Return Logistics Feb 2017 ebook Returns MaturityCurve

How to Prevent Returns

*Moving Up the Returns Maturity Pyramid*

*NOTE: (seems odd to call it a curve but represent it as a pyramid)*

Nobody likes returns: Not the customer, who is disappointed about the purchase. Not the retailer, who loses revenue and potentially a customer relationship. Not the store, which has been forced to sacrifice space to process omnichannel returns. Not even UPS, which is struggling to make the home pickup and delivery part of its business profitable.

But the fact is, returns can support the bottom line. Retailers who invest in their returns processes can not only reduce the pain, but use insights they glean from returns data to:

* **prevent future returns**
* **reduce customer churn**
* **enhance customer lifetime value**

Retailers who have adopted this approach have seen returns reduced by as much as XX%. (CAN WE MAKE THIS CLAIM?)

The Returns Maturity Curve (Pyramid?)

Because it’s long been considered a cost center, retailers’ recent investments in returns has mostly been about recovering as much value as possible from returned goods. But that still represents a loss:

**RETURNS FACT:** Retailers typically recoup just 12 to 25 percent of an item's original cost. according to the [Reverse Logistics & Sustainability Council](http://reverselogistics.com/)

Retailers that want to transform their returns processes into engines of insight into customers and products start by improving basic returns processes at the help desk and the warehouse. With that in place, they can begin using the data they collect to identify root causes and prevent future returns. The result is a complete, end-to-end returns management and prevention process.

(Graphic here - I would recommend renaming this chart ReturnLogic Maturity Pyramid(?) and using the three terms from the products – Origination, Collector and Analytics)

Here are the three important components of returns – and how to make them better.

1. **Returns Origination:**

A returns transaction has several moving parts:

* **Generating a Return Merchandise Authorization (RMA)**
* **Creating a return label**
* **Collecting a reason code**
* **Tracking the return**

**Returns Origination Pain Points:** Surprisingly, most ecommerce platforms do not offer tools to manage all of these processes. Instead, retailers have developed their own methods:

* Recording RMAs in a spreadsheet or shared document, then marking when the item is received and manually initiating a refund
* Adding multiple plug-ins to address each of the steps, which vary widely in quality and do not always integrate well with other systems
* Using a SaaS provider for returns origination, which addresses the immediate need but is too silo’ed to enable access to valuable returns data
* Creating manual workflows, since ecommerce plug-ins or software modules do not include the workflow management required to make returns efficient and returns data visible to everyone who needs to see it
* Paying a third party to develop a costly custom integration

A second issue common to all of these approaches is poor use of reason codes. Most retailers offer a single set of broad codes across their entire product line: Did not fit, damaged, did not like, and so on. Often they request this info on returns paperwork that is not seen until the item reaches the returns facility. This data is both too general and too late to help the retailer take action.

Some reason codes describe product issues – did not fit – but offer no insights: Were the sleeves too short? Waistband too tight?

Others point to merchandising, production or distribution issues: Product did not match description. Wrong color. Neither offer enough insight to know what to fix.

**RETURNS FACT:** According to [Chain Store Age](http://www.chainstoreage.com/article/report-online-returns-are-big-problem) and Trueship, most (67%) online returns are the retailer’s fault, not the customer’s. Top causes:

→    23% of online returns are because the consumer received the wrong product

→    22% of online returns are due to the product being substantially different in appearance than was advertised online

→    20% of online returns are due to the consumer receiving a damaged or a defective item

**Returns Origination Best Practices:** Here are two best practices to make returns origination frictionless:

* Leveraging a single application that automates all returns origination processes and workflows
* Collecting product-specific reason codes, photos and other valuable data when the customer initiates the return

**Origination Management**: The next best thing to no return is a returns process that is fast and frictionless for the customer and the retailer. By automating all of the steps in a single comprehensive Returns Origination application, retailers can customize how the return/exchange/replacement workflow is handled to create a positive customer experience and a fast, efficient backend process. This makes a return less painful for the consumer, and also helps speed along their refund. Delivering a fast and pleasant experience is essential to get that customer to trust a retailer with a future transaction.

**RETURNS FACT:** Researchers from the University of North Carolina at Chapel Hill and Georgia State University discovered that “[a satisfactory product return experience can lead to increases in customers’ future purchases and referrals and in the profit they yield for the company](http://sloanreview.mit.edu/article/can-product-returns-make-you-money/).”

**Detailed Reason Codes:** A best practice is to write reason codes that are specific, and tailored to the product in question: sleeves too long; tight across chest for a sweater; clasp broken, missing pieces or discoloration for jewelry, for example.

Retailers that integrate Returns Origination into a help desk such as Zendesk can collect this data when the customer initially reaches out to return a product. They can even enhance the data quality by asking for photos, or for the consumer to express the issue in her own words. This rich data is invaluable for determining the root cause of returns. A well-built Returns Origination application can accommodate this rich data.

Another great practice: Using customer history to shape the returns process. Give high value customers a heightened experience. Use returns data to avoid recommending a replacement SKU with the same issue.

1. **Returns Collection.** Once a retailer issues an RMA, it’s a waiting game to see when – or if – the customer actually makes the return. Once the package arrives at the returns facility, either an in-house facility or a third-party logistics provider, the tasks include:

* **Receiving product**
* **Determining product disposition**
* **Initiating the refund**

**Returns Collection Pain Points**: Many retailers find connecting returns packages to transaction data challenging. Here’s why:

* Most retailers collect very little data as part of the RMA process, so they have no insight to guide disposition decisions. This slows processing, and those delays mean lost inventory value.
* Because RMAs are tracked on a spreadsheet or shared document, incoming shipments must be manually cross-matched.
* Integration with the e-commerce or ERP platform is often archaic or non-existent, so customer refunds must be initiated manually. Delays frustrate customers.
* Another outcome of poor integration and automation is lack of visibility: warehouses have limited insight into what’s coming, and no one is able to look for patterns in returns activity.
* Even those retailers using advanced warehouse management systems find those are focused on forward logistics, so their returns processing functionality is inadequate.

**Returns Collection Best Practices:** Use an automated and integrated returns collection solution.

The best returns practice is to use a comprehensive returns collection application that integrates via API right into the ecommerce platform, automating collection processes. When customer service and the returns facility share access to returns management data, they gain multiple benefits:

* + - Faster, automated receipt and logging of returned merchandise following custom workflows. Slow, error-prone manual entry is eliminated.
    - Returns intake staff can make their own notations via text, voice or image on product condition and root causes.
    - Returned inventory moves faster into disposition channels, preserving value.
    - Returns facility gains insight into what’s coming, aiding staffing and disposition planning.
    - Ecommerce systems are automatically notified of received goods, speeding refunds and satisfying the customer.

**RETURNS FACT**: [Aberdeen Group](http://www.aberdeen.com/research/8443/ra-returns-operation-management/content.aspx) found 64% of businesses are targeting returns management as an avenue to improve overall customer satisfaction.

1. **Returns prevention: Leverage analytics to understand and prevent returns.**

Achieving maturity in returns management means analyzing returns data to gain insights that prevent returns. This is the most effective returns strategy for reducing customer churn and extending lifetime customer value.

**Returns prevention pain points**. Retailers have made some important inroads toward satisfying the customer the first time, such as offering virtual dressing rooms, user reviews and recommendations engines. But that’s where prevention stops:

* They use reason codes that are too generic
* Any data they do collect is stored in spreadsheets or shared documents. These cannot be analyzed fast enough to take action.
* Reason code data never gets back to the marketers, merchandisers or forward logistics departments who could use those insights
* They don’t properly analyze returns data

As a result most retailers are ignoring a gold mine of feedback about their customers and products:

**Returns Prevention Best Practice:** Building on the strong foundation they have laid by automating and improving Returns Origination and Returns Collection, retailers how have everything they need to start to gain insights into why products are coming back, and take fast action to prevent more returns of those items. The most mature stage of Returns Prevention is applying Returns Analytics to rich returns data.

Returns Analytics rapidly analyzes returns data starting from the moment the customer service desk enters data about an incoming return. Using algorithms and natural language processing, it becomes an early warning system alerting the retailer to patterns in product returns. They can use that to jump into action:

|  |  |
| --- | --- |
| Problem | Action |
| Lots of damaged TVs are coming back | Alert the returns facility to prepare for this bulky item |
| Ladies jacket SKU being returned for fit issue | Change the item description |
| Several SKUs from the same jewelry manufacturer have broken clasps | Pull items and alert the manufacturer and cancel orders |
| Shoppers received pink shorts but ordered blue | Correct warehouse slotting error |
| New pants fabric is scratchy | Alter materials on future orders |
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A great Returns Analytics application can:

* Enable custom alerts so the right people can take fast action to correct an issue
* Flag anomalies to drive targeted investigations of root causes of returns
* Enables analysis of products, customers and vendors – as much as 10x faster than manual analysis
* Provide visibility, communication and accountability
* Integrate easily with your existing data stores and platforms, such as ECP, ERP, WMS and CRM as well as help desk
* Predict potential return issues before they happen, helping retailers avoid selling products that will just come back.
* Bring together many disparate sources of data, including unstructured data, to deliver profound insights.
* Support KPIs such as the true cost of returns and impact on product margin (MAY NEED TO WAIT TO ADD THIS?)

Here is how it all works together:



Fewer returns = Happier Customers = Healthier Bottom Line

No matter how friction-less the returns process is, returns damage the customer experience. If it happens too often, retailers risk losing those customers. Instead, returns data can be used to understand what went wrong and stop it from happening again. Retailers learn more, so products come back less.

With end-to-end returns management and prevention software including Returns Origination, Returns Collection and Returns Analytics, retailers can replace tedious, manually managed returns processes with automated, integrated, frictionless returns. Then they can use that data to reduce customer churn, enhance customer lifetime value, and prevent returns.