

TRY BEFORE YOU BUY

# A RETURNS TSUNAMI FOR RETAIL



Brightpearl

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## Retailers face “returns tsunami” as try-before-you-buy trend intensifies

### Is ‘try-before-you-buy’ a blessing or a curse?

ASOS is winning market share rapidly against its competitors. In the UK, its sales climbed by 23% to over £300 million, while its international sales increased rapidly by 23%.<sup>1</sup>

One of its key initiatives is the launch in November 2017 of its ‘try-before-you-buy’ scheme, which it runs in conjunction with payment partners Klarna. This enables customers to order multiple items before deciding what they’d like to keep. There’s no upfront cost - shoppers simply pay for anything they keep after a certain number of days, usually thirty days following dispatch. They return anything else that they don’t want, for which they are never charged.

It means that customers can order and try items as they would in-store but crucially they do not have to wait for returns to be processed in order to receive reimbursement for goods that they don’t want.

### Consumers will buy more but retailers must be ready for a potential flood of returns

For this reason, the ‘try-before-you-buy’ trend will have a major impact on both on purchase behaviour and, of course, returns. This report investigates the shifting consumer attitudes towards ‘try-before-you-buy,’ juxtaposing these views with the observations of retailers. Working in partnership with OnePoll, Brightpearl canvassed the opinions of 200 retailers in the United States and the United Kingdom and the views of 4,000 consumers in these markets.

The results are striking. Consumers indicate they will certainly buy more if the process is made easy, but could return an extra three items a month in what could become an unmanageable tsunami of returns for some merchants. When the average cost of processing a return is factored in, many retailers could find that this trend will at least triple the cost of returns if they continue to take no action. A scary prospect, even more so when we consider that almost half

of all retailers state that margins are already being significantly squeezed by returns.

However, by evaluating the impact correctly, retailers will be able to determine what the trend means for their business and what action is necessary. Join us for as we journey into the emerging world of the ‘intentional returner,’ as we explore who they are and what’s required in order to prepare.

“

**Returns has been a growing issue for retail, and this research reveals the faultline runs deeper than expected. Businesses must be aware of and ready to act upon the insights before it’s too late.**

” Gareth Austin Jones  
Cocorose, London

<sup>1</sup> <https://www.theguardian.com/business/2018/jan/25/asos-try-before-you-buy-brings-bumper-christmas-sales>



## A new breed: The rise of the 'intentional returner'

### Promise of free and cheap returns has led to a new breed of intentional returner

Today, **one quarter of respondents** has said that they have bought multiple items with the intention of sending some back, regardless of whether 'try-before-you-buy' is available or not. The behaviour has been driven by generous return policies, including the promise of cheap or even free returns. It is one of the key battlegrounds of online versus bricks and mortar retail. With the option to send back unwanted items at limited cost, customers can turn their homes into showrooms.

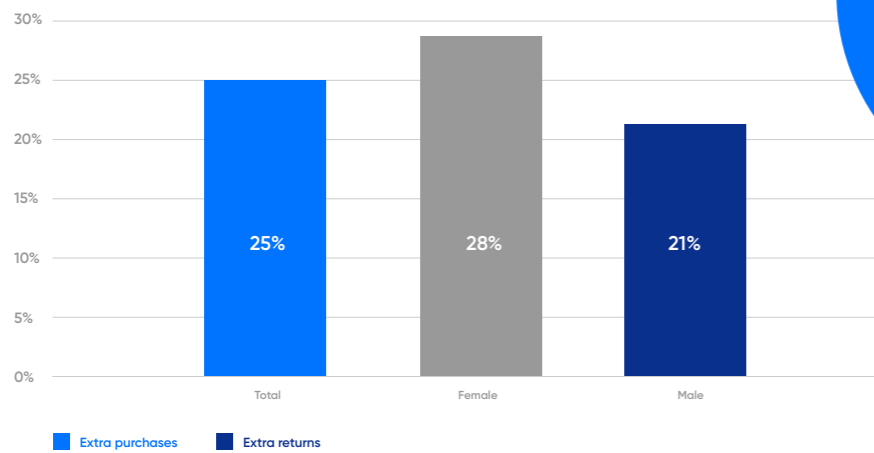
It means that online retailers have to accept returns as a necessary evil to win customers from the High Street. In an article in the Financial Times, Clear Returns estimates that returns cost UK retailers £60bn a year, £20bn of which is generated by items bought over the internet.<sup>2</sup> As the proportion of online purchases increases, so too will the cost of returns. As Shopify explains: "While the brick-and-mortar return rate is around 9%, online it's more than double that at 20%. And — during the holidays — returns

surges to 30% or even as high as 50%, depending on the industry."<sup>3</sup>

But it's not just the migration to online purchases that is driving the change. Looking at the breakdown by age, this behaviour is set to become the norm – a full **50% of 18 to 24 year olds in the UK** admit to buying multiple items with the intention of returning some. The trend is also more prevalent among female shoppers, with 28% saying that they have bought more items than they intend to purchase, for the benefit of trying them before they purchase.

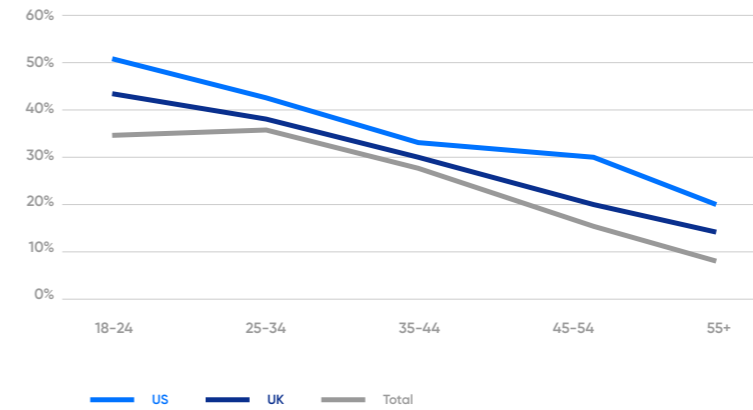
While the cost is a burden, by embracing the behaviour – and indeed encouraging it with 'try-before-you-buy,' retailers could also benefit. Most respondents believed that **they would buy between two or three more items per month** if 'try-before-you-buy' was an option, however the ramifications for merchants are far more wide-reaching.

### Percentage of respondents who have bought multiple items with intentions of returning them, US and UK



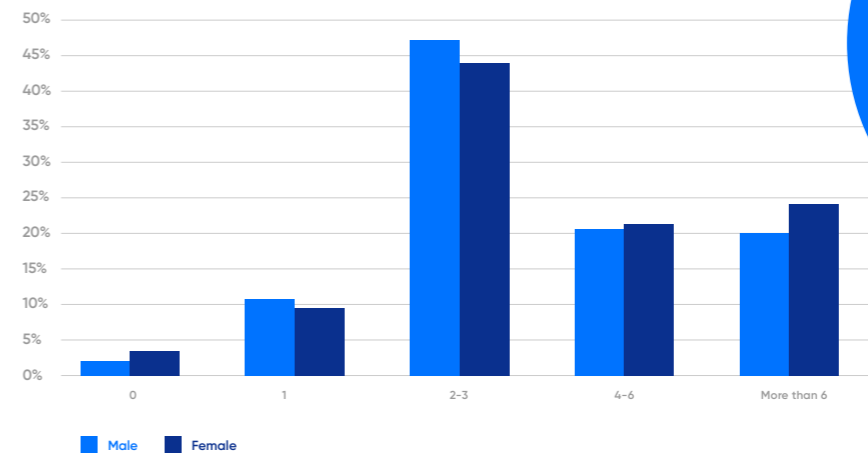
**WHAT DOES THIS MEAN**  
 One quarter of people have bought multiple items with the intention of sending some back...

### Proportion of respondents who have bought multiple items with intentions of returning some



**WHAT DOES THIS MEAN**  
 ...rising to over 50% in the youngest age group in the UK...

### Percentage of respondents who have bought multiple items with intentions of returning them, US and UK



**WHAT DOES THIS MEAN**  
 ...in a trend that could lead to far more purchases

<sup>2</sup> <https://www.ft.com/content/52d26de8-c0e6-11e5-846f-79b0e3d20eaf>

<sup>3</sup> <https://www.shopify.com/enterprise/102947142-how-to-reduce-your-return-rate-predict-exactly-what-customers-want>

## How aware are consumers of the 'try-before-you-buy' model?

### Phenomenon will rise quickly

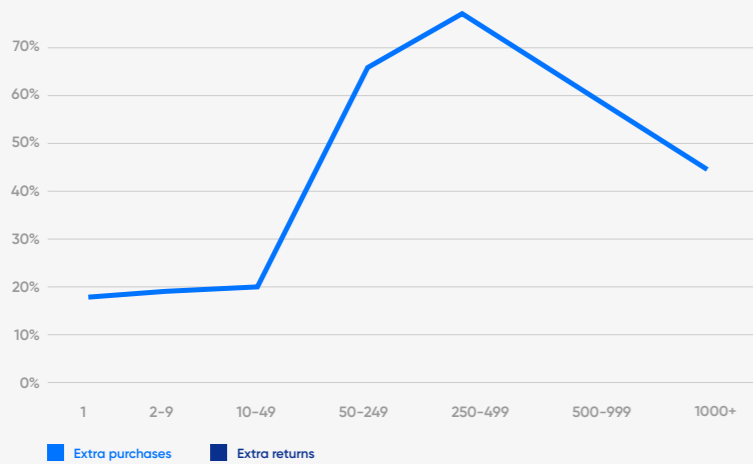
Retailers have already indicated that they have seen a rise in this behaviour. Those at the forefront are the mid and large sized retailers, with **two-thirds of those that employ between 250 and 499 employees saying that the behaviour has risen** over the last twelve months. The smallest retailers are least likely to report observing this trend. Those that have already bought items using the **'try before you buy' model are most likely to be in the 25 to 34 age group, with 15%** having taken advantage. Furthermore, those who indicate that they have heard of this model are most likely to be in the 18 to 24 age group, with almost half saying that they have either bought in this way, or have heard of it. Knowledge of the service model drops to under **25% in the 55+ age group.**

### Young fashion retailers capitalizing

This is born out by research from Mintel that reported a 145% rise in pre-tax profits in the UK, stating: "One in five young clothing consumers now buy fashion items from ASOS." The report continues: "As more than a third of clothing shoppers in the UK would like the option to order clothes online but only pay once they decide to keep them, rising to half of young women aged 16-24, launching this service is well considered"<sup>4</sup>

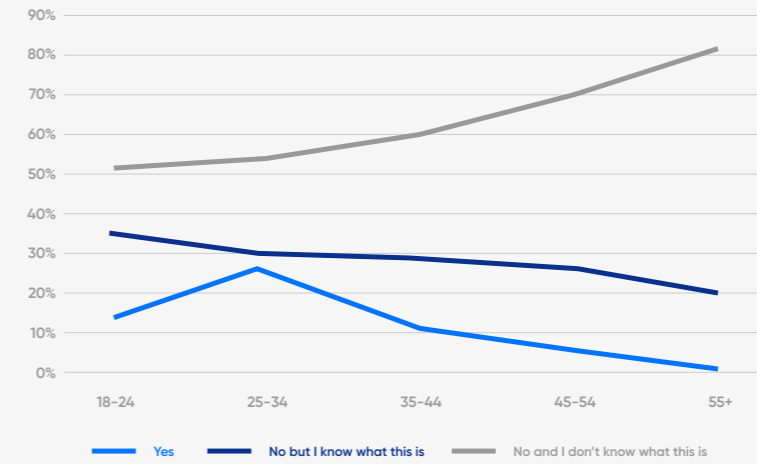
However, Brightpearl research indicates that many other sectors could also benefit - even in the least aware 55+ age bracket, where **almost one-fifth of shoppers say they would buy more items per month if 'try before you buy' was an option** and over 50% would maybe consider buying more items per month.

Proportion of retailers who have seen a rise in the 'intentional returner' over the last 12 months, by size (UK and US)



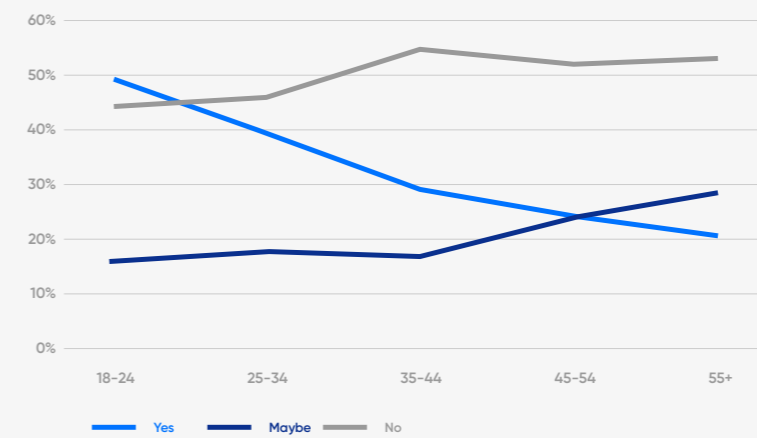
**WHAT DOES THIS MEAN**  
Two thirds of middle and large size retailers have seen a rise in this trend...

Proportion of respondents who say they have bought online with intention of paying 30 days after purchase



**WHAT DOES THIS MEAN**  
25 to 34 are most likely to have purchased this way, while older groups have not heard of it

Would 'try-before-you-buy' encourage you to buy more items? US and UK, by age group



**WHAT DOES THIS MEAN**  
However, even 55+ year olds say they would buy more with this option

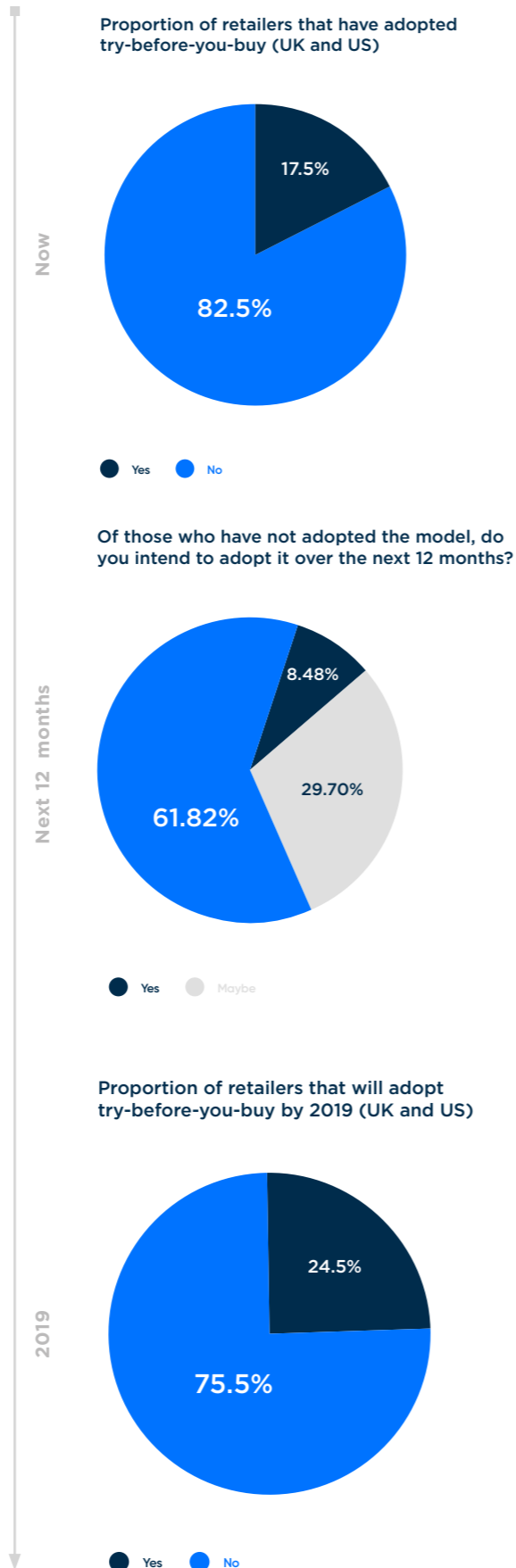
<sup>5</sup> <https://tamebay.com/2018/03/klarna-could-give-20-increase-in-conversion-rate.html>

## 2019 is event horizon for 'try-before-you-buy'

### Almost a quarter of retailers could adopt 'try before you buy' model by 2019

Some retailers are fighting back (or indeed embracing the new trend) by making the 'try-before-you-buy' an anticipated part of their business model. Our survey revealed that **17.5% of retailers have already adopted the 'try-before-you-buy' model** and, of those who have not adopted it, a further **8%** intend to make use of it during the course of 2018. Even excluding the maybes, this would mean that **by 2019, almost a quarter of retailers in our survey will be offering some form of 'try before you buy' service to customers.**

And it's not just the fashion retailers who are embracing the model. Technology, sports and homeware retailers are also adopting this new approach. As eCommerce experts, Tamebay, explains: "Use of Pay later increased five-fold in 2017, with one in three fashion shoppers now opting for Pay later when it is available at checkout. There was also a 22% increase in the number of items in customer's baskets amongst Pay later merchants."<sup>5</sup>



<sup>5</sup> <https://tamebay.com/2018/03/klarna-could-give-20-increase-in-conversion-rate.html>



“Try before you buy is an interesting model, with obvious benefits to consumers and businesses, but it’s something retailers must view with caution. The impact on return rates could cause devastation for online retailers who are already seeing their margins being squeezed considerably.”

” Derek O’ Carroll  
CEO, Bightpearl

## Dare you open Pandora's Box?

### Potential gains could be wiped out if cost of processing returns increases

Potential gains could be marginal when the anticipated behaviour of customers is taken into account. Both in the US and the UK, **customers reveal that they would return each month on average 3.95 more items in the US and 3.08 items in the UK.** However, there will be significantly more returns. 87% of customers reckon they'd make between 1 and 7 more returns. **Customers reveal that they think that they would return on average 3.95 more items in the US and 3.08 items in the UK.** It means that the net gain in terms of extra purchases made could be marginal, ranging from **almost two in the 18 to 24 age group to under half in the 35 to 44 age group.**

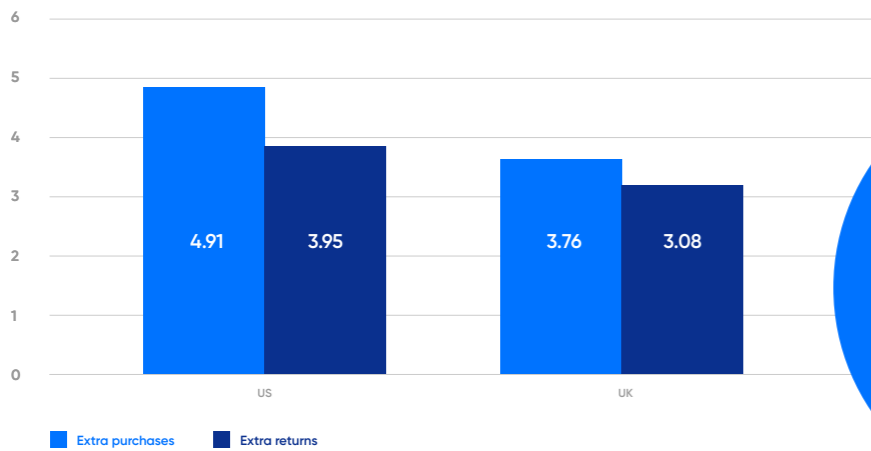
Retailers share this view, as almost 70% of retailers agree that the 'try-before-you-buy' model will create more intentional returns. It means that retailers who were averaging three purchases per customer per month could push this to four; but, at the same time, the number of returns is likely to triple. This creates a tsunami of returns

that could easily overwhelm retailers who do not have the processes or workflows in place to cope with that level of change. If more resource is required for administering that number of returns, then any gains could be easily wiped out.

### Measure the full customer journey and optimise to ensure success

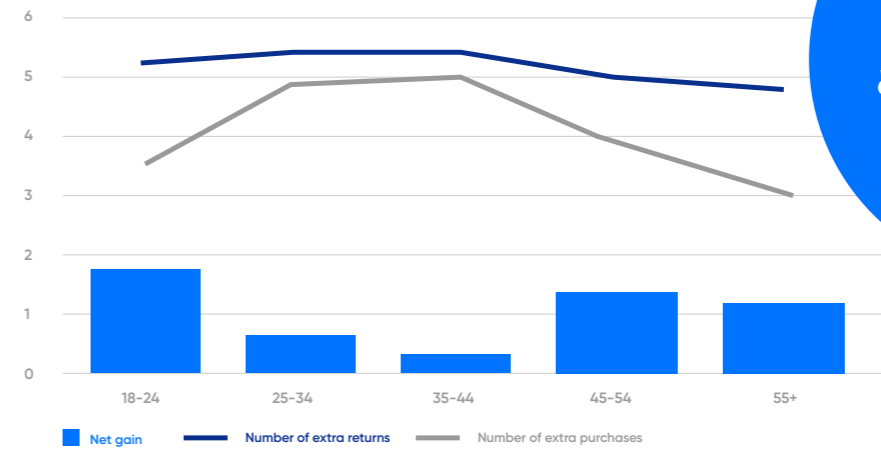
On the other hand, for retailers that already have robust systems in place to cope with this increase, the 'try-before-you-buy' model could be a way of capturing more market share. Retailers considering this model must be confident that the number of extra purchases that their customers would make is higher enough to counter the costs of the higher number of anticipated returns. A key metric to identify would be the average overall cost of a return per item and then to ensure that is either kept stable, or, better still, is reduced.

How many extra purchases or returns do customers think they would make each month on average as a result of 'try-before-you-buy'?



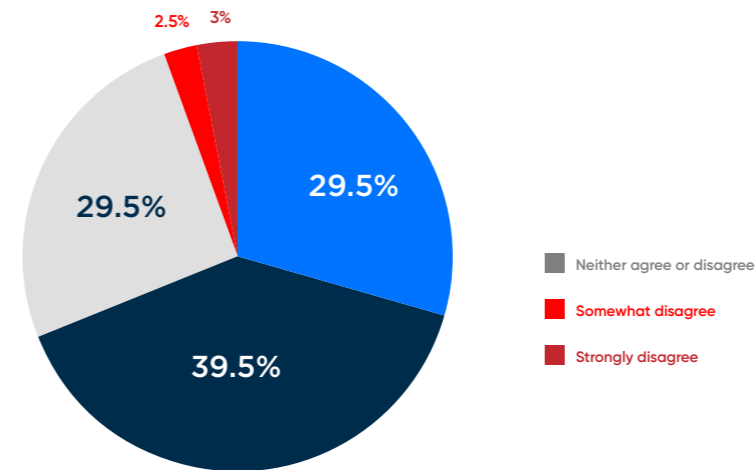
**WHAT DOES THIS MEAN**  
While customers will buy between 3 and 5 more items...

How many extra purchases or returns do customers think they would make each month on average as a result of 'try-before-you-buy'?



**WHAT DOES THIS MEAN**  
...they will also return a lot more...

'Try-before-you-buy' models will encourage more intentional returns from consumers



**WHAT DOES THIS MEAN**  
...they will also return a lot more...

## Smallest retailers feel most pressure from returns

### Returns trend to create crippling costs for already squeezed retailers

Our survey shows that retailers are witnessing average return rates of between **17% and 18%**. The return rate varies from **around 10%** for the smallest retailers, up to **over 30%** for the mid-sized retailers.

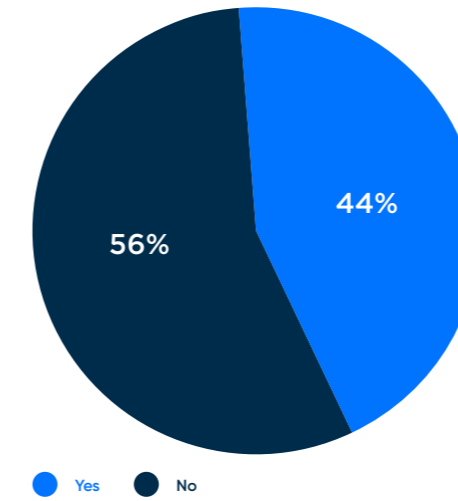
As an article compiled by CNBC points out: "It's not uncommon to see return rates of 30 percent or more for merchandise that's bought online. Clothing returns can be closer to 40 percent." Meanwhile, surveys reveal that less than half of returned items can be resold at full price, and \$5 billion worth of returned goods end up in landfill sites.<sup>6</sup>

Already **44% of US** and **over half of UK retailers** say that margins are strongly impacted. The problem is even more pronounced for the SMB market and especially the smallest retailers, as **over 20%** of these merchants **strongly agree** that their margins are being significantly squeezed by the process of handling and packaging returns.

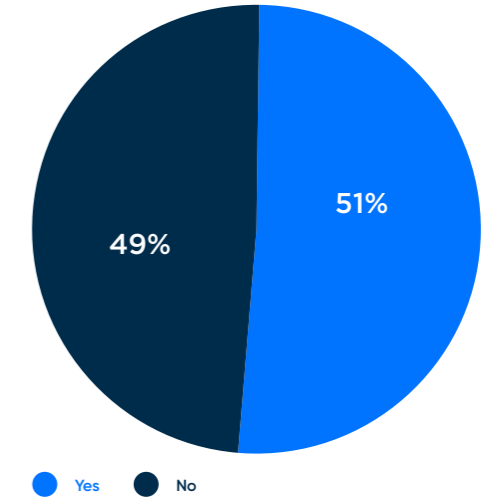


## Retailers agree that margins are being strongly impacted by returns...

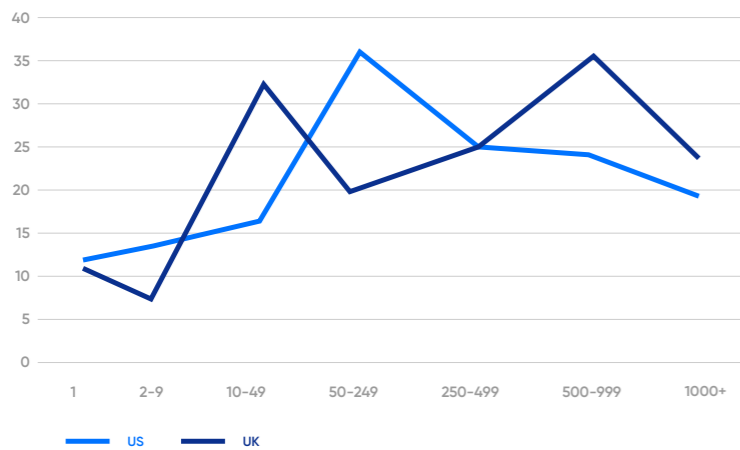
Proportion of retailers (US) Who somewhat or strongly agree that margins are impacted by returns



Proportion of retailers (UK) Who somewhat or strongly agree that margins are impacted by returns

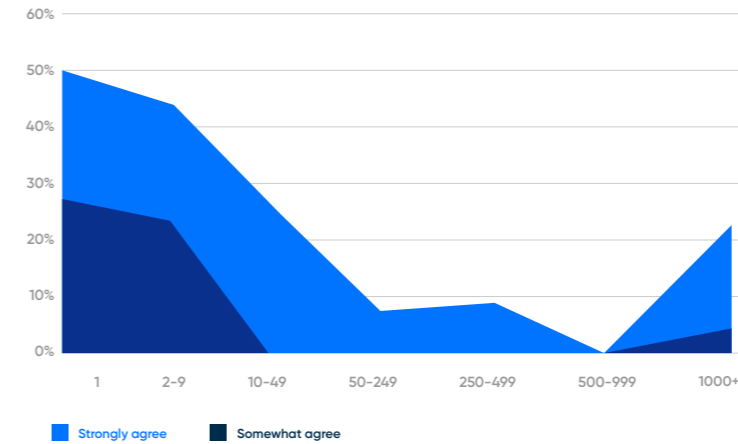


Average return rate (%), by company size, UK and US



**WHAT DOES THIS MEAN**  
Average return rates vary hugely by retailer size and vertical

Our margins are currently being squeezed significantly by the process of handling and packaging returns (US and UK)



**WHAT DOES THIS MEAN**  
...especially among the smaller retailers

<sup>6</sup> <http://money.cnn.com/2017/12/26/news/retail-returns-landfill/index.html>

## Growth of free returns could triple costs for retailers

### Retailers' actions are at odds with customer expectations

According to the results of our survey, the monthly **cost to retailers of managing returns, including cleaning, repackaging and getting items ready for new owners is, on average, £1,168 in the United States and £1,128 in the United Kingdom.** The spiralling costs of processing returns is enough to dissuade up to 22% of bricks-and-mortar retailers from trading online at all, according research from Barclaycard.<sup>7</sup> A tsunami of returns created by the adoption of 'try-before-you-buy' will only exacerbate this problem and, for existing retailers, could lead to an unsustainable scenario in which **costs could as much as triple.**

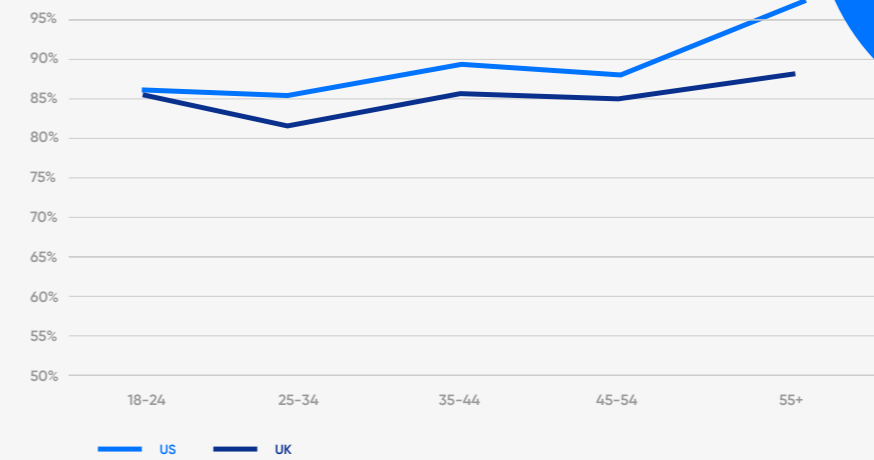
It means that more and more merchants are being forced to recoup these costs in order to protect the bottom line. According to the MCM Outlook survey, 46.7% of respondents said they charge for ecommerce returns in 2018, up from 39.1% the year before.<sup>8</sup> However, this is at odds with the demands of customers. Both in the US and the UK, consumers are demanding free returns. **Almost**

**nine in every ten people say that they expect free returns,** a sentiment that is consistent across all age groups. This expectation is factored into where consumers choose to shop, as the Barclaycard report points out, almost six in ten (58 per cent) consumers say a retailer's returns policy impacts their purchase decision when shopping online.

### Striking a balance: How returns can build loyalty and trust

Moreover, **most consumers (86%) say they would resent having to pay for returns** and, in fact, not only do they expect the service to be free, they also expect the returns procedure to be as simple and seamless as possible. A full 91% of US respondents and 82% of UK respondents agree that merchants should provide clear return instructions in packaging with labels and stamps included. Any retailer who is able to service customers' requirements more effectively and make this process as painless as possible will gain an advantage over competitors.

Proportion of customers who expect free returns, by age

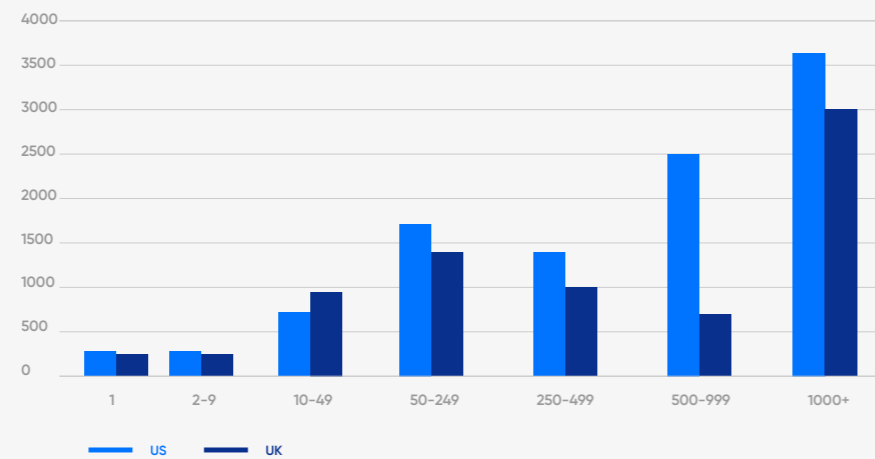


WHAT DOES THIS MEAN  
**...but customers don't want to pay for them...**

WHAT DOES THIS MEAN

**Cost of processing returns hurts the bottom line...**

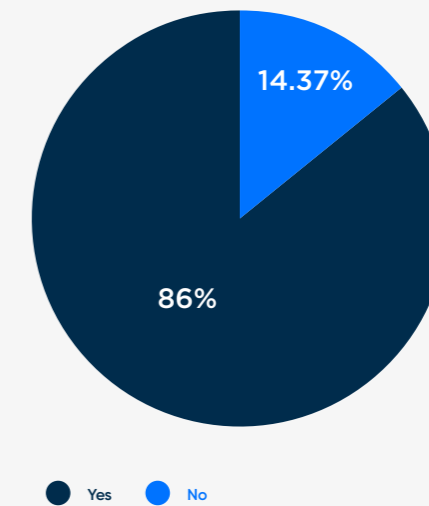
Average monthly cost (£) of processing returns



WHAT DOES THIS MEAN

**In fact, most would resent paying.**

Would you resent paying to return items you buy online?



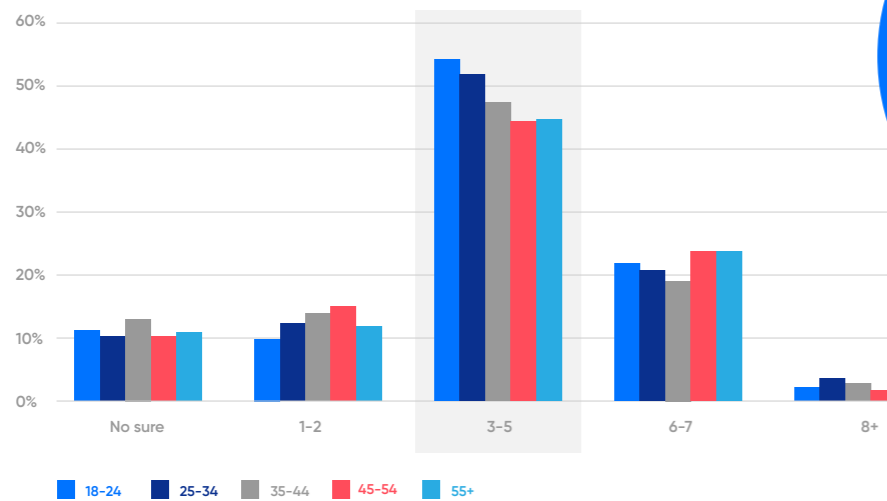
<sup>7</sup> <https://www.home.barclaycard/media-centre/press-releases/emergence-of-serial-returners-hinders-growth-of-UK-businesses.html>

<sup>8</sup> [http://cdn.multichannelmerchant.com/wp-content/uploads/2018/02/mcmoutlook2018\\_saddlecreekfinal.pdf](http://cdn.multichannelmerchant.com/wp-content/uploads/2018/02/mcmoutlook2018_saddlecreekfinal.pdf)



## Are mounting returns a ticking time-bomb?

How quickly (in terms of days) is acceptable for returns to be dealt with?



**WHAT DOES THIS MEAN**  
 Customers want returns processed in 3 to 5 days...

### Online retailers fall behind many customers' expectations – although not too far

The rise of the intentional returner, the desire for free returns and the increasing expectations of customers have created a perfect storm, as far as retailers are concerned. As retail expert Steve Dennis writes in Forbes: "By design, whether we like it or not, as retailers have become more customer responsive, they've driven return and exchange rates higher at the same time the cost of those returns has escalated."<sup>9</sup>

In terms of consumer demands, beyond free returns, they also want their returns to be processed faster. The Brightpearl survey revealed that **a majority within all age groups believe that a timeframe of three to five days** is acceptable for processing returns. However, research from KPMG revealed that it **took on average 6 days** for consumers to receive reimbursement on returning items.<sup>10</sup>

### But retailers must better understand their returns data

**In the US, standard returns made up the largest proportion of overall returns, while 12% in the US and 4% in the United Kingdom stated that they did not identify different types of returns.** However, all retailers will want to capture more data about returns, as calculating the cost of rising returns as part of the overall profit and loss calculation for each purchase and identifying how the average cost per item returned is evolving and to identify the areas that need improving to match the ever more demanding customer. Indeed, capturing more detailed data could have other positive side effects as well, such as understanding whether the website is providing enough information about specific items, whether there are quality issues, or whether there were issues with order picking and packing or delivery.

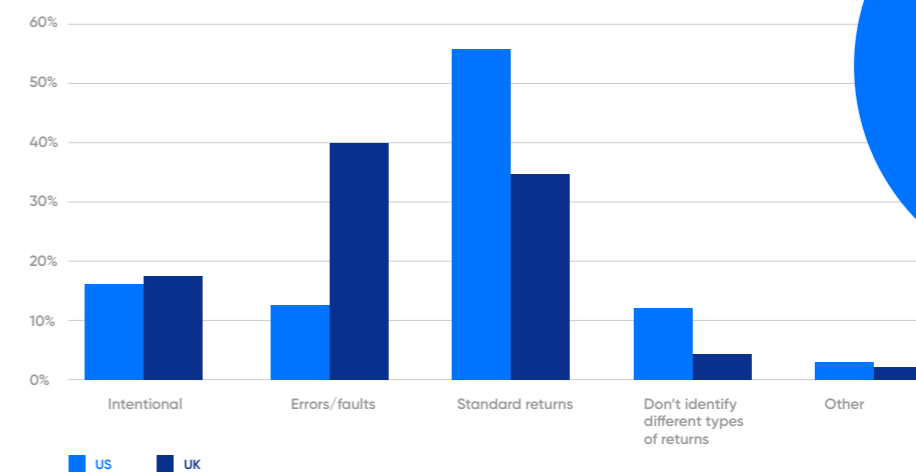
How many days does it actually take



**On average it took 6 days for consumers to receive reimbursement on returning items**

Source: KPMG

Reasons for returning items as recorded by the merchant



**WHAT DOES THIS MEAN**  
 ...with some not identifying why items are returned

<sup>9</sup> <https://www.forbes.com/sites/stevendennis/2018/02/14/the-ticking-time-bomb-of-e-commerce-returns/#714282994c7f>  
<sup>10</sup> <https://home.kpmg.com/content/dam/kpmg/uk/pdf/2017/02/retail-survey-2017.pdf>

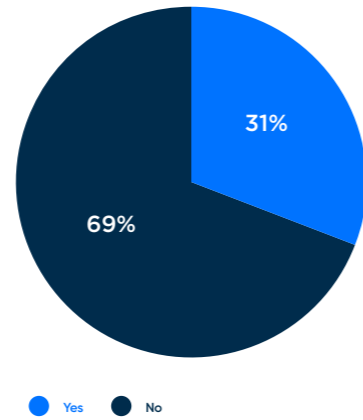
## Technology and innovation to introduce efficiency

### Surprisingly very few retailers are making use of technology to process returns

A staggering **69% of retailers are crucially not deploying technology solutions to process returns.** This striking statistic highlights how retailers themselves are exacerbating the cost and complexity of managing returns. This complexity of managing returns is reiterated in an article in the Financial Times which found that an **“average returned purchased passes through seven people before it’s listed for resale.”**<sup>11</sup> This supports the need for the retailer to actively engage in the notion of deploying technology solutions to help streamline back office inefficiencies. Rather than having to charge customers for returns that have been made in good faith, merchants should first investigate whether they can introduce more efficiency into the process, as these data suggest that there is plenty of scope for improvement.

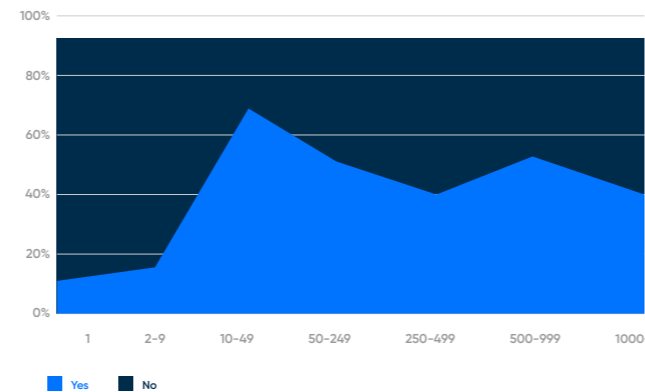
**The problem is even more striking for the SME as the retailers who employ between 2 and 9 employees, of whom only 17.39% stated that they were deploying technology platforms, compared to the peak at 465.8% with the employee size 50 to 249.** However, the smaller retailers are among those who stand to benefit the most from being able to reduce their average cost per item returned. A recent PWC report stated “44% of jobs in the retail sector are at risk of automation by 2030. Some mid-level employee positions will disappear – particularly warehouse staff and employees in the back office.”<sup>12</sup> This supports the idea that the SME and mid-market retailers will be able to reduce operational costs, including labour requirements, by investing in automation. A previous Brightpearl report has revealed that “57.5 days a year would be saved by eliminating time spent on repetitive administrative tasks,” coupled with a reduction in human errors of 65%, through the use of retail automation technology. As Multichannel Merchant explains in a special report, technology can allow retailers to step up a gear, explaining: “Now they can send customers online to print out a shipping label, and pre-authorize the return. This gives the customer his or her refund faster – even before the package arrives at the returns destination.”<sup>13</sup>

Are you deploying a technology solution to process returns?



Resulting in up to **7** people often being involved in a manual process.

Are you currently deploying a technology solution to process returns? (By company size, based on employees)



<sup>11</sup> <https://www.ft.com/content/52d26de8-c0e6-11e5-846f-79b0e3d20eaf>  
<sup>12</sup> <https://www.pwc.co.uk/economic-services/ukeyo/pwcukeyo-section-4-automation-march-2017-v2.pdf>  
<sup>13</sup> [http://cdn.multichannelmerchant.com/wp-content/uploads/2018/02/mcmoutlook2018\\_saddlecreekfinal.pdf](http://cdn.multichannelmerchant.com/wp-content/uploads/2018/02/mcmoutlook2018_saddlecreekfinal.pdf)



**69% of retailers are crucially not deploying technology solutions to process returns**

## Conclusion: Innovative approaches win out

### Investing to manage returns makes economic sense

As online spending continues to grow, customer demands will also continue to escalate. However, certainly in the area of returns, there is much potential to improve as retailers have realized the cost of returns is a major threat to their profitability.

“When you consider all handling, transport, admin and possible repacking, the costs of returning an item into your supply chain could be double that of delivering it” says Gareth Austin Jones, of Cocorose London.

“For retailers to capitalise on try-before-you-buy without cannibalising margins, they must have the right systems in place to optimise the returns process and ensure end-to-end visibility over factors such as available cash flow and inventory in the system - all of which could cause major pain points.”

### Creating benefits for both customers and retailers

By addressing these pain points, retailers have the

opportunity to improve customer satisfaction. End-to-end visibility means retailers have better information around customer returns. For example, they may be able to raise credit more rapidly if they know that an item is already on its way back from a customer, bringing them closer to the customers' expectations of a three to five day turnaround. Moreover, if retailers draw on information about items that have been kept or returned in the past, they gain enhanced insight into performance of various product categories and hence a greater accuracy in inventory forecasting and budgets. Furthermore, centralizing returns data allows merchants to identify opportunistic fraudsters much earlier, leading to reduced costs for all parties

It's also beneficial for the retailer. For example, investment in automation in the returns process could help to reduce the number of human errors that can occur and lead to better inventory management. This also helps to get products back to market more quickly. A defined return framework allows returns to be processed much more quickly. Another positive by-product of increased automation for retailers is a more efficient labour force, where staff can allocate greater time for customers. KPMG explains: “Those retailers who feel unable to pass costs

onto their consumers will look to drive efficiency saving programmes.”<sup>14</sup> This means that forward thinking retailers need to make the most of these emerging patterns of behaviour by using technology, such as retail automation, to take care of back office functions like processing, fulfilment, shipping and billing. Those who do will see financial savings over the long-term, and greatly free up employee time to focus on their customers.

### Best approaches will address both back end and front end opportunities

Improving efficiency in the back end systems with automation and wider capture of data, plus working more closely with fulfilment partners, while focusing on reducing returns in the first place with integration of technologies such as augmented reality will provide a winning combination. As Sharon Manikon, Director of Customer Solutions at Barclaycard Global Payment Acceptance, explains: “From developing universal sizing to offering virtual dressing rooms, the key for today's businesses is to determine which innovations work best for them - while ensuring they don't lose out to their more savvy competition.”<sup>15</sup>



The costs of returning an item into your supply chain could be double that of delivering it

” Gareth Austin Jones  
Cocorose, London

<sup>14</sup> <https://home.kpmg.com/content/dam/kpmg/uk/pdf/2017/02/retail-survey-2017.pdf>

<sup>15</sup> <https://www.home.barclaycard/media-centre/press-releases/emergence-of-serial-returners-hinders-growth-of-UK-businesses.html>



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