

# Amazon Signals a Renewed Interest on Return Rates

BY MEIR AREMAN AND MARIA PLATA, TRANSACTION

MAY 2023

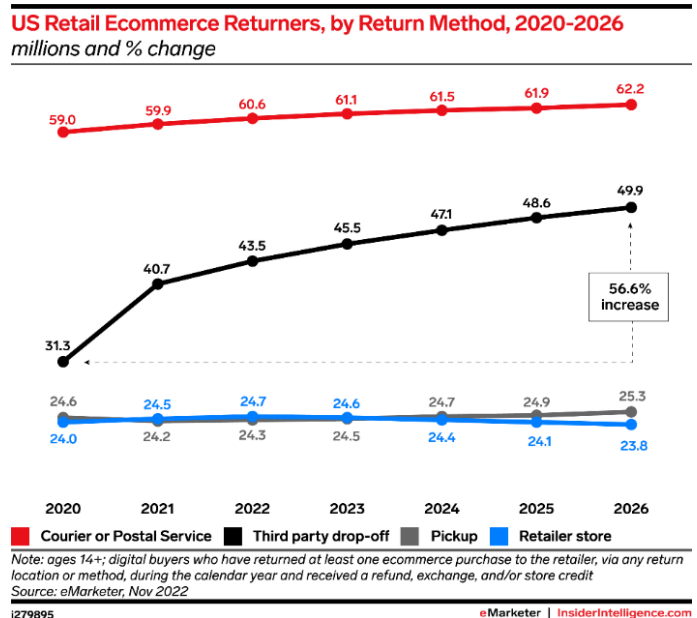


Increased online shopping has led to increasing customer returns numbers. Amazon is working to reduce returns, their latest efforts include [a new return policy](#) encouraging local returns, and a [frequently returned warning](#) on product detail pages. Although high return rates are concerning, the reasons for them provide an opportunity for brands to improve their logistic processes.

## The Trend of Higher Returns

Return rates soared during the COVID pandemic with increased eCommerce purchasing. In 2022, [32% of Amazon Sellers experienced higher than normal returns](#) even though supply chain issues had improved from 2021. In early 2023, [return rates remain above pre-pandemic levels](#).

If supply chain issues are generally improving, why are Amazon Sellers still experiencing high returns? The simplest explanation points to COVID's lasting impact on customer buying behavior - more product bought online and shipped equals more customer returns. Amazon is making returns more convenient by providing additional physical in-store options (e.g., Kohls), but we think it goes deeper.



## Shipping

Many products sold online are traditionally designed for in-store and can't withstand individualized shipping. The bumps of transit often result in mispacked products becoming damaged or permanently broken.

The average return rate on Amazon varies by category but usually between 5% and 15%. Some categories with high trial (swimsuits, dresses, electronics, etc.) can have return rates over 50%, which makes the cost of shipping over time unsustainable.

## Customer experience

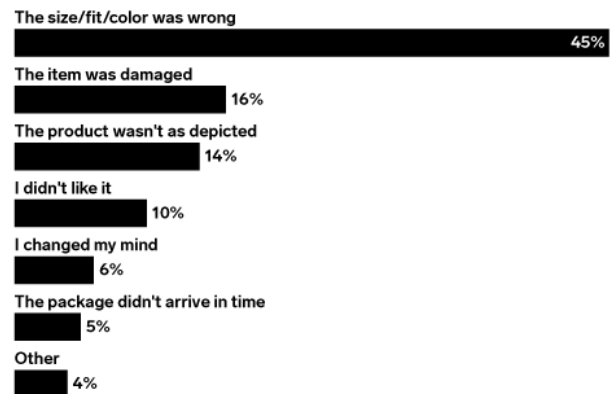
Some categories (food, beauty) do not allow returns for health and safety reasons; returnless refunds are deducted from seller.

For others like apparel, the customer need to experience a product has not been solved. Amazon has 'Try Before You Buy' (for Prime Members) and even some AR/VR integrations. Still, it is not possible to perfectly replicate the look, usability, or feel of a product in hand.

Items returned and resold also have the potential to negatively impact some key metrics around customer trust (e.g., used, sold as new, counterfeit).

### Leading Reasons US Adults Initiate a Return, July 2022

% of respondents



Note: ages 18-65; who returned at least 1 purchase in the past 6 months  
Source: Narvar, "2022 State of Returns," Oct 31, 2022

279708

eMarketer | InsiderIntelligence.com

## A Focus on Increased Energy and Inflation Costs

- Amazon is implementing guardrails to make the return process more sustainable and less costly. Multi-year inflation plus rising energy prices have translated into higher costs in production, transportation, and storage. Amazon has been working to streamline logistics via Andon Cord pulls, and the push to decrease return rate is an obvious next step.
- Recent Seller example: Amazon is flagging products as a 'Frequently Returned Product'. By adding this tag, the company hopes that customers will be watchful and read the product information, description, and reviews before buying.

Since few products have received this label and Amazon has not disclosed its formula, we expect Amazon is testing. It is interesting that at the same time this label appeared in March, [Amazon added a 'Return Insights' tool](#) on their 'Manage FBA Returns' page. While there are some gaps in this current rollout (no single view and no automated alert system), Amazon is clearly pushing brands to improve return floors.

*"[At Amazon] we're currently showing return rate information on some product detail pages to help our customers make more informed purchase decisions." a company spokesperson says.*

- Recent Customer example: [Amazon is now charging customers \\$1 when returning items via the "UPS Dropoff"](#) option if there is an Amazon drop-off location equidistant or closer than a UPS Store. This \$1 dollar fee works to offset the return costs of using a third-party service. It also encourages customers to choose the closest Amazon drop-off option.



## Our Take on What's Next

- Increased returns and potential penalties are concerns, but also foreshadow opportunity. Amazon is publicly signaling customers to return closest location (especially Amazon O&O), and sellers to improve their product and logistics.
- Vendors and Sellers must be proactive – monitor your return rate percentage and watch for increases. For vendors, return rate and unsellable rate are direct inputs into Amazon Vendor Negotiation (AVN) so improving return rate can influence your AVN and improve customer experience. It's a rare place where improvement can have multiple impacts on bottom line.
- If a brand's percentage is high, strive to reduce return rate by addressing shipping logistics such as box resistance & product cushioning, product quality, and improving product detail page content to address purchase barriers. A conversation on eCommerce designed packaging importance and testing wouldn't hurt either.



Contributed by Meir Areman, Director of Retail Platforms and Maria Plata, Commerce Associate at [TRANSACT](#), Omnicom's practice dedicated to providing connected commerce consulting and eRetail services.