Why customer returns are causing companies to lose money

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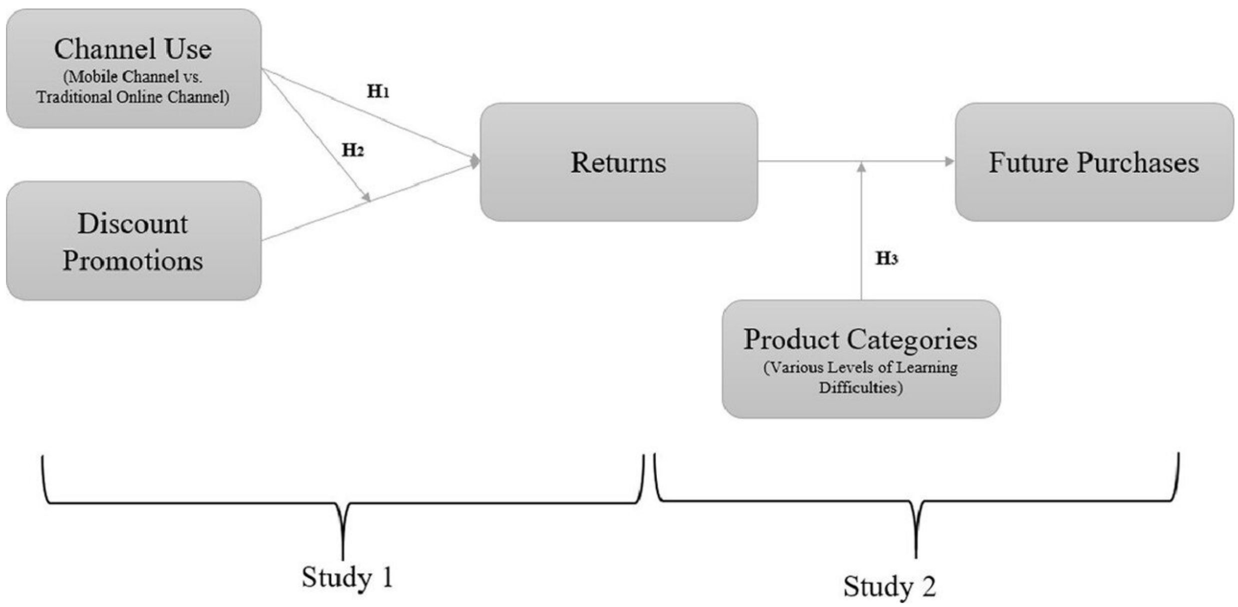

Graphical abstract. Credit: DOI: 10.1016/j.jretai.2021.05.001

With the holiday season's soon ending, many retailers are preparing for consumer returns requesting either exchanges and/or refunds.

University of Alabama at Birmingham Collat School of Business marketing expert and assistant professor Yufei Zhang, Ph.D., explains how this can be a big problem for retailers and offers her recommendations to mitigate such issues.

In her research study "Information Search and Product Returns Across Mobile and Traditional Online Channels," Zhang explains that the issue of returns is of particular importance for e-commerce as the relative rate of returns for online purchases dwarfs the rate for offline purchases. Specifically, 30 percent of all products ordered online are returned, compared with 9 percent bought in brick-and-mortar stores.

"When consumers return goods, it can cost the firm billions of dollars," Zhang said.

According to some expert predictions, "in the next several years, as e-commerce grows globally, the number of returns is going to be over a trillion dollars a year."

The cost of a return factors in not only monetary costs, but also labor time costs. With the ongoing pandemic, there is a shortage of labor, and retailers cannot afford to lose that time.

Further highlighting the challenges of online returns, retail giants Amazon and Walmart have started to simply refund the purchase price of select products and telling customers to keep the products when they initiate a return process. These companies believe that doing so is more economically efficient, due to the overwhelmingly high return cost companies must bear when returns take place.

Zhang suggests that retailers will need strategic insights into which factors increase customers' return probability and when the short-term costs of returns might be offset by future customer purchases. Specifically, her study finds that consumers actually return less if they use mobile channels to shop.

Zhang also suggests that all retailers should be having deliberate channel planning discussions about how to coordinate their digital channel strategies, especially when many customers have embraced digital channels.

"We also suggest that traditional online channels need to incorporate, as much as possible, the convenience and flexibility that set mobile channels apart from traditional online channels," Zhang said. "Namely, traditional online channels could benefit from aiding customers to develop larger consideration sets while shopping."

Zhang says, moving forward, managers need to assess the impact of returns on future purchases across categories and examine differences in the return and future spending relationships across consumer segments."

More information: Yufei Zhang et al, Information Search and Product Returns Across Mobile and Traditional Online Channels, *Journal of Retailing* (2021). DOI: 10.1016/j.jretai.2021.05.001

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