



E-COMMERCE RETURNS: FROM COSTLY COMPLICATION TO COMPETITIVE ADVANTAGE

INTRODUCTION

Canada's e-commerce merchants have improved the customer experience enormously in a few short years. At the same time, experience with e-commerce has empowered consumers and elevated their expectations across the end-to-end purchase journey.

Shoppers measure every merchant against the standard of best-in-class experiences that they've enjoyed, courtesy of some other merchant. Rather than meekly accept a gap between what they want and what a merchant offers, they go elsewhere.

The gap between what consumers expect and what merchants are typically offering today is widest at the final stage of the purchase journey: returns. Leveraging exclusive information about merchants' practices as well as a comprehensive consumer survey, this research-based paper offers insights around returns. For example, one third of consumers say the ease of making a return is a critical factor in their decision to purchase. That is a strong reason to focus on returns as an opportunity to boost conversion rates and loyalty.

Despite how critical returns are, many merchants are not meeting consumer expectations. Less than half of the 200 top e-commerce merchants in Canada today offer the returns experience that Canadian consumers demand. And what do consumers demand?



They want **clarity** about the returns policy – right up front.



They want **simplicity** spelled out in the policy – a few easy steps to make a return.



And they want **convenience** when it comes to their actual experience of making a return.

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Returns represent the greatest gap in e-commerce between what consumers expect and what merchants offer.

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With online shopping steadily increasing, merchants who turn a blind eye to consumer expectations around returns are paying a higher price than they realize. The solution is to reduce the gap between what consumers want and what the merchant offers.

TO HELP MERCHANTS CHANGE THEIR RETURNS FROM A COSTLY COMPLICATION TO A COMPETITIVE ADVANTAGE FOR THEIR BUSINESS, THIS PAPER:



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reveals what, specifically, consumers want in a returns experience and how important these preferences are in shaping their purchase behaviours

examines what returns policies and approaches merchants offer the market today in Canada

explores options for a merchant to establish a returns strategy that works for them and for their customers



RETURNS: WHAT'S HAPPENING IN THE MARKET?

Returns are a reality – but for consumers, they are far from an afterthought. They are, in fact, a key driver of purchasing behaviour.

What's surprising is how early in the purchase journey their impact is evident and how critical that impact is. Online merchants are feeling the impact of returns across the entire purchase journey – from acquisition to conversion to checkout or cart abandonment, to churn.

Let's start with what a critical consideration returns have become for online shoppers. Roughly 30 per cent of Canadian consumers have made a return in the past year. On average, they returned 2.7 items. One in five shoppers says they encountered an issue when making a return – such as having to pay, wade through a complex process or endure extensive interactions with customer service (see page 11).



30% of Canadian consumers have made a return in the past year.

One third of consumers say the ease of making a return is a critical factor in their decision to purchase. Consumers are acting on this priority: 18% of shoppers say they abandoned their purchase over concerns about the returns policy. Just three years ago, only 13% of shoppers cited the returns policy as a reason for abandoning their cart. In itself, that increase in abandonment because of returns suggests that returns represent an urgent and compelling opportunity to optimize the entire end-to-end experience. Dropping the ball on returns can be a definitive turn-off: one in three shoppers says they are unlikely to purchase from the same merchant again after a negative returns experience.

The true cost to the business of a poor returns experience is much larger than many merchants realize.



IDENTIFYING THE **IDEAL** RETURNS EXPERIENCE



Clarity



Simplicity



Convenience

Canada's online shoppers want three key ingredients in a returns experience: clarity, simplicity and convenience. Of these, clarity and simplicity are critical factors for consumers *before* they commit to the purchase.

Merchants who offer best-in-class returns experiences blend the ingredients of clarity, simplicity and convenience seamlessly. Their clear returns policy outlines simple steps and offer customers convenient, flexible options, as well as free returns shipping.



CLARITY

Right up front, consumers want to know exactly what to expect should they need to return their purchase. A best-in-class approach would not make them hunt for the returns policy. It would make the terms and timelines clear. It would offer succinct, step-by-step instructions. To the busy shopper, that's key information. Without it, they are increasingly reluctant to make a purchase. Clarity has a direct impact on conversion: 26% of consumers say they are willing to complete a purchase when the returns policy is clear.

Why does being up front matter? The new shopper looking for your returns policy when your home page fills the screen is at a critical fork in the road. One path potentially leads to a purchase (and repeat business). The other is an exit ramp from your store to a competitor's. Keep them on the path to purchase by providing an easily found and straightforward returns policy. They don't need all the fine print, but do want a clear impression that it will be easy for them. Establishing that right away builds their confidence.

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66% of consumers say they check the returns policy when they shop with a merchant they have never bought from.

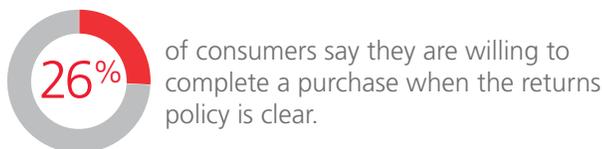
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What, exactly, should be clear? Simply put, consumers want to know when they can make a return, how they'll make a return, and whether certain kinds of items can and cannot be returned.

As for when, they want to know how long they have to make a return. Is it the industry-standard 30 days from purchase or from receiving the item, or is it some other window? Is the window extended to a fixed date in January for the high-volume holiday season, and if so, do you highlight that fact to reassure and delight customers?

As for how they can make a return, they look for at least a brief overview up front, of the options and channels available to process that return. For example, does the merchant assure them that returns are easy because a return label is included with their purchase? And are they made aware of their options to return in-store? Is it hard for consumers to find out that it's not easy: that they must get authorization from the merchant to make a return, pay for it, perform some steps to create a shipping label, and use a particular delivery provider whose nearest location is inconvenient?

Knowing whether a purchase can be returned is also a confidence-builder. For the same reasons that staff in physical stores unfailingly remind shoppers at the checkout that sale items are "final" or that certain products can't be returned, online shoppers would rather be sure than surprised.



Offering shoppers clarity is simple in one regard: it's not hard to summarize these critical ingredients of a returns policy. Many leading merchants do just that year-round. Others prominently promote their returns policy at a given time of year, such as the holiday season.

HOLIDAY 2016: HOW MERCHANTS TAILORED THEIR RETURNS POLICIES

According to Canada Post's 2016 holiday monitoring study, 10% of merchants promoted extensions to their returns period post-holiday. Many merchants recognize the need to relax returns policies during the holiday gift-giving season.

Yet many merchants' returns policies fail the critical test of clarity. It seems like a self-inflicted wound – but why? One reason is the widespread concern among merchants that making returns policies too visible will invite more returns – thereby reducing sales and driving up costs. But another counterbalancing factor they should weigh – and an increasingly important one – is that a lack of visibility and clarity deters purchases.

SIMPLICITY

While clarity is about an easily found and readily understood returns policy, a simple returns policy involves only a very few hassle-free steps. Easy-to-do steps avoid or remove barriers for the shopper.

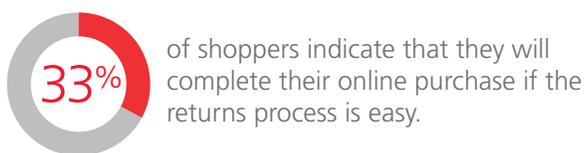
A merchant has met the test of simplicity when communicating a lean, easy returns policy that makes returns hassle-free – which increases the shopper's confidence and helps to capture the sale.

For example, including a returns and shipping label with clear instructions with every order makes it easy to return the item. Other elements of what's easy are very much in the eye of the beholder: do you allow returns by mail as well as in-store? The latter might not be easy for a significant number of your shoppers.

Here's a checklist of elements that can help a merchant achieve simplicity in a returns policy:

- ✓ **Easy access to return labels**, including placing them in the original shipment
- ✓ **Clear shipping options** for returning products
- ✓ **Removed complexity** around various returns scenarios and rules across products
- ✓ **Automate online authorization of returns**, reducing the amount of interaction a customer needs with your brand (and cost to you) to complete an online return.

With 33% of shoppers indicating that they will complete their online purchase if the returns process is easy, it's essential that merchants minimize the effort required for consumers to return purchases.



Consumers know their satisfaction will be directly related to how simple it is to return an item. A whopping, 59% say they want a hassle-free returns experience. Discovering that it will be simple sends a powerful message of reassurance as they form early impressions of the brand.

CONVENIENCE

This isn't the only reason people shop online – but it is one of the most important. Consumers have come to apply the test of convenience to their returns experience, and to judge the whole online experience with returns in mind.

What does convenience actually mean? Consumers prefer the following related to convenience:

 **52%**
said they want a **return label** in the box.

 **44%**
said they want to be able to **return to the store**.

 **23%**
said they want it to be easy to get the **return to the delivery company**.

Merchants need to put consumers' needs and expectations at the centre of their returns practices by asking themselves: is the ease and convenience of the process truly designed for consumers or for merchants? Convenience also means different things from one consumer to another. Are merchants using their entire network and all their channels to create a range of return options that will cater to the varied and unique needs and preferences of shoppers? A lack of flexible return options was cited by 12% of shoppers as the reason they abandoned their shopping cart.

A SURPRISING NUMBER OF RETAILERS ARE NOT USING THEIR CHANNELS TO OFFER THE FLEXIBLE AND CONVENIENT RETURNS OPTIONS THAT CONSUMERS WANT:



Today, 38% of the top 200 e-commerce merchants in Canada are not using their physical retail locations to offer an in-store return option.

A well-designed, clear, simple and convenient returns policy will increase conversion rates and boost sales. But another response from consumers suggest it will also have the power to increase the value of the average online purchase. "When I know the merchant accepts free returns," 41% of shoppers said that they are more inclined to add more items to their shopping cart.

CONSUMERS HAVE A FOURTH EXPECTATION: "MAKE IT FREE"

It's a problematic expectation because it's widespread, but it's not necessarily realistic.

Specifically, 84% of Canadian online shoppers view free returns shipping as a critical driver of the perfect returns experience – yet less than a quarter of the top 200 e-commerce merchants in Canada offer free returns.

This is the greatest gap of all: overwhelmingly, consumers prefer "free," but almost as overwhelmingly, the industry is not offering free – and for good reason. Many if not most merchants simply don't see free shipping of returns as feasible, given their needs to offer competitive prices and generate margins healthy enough to sustain the business.

Is there a happy medium between disappointing the shopper who expects "free" and breaking the bank to offer "free"? We took a closer look at this topic and explored some options you'll find on page 12.

A TELLING GAP



More than 8 in 10 shoppers say they **want free returns shipping.**



Less than 1 in 4 of the top 200 e-commerce merchants in Canada **offers free returns.**

To recap, Canadian merchants who offer best-in-class returns experiences are providing customers with an easily found, clear and simple, hassle-free returns policy. The policy offers customers convenience because, among other things, it gives them options. They can return the item to the store or by mail, and if by mail, with free shipping. Relatively few top brands in Canada meet all these critical tests of an ideal returns experience. However, they are having a major impact on consumer expectations. A few top brands with best-in-class returns offerings include Maison Simons and Reitmans.



DIFFERENT CUSTOMERS

VALUE CLARITY, SIMPLICITY AND CONVENIENCE



Really knowing your customers means thinking long and hard about their needs, wants, wishes and behaviours, and analyzing the data that reveals these traits.

By knowing your customer, you can address the things that turn them off or send them away – or better yet, avoid creating irritants or obstacles from the start. Here are some kinds of customers worth thinking of and

empathizing with as you consider how to address consumers' overall expectations for clarity, simplicity and convenience in a returns experience.



THE NEW-TO-YOU SHOPPER

Let's face it: you know your products, their materials, construction and colours, so well that it actually takes some mental gymnastics to put yourself in the shoes of the absolutely new-to-you shopper who has only your photographs, texts and sizing charts to go by. Wonderful as that online content might be, for some shoppers, it's not the same as if they could see, touch, try on or test the product in-store. For this kind of shopper, returns are a safety net as they take the leap and try out your brand.



THE GIFT-BUYING SHOPPER

Gifts express affection and thoughtfulness. But buying a gift is often guesswork. Will it fit well? Will it be the right colour? Will it please the recipient? Might the recipient get two items that are the same? For thoughtful gift-givers, returns are a critical consideration. The last thing they want to do is offer a gift wrapped with confusion, hassles and wasted time. Upfront clarity, simplicity and convenience can rescue conversions. Merchants adjust in many ways for holidays – can they adjust returns, too?



THE LONG-DISTANCE SHOPPER

While merchants often point online shoppers to the physical store for returns, that doesn't work for some. There may not be a store in their community, or it may be difficult for them to get to. Canadians are also time-crunched for all kinds of reasons, and may save a lot of valuable time if they can return an item (label included!) at a location that's closer to home or work – such as one of 6,200 post offices.



THE OCCASIONAL SHOPPER

Occasional online shoppers (two to six purchases a year) represent 45% of Canada's online shoppers – and 35% of them say they intend to make more online purchases in the coming year. They might well appreciate more reassurance around returns. They could become repeat customers won over by a great customer experience. Start with a returns policy that meets their needs for clarity, simplicity and convenience.



THE HYPER SHOPPER

While hyper shoppers (25+ purchases a year) represent only 10% of Canada's online shoppers, they are the most active, experienced and confident shoppers in the land. They matter enormously because they're buying the most and building brand equity. When it comes to returns, they're the most discriminating. They've enjoyed the best-in-class returns experience, likely a few times. They know where to find it again, rather than settle for second-best.



THE FOOTWEAR or APPAREL SHOPPER

Sizing is tricky. Shoppers tailor their behaviours accordingly: they often order more than one size, intending to return the items that don't fit. As well, other elements can seem quite different when the item arrives than they did online: colour, fabric, weave, texture, weight and more. More than six in 10 online shoppers avoid purchasing apparel and footwear from merchants that do not offer free returns by mail. More than six in 10 also avoid purchasing apparel and shoes from merchants that do not accept free in-store returns and do not have a store nearby.



RETURNS: THE POWER TO **CONVERT OR KEEP CUSTOMERS AWAY**

Like magnets, returns can attract or repel. We have seen that returns are a critical factor in the decision to purchase.

The merchants whose policy passes the critical tests around clarity, simplicity and convenience will convert browsers into buyers. Merchants who fail on one or more of those tests will not realize their expected results in customer acquisition and conversion – but having read this far, may now realize where the problem and potential solutions are. Let's look at both critical stages of the end-to-end shopping experience where the impact of returns is felt: pre-purchase and post-purchase.

PRE-PURCHASE

Shoppers make decisions based on returns very early – before they've put items in their cart and well before completing the checkout process. The more competitive your retail sector is, the more likely consumers will compare your returns offering with that of competing brands, even before they commit to a purchase.



of shoppers said they made a point of viewing the returns policy before making their most recent online purchase.

PRE-PURCHASE PREFERENCES

What do shoppers look for at the pre-purchase stage? The leading replies:



25%
look for a clear
returns policy



30%
look for free
returns by mail



23%
look for ease of
making a return

POST-PURCHASE

What impact does attempting to make or making a return, have? The post-purchase returns experience, positive or negative, can have a massive impact on brand loyalty and repeat business. Nearly 1 in 4 shoppers says they have had an issue in processing a return within the last 12 months.



of Canadian shoppers said they would be unwilling to make a purchase from the same merchant again after having a negative returns experience.

Consider this finding in the context of how much time, money and effort it takes to acquire that customer. To shortchange the returns experience is to squander that earlier investment – and to repeat that investment to win one other customer to replace the one who left because of a bad returns experience. That's not growth, that's churn. While merchants can readily quantify the cost of customer acquisition over time, it would appear that the true (and steep) cost of returns is under-appreciated. Estimating the true cost of returns for a merchant is beyond the scope of this paper, but it would include the missed sales when the returns policy does not meet shoppers' pre-purchase expectations, as well as missed future sales when shoppers were so disappointed with the returns experience that they don't make repeat purchases.

ISSUES WITH RETURNS



1 in 4 shoppers says they have had an issue in processing a return within the last 12 months.



The top return issues that shoppers say they had:



36%

said the merchant would not cover the cost of the return



26%

said they had difficulty communicating with the online or customer service team



25%

said they were unable to return the item to the store



19%

said the item was not eligible to be returned



CLOSING THE GAP: WHAT'S A MERCHANT TO DO ABOUT "FREE"?

Compromise on cost when "free" is not realistic, and consumers will help cover shipping costs.

It is no surprise that 84% of consumers say free returns shipping is a critical element of the ideal returns experience: who doesn't love "free"? In addition, more than half (56%) of consumers say they would avoid shopping online at merchants that do not accept free returns by mail.

The problem? While 22% of merchants offer free returns by mail, it's just not realistic for many merchants to offer free returns shipping.

While many of the gaps between what shoppers expect and what merchants offer can be overcome by a thoughtful redesign of returns policies, practices and presentation – this expectation around "free" would seem to be the gap that can't be closed.

OUR FINDINGS SUGGEST THAT COMPROMISE COULD CLOSE THE GAP

They confirm that most Canadians are reasonable and fair – and while they see free shipping as a bargain, they are also willing to partner with Canadian merchants to pay for some returns in shared-cost scenarios. This

may be surprising, but it is similar to another way that Canada's online shoppers are reasonable: They're more patient than consumers in other markets about speed of delivery, for example.

An overwhelming majority of online shoppers prefer "free" but their fall-back positions look reasonable, not unrealistic:

69%

felt that **retailers should help** with the cost of return shipping by "offering a lower-cost return shipping fee compared to what I would get in person at the post office or a courier company."

49%

said they are more likely to shop from retailers that provide **discounted shipping rates** for returned items.

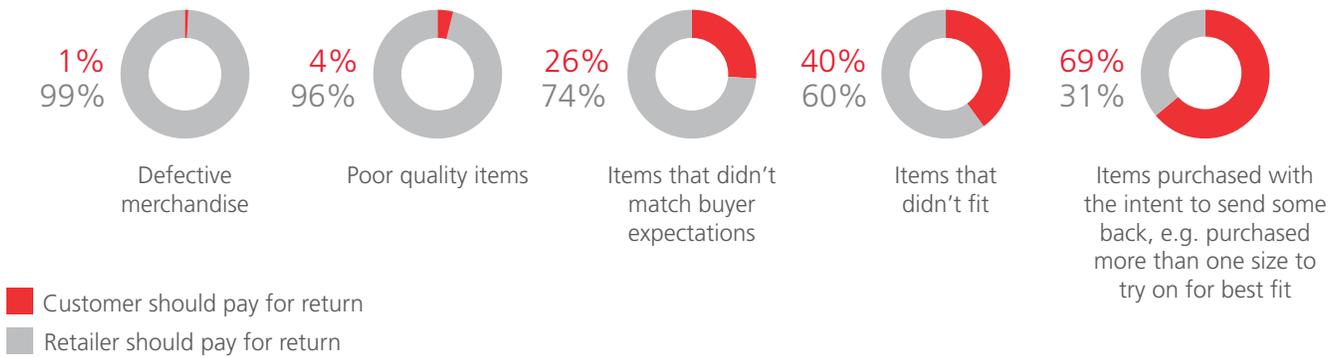
30%

said they are willing to pay for returning items if the shipping cost **is reasonable**.

Shoppers have thought about the various reasons they might need to make a return. In some situations, they believe that the merchant should bear the shipping cost – but in other scenarios, they are willing to share the cost. Thinking of a typical footwear and apparel purchase, nearly seven in 10 shoppers say the cost of return shipping should be paid by shoppers when they purchase multiple sizes or colours with the intention to return some. They feel shoppers should take responsibility for that shopping strategy rather than impose that burden on the merchant.

Returns: What is the shopper willing to cover?

We asked shoppers in what scenarios they would cover the cost of returns – or not.



Remember the 56% of shoppers who said they would avoid shopping online at merchants that do not accept free returns by mail? It turns out that two thirds of those consumers would reconsider shopping with a merchant if the cost of returns was shared.

So what does that mean for merchants crafting their returns strategy? Here are potential strategies for sharing the cost of returns shipping with customers:



A re-stocking fee. One leading Canadian apparel retailer, for example, would charge a \$7 fee when refunding the customer for a returned garment that cost \$30, so the customer would net \$23 in making the return.



Credit toward a future purchase (instead of a full refund).



A flat or discounted rate to ship a return. This approach would be favourably received by 69% of shoppers who feel that retailers should offer a lower cost returns shipping fee. By offering the customer certainty about the cost of shipping a return – and presenting that flat rate upfront – this approach can reduce the impact of that cost as an obstacle to purchase. A merchant should weigh that factor when calculating the appropriate flat rate.



CONCLUSION: A RETURNS CHECKLIST FOR MERCHANTS

Returns are a critical lens through which your customers view your brand. Early in the purchase journey, they are either reassured or deterred by the returns experience they expect to have. Post-purchase, their actual returns experience can determine whether they will shop with you again.

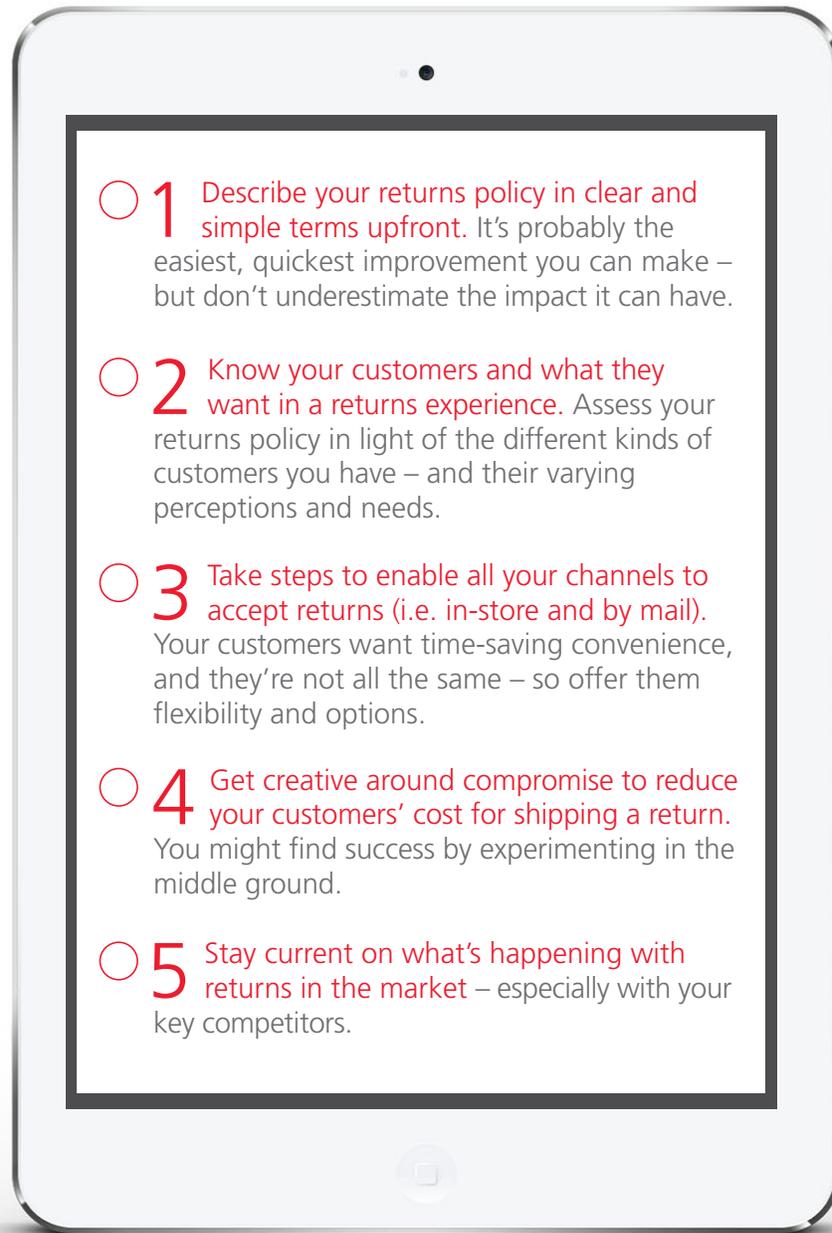
While returns are so crucial to the success of a merchant, merchants have clearly left gaps between what they offer and what Canada's online shoppers want. The way the market is changing adds urgency to addressing these gaps and improving the returns experience.

Every year, we see more online shoppers migrating from being infrequent or occasional shoppers to being frequent shoppers, and more from being frequent shoppers to being hyper shoppers. That ongoing evolution only increases their exposure to best-in-class returns experiences. The savvier Canada's online shoppers become, the more they are likely to reward merchants who meet their expectations for returns, and to leave those who don't.

Some things that merchants can improve can be relatively simple and affordable – like a more clear, visible and upfront returns policy online. Other improvements – like simplicity and compromise in sharing the cost of shipping returns – require a significant investment of time, effort and resources. Raising the bar in returns is not easy, but it should result in more success at customer acquisition, higher conversion rates and fewer abandoned carts, lower demands on your customer service team and more repeat business.

Given the many ways that Canada's merchants have taken enormous strides to improve other aspects of the end-to-end online shopping experience, they undoubtedly have what it takes to transform returns from a costly complication into a competitive advantage.

Here's a checklist intended to prompt conversations for a merchant that wants to optimize the returns experience it offers to Canada's shoppers.



○ **1** Describe your returns policy in clear and simple terms upfront. It's probably the easiest, quickest improvement you can make – but don't underestimate the impact it can have.

○ **2** Know your customers and what they want in a returns experience. Assess your returns policy in light of the different kinds of customers you have – and their varying perceptions and needs.

○ **3** Take steps to enable all your channels to accept returns (i.e. in-store and by mail). Your customers want time-saving convenience, and they're not all the same – so offer them flexibility and options.

○ **4** Get creative around compromise to reduce your customers' cost for shipping a return. You might find success by experimenting in the middle ground.

○ **5** Stay current on what's happening with returns in the market – especially with your key competitors.

Talk to us about this research or contact us to get a free one-on-one consultation to help you design a winning returns strategy.

[Get in touch](#)

canadapost.ca/returnscontact

Want to learn how you can design a returns strategy that gives your business a competitive advantage? Download our Returns Guide to learn all the steps.

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METHODOLOGY IN DETAIL

The findings in this white paper are based on a variety of research studies and data sources commissioned by Canada Post.

The consumer findings are drawn from two online surveys conducted in March 2016 and December 2016, respectively. The March 2016 survey was based on a representative sample of 5,000 Canadian online shoppers who made at least one online purchase in the past 12 months that required delivery. The research was conducted by J.C. Williams Group, one of North America's leading boutique retail consultancies with over 40 years of industry experience. This firm provides retail and retail-related clients across Canada, the United States and the Middle East, with a wide range of market expertise, including strategic planning, branding and marketing, omni-channel/digital/e-commerce and market research. The December 2016 survey

findings build on learnings from March 2016. Nielsen administered the online survey to a representative sample of 1,690 online shoppers.

The merchant findings are based on an analysis of Canada Post's top 200 e-commerce merchant customers.

The holiday findings are drawn from the Canada Post 2016 holiday monitoring study. This research monitored 71 of the biggest Canadian e-commerce merchants and tracked the types of sales promos, shipping promos, returns policies and shipping deadlines they featured during the holiday period (November 1 – December 31).



ABOUT CANADA POST

As the number one parcel delivery company in the country, Canada Post delivers nearly two of every three parcels that consumers order online. Canada Post works hand-in-glove with merchants, large and small, offering solutions that provide a superb end-to-end customer experience and greater convenience for online shoppers.
