial cost, retailers must consider the impact on customer, brand and environmental factors.

Customer Impact

Customer attrition due to returns causes future lost revenue and higher net cost of customer acquisition. Reduced frequency and loyalty also lower customer lifetime value (CLV).

42%

of shoppers will stop shopping a retailer upon multiple retailer-induced returns.

Brand Impact

From word-of-mouth to social media, bad experiences easily find amplification. A negative impact on brand perception equals both lost future revenue and a decrease in enterprise value.

72%

will post a negative rating or review upon multiple retailer-induced returns.

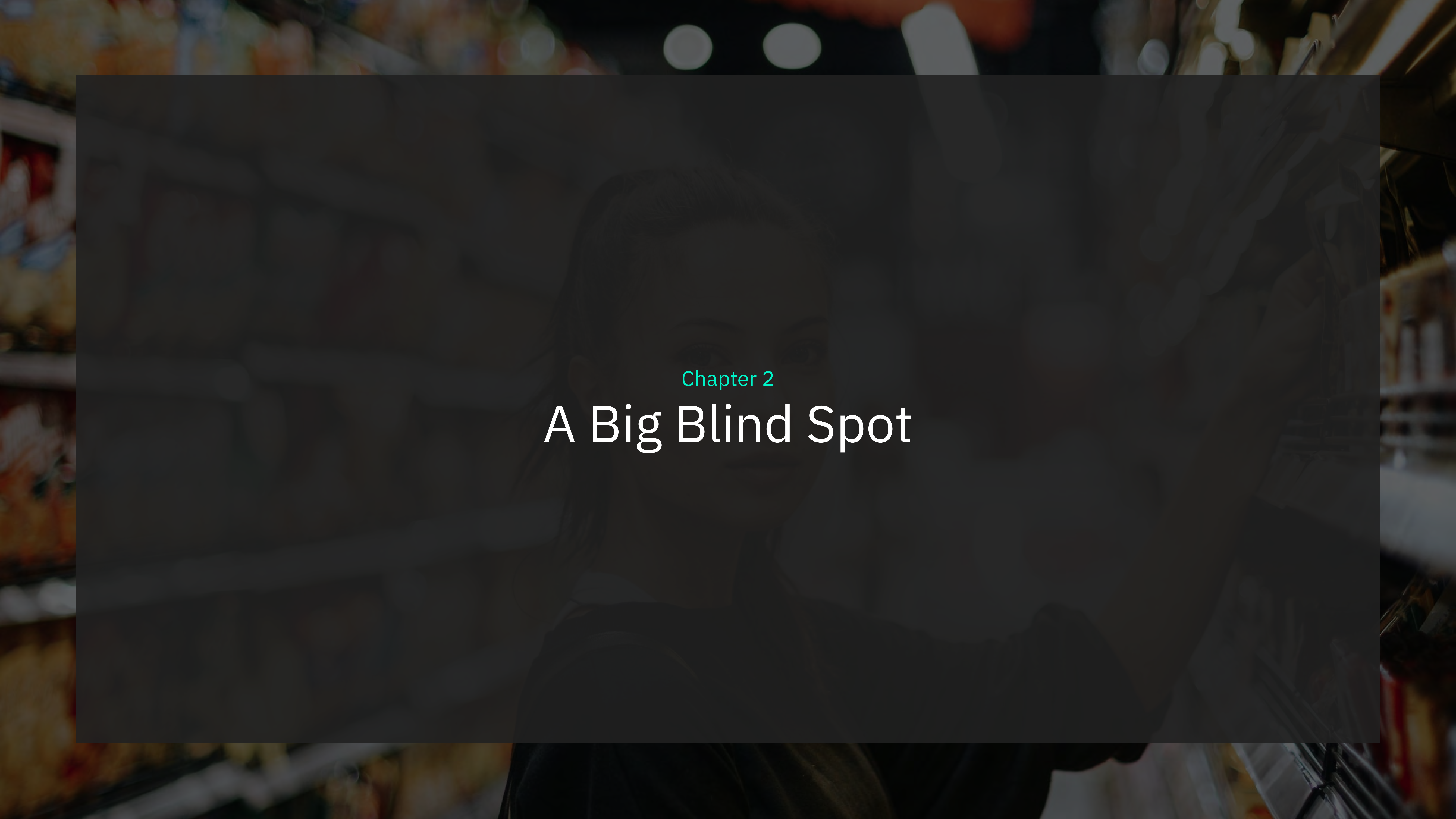
Environmental Impact

From packaging to transportation to energy to landfill - the carbon footprint of our profligate returns culture is truly astounding.

15 million

metric tons of carbon dioxide produced from transporting returns every year.

Source: The Guardian



Chapter 2

A Big Blind Spot

Retailers do not understand the total cost of returns.

Less than half of retailers track the financial impact of returns. Barely any - less than 4% - track the impact of returns on customer, brand or environmental factors. It is near impossible to have a meaningful leadership conversation about returns without a true and complete understanding of its impact on the business.

Old habits die hard.

Returns are baked into retailers' inventory and financial planning. Merchants factor average return rates into the merchandise planning process. Retail CFOs line-item baseline return rates into P&L projections.

Returns may indeed be "the cost of doing business", but they need not be an unmanaged cost. Retailers can more actively change the narrative around planned returns by rewarding merchants who beat their "returns allowance", and constantly seeking to optimize projections.

4 in 5

retailers factor baseline return rates into their merchandise planning process.

Retailers cite factoring returns into the cost of doing business as the

#1

challenge preventing them from reducing return rates.

Everyone's problem is no one's problem.

Returns, like customer experience a few years ago, is everyone's concern in general, but no one's priority in particular. There is no identified executive owner responsible for returns. Returns are therefore an unmanaged (or at best, under-managed) consequence of doing business, rather than a thoughtful cost and customer experience lever aligned with the enterprise's strategic priorities.

78%

say reducing returns is not a strategic priority for their C-suite.

97%

do not have an identified executive owner responsible for reducing returns.

Only

16%

have a strategic initiative focused on reducing returns.

Chapter 3

An Active Opportunity

The oft-repeated narrative of the miscreant shopper is a myth.

Few shoppers purchase with the intent of returning the product. The idea of returns as a consumer habit spoilt by choice is only partly true. The reality is shoppers would rather keep their purchase than have to return it. 4 in 5 shoppers are dissatisfied with the number of times they have to return products to a retailer.

Why? Because not all returns are shopper driven. 73% of returns occur due to a retailer controllable action.

Shoppers in Incisiv's survey reported more than 6,200 returns transactions across multiple non-food retail categories. Incisiv analyzed shoppers' reasons for return, and found that **73% of returns occur due to a retailer controlled action (or inaction).**

For instance - a shopper returning a purchase due to an inaccurate product description, a wrong item or SKU sent due to a fulfillment error by the retailer, or an issue with product fit.

Shoppers' reason for returning purchases, ranked.

Category	Rank	Shoppers' Reason for Return
Controllable	1	Product quality not as expected
Controllable	2	Color / product description mismatch
Controllable	3	Issue with product fit
Controllable	4	Wrong item sent
Controllable	5	Product arrived damaged
Controllable	6	Product arrived later than expected
Uncontrollable	7	Bought to try
Controllable	8	Product didn’t work
Uncontrollable	9	Product no longer needed
Controllable	10	Found better price elsewhere

Reducing returns and improving the returns experience should not be mutually exclusive. Returns reduction is a key lever to improving the returns experience.

Retailers current strategic focus seems to be on improving processes *after* a return occurs, i.e. improving the returns experience for their shoppers. Retailers must add a similar focus on improving processes *before* a return occurs, i.e. minimizing the incidence of returns.

A great returns experience must achieve both: minimize the returns a shopper has to make, and provide an amazing experience when she does.

3 in 4

retailers prioritize having a good returns experience over reducing returns.

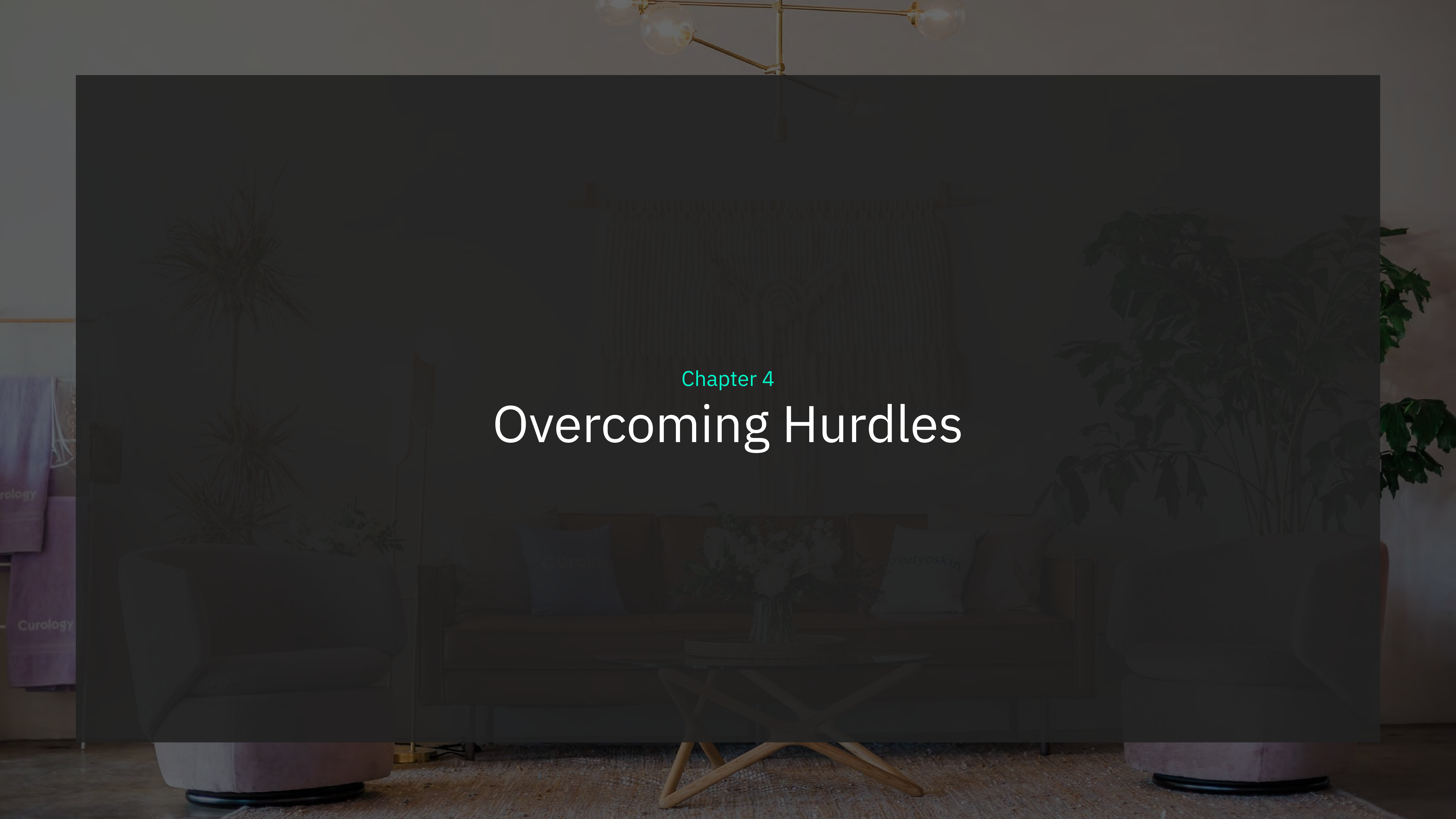
Retailers' stores and fulfillment teams are overburdened with returns. Reducing returns will free up valuable resources to be deployed towards customer service and experience.

Rapid eCommerce growth has brought with it a non-linear rise in returns. Not only are retailers' stores, omnichannel and customer service teams fulfilling more orders, they are processing more returns.

Beyond the obvious financial gains, any reduction in returns will directly give these teams more time and resources to focus on value-added customer service and experience.

68%

of retailers say they have limited human resources to be able to focus on returns reduction.



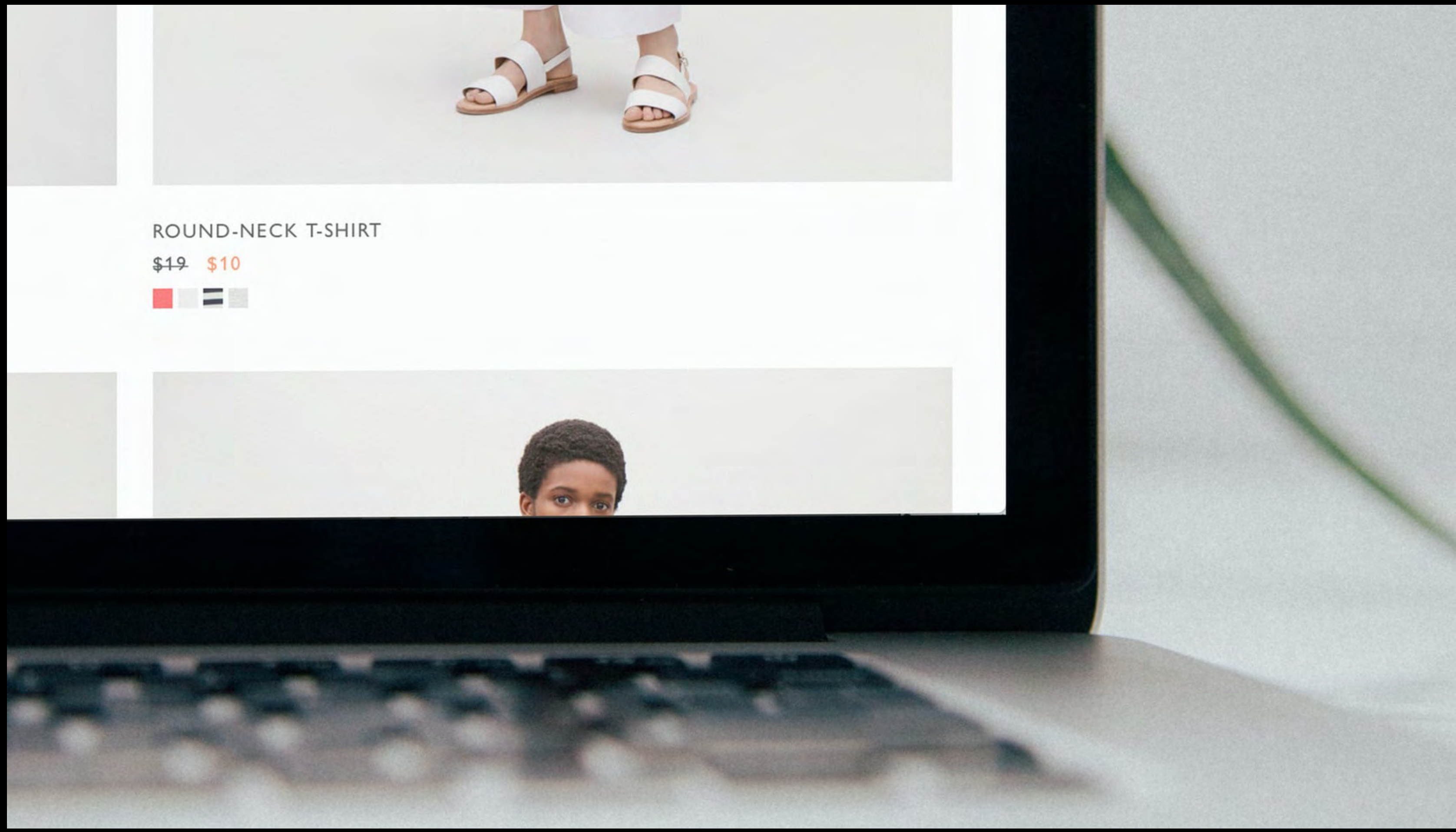
Chapter 4

Overcoming Hurdles

Retailers do not have the right tools or data organization to help them reduce returns.

Most retailers have some, even most, of the critical data they need to be able to analyze returns. Product catalog data, transaction data, voice of customer, post-purchase data, product hierarchy, return logistics, supplier data - are all valuable sources of data retailers can use to determine the root cause of returns.

However, retailers don't have the tools or internal resources to integrate and analyze this disparate data. There's just too much, it changes faster than they can manage, and it's not organized to support consistent action.



9 in 10

retailers do not have effective tools or technology to help them reduce returns.

77%

of retailers have inadequate customer data on reason for returns.

74%

of retailers have siloed returns data across multiple channels and systems.

Which means they do not know how and where to start.

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7 in 10

retailers do not have a good understanding of the root cause of their returns.

86%

of retailers say returns reduction technology is too difficult to implement.

1 in 2

executives are not aware of the data sources their organization uses to reduce returns.

Returns Reduction "Quick-Start": A framework for getting started.

1. Change the culture around returns.

- Assign executive ownership to drive shared vision
- Identify impact points of a return for various teams (e.g. P&L impact for channel and finance teams; returns allowance for merchandising teams; service cost for call center and service teams etc.)
- Create a consistent framework to measure the true impact of returns across dimensions (e.g. financial, customer, brand etc.) and specific parameters (e.g. customer acquisition cost, net promoter score etc.) that matter most to your strategy

2. Conduct a rapid value assessment.

- Identify large categories and categories with higher than industry or enterprise average return rates
- Conduct historical analysis using past 24 months of eCommerce, store, voice of customer, product and supplier catalog data
- Identify products with highest incidence of returns, and categorize reason for returns as controllable or uncontrollable
- Quantify the value of reducing controllable returns through a slider scale of potential reduction from 10% - 50%

3. Scale across the enterprise

- Scale historical analysis to all channels and categories
- Ensure you're capturing customer sentiment accurately and enhance return reason codes
- Establish and monitor "at-risk" products, set return rate goals, and create return reduction objectives
- Invest in artificial intelligence based anomaly detection tools that help accelerate opportunity identification, and deliver prescriptive, natural-language actions to the relevant internal stakeholders in real-time

Next Steps

- Apply to attend Incisiv and Newmine's exclusive executive roundtable on returns reduction on Wednesday, Apr 28, 2021.
- Start a conversation. Share this eBook with your peers on LinkedIn.
- What can reducing returns mean for your business? Use Newmine's Returns Reduction Calculator to find out.

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Shopper Survey Methodology

Incisiv conducted a hybrid online + Computer Aided Telephonic Interview (CATI) survey of 2,500 US shoppers who have shopped an omnichannel retailer (offers both stores and eCommerce) and returned a purchase either online or in-store in the past 3 months. The survey was conducted from March 5 - March 19, 2021.

Respondent Distribution by Age (in years)

< 25	29%
25 - 40	34%
40 - 60	35%
60 +	3%

Respondent Distribution by Annual Income

< 50,000 USD	6%
50,001 - 125,000 USD	49%
125,001 - 250,000 USD	38%
> 250,001 USD	7%

Respondent Distribution by Gender

Male	48%
Female	48%
Prefer not to say	2%

Retail Executive Survey Methodology

Incisiv conducted a hybrid online + Computer Aided Telephonic Interview (CATI) survey of 107 US retail executives at omnnichannel retailers (operate both stores and eCommerce). The survey was conducted from March 5 - March 19, 2021.

Respondent Distribution by Annual Revenue

$50 million - $100 million	13%
$100 million - $500 million	42%
$500 million - $2.5 billion	31%
$2.5 billion +	14%

Respondent Distribution by Designation

C-Level	8%
SVP/EVP	19%
VP	22%
Director	37%
Manager	14%

Respondent Distribution by Role

Analytics / Customer Insights	7%
Corporate Function	4%
Information Technology	27%
Supply Chain & Merchandising	33%
Omnichannel / eCommerce	21%
Store Operations	8%

Retail Segments Included in Survey

- Building Material and Garden Equipment and Supplies Dealers
- Clothing and Clothing Accessories Stores
- Electronics and Appliance Stores
- Furniture and Home Furnishings Stores
- General Merchandise Stores
- Health and Personal Care Stores
- Motor Vehicle and Parts Dealers
- Sporting Goods, Hobby, Book, and Music Stores

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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 NEWMINE

Comprised of former retail and supply chain executives with deep experience in retail strategy, operations, and technology, Newmine's vision is to ensure retailers thrive in a transforming world. Newmine seeks to disrupt the returns management market with AI-driven returns reduction solutions. Newmine's Chief Returns Officer (R) is an AI-powered platform that gives retailers a holistic view of integrated returns-related data from across the enterprise, prescribes corrective actions, and enables collaboration.

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