

What is the cost of returns for an e-commerce company within fashion?

As we become more and more connected to the Internet due to the development of digital services, the behaviour of customers' is changing. Returning products purchased online has for many customers become a systematic pattern which companies within the e-commerce industry need to take into consideration when planning their strategy, not least from a cost perspective.

The number of Internet retailers has increased in recent years and as the competition grows customers request more lenient shipping- and return policies when shopping online. The master thesis "A Total Cost Analysis of the Returns Process Online and in Store" aims to investigate what the total cost of returns is for a market leading fashion company on the two most demanding e-commerce markets in Europe: Germany and the UK.

The expectations and return behaviour for online shoppers differ on different markets. Both British and German customers see lenient return policies as a standard condition. Depending on which return policies a company have returns can generate a significant cost. It is therefore interesting for companies to calculate the total cost of returns and to examine the effects that different return policies have on the company's long-term profitability.

The authors helped one of Sweden's most well known fashion companies to conduct a Total Cost Analysis of their returns process and to examine the effects of an increased amount of Online Returns in Store, ORIS, i.e. items purchased online being returned in physical stores. Germany and the UK represent the company's two largest markets and also represent the most demanding customers. In both countries apparels and footwear are the most popular product categories for online shopping. These product categories however also give rise to the highest number of returns. The Company in question had a return rate of 44% on online purchases in Germany and 15% in the UK in 2014.

The cost of one return at warehouse was calculated to be 7,22 SEK for German returns and 26,88 SEK for British returns. The great difference in cost was mainly caused by a much higher transportation- and handling cost of British returns. German returns are handled in Poland whilst the British returns are handled in Sweden where higher labour costs and transportation by boat make returns more expensive.

Returns being handled in store could help the fashion companies keep the cost of returns affordable. Somewhat simplified circumstances resulted in a cost of 0,86 SEK for ORIS in Germany and 1,73 SEK in the UK. This means that an ORIS could save the company more than 6 SEK in Germany and more than 25 SEK in the UK.

Additional improvements, such as pre-registered returns, clearer size-guidelines and tougher requirements on returns being sent back to warehouse, could make the returns process even more cost efficient. These are all elements of Returns Management and stresses the importance of not only considering the forward logistics, from the company to the customer, but also the reverse flow of products which can have a great impact of the company's long term profitability.