Ebook

Managing Returns in Retail: Four Best Practices and How to Implement Them



How to optimize the balance between customer satisfaction, protecting margins, and reducing the environmental impact of product returns

kbrw

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Introduction

Lisa orders three products, then returns two of them because one is not compatible with her existing equipment and the other is an item that doesn't match what she ordered. An action that may seem inconsequential to her, but on a large scale is a real logistical and financial challenge for retailers...

With the continuing growth of e-commerce and changes in consumer expectations, returns management is becoming a major strategic issue. In Europe, the average return rate fluctuates between 30% and 40% of online purchases, with the highest rates occurring in the fashion sector. This trend is becoming more pronounced as simplified, free return policies become increasingly commonplace and a key criterion for consumers in their decision-making.

However, each return represents a direct cost for businesses. A recent Narvar report estimates that each return costs retailers around 30 euros, including postage, packaging, loss of item value, labor, and missed sales opportunities. On a market scale, this amounts to several billion euros every year, which directly impacts retailers' margins.

The challenge faced by retailers is therefore twofold: managing these costs while offering a seamless, flexible experience that is key to customer loyalty.

Beyond business strategies, the issue of returns is part of a long-term transformation in retail. The second-hand market is booming, with annual growth in Europe estimated at 15%. Concurrently, reverse logistics is becoming a priority for many businesses seeking to optimize the reintegration of returned items into sales or recycling channels.



In a sector where margins are shrinking and customer experience has become a deciding factor, retailers need to rethink returns management. It is no longer just about limiting losses, but turning returns into a strategic lever for optimizing logistics, meeting consumer expectations, reducing environmental impact, and exploiting new opportunities for growth.

This white paper explores four essential best practices for transforming returns into a way to boost performance, based on key data and specific examples.

1. Offering Omnichannel Options for Returns without Increasing Costs

As omnichannel commerce has increased in popularity, consumers have now come to expect a seamless, unrestricted shopping experience, including when they wish to return a product. Returning an item should not feel like an obstacle course, but a simple, flexible step in the customer journey. Today, 62% of consumers say they are more inclined to purchase an item online if they can return it in-store.



Retailers are becoming aware of this: 82% of them allow customers to return a product in-store, but only 14% offer a home collection return option, leaving room for improvement when it comes to meeting consumer expectations.

Best Practice in Omnichannel Options for Product Returns

Offering an omnichannel service for product returns is therefore key to ensuring the loyalty of today's consumers. There are several possible ways to do this, but they are not always easy for retailers to set up: some, for example, still do not allow customers to return in-store an order that was placed online or require the product to be returned to the store where it was purchased.

This is understandable for certain types of product: it is difficult to return a sofa by post or take it to a drop-off point. For bulky products, for instance, a home collection service can be a valued option for consumers, and all the more profitable for the brand if a new product is also delivered at the same time as part of an exchange. For more commonplace products, a lack of flexibility in the returns policy may not be accepted by consumers.

The partnership between Amazon and Kohl's in the United States serves as a good example of the impact of a well-thought-out omnichannel returns strategy. Thanks to this scheme, the pure player Amazon offers in-store returns at over 1,000 points of sale, generating a 24% increase in in-store traffic for Kohl's. This approach illustrates how a well-managed return can not only simplify life for the consumer, but also benefit businesses by generating additional sales opportunities.

How to Offer Omnichannel Returns Options without Maximizing Costs

One of the main factors limiting retailers' ability to excel in the provision of omnichannel options is their capacity to synchronize and ensure the reliability of inventory across all their points of sale and points of storage by eliminating silos. This is a key requirement for seamless, optimized management of logistical flows along the entire supply chain, thus enabling omnichannel returns without generating substantial additional costs. Without a full overview of inventory, it is impossible to make the connection between, for instance, a product purchased online and one returned in-store.

Order Management Systems (OMS) provide an answer to this challenge: they offer a unified overview of inventory across all sales channels, and coordinate all classic and reverse logistical flows, taking into account supply chain capacities, all in real time. One of the main purposes of such a system is to find the best way to execute an order based on specified priorities, which may be different for the sales circuit and for the reverse logistics circuit (costs, prioritization of types of storage point, CO_2 savings, delivery times, etc.).

Thanks to this unified solution for coordinating orders, customers are able to return products via several channels without complicating supply chain management. For each product returned, whatever the channel, the OMS can immediately reintegrate the product into the inventory (or following completion of a control process) and is able to calculate how best to deal with it: leave it at the store or warehouse to which it was returned, or transfer it to another storage point – and which one. All in real time, based on how much the logistics of each option will cost, demand forecasts, and the status of current inventory and orders.



At a time when the customer experience is becoming a key deciding factor, offering a seamless, frictionless way to return purchases is a powerful way to ensure customer loyalty and improve business performance. But few businesses currently have a perfectly unified and efficient returns management system. Experts in this field recommend that retailers invest in an integrated order management system with returns optimization capabilities to improve the customer experience while managing costs.

2. Refining the Returns Policy to Meet Expectations while Protecting Profitability

Today, charging for return can be a deterrent for many clients, as nearly two-thirds of shoppers say that they won't buy from retailers not offering free returns. Yet fully absorbing these costs is a considerable financial burden for retailers.

Faced with increasingly demanding consumers and strained margins, offering a more flexible strategy becomes a matter of necessity.

Rather than imposing a standardized policy, adopting a segmented approach that is tailored to logistical and economic realities is key for really optimized returns management. By offering several options subject to different conditions, brands can give consumers a choice while controlling the financial impact of returns.



Best Practices for a More Refined, Segmented Returns Policy

We have seen the importance of offering consumers omnichannel options for returning their products. This does not necessarily mean that all of them should be "ideal": as with delivery options, some people will always choose those that are free, while others will prefer to pay a modest sum for the sake of convenience.

ETAM, for example, has introduced a differentiated returns policy: in-store returns are free, but there is a charge for orders returned by mail. This approach encourages more thoughtful consumption while optimizing logistics costs and continuing to offer customers a practical solution. Additionally, the ETAM Group was one of the first ready-to-wear retailer to offer a "try it on at home" service, allowing customers to try on a selection of items for free before making a purchase. This innovative service makes it easier to anticipate returns and reduce the allotted time in which consumers can send products back, while offering a smoother shopping experience.

Sometimes it can be more efficient to not get the product back at all (since it is expensive to store and/or manage if it is not then sold and therefore becomes waste). This is the approach taken by Halara, which allows its customers to keep a product they do not want in exchange for a voucher, thus avoiding unnecessary logistical costs and strengthening customer loyalty.

In addition to setting up a returns strategy for each channel, it may be appropriate to segment returns according to other criteria such as the item's value (free returns for high-margin items) or customer profile (more returns options offered to loyal customers).

To further personalize the range of returns services, fees proportional to the actual cost of processing each customer's unit return could be charged, with this pricing being clearly explained to ensure a sense of transparency.

How to Identify the Most Efficient Omnichannel Product Returns Strategy

One of the keys to this lies in accurately estimating the cost of each return flow, so that you have the information you need to make an informed decision regarding your returns policy. This calculation includes transport costs from the customer to the storage point (including variable costs for international shipping) and those associated with any stock rebalancing, customs duties for returns being sent from other countries, additional storage costs, or even the cost of repackaging the returned products.

A high-performance, integrated Order Management System, which coordinates all downstream and reverse logistical flows in real time, provides this visibility with advanced, granular precision. From unit returns to averages for each channel, storage point, or type of customer, it is capable of providing the most up-to-date data to allow the financial impacts of each return flow to be precisely measured, and can even run simulations. An OMS is therefore an invaluable decision-making tool for long-term returns strategy and effectively reduces operating costs in real time.

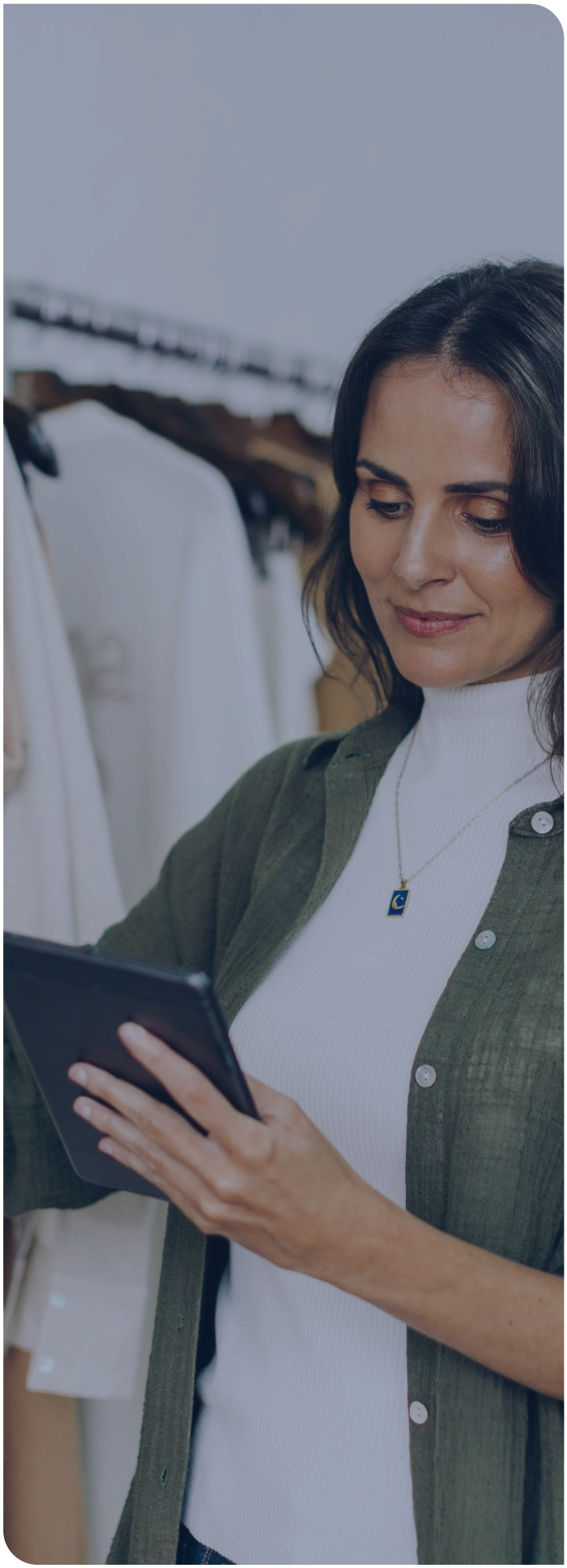


Retailers can no longer apply a standardized returns policy without taking into account the realities of economics, logistics, and sustainability. The future lies in dynamic, analytical returns management that combines a seamless customer experience with cost optimization. By adopting this segmented approach using advanced management tools, businesses can transform a cost center into a strategic lever, enhancing customer loyalty, profitability, and logistical efficiency.

3. Expediting the Integration of Returns into Inventory to Maximize Sales and Reduce Costs

The majority of returned products, whatever the sector, can be made available for sale again without major intervention: depending on the company and category, between 50% and 70% do not need to be repaired or repackaged *(1)*. A large number of items are returned for subjective reasons – being the wrong size or the buyer changing his/her mind, for instance – which means that the products are often intact. However, in practice, making products available for sale again quickly remains a logistical challenge: few businesses manage to get a returned item back into stock within 48 hours, particularly during peak periods.

Every additional second that passes between the product being returned and it being reintegrated into the ATP (available-to-promise) inventory increases the chances that an opportunity to sell it will be missed, and that the associated storage costs – both per unit and overall – will increase as a result. It goes without saying that the sooner a returned product is sold, the less it costs to store, but quickly integrating returns into inventory levels also reduces the risk of a product being out of stock and maximizes stock rotation by preventing pre-emptive restocking and, ultimately, overstocking.



(1) Estimate based on several sources (7sur7.be, Shopify/ Return Magic, AEE, amazon)

Best Practices for Integrating Returns into the Distribution Channel

A key way to recover maximum value from returned products involves digitally reintegrating them into the inventory as soon as they are identified as “immediately re-sellable”, so that they can be offered for sale again as quickly as possible. However, there are other ways to take flow optimization even further.

Products can be added to available inventory as soon as the customer states that they are returning them, without waiting for the actual item to be received (in the case of online returns). This means that the cross-docking method, for example, can be used, which enables a returned product to be reshipped without first being placed back into storage, by allocating it directly to a new order. When it arrives at the warehouse or store, it is sent directly from the delivery bay to the shipping bay, and straight through to final dispatch to the customer. The result: no additional storage costs.

Of course, this strategy needs to be applied with caution or with a safety margin, as returned products may be damaged. Another option is to use returns forecasts (generated using predictive algorithms) as a dynamic, virtual buffer stock rather than physically producing this buffer stock, which could end up as unsold products. In addition, prioritizing the allocation of these stocks to particular channels or customer segments allows for increasingly fine-tuned inventory optimization.



How to Expedite the Process of Accounting for Returns in the Inventory Available for Sale

Anticipating returns alone is not enough. When it comes to speed, two factors are key to success regarding technology: automation, thanks to the use of modern tools, and how well these tools perform. A unified, real-time inventory management solution is the only way to instantly add returns from all sales channels to the inventory. But this is not necessarily enough to ensure that inventory is treated as available for sale.

A solution offering real-time ATP calculation capabilities and advanced integration with ordering channels, such as an Order Management System, is the best way to avoid any latency between the inventory being updated and the updated inventory actually being made available to the customer. This is all the more true if the OMS offers high performance, particularly by using an event-based model that allows new inventory information to be shared with the entire ecosystem as soon as it is received, rather than at regular intervals, which could result in potential delays.



In a market where speed and flexibility are key differentiating factors, efficiently integrating returns into available inventory becomes a real competitive advantage, maximizing sales (and therefore increasing turnover) while reducing storage costs.

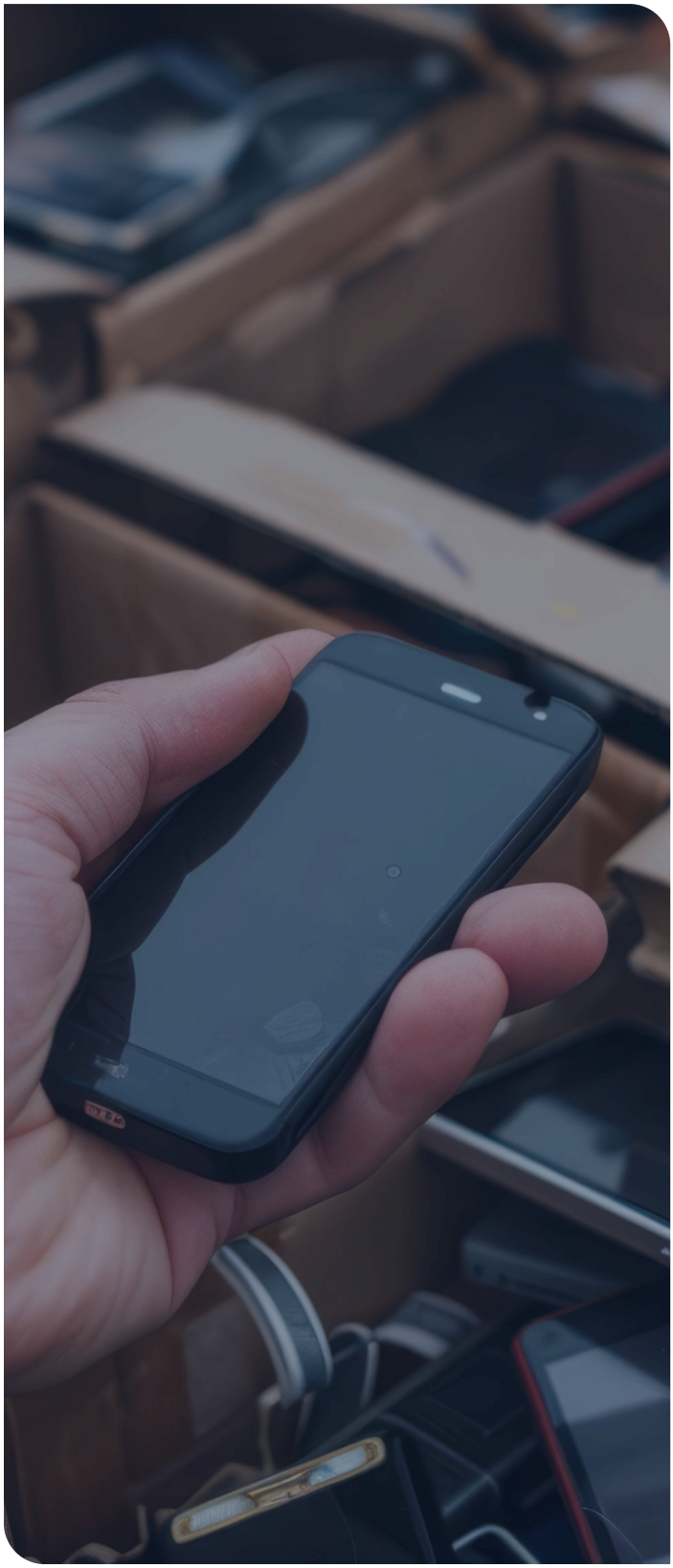


4. Reducing Environmental Impact and Seizing New Opportunities Presented by the Circular Economy

Second-hand and the circular economy are no longer just trends: they are redefining consumer expectations and retailers' business models. Faced with growing environmental concerns and widespread awareness, retailers are having to adapt their strategies to extend products' service life, limit overproduction, and reduce waste.

This transformation is being driven by strong demand: 66% of Europeans say they enjoy looking for second-hand products and 32% even actively prefer second-hand or reconditioned offerings. The European second-hand market is now worth over €32 billion worldwide and is projected to reach €86 billion by 2028.

Best Practices from the Circular Economy Applied to Retail



The circular economy covers various different issues along the entire value chain, from limiting overproduction to managing waste. In the retail sector it can take several forms, depending on the condition of the products in question: second-hand resale, repair or reconditioning, or recycling. Retailers can activate one or more of these levers, depending on the type of products they sell and their logistics capacities.

Brands that focus on repair strengthen customers' attachment to their products while limiting waste. For example, Veja offers specialist workshops on repairing its sneakers, giving its products a new lease on life. For its part, Nike has launched the Nike Refurbished program, which places lightly used shoes back on sale following a rigorous cleaning and quality control process. Patagonia also encourages its customers to participate in a circular economy through its Worn Wear program, which promotes the resale or exchange of clothing instead of the traditional return for a refund. In the same vein, IKEA has integrated a second-hand channel into its stores themselves, where it buys back and resells second-hand furniture, thus integrating returned products into a new value chain.

Back Market, a specialist in reconditioning electronic products, saw its revenue reach 320 million euros in 2023, with year-on-year growth of 45%. This success serves as an example of consumers' enthusiasm for sustainable and economically attractive alternatives. By creating their own reconditioning, second-hand or recycling platforms, retailers can activate new levers for growth as well as reducing their logistics costs and environmental impact.

How to Set up a Second-hand, Repair, Reconditioning, or Recycling Model

The advantage is that the implementation of optimized returns management (as discussed in the previous sections) covers many of the processes required to put in place a circular economy strategy. However, unlike regular returns, items must be reintegrated into a specific process, with a sorting stage followed by processing determined by their condition.

This involves creating separate inventories and additional logistical flows to take products to the right destination: sorting center, recycling plant, repair center, etc. And sometimes, storage points identical to those typically used, but with the products being packaged differently as part of order preparation.

All this can be achieved using an Order Management System that manages reverse logistical flows and offers a high level of modularity in execution processes. A unified, high-performance OMS is capable of simultaneously coordinating the distribution circuit for new products and circular circuits. Furthermore, provided it is properly integrated with the rest of the ecosystem, it can allow consumers to combine items from different circuits in a single shopping cart. It is also essential to implement advanced product traceability, so products can be tracked throughout their service life. In addition to ensuring compliance with the various regulatory requirements such as the CSRD (Corporate Sustainability Reporting Directive), this enables the impact of these circular economy strategies to be measured more accurately and facilitates more reliable financial management, in particular for adapting prices and processing strategies based on the residual value of returned products. Combined with a high-performance traceability solution, an efficient OMS is also capable of managing incentive systems such as deposits, refunds, or bonuses, especially if they only come into effect after products have been sorted and their condition confirmed.

By integrating these strategies, retailers can meet consumer expectations and position themselves as responsible stakeholders while optimizing their operations. The circular economy is not just an environmental approach, it also offers business benefits. By reusing and creating new value from returned products, retailers are generating new sources of revenue while reducing the costs associated with unnecessary restocking. Today, companies that anticipate these changes are getting one step ahead of their competitors and are building a more virtuous and profitable business model.

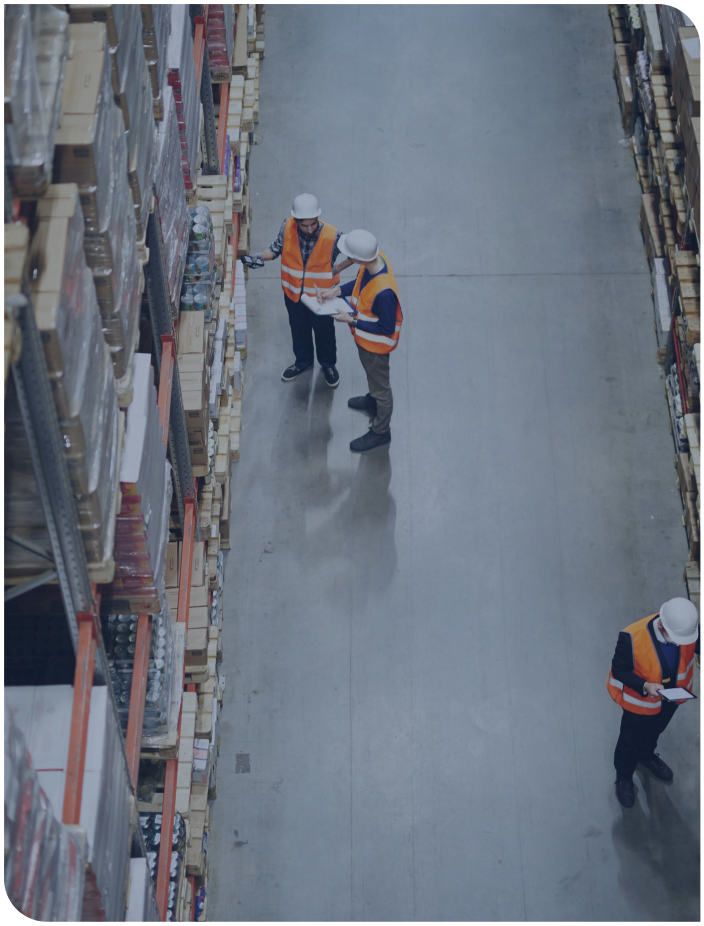
CONCLUSION

Returns management in the retail sector is undergoing extensive changes. Far from being a constraint, it is becoming a strategic lever not only for improving customers' experiences, but also optimizing costs and reducing retailers' environmental impact.

There are four main ways to turn returns into opportunities. A returns policy that is, firstly, omnichannel in nature, and secondly, adjusted based on the associated logistics costs, allows customer expectations to be met while protecting profitability; the rapid integration of returns into available inventory maximizes sales and helps to reduce storage costs; new circular economy models create new opportunities for growth while addressing current environmental issues.

Returns are thus becoming a central aspect of retailers' commercial, operational, and sustainable performance. To coordinate this complexity, they must rely on advanced technological solutions, in particular an Order Management System (OMS). It plays a key role in centralizing data, calculating available options based on product types, logistics capacities, and buyer profiles, and coordinating and tracking return flows in real time. It also facilitates the integration of reverse logistics processes, the smart reallocation of inventory, and making it available for sale again more quickly.

In an environment where supply chains are increasingly exposed to risks, the ability to manage returns in real time is becoming a differentiating factor. It determines businesses' agility and their ability to avoid stock excesses or shortages, protect their margins, and maintain a seamless customer experience.

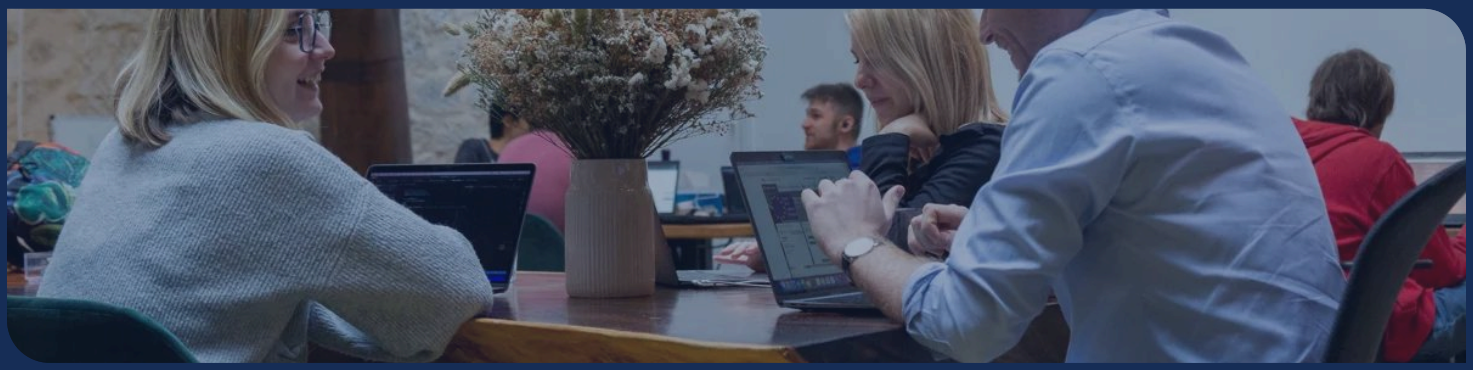


Retailers' performance with respect to returns is no longer based solely on business policies or logistics processes, but on their ability to coordinate complex, multi-channel flows in an agile, unified way. Retailers who know how to intelligently activate all these levers will turn returns management into a lasting competitive advantage for a business that is more profitable, more agile, and more responsible.

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Kbrw is named a Representative Vendor in the 2024 January Gartner® Market Guide for Distributed Order Management Systems.

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Kbrw Tier-1 leading OMS provider for Food, Drugs, C-Stores and Mass Merchants, with “extensive grocery capability” in IHL®’s 2024 Order Management Market report.

COMMITTED ecovadis Sustainability Rating APR 2024

Kbrw is proud to be an EcoVadis certified Committed company towards sustainability goals. This reflects our unwavering commitement to sustainability, ethical practices and making a positive impact globally.

Kbrw is also a certified Great Place to Work and is a Qualiopi training organization.

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Kbrw is a member of the MACH Alliance, which presents and advocates for future-proof enterprise technology that is composable, open and best-of-need - microservices- based, APIfirst, cloud-native SaaS, and headless - supporting agile businesses ready to take advantage of the latest innovations as they emerge.

Powering Retail Excellence with High-Performance SaaS Solutions

Kbrw is a SaaS company developing high-performance solutions that empower retailers to deliver personalized customer experiences, optimize operational efficiency and leverage new growth opportunities, while building a resilient supply chain.

Our flagship products, including the Order Management System and Warehouse Management System, are recognized for their exceptional performance and flexibility, making complex processes easier to manage and track.

For over 15 years, we have supported retailers across multiple industries (like LVMH, Carrefour, Etam Group, Stellantis, Michelin, Renault, etc.), helping them deploy omnichannel operations in more than 123 countries, with a gross merchandise value exceeding €30 billion and integration across more than 17,500 points of sale and inventory.

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