



## GAIN A RETURN ON RETURNS

Reduce, resell, reuse – how retailers can transform returns from a profit drain to a growth driver

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# 1. The **returns** backdrop

**UK retailers have just experienced their first Black Friday in three years that has been free from Covid restrictions. With a global cost of living crisis in full swing, however, it was unclear whether shoppers would hold off or take advantage of the bargains to help spread the cost of Christmas.**

In what will be a relief to retailers that the latter scenario seems to have been the case with Barclaycard Payments (which handles £1 in every £3 spend on cards in the UK) reporting a 3.2% uplift in the volume of transactions it handled on Friday 25 November, versus 2021. Cyber Monday transactions were up 5%.

But there's a downside. Just as the law of gravity states that what goes up must come down, with e-commerce it stands to reason that what goes out must come back. Or at least, on average in fashion, about 30% of it does (according to global strategists Roland Berger). So, more online sales typically equals more returns.

In addition, shoppers have been funding their purchases using credit more than ever before (Barclays said purchases on credit cards were up 4.9% this Black Friday while buy now, pay later provider Klarna reported a 30% surge in the use of its platform in the lead up to the event).

Shoppers are therefore giving themselves breathing space to think about whether or not they will keep all of their purchases.

Sadly for retailers, nervous shoppers often experience buyers' remorse and this is leading to record levels of returns to match the record sales. SaaS platform ZigZag, which facilitates online returns for retailers worldwide, said UK returns volume during the Black Friday weekend was up 8% from the same period in 2021, with the value of returns up 5%.

Al Gerrie CEO and co-founder of ZigZag says:

**“The increase in returns is down to shoppers buying multiple items and then thinking a lot harder about returning items they don't want. There is also an interesting trend in the value of the returned items being higher than last year – again pointing towards a more frugal shopper this year.”**

But it isn't just the cash-strapped consumer that retailers need to take into consideration when it comes to returns, it's the pressure returns place on logistics, their profit margins and on the planet too.



# 1. The **returns** backdrop

There have been numerous reports of major fashion retailers delaying new season stock, or taking other measures to clear inventory, in an attempt to shift past season's collections and free up warehousing space. An avalanche of returns ahead of Christmas is not going to help matters.

Global strategy consultants Roland Berger estimates that for every £30 purchase, the cost to the retailer of returns is a massive £20 (see The True Cost of Returns – Section 2), so it's clear that the imperative to reduce returns as much as possible becomes a matter of urgency for many.

Roland Berger is currently working with the British Fashion Council on a landmark study to assess the impact of returns on the UK fashion market's profitability and the impact on the environment.

**“This project recognises the importance of investing in innovation to secure robust and profitable businesses, while safeguarding the planet and society,” explains the British Fashion Council CEO Caroline Rush.**

Ahead of the publication of this study, which is expected in early 2023, there are plenty of actions retailers can take now, not only to reduce returns but use the process as a new business opportunity. In other words by adopting the **3 Rs (reduce, reuse, recommerce)** retailers can not only protect their profits and the planet, but also create a brand new stream of growth.



## 2. The true cost of returns

**According to Roland Berger head of UK retail and consumer goods division Siobhan Gehin increasing returns will cost the British fashion industry £7 billion this year.**

“With online fashion expected to overtake bricks and mortar sales by 2024, returns present a serious challenge for the sector,” Gehin says.

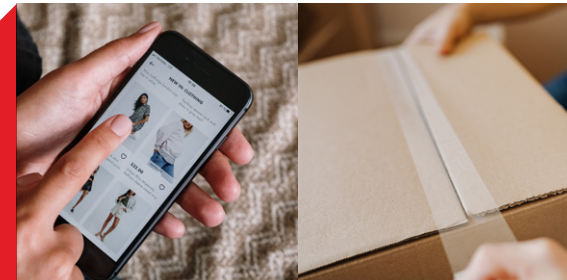
About 3% of returns cannot be resold, according to Roland Berger (but they possibly can be reused, see Section 3 – Gain a return on returns) and often end up in landfill. Furthermore around 10% of returns are ‘fraudulent’, which is largely down to customers buying clothes, wearing them on social media posts (or worse, on a night out), and returning them – a practice known as ‘wardrobing’.

Add to this the need to transport, clean and repackage returns (and in some cases repair them) and Roland Berger estimates the cost of a return for a £30 item can be as much as £20 to a retailer (see chart overleaf).

Furthermore, if an item isn’t returned to sale quickly enough, it can end up on mark-down, eroding precious margin even further.

**“With the online fashion market now worth £32bn, and with around 30 per cent of those fashion items returned last year, and the scale of the problem continuing to grow, reducing this business cost is critical.**

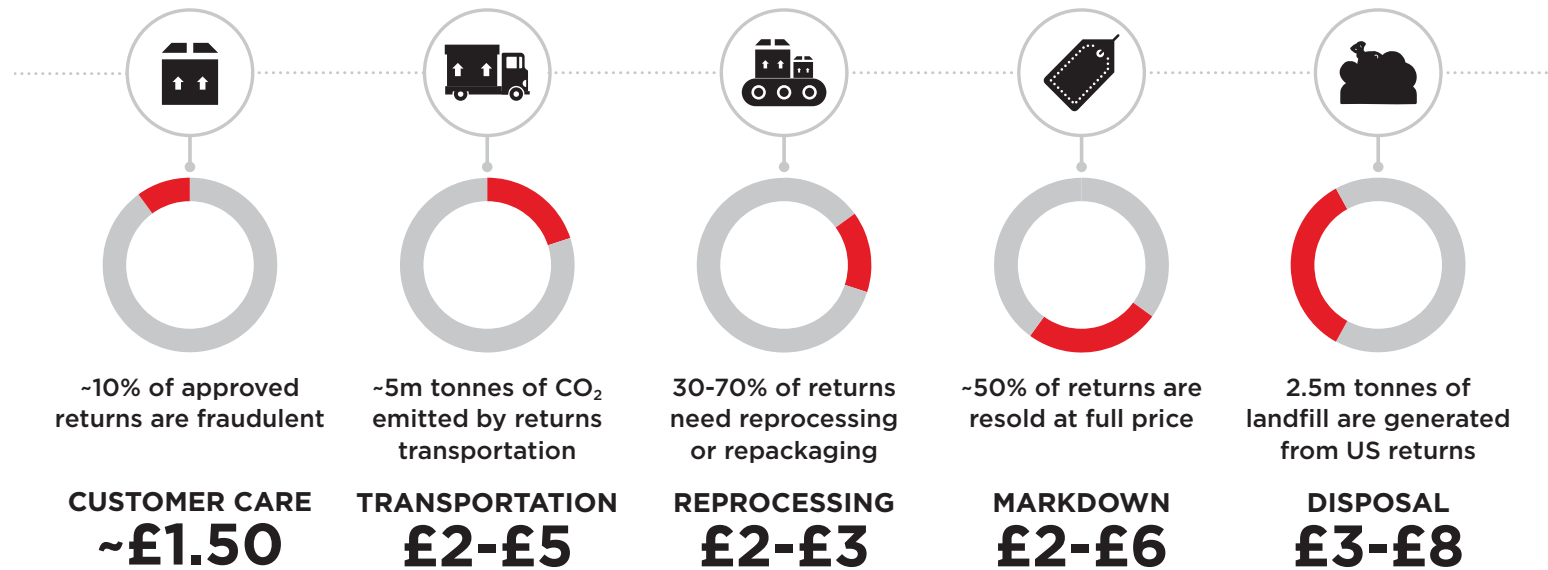
“There is an irony insofar as customers are well-known to favour sellers who make returns easy; therefore, fashion retailers have been driving ease of returns to earn customer loyalty and also get it back into stock ready to re-sell quickly. Returns that sell within two weeks of the original sale can mean the difference between reselling at full price versus having to mark down the item. However, returns have now exploded to an extent where retailers are having to rethink their strategy,” comments Gehin.



## 2. The true cost of returns

Several cost items hide across the reverse supply chain

For a £30 purchase, the average return cost is £20



Source: NRF, Roland Berger



### 3. A return on returns

Returns does not have to mean end of life for a garment, indeed it shouldn't mean the end of its life. There is still value in a garment, even one with a fault, once it comes back from a customer and, by recognising this, brands and retailers can truly enter the circular economy and drive growth for the business while respecting the planet.

#### A) Reduce

One obvious way to deal with the problem of returns is to try to avoid them in the first place. While they can't be eradicated, and nor would retailers want to since offering friction-free returns will convert online sales, they can be reduced via a number of different measures.

The number one cause of returns is due to sizing issues. Customers (especially new customers) will often hedge their bets when ordering, taking two or even three sizes of the same garment with the intention of returning those that don't fit. Clear sizing advice and information on product descriptions can alleviate the problem (a simple "if you are between two sizes, take the larger size" can really help) and there are a raft of tech solutions (such as TrueFit and Sizefox to name but two) that can advise shoppers on which size they should go for based on their measurements and the size they take in other brands.

Failing this, intercepting orders containing multiple sizes of one item before they are fulfilled can also help. This process can either be manual or automated and involves a simple message or call to the customer asking if they need further support on choosing the right size for them. Whichever route or routes brands take to alleviate sizing issues it is crucial to gather data and, where possible, qualitative feedback from clients on any fit issues and feed that back to the teams creating product descriptions, as well as designers and manufacturers.

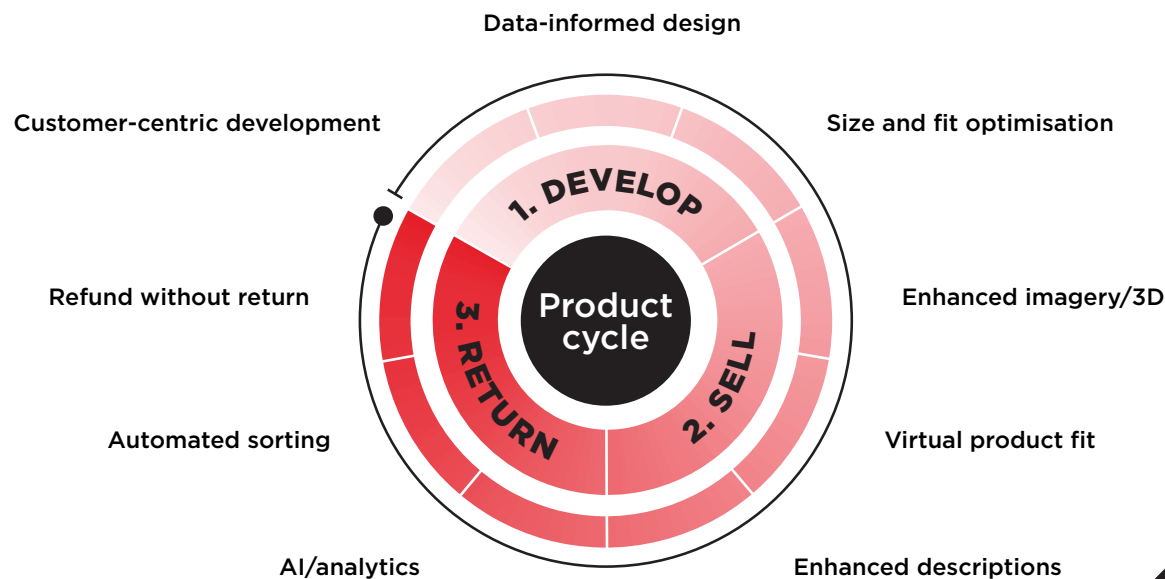
For brands at the premium and luxury end of the market, offering final mile delivery services (in the UK Harper Concierge and Toshi are popular) can help as they enable customers to take delivery of items at a convenient time, try them on and send back those items they don't want straight away. This avoids stock being stuck in people's homes for days or weeks. At a recent round table event held in London by TheIndustry.fashion on behalf of Bleckmann, British retailer Jigsaw revealed it had just introduced the Harper Concierge service in London to great success (the downside of these services is that they are limited to large cities at present).



### 3. A return on returns

Another retailer present at the event takes an altogether different approach encouraging customers to consider the environmental impact of their return. Menswear brand Neem, which is aiming to produce 'zero waste' menswear, encourages people not to send back items by pointing out the cost to the environment of the return in an automated email response to a return request. Of course, if an item is truly unsuitable then the customer will return it, but if it's just a case of second thoughts, then they might be persuaded to keep the item and wear it after all.

Many retailers too have introduced a cost for returning online orders, including Zara and Boohoo, in a bid to deter unnecessary returns. It remains to be seen whether this has indeed reduced the level of returns, but the practice may give those customers who buy items with very little intention of keeping them pause for thought. It can also drive footfall to stores as Zara will not levy a charge for returns taken to stores.



Source: Return Logic, IBM, Secondary research, Roland Berger

Neem<sup>+</sup>  
LONDON



### 3. A return on returns

While it may seem extreme, Roland Berger even advises that some retailers might even consider refunding an order without taking back the return (see chart on prior page). In some limited cases it may be the case that the cost of receiving the return is more costly than asking the customer to keep it (or drop it off at a local store at their earliest convenience or donate it responsibly if they feel so minded).

Some retailers at the value fashion end of the market did this during the pandemic when warehouse space was at a premium (as it is now) and it may make more sense, for some orders under a certain value, to re-introduce this practice to protect margin.

Of course that still leaves open the question of waste and doesn't answer the need to create new growth channels, but in the following sections, we address this.

#### **B) Reuse**

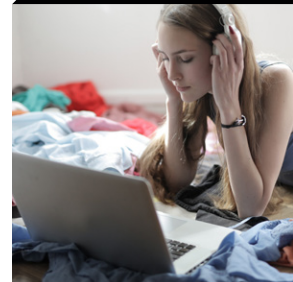
As we have previously learned it is estimated that around 3% of returns in e-commerce are not fit for resale as there may be a fault in the garment. What this can mean is that those items are set to one side and, sadly, may end up in landfill.

Certain repairs such as loose buttons or a loose hem can easily be repaired in the warehouse, providing you have the right logistics

partner, and a garment can be placed back on sale quickly. If it is a fast-moving line or an ever-green item then taking this approach will maximise sell-through at full-price and protect margin.

Earlier this year, Bleckmann acquired US-based The Renewal Workshop, which can restore damaged and care-worn clothing to its former glory. The addition of this service allows Bleckmann to power circular business models for its clients. Research from The Renewal Workshop shows that brands can achieve an average reduction of 51.5% in carbon emissions by renewing an existing product instead of producing a new one, so the environmental benefits are very clear, as well as the financial ones of considering introducing such a model.

But where repair is not possible, there are other options for driving revenue from returned items and for burnishing your environmental credentials. Brands such as zero waste UK menswear business Neem (mentioned earlier in the report) take returned items and waste from major retailers and recycle the fabric, taking it back to the fibre, and transform it into a brand new item.





### 3. A return on returns

Where retailers may not have the time or resource to recycle items themselves, there is always the possibility of selling or donating returned items that cannot be resold, to smaller brands who can use that fabric to generate something new.

Japanese giant Uniqlo, for instance, takes back items (either used or returns) at its brand new Regent Street store in London and those that cannot be resold are donated to students at nearby Central St Martins college who can use the fabric to create their own designs, and there's a repair centre in-store where customers are encouraged to take items to be refurbished.

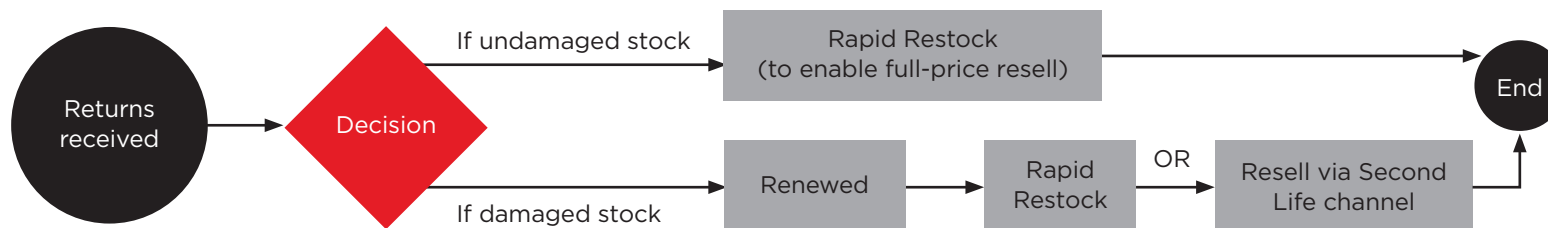
Knowing that an item can be restored and repaired is a great driver for sales of new product as it gives the customer confidence that a garment can live a long life and provide value for money.

#### C) Recommerce

If a repaired item is less than perfect or a returned item is not in pristine condition, it can still enjoy a 'second life' and generate revenue for retailers. More and more retailers are taking control of their own resale (and rental) propositions to ensure a positive brand experience and to drive growth for their business.

Returned and repaired items are increasingly finding a new life by being sold in dedicated resale sections of brands' website. Some of the product in these sections have been worn and 'sold' back to the retailer (often retailers will offer credit on new purchases for the return of old ones) but some of the product has simply been returned and never worn.

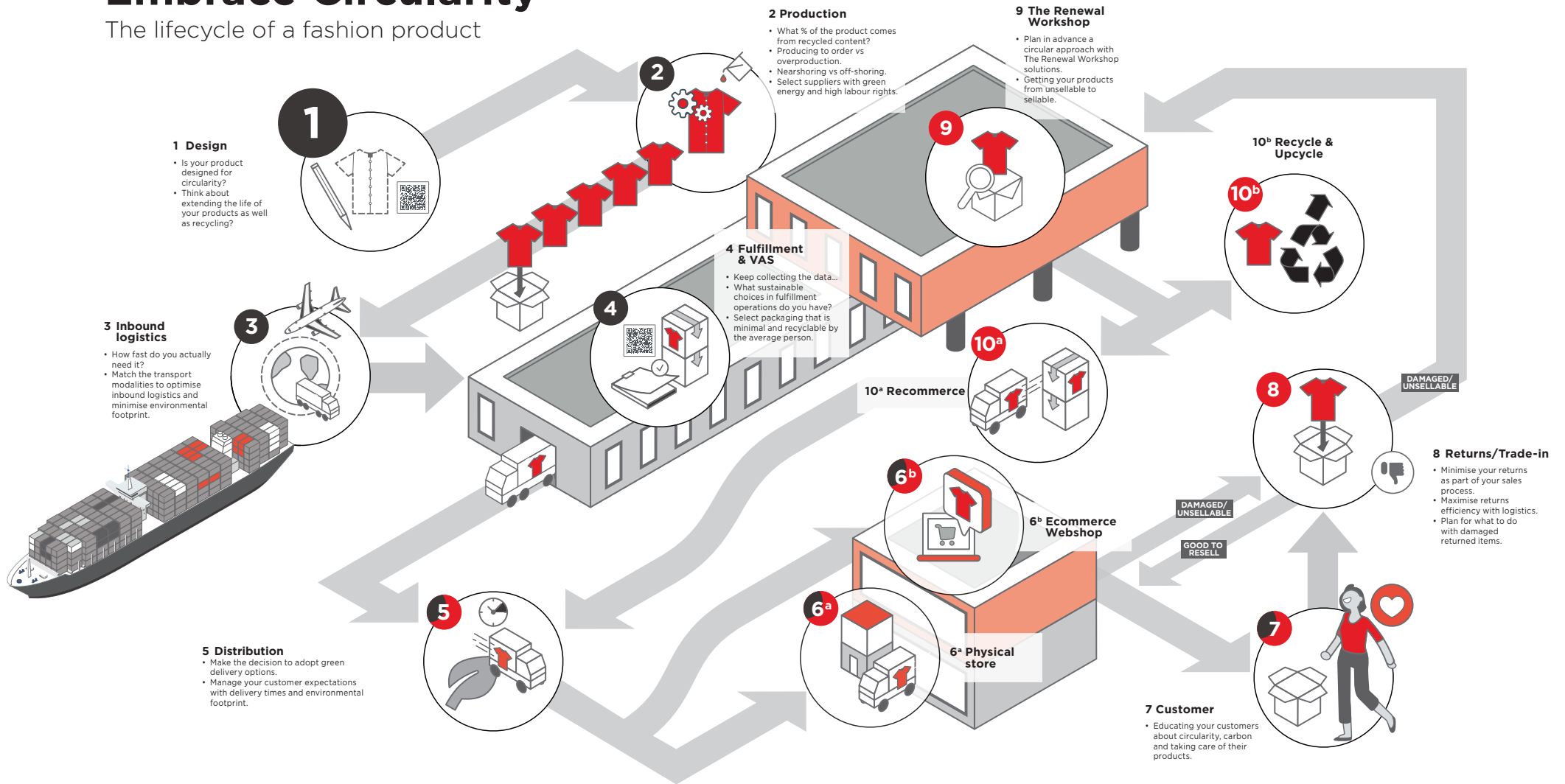
#### Circularity in Returns



# 3. A return on returns

## Embrace Circularity

The lifecycle of a fashion product



Source: Bleckmann

### 3. A return on returns

Roland Berger estimates that by the mid-part of this decade (in 2025) most of the growth in the mainstream fashion market will be generated by circular business models so it is no surprise to see big names such as Selfridges, Hugo Boss and Marks & Spencer, along with luxury houses such as Alexander McQueen, all launching resale propositions of late.

**“The global second-hand clothing market is growing 11 times faster than traditional retail and – if that growth rate continues – will be bigger than fast fashion by 2030.**

“Much of that growth is driven by online peer to peer models like depop and eBay. It is also fuelled by the fact that consumers can not only buy more sustainably and affordably, but can also sell their own used clothes on those platforms.

“So, it is a very attractive model from a consumer perspective, and it’s no wonder that retailers and fashion brands are starting to take this very seriously,” says Roland Berger’s Siobhan Gehin.

One word of caution sounded by Gehin is that for brands with a lower-priced proposition, the economics of running your own secondhand sales service may not stack up. But that doesn’t mean you can’t offer it at all, it may just mean the best route is to partner with an existing platform to power the service and take

the legwork out of it for you. It will also send the right message to the consumer that the brand cares what happens to its clothes once they have been sold (indeed brands may be forced to care since the EU is debating legislation that could place responsibility for end of life disposal of clothing on the original seller).

Nirvana for brands would be to achieve growth while simultaneously reducing the volume of new clothes they produce. That, says Gehin, is the “acid test” and “that will definitely be something to watch in the coming months and years.

**“From a sustainability point of view, the fundamental problem is over-production and over-consumption. The number of units of clothing produced globally doubled from 2000 to 2017 and is continuing to grow exponentially, as the number of wears per item declines.”**



### 3. A **return** on returns

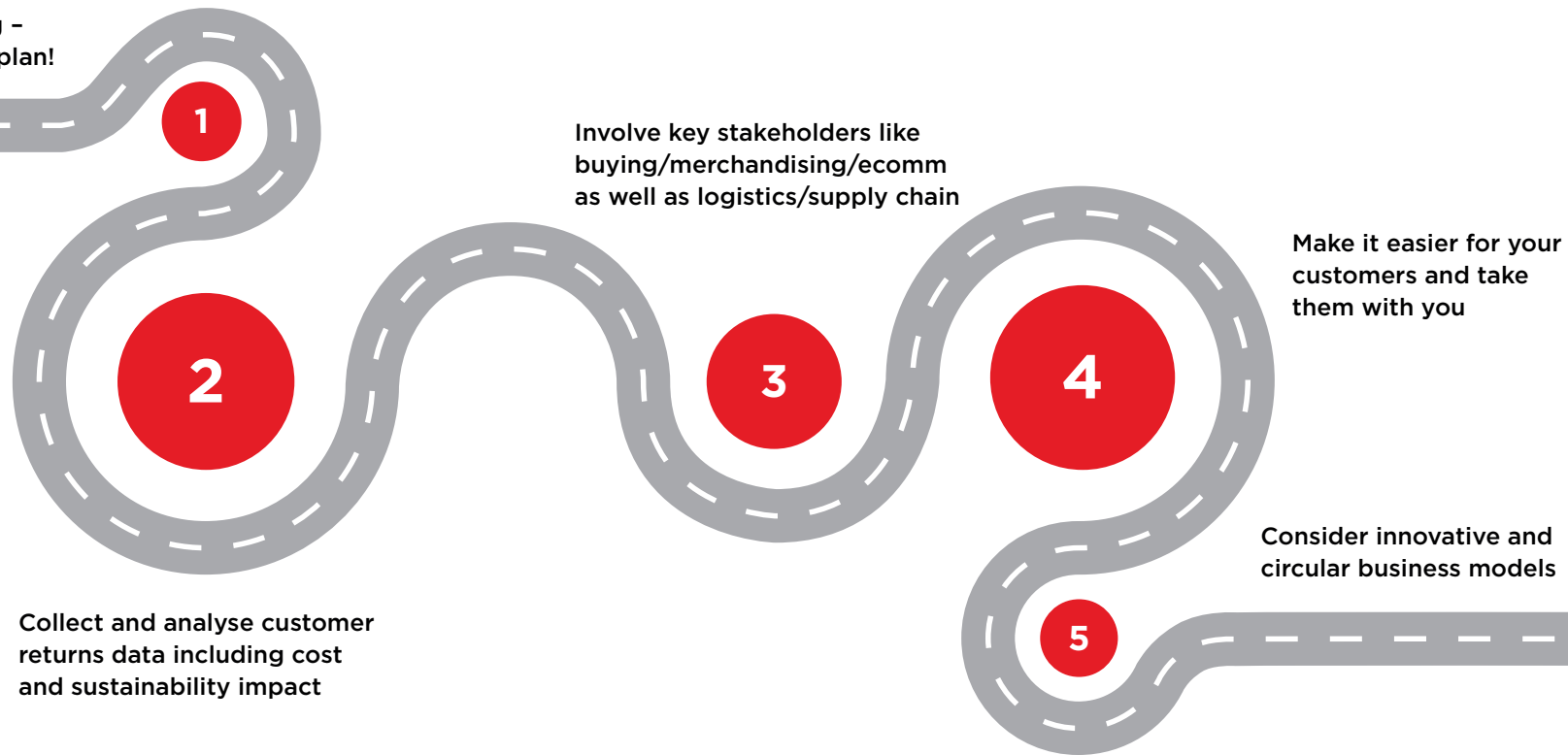
#### Action plan

If your action plan on returns is to cross your fingers and hope you don't get too many, then you're in for a tough ride.

Reducing returns where possible is a must but now really is the time to start integrating returned products into your business model and strategy to drive future business growth.

To make a true success of it, you need to bring your customers, as well as your suppliers and partners, on the ride with you and you could just open up a whole new world of opportunity for your brand without the need to create more new product.

Returns are growing -  
you need an action plan!



Source: Roland Berger

# Contact us

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## About TheIndustry.fashion

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We also partner with businesses looking to reach our audience via engaging and targeted content, such as features, podcasts, consumer research and special reports, as well as small and large-scale events.

**To find out more about how you can partner with us, please contact:**

**Antony Hawman, Co-founder and CPO**  
antony.hawman@theindustry.fashion  
**M: +44 7914 277922**

[www.theindustry.fashion](http://www.theindustry.fashion)

With thanks to



## About Bleckmann

If you have any questions about how Bleckmann can support the future growth of your business as well as work with you on a returns solution by utilising The Renewal Workshop, please contact:

**Leon Pepper**  
Sales & Business Development Manager

**M: +44 7498 887010**  
leon.pepper@bleckmann.com