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2019 Holiday Flash Report:

Holiday Returns

A Higher Cost To Online Retailers Than To Brick & Mortar Stores

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1010DATA 2019 HOLIDAY FLASH REPORT
Holiday Returns

They Come At A Higher Cost To Online Retailers Than To Brick & Mortar Stores

In this series of reports, 1010data, a leader in analytical intelligence and provider of consumer transaction data to hedge funds and other asset managers, provides analysis derived from their proprietary data sets surrounding the Holiday retail season, both present and historical.

The first 1010data report provided historical commentary on Thanksgiving and Black Friday sales. The second focused on the change in historical significance of Cyber Monday, with the blurring of online sales lines backward from Black Friday outward into the week past Cyber Monday. The third report examined data from Thanksgiving 2019 and monitored the unrelenting shift to online sales during Thanksgiving weekend over the last 5 years.

In this report, Holiday Returns, we uncover how returns impact retailers, and whether, despite their cost, retailers can glean positive developments out of them.

All data utilized in this report was sourced from 1010data's Credit Card Transaction dataset, an anonymized panel tracking the spend of millions of U.S. consumers, and its TickerView Visits dataset, an anonymized panel tracking the store traffic of tens of millions of U.S. consumers.

How Scared Should Retailers Be of Holiday Returns?

In our previous reports, we examined holiday shopping seasons past and present. But there's still a meaningful portion of holiday activity yet to occur, when credit cards are replaced by gift receipts as a major form of "currency." Customer Service lines switch from locating pick-up orders to handling angry customers who weren't provided receipts. Cardboard boxes receive a new layer of tape as they get shipped back to Amazon and other retailers. While the 2019 holiday shopping season is fast coming to a close, the holiday *return* season is yet to start in earnest.

In this report, we discover how returns impact retailers, and whether there is anything positive to take away from this $351 billion problem for retailers.

Returns (Especially Online) Are Costly

Returns are a normal part of shopping, but they hurt retailer margins in several ways. The first impact is the most obvious- a returned item means the company didn't make the sale it thought it had recognized. All the marketing dollars, discounts, and customer service put into that sale quickly go from a return on investment to a loss. Companies try to mitigate this loss by reselling the item, but that leads to the second impact- restocking.

Apparel retailers see online returns happen twice as frequently as in-store returns, and the impact on spend is larger. In terms of the dollar value of returns over total spend (net spend), online returns accounted for three to four times more of total online spend than in-store returns on total in-store spend. The reason for this is evident -- when an item is returned online, the customer has to actively revisit the website to make a new purchase. To return in-store, a customer is available for further engagement with the brand. The repeated engagement likely leads towards some level of replacement spend. A customer may return $50 of merchandise, but they could purchase $30 on that trip to blunt the return's impact. Or conversely, even exchange it for a more expensive item.

Restocking an item is costly. When an item is returned in store, an employee must sort, inspect, retag or repackage, deliver, and replace the item onto the shelf. That process removes an employee from higher value positions. An online return is even more costly. As more companies offer free shipping in both directions, even desirable items that get re-purchased add on two more shipping fees to the retailer; once to the customer, back to the warehouse, and back to a new customer.

Additionally, items are not always available to be resold at full price or at all. When clothing is returned, it doesn't always appear in "like-new" condition. Tags can be

missing, wrinkles could be set-in, or the item might be damaged. Anything less than original condition, and the retailer has to sell it at a discount. Even if new, many items are seasonal, such as winter jackets or sweaters. Seasonal items can be sold for full-price in November and December, but they lose value when they are restocked in late-January. Customized gifts- a holiday favorite – are particularly damaging for retailers with generous return policies. When returned, they lose all resale value and are often replaced with a free exchange.

More Online Shopping Leads to More returns

Online returns aren't only more costly, they are also more frequent. Year to date through November 2019, Amazon saw a 6 percent return rate on net spend, while Walmart experienced only 2 percent.

**Figure 1: Percent of Sales Returned**

Source: 1010data Credit Sales Indices

When we peer more closely at just one company, the Gap, the impact from online sales on returns becomes even more apparent. Online sales from 2015-2018 were returned at a rate four times higher than in-store sales. During that same period, the company's

return rate grew from 14 percent to 17 percent of total sales. The reason is clear- their online sales have a return rate of 31 percent, or almost four times higher than in-store sales.

Figure 2: Gap Impact of Online Sales on Returns
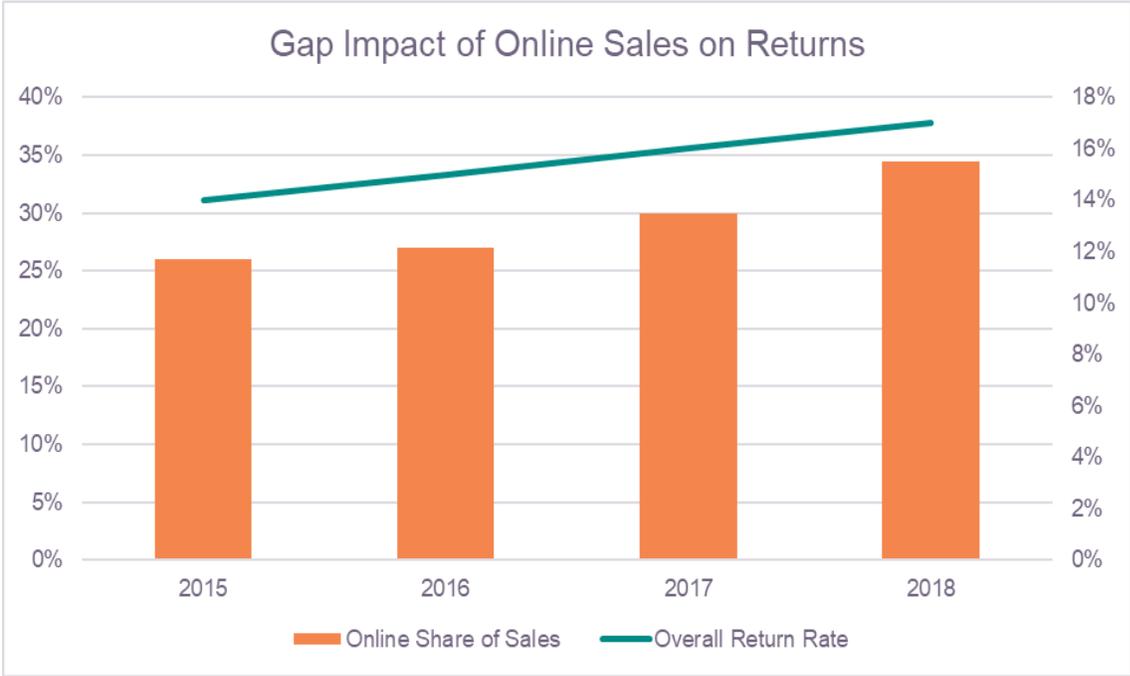

Source: 1010data Credit Sales Indices

But It's Not All Bad News

Retailers are willing to content with the higher return rates and associated costs of online selling because that is where more customers are shopping. But the post-holiday return season is also important for a different reason: driving store traffic. Whether or not post-holiday shoppers make a purchase, these visits represent a valuable touchpoint with potential customers. Stores have even begun to accept returns from online vendors to drive traffic. In July 2019, Kohl's announced they would expand a partnership to accept Amazon returns at its stores, following a successful test phase. Some of those returns would come from existing Kohl's customers, but others would be from new shoppers that otherwise might not enter a Kohl's.

Post-holiday shoppers fall into the same categories- most are return customers, but many are visiting a store for the first time or after a long absence. During the week following Christmas 2018, department stores and big box retailers saw roughly one third

of their in-store traffic come from people who had not visited the store during the holiday shopping season. Those new visitors paid off – Target and Kohl's saw half of them return over the next six months.

Figure 3: Target's 2018 Post-Christmas Shoppers Who Visited Again

Target's 2018 Post-Christmas Shoppers who Visited Again
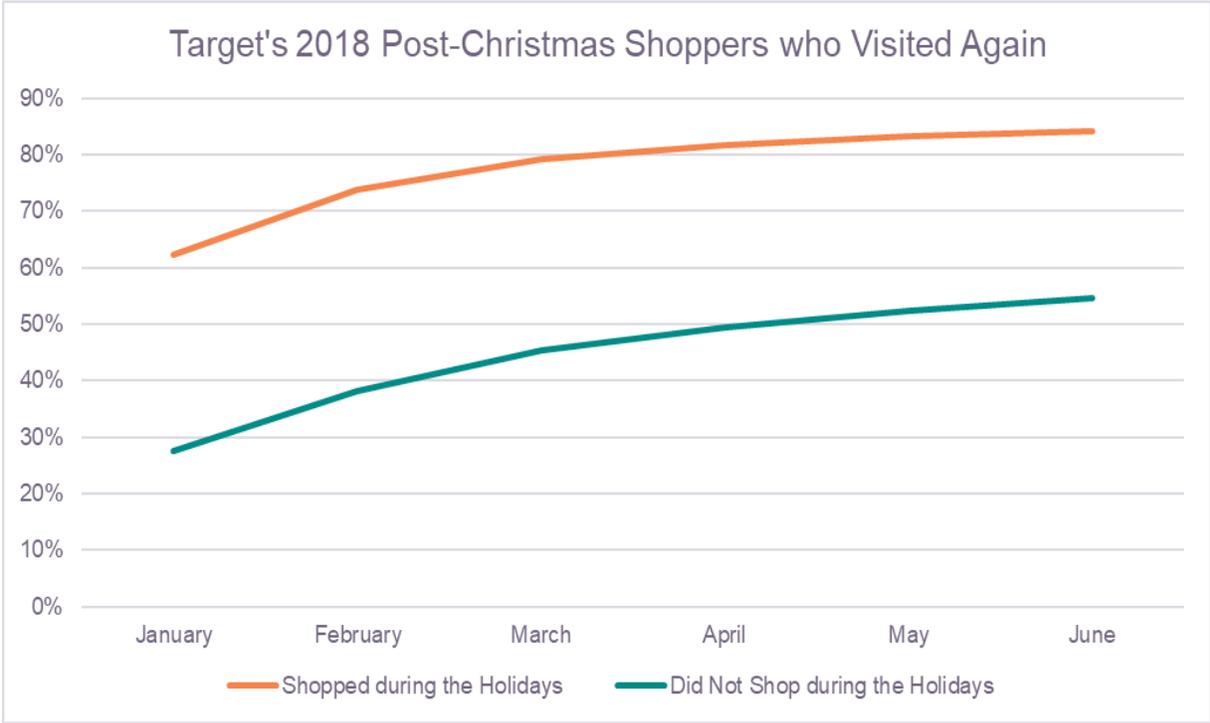
Source: 1010data TickerView Visits Data

Figure 4: Kohl's 2018 Post-Christmas Shoppers Who Visited Again

Kohl's 2018 Post-Christmas Shoppers who Visited Again
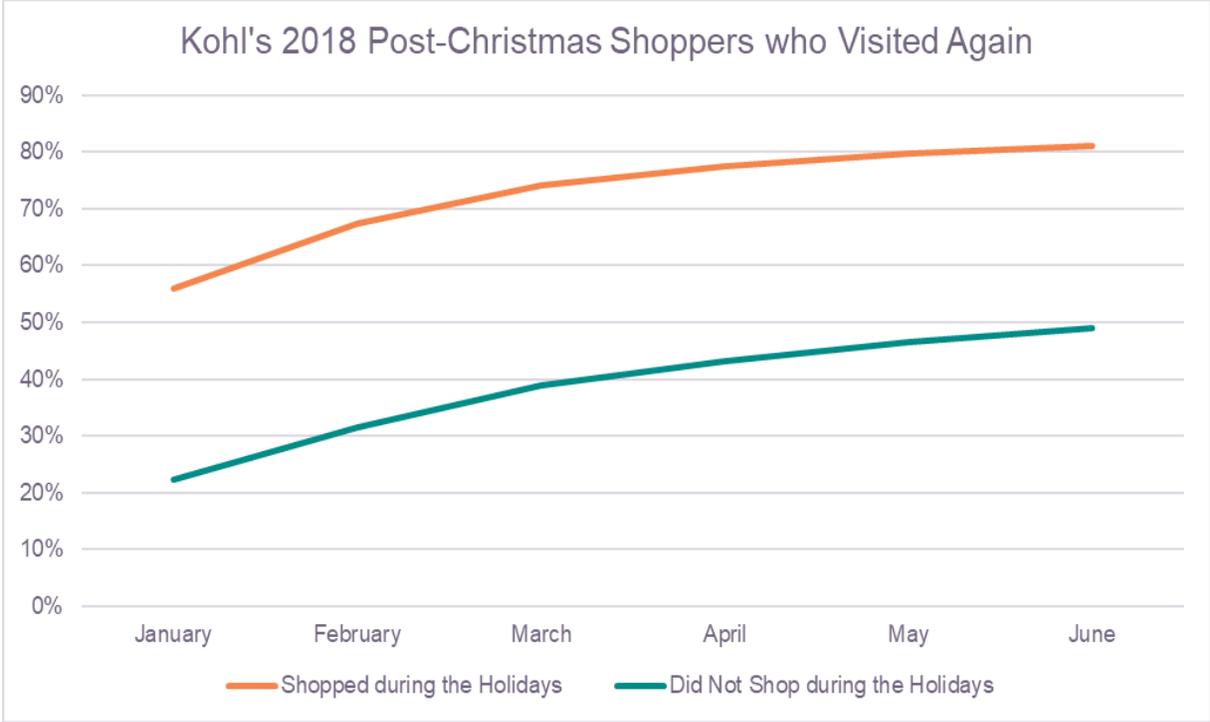
Source: 1010data TickerView Visits Data

The benefit of a good merchandise return cycle, whether in-store or online, is an important piece of the omnichannel experience. Consumers wish to shop, deliver, and return items where it is convenient. A successful retailer will make sure those options are available.

Methodology

To arrive at these findings, 1010data uses transaction data derived from the dollar value of credit and debit card transactions; these findings are not adjusted for cash transactions or store credit spend. If the transaction dollar value is negative, it viewed as a return or credit to a card holder. Using that, 1010data can see what percentage of total transactions include returns and what percentage of a company's total spend is offset by returns. The results do not account for when a customer returns an item and receives store credit. 1010data also derives insights from Visits Data: we see when people walked into stores, whether they had previously been there, using an anonymized persistent user ID. Using that, we can see how many of the people returned to shop later in the year.

Coming Next!

*On Friday, **December 20**, we'll look at the retailers that benefited from the consumer spend that would have gone to Toys R Us .*

About 1010data

*Recently named **Best Alternative Data Provider** by the [HFM European Quant Awards](#), [1010data](#) transforms Big Data into Smart Insights to activate the high-definition enterprise that can anticipate and respond to change. Our time series-driven collaborative analytics, consumer intelligence and alternative data solutions enable over 900 clients to achieve improved business performance, efficiency and growth quicker, with less risk. The world's foremost companies, including Sam's Club, Dollar General, Procter & Gamble, Coca Cola, GSK, 3M, Bank of America and JP Morgan, consider 1010data the partner of choice for optimizing company health, mastering consumer touchpoints and digitally transforming operations. 1010data delivers on the promise of Big Data, and we're just getting started.*

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