

Chapter 10

Predicting Online Returns

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ABSTRACT

The E-commerce industry is growing year on year in double digits. But customers today are not only buying more through their computers, they are also returning more. The volume of these returns is such that it just can't be ignored. E-tailers today are following many practices to handle these returns but the 'predictability' factor is still missing from their approaches. This paper tries to fulfill that void. The framework suggested in this paper will help the E-tailers to predict the probability of a particular item being returned by a particular shopper. The idea is that if the E-tailer will know the probability of return during any transaction he/she would certainly be better equipped to handle the situation.

INTRODUCTION

This is the era in which shopping paradigm has seen the biggest shift in the way people approach shopping itself. Today the most avid of shoppers spend more time browsing at online shops rather than window shopping at a brick and mortar store. So what is that has caused this shift? Among other things, the lenient return policies from the 'E-tailers', has been the enabler for such a dramatic shift. These return policies have strengthened the bond of trust between the retailer and the consumers. The initial users of online purchasing were skeptics of buying items without seeing, feeling, touching, or trying them out or trying them on. But with almost no hassle return policies, the buyers are more open to experimenting with their purchases online. After all they know that if the product does not meet their standard of quality they won't be forced to pay for them. These reassured users have boosted the online sales of products many folds. However, the excerpts from different studies, that will be discussed later, show that it is not only the online sales that have grown but also the numbers of 'Returns'. And of late, handling these 'Returns' has become the biggest pain for online stores. The trends look to bloat these numbers in coming years and eventually hit the gross margins more badly.

Online retailing has soured over the last decade as it offers many benefits to the consumers. Unfortunately, the rate of returns of online products is alarming highly, which then eats into the profit of e-commerce retailer, who already operate on very thin margins. According to Invesp infographic on online

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return rates statistics group, at least 30% of all products ordered online are returned compared to only 8.89% bought in brick-and-mortar shops. Around 49% of retailers offer free return shipping.

Customers love return policies, both in stores and online. Now e-Retailers use this information and provide easy return policies, as a tool to compete with physical stores (Che, 1996). They have been able to do so successfully. Simply discarding return policy is no more an option. On the other hand these policies eat into the profit of the companies. Companies need a balancing act between providing returns, and yet keeping the rate low. The first step towards finding the right strategy will be for the company to be able to predict the returning behavior of its customer (Cassill, 1998).

This paper does exactly that. In this paper the author suggests a model to predict returns of products among customers with high return rate.

BACKGROUND

It has been just two decades since the first secure online retail transaction (by NetMarket or Internet Shopping Network) occurred in 1994, and the online shopping industry has exploded. However, the debate between which one is better and preferred by consumers hasn't been put to an end. Online shopping has certainly seen a growing trend, but it doesn't seem like it will replace regular offline shopping anytime soon. So what are the criteria under which a user decides the Place of his/her purchase, whether it is going to be online or at a physical store? These are convenience, variety, immediacy, quality, the experience, discounts and offers, personalized attention and recommendation from sales staff, and of course pricing, to mention a few (Abbasi, et. al. 2010).

Let's look at these in detail to see how shopper behavior is affected by these considerations, or by perceptions of these. On convenience scale, online may be a tad bit better placed than the physical store, although it may seem cumbersome to people who do not use or haven't been using technology (Agarwal, 2014). Online provides access to products with just a click of a few buttons, which can be done on the move, and at anytime of the day (Chen, 2009). On Variety front, online surpasses the offline stores by a huge margin. Most of the online retail stores act like aggregators storing only bare minimum inventory at their warehouse, if any at all, and sourcing others from the manufacturers or sellers as when there is a requirement. The lack of need to store products translates into exponentially higher storage of products (Aguilar, 2010). Thus the user gets to see different products from multiple companies all at the same place. Discounts and Offers are based on real time, and cannot be fairly compared. The offline stores beat online ones comprehensively when it comes to immediacy needs of people, the product sold at an offline store is ready for use as soon as the customer pays for it (Zhang et. al., 2010). Offline stores also provide recommended buying, especially for high valued items and items related to display of wealth, prosperity or lifestyle. E.g. while buying dresses, drapes, paintings etc people prefer to get another person's opinion on what is 'in'. Sometimes it is difficult to describe what it is that you are looking for, and recommendation from sales staff is one key to finding the right item (Anderson, 2009). Next, points for quality of product ideally should have been same for both online and offline stores, as the source of supply for both of them is the same, but is not. At least the perception of Quality is definitely not the same. The reason is the experience of being able to see, touch, feel, and try the products, before having to commit to pay, techniques to gauge quality of a product is definitely much higher in Offline stores (Yu, 2008). To combat the quality perceptions many different retailers have resorted to offer offline experiences, such as opening up retail stores, or simply giving the customer an option to ask for trial

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