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Implementing generous returns policy can mean big payoffs for online retailers

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 By Damon Schechter

There comes a time in every online retailer's life when returned merchandise is inevitable. No matter how exceptional the product -- no matter how useful, pretty, sturdy or ingenious -- it is absolutely guaranteed to not meet the needs or expectations of at least one customer. The online retailer is thus faced with a quandary: Should this "inevitability" occur, how should returns be handled? The answer is simple: If you want to keep your customers happy and knocking on your virtual door, a hassle-free returns policy is the way to go.

The facts

A recent study commissioned by shipping giant UPS¹ proved this point flawlessly. Conducted by Forrester Consulting at the end of 2008, the study polled retailers and consumers on their attitudes and opinions about online returns policies. Results showed that most electronics retailers viewed overly generous and very open returns policies as "margin drains." They believe their efforts are better spent trying to prevent returns altogether -- a noble, if not lofty, endeavor to be sure. However, customers say the hassle of returning products purchased online is a big turnoff, predictably resulting in fewer online purchases.

Based on its findings, Forrester determined that an online retailer's returns policies are a more important part of a consumer's decision to buy online than most companies realize. In fact, 81% of consumers polled say they're more likely to buy from a retailer that makes it easier to return a product. Clearly, online retailers that make it easier and less costly for customers to return their products have a distinct advantage over their competitors -- specifically, advantages in customer loyalty, higher sales and increased revenue.

Tips for easy returns

With the data from the study lighting the way, generous returns policies simply make sense. Furthermore, ensuring hassle-free returns for online customers doesn't have to be a big production. Online retailers can easily implement some basics to ensure their returns policies don't cause headaches for anyone involved:

- State the facts. Let customers know what products they can return, how to return them, whether they need a Return Authorization Number, how long they have to return them and where they should send them.
- Keep customers in the loop. As soon as a return is received, send the customer an e-mail confirming receipt. Send another e-mail out when new merchandise or a refund is on its way.
- Include instructions on returns with each shipment. This makes it easy for customers to find out how to return an unwanted or defective item.
- Include a return address label to help prevent shipping mistakes.
- Include a return shipping label from your carrier. Just be sure to let the customers know they'll be paying for shipping, if that's the case. (Of course, if the online retailer can cover these costs, all the better for customer relations.)
- Link to a return policy during checkout.
- Post return restrictions, including how long a customer has to return an item, and any restocking fees.

Help from partners

If an online retailer's product fulfillment is outsourced, the fulfillment partner (sometimes called a 3PL or third-party logistics company) can handle any returns in a couple of ways:

- Products that were sent from the warehouse are returned directly to the online retailer for inspection.
- Returned products are sent directly to the retailer's outsourced warehouse. (This is particularly useful if products are sold globally and stored locally in major markets such as Canada, the United States and the United Kingdom.)

Either way, the outsourced partner and the online retailer should work together to implement a returns policy. Online retailers should note that working with a product fulfillment company often means a nice distribution of work, which is especially welcome if a retailer is a small company trying to focus on growing its business rather than dealing with returns (or shipping, for that matter). Typically, if a product fulfillment company handles returns, the company's experienced fulfillment workers will sort each returned item according to its condition (opened or unopened in the case of apparel or electronics) and notify the online retailer of the return.

Regardless of which returns policies are implemented, or whether online retailers select partners to optimize the returns flow, it makes good business sense to offer a generous returns policy. In the end, it's one sure bet to keep your customers happy -- and coming back for more.

1. "Crafting a Returns Policy that Creates a Competitive Advantage Online," Forrester Consulting, 2008

Damon Schechter is the CEO of Shipwire, a provider of outsourced order fulfillment with warehouses in the United States, Canada and Europe.

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