Returns plc: the biggest supplier you didn't know you had

Five new ways to reduce the cost and maximise the value of returns in retail

NEWTON

Introduction

Surprising fact: if you look at returns as a whole, they are the biggest supplier into a retailer, and yet poor management of this stock can mean taking the equivalent of a 6% hit on the RRP of all sales

This is the case in the retailers we've worked with – bringing home the scale of the issue and the urgent need to identify the biggest opportunities to minimise this growing cost.

But returns are rarely if ever managed holistically, largely due to a lack of clear ownership within the organisation. This makes it harder for retailers to analyse their data to see, for example, which return options customers value, how long it takes to process a return and where consumer demand for out-of-stock items online could be fulfilled by returns in-store.

And yet this data does exist. As brands like Asos and M&S lean into challenges with buying commitments and inventory management, retailers should also be prioritising efficient processing and intelligent distribution of returned stock to maximise full-price resales.

By simplifying the process for customers and staff, retailers can also boost customer satisfaction and loyalty and reduce stress in their workforce.

As online shopping continues to grow, so too will the volume of returns, exacerbated by changing customer demographics, new shopping behaviours and stagflation.

Through our work with major retailers, we've identified five areas where a more holistic and forensic look at 'Returns plc' and the data, people and processes that sit within this behemothic pseudo-supplier can deliver quick, measurable improvements to the bottom line.

> Returns have long been an issue for retailers, however today there are many more factors at play and customers have become much savvier. Now with different channels to shop and more ways to return items, retailers need to become savvier too.
>
> "At the moment, the cost of returns is hidden in the P&L – the process of handling returns has become more complex so that the true cost has become invisible and inaccessible, and this is often because of a lack of clear ownership and actionable data.
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> "Some retailers have begun to tighten up their returns policies, but many are concerned about the impact this could have on sales and how the customer will respond. Ultimately, it's about making data-driven decisions and refining your proposition. Crucially, it isn't just about investing in new systems – it requires clear ownership, end-to-end visibility and a mindset shift."
>
> Belinda Earl, senior adviser at Newton Europe, NED at Woolworths Holdings and former retail CEO

The five priorities

Based on our knowledge of the root causes of returns, processing delays and processing costs, we have identified five often-obscured areas that can make the biggest difference in reducing the cost of returns, all while giving customers a better shopping experience.

1 End-to-end ownership

Ownership of returns should be made clear and supported by end-to-end visibility and, crucially, actionable insights. End-to-end means everything from the reasons for returns and the online customer journey to in-store process, merchandising and stock exit. Only then can a retailer agree clear performance metrics and start to actively manage the cost of returns.

2 The regret feedback loop

As more retailers adopt technologies to reduce the number of regretted returns, there is an opportunity to leverage this data to a) ensure tools are working, b) create a rigorous improvement cycle with buying, merchandising and supply chain teams, and c) develop intuitive customer journeys with personalised recommendations and nudges, including playing on environmental concerns.

3 Rational returns policies

Adding more returns options, extending return windows and deviating from return policies can be a false economy, as retailers end up over-indexing on costly features that customers don't value and multichannel retailers divert people away from stores. The antidote to this is to harness the data within the business to instead make informed decisions based on customer value and cost.

4 Data-driven reselling decisions

The odds are stacked against a full-price resale due to poor control of stock placement and the time it takes to process a return. This is caused by a lack of actionable insights, inefficiencies in the returns process and a lack of integration between different returns channels. Advanced data analytics and better network capabilities are essential to maximise the value of returns.

5 Unified cost controls

Over the years, treating returns as a bolt-on to existing supply chains has resulted in spiralling costs and inefficiencies that are now impossible to sustain. An end-to-end view of true cost to serve, processing times and stock visibility – including activity within partners and 3PLs – is urgently needed. This should leverage automation and technologies like new RFID or QR/barcoding that allows retailers to track individual products through the network.

End-to-end ownership

The problem

Despite its significant hit on revenues, returns is missing in organisational design i.e. there is a lack of clear and effective ownership.

Where we have seen an attempt at giving ownership to a group or individual, this is undermined by people working in silos and a lack of reliable or complete information, making it impossible to identify opportunities for improvement and prioritise actions.

The impact

As a result, time and energy is spent on trying to understand data rather than acting on it. Some of the crucial missing pieces of data are the root causes of returns, processing delays and processing costs, and therefore where the biggest opportunities lie.

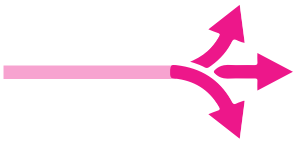
Another is the true cost and value of a return, which we find helps drive action around the biggest areas for improvement.

The solution

Returns is widely reported as costing the UK retail industry £7bn a year. As with any major supplier, it requires clear ownership that's supported by end-to-end visibility and actionable insights.

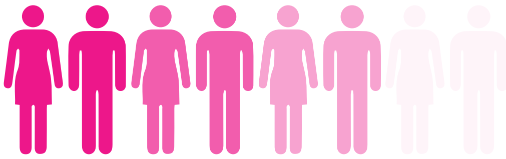
End-to-end means everything from the reasons for returns and the online customer journey to in-store process, merchandising and stock exit. Only then can a retailer agree clear performance metrics and start to actively manage costs.

Newton insights



80 different return pathways

One retailer we worked with had over 80 different return pathways through the business, driving up costs and inefficiencies. This information was hidden due to a lack of clear ownership and end-to-end visibility of returns.



Returns sat across 15 functions and 75 people

We worked with a retailer for whom returns sat across 15 functions and 75 people. We built a high-performing cross-functional team, aligned behind a common set of KPIs that used data to understand and prioritise levers to improve performance, with a clear understanding of who was responsible for each lever.

The regret feedback loop

The problem

Understanding why customers return items is notoriously difficult – from customers defaulting to "Changed my mind" reason coding to difficulties isolating patterns in real-time and historical data.

While many retailers are deploying tools to reduce the number of regretted returns – like intelligent sizing and virtual try-on technologies, augmented reality apps and tags or packaging that invalidate a return if removed. Our analysis reveals that these can fail to reach their full potential due to poor integration with the online shopping journey, poor user experience and staff deviating from policy.

We also see that feedback often isn't shared with commercial teams, preventing them from leveraging this information to make better decisions about product selection, fabric, fit and imagery for example, or to prompt the correction of issues with launch information.

The impact

While some returns are inevitable, for example when ordering multiple items of clothing online as you would take multiple items into a physical changing room, there are still too many avoidable returns. This increases processing costs and damages margins and customer confidence.

Returns also have a negative impact on the environment – due to transportation, re-packaging and waste for example – and are likely to become more of a reputational and financial issue as retailers come under increasing scrutiny from consumers, investors and regulators in this area.

During times of economic uncertainty, it's also important to ensure that any investments in consumer-facing technology are delivering the intended outcomes and a strong ROI.

The solution

To the extent that it can be, prevention is always better than cure. As retailers continue to roll out technology-enabled solutions to regretted returns, there's also an opportunity to generate deep customer insights without needing to rely on capturing data from customers themselves (it's possible to get a wealth of insight from patterns of returns at a customer and product level using advanced diagnostic and predictive analytics) – and to feed all insights back to buying, merchandising and supply chain teams as part of a rigorous improvement cycle.

In bigger areas of opportunity like sizing, retailers should make sure that these technologies are fully integrated into the shopping process. This could mean remembering a customer's information and preferences and giving helpful recommendations and nudges to minimise the likelihood of a return, including reminders about the environmental impact. There is a huge opportunity for retailers to use the environmental impact of successfully reducing returns to enhance their brand.

Newton insights

In the retailers we've worked with, 40-50% of all clothing returns are driven by customers who buy multiple sizes of the same product.

One retailer only realised half the minimum reduction in returns promised by an online sizing tool due to its implementation.

Rational returns policies

The problem

Returns policies have become a victim of "convenience culture" because retailers assume customers want more returns channels, longer returns windows, won't pay for convenience and can't be nudged towards more environmentally and cost-friendly options.

In reality, many retailers can't identity where investments in their returns proposition are most valued by their customers and end up over-indexing on features that don't deliver a strong ROI.

The impact

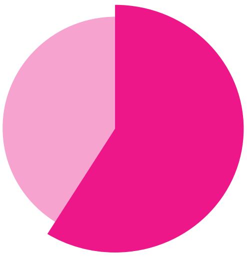
As well as over-complicating the proposition for customers, an overly long list of returns options incurs unnecessary service fees and diverts customers away from more efficient choices like returning in-store, where customers are also more likely to purchase again.

The solution

The antidote to feeling the need to add every new returns option that promises to be more convenient than the last is to harness the data within the business to instead make informed decisions based on customer value and cost.

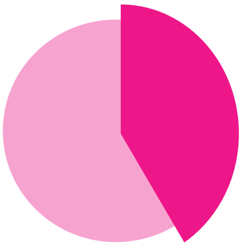
By gaining a more holistic picture of returns, retailers can assess the customer value and business cost of different policy decisions and make informed choices about levers such as the returns window, options for return routes, charging for returns and mechanisms to enforce policy.

Newton insights



60% more expensive with lower performance

Some retailers offer customers as many as seven or more options to return their purchases, a number of which fulfil the same customer mission but with a differing cost to serve – in one case two options offered similar levels of returns convenience but one was 60% more expensive with lower performance metrics.



45% of returns made were seasonal

In one case, 45% of returns made after the customer return window had closed were seasonal, with an estimated £2m saving opportunity from more consistently adhering to the policy.

Data-driven reselling decisions

The problem

If returns are a retailer's biggest supplier, then maximising the number of full-price resales should be one of its biggest objectives. In reality, returns take too long to process and too many items end up being marked down or cannot be sold at all. This is largely due to:

- Poor insight into the cost of a return and an item's potential resale value, making it difficult to decide if a return is worth processing.
- Inefficiencies in the returns process, meaning an item is highly likely to be out of season or in the sale by the time it is available to be resold.
- A lack of integration between returns channels, meaning retailers are missing out on opportunities to meet demand in one location with returned stock located elsewhere.

The impact

Without the ability to make a cost-benefit analysis of each return, some will be loss leaders from the start as they have no chance of reselling.

When it comes to the impact of slow processing, we see returns taking 10-30 days to move through the network. When you add on a ~30 day returns window, you could be looking at a challenge of trying to resell seasonal product up to two months after it was first purchased, meaning it is guaranteed to miss out on re-selling at full price.

As retailers introduce more pathways for returns, they increase the risk of stock becoming trapped in a sub-optimal location and re-selling at a discount or not at all.

The solution

Retailers need decision making and network capability to get stock to the right place at the right speed, and for the right cost.

This typically means building advanced data analytics that are easy to integrate into returns processes and existing forward stock management, enabling proactive and reactive decisions about where and how quickly to move returns stock to optimise residual value in the product. For example, when a customer returns an item in-store, the stock system or POS automatically recommends whether to urgently replenish stock on the shop floor or send it back into the supply chain to a different location, be that online or another store.

This doesn't mean reselling at any cost: sometimes the best action for a product is to donate it to charity or mark it down in the store it was returned to, as the cost of processing that item outweighs its probable resale value. Or to let the customer keep it, as Amazon often offers.

Importantly, none of this is possible without the right network capability to manage reverse stock flow. We've helped retailers to set up new, cheaper routes between stores in a local area for example, helping to improve stock availability and meet demand.

"None of this is possible without the right network capability to manage reverse stock flow."

Newton insights

£8m additional sales

For one retailer, reducing cycle times by just 2 days promised to unlock £8m in additional sales.

30% discount

One item stocked out online for five consecutive days while a return was available in-store, where it was eventually sold at a 30% discount.

50% of the value recovered

In our studies, only about 50% of the value of returned items gets recovered.

40% damaged stock could be resold

In one case, 40% of soiled and damaged stock could be rejuvenated and resold.

"

There is a black hole where especially multichannel retailers haven't considered the economics of in-store returns versus other options, of which there is a growing number.

"Not only are there significant benefits for retailers from encouraging in-store returns – such as cross-selling and replenishing stock – but this is also a firm favourite for customers from a simple convenience perspective.

"Many retailers have a significant estate and are rethinking how they leverage this to support the business.

The returns network surely must be a part of that?! How can retailers process and move returned items between locations to plug gaps in availability and maximise sales, for example comes to mind?

"The number of returns is simply too high, putting pressure on margins, so no retailer can afford to ignore the need for better data analytics and network capabilities to maximise the value of returns and prevent it from being such a big financial drain. And let us not forget that multichannel retailers have a superior model to pureplay on this front."

Clive Black, senior adviser at Newton Europe and leading retail analyst

Unified cost controls

The problem

Despite being the biggest stock supply, reverse logistics is often bolted onto existing supply chains, which has resulted in a lack of end-to-end cost visibility and performance management.

For many retailers, this is exacerbated by the use of 3PLs that aren't integrated into business reporting or stock management.

The impact

Over time, returns has become so inefficient that we now see examples of returns costing anything from around £1 to around £4 per item to process. Over millions of singles, this quickly adds up and for low margin and high returning lines can quickly erode business profitability.

Common issues include rehandling stock, clunky applications and the need to use multiple systems to access returns information, which costs £millions in unnecessary labour. As we have discussed previously, a lack of efficiency also means items are unlikely to be re-sold at full price.

The solution

As the number of returns continues to grow, retailers should prioritise an end-to-end review of the returns process to highlight areas of inefficiency – like reworking items, poorly designed processing technology and system duplication – and consider automating manual tasks to increase speed and accuracy.

A unified system to manage returns – from receiving the product to processing it and returning it to the supplier – will generate better visibility for all stakeholders and help set appropriate service level agreements and key performance indicators for both internal teams and 3PLs.

Retailers should also consider using technology such as new RFID or QR/barcoding that allows them to track individual products through the network, and regularly review and evaluate the returns process to identify areas of improvement and optimise the system over time.

Newton insights

High processing costs

We've seen processing costs ranging from around £1 to around £4 per item over millions of singles.

12 separate systems

In one case there were 12 separate systems for capturing returns data, with the retailer only accounting for one third of the actual cost of returns.

Our impact

Newton has been built on a unique 'Designed for Delivery' philosophy that provides critical advantages via:

Deeper diagnosis

You can't fix a problem until you really understand it. Newton's unique analytical technique ensures that, even in the most complex operating environments, we identify and decode the critical causes of value and efficiency loss.

Design for adoption and outcome

We don't deal in 'one-size-fits-all' solutions. We co-design and pressure-test new ways of working alongside your people, focusing delivery against the must-shift KPI. This involves unpicking issues of organisational complexity that often inhibit change, which other consultancies miss.

Immersive engagement

We know that, in the end, it's your people who'll need to change the way they work to create lasting benefits. We focus on colleague buy-in and ownership from minute one. We work hand-in-hand with your people – from the shop floor to the boardroom – building confidence and capability to embed sustainable change.

100% of our fees at risk

We know this is bold. But we also know what it takes to deliver large and complex change – and we've always achieved or exceeded our target operational and financial benefits. We believe so strongly in what we can achieve together that, for twenty years, we've guaranteed 100% of our fees against delivering results.

About Newton

Newton was founded in 2001 with a determination that all our work would add outstanding and irrefutable value. We design and embed change programmes that deliver greater, longer-lasting value to complex organisations than any other consultancy.

Our ability to deliver change in retail is unmatched in the UK. Our engagements in clothing, GM and grocery retail have delivered £100m p.a. or more in recurring financial benefit. We are heavily orientated to ensuring that the operational and financial improvements are not just identified and planned, but implemented, sustained and form the foundations for a better future.

Over the last 20 years, we have successfully partnered with more than 160 leading organisations, including working with many major UK retailers, resulting in the delivery of £multi-billion of savings. We'd love to speak to you about your current challenges and how we can help.

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