



# Returns Marketing White Paper



*"Loyal customers have become increasingly hard to find... Retailers should employ a variety of timely tactics and measure their effectiveness to ensure shoppers will remain happy after a transaction is complete."*

**Forrester Research**  
Rebuilding Customer Loyalty, Nov. 03

*Newgistics' SmartLabel® was listed as a post sales best practice.*

## *Executive Summary*

Consider this startling fact: retailers sold approximately \$96 billion in merchandise online during 2003. However, returns accounted for more \$20 billion of that activity. In such a competitive marketplace, the returns number — representing 21% of all sales — takes on enormous significance, especially when you consider that 85% of customers say they will stop buying from a retailer if the returns process is a hassle. Can retailers afford to lose one out of every five customers because of a bad returns experience? Certainly not.

For top marketing executives, the issue of product returns can no longer be viewed as a necessary evil delegated to the Operations Department. Instead, returns-triggered marketing programs become a powerful new solution targeted at the customer acquisition and retention challenge. In fact, Returns Marketing is a critical component of the strategic marketing process and creates a measurable competitive advantage.

Today, pioneers in the exciting new realm of Returns Marketing recognize that the inevitability of product returns provides an excellent opportunity to positively influence the customer experience and generate loyalty.

By implementing an intelligent, convenient, and communicative returns process, retailers like Eddie Bauer and Neiman Marcus are leading the way with this new marketing tool. As a result, these retailers are positively influencing customer acquisition and retention while generating greater revenue and profit.

This report reviews the untapped potential of Returns Marketing and highlights the key components required to realize the rich benefits of intelligent merchandise returns.



## Defining Returns Marketing

Most marketing strategies focus on making the sale. However, **Jupiter Media Matrix** predicts that U.S. customers will make 90 million Internet returns in 2004 — representing nearly \$6 billion worth of goods. This figure represents 90 million opportunities to gain or lose a customer for life.

Since returns are an unfortunate reality for direct retailers, they would be shortsighted to think that their marketing efforts are finished at the time of purchase. Unfortunately, that's when most companies shift the "customer relations" responsibility from Marketing to Operations, and the results can be disastrous.

Research clearly shows that the quality of the returns experience can greatly influence customer retention and customer loyalty:

*"Non-online customers cited returns as their #1 concern about shopping online, and online shoppers rated it as their #2 concern".<sup>1</sup>*

*"85% of customers say they will no longer buy from a retailer if the return process is inconvenient".<sup>2</sup>*

*"95% of customers say they are likely to shop with an online or catalog merchant again if the return process is convenient".<sup>3</sup>*

Given these statistics, a new marketing tool should be considered: **Returns Marketing:**

**1)** An "intelligent" process maximizing the convenience of returns. **2)** Communicating with customers in a way that positively influences satisfaction, loyalty, retention and future buying patterns through the strategic and immediate use of returns information.

*85% of consumers say they will no longer buy from a retailer if the return process is inconvenient.*

### Returns Marketing: A Golden Opportunity

Returns Marketing — a new customer retention and acquisition tool, brings the most overlooked segment of the post-sales cycle to the forefront; creatively transforming a potentially negative and disappointing experience into a positive, relationship-enhancing one instead.

Returns Marketing provides opportunities to:

- Deliver timely return confirmation notices throughout the returns process to enhance customer satisfaction.
- Communicate regularly with customers post-sales in a series of smart, proactive touch points designed to boost retention and long-term loyalty.
- Promote customer loyalty incentives or tailored special offers that retain customers and boosts sales long after the returns process.
- Measure the effectiveness of post-returns promotions and touch-times.

To be effective, marketing strategies in today's highly competitive retail landscape must include Returns Marketing.

Leading direct retailers are just beginning to use the Returns Marketing concept. The results are impressive: acquisition rates improved by 1%, customer retention rates increased by 5%, and returns-related calls decreased by 30%.<sup>4</sup>

*Returns Marketing: 1) An "intelligent" process maximizing the convenience of returns. 2) Communicating with customers in a way that positively influences satisfaction, loyalty, retention and future buying patterns through the strategic and immediate use of returns information.*

## Creating The Foundation For Returns Marketing

*For Returns Marketing to be successful, the returns process must begin with an intelligent solution that lays the foundation for all marketing efforts that follow.*

### The Challenge

Customers expect the product returns process to be simple, convenient, and fast. All too often, however, this is not the case. Customers have to haul their packages to a UPS, Federal Express or US Post office and wait in line. Then, they must pay for the return shipping on their own.

Afterwards, they wait for days or weeks, wondering if the return packages have arrived and if they will receive a refund. The frustration of this negative experience grows over time — resulting in permanent customer attrition.

### The Solution

To leverage the benefits of Returns Marketing, the process needs to work to the advantage of the retailer by collecting return information quickly. As a result, the retailer can proactively communicate with their customers.

The only company currently offering a convenient intelligent returns management solution is Austin, TX-based Newgistics, Inc.

While there are several resources available to assist the product returns process, many of these companies are strictly in the business of moving boxes from point A to B.

Newgistics handles the transportation aspect of the returns and takes the process one step further — maximizing convenience and gathering data early in the returns process.

In fact, Forrester Research recently listed Newgistics as a best practice example vendor in post-sales for smart return services.<sup>5</sup> For that reason, this white paper highlights Newgistics as the leading Returns Marketing example.

### SmartLabel®

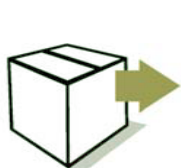
To solve the returns dilemma, Newgistics developed **Intelligent Returns Management™** — a customer-centric service allowing shoppers to return merchandise from direct retailers quickly and conveniently.

SmartLabel combines pre-paid, pre-addressed return labels, dynamically generated intelligent barcodes, and the extensive U.S. Postal Service infrastructure to maximize returns convenience.

Retailers teaming up with Newgistics integrate this system at the point-of-sale, generating a SmartLabel printed on the order invoice included with the outbound package.

Newgistics' clients report a 70-90% customer utilization rate for SmartLabel, as well as a 98% customer satisfaction rating.<sup>6</sup>

## Here's how online and catalog sales returns used to work:



1. Retailer fills order

A simple return address, or in rare cases, a peel-off address label is provided as a means for anticipating a return. Nothing "smart" about that.



2. Customer receives order

Oops. She doesn't like it. Back in the box it goes.



3. Customer returns their product

She cuts out the return label — or makes her own, then stands in line at the post office. She calls the retailer 2-3 times to check on the return and her credit. She waits.



4. Retailer receives and processes return

It takes 10-12 days to receive and process. This whole time, the retailer is unaware of the return ... and can't answer the simplest questions fired by the customer.



5. Retailer restocks

Since the retailer had no advance knowledge of the return, his resources to handle the return may be woefully over or under-committed. **Good luck!**

*Returns Marketing programs have positively influenced customer retention rates by as much as 5% and increased customer acquisition by 1%.*

**Unique Value**

For customers, SmartLabel provides the fastest and most convenient returns process available. For retailers, the value of SmartLabel is equally compelling.

While SmartLabel does not require any out-of-pocket payment for the customer at the time of mailing, a return fee is deducted from the customer's refund. Many retailers earn \$1 or more profit from the return fee alone.

Additionally, Returns Marketing programs have positively influenced customer retention rates by as much as 5% and increased customer acquisition by 1%.

SmartLabel also generates several operational efficiencies and logistical advantages, such as returns-related call reduction and asset recovery — bringing further value to the Intelligent Returns Management solution.

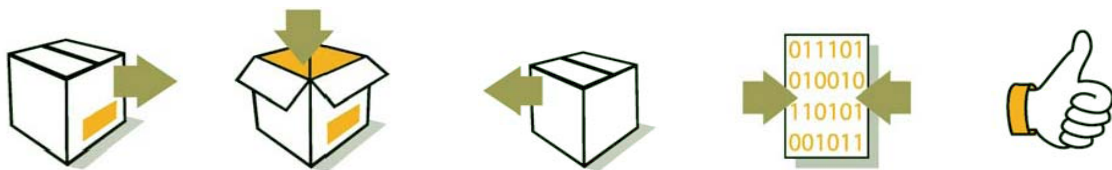
**The Returns Process**

To return an item, the customer simply applies the SmartLabel to the package and drops it off at any U.S. Postal Service location. Since SmartLabel is prepaid, there are no out of pocket expenses or waiting in line to process the return.

Within two days, Newgistics intercepts the package at one of 21 nationwide bulk mail centers. There, the SmartLabel intelligent barcode is scanned and the information sent directly to the retailer notifying them of the return.

Then, according to the retailer's business rules, Newgistics can immediately contact the customer by e-mail or postcard, **creating a post-sale dialogue** and addressing any customer service issues and communicating general or tailored promotions, all within two days of the initial return.

Here's how **Intelligent Returns Management** works:



1. Retailer fills order	2. Customer receives order	3. Customer returns their product	4. Retailer receives and processes return	5. Retailer restocks
<p>A dynamic bar code is Created, capturing relevant customer information at the point-of-sale, and is included with the customer's packing slip. The cost for this service? <b>Nothing.</b></p> <p><b>Smart — Very smart.</b></p>	<p>Oops. She doesn't like it. Back in the box it goes.</p>	<p>She easily peels and sticks the pre-addressed, pre-paid SmartLabel on the box and drops it anywhere the US Postal Service picks up (home, office, mail carrier, post office). <b>No lines, no payment, no fuss.</b></p>	<p>Within 2 days of the customer return, Newgistics intercepts the package at one of 21 strategically located bulk mail centers across the U.S. Vital data is scanned off the barcode and sent directly to the retailer, alerting them about the return. With this information, retailers can proactively email or contact the customer to address the return.</p>	<p>Newgistics sorts and palletizes the packages, then sends shipping info to the retailer. The retailer is now prepared to allocate resources. The cost is deducted from the customer refund, and the retailer re-stocks a dollar or two from every return as well. <b>Good job!</b></p>

## Implementing Returns Marketing

*Returns Marketing consists of three phases: Returns Communications, Returns Promotions, and Returns Analytics*

### Returns Communications

#### The Challenge

When customers return a product, they often wait weeks to find out the status of their merchandise and if their account was credited. In the meantime, a customer may call 1-3 times to inquire about their return's status.<sup>7</sup>

Retailers are unaware of the incoming return and do not have information they can relay to their customers. This lack of engagement in an informative dialogue increases the rate of customer attrition at this critical touch point in the customer buying cycle.

#### The Solution

With **Intelligent Returns Management™**, retailers now have information about a customer's return within two days of mailing the package. The speed of this information provides retailers the opportunity to enhance customer relationships with proactive communications.

Using proactive "touch points" during the returns process creates a positive customer experience — thus solidifying long-term relationships. Because customers stay informed throughout the returns process, customer satisfaction increases, and service center calls decrease by 30%.

#### Options

Newgistics creates personalized Returns Communications via email, postcard, or letter. Personalized Returns Communications match retailer style guides and branding requirements, with a choice of email formats such as text-based or rich graphics/media. Through email, customers can "opt-in" and manage their own account preferences, as well as request future online alerts.

#### Speedy Response

Retrieving information that positively influences customer retention and loyalty is fast and efficient with SmartLabel.

Dynamically generated at the time of purchase, each SmartLabel barcode contains rich customer data. This information is available within two days of the customer returning the package, and updated continually throughout the returns cycle.

*Armed with SmartLabel data, retailers now have a powerful new communication tool to improve their customer's returns experience.*

### Returns and Repurchase Rates

Returns are an inevitable part of the direct retailing business and often represent a customer's dissatisfaction with the product and/or the retailer. What's important is how the retailer responds to the customer's "problem". According to Jill Griffin, author of Harvard Business School's recommended book: "Customer Loyalty — How To Earn It, How To Keep It", customer's whose problems are properly dealt with may become more loyal customers than those who have never experienced problems.

*Consider these statistics from McKinsey and Company:*

- *Customers who have a problem but don't complain have a repurchase intention rate of approximately 9%.*
- *Those who do complain, regardless of the outcome, have a repurchase intention rate of approximately 19%.*
- *Customers who have their complaint resolved have a repurchase intention rate of 54%.*
- *Customers who have complaints quickly resolved have a repurchase intention rate of 82%.*

These repurchase rates are startling considering most retailers are blind to return packages until 12-14 days after the customer mails the return. As a result, retailers are unable to address a customer's questions or concerns regarding their return. With an Intelligent Returns system and the Returns Marketing tool, retailers can address customer issues quickly — typically within two days of a customer mailing the package.

## Returns Promotions

### The Challenge

When direct retailers offer specific incentives, customers gain the impression of having preferred status — yielding increased loyalty toward the retailer. Neglecting incentives during the returns cycle provides customers excuses to migrate to other retailers, and missed opportunities to increase future purchases.

### The Solution

Returns Promotions is a returns-triggered marketing service using SmartLabel's early returns data to provide timely and effective customer offers and incentives.

Returns Promotions enhances the returns process with a "hook" to prompt customer sales through customizable offers. Newgistics tracks and manages each offer to measure the impact of return-cycle promotions on customer repurchases.

The following are typical user-configurable promotions:

1. Tiered Incentive programs like 10% off next purchase, free shipping, or free products give shoppers another reason to buy,
2. Customer Loyalty programs retain clients months and years after the initial sale.
3. Acquisition promotions overcome one of the top three barriers hindering direct retail customer acquisition.<sup>8</sup>

*Returns Promotions enables compelling acquisition programs and post-sales practices that significantly expand customer relationship-building programs and results.*

## Returns Analytics

### The Challenge

Once direct retailers switch to Returns Marketing, they need to measure their success. Like any other marketing program, half the challenge is quantifying a program's value.

### The Solution

Measuring the impact of returns behavior on purchasing behavior requires access to timely and accurate customer data. Returns Analytics is an offline service that provides direct measurement of customer purchases, repurchases, and retention.

Returns Analytics queries both the retailer's customer transaction and the Newgistics barcode returns data to correlate customer returns and buying activities. Direct retail best practices such as Customer Segment Profiles, Return Metrics, and Loyalty Metrics ensures manageable and accurate statistics.

*Returns Analytics provides valuable data for targeting specific offers within the Returns Promotions service, and measurement of customer retention and repurchase rates.*

## Returns Analytics profiles the following information:

### Five customer segments:

- 1st time buyers
- Elite buyers
- Recent moderate buyers
- 1-year inactive buyers
- 2-year inactive buyers

### Three return methods:

- SmartLabel returnees
- Non-SmartLabel returnees
- Non-returnees

### Three customer loyalty metrics:

- Retention rate
- Repurchase rate
- Average Order Value (AOV)

### Peer-group analysis:

- Demographics
- Technology profiles
- Spending index

### Four time horizons measure activity from the trigger order:

- 30-day window
- 60-day window
- 90-day window
- 180-day window
- User-configurable

## Reviewing The Results

By implementing this powerful and compelling new approach, direct retailers agree that Returns Marketing is a welcome - and necessary - addition to their traditional marketing tools. The SmartLabel Intelligent Returns solution generates bottom-line results that deserve serious consideration by direct retailers.

### Build Customer Loyalty

95% of customers indicate they will buy more from the retailer if the returns process is convenient.<sup>9</sup> Through prompt communications and special promotional offers, Returns Marketing builds long-term customer relationships. For example, one Newgistics customer reports a 5% increase in customer retention rates because of SmartLabel.

By infusing traditional marketing strategies of personalized communications and timely promotional offers into the returns process, retailers make returns painless while boosting customer retention and providing opportunities for incremental purchases.

Improving customer loyalty yields higher repeat purchases and customer lifetime values. When retailers create a positive returns experience, customer satisfaction and confidence rises.

### Improve Call Center Efficiencies

According to Newgistics' client data, the SmartLabel system reduces returns-related calls up to 30%. This saves approximately \$4 per call and also improves call center productivity.<sup>10</sup>

### Increase Profits

With SmartLabel from Newgistics, direct retailers now have a number of opportunities to increase profits, including:

1. Expanding customer marketing data, improving customer acquisition by 1%, and retention by 5%.<sup>11</sup>
2. Earning \$1 or more profit on every SmartLabel return
3. Decreasing call center costs with a 30% reduction in returns-related calls.

SmartLabel also delivers impressive operational savings including improved operational efficiencies and faster asset recovery.

### Gain A Competitive Advantage

Inevitably, every direct retailer deals with product returns.

Leading retail marketing executives leverage their returns by implementing Returns Marketing, a powerful customer retention and acquisition tool.

*By integrating the benefits of Intelligent Returns Management™ with strategic communications, promotions, and analytics, smart retailers gain a measurable advantage.*

### References:

- <sup>1</sup> AMR Research, Annual Internet Shopping Survey, April 2002.
- <sup>2</sup> Harris Interactive Independent Survey, "A Study About Shopping Directly," December 2003.
- <sup>3</sup> Ibid.
- <sup>4</sup> Newgistics Client Data, 2003.
- <sup>5</sup> Forrester Research, "Rebuilding Consumer Loyalty," November 2003.
- <sup>6</sup> Newgistics Client Data Survey, December 2003.
- <sup>7</sup> The Benchmark Company, April 2002.
- <sup>8</sup> Shop.org Holiday Survey, December 2003.
- <sup>9</sup> Newgistics Client Data Survey, 2003.
- <sup>10</sup> Ibid.
- <sup>11</sup> Harris Poll, December 2003.

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