RETURNS MANAGEMENT PRACTICES IN SWISS ONLINE APPAREL RETAILING: A MULTIPLE CASE STUDY APPROACH

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Abstract Product returns are a critical, costly task for online retailers; yet the process of managing and avoiding returns is neither actively coordinated nor investigated. Based on a multiple case study approach, six in-depth interviews with top- and middle-level apparel industry managers were conducted to explore and describe practices of managing product returns in online apparel retailing. Our findings revealed returns management practices implemented in online apparel retailing and identified several applications to reduce the environmental footprint of product returns and improving the company’s performance, based on five facets of returns management: (1) the interplay of return policy, product category, and preventive actions; (2) the application of avoidance practices; (3) the management of returns in omnichannel retail; (4) the potential of artificial intelligence to reduce return rates; and (5) the role of sustainability in consumer behaviour. To reduce product returns and enhance a company’s performance, we propose to map the practices against different phases of the return journey.

Keywords: product returns, case study, online retailing, return journey, e-commerce.
1 Introduction

Worldwide retail e-commerce sales have continuously increased over the past years and are predicted to account for one fifth of total retail sales in 2021 (eMarketer, 2021). The COVID-19 pandemic and national lockdowns accelerated the shift to online retailing (UNCTAD, 2021). In online retailing, the purchase transaction and the experience of the purchased product are typically decoupled, i.e., the consumer decides to keep, return, or exchange the product after its delivery and unpacking (Robertson, Hamilton, & Jap, 2020). Thus, returning products previously bought via digital channels is an inherent phenomenon of online retailing (Urbanke, Kranz, & Kolbe, 2015).

The growth of online retail sales and the shift from offline to online retailing increase the volume of returned products which makes product returns a growing challenge for business, society, and the environment (e.g., Frei, Jack, & Brown, 2020). As an example, every second German online shopper has returned a product previously bought online in 2020 (Statista, 2021). At an average cost of 10 euros per returned item for processing and resale (EHI Retail Institute, 2019), this has an incredible financial impact for the respective retailer and direct impact on the revenue, as more than half of the returns may not be resold at full price. Moreover, returns cause significant operational and logistical challenges and impact the carbon footprint of an online retailer (Cui, Rajagopalan, & Ward, 2020; Urbanke et al., 2015). At the same time, product returns can affect different stages of the customer journey and thus lead to also positive business impact (Robertson et al., 2020). The way how customers experience the product returns process may trigger positive word-of-mouth or build customer loyalty (Robertson et al., 2020). Thus, managing product returns is an important topic which has not been sufficiently investigated (Ahsan & Rahman, 2021; Bijmolt et al., 2021).

Specific product categories are particularly prone to product returns due to the characteristics of products and the way how the products are used and fit into the consumer’s lifestyle. Apparel and shoes display the highest return rates across numerous studies (e.g., Cui et al., 2020; Statista, 2021; Urbanke et al., 2015); growth of online retail sales in this category is significant. As a result, efficiently managing and avoiding returns is paramount for online retailers in general and for apparel online retailers in particular (Bijmolt et al., 2021).
To contribute to current research on returns management and avoidance, our empirical case study explores how Swiss online apparel retailers manage the product returns process. In addition, we aim to investigate practical measures for preventing returns that take effect before the transaction and identify sustainability practices related to returns management.

2 Literature review and research propositions

The returns management process can be defined as “the supply chain management process by which activities associated with returns, reverse logistics, gatekeeping, and avoidance are managed within the firm and across key members of the supply chain” (Rogers, Lambert, Croxton, & García-Dastugue, 2002, p. 1). Rogers et al. (2002) argue that a firm’s returns management capabilities can be used strategically to enhance the company’s overall performance. Bower and Maxham (2012) investigated how the return policy and associated costs influence customer evaluations and subsequent post-return spending. They found that customers who are obliged to pay a fee for product returns will eventually decrease their number of repurchases, while those receiving free returns will increase their number of repurchases. These findings serve as basis for the first proposition, P1 (see Table 1).

To handle the anticipated returns, Rogers et al. (2002) recommend developing return avoidance guidelines, which means developing and selling the product in such a way that return requests are minimized. The authors argue that consistency of a product can play a critical role in return avoidance as for apparel retailers, many returns are a result of sizing issues. Therefore, Rogers et al. (2002) recommend consistently sizing the products and applying sizing guidelines uniformly across all products. See proposition P2.

Saarijärvi et al. (2017) showed that returns are the result of disconfirmation, which happens when the product does not meet the expectations the customer had when ordering the product, for instance when the material is not what the customer anticipated or when the product has one or more negative features that were not visible in the pictures. Thus, avoiding returns in a customer-friendly manner requires providing all necessary information and making sure that customers clearly understand what they are purchasing, leading to proposition P3.
The management of product returns in multi- and omni-channel retail environments is not sufficiently investigated (Ahsan & Rahman, 2021; Bijmolt et al., 2021). Multi-channel retailers may have an advantage over pure players in that they are able to offer consumers the option of returning items purchased online to a store. By utilizing this opportunity, multi-channel retailers may gain considerable benefits: for example, consumers may not only return or exchange items, but also purchase additional products (Şen, 2008). See proposition P4.

Once returns have been accepted by the retailer, they must be inspected. Blackburn et al. (2004) present two ways in which e-commerce retailers can organize their gatekeeping activities: a centralized reverse supply chain structure or a decentralized one. The major difference is where the gatekeeping takes place. A decentralized structure is more effective when it comes to handling time-sensitive returns, such as of apparel products, since the returned products can be processed (e.g., restocked/sorted) more quickly (Blackburn et al., 2004). See proposition P5.

Disposition refers to the decision about what to do with the returned product (Rogers et al., 2002). According to Blackburn et al. (2004), apparel products tend to decrease in value over the course of the season and are sold at highly discounted rates after the season ends. For this reason, the quick processing of returns is critical in the apparel industry, in order for value to be able to be recovered in a timely manner, as proposed by P6.

Petersen and Kumar (2009) find that although it is likely that a lenient product return policy will create more costs for companies in the short term, managers can use information from the behaviour of individual customers in relation to product returns as a tool for generating long-term relationship growth and maximizing each customer’s profitability. The effect of tracking returns metrics is covered by proposition P7.

Product returns have considerable environmental consequences (Frei et al., 2020). Yet, research on sustainability of reverse logistics is rare (Ahsan & Rahman, 2021). Although some returns can be restocked, many are relegated to off-price channels or even end up in landfills (Frei et al., 2020). Environmental costs can directly affect the online retailer (Rogers et al., 2002). Thus, we propose the goals of the returns management include understanding of the environmental impact associated with
product returns and pursuing sustainable practices of returns processing, proposition P8. Table 1 summarizes the above derived propositions.

Table 1: Summary of research propositions

<table>
<thead>
<tr>
<th>#</th>
<th>Proposition</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1</td>
<td>Offering free returns increases repurchasing.</td>
<td>Bower and Maxham (2012)</td>
</tr>
<tr>
<td>P2</td>
<td>Applying sizing measurements uniformly across all product lines prevents unnecessary returns.</td>
<td>Rogers et al. (2002)</td>
</tr>
<tr>
<td>P3</td>
<td>Providing appropriate and precise information on products prevents unnecessary returns.</td>
<td>Saarijärvi (2017)</td>
</tr>
<tr>
<td>P4</td>
<td>Offering consumers multiple options for returning their products aims at ensuring additional sales for the retailer.</td>
<td>Sen (2008)</td>
</tr>
<tr>
<td>P5</td>
<td>Decentralizing gatekeeping increases the effectiveness of returns handling for the retailer.</td>
<td>Blackburn et al. (2004)</td>
</tr>
<tr>
<td>P6</td>
<td>Quick returns processes maximize the expected market value of the returned products.</td>
<td>Blackburn et al. (2004)</td>
</tr>
<tr>
<td>P7</td>
<td>Establishing metrics for tracking customers’ product return behaviour minimizes the financial impact of returns for online apparel retailers.</td>
<td>Petersen and Kumar (2009)</td>
</tr>
<tr>
<td>P8</td>
<td>The retailers are considering the environmental impact associated with product returns and pursue sustainable practices of returns processing.</td>
<td>Frei et al. (2020), Rogers et al. (2002)</td>
</tr>
</tbody>
</table>

3 Methodology

This qualitative research followed an exploratory case study approach and employed a multiple-case-study design (Yin, 2018). The chosen approach has been proved fruitful by extant research in the domain of returns management (e.g., Ahsan & Rahman, 2021; de Leeuw, Minguela-Rata, Sabet, Boter, & Sigurðardóttir, 2016; Hjort, Hellström, Karlsson, & Oghazi, 2019). The case was defined as the “retailer” and bounded by the type of activity, with only retailers involved in e-commerce (e.g., pure players, multi-channel players, or omni-channel players) being considered valid cases, industry type (i.e., retailers involved in the online retailing of apparel), and geographic area (i.e., retailers operating in the German-speaking part of Switzerland). Since generalization in a statistical sense is not a goal of this qualitative study, maximum variation sampling approach was applied (Creswell, 2007). This approach allows to document diversity and identify important shared patterns among the case
companies (Patton, 2014). Furthermore, the present study follows the theoretical replication logic by conducting six individual case studies that predict contrasting results for anticipatable reasons (Yin, 2018) and adopts a research design by following the advice of Eisenhardt (1989) in selecting cases as “polar types” given the limited number of cases studied (de Leeuw et al., 2016; Hjort et al., 2019). Case companies were selected across different sales channels, product types, and leniency of return policies. These diverse cases represent contrasting situations with respect to the setup of the returns management process, the leniency of returns policies, return activities, and returns rates. Table 2 details the case companies.

Documentation and interviews were used as sources of evidence to collect data (Yin, 2018). The retailers’ websites were reviewed with the purpose of conducting a desk review of the retailers’ background information (e.g., facts and figures), the terms and conditions for returns, and product detail pages to analyse which type of information on products the retailers provide online. Semi-structured interviews were conducted via Zoom or Microsoft Teams with one representative for each of the case companies. The interviews followed an interview guide, were recorded, and fully transcribed. The interviews took 59 minutes on average. All data was collected in March-April 2021 and stored in an electronic case study database. Data analysis followed an inductive approach of category development. The data analysis categories were constructed by assigning codes to pieces of data while working with the transcripts. The final names of the categories either emerged during the data analysis or were derived from incorporating the terms in the existing literature (de Leeuw et al., 2016; Rogers et al., 2002). The theoretical propositions guided the cross-case analysis (Yin, 2018).
Table 2: Overview of case companies with specified channels, product types, and return policies

<table>
<thead>
<tr>
<th>#</th>
<th>Role</th>
<th>Channels</th>
<th>Product type</th>
<th>Return policy leniency</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC1</td>
<td>Manufacturer, brand owner, retailer</td>
<td>Multi</td>
<td>Day and nightwear</td>
<td>31 to 100 days free return guarantee</td>
</tr>
<tr>
<td>MC2</td>
<td>Manufacturer, brand owner, retailer</td>
<td>Multi</td>
<td>Functional sportswear</td>
<td>31 to 100 days free return guarantee</td>
</tr>
<tr>
<td>OC1</td>
<td>Retailer</td>
<td>Omni</td>
<td>Premium clothing, shoes, and accessories</td>
<td>21 to 30 days return guarantee (free in store, customer pays the cost of returns via mail)</td>
</tr>
<tr>
<td>OC2</td>
<td>Manufacturer, brand owner, retailer</td>
<td>Omni</td>
<td>Athletic and casual footwear, apparel, and accessories</td>
<td>31 to 100 days free return guarantee</td>
</tr>
<tr>
<td>PP1</td>
<td>Manufacturer, brand owner, retailer</td>
<td>Pure player</td>
<td>Sustainable and fair fashion</td>
<td>14 to 20 days return guarantee (customer pays the cost of returns)</td>
</tr>
<tr>
<td>PP2</td>
<td>Manufacturer, brand owner, retailer</td>
<td>Pure player</td>
<td>Sustainable clothing and accessories</td>
<td>14 to 20 days return guarantee (customer pays the cost of returns)</td>
</tr>
</tbody>
</table>

4 Results

The results of the cross-case synthesis focus on recurring patterns present across the case companies and evaluate the research propositions (see Table 1).

Proposition P1. Three of the case companies (MC1, MC2, and OC2) offer free shipping for online returns which may lead to more satisfied customers, but also to more returns. In particular, the returns rates fluctuate a lot across case companies, i.e., from as low as 5% to as high as 50% or, put differently, by a factor of ten. Yet,
if the returns rate of OC1, the only multi-brand retailer in our study, is eliminated, we find that, on average, the single-brand retailers that charge for returns (e.g., PP1 and PP2) have a lower returns rate than retailers that offer free returns (e.g., MC1, MC2, OC2). The interview with MC2 revealed that free returns are offered to create a secure environment for a customer so that if the customer is hesitant about a purchase, she still makes an order. Having lenient return policies helps a lot with that. Yet, whether offering free returns increases repurchasing could not be confirmed.

**Proposition P2.** All case companies indicate that avoiding returns of apparel products is impossible because consumers are uncertain about the size and fit of products bought online. However, by applying sizing measurements uniformly across all product lines online apparel retailers may reduce the returns rate. For example, the returns rate for existing and loyal customers of one case company is around 15% only as these customers know the company’s products, know how the products fit, and what exact size to order. These customers mainly purchase clothing items on the retailer’s website. In contrast, those customers ordering products from the same company on marketplaces have an average returns rate of almost three times as high.

**Proposition P3.** All case companies emphasized that they are continuously trying to improve their websites with the aim of minimizing returns. To provide an overview of the various online avoidance practices, we checked the product details pages for all of the case companies and determined the particular return-avoidance practices. We chose a black T-shirt for women in size S as the base for the analysis, since this is a basic product offered for purchase by all the retailers. The most frequently mentioned and implemented practices used by the online apparel retailers to avoid product returns are presented in Table 3.

<table>
<thead>
<tr>
<th>Type of avoidance practice</th>
<th>MC1</th>
<th>MC2</th>
<th>OC1</th>
<th>OC2</th>
<th>PP1</th>
<th>PP2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product name</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Product description</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Additional product information</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product use information</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product material characteristics</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Flat photo of the product</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Proposition P4. MC1 and MC2 do not offer their clients an option to return items purchased online to a store. In case of MC1, it is currently not possible due to the company’s organizational setup. In case of MC2, the reason for this is that all of the online orders are sent out from the central warehouse in Germany, and all returns from Switzerland must be sent back to Germany for the inspection. OC1 offers its customers free returns in store with the aim to increase store traffic. Interestingly, only 20% of online returns are brought back to OC1 stores. The rest of online returns is being sent back by mail, in which case the customers must bear the cost of postal service. In case of OC2, it is also possible to return clothing items purchased online to a physical store. The OC2 interview suggests that mainly loyal customers make the effort of going to a store to return an item and possibly make another purchase.

Proposition P5. It was found that a centralized returns system is utilized by all the case companies to standardize operations processes and minimize labour costs related to returns. To collect returned products and transport them to the central warehouse, the case companies rely on the large parcel carriers active in Switzerland. To handle the returns at the central warehouses, all of the case companies have established a separate “returns department.”

Proposition P6. All case companies mentioned that since returns are collected in the central warehouses, the returns are processed all at once, as quickly as possible to maximize the expected market value of the returned products. The inspection and
sorting of the product returns are still manual processes. On average, the case companies process the returns within one or two days upon arrival at the central warehouse and make these products available for order online immediately after.

**Proposition P7.** All case companies have a framework in place for tracking return rates. The interview with OC1 revealed that the returns rate is tracked per brand and per category per brand and compared to the previous period. In addition to quantitative analysis of the returns rate, MC2 conducts a more qualitative analysis and identifies the most frequently returned products with the aim to uncover potential patterns related to product quality, inconsistent sizing, and unsatisfactory fit. The main rationale behind tracking the returns rate and the returns reasons is to identify the products that are out of the ordinary, check them, and then either change the product description online or change the product itself.

**Proposition P8.** Certain sustainable practices undertaken by the retailers aimed at reducing the environmental footprint caused by product returns were identified. First, all case companies are working on a solution to reduce the number of physical documents which are sent to the customers along with the merchandise. During the interviews with the case companies, it was revealed that on average, a retailer sends three sheets of paper for each order (e.g., invoice, delivery note, pre-printed return label). In case the returns rate is 30%, then 70% of customers do not return their orders and consequently, throw away the paper sheets. For a multi-channel retailer, 70% may constitute approximately 500,000 boxes or 1,500,000 sheets of wasted paper. Second, most of the case companies do not chemically clean returned products which have signs of wear. Instead, they are sold at outlet sales. There is also an indication that the retailers are considering reducing packaging. Two of the case companies are already building steps toward the more sustainable return practice and offer their customers delivery with reusable packaging, which can be returned and reused up to 20 times.

5 Conclusion

This study contributes to the growing body of knowledge on the management and avoidance of product returns in online apparel retailing in five different ways. First, we shed light on the interplay of return policy, product category, and avoidance practices. Second, we uncover potential for new practical measures to reduce the
return rate. Third, we explore the management of returns in multi- and omni-channel retail environments. Fourth, we identify potential for the use of automation, algorithms, and artificial intelligence to reduce return rates. And fifth, the identified sustainable practices point to a framework for a more systematic analysis thereof.

Our results suggest that free returns are positively correlated with returns rates. A major reason to offer lenient return policies is to reduce the consumer’s hesitance to make an order, which can be closely linked to the inherent specific features of the product category. Size and fit are the major reasons for returns in online apparel retailing. We found that both specific information related to the depicted models and size-and-fit tools seem relatively sparse avoidance measures, which points at three avenues for further research in this regard: (1) adoption and acceptance of size-and-fit tools at retailer and customer side; (2) how do size-and-fit tools as new touchpoint make or break the customer experience and customer journey; and (3) impact of size-and-fit tools on return rate and customer satisfaction and loyalty.

At strategic level, managers need to weight the benefits and costs of lenient return policies. With lenient policies, return rates are most likely to increase. Effective preventive measures can decrease the probability of a return. Thus, managers need to well align effective preventive measures with return policies. Lenient policies can result in the desired positive effect while effective avoidance practices ensure that customers are less likely to make use of the policy. Further research may uncover how this interplay can be designed most effectively.

Multi- and omni-channel retail environments create various paths for returning products previously bought online. Extant research suggests the returns in stores can trigger new sales and early phases of new customer journeys. Our study reveals that the implementation of in-store returns can be hindered by “multi-country operations” (returns sent to country other than that of customer residence and physical store) and organizational setup. We also found evidence that in-store returns are actively pursued by designing the return policies (esp. cost structure) favourably to in-store returns. Future research should investigate what specifically hinders the implementation of in-store returns. This is especially vital in the apparel industry since in-store returns combined with decentralized gatekeeping can speed up the overall returns process and increase the chance of selling returned products at full price.
Our study further reveals that retailers utilize two approaches to track returns behaviour for improving the financial impact of returns: a) start with product, category, or brand, and then check for return reasons; b) start with highest return rates and identify respective returns reasons. Both approaches are pursued rather manually. Future research should explore how automation, algorithms, and AI can be utilised to, e.g., speed up the process, discover new patterns of return reasons, or to automate measures for preventing returns.

Finally, we identified several practices pursued to reduce the environmental footprint of product returns. To unleash the full potential of making returns more sustainable, we propose to map the practices against different phases of the return journey, i.e., before the product is returned, when the product is returned, and after the product has been returned. Future research should systematically analyse the practices’ economic and environmental effects.

References


