

How the cost of living crisis is affecting customer returns



Rising returns

Soaring inflation and living costs are proving a challenge for retailers. Data from the Office for National Statistics (ONS) shows retail sales fell 0.9% in March 2023 and that around 6-in-10 adults are spending less on non-essentials due to cost of living increases.

The prospect of non-essential sales rebounding in peak months is also increasingly difficult to determine. ONS data shows consumers are using less fuel in their homes and spending less on essentials.

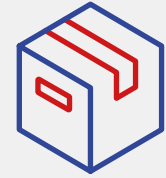
Are people making spending adjustments to get-by each month or is there more to it? Are they cutting back to afford treats? Other reports show money spent on flights and holidays rose during the first three months of this year – a headline from The Times (May 2023) read; *What cost of living crisis? Holiday sales are booming.*

Is this good news for retailers? Will it drive spend on summer fashion, accessories, and travel goods?

It's clear that the impact of rising living costs on the sales of non-essentials is complex. However, this is just one part of the story. There's also customer returns to consider. Are shoppers keeping less of their purchases as they contend with squeezed household budgets?

How is the cost of living crisis impacting returns volumes and shopper behaviour? To find answers to these questions, and uncover more useful insights, we worked with SAPIO Research to survey 1,000 consumers and 100 retailers in the UK during April 2023.

The research findings are shared within this eBook. We hope you find it useful and always welcome thoughts, feedback, and any questions you may have about returns – don't hesitate to get in touch enquiries@advancedsupplychain.com



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Ben Balfour

COO, Advanced Supply Chain Group

What do consumers want from returns?

Shoppers are actively interested in returns policies, and they can influence purchasing decisions.

35% of consumers always check a retailer's returns options before placing an order, while half (51%) will search for this information when thinking about ordering from a retailer they haven't used before.



The three most important returns factors for shoppers include:



1. Cost

62% want free-of-charge returns.



2. Speed

58% want returns processed quickly, so they receive a fast refund.



3. Convenience

56% expect it to be quick and easy for them to send items back.

Given the financial pressures facing consumers, it's perhaps little surprise that no-cost returns rank as the top priority. What is more intriguing is that shoppers still highly value the importance of speedy refunds, especially when they have even more choice in terms of flexible payment options including 'buy now, pay later', which can mean they don't have to part with their money at the point of purchase.

The speedy processing of refunds can encourage re-shopping. If a shopper receives their money back quickly, they will be more inclined to spend again with the same retailer - returned products don't need to mark the end of their purchasing journey.

Integrating returns as a dedicated channel within a supply chain strategy is crucial for achieving speedy refunds and managing customer expectations. Integration can enhance supply chain transparency to provide customers with greater visibility. They can be provided with updates on the status of their return and refund, helping build satisfaction and strengthening the propensity for repeat purchasing.

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Changing returns trends

The impact of rising living costs is driving an increase in customer returns.

48% of consumers are now more likely to send items back to retailers than before the cost of living crisis. Financial pressures are causing shoppers to rethink their purchases of non-essentials and return these for refunds.

Almost two thirds (63%) of the retailers that we surveyed said they'd seen an increase in the volume of returns since the cost of living crisis has started to squeeze consumers.

Three key trends driving a growing volume of returns include:



Shopping guilt

During the past six months, 60% of consumers have indulged in retail therapy for light relief from the doom and gloom of rising living costs. When reality bites and they realise they can't afford their purchases, they are sending them back. Less than half (47%) of shoppers kept items when the joy of retail therapy faded.



False returns

63% of retailers have seen a rise in disingenuous returns during the cost of living crisis, while just 15% of shoppers suffering from shopping guilt admitted to returning all of their purchases unused or unworn.



Trading down

Rising living costs is causing more than half (57%) of consumers to switch to buying cheaper brands and products to try to save money. This doesn't always work out for shoppers, with 43% admitting they've returned the vast majority of their lower priced alternatives. Products don't always compare to their usual purchases, leading to items being sent back.



The changing and varying reasons for products being returned, especially false returns, emphasises the growing importance of supply chain data. Retailers must be able to quickly determine why and when goods are being returned, and which customers are sending these back. This level of insight can allow retailers to spot patterns and problems early.

Is there a reoccurring issue with product descriptions at point of sale, are they misleading consumers or setting expectations too high? Is there a theme of product quality defects? Or are frequent customers repeatedly sending products back for very similar reasons and / or conflicting reasons?

Accessible and reliable supply chain data can enable retailers to address potential problems with returns quickly to minimise margin dilution and enhance stock availability.

Changing returns policies, is charging consumers the answer?

The changing trends affecting returns shows how just how complex this problem is for retailers to solve. There are many variables influencing growing volumes of returns, which flip between both positive and negative factors, as well as somewhere in-between.

Undoubtedly, the false returns trend is a negative. Items used or worn can require extra processing to restore them back to prime quality. Or if salvaging is not possible, it may mean goods have to be sold at lower prices through alternative channels (discount outlets), donated to charity or disposed of. This can lead to costly margin dilution and losses, making it understandable why 63% of retailers find the issue of disingenuous returns is affecting the generosity of their returns policies.

However, the issue of false returns is not something consumers are readily owning. Less than a fifth (17%) said they've been more likely to make disingenuous returns during the cost of living crisis, which doesn't tally with the rising level experienced by retailers. More in-depth research is required to truly understand this disconnect and the associated shopper attitudes and motivations.

In the meantime, analysis of supply chain data will be crucial to understanding how to address the issue of false returns, without alienating customers who don't necessarily believe there's a problem with how they approach the items they decide to keep or send back.



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To charge or not to charge?



Shopping guilt and trading down trends also show just how difficult it can be to address volumes of returns.

42% of retailers believe impulse purchasing is contributing towards shopping guilt. Consumers aren't properly thinking about what they are buying but purchasing anyway.

After giving their orders further thought, they are deciding they aren't affordable in the current climate and sending them back.

On the flip side, there are many instances where consumers to decide an impulse purchase is affordable. Do retailers want to lose these sales opportunities, probably not.

Similarly, although trading down may not meet shoppers' usual standards and drive returns, what about the items that do measure up? 20% of consumers are keeping all the items purchased when switching to lower priced brands and products.

These factors show why it's not always clear cut when it comes to classifying returns as positive or negative. They also epitomise why introducing charges for returns is not a straightforward or quick-fix solution.



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If charging for returns isn't the answer, what is?

65% of consumers said they would be less likely to shop with a retailer if they charge for returns

37% of retailers believe flexible payment options encourage unaffordable purchases

We already know that the cost of returns ranks highly for consumers. Two thirds (65%) said they would be less likely to shop with a retailer if they charge for returns.

It's clear that, although introducing charges could discourage problematic purchases and returns, it risks deterring sales, meaning retailers must look elsewhere for solutions.

One possible answer is to consider changes to payment options. More flexible checkout choices such as 'buy now, pay later' and 'spread the cost' give consumers more freedom to make multiple purchases. Restricting these options may encourage greater consideration about what product choices end up in final baskets.

37% of retailers believe flexible payment options encourage unaffordable purchases, with a high number of products being bought via these methods now being returned. A fifth (20%) of retailers are thinking about limiting these choices to reduce returns volumes. Adopting this strategy may jar with the popularity of flexible payments among consumers and limit sales.

The alternative solution for retailers is to focus on the back end of returns, rather than the consumer-facing points of sale. A quarter (25%) of retailers are taking this approach to make savings throughout their supply chains.

Three key steps can help to reduce the financial impact of returns to support the offer of no- or low-cost options, and policies that appeal to consumers.

Make returns:



1. Channel-specific

Items coming back to retailers must be treated in the same way as outbound goods which have been sold. Returns should be integrated into supply chain management strategies and models as a dedicated, stand-alone channel.



2. Data rich

Retailers should have a control tower view of their supply chain, which includes the flow of goods throughout the returns channel. Bespoke software such as ASCG's Vector can achieve this and provide information that improves salvage rates of returns, enhances visibility to reduce availability issues, and inform analysis of trends for improving efficiencies and quickly resolving any issues.



3. Sustainable

Almost a third (31%) of consumers are as concerned about the sustainability of returns as they are about the costs, while 40% either feel guilty about the environmental impact of their returns or consider this factor when sending items back.

Vector, a bespoke solution for optimising returns

ASCG's supply chain software Vector is developed in-house by a specialist team of developers. This means supply chain management strategies and solutions can be created bespoke to a retailer's goals and challenges.

It also means we can fully integrate sales and return channels, and third parties (e.g. final mile delivery companies that collect returns or collection points such as a Post Office) to enhance overall transparency. This creates opportunities for retailers to:

- Enhance customer satisfaction through speedy refunds and providing visibility on the status of returns
- Boost salvage rates of returns to reduce wastage, improve sustainability and make financial savings
- Optimise stock management and sales to reduce overall returns and improve efficiencies

- Effectively plan the re-processing of returned items to get them ready more quickly and back into circulation for resale
- Identify any problems such as product defects and false returns

To find out more about Vector or any of the research contained in this eBook, contact:

enquiries@advancedsupplychain.com

About the research



ASCG moves more than 250million products around the world each year for a host of well-known retailers and consumer brands. In April 2023, the company commissioned SAPIO Research to survey 1,000 UK consumers and 106 UK retailers (senior decision makers working for retailers employing at least 250 employees) about the cost of living crisis and customer returns.



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