Why you're going to pay for the online shopping returns mess

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One of the foundations of online shopping has been free returns, but not anymore.

After years of subsidizing them, more retailers are charging customers to send back unwanted goods. It's a risky move because shoppers have become accustomed to buying an item in multiple sizes and colors and returning what doesn't fit for free.

The list of retailers cutting back includes Zara, Abercrombie & Fitch and Boohoo. In the US, the number of large retailers requiring a return fee has jumped from 31% to 40% this year, according to research by Narvar, a logistics software firm.

"I do expect others to follow," said Honor Strachan, an analyst at research and consulting firm GlobalData Plc. "It only takes one, and the others will think: 'Well, if Zara can do it, we can do it, too.'"

The pullback on returns comes after the e-commerce sector spent the past two decades removing costs from supply chains and customer service. But returns had barely been touched, leaving them as one of the few places with lots of room for reducing expenses. They are costly because of the labor to have them shipped back, inspected and put up for resale.

Investors are also clamoring for online businesses to boost profitability (or be profitable) in a shift from incessantly focusing on growth.

The pandemic played a role, too, causing a spike in online shopping—that has since receded—when the masses stayed away from physical stores. That meant more returns, and COVID-19's disruptions created an inventory glut in categories such as apparel, which is expected to increase discounting and the potential for shoppers to return goods when they see better deals.

A volatile economic environment this Christmas shopping season has added to the pressure.

Consumers experiencing the highest inflation in four decades are more frugal, increasing the chances that they second guess a purchase and return it, according to Amit Sharma, chief executive officer and founder of Narvar. Higher costs for transportation, energy and labor have made returns even more expensive, raising the stakes for chains to change behavior.

"That's the big question: How do we reset expectations?" said Sharma, who previously held senior roles at Apple and Walmart. "Everybody's losing money on shipping and returns."

Online retailers realized early on that they needed to win the trust of shoppers before they would hand over their credit card number to a website and buy a product they hadn't seen in person. Free returns helped make consumers comfortable. An early adopter was shoe retailer Zappos, now owned by Amazon, which let customers order multiple sizes and return what didn't fit without any extra fees.

The industry followed, and now weaning the masses off free returns will be difficult. The practice of buying several items online to try at home—now known as bracketing—increased during the pandemic when fitting rooms were closed. About two-thirds of US shoppers engage in the practice, according to a survey this year by Narvar.

Social media platforms such as TikTok and YouTube have made bracketing more popular thanks to so-called "try on haul" videos where followers are asked to comment on whether the buyer should keep or return their purchased items.

Return fraud, with tactics like returning a counterfeit item, is also rising. In the US, about 10% of the $761 billion in returns made on all purchases last year were fraudulent, according to research by the National Retail Federation, an industry group. And online purchases have a higher rate of return at nearly 21%, up from 18.1% in 2020.

Retailers increasingly view returns as a threat to their businesses. ThredUp, recently said return rates are increasing, causing a $3 million hit to sales in its most recent quarter. And the online resale platform charges $1.99 for what it calls a "restocking fee" if a customer sends an item back.

Earlier this year, London-based Asos slashed its annual guidance, saying that a significant rise in returns in the UK and Europe hurt sales. It added that rising returns coupled with inflation have a "disproportionate impact on profitability," but said it would keep returns free for customers.

Chains are employing a slew of tactics to reduce the financial hit. Some are shortening how long a shopper has to bring back an item. Bath & Body Works said it will not allow the return or exchange of products that show "excessive wear and tear," a notable switch from the personal care brand that has famously let customers return used products.

An approach being taken with low-value goods by retailers such as Amazon and Target is refunding a return, but letting the customer keep the item. In this case, the retailer is calculating that it will save money to avoid the costly process of trying to resell a returned good. It's a strategy that's catching on, with the number of merchants using the tactic jumping 1,700% in the first half of 2022, according to Narvar.

Of course, these tactics don't address the main reason so many online purchases get returned: fit. The industry has tried to use technology like augmented reality to help shoppers make better choices with virtual dressing rooms, but those tools haven't been widely adopted despite lots of investment.

"Sizing is a big problem to solve in e-commerce, especially with apparel," said Katia Walsh, chief strategy and artificial intelligence officer at Levi Strauss & Co. "It's something that companies have to solve, and we are doing our best to do that