

BATTLE LINES WILL BE DRAWN OVER RETURNS CHARGES



Returns are currently a huge burden for UK retailers – costing £7 billion a year to process.

With the price of everything [from postage](#) to warehouse workers' wages [on the rise](#), these costs will climb even higher over the next year. Beyond the bottom line, returns are also damaging for the environment, causing [16 metric tons of carbon dioxide](#) emissions in 2020 alone.

In response, we've seen the likes of H&M and Boohoo start charging for returns. Others have gone so far as to adopt a 'keep it' strategy for some lower cost items, processing refunds without asking customers to send items back. Finding the right approach depends on several factors – the demographics and loyalty of the client base, the value and uniqueness of products, and overall brand equity.

With reputation and profit on the lines – not to mention the planet – retailers need to ensure they are making the right choices by using data to guide their returns policy.

Risks and Rewards

Deciding on whether or how to offer returns all comes down to a risk versus reward calculation. For instance, charging customers for returns will help to reduce cost to serve.

However, such savings must be weighed against a potential drop in revenue – with [almost half of consumers](#) saying they would turn their backs on a retailer that charged them for returns. If your product is available elsewhere with a retailer that does offer returns, then you could see some serious churn.

However, a 'keep it' strategy could be very high risk if not carefully managed. On the one hand, it's a great way for retailers to cut their losses on lower-value items, limiting the financial and environmental cost involved in retrieving stock that may be worth less than the price of sending it back. But it is also open to abuse – why pay for something when you can ask to return it and still keep the product?

Ultimately, all of these strategies open retailers up to potential revenue leakage – an issue which costs the UK economy £244 billion each year.

Treating Customers as Individuals

Deciding on the right strategy for your business requires a data-led, value-based approach. By applying a methodical and analytical approach to understanding all the levers that enable and enhance profitability, retailers can make the right choices on how, when and why to offer returns. This will help to cement relationships with key customers, while deterring those that erode profit margins.

By layering in analytics to gain a single customer view, retailers can drill down into the different factors that impact profitability – such as the cost of acquiring that customer, their propensity to spend, and the cost to serve (including returns).

Using this data, retailers can assess the lifetime value of each individual customer, grouping customers into different personas to enable a personalised approach.

This could mean rolling out the carpet for 'VIP' customers, the top 10-20% that drive the most profit overall by offering them unlimited free returns – with a 'just keep it' approach on lower-cost items.

Or for customers who may only make 2-3 purchases a year, but rarely send things back – offering free returns could be a low-cost way to drive stickiness. Others may make 2-3 purchases a month, but return 2 out of 3, meaning their cost to serve is higher – while they are still a valuable customer, a retailer may want to offer them a set number of free returns each year.

Others may be a sunk cost – keeping just 1 in 10 purchases – so you may want to charge them and take the hit if they decide to walk away.

Sidestepping the Risks and Bagging the Rewards

Each customer is different. A value-based approach can enable retailers to keep their most profitable customers happy, generate more value from those in the middle, and place less of a focus on those who drain time and money.

Using data to identify personas, retailers can take a more nuanced approach.

By weighing the risks and rewards, retailers can move forward confident they are limiting potential revenue loss returns can cause, while also using the returns process to generate goodwill with their most valuable customers. But it all starts with knowing who those most valuable customers are.

About Sagacity

Data makes the world go round. Every day, we generate it, use it, consume it, and demand it. At Sagacity, we are all about the intelligent use of data. We work with some of the country's leading brands to support them in making wise decisions powered by data. We help them transform their customer data into a structure they can use, enabling them to improve it, make sense of it, and drive value from it.

We have delivered consistent success and ROI for our clients through new customer acquisition, customer management, onboarding, and ongoing development, to ensure every consumer is treated like an individual.

Data can reveal the full picture and we join the dots.

Get in touch to find out how we can help your business address its current challenges.

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