

Klarna.

Rethinking Returns:

The new norm.
And it's here to stay.



Klarna Confidential

Introduction from Luke Griffiths at Klarna UK:



We originally delved into returns in our 2017 report that showed ‘returns’ play a vital role in the shopper experience. Our latest research proves that returns have continued to rise and are now becoming completely ingrained in the DNA of how we shop.

Returns aren't a new phenomenon, but something that has been normalised by the continued growth of online shopping and the rise of the 'empowered' consumer. With competition in the industry more fierce than ever and shoppers calling on retailers to improve their returns capabilities, embracing them could be the difference between survival and failure for online brands.

Having a returns process might be a legal requirement, but retailers need to offer more than the bare-minimum. Returns are one of the most important parts of the customer experience, and retailers who are brave enough to go the extra mile will see increased purchase frequency, basket values and customer loyalty. For those who don't embrace them, they could see their customers snapped up by more dynamic competitors.

We commissioned over 2,000 interviews with UK shoppers at the start of 2019 to take a fresh look at their attitudes to returns and develop this report. We've used these insights to help retailers understand the true cost of not putting returns at the heart of their business.

The point of no return for retailers

Since the 2017 research, there has been a 14% increase in people returning items ordered online. And with online sales hitting an all-time high of 20% of all retail sales in December 2018,* this growth in returns is significant.

With three quarters of consumers saying returns are an essential factor in their choice of retailer, and 82% agreeing they are a normal part of shopping today – retailers can't ignore or avoid them. If they want to survive and thrive against the challenging economic backdrop and competitive retail landscape, returns need to be embedded in their offer.

82%
of shoppers agree
returns are a normal
part of shopping



Embracing returns will boost customer loyalty and your bottom line...

There is a common misconception that the normalisation of returns is bad for business. Retailers are concerned that the cost and logistical challenges of managing them will damage their bottom line.

However, despite the massive growth in online shopping, consumers still want to see and feel their items before they decide to keep them – and if they love them, they're likely to keep more, thus mitigating the investment in returns.

Over two-thirds of shoppers say free returns are an essential factor in their choice of retailer, an increase of 5% since 2017. And a massive 78% said if a retailer has free returns it means they'll buy more with them over time. It's clear that embracing returns not only attracts new customers, it encourages them to spend more, boosting customer lifetime value for retailers who get returns right.

What's more, retailers who fail to offer a good returns experience – through expensive returns policies or friction filled processes – risk losing customers in the long run.

62% of shoppers say they won't buy from a retailer that doesn't offer free returns and 84% won't come back to a retailer if they've had a poor returns experience.

62% of shoppers say they won't buy from a retailer that doesn't offer free returns



...but they need to be easy

Consumers demand quick and easy services in almost every aspect of their lives now, and returns are no different. Shoppers are likely to look elsewhere if returns aren't as easy as other parts of the buying journey.

Over three-quarters (81%) of online shoppers say retailers need to improve their returns services.

The investment in returns might seem hard to stomach but they are part of a brand's marketing appeal and profit engine. If they're getting it right, it will encourage greater loyalty, spend over time and reduce barriers to attract first-time customers. It needs to be a core part of every online retailer's offer – no matter how big or small they are.



Emerging trends: fast-fashion and false expectations

The last ten years has seen an explosion of pureplay fast-fashion retailers enter the market, and the rise in returns – in part – is driven by this growth and the high demand seen by these retailers. Increasingly, convenience-driven consumers are using their sitting rooms as fitting rooms to try before they buy, and return the items they don't want to keep. In essence a simple mirroring of the in-store experience in the comfort of their own home.

This rise in online shopping has created a growing gap between what shoppers expect when they buy an item online and the reality of what they receive. This can lead to a further rise in returned items from shoppers who are disappointed by their purchase.

Quality doesn't always hit the mark

The rise in people returning items due to faulty issues has more than doubled between 2017 and 2019 – 12 to 26%. And the number of people returning items due to the quality not meeting their expectations has almost quadrupled since 2017 – 6% to 22%.

What they see isn't always what they get

Nearly a third of shoppers (27%) returned items because the fit wasn't right.

The number of shoppers returning items due to the products looking different online than in reality has more than doubled since 2017 – 8% to 19%.



Nearly a third (31%) would be more likely to buy something if they could pay for it after they have decided to keep it.

The 'reality checkout'

This false expectation effect is creating a second checkout – the 'reality checkout' – where shoppers are making the final decision to purchase something once they've seen it in real life. But retailers can reduce these false expectations.

Retailers need to couple investing in simple returns processes, with creating more transparency on the look, feel, sizing and specs of their products.

81% of consumers said better fit technology and size guides would help reduce the amount they return



81% agree that clearer representation and more detailed descriptions of products would give them a clearer idea of what they are buying



Getting it right will take care of total lifetime value

Our latest research confirms that shoppers that regularly return goods tend to be more valuable, loyal customers. There is no denying that they send items back, but they are also likely to keep more and spend more in the long-run, increasing the total lifetime value of the customer that the retailer has fought so hard to win over.

But these shoppers want purchasing power, payment choice and convenience. It's retailers who link their returns policies with these three things that are likely to see the most positive return on investment with regards to returns behaviour.

Repeat purchasers

Almost half (44%) say that slow returns processes are the most frustrating thing about returning items. But for retailers who have a smooth returns process, they're likely to keep shoppers coming back again, and again. 84% are more likely to buy from a brand that offers free returns, and 86% are more likely to come back to an online retailer that offers free returns.

Savvy shoppers want payment choice

At Klarna, we've seen the positive impact that letting shoppers pay later has on the shopping experience. Because they have more time to pay, enjoy and try their goods, the urgency is lessened which means they're more likely to keep their products.

Don't just take our word for it:

- 18% of shoppers say having more online payment options would encourage them to buy more
- 31% would be more likely to buy something if they could pay for it after they have decided to keep it. This is in comparison to just 22% in 2017
- 27% would be more likely to come back and shop with a retailer if they had Klarna's try before you buy option
- 22% would be more likely to shop with a retailer if they could pay in interest-free instalments

86% are more likely to **come back** to an online retailer that offers free returns



84% are more likely to **buy** from a brand that offers free returns



In The Style case study: Klarna boosts basket size, frequency and loyalty

Paul Masters, COO of In The Style said: “Many of our customers are frequent buyers and like to experiment with different looks and sizes at home, particularly with our new collections. So, as with all e-comm fashion businesses, we’ve built returns into our core business model.

And to give our customers the flexibility and freedom to try pieces from our latest collections before committing to a purchase – just like you would in-store – we introduced Klarna to allow shoppers to pay 30 days after delivery. Any concerns we had about the rise in returns this would create have been offset by an increase in purchase frequency, basket values and customer loyalty.

As a result we’ve seen a 31% increase in average order value when shoppers use Klarna and a massive 47% increase in order frequency compared to other payment methods. In a competitive market it’s not only helping us drive sales from our existing client base, it’s become a powerful acquisition tool for converting new shoppers.”

IN THE STYLE



Bricks and clicks: shoppers want convenience at every step

Online shopping now accounts for 20% of retail sales in the UK, and mobile commerce is set to overtake desktop sales globally by 2023.** This means shoppers are increasingly moving away from the physical aspect of shopping, but they still want a seamless omnichannel experience where they can choose the convenience and flexibility of a bricks and mortar destination if they want it.

84% of shoppers say they want to be able to choose whether to return items in-store or online. And over two-fifths (42%), said they’d be more likely to shop with a retailer if they could buy online and return to a physical location.



42%

would be more likely to shop with a retailer if they could buy online and return to a physical location



Three things to know when turning returns into an opportunity – from **Doddle**.

1. Returns can be converted into valuable footfall

If multi-channel retailers want to create an opportunity out of online returns, they should consider incentivising customers to return through their own physical stores, driving valuable foot traffic.

Next currently charges customers £2 for parcel shop returns or returns by courier but offers free returns at its in-store click & collect counters. Why? All the data shows just how valuable those customers are with 39.2% of customers buying an additional item in-store while using click & collect services.***



Win for the shopper: A simple, hassle free shopping and returns experience.



Win for the retailer: Increased sales.

2. Returns behaviour is predictable

A quarter (23%) of consumers returning to Doddle counters drop off pre 10am and 42% make their returns during the lunch slot.

So businesses that have operating models that offer synergies against these very specific pre-work coffee and lunch-break time slots need to start waking up to the potential that offering an in-store returns service could provide. Fast fashion and coffee anyone?



Win for the shopper: No queuing, and convenient returns at times that work for them.



Win for the retailer: Increased sales and attracting new shoppers.

3. Not all returns channels are equal

Speed is of the essence for retailers receiving returns but the speed of returns channels varies considerably both in the speed shoppers return items and in how quickly returned items are then shipped back to the retailer.

In our experience, very few retailers really analyse the former. And when Doddle examined the latter by processing 60 online returns to a single fast fashion retailer via 6 different returns options, average turn around times fluctuated by as much as 158 hours from 57 hours (2.3 days) to 215 hours (8.9 days) (Doddle data, 2018), dependent on channel.

Armed with this knowledge, retailers can make significant savings just by carrying out a channel-by-channel analysis of returns speeds.



Win for the shopper: Quick, convenient returns channels and money back quicker.



Win for the retailer: Time efficiencies and cost savings with more items returned to the stock cycle in their full price window.

“Returns are a huge headache for retailers but they’re not going away. For many online shoppers, they’re a right and necessity – the online equivalent of the pile of clothes you used to hand back to the shopping room assistant in-store.”

“As a retailer, once you take this as the context, the focus changes. Returns become just another cost in the online supply chain, like packaging or shipping costs, and rather than being a problem that needs to be solved the focus turns to optimisation and efficiency.”

– Tim Robinson, CEO of Doddle



Gen Z and Millennial shoppers demand more

Convenience, control and flexibility is key for younger shoppers and the connected world they've grown up in means they expect more from retailers. For them, returns are a part of the buying experience they can't live without – 88% of Millennial and Gen Z shoppers think returns are now a normal part of online shopping today.



Over half (56%) of Gen Z shoppers would never shop with a retailer who didn't offer free returns, this rises to 59% of Millennials.

Understanding returns

1. **Returns are now a normal part of the shopping experience**, which retailers who want to thrive need to embrace
2. Those who put up barriers to returns could be damaging their bottom lines; 62% won't shop with a retailer that doesn't offer free returns
3. **Getting returns right can encourage loyalty**, higher basket spend and trust

Retailers need to get the ingredients right:

- a. Invest in a free and smooth return service for shoppers
- b. Be transparent about products and how they look to limit unnecessary returns
- c. Give shoppers payment power with flexible financing like Pay later, allowing shoppers time to decide they love an item and increasing the amount of goods kept
- d. Introduce a physical element to the returns process

See the benefit of returns for yourself

To help you understand the real cost (and benefit) of returns when implementing Klarna's Pay later, we've created a calculator. This will help you see that returns don't have to be seen as a negative to your bottom line. They can be a true differentiator to competition and a way to boost business and total lifetime value of a customer. You can access the calculator here: www.klarna.com/uk/rethinking-returns2019

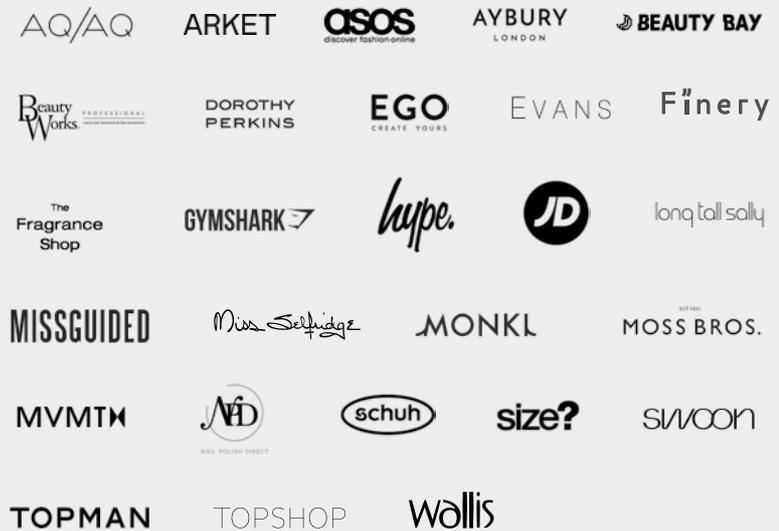
Get in touch with the Klarna team: sales@klarna.com



About Klarna:

- Founded in 2005, HQ in Stockholm
- Working with 100,000 online merchants
- Active in 14 markets
- Managing 10% of all online transactions in Europe
- 2,000 employees
- 26 million new consumers used Klarna in 2018

Some of our merchant partners:



Sources:

*ONS figures: <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi>

**<https://www.retailgazette.co.uk/blog/2018/11/uk-mobile-commerce-market-set-nearly-double-2022/>

*** (Global Data, Jan 2019)



Klarna.
Smooth payments.