GUIDEBOOK ON

Comprehensive Returns Management

How you can increase customer loyalty and sales by optimizing your returns strategy.

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better returns. more revenue.

Do You Consider Returns to be an Opportunity or a Hindrance?

Artjom Bruch, Founder and Managing Director of Trusted Returns GmbH

My Motto: Hindering Returns is Also Hindering Sales!
Indeed, in returns management, the customer is not the problem. Rather, the problems lie in a lack of transparency, inefficient processes and in ignoring the customers and their needs.

An optimal customer experience does not end with the purchase. In order to optimize it, the entire process chain must be transparent and disruption-free of the customers. This requires not just loyalty. A software-based returns process helps the online merchant to better know his customers. Thus, he can find out which carrier the customer prefers or whether he prefers a pick-up at his front door. Or, for example, whether he would like to exchange the goods and/or prefers a voucher for a returned product. Some customers prefer to receive a small rebate for goods which are slightly damaged.

A strategic, digitalized returns management process and the related customer communication contain great potential for generating new sales and standing out from the competition.

It is of quite critical importance not to isolate the returns management at the company because, strategically-positioned, almost the entire company can profit from it.

Our Guidebook reveals what strategies will help to transform returns into opportunities – for more customer loyalty, cost-savings and higher sales.

MY PERSONAL TIP

Parallel to this e-book, open up the returns management knowledge database on the trusted returns' website. There, we have prepared returns knowledge in handy card sets which are both transparent and enjoyable .

Read our Consulting Cards

Returns: The Customer is Not the Problem

The Returns Problem is Becoming Bigger and Bigger for Merchants. e-commerce is booming. Thus, the German online trading in 2020 is growing by more than 16 %.[1] Triggered by the Corona pandemic, the sales of products for daily requirements have even increased by more than 51 %.[2]

With increasing online sales, the returns figures have also reached new record values. If, in 2018, 280 million package returns were tallied in German online trading, there were already 500 million returns in 2019 – with the tendency continuing to increase.

The related costs for shippers are mandatorily increasing in the same scope. At the same time, the competition for online merchants is intensifying on the internet because not only the satisfaction with the product, but rather also with the returns processing is very important for online customers. If it is complicated, they will buy from another provider with better service.

82%

No longer orders as the result of negative experiences with returns.[3]

Thus, companies require a modern strategy for handling returns. In the past, they have generally been regarded as a "necessary evil": Because, even in the case of moderate returns rates, enormous costs are incurred and the subsequent related strategies and activities are generally targeted exclusively to cost reduction through returns prevention.

This limited perspective damages online dealers: Outdated strategies, rigid processes and isolated software solutions prevent the full exploitation of the existing potential. This is even more so perplexing because online merchants are accustomed to optimizing all aspects of their business with sophisticated methods and tools – from marketing to appealing to customers to conversion optimization. They like to rely only too much on their external fulfillment which nonetheless does not help them to stand out from the competition.

If they establish the management of returns as strategic components, merchants not only save costs, but rather improve customer loyalty and tap additional potential.

5,18 €	Cost Range per Return[4]	17,70 €

Does Your Company Have a Transparent Returns Strategy?

Identify the Optimization Possibilities for Your Returns Management: Answer the following 7 questions and count how often you have ticked “No” or “Don’t Know”.

Yes	No	Don't Know	
			Do you know your returns rate in the absolute number of units?
			Do your customers evaluate your company’s returns practices positively?
			Is your returns process designed to create a positive customer experience – through speed, transparency and convenience?
			Does the brand development profit from your returns strategy?
			Do you design your returns strategy actively via preventive measures (prevention, avoidance, promotion)?
			Has your returns management been networked cross-divisionally at the company – with Sales, Purchasing, Controlling and Production – and thus is part of the continuous improvement process?
			Are the returns processes automated to the greatest extent possible?

Now assess your answers:

0 – 2 times No/Don’t Know: Your organization is on a very good path towards smart returns management. Potential is already been used to the greatest extent possible.

3 – 5 times No/Don’t Know: Vast potential remains unused. There is a need to take action.

6 – 7 times No/Don’t Know: Your organization doesn’t use the potential and is running the risk of losing customers and sacrificing its competitive position. There is an acute need to take action.

TIP

Use the list of questions as a basis for an initial analysis – during a strategy meeting with decision-makers from Sales, Marketing, Purchasing, Logistics, Project Management and Controlling.

6 Strategies for Smart Returns Management

By Using Them, You Will Launch a Smart Returns Management Approach Upon a Step-by-Step Basis.

1. Collect Data – in an Automated Fashion via a Digital Infrastructure

Strategic decisions can be made only upon the basis of comprehensive information. Fragmented returns processes are oftentimes the result of more extensive information gaps. The collection of data along all steps in the returns process while integrating all parties is the foundation of successful returns management.

Ask Your Customers
Investigate the concrete reasons for the return. Obtain feedback regarding the respective customer's satisfaction with the returns process. Ask about the satisfaction with the delivery service as well as with the product. Analyze the relationship between the central demographic factors such as gender and age to the collected data.

Examine the Divisions with Returns-Related Improvement Potential
Reasons for returns are often not attributable to the customer. Thus, collect data in order to identify potential problems with the product, the production, the delivery or marketing and sales.

Breakdown of the Types of Returns
Find out how the returns are allocated across the four types of returns:

- A-returns: The returned goods are in their original new condition and can immediately be resold
- B-returns: Small-scale rectifications of the goods or packaging are required
- C-returns: Large-scale defects which make processing for sale as new goods uneconomical and thus are placed on secondary markets
- D-returns: Major defects make it impossible to process the goods and resell them

When you find out these data, you will be able to refine your measures in a well-founded manner and adapt them in order to attain cost-savings as well as new sales sources.

Disruptions during the Returns Process
Which disruptions occur in what frequency and with what ramifications? In this regard, differentiate between the participants in the returns process: Customer, supplier, manufacturer, service provider, internal and, where applicable, external employees.

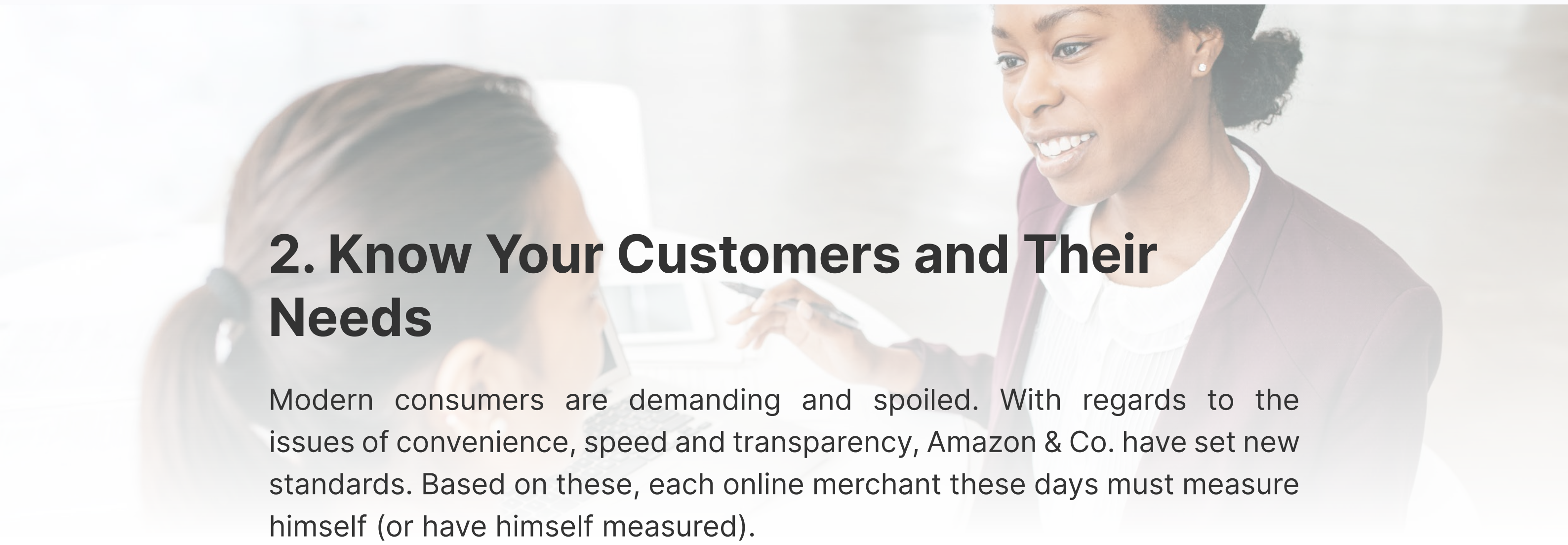
Collecting and Evaluating Central Returns Key Indicators
For on-going results and success management, measure all KPIs which are relevant for returns: Returns rate in absolute unit figures, returns cycle time, customer satisfaction, number of times shopping basket purchases were discontinued, conversion rate as well as individual key indicators.

Types of Returns | Cross-Divisional Functions | Demography | Internal Effects

LEARNING

Returns management is more than merely picking up goods again. It is also an extremely valuable data source.

In this regard, current data can be collected, evaluated and assessed via a digitalized infrastructure in a reliable, automated and updated manner.



2. Know Your Customers and Their Needs

Modern consumers are demanding and spoiled. With regards to the issues of convenience, speed and transparency, Amazon & Co. have set new standards. Based on these, each online merchant these days must measure himself (or have himself measured).

Customer loyalty is being created increasingly through perfect customer service and less and less via brand appeal. Whoever knows his customers and can address and respond to their needs in a personalized manner can assert himself in competition.

Retours management is considered by the customer to be a service. The related communication with the customer contains vast potential for generating sales.

Promote this treasure by focusing on your customers' individual requests. In this regard, take into consideration the following aspects regarding your customers:

Expectations for the Entire Purchasing Process
A take-back oriented to the customers' needs helps to improve the customer journey overall. The knowledge and fulfilment of the customers' needs increases the trust, strengthens the brand and reduces the returns rate.

Expectations for the Take-Back Process
Which carrier does the customer prefer? Does he want a pick-up at his front door which he can choose for a surcharge? Instead of a voucher, would he like to exchange the goods or is he interested, for example, in keeping the slightly-damaged goods if he receives a small rebate?

Demographic Influencing Factors
Gender, age, and technical affinity are demographic aspects of your customers which influence both their conduct as well as their requests. The better that you know your customers' relevant characteristics, more precisely you will be able to develop customer-specific measures.

Emotional Influencing Factors
Trust, convenience and transparency create positive customer experiences and generate long-term loyalty to the provider. This ultimately increases the customer value because it has been proven through research studies that convenience in the purchasing, payment and return processes increases customer loyalty. Conversely, 30 % of the B2C shoppers don't like an unwieldy return process; in the case of business customers, it is even 39 %.[5] Transparent, easy and fair return rules on professional websites that have an appealing design reduce prospective customers' uncertainty and increase their inclination to buy.

20%
Average Returns Rate Across All Product Assortments.[6]

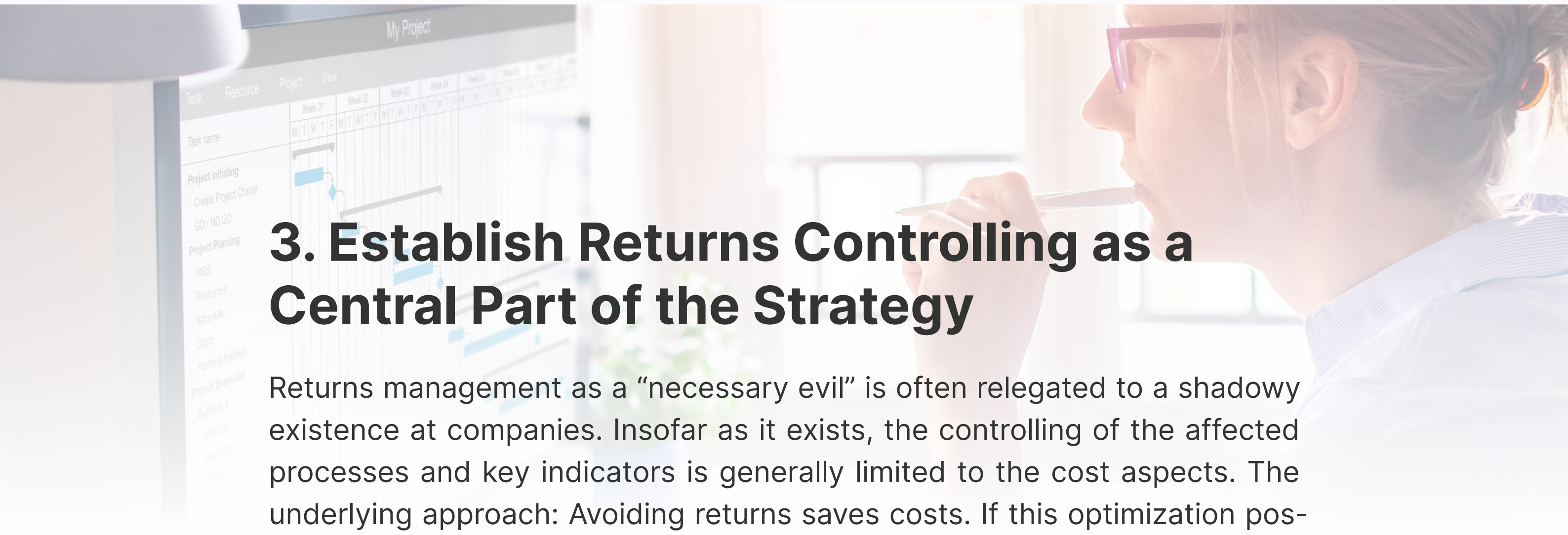
Before this backdrop, determine where you stand with your customers with regards to your service offering as it relates to returns and where improvement possibilities exist.

LEARNING

Transparency with regards to the process, the transport, the options for exchange or reimbursement create trust and loyalty for the future.

A platform-based approach helps the provider to better understand his customers through comprehensive data originating from internal and external resources. Better customer-oriented decisions are the result.

Target group-specific sales and return services take into consideration the expectations, age and gender of the customers as well as the industry and/or product group.



3. Establish Returns Controlling as a Central Part of the Strategy

Returns management as a “necessary evil” is often relegated to a shadowy existence at companies. Insofar as it exists, the controlling of the affected processes and key indicators is generally limited to the cost aspects. The underlying approach: Avoiding returns saves costs. If this optimization possibility has been exhausted, the Controlling Division has fulfilled its task – presumably.

Pains | Net Returns Value | Definition Delimitation | Internal Effects

Only a holistic approach reveals the additional potential which is lurking in returns management. Provided that it exists, the core is returns controlling. It is responsible for the monitoring of logistical, financial and operational key indicators in the context of returns processing.

The returns controlling provides information regarding the weak points and reference points for the required optimizations of planning and operational processes. This includes the following:

- Monitoring the available resources: Personnel, technology and locations.

- The identification of transactional and/or process errors. Examples: Late reimbursement of the purchase price or incorrect classification of the type of return. Upon this basis, preventative measures in this regard can be developed in a targeted manner.
- Collection and evaluation of data from the individual process steps such as, for example, the shipping timeframe or the reasons for the return. This serves to alleviate the planning uncertainty which is inherent in the returns phenomenon.
- The tracking of the types of returns over the course of time because returns processing also provides a positive value contribution: Sales promotion through take-back and upcycling for the resale in secondary markets. The forecasting precision influences the planning quality during the determination of which returns will be processed at what point in time at what location.
- Measurement and classification of the drop-out rate: How many potential shop drop-outs would be retained through transparent and better services and/or measures could be undertaken in order to reduce the number of abandoned shopping baskets?
- The tracking of the types of costs over the course of time – above all of the net return value. In conjunction with the business goals, among others, strategies can be developed for the prevention of returns or else for the promotion of returns.

The net returns value is a mathematical factor which provides the returns recipient insight regarding the financial ramifications of a return.

Net Returns Value =

Expected Resale Value – Acquisition Costs – Processing Costs + Customer Participation + Customer Value Increase[7]

LEARNING

The effective planning, steering and controlling of the returns flows require a complete database. This requires a digital infrastructure within the parameters of a transparent platform via which isolated solutions can be avoided or replaced.

4. Develop a Returns Strategy with Preventative Measures

The take-back of goods generates high costs. Many online merchants thus focus almost exclusively on cost reduction. For them, the focus is above all on the reduction of the rate through the prevention of returns.

Conversely, a strategic returns management also offers additional options in order to handle returns in a financially-advantageous manner and to tap the potential lying therein.

Returns Prevention
The prevention is a preventative strategy in order to dissuade potential returners from their intent and to reduce the returns rate. For this, targeted incentives are created via compensation. Example: The buyer receives financial compensation if he foregoes a return. Alternatively, the return expenditures are increased through time, financial or emotional obstacles. This can occur, for example, by restricting the payment options or by tightening the return policies.

Returns Promotion
This preventative returns strategy has as its goal to increase the number of returns. From a business management perspective, this measure is recommended for a positive net returns value. With the goal of sales promotion, for example, old devices are accepted in payment. For the resulting new sale, the resale of the refurbished old device (upcycling) is conducted in secondary markets.

Additional examples for promotional measures: Very simple returns process; minimal return expenditure; very long right to return; offensive advertising for good will take-backs; pricing (high price = higher expectation = higher return rate).

Competitive Strategy for Cost Leadership vs. Performance Leadership
Based upon the large net returns value, loss of value as well as the competitive strategy (cost leadership or performance leadership), a total of 8 basic strategies can be derived for the returns management. They summarize the essential guiding principles in a practically-oriented manner. Depending upon the strategy as well as whether the net returns value and the loss of value are positive or negative, companies can either

- Maximize profits
- Minimize losses or
- Maximize customer satisfaction

Through this strategic focusing on the returns management, companies can increase their performance with regards to their sales or their brand presence. In addition, internal cost transparency is created.

Basic Strategies | Net Returns Value

LEARNING

With regards to your returns strategy, you have the choice: Either improve performance, reduce costs or optimize customer satisfaction.

5. Ensure Automation and Transparency: Internally as well as Externally

At many e-commerce companies, a return slip is enclosed with the shipment. Particularly in the fashion segment, the return slip enclosed with the return is still the standard. This is symptomatic for the approach to the return phenomenon: Many companies shy away from embracing new paths for returns. They fear that new processes will result in worse customer service.

In this context, precisely this type of return shipment often results in rigid and non-transparent processes. In addition to the detrimental ramifications on customer satisfaction and the creation of higher costs, there is a lack of above all transparency. Thus, the merchant often do not even know that a return is on the way and must even then physically unpack them upon their receipt and inspect them based upon the return slip. Only then the customer can count on a refund – which is complicated and, due to our digitalized world, seems anachronistic.

Today, software platforms offer flexible and customer-friendly approaches for handling a complaint or return. Examples: Whoever says then that the customer is truly wanting to send everything back and not, for example, that he is willing to keep the article which is slightly damaged, but such damage is not visible if he receives a small price discount for doing this? Or why then must a coffee maker be tediously packed and completely sent back if only a handle has broken off the water tank?

Via an IT platform which offers an all-round perspective of the processes, the returns volume can be mastered more easily and resources can be better scaled. Despite the required investments, costs can be spared over the medium-term. Precisely companies with narrow margins should focus on implementing transparent and convenient returns processes without, in so doing, putting their inventory processes and/or inventory systems at risk.

A high degree of integration between the affected systems and participants – shipper, service provider, carrier and consumer – creates purposeful automation, reduces lead times, reduces disruptions and eliminates errors.

LEARNING

Without automation, it is not possible to increase efficiency. This is valid for internal processes as well as also for the external communication with the customer.

A returns portal still does not offer automation.

6. Handle the Four Return Types Strategically

The evaluation of the condition of the incoming returns is labor-intensive because automation is possible only to a limited extent due to the heterogeneity of the respective goods and respective conditions. The identification of the best utilization alternative is frequently difficult in practical application. Thus, it is beneficial to handle the various return types in a very differentiated manner.

Therefore, the prevailing cost-drivers in the returns management are the inspection, testing and quality controlling of the returns items. The identification of the goods is ranked second . If the processes can be designed efficiently, not only will cost-savings potential be derived, but rather also sales-relevant effects as well as ramifications for customer satisfaction.

In practice, one differentiates between 4 types of returns. Each type is handled differently.

A-Returns
The higher the percentage in this class, the more the goods value can be directly allocated to the sale.

Types of Returns | Demography | Internal Effects

At the same time, this return type is informative with regards to the market and customer needs: The customer is unhappy with the item and has returned it. What reasons moved him to do this? Did the reasons involve the item itself or did another factor play a role such as, for example, flawed consulting, an excessively long delivery timeframe or unattractive or flawed packaging?

The refunding of the purchase price to the customer can and should be done promptly for A-returns. A fast refund is a trust-building element, but nonetheless requires corresponding digital processes.

B-Returns
This return type involves items which are close to new condition and is thus most difficult to differentiate from the flawless product. A classification as a B-return leads directly to new costs – through repackaging, cleaning or refurbishment.

In many cases, a defect in the product can be the trigger for the return. The digital collection of data regarding the reasons for the return helps precisely in cases of such avoidable causes to not only improve products, but rather stimulate the continuous improvement process of the organization. The usage of the data obtained regarding customer needs enables a customer-centered continued development of products and processes.

C-Returns
This type of return is almost always based upon a defect in the product. Thus, it is of decisive importance to reliably determine whether the cause can be found in production, in product development or else in packaging or logistics.

Through upcycling of the products and sale via a secondary market, a portion of the value of the goods can be converted into a sale.

Resulting from advantages obtained during the inventory valuation, positive balance sheet effects may also be attained.

D-Returns
Returns in this category usually have only scrap value. Typically, the goods are either discarded or donated.

The rate must be kept low. If it is high, the causes must be promptly determined and eliminated.

Demographic Correlations
Based upon knowledge obtained regarding the customer demography, in conjunction with the return types, interesting correlations can be derived which lead to very specific measures or findings.

Thus, for example, specific age groups or genders return goods more frequently than others.

Example: Based upon this premise, a provider could select the strategy of negotiation for the constellation of “young customers and C-returns”. Instead of a take-back and refund, during the dialogue, it could be asked whether, for example, a reduced price would be considered.

Example: For customer groups with high technical affinity (e.g. young men), the online merchant could provide automated responses to the customer in order to prevent returns: “You have meanwhile returned the same item to us 3 times. How can we help you?” In this case, the automated collection and evaluation of returns-related KPIs utilize their advantages.

Example: If female customers repeatedly complain that the color of a specific item does not please them, a measure for marketing can be derived from this in order to better display the colors online – upon the basis of a testing with female persons.

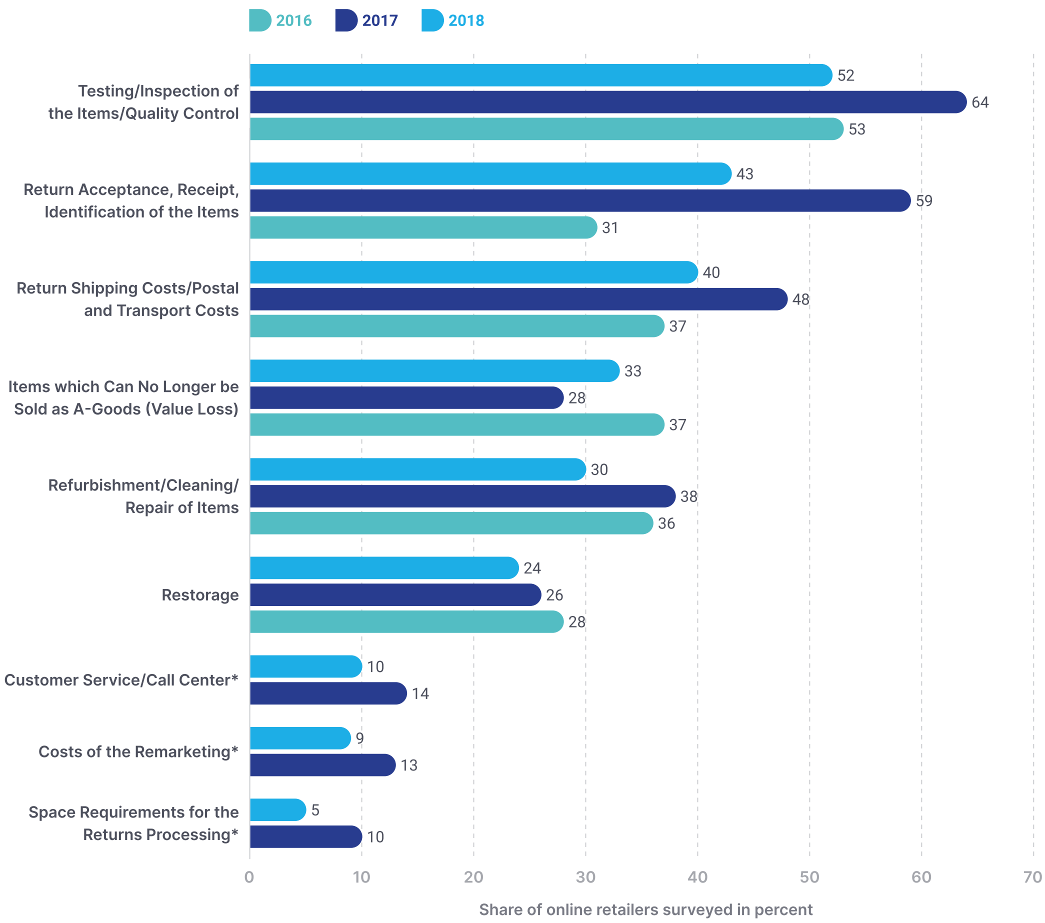
Returns Assessment

For the concrete planning of continuous internal processes and the capacities and resources required for them, corresponding key indicators must be generated: How many returns are we expecting in the upcoming days/weeks? How will the returns be allocated to the four return types? What processes and measures can help to lower return costs and/or to reduce the number of destructions of these goods?

LEARNING

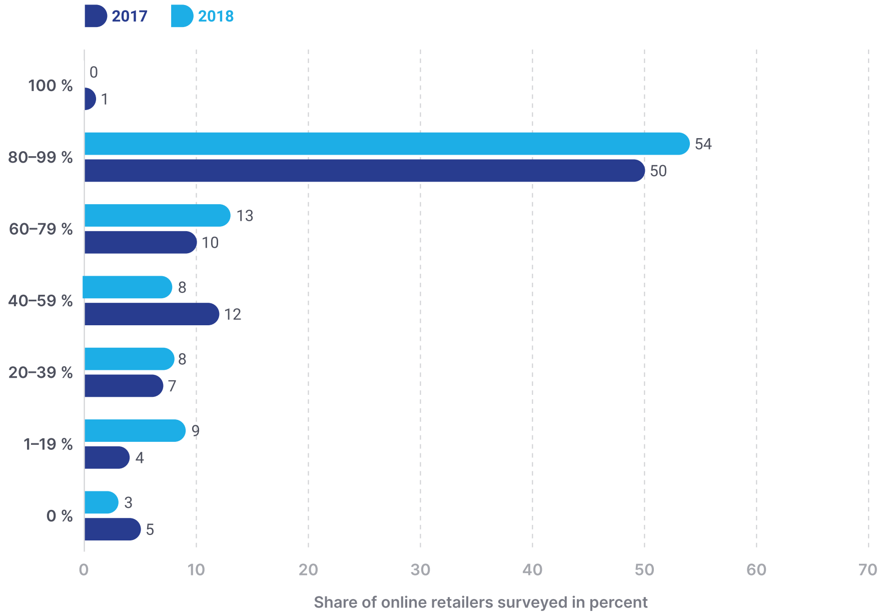
Returns are created not only because the customer no longer wants the product, but rather often due to other indirect factors not caused by the customer: Quality, production, delivery, etc. The customer is a part of the cause only for A-returns as well as somewhat for B-returns.

Largest Cost-Drivers in the Returns Business



Number of respondents: 2018: n = 87, 2017: n = 92 und 2016: n = 97 Surveyed online merchants with a return rate of more than zero percent; multiple designations possible
*Not surveyed in 2016. Source: EHI Retail Institute[6]

Returned Items which are Resold as A-Goods



Number of respondents: 2018: n = 87, unanswered by 4 participants surveyed, 2017: n = 92, unanswered by 3 participants surveyed; surveyed online merchants with a return rate above zero percent; multiple designations possible. Source: EHI Retail Institute[6]

Conclusion: This is How to Make Returns Management Intelligent

The return strategies addressed in this e-book show that skillful returns management can generate many positive effects. If one ignores the possibilities lying therein and stubbornly holds fast to old processes and rigid, inflexible approaches, the company not only misses out on opportunities for additional sales: Strategies which are inefficient and customer-unfriendly lower customer loyalty and customers leave.

Conversely, through a comprehensive returns management approach, processes can be optimized and customer relationships can be substantially improved for one's own benefit through higher customer satisfaction.

In order to increase this potential, one must strategically address the returns phenomenon:

- Establish an IT platform that specializes in returns. By so doing, you will realize a transparent software-based returns process. At the same time, you will eliminate the isolated solutions.
- Collect data and knowledge regarding your customers and find out what their needs are
- Develop a returns strategy which focuses on your customers' needs

- Communicate transparently
- Optimize your internal processes through returns controlling
- Define your strategy of cost or market leadership and implement it upon the basis of return strategies.

In order to do this, utilize the Trusted Returns' returns management knowledge base: Our consulting card sets on the internet will provide you with strategies and sensible measures to implement which are also transparent and enjoyable to use.

Read our Consulting Cards

Comprehensive Returns Management with Trusted Returns

Automate the Returns Process, Increase Customer Satisfaction and Lower Costs.

Trusted Returns is a smart returns management solution for optimized returns processes. In the platform approach, it converts their experience with returns into a transparent customer experience. Through satisfied customers, you will sustainably generate sales and, at the same time, save costs through automation.

Through Trusted Returns, you will improve customer loyalty, strengthen your competitive position and tap new sales potential.

Make your returns management intelligent!

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Free of charge - Expert call!
Join us 30 to 45 minutes. We are available for you on short notice. Leave your contact details - make your reservation for an individual appointment within the next 10 business days.

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