WHITE PAPER

THE UGLY TRUTH BEHIND RETURNS

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"BUY LESS. CHOOSE WELL. MAKE IT LAST."
- VIVIENNE WESTWOOD, FASHION DESIGNER

The Paradox of Choice

Due to the pandemic, online shopping has accelerated in growth even faster than foreseen. The proliferation of online channels and the implementation of consumer-friendly return practices have shifted consumer behavior towards a shopping approach, focused on risk-free exploration of sizes and styles, rather than considering each purchase as a final shopping destination.

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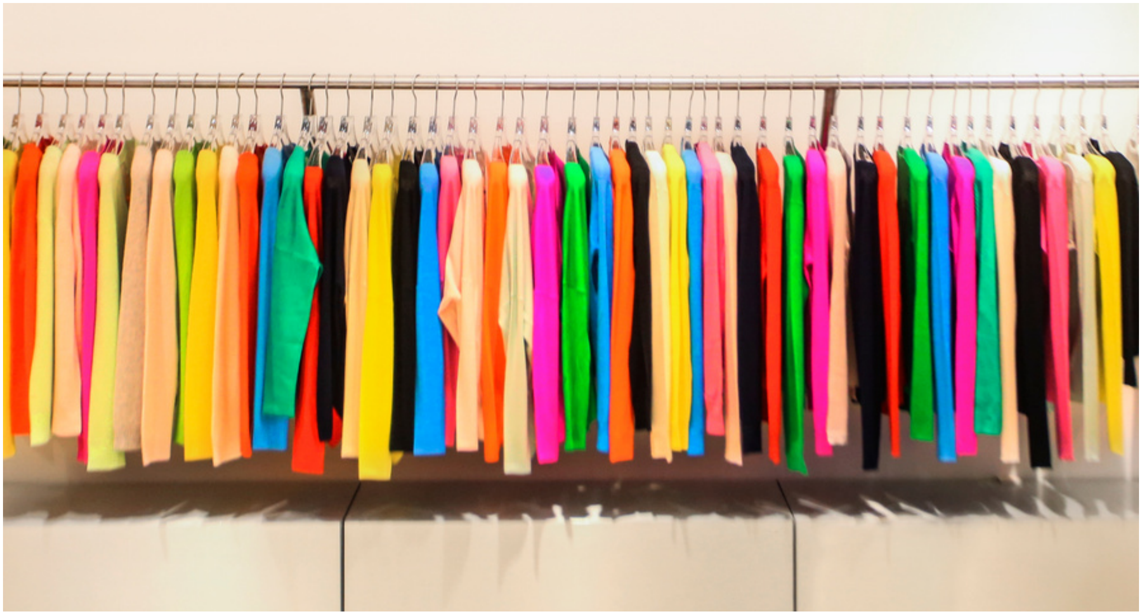
Classic psychological theory suggests that having a greater number of choices is generally perceived as beneficial. As a result, retailers and fashion brands are inclined to provide wide and deep product assortments to their customers. They want to offer an ample range of product choices to cater to those who desire variety, while also increasing the chances of meeting the diverse needs of consumers. Fast fashion retailers have been following this "science" to develop a business model that offers quick turn over and more new styles to their customers.



However, researchers have noted that extensive choices can result in negative consequences for the consumer (e.g., choice dissatisfaction) or for the company (e.g., the consumer deferring her decision to choose) which is referred to the "paradox of choice" or "too-much-choice effect." Information overload can happen while being presented with too many choices. Moreover, it would further lead to negative outcomes, such as being dissatisfied with the purchase, postponing purchase decisions, or regretting decisions. Not to mention, the potential loss in self-confidence and the high of amount of returns (with negative environment-impact) that are often caused by these outcomes.

The Achilles Heel of E-commerce

Consequence: **56%** of clothing orders are being returned, of which **70%** is due to a bad fit or style. Wrong size or fit are some of the top reasons buyers return clothing items.

The retailer appears to lack a comprehensive understanding of the issues surrounding returns and their detrimental impact on both the business and the environment. From the retailer's standpoint, returns are frequently perceived as a requisite aspect of their business, primarily affecting the logistics chain. Moreover, there is a lack of comprehensive understanding regarding the complete unit economics of returns, including the variability of return rates and causes, as well as the anticipated level of returns. The absence of this knowledge leads to decisions being made in an ad hoc manner, without addressing the underlying causes. Apparently, what they do not realize is how unsustainable returns are: both in a business- and environmental-context. In fact, **retailers lose a third of their revenue to returns.**

Returns are turning into an e-commerce weakness or liability.

The environmental impacts are substantial. Returns contribute to the proliferation of greenhouse gases, and a significant portion of these items, including those in excellent condition for resale, reuse, or donation, end up being destroyed or sent to landfills. The sheer volume of returned goods is overwhelming companies, exceeding their capacity to effectively manage them.

The numbers behind the return phenomenon

Concerns surrounding the sustainability of the fashion industry primarily revolve around the environmental impact of textile production and waste. But it's the impact, caused by the transport of goods, that are being overlooked. E-commerce logistics chains are a major source of damage to the environment, producing massive amounts of CO_2. Returns contribute to an enormous carbon footprint, resulting in an estimated 2.3 billion kg of waste generated annually in the United States alone. Additionally, they contribute to the release of 15 million metric tons of carbon dioxide into the atmosphere, which is equivalent to the emissions produced by three million cars driving for an entire year.

Approximately 10% of purchases made in physical stores are returned, while in online stores, this figure can reach as high as 56%. Alarmingly, more than a quarter of these returns, totaling around €5.5 billion each year, ultimately end up in landfills.

Given the gravity of these statistics, there is one imperative course of action: persuading both retailers and end-consumers to alter their behavior and approach to returns.

Adopting innovative technologies such as Contour Lab's software, can assist in addressing these return-related challenges effectively.

Innovation calling

Global crises such as the COVID-19 pandemic, war, and economic shifts have a profound impact on various aspects of life. They influence personal lifestyles and work patterns, as well as reshape how companies engage with customers, how customers make choices and purchases, and how supply chains operate to deliver products and services.

Competitive advantages shift dynamically as business models adapt to new market realities, and the core capabilities that made an organization distinctive may suddenly be less differentiating. The current crisis has significantly accelerated the disruptive force of digital maturity.

Research indicates that many companies are deprioritizing innovation to concentrate on four things: shoring up their core business, pursuing known opportunity spaces, conserving cash and minimizing risk, and waiting until "there is more clarity." But businesses can gain long-term advantages by understanding such shifts and the opportunities they present.

History suggests that companies that invest in innovation through a crisis outperform peers during the recovery.

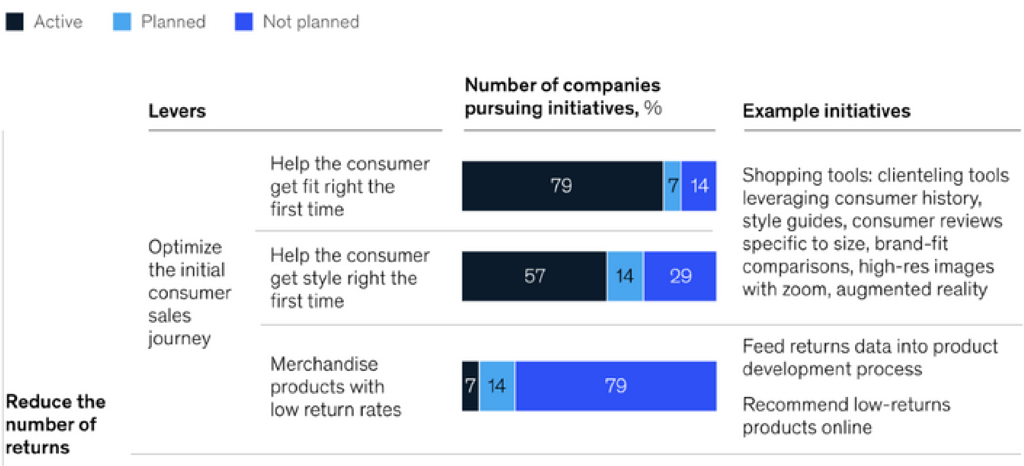
[1]Identified as companies on the *Fast Company* World's 50 Most Innovative Companies list for ≥2 years through a crisis, normalized to 2007.

In past crises, companies that invested in innovation delivered superior growth and performance postcrisis. Organizations that maintained their innovation focus emerged stronger, outperforming the market average by >30% and continuing to deliver accelerated growth over the following 3-5 years.

Many businesses simply cannot operate as they have in the past. What made a company successful historically may no longer be possible during or after the crisis. Customers may struggle to pay, business processes might have changed, potentially creating opportunities that never existed before.

Going back to the problems of fashion returns, a survey stated that 70% of returns were caused by poor fit or style, suggesting that shopping tools are a key lever for preventing returns and improving consumer experience. However, because retailers frequently prioritize and assess these based on improvements in conversion rates, tools that could benefit return rates are sometimes neglected

Retailers are pursuing a range of levers to manage returns.



In the accelerated world of omnichannel shopping, the financial impact of returns could become unsustainable for many apparel retailers. Nonetheless, if retailers enhance their capabilities in managing returns, there are opportunities to create value for their bottom line, enhance consumer experiences, and mitigate the environmental impact of the fashion industry.

The use case of Contour Lab's shopping tool confirms the above: their technology of managed to **triple conversion rate, increase the average order value with 21% and diminish returns with -16%.** With this, they have managed to add to the profit of their fashion customers while generating a sustainable effect. As a result, they have effectively contributed to the profitability of their fashion customers while simultaneously generating a sustainable impact.

More info on www.contourlab.io

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