SML RFID STATE OF RETAIL INSIGHT REPORT 2023

Part 2: Returns Management and the Customer Experience

Retail continues to adapt to post-pandemic trends as consumer demands evolve. In the years that have followed, retailers have recognized an increased need to focus on the customer experience across both online and offline sales channels - and the important role that technology plays in facilitating that.

In late 2022, SML RFID commissioned an independent research report, analyzing the current trends and challenges impacting daily retail operations. Surveying more than 500 senior decision-makers from apparel retailers within the US and UK, part 1 of SML's State of Retail 2022/2023 report uncovered how retailers are traversing the long-term implications and hurdles following the pandemic and beyond, with a particular focus on order fulfilment and the in-store customer experience.

Part 2 of this report takes a closer look at the growth of consumer returns in the current climate, and the impact that it is having on the industry. This report will also explore how retailers can improve their returns operations, and utilize return transactions to extend customer engagement.

The rise of returns has become a growing issue for retailers and their revenue streams in recent years. According to NRF, 2021 saw $761 billion in sold merchandise returned to retailers over the course of the year, accounting for 16.6% of total US retail sales[1]. This is a notable increase from 10.6% in 2020.

With these figures continuing to rise, it is clear that returns are eating into a growing amount of retailer profit, and in the current economic climate, businesses cannot afford to continue suffering from returns. Instead, retailers need to consider the returns process as part of the overall customer journey and this report will uncover the challenges and solutions to delivering this.

[1] https://nrf.com/research/customer-returns-retail-industry-2021

The Returns Dilemma

NRF's findings highlight the issues that returns are causing retailers. However, SML's latest research - which analyzes responses from the past year, shows how the situation is only continuing to worsen. In 2022, retailers claim that 30% of their sold items are eventually returned.

The significance of this cannot be understated. Returns can be extremely costly for retailers, often due to internal processes being slow and outdated. When a product is returned, it goes through several stages of the reverse supply chain before it can be resold - taking weeks or even months before heading back to the shop floor from transport, cleaning, re-packaging, and re-stocking. The eventual resale price continues to drop as items spend more time away from the shop floor. According to SML's findings, on average, nearly half (42%) of returned items are sold at a discounted price, with 12% not being resold at all. Of those items sold at a reduced price, respondents claimed that the average reduction is approximately 38%.

Many retailers can quickly fall into the mindset that handling returns is simply a cost of doing business. However, as returns continue to worsen, retailers must recognize the importance of delivering a streamlined returns process that optimizes efficiency and minimizes costs.

30%
of sold items are eventually returned

At which price are returned items resold at on average?

Full Price
— 47%

Reduced Price
— 42%

Not Resold
— 12%
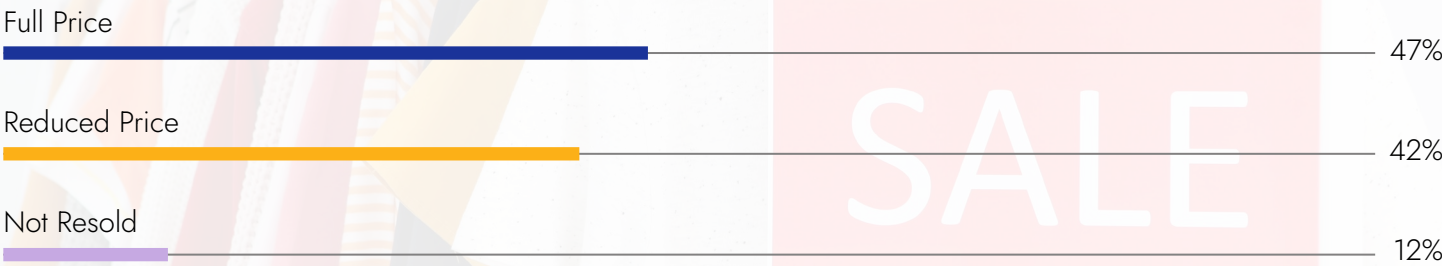
Navigating the Challenges of Returns

When analyzing the underlying issues behind internal returns processes, 32% of retailers claim that spending too much time manually processing individual returned items is a critical challenge to their current returns process, with 26% of respondents blaming a lack of staff to process returns.

32%

of retailers claim they spend too much time manually processing individual returned items

The ongoing labor shortage has likely highlighted these issues to retailers, with many stores now operating with reduced staffing numbers. Research from Deloitte[2] finds that the industry needs at least one million more retail laborers for the sector to be able to thrive.

With over a quarter (26%) of UK and US retailers also stating that having limited available options is a critical challenge for them in their returns dilemma, it is evident that retailers are recognizing the need for improvement. With the increasing rate of returned items across the sector, more solutions for processing returns are required imminently.

To improve the returns process, SML found that responses reflect the challenges that retailers are already encountering. 38% would like to provide more options for customers returning items, whereas 32% want to minimize the time that staff have to spend manually processing individual returned items and 22% would like to hire more staff to help process returns.

Modern retail technology solutions such as item-level RFID can play a valuable role in enabling retailers to streamline their process - and respondents recognize the benefits that the technology can have. While RFID only has approximately 15% market penetration[3], 21% of respondents claim that investing in item-level RFID would help them to improve their returns processes.

With item-level RFID, retailers can completely transform their returns operations. The technology can enable retailers to effectively track inventory throughout their reverse supply chain and help them to remove the significant amount of time spent manually processing returns. As a result, items can be processed faster and sent back to the shop floor much quicker. This increases the possibility of selling items at full price, while reducing the labor required to process returned items within the supply chain.

RFID enables retailers to take measures that ensure any losses from returns are minimized. With the rate of returns increasing as consumers become more demanding, significantly reducing these losses should be a high priority.

26%

of UK and US retailers state that having limited available options is a critical challenge for them in their returns dilemma

[2] https://www2.deloitte.com/content/dam/Deloitte/us/Documents/consumer-business/2022-retail-industry-outlook.pdf
[3] https://www.theretailbulletin.com/interviews/qa-dean-frew-chief-technology-officer-and-sr-vp-rfid-solutions-sml-group-09-03-2022/

An Opportunity to Further Engage Customers

While retailers aim to minimize customer returns, they are - and will remain - a prominent part of the retail landscape, especially as consumer demands continue to rise.
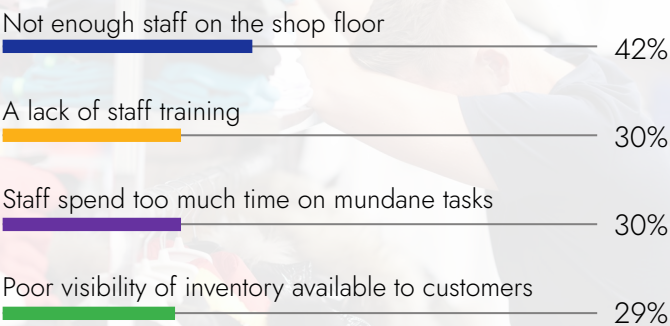
Returns are not going away, and the customer experience that is provided throughout the returns process is important to developing long-term relationships with customers and driving loyalty. Delivering this experience is something that many retailers appear to excel in - with only 16% of respondents claiming that a poor returns experience is a challenge they face in providing a seamless customer experience.

However, retailers must begin to consider the wider opportunities that are provided with in-store returns, and the potential to develop customer engagement further to the return itself.

As was noted in part 1 of SML's State of Retail 2022/2023 report, 78% of respondents claim that their strategy for in-store customer experience has changed drastically since the COVID-19 pandemic. There is now significantly more focus on providing a high quality customer experience.

However, barriers still exist. Similar to issues that are being felt with returns management, and as is detailed in Figure 1, retailers struggle to provide a seamless customer experience as a result of the labor shortage and poor internal processes.

93%
of respondents claim that technology is important in facilitating a seamless customer experience in-store

The labor shortage has been creating issues for a couple of years now, and low staffing numbers proved to be a prominent challenge to retailers in SML's 'State of Retail 2021' report. However, the solution is clear. Retailers must invest in technology, and 93% of respondents agree, claiming that technology is important in facilitating a seamless customer experience in-store.

By deploying item-level RFID, the in-store customer experience can blossom - not only for returns but for wider sales. The technology can significantly streamline in-store processes, with manual tasks such as stock counting being completed in seconds. According to SML's 'State of Retail 2021' report, staff were spending 14.6 hours per week executing inventory-related tasks (counting, receiving, finding, transferring) during 2021.

With item-level RFID, this time can be cut down significantly, freeing time for in-store associates to better serve customers. This can directly address the challenges felt by retailers in improving the in-store customer experience. With these tasks accounted for, they can send more staff onto the shop floor, significantly improve inventory accuracy and seamlessly provide visibility to customers. Furthermore, retailers concentrate more time on upskilling staff, and minimizing their time spent on mundane tasks.

Figure 1: Challenges to providing a seamless customer experience

Not enough staff on the shop floor — 42%

A lack of staff training — 30%

Staff spend too much time on mundane tasks — 30%

Poor visibility of inventory available to customers — 29%

SML's findings have highlighted the growing issue of returns and that retailers are clearly recognizing that changes need to be made. The challenges are clear: retailers largely do not leverage the technology required to streamline their returns processes, and those that are still trying to operate returns manually are suffering greatly from the labor shortage.

Overall, this causes issues which are two-fold. Firstly, on an operational level, returns processing is slow, disorganized and clunky. As a result, items take longer to return back to the shop floor and are forced to be sold at a lower price. On occasion, some items don't even become resold. Secondly, by manually processing returns, retailers are suffering from an opportunity cost, where significant labor hours are focused towards returns during a labor shortage. Instead, in-store associates should be free to serve customers in-store and provide a high quality customer experience.

Item-level RFID can play a pivotal role in alleviating both of these challenges. The technology provides retailers with instant visibility and access to reverse supply chains, enabling them to streamline back-end operations and send items back to the shop floor much quicker. This allows retailers to resell more items at full price.

Furthermore, item-level RFID significantly reduces the time spent by in-store associates undertaking manual inventory-related tasks - such as counting, receiving, finding and transferring. This enables staff to spend more time on the shop floor, aiding customers and improving their experience. It also offers retailers the opportunity to easily upskill staff.

Improving returns management should be at the forefront for retailers as the issue continues to grow, and item-level RFID can play an important role in streamlining that process. In order to provide an optimum customer experience, retailers need to consider returns as part of the overall customer journey. Therefore, investing in the technology and processes that enable this should be a top priority in an increasingly competitive landscape.

For more information contact: info@sml-rfid.com

Further Reading

Order Fulfillment and the In-Store Customer Experience

The retail sector has continued to experience an abundance of challenges within the past decade. Without question, these challenges were only exacerbated by the COVID-19 pandemic in 2020, which not only led to global retailers pausing operations but many closing their doors for good. As a result, retailers were forced to adapt and quickly implement new tools and processes to navigate the changing ecosystem.

Scan the QR code or go to:
www.sml.com/resources/state-of-retail-insight-report-2023-part-1/

In 2021, SML RFID carried out a market insight report looking at the current state of the apparel retail industry following the pandemic, surveying more than 500 independent senior decision-makers from apparel retailers within the US and UK.

Adapting to a Post-Pandemic Retail Environment

Scan the QR code or go to:
www.sml.com/resources/state-of-retail-insight-report-part-1/

Helping Customers Prosper Through Technology

Scan the QR code above or go to:
www.sml.com/resources/state-of-retail-insight-report-part-2/

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BRANDS OF
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About SML

With a presence in over 20 countries, SML Group is the global end-to-end RFID and brand identification solutions provider, delivering proven results and rapid ROIs to brands in the new era of retailing. We offer innovative Inspire™ and EcoInspire™ labelling and packaging products, high- performance RFID tags and encoding services across industries. Our proprietary software Clarity® is the market-leading item-level RFID solution that is engineered and deployment-proven for vertical retailers and brand owners with stores. As an invaluable partner of brands, SML is committed to developing tech-driven solutions that power brand transformation and prosperity.

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