

# Omnichannel Retailing

## Reverse Logistics and Customer Loyalty

A HARVARD BUSINESS REVIEW WEBINAR FEATURING

**Dale S. Rogers**

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## REVERSE LOGISTICS AND CUSTOMER LOYALTY

### OVERVIEW

The retail landscape is undergoing dramatic changes as it evolves from sales in a brick-and-mortar storefront to a complex omnichannel environment, where customers may shop in a mall, in front of a computer, or on their phone, and visit multiple levels of outlet markets. In this new environment, consumers have more information at their disposal when shopping and have elevated expectations for retailers—while retailers face an ever more complex challenge.

Often overlooked by retailers is the importance of returns. How returns are communicated and managed has a significant impact on a consumer's experience and long-term loyalty, and that affects a retailer's brand and profitability. Yet as important as returns are, many retailers have not made returns or reverse logistics a strategic priority and are falling short in meeting consumers' expectations. Those retailers that understand and focus on returns, reverse logistics, and comprehensive, coordinated channel strategies can meet and exceed consumers' expectations, differentiate themselves, and create competitive advantage.

### CONTEXT

Dale Rogers described how changing consumer expectations and omnichannel retailing are disrupting the retail landscape, with special attention to secondary markets, returns practices, and reverse logistics.

### KEY LEARNINGS

**Omnichannel retailing is changing the consumer experience and the competitive landscape.**

Retailers no longer sell products to consumers through just one channel. With omnichannel retailing, retailers use multiple channels to get their products to consumers. As shown below, the omnichannel environment can include big box stores, department stores, ecommerce sites, boutiques, catalogs, secondary markets like factory outlets and value retailers, and salvage markets. Some of these channels are viewed as “drains” that provide ways to release and monetize unsold products.

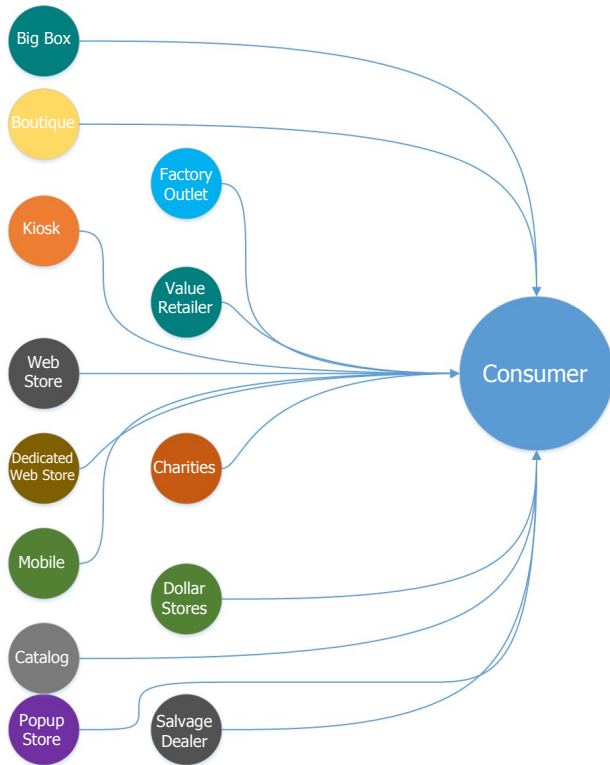
### CONTRIBUTORS

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Editor, Special Projects and Research, *Harvard Business Review*



**Figure 1**  
The Omnichannel Environment

“The omnichannel has greatly complicated a retailer’s life because now you don’t just fight the battle on one front, but you have got to fight it on multiple fronts.”

– DALE S. ROGERS

### Consumers’ shopping expectations have changed dramatically.

In today’s multichannel environment, consumers expect a seamless approach when shopping, whether in a store, in front of a computer, or on their phone. They want a consistent experience and expect retailers to have complete and accurate information about them, whether they are buying or returning at any channel. When expectations are met, customers become loyal; if they are not met, consumers will choose to shop elsewhere.

In addition, consumers are more knowledgeable, educated shoppers and have more information at their fingertips. Consumers can walk into retailers or car dealerships equipped with product and price information, and can use their smartphones to gather more information about alternative products while standing in a retailer’s store.

“Consumers are more educated shoppers. They know a lot more. They are a lot tougher than they used to be. Expectations are higher.”

– DALE S. ROGERS

### In the omnichannel environment, returns policies and practices are critical in building consumer trust.

Historically, retailers have seen returns as a negative, interpreting returns as a sign of consumer dissatisfaction with their purchase. Retailers have traditionally been focused on their forward supply chain, have often tried to limit returns through restrictive returns policies, haven't paid much attention to returns, and few retailers have made returns a strategic priority.

A notable exception is J.C. Penney, which going back to the 1800s had "no-questions-asked returns." This shifted risk from the consumer to the retailer, reduced risk for consumers, built trust, and helped J.C. Penney gain lifelong customers.

In today's omnichannel environment, which includes online purchases, returns are more important than ever. A new report from UPS ("Rethinking Online Returns") found the following:




- 88% of online shoppers look at the returns policy sometime while shopping and 67% look at it one more time before pressing the "buy" button.
- However, as important as returns are, only 32% of retailers offer complete omnichannel returns.
- Only 66% of shoppers are satisfied with the availability of a clear, easy-to-understand returns policy, creating many unsatisfied consumers.

"They [J.C. Penney] got big because of reducing risk for the consumer and making it easy for the consumer to deal with them."

– DALE S. ROGERS

## Returns policy

Figure 2  
Survey data on  
returns

|   | Shopper expectations  | What retailers provide   | Insight   |
|---|---|--|---|
| <br>Return policy      | <b>88%</b> of shoppers review a retailer's return policy<br><br><b>66%</b> of shoppers review a retailer's return policy <i>before</i> making a purchase    | <b>16%</b> specify a warranty period<br><b>77%</b> specify a return period<br><b>45%</b> specify an exchange period<br><b>43%</b> allow exchanges within 30 days or less | Most sites provide links to returns policy information. Best-in-class retailers have links at the top of the page. Linking return policy to warranty information, troubleshooting content and exchanges will improve customer experience. |
| <br>Access and support | <b>60%</b> are satisfied with the ability to find return policy<br><b>59%</b> are satisfied with the ability to find a service agent or contact information | <b>85%</b> provide return-specific links or subject content<br><b>72%</b> provide a 1-800 number for support   |   |
| <br>Language           | <b>62%</b> are satisfied with clarity of return policy<br><b>15%</b> abandoned the cart when return policy viewed as unclear                                | <b>66%</b> provide clear and understandable return policies  |   |

Source: Rethinking online returns, UPS, July 2015

Rogers believes the high interest among consumers in retailers' returns policies shows that consumers want to ensure purchases are low risk. However, relatively low rates of omnichannel returns policies and low rates of consumer satisfaction with many returns policies shows that many retailers are behind in this area. Rogers recommends that retailers:

- **Make returns a strategic priority.** Retailers should no longer overlook returns. How returns are communicated and managed can have a significant impact on a consumer's experience, on a retailer's brand, and on a retailer's profitability. Retailers with clearly communicated and effectively managed returns practices can differentiate themselves; those with poor returns practices can be at a competitive disadvantage.
- **Have an internal owner.** In making returns a higher priority there should be a clear owner for returns. In many retailers this fits best in the supply chain function but could also be under marketing or finance. Most important is that the owner understands the importance and has a sense of urgency.
- **Be transparent and upfront about returns policies.** Retailers should be overtly clear about their returns policies, and make sure they are visible. This includes providing information about the cost and timing of returns. Retailers should also work to create consistent, coordinated returns policies across all channels.
- **Have a plan and structure to manage returns.** Retailers need to anticipate that there will be returns and need to have processes and structures in place to manage returns. This needs to be viewed as an anticipated cost of doing business that has a significant impact on a consumer's experience; not something to be ignored, overlooked, or minimized. Retailers should know in advance where they will ship returns and what they will do with them.

**To maximize efficiency in the omnichannel environment, reverse logistics are critical.**

In this increasingly complex omnichannel environment, where retailers are selling online and offline, through traditional channels and through secondary markets, both forward supply chains and reverse logistics are tremendously important. Retailers need to thoroughly understand how the reverse supply chain works and understand how it affects consumers. Often, significant opportunities exist to improve an organization's experience and financials by focusing on reverse logistics.

It is important to recognize that reverse logistics is different from forward logistics on many dimensions, as shown below. Differences include consistent versus inconsistent product quality, clear versus unclear routing and disposition, uniform versus non-uniform pricing, and much more.

“Returns aren’t usually [a priority] when you are a retailer. You don’t think about returns as a critical variable. What happens is you learn the hard way that consumers have high expectations.”

– DALE S. ROGERS

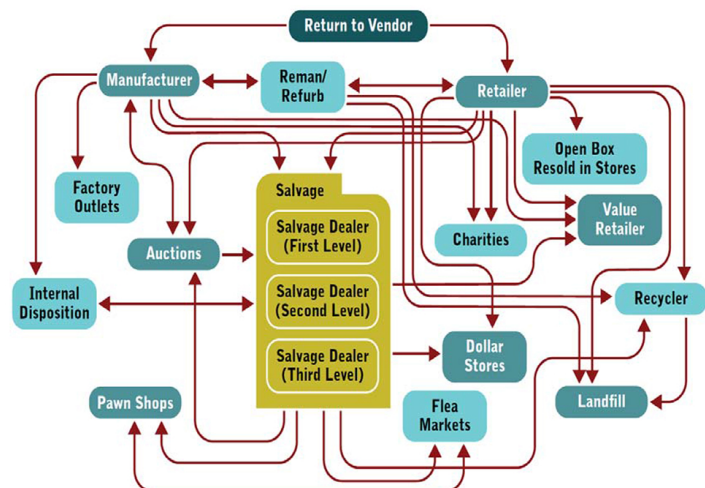
**Figure 3**

How reverse logistics is different from forward logistics

| Forward   | Reverse  |
|---|--|
| Product quality uniform                               | Product quality not uniform                          |
| Disposition options clear                             | Disposition not clear                                |
| Routing of product unambiguous                        | Routing of product ambiguous                         |
| Forward distribution costs more easily understandable | Reverse costs less understandable                    |
| Pricing of product uniform                            | Pricing of product not uniform                       |
| Inventory management consistent                       | Inventory management not consistent                  |
| Product life cycle manageable                         | Product lifecycle less manageable                    |
| Financial Management issues clearer                   | Financial Management issues unclear                  |
| Negotiation between parties more straightforward      | Negotiation less straightforward                     |
| Type of customer easy to identify and market to       | Type of customer difficult to identify and market to |
| Visibility of process more transparent                | Visibility of process less transparent               |

**Retailers should incorporate secondary markets into their channel strategy.**

Significant revenue, profit, and branding opportunities exist for retailers with channel strategies that incorporate secondary markets. Secondary markets have grown consistently at 7-8% per year. These markets include factory outlets, value retailers (like TJX), salvage dealers, and even charities. Nike makes billions of dollars via secondary markets, which also provide a drain for unsold products at higher-end retailers. Retailers such as Nordstrom have entered the secondary market with Nordstrom Rack and even leading private equity firms such as KKR are investing in secondary market players.

**Figure 4**

Product Flow to Secondary Markets (Retail Example)

“Before the item comes back, you already know what you are going to do with it when it comes back.”

– DALE S. ROGERS

“Retailers really have to think about a complete [channel] strategy that provides multiple ways of getting products to different kinds of consumers.”

– DALE S. ROGERS

## BIOGRAPHIES

**Dale S. Rogers**

*Professor, Logistics & Supply Chain Management, W.P. Carey School of Business, Arizona State University*

Dale Rogers is a professor of logistics and supply chain management at Arizona State University. He is the leader in supply chain finance, sustainability, and reverse logistics practices for ILOS - Instituto de Logística e Supply Chain in Rio de Janeiro, Brazil. In 2012 he became the first academic to receive the International Warehouse and Logistics Association Distinguished Service Award in its 120-year history. He is a board advisor to FLEXE and also serves on the board of the Reverse Logistics and Sustainability Council.

Rogers is a frequent speaker on topics such as product lifecycle logistics, sustainable supply chain management, reverse logistics, the perfect order, logistics and supply chain strategy, third-party logistics, and logistics management. He has made over 300 presentations to professional organizations and has served as a faculty member for numerous executive programs at the University of Nevada, The Ohio State University, Stanford University, University of California at Berkeley, Michigan State University, University of North Florida, and more.

**Angelia Herrin (Moderator)**

*Editor, Special Projects and Research, Harvard Business Review*

Angelia Herrin is the editor for special projects and research at HBR. Her journalism experience spans 25 years, primarily with Knight-Ridder newspapers and *USA TODAY*, where she was the Washington editor. She won the Knight Fellowship in Professional Journalism at Stanford University in 1990. She has taught journalism at the University of Maryland and Harvard University.

Prior to coming to HBR, Angelia was the vice president for content at womenConnect.com, a website focused on women business owners and executives.

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# Sponsor's Perspective

In an omnichannel world, UPS is helping retailers find new ways to create the best experience for customers, wherever they shop. *Harvard Business Review* recently talked with Jim Brill, Corporate Returns Services Marketing Manager at UPS, about building customer loyalty—and the bottom line—with efficient, easy-to-use returns strategies.

## **How should retailers—online and brick—think about returns as they plan their marketing and supply chain strategies?**

For most retailers, returns have been thought of as a negative, because it's revenue going backwards. When you've got this asset coming back at you, there is an expense plus the triage activity of dealing with a return. Do you have to repackage it? Rework it? Place it back in stock?

But today, we need to view this as a way to create a positive customer experience. The return starts as a negative for the customer, too: They've received something that doesn't fit, isn't the right color or doesn't work. With a good returns experience, the retailer can help turn this into a positive. We don't want to add to consumer's problems with a laborious return policy or process. The goal is to make a smooth transition to get the customer to a happy state.

In the past five years, retailers have been changing their attitude toward returns because they realize there is a lot of value in this customer touch point, especially with more and more shopping being done online. One survey found that in some areas, like apparel or shoes, the rate of return for online purchases can be as high as 30 or 40 percent. So we have to see returns as part of the customer experience and the total lifecycle of the product.

## **What are the biggest challenges around returns for your customers?**

It's easy to put returns at the back of the task lists, because there are a lot of competing business problems. Unlike sales, where most retailers have an outgoing supply chain they understand, there is a lot of complexity around returns, such as what to do with each product when it comes back and where it should hit the balance sheet. What do you do with a product that is sold only online, but a customer wants to return it to a store? It's unknown territory because the market place is changing dramatically and becoming more complex.

But it's clear the customers want and expect a returns process that is as easy and efficient as possible. They want to minimize the activity it will take to make that return. And they want to understand the policy and process before they purchase—or they may buy somewhere else.

## **Based on your research, what are the key “table stakes” for making sure customers have a good experience with returns—and stay loyal?**

To learn just how close shippers actually come to meeting the expectations of customers, we did a study that compared data on customer expectations to the return policies and processes offered on the top 500 shopping sites.

We found first, people want very clear, easy-to-find policies on returns when they are on the path to purchase. Customers will back out of buying if they don't understand the policy. We found about two-thirds of the sites are fairly clear, but that means one in three sites have policies that are unclear to shoppers. There is a lot of legalese on some sites. Some have short little policies that don't really explain anything. There is still some mystery in the language around warranty versus return periods. And some sites are very vague on exchanges. So we think there is work to be done to make sure that retailers' policies aren't confusing or buried but are accessible and easy to understand.

Support is another area of concern. Online customers want to know if there is a 1-800 number or chat feature to help them. Most sites do have these features, but again, some do not even have these basics.

And a big topic is the ease of return. The survey found that only about 50 percent of consumers are satisfied with online returns overall. So why the gap? Well, we found one-third of the shopping sites don't provide a label for return. Half don't provide the prepaid label. Some sites provide a label, but it is not a shipping label—it is just an address.

In an era of free shipping, paying for a return is clearly top of mind. This is a cost for the retailer, of course, and there have to be calculations for the retailer to understand if it is prohibitive. It's a company-by-company decision.

The other component in ease of returns is accessibility. Does the customer have to drive somewhere and stand in line to send it back? Or can it be easily dropped off or picked up where they received it?

And finally, we found retailers need to be more proactive to head off returns. For instance, a lot of retail sites don't provide a lot of content around how something works or how to assemble when the product arrives. Few provide trouble-shooting guides. There are a lot of creative things that can be done, including better photography and better presentation, that can head off returns and save a sale.

### How can UPS help retailers with the returns challenge?

It's all about choice. Customers expect it, and it's up to retailers to provide. We are the premier provider of returns services. Our portfolio of return options is robust, from simple online tools to prepaid labels to premium services. Like drivers who can pick up your return and give you the exchange right at your own door. We can customize services for the retailer, leveraging The UPS Store® and UPS Access Point™ locations to make it easier for the shopper to get deliveries and drop off returns. Our sales force focuses on understanding what the retailer and the customers need and helps them identify the efficiencies and the opportunities. We know that returns are important, and we can help our customers understand the options that can help make returns a competitive advantage instead of a negative.

### Learn more about retail returns from UPS research

The *Rethinking Online Returns* white paper provides an analysis of return programs and policies of top online retailers, while providing tips and best practices based on consumer preferences.

To download the white paper, go to <https://solvers.ups.com/retail/customer-loyalty/#assessing-retailer-return-policiesfunctionality>.



**Jim Brill**

*Reverse Logistics Marketing  
Manager, UPS*

Jim Brill is the Reverse Logistics Marketing Manager at UPS in Atlanta, Georgia. In his 28 years with UPS, Jim has worked in Business Development, Sales and Marketing, gaining a deep understanding of UPS's business units, operations and systems.



### ABOUT UPS

UPS is a global leader in logistics, offering a broad range of solutions, including transporting packages and freight, facilitating international trade, and deploying advanced technology to efficiently manage business processes. Headquartered in Atlanta, UPS serves more than 220 countries and territories worldwide. The company's retail solutions can be explored at [www.ups.com/retail](http://www.ups.com/retail).