RETURN of the Goods

2024 Rewind

SIDE A

A Merchant's Playbook for Winning at Reverse Logistics

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InsureShield®
Shipping Insurance
by UPS Capital Insurance Agency, Inc.

The eCommerce industry is booming as consumers increasingly opt for digital-first shopping experiences, fueled by the expansion of retail and social commerce platforms like Amazon, Instagram Shopping, and TikTok Shop. A recent UPS Capital report highlights this notable growth, with a whopping 54% of surveyed merchants anticipating a 30% surge in shipping volume in 2024.[1]

While this signifies a thriving online marketplace, it also presents a fundamental logistical challenge: returns.

Returns are an undeniable reality of eCommerce. However, as online shopping continues to soar, so does the volume of returned goods – presenting both challenges and opportunities for retailers and logistics providers.

Drawing on insights from 350 eCommerce merchants and 1,000 consumers, this report explores the current landscape of returns management in the face of the industry's rapid growth. We'll delve into the frequency of returns and the challenges merchants face. We'll also examine how merchants balance budgets with customer experience and preferences, while upholding sustainability commitments.

However, this whitepaper isn't just about challenges. We'll explore innovative solutions to streamline return processes, minimize costs, and ensure a sustainable approach. Our goal is to empower merchants to transform returns from a burden into a strategic advantage, fostering customer loyalty and contributing to a thriving eCommerce ecosystem.

The Current State of Returns:
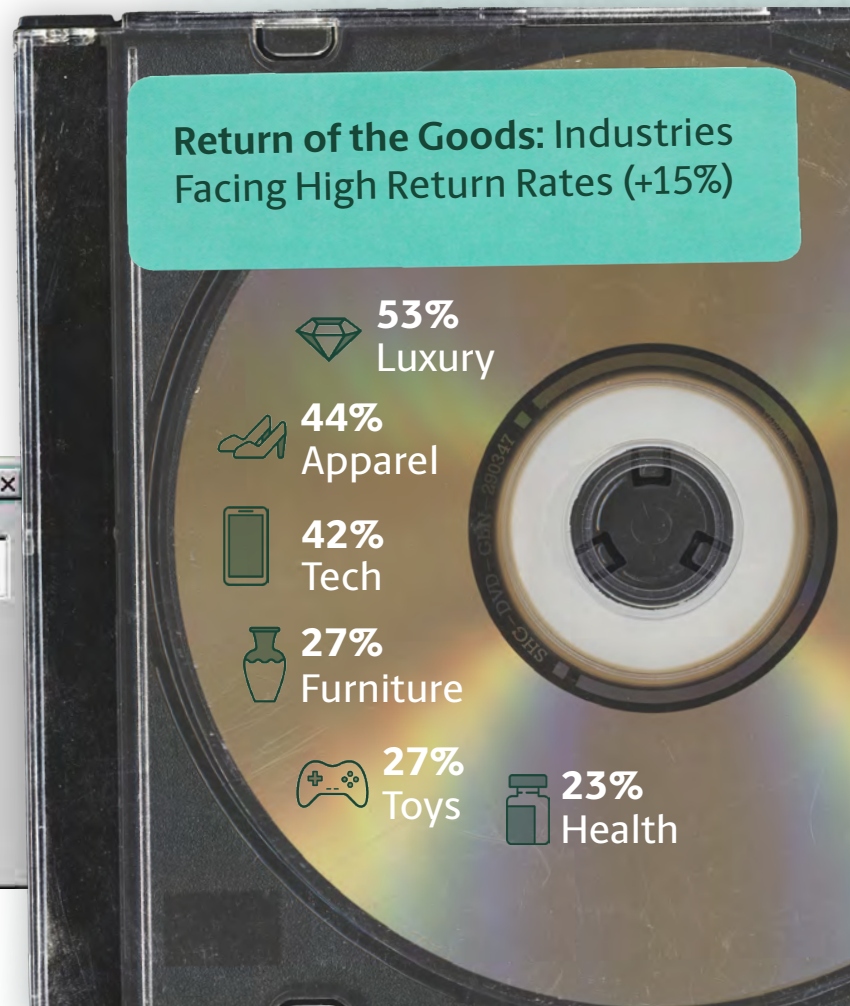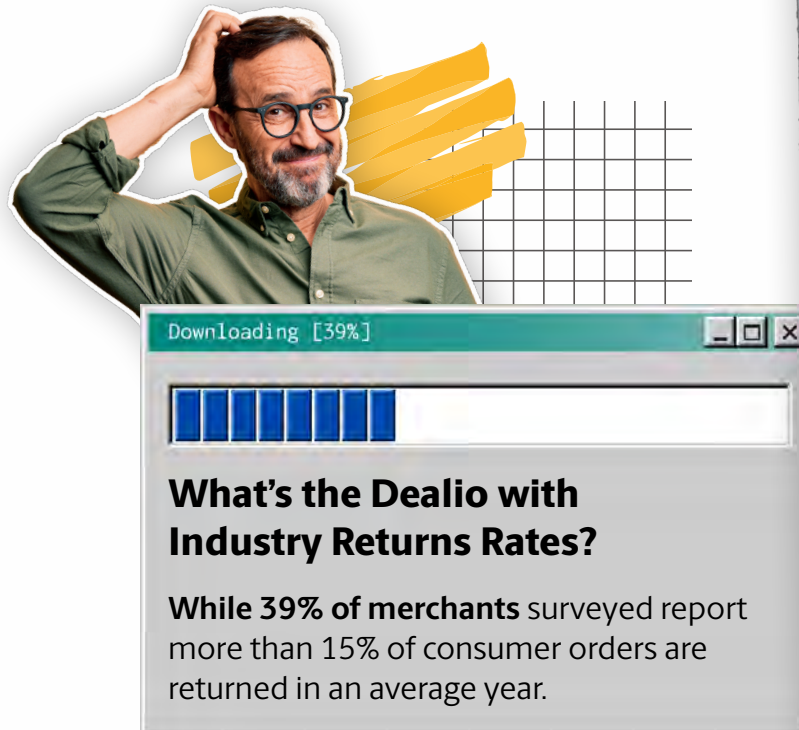## It's a Full House

The modern eCommerce landscape is awash in convenience, with generous return policies ranging from 100% satisfaction guarantees to extended return windows. While this flexibility helps build consumer trust and encourage purchases, it also presents a logistical headache for merchants.

A majority (91%) of surveyed merchants believe they can handle the expected increase in returns if shipping volumes were to rise 30% this year. **However, over a third (39%) face a current annual returns rate above 15%, highlighting the sheer volume of goods already flowing back through the system.**

As a result, surveyed merchants identified several key challenges in anticipation of returns rates surging, including the cost of returns shipping (47%), evaluating returns quality (42%), processing returns (39%), effectively reselling returns (37%), and meeting customer satisfaction (31%).

These complexities create a compelling case for partnering with a third-party logistics (3PL) company. Such partnerships can offer meaningful benefits by enabling merchants to offload the burdens of receiving, evaluating, and restocking returned goods. In fact, a resounding 69% of respondents already leverage 3PL partnerships, demonstrating the industry's recognition of their value.

By leveraging the expertise and infrastructure of a 3PL provider, merchants can streamline their returns process, reduce costs, and free up valuable resources to focus on core business activities. This paves the way for a more efficient and customer-centric approach to returns, ultimately leading to a smoother overall shopping experience.

Downloading [39%]

What's the Dealio with Industry Returns Rates?

While 39% of merchants surveyed report more than 15% of consumer orders are returned in an average year.

Return of the Goods: Industries Facing High Return Rates (+15%)

53% Luxury

44% Apparel

42% Tech

27% Furniture

27% Toys

23% Health

Returns Logistics Budgeting:
Show Me the Money!

Merchants Budgeting >$100K Annually for Returns Logistics, By Industry

54%
Luxury

42%
Apparel

39%
Tech

29%
Health

22%
Furniture

13%
Toys

Merchants' Strategies for Returns Logistics Budgeting

Strategy	Percentage
Building the returns costs into product or original shipping costs	38%
Charging customers a fee to cover shipping costs	25%
Absorbing all return logistic costs	20%
Charging customers for restocking fees	17%

0% 5% 10% 15% 20% 25% 30% 35% 40%

It's not a surprise that some merchants have changed their return policies to account for the steep costs. In the last 18 months, those surveyed have implemented a small fee to cover the cost of returns logistics (35%) and/or eliminated free returns (22%).

Returns Fraud? As If!

Returns are a double-edged sword for eCommerce businesses. While they enhance customer satisfaction and trust, they also introduce vulnerabilities.

Evaluating the validity of returns is often a manual process, with nearly half (48%) of surveyed merchants citing its time-consuming nature as a top challenge. This creates a window of opportunity for fraudsters to exploit loopholes. Compounding this problem is the pressure to minimize customer dissatisfaction (46%) while managing potential exploitation of lenient return policies (47%), further incentivizing disingenuous returns.

The prevalence of fraudulent returns is a harsh reality. A previous UPS Capital report found nearly half of merchants suspect over 20% of their returns are fraudulent.[2] This translates to significant financial losses, with 18% of surveyed merchants reporting losses exceeding $100,000 due to fraudulent returns. Expectedly, luxury goods seem to be a particularly attractive target for fraudsters, with the highest losses reported in this sector.[3]

Merchants' Strategies to Combat Returns Fraud

54%	Analyzing customer return patterns
51%	Requiring proof of purchase for returns
47%	Implementing stricter return policies
41%	Using AI-driven fraud detection tools
41%	Blacklisting customers with excessive returns
22%	Collaborating with other businesses to share fraud data

The manual approach to return processing creates a breeding ground for fraud. Fortunately, technological advancements offer a path forward. Automated returns management systems can analyze return requests, flag suspicious patterns, and expedite legitimate returns. This not only reduces processing times but also strengthens the defenses against fraudulent activity.

By embracing automation and implementing robust verification protocols, businesses can fortify their return operations and safeguard their bottom line.

You Oughta Know About Reselling and Sustainability

As discussed earlier, the challenge of reselling returned goods has emerged as a major challenge for merchants grappling with high return volumes. Beyond the financial implications, the environmental toll is a growing concern.

A resounding 91% of surveyed merchants acknowledged that eCommerce returns can have long-term repercussions on the environment. Notably, package waste and the inability to resell returned items were cited as having the most significant impact.

The data paints a stark picture – nearly a third (32%) of merchants surveyed reported that more than 25% of their returned goods cannot be resold. This problem is particularly acute in the luxury and tech sectors.[4]

These unsold items represent a substantial source of waste, further amplifying the environmental footprint of returns. In fact, 9.5 million pounds of returns end up in American landfills each year.[5]

Recognizing this, merchants are increasingly seeking innovative solutions to enhance their sustainability efforts. A promising approach involves partnering with companies that consolidate returns from multiple brands. This not only reduces shipping costs but also minimizes the environmental impact associated with individual return journeys. Understandably, luxury and apparel merchants are most interested in this approach due to higher percentages of returns in these sectors.[6]

Exploring avenues for product refurbishment, partnering with resale platforms, and implementing stricter return policies are additional strategies that can collectively mitigate the environmental burden of unsold returns. Ultimately, a multifaceted approach is necessary to ensure the eCommerce industry thrives not just economically, but also ecologically.

MERCHANT POV

Returns Elements with the Most Environmental Impact

28% Package waste

27% Inability to resell returned items

21% Energy consumption in reverse logistics

15% Carbon emissions from transportation

9% Returns have no environmental impact

Consumers Are Totally Buggin' About Resells

Among the 74% of consumers surveyed who indicated they return at least some of their online orders each year, **a quarter reported returning more than 10% of their delivered goods.**

While 88% of surveyed consumers acknowledge that online returns have an impact on the environment, there is a **lack of awareness** of how few returned items are eligible for resell.

A majority (83%) of surveyed **consumers believe** more than 25% of returned goods can be resold by the retailer.

In contrast, a third of merchants surveyed report that more than **25% of returned goods cannot be resold.**

25%
of returned goods cannot be resold

"Houston, We Have a Problem" with Bracketing

The term **'bracketing'** refers to consumers purchasing multiple sizes or colors of the same item online with the intention of returning the rejected versions.

- **42%** of surveyed consumers say they have bracketed their orders, with this practice most popular amongst Millennial and Gen Z respondents.[7]

- Merchants, on the other hand, believe bracketing is a much more common tactic, with **87%** of those surveyed believing their customers do so. This belief was highest amongst luxury (95%) and apparel (92%) merchants.

- This behavior may be driven by the fact that **38%** of surveyed consumers cite size/fit issues as the primary reason they make returns.

MERCHANT INSIGHT

Strategies to Address Bracketing

Use clear size charts & fit guides

Offer 360° product views for thorough item examination

Highlight customer reviews on fit & sizing (e.g., item runs large)

1P
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HIGH SCORE
567890

Mo Returns, Mo Problems:
The Notorious C.X.

In today's competitive eCommerce landscape, the customer experience (CX) reigns supreme. Returns are no longer an afterthought, but rather a crucial touchpoint that can significantly impact customer loyalty.

For consumers, a smooth return process fosters trust and encourages repeat business. Over half (58%) of consumers surveyed report a positive return experience increases their likelihood of returning to that retailer.

Consumers prioritize ease most when it comes to returns, with over 2-in-5 (42%) identifying an easy returns process as their top priority. Interestingly, while half of surveyed merchants agree with this sentiment, a notable portion (23%) believe offering various return options is the most important factor. This data highlights a potential disconnect between merchant perceptions and customer expectations.

Fave Return Features

Although merchants and consumers disagree on the most important factor in the return process, they do align on the value of having multiple return methods.

Most Appealing to Consumers

#1
Pre-paid return labels

#2
Drop off options not associated with their business

#3
Minimum of 30-day return period

Most Offered by Merchants

43%
Pre-paid return labels

42%
Package free returns

40%
Minimum of 30-day return period

39%
Drop off options not associated with their business

Nevertheless, the eCommerce landscape is dynamic, which means return policies are constantly evolving. A substantial 73% of surveyed merchants have modified their return policies within the past 18 months. These policy changes have not gone unnoticed, with 50% of surveyed consumers having encountered modifications to return policies from their most frequented retailers.

However, not all policy changes are created equal and can backfire if they don't resonate with customer preferences. The most common adjustments reported by consumers who have seen such changes included offering store credit instead of full refunds and implementing return fees.[8]

Merchants must strike a balance between operational efficiency and customer satisfaction to ensure their returns process remains a competitive advantage, not a deterrent. By prioritizing clear communication, ease of return, and alignment with customer preferences, merchants can transform returns from a necessary evil into a powerful tool for building lasting customer relationships.

Recent Changes Merchants Have Made to Returns Policies

35% Implement a small fee to cover the cost of returns logistics

32% Shorten the returns window period

32% Offer store credit vs. full refund

28% Limit the number of items that a customer can return

22% Eliminated free returns

What's the 4-1-1 on International Returns?

The expansion of retail channels like social commerce and TikTok Shop has played a key role in the eCommerce boom, allowing merchants to tap into global markets more and grow their reach.

Earlier this year, a UPS Capital report revealed that 82% of surveyed merchants have plans to expand their international customer base over the next two years.[2] This aligns to consumer behavior, with 73% of those surveyed having placed online orders from international retailers in the past year.[2]

While this trend signifies a globalized marketplace brimming with opportunity, it also presents unique challenges. Particularly when it leads to a rise in cross-border returns.

Nearly half (49%) of consumers surveyed have returned items shipped internationally, underscoring the need for merchants to develop robust strategies for managing international return logistics.

Unfortunately, international returns are not without their financial burdens. Merchants shoulder the brunt of these costs, with a significant 79% of those surveyed having incurred international shipping expenses associated with returns.

Merchants' Primary Cost Challenges with International Returns

71%
High shipping fees

52%
Customs duties and taxes

52%
Handling and processing costs

37%
Fraudulent return claims

21%
Currency exchange losses

The rise of international eCommerce presents exciting opportunities for merchants to expand their reach and attract new customers. However, it's crucial to acknowledge the challenges associated with international returns and have processes in place to manage them.

By implementing efficient return processes, partnering with experienced logistics providers, and leveraging data-driven strategies to combat fraud, merchants can navigate the complexities of global returns and ensure a smooth customer experience in a borderless world.

The Fresh Future of Returns

Returns are an undeniable reality of eCommerce. While some view them as a challenge, forward-thinking businesses recognize them as an opportunity to strengthen customer relationships and refine operations.

Let's explore how innovative technologies and strategic partnerships can empower merchants to create a win-win returns scenario for both customers and their bottom line.

Forecast the Future

The ability to predict return volumes is critical for effective return management. The good news is that 70% of surveyed merchants are embracing the power of predictive analytics by leveraging tools to forecast return trends. This foresight allows for proactive measures, as evidenced by 70% of merchants surveyed optimizing staffing during peak return periods.

Merchants' Financial Quarters with the Most Returns

21%
Q1
January – March

11%
Q2
April – June

19%
Q3
July – September

19%
Q4
October – December

Merchant Insight

Apparel and toy companies experience the most returns in Q1, while luxury and tech companies see the most returns in Q4.[9]

Merchants can optimize staffing within their reverse logistics operations by leveraging 3PL partners to handle fluctuating return volumes. By analyzing return trends and proactively adjusting staffing levels based on demand, both in-house and outsourced teams can ensure efficient returns processing and minimize operational disruptions.

Technology as a Shield for Fraud

With some merchants reporting annual losses exceeding $100,000, it's clear the financial threat of fraudulent returns needs to be addressed immediately.

Technology offers a powerful weapon in the fight against fraud. Partnerships with companies like **InsureShield® Shipping Insurance** can provide advanced analytics to identify suspicious return patterns (e.g., excessive returns from a single customer). Furthermore, the future holds immense promise for AI-driven fraud detection tools, further safeguarding merchants from fraudulent activity.

WARNING

Potential <Fraud> Alert
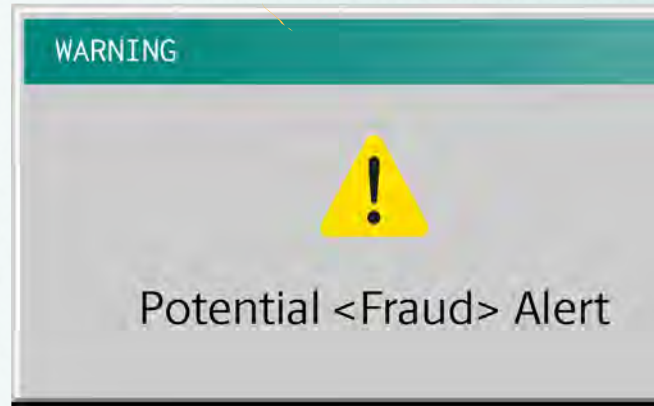
Beyond the Box with Sustainability

Returns can also contribute to environmental waste. However, solutions are emerging in strong partnerships. Partners like Happy Returns and UPS Access Point® locations offer box-free and label-free return options, significantly reducing packaging waste.

Additionally, merchants can explore partnerships with organizations that facilitate product donation for returned items that cannot be resold. These strategies showcase how sustainability and financial responsibility can go hand-in-hand in the world of returns.

Say "Bye, Bye, Bye" to Returns Logistics Challenges

The landscape of eCommerce returns is constantly evolving, presenting both challenges and opportunities. This whitepaper has explored the various facets of returns management, from the financial burden of fraudulent claims to the environmental impact of unsold items. However, amidst these challenges, a clear message emerges: a strategic approach to returns can be a powerful asset.

By prioritizing the customer experience, leveraging data and technology, and cultivating strong partnerships, merchants can transform returns into a competitive advantage. Implementing efficient return processes, embracing automation, and fostering a culture of sustainability are not just cost-saving measures, but also pathways to building lasting customer loyalty.

The future of returns is one of collaboration and innovation, where merchants and technology providers work together to create a seamless and sustainable experience for all stakeholders. UPS Capital is at the forefront of this movement and dedicated to giving merchants the tools and expertise needed to navigate the evolving returns landscape. Together, we can unlock the full potential of returns and thrive in a dynamic and competitive marketplace.

2024 Rewind

SIDE B

For more information, please visit insureshield.com

Methodology: The Return of the Goods: 2024 Rewind report is based on a June 2024 survey conducted by Dynata on behalf of UPS Capital of 350 U.S. eCommerce decision makers who have a revenue from $750k - $100M+ and leverage eCommerce platforms and marketplaces to sell and ship physical consumer goods, generating at least a portion of their revenue. This report also includes findings from a survey conducted by Dynata on behalf of UPS Capital of 1,000 U.S. consumers aged 18+ conducted in June 2024.

Sources:

1.   [2024 Future of Shipping Report](#) by UPS Capital Insurance Agency, Inc.

2.   [2024 Mid-Year Guide to Shipping Excellence](#) by UPS Capital Insurance Agency, Inc.

3.   **In the last year, how much money has your company lost due to fraudulent returns?** *All merchants.*

Response: More than $100,000	
Apparel merchants	14%
Furniture merchants	7%
Health & Wellness merchants	11%
Luxury merchants	32%
Tech merchants	19%
Toy merchants	13%

4.   **What percentage of the returns your company receive are not eligible to be resold?** *All merchants.*

Response: More than 25%	
Apparel merchants	23%
Furniture merchants	27%
Health & Wellness merchants	26%
Luxury merchants	49%
Tech merchants	30%
Toy merchants	27%

5.   **The Hidden Cost: Understanding the Environmental Impact of Online Purchase Returns (2024)** by ResearchGate

6.   **Would you be interested in working with a company that helped consolidate your customers' returns with other brands' returns to reduce shipping costs and environmental impacts resulting from returns?** *All merchants.*

Response: Interested	
Apparel merchants	92%
Furniture merchants	76%
Health & Wellness merchants	76%
Luxury merchants	92%
Tech merchants	84%
Toy merchants	73%

7.   **How often have you bracketed your online orders?** *All consumers.*

Response: Regularly, Sometimes, or Rarely	
Overall	42%
Boomers	21%
Gen X	35%
Gen Z	57%
Millennials	60%

8.   **In the last year or so, which following changes have you experienced brands/retailers that you regularly shop with make to their return policies?** *All consumers.*

Offer store credit vs full refund	24%
Charge a small fee to return items	22%
Shorten the returns window period	19%
Eliminate free returns	18%
Limit the type of items that a customer can return	15%
I have not seen any changes to return policies	50%

9.   **Do you experience a higher volume of returns in a specific financial quarter?** *All merchants.*

	Q1 (January – March)	Q2 (April – June)	Q3 (July – September)	Q4 (October – December)	Returns volume is consistent year-round	There is no trend with our returns volume
Apparel merchants	27%	10%	19%	19%	13%	12%
Electronics merchants	19%	10%	18%	21%	15%	15%
Furniture merchants	15%	5%	17%	22%	10%	32%
Health & Wellness merchants	20%	14%	20%	6%	18%	23%
Luxury merchants	21%	14%	22%	24%	17%	3%
Toy merchants	40%	7%	13%	13%	13%	13%

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