

# RETURN TO SENDER

Retailers must prepare for the increasing consumer demand of try-before-you-buy programs

by SANDY SMITH



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**T**here is no doubt that today's consumers are increasingly demanding and fickle to boot. They're not altogether loyal. Now, they want to try on products in the comfort of their home and easily ship back what they don't want. You'd better not charge them for shipping or returns — and forget about charging them for an item until they decide they want to keep it.

Retailers that have learned to navigate this — Stitch Fix, M.M.LaFleur and Trunk Club among them — have seen success. All signs point that more will follow.

New research from Brightpearl — a backoffice automation software firm — finds that one-fourth of retailers could adopt some form of try-before-you-buy by 2019. And for good reason: Two-thirds of retailers with 250-499 employees say this behavior has grown in the last year — especially among shoppers between the ages of 25-34.

Still, it is not an easily mastered approach. Shipping costs threaten to cut into an already tight margin. Other perils await in areas like fraud and inventory.

“What we wanted to highlight with this research is the hidden dangers to retailers that have an online business,” says Justin Press,

Brightpearl USA vice president. “While benefits of try-before-you-buy have been widely covered, we believe that the effect hasn't. Retailers are already reaching a crisis point with returns being squeezed. This will only squeeze margins even further.”

Even if a retailer has no formal program, one-fourth of shoppers surveyed say they had bought multiple items with the intention of returning some.

“Consumers are demanding this,” says Eric Moriarty, vice president of B-Stock, an online marketplace platform for bulk liquidation. “It's really competitive out there, and companies are doing everything they can to capture the mindshare of the consumer. One of those is offering really lax customer return policies. Try-before-you-buy is that approach on steroids.”

Despite the numbers, “retailers are thinking about how they deal with their incoming sales demand,” Press says. “None of them are thinking about how they deal with the returns process. They have systems in place to handle omnichannel selling but are not thinking about omnichannel returns. Try-before-you-buy is going to triple return costs. That is a serious concern for retailers, and the vast majority are drastically unprepared.”

### MANY HAPPY RETURNS

Whether the retailer offers a formal try-before-you-buy program, or just deals with the fallout of a shopper who chooses to order multiples and return what doesn't work, the complications for retailers are vast.

“Everything is speeding up,” Moriarty says. “With fast fashion and try-before-you-buy, companies are swapping out inventory more quickly. If you're pulling it off the shelf more quickly, where does it go? You have to have a methodology for getting rid of that and not getting killed on price if you're not putting it on the shelf, and you can't just throw it away anymore.”

B-Stock's belief, Moriarty says, is that within a decade, returns will approach a trillion dollars. “Think of the impact that will have on warehouses. If you don't have some way that efficiently moves that inventory you're in big trouble. There is discussion about the importance of being able to process those returns. There are technologies that do that. One of the things that you're hearing from these companies, one of the biggest impacts, is the impact on margin. If you do not have an effective and efficient method for liquidating this inventory, it's going to be tough.”

Press anticipates an increasing need for warehouse visibility. “Retailers have to build a single source of information around the customer returns,” he says. “If you know what items have been returned in the past, this will help with the accuracy of inventory forecasting. If they centralize the data, they can preauthorize the returns to get the returns back in faster.”

It may sound like a huge pill to swallow. But retailers that look only to minimize the impact miss the opportunity that the trend holds. “If you can get the right strategy, there is opportunity,” Press says. “Customers say they are more likely to order three to five items if the return policies meet their expectations. The key is to capitalize on this without cannibalizing margins.”

And the answer is not in charging for returns. The Brightpearl study found that 48 percent of retailers charge for returns — up from 39 percent

the year before. “That certainly is an option, but it's at odds with the demands of customers and they will find themselves unable to compete.”

### NOT JUST FOR ECOMMERCE

While the initial innovators in the try-before-you-buy trend are ecommerce operations, there is a role for bricks-and-mortar. Nowhere is that more on display than at b8ta, a retailer with 10 stores throughout the U.S. where consumers can touch and see the latest in tech. b8ta also is in 70 Lowe's stores throughout the country and in Macy's flagship in Herald Square.

b8ta focuses on showcasing products — not on sales. In some cases, the product isn't even available at the store. That's by design, says founder and president Phillip Raub. “Consumers should be able to make the purchase where it's most convenient, where they have two-day shipping or a loyalty program. The idea is that you shouldn't feel that something was pushed on you, but that you made the proper decision and on your own terms. It's about education and discovery.”

b8ta makes its money not by selling the product but by demonstrating it for the manufacturer. “The internet has created the ability for us to see many new products, whether that's in apparel, consumer electronics or home furnishings,” Raub says. “If you were to go online, you would be completely overwhelmed.”

He sees a need for retail space to “evolve” where physical space enhances the opportunity to discover. It might just breathe new life into the mall concept. “People are wanting to be entertained. They may not necessarily be in a shopping mode, but just out having a good time. They want to have the experience to discover something new and try it out. But they may not be inclined to buy it. They may not want to carry it around the mall.”

It also is a way for retailers to monetize without the challenges of showrooming, where a customer explores the product in store and then purchases online to save a few bucks. b8ta stores range from 2,500 square feet — the “sweet spot,” Raub says — to 200 square feet.

The b8ta stores, then, allow customers to try out products without the pressure to purchase. This also ups the requirements for the store's associates, which are called b8ta testers, to be know-it-alls on the highly technical products. “They are very highly educated and trained individuals,” Raub says. “We require that all of our makers do extensive training sessions with our teams.”

The teams use tools like the messaging app Slack to connect with other b8ta testers. “Everyone has visibility with everything that's happening with the



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stores,” Raub says. “If someone has a question, ‘I have a customer who wants to know this,’ the whole community responds.”

Allowing customers to explore everything from an e-bike to an air purifier without the pressure to purchase is the latest evolution in the changing face of retail, Raub says. “You can’t just purely think

of your stores as that last mile point of commerce. Consumers don’t think of it that way. They don’t say, ‘this is online or offline.’ They think of it as a means of commerce.”

#### OUT WITH THE OLD

While b8ta might have found a way to eliminate the returns that go with try-before-you-buy, it still is a challenge for many retailers, especially with an average of four returns per customer per month.

“The cost of processing those returns, in terms of paying to ship the item to the customer and back — you can only do that so many times before the cost of the shipping is more than what you’re selling it for,” Moriarty says. “There is an economics of the try-before-you-buy model at some point, where you have to accept that the market doesn’t want to buy this.”

That’s where liquidators come in. Companies like B-Stock enable retailers to offload liquidation inventory by the pallet or truckload. B-Stock offers a platform for its customers to sell products directly to business buyers via their own branded auction site.

B-Stock works with nine of the top 10 retailers in the U.S. “The majority of the inventory that’s being sold in our network is returns,” Moriarty says. “It’s not just overstock inventory.”

An effective liquidation program offers a way to capitalize on what Moriarty terms “bottom-line recovery.” “There are high costs associated with processing inventory back on shelf or selling a single item at deep discount. When you’re getting that kind of recovery in your liquidation solution, the economics of these programs start to work. You can offer this try-before-you-buy because you have a very liquid secondary market solution to sell excess inventory and get a decent return.”

There is a limit to returns, whether try-before-you-buy or traditional, Moriarty says. “If an item is returned five times, chances are, people don’t

want that item,” he says. “Very quickly, you can run yourself out of business. It’s unprofitable territory.”

#### THE FRAUD CONSIDERATION

More broadly, returns are an area rife with fraud. Tom Rittman, vice president of marketing for the data and analytics company Appriss Retail, puts the figure at about 9 percent of items bought online and returned in store. As returns increase, it’s only natural to expect that fraud will increase along with them.

“Because we know how much fraud exists, we expect that there will be that amount of fraud anywhere,” Rittman says. “We have seen studies that there is more fraud with items purchased online. We would expect a commensurate increase in fraud.”

That means a more nuanced understanding of customers is important. “The difference between a great customer and a deviant shopper is more than how many items they buy and return,” Rittman says. “They should be looked at in the different items that they buy, the times of day and month, how long they keep it before they return it, where they return it.”

Subscription-based programs like Stitch Fix are less likely to encounter fraud, Rittman believes. But like try-before-you-buy — whether driven by the company or the customer — it still requires retailers to have more insight into their returns.

“Not all returns are bad,” Rittman says. “If the customer returns it to the store, that’s a time when a retailer can try to convert them. Our theory is that returns are part of retail, whether bricks-and-mortar or ecommerce. There’s always going to be some fraud. But the people who make the most returns are often the best shoppers. You want to understand who the shopper is, mitigating the risk of fraud and maximizing the potential for new sales.”

That ultimately is the benefit of try-before-you-buy — at least when everything else is handled correctly. Customers say they will buy more. The Brightpearl study found that almost one in five shoppers say they would buy more items if try-before-you-buy was an option. Half say they would consider making more purchases.

“It’s a challenge, for sure,” Press says. “But if they can find the right solution, it becomes an opportunity.” **STORES**

**Sandy Smith grew up working in her family’s grocery store, where the only handheld was a pricemarker with labels.**