

ONLINE ORDERING'S RETURN ROUND TRIP:

**DO DISCOUNTS CHANGE CONSUMERS' MINDS
ABOUT RETURNING HOLIDAY PURCHASES?**



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TRIP

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INTRODUCTION

IN SOME WAYS, 2020 HOLIDAY SALES SURPASSED EXPECTATIONS.

Some estimates pegged retail sales growth at 3 percent year-over-year from 2019, aided by the fact that consumers started their holiday shopping sooner, finished later and sustained a healthy level of spending throughout. This growth was despite the high unemployment rates and broader economic uncertainty brought about by the pandemic that had been beating and battering the retail industry since March. The 2020 retail season, in essence, was a Hail Mary for the retailers that were open for business.

This holiday season was different for another reason, too: It was the first digital-first holiday season. PYMNTS research conducted on December 29 shows that 89 percent of consumers ordered at least one gift online for the 2020 holiday season, and roughly half did all of their shopping using digital channels. With that rise in digital sales comes a rise in returns, however. This same research shows that two out of three consumers who made holiday purchases in 2020 have already returned at least one of the items they purchased or plan to do so in the near future.

For Online Ordering's Return Round Trip: Do Discounts Change Consumers' Minds About Returning Holiday Purchases?, PYMNTS surveyed a census-balanced panel of 2,268 U.S. consumers to better understand the nature of holiday returns for 2020's digital-first holiday shopping season. We wanted to probe why consumers returned their purchases, the drivers of holiday returns and what, if anything, merchants can do to mitigate those returns' financial impacts.

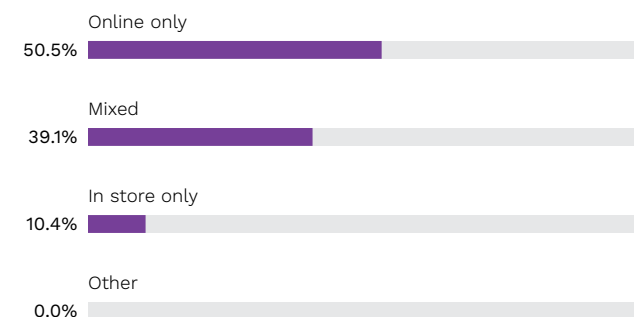
We found that offering consumers a discount of as little as 5 percent could persuade 39 percent of consumers ready to return an item to keep it, 10 percent boosts that to 45 percent, saving merchants the cost of returning, restocking and remerchandising that product. A discount of 25 percent to 30 percent would be enough to persuade consumers inclined to return an item due to quality concerns to also change their minds. This is even true for consumers who report that returns for items purchased online are easy to complete and that they do not mind handling them, regardless of price.

This is what we learned.

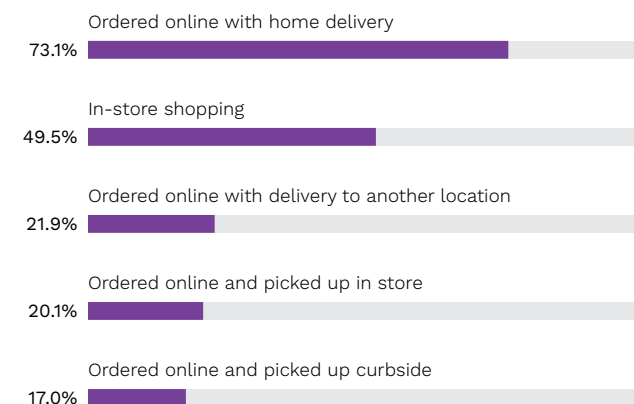
Nine out of 10 holiday shoppers bought at least one item online during the 2020 season. Fifty percent of holiday shoppers made all of their holiday purchases without ever setting foot in a physical store.

The 2020 holiday shopping season was the most digital-first shopping season on record. Eighty-nine percent of all 2020 holiday shoppers made at least one of their seasonal purchases online, with half of all shoppers completing all of their holiday purchases without ever setting foot in a brick-and-mortar store.

FIGURE 1:
HOW HOLIDAY SHOPPERS MADE THEIR PURCHASES IN 2020
Share of holiday shoppers that used select methods to make their purchases



Share of holiday shoppers who made at least one holiday purchase using select methods



51 PERCENT OF HOLIDAY SHOPPERS BOUGHT ALL THEIR HOLIDAY PURCHASES WITHOUT EVER STEPPING FOOT IN A PHYSICAL STORE.

Two-thirds of all holiday shoppers have either already returned or expect to return at least one of their holiday purchases. The same is true for nearly three-quarters of millennials, bridge millennials and high-income consumers.

Sixty-three percent of all consumers who made purchases this holiday season have either already returned or expect to return one or more purchases made online over the holidays.

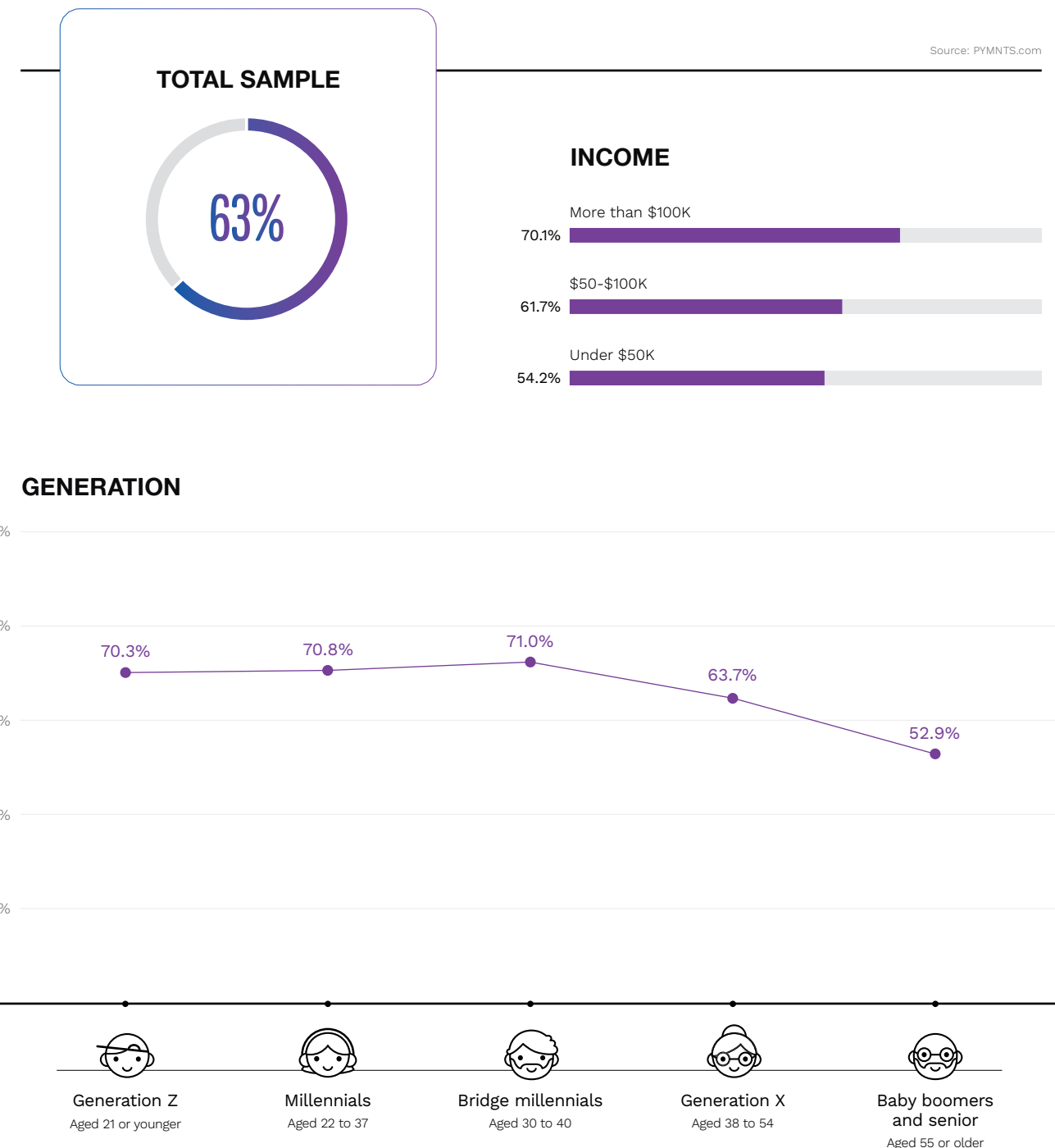
Seventy-one percent of all millennial and bridge millennial consumers say they have either already returned or are likely to return items they purchased this holiday season. This compares to 64 percent of Generation X and 53 percent of baby boomer consumers.

High-income consumers are also among the most likely to return purchases they made over the holidays, with 70 percent of consumers earning more than \$100,000 per year having already returned at least one of their holiday purchases or expecting to do so. This compares to 62 percent of mid-income consumers and 54 percent of low-income consumers who have done or plan to do the same.

FIGURE 2:

HOLIDAY SHOPPERS WHO SAY THEY WILL RETURN ONE OR MORE OF THEIR PURCHASES

Share of consumers who have returned or expect to return at least one of their holiday purchases



Fifty-six percent of returns are due to ordering mistakes. Nearly one-quarter of consumers who returned their purchases did so because they were delivered late.

Consumers might want to return the purchases they made over the holidays for a number of reasons, and simple mistakes are at the top of the list.

Fifty-six percent of all consumers who plan to return their holiday purchases cite order mistakes — accidentally ordering an item in the wrong size or color — as the main reason for the return. Product quality is a distant second at 30 percent.






The third- and fourth-most common reasons that consumers might return holiday purchases relate to buyers' remorse: They either simply no longer want the items or have experienced shipping issues, such as late arrivals. Twenty-two percent and 21 percent of all holiday shoppers who would be willing to return their purchases and cite these reasons, respectively. Some of the other factors that consumers cite for returning their purchases include issues with shipping and finding better prices elsewhere.

This reliance on eCommerce increases the risk of returns as mistakes during delivery could make recipients more likely to return their purchases. As more consumers make holiday purchases online, more consumers will feel compelled to return items that arrived late or were ordered by mistake.

TABLE 1:

WHAT MIGHT PROMPT HOLIDAY SHOPPERS TO MAKE RETURNS

Share of shoppers who have returned or are likely to return their purchases for select reasons, by generation

	Average	 Generation Z	 Millennials	 Bridge millennials	 Generation X	 Baby boomers and seniors
• Mistake in size/color/style, etc.	55.8%	50.4%	48.9%	50.7%	62.6%	60.0%
• Quality issues	30.3%	32.6%	36.8%	36.2%	30.8%	21.1%
• The item was no longer wanted	21.7%	28.1%	29.2%	29.3%	16.5%	15.0%
• Shipping problems	20.6%	22.6%	27.8%	33.2%	17.1%	14.6%
• Located a better/less expensive item	16.9%	24.1%	23.6%	23.7%	14.9%	7.8%
• Other	7.8%	0.8%	3.0%	3.2%	7.1%	17.1%

Source: PYMNTS.com

THE MOST COMMON REASON WHY HOLIDAY SHOPPERS MIGHT BE WILLING TO RETURN THEIR PURCHASES IS THAT **THERE WERE MISTAKES IN THE SIZE, COLOR OR STYLE OF THE ITEM.**

Offering discounts of as little as 5 percent could persuade 39 percent of consumers to keep holiday purchases they intended to return. A 30 percent discount would be enough to keep 60 percent of consumers from returning items they said were low quality.

Offering customers discounts can help mitigate the risk of returns. In fact, the greater the discount, the more willing customers are to keep items they had intended to return.

It only takes a discount of 5 percent to persuade 39 percent of shoppers to keep unwanted holiday purchases — a 10 percent discount increases that share to 45 percent. The portion of consumers willing to keep unwanted items begins to taper off slightly at discounts higher than 10 percent: 51 percent of consumers would keep unwanted items if offered a 20 percent discount and 59 percent would be willing to keep them if offered a 30 percent discount.

The discount needed to sway consumers to keep unwanted items changes based on the reason for the return, however.

Consumers who received items late are more willing to keep purchases when offered discounts than those who received an item that was the wrong color or size or deemed low quality. A 5 percent discount is enough to motivate 51 percent of customers to keep items that were delivered late but retailers would have to offer discounts of 30 percent to keep 51 percent of customers from returning products when there were order mistakes.

A 30 percent discount would also convince 60 percent of customers to keep low-quality items.

FIGURE 3:
THE IMPACT OF DISCOUNTS ON HOLIDAY RETURNS
Share of holiday shoppers who are “very” or “extremely” likely to keep unwanted items if given select discounts

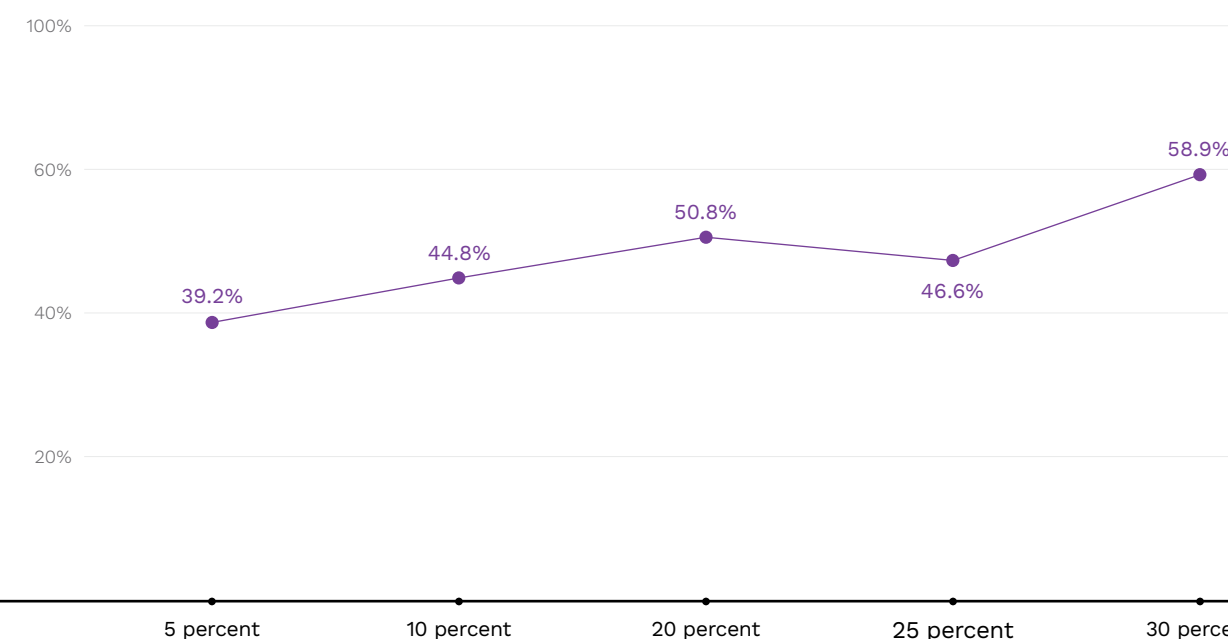


TABLE 2:
THE IMPACT OF DISCOUNTS ON HOLIDAY RETURNS
Share of holiday shoppers who are “very” or “extremely” likely to keep unwanted items if given select discounts, by reason for return

	5 percent	10 percent	20 percent	25 percent	30 percent
• Mistake in size/color/style, etc.	33.2%	40.6%	42.4%	50.8%	48.5%
• Quality issues	36.7%	37.6%	39.5%	43.4%	41.8%
• The item was no longer wanted	44.8%	48.6%	48.0%	38.0%	44.1%
• Shipping problems	44.1%	41.3%	45.0%	43.2%	70.5%
• Located a better/less expensive item	51.5%	59.8%	56.2%	64.2%	57.0%

Source: PYMNTS.com



WEIGHING THE RETURN

Handling returns is part of the online buying experience, and retailers have made it easy for consumers to make such returns. Preprinted labels, multiple drop points and easy web-initiated processes all reduce the frictions once associated with returning items bought online. PYMNTS research shows that the act of returning purchases not only has no negative impact on consumers' satisfaction with their shopping experiences, but also that many eCommerce shoppers want to buy from retailers that allow them to make returns. Sixty-five percent of holiday eCommerce shoppers would like to purchase from eTailers that allowed them to return online orders to physical locations, for example, and 61 percent would like to shop with eTailers that allow them to return items that do not arrive by guaranteed delivery dates.

The expense of handling returns can be costly for merchants, with some opting to refund the entire purchase price of an item rather than process a return. Returns cost businesses roughly 10 percent of their total supply chain costs, on average. Consumers can be persuaded to reconsider returning items if offered discounts of as low as 5 percent. Offering discounts higher than 10 percent does little to increase the portion of consumers who would take that option, in fact.

The dollar value that can be saved by providing discounts on individual items is only one factor businesses must consider, however. Providing discounts and accepting returns can also increase customer satisfaction and boost the chances that one-time buyers become repeat purchasers or even loyal, long-term customers.

Consumers value free shipping more than getting products delivered on time. Choice of merchants is increasingly based on the availability of free shipping.

Offering discounts can help retailers retain the sales they have already made, but it is also critical that retailers provide shopping features that attract new customers, such as free shipping, guaranteed arrival times and late-delivery discounts.






Our research shows that 84 percent of all holiday shoppers consider whether merchants offer free shipping when choosing where to shop online, for example, compared to 57 of consumers who look for online retailers that provide guaranteed arrival times. This signals that, while consumers like to receive online orders on time, it is more important that they do not pay the shipping costs for their online orders. Sixty-four percent of consumers would consider shopping with merchants that offer discounts on late deliveries as well, reinforcing our finding that discounts can help merchants mitigate some of the potential losses on returns on items that arrive late.

Discounts on late deliveries are particularly attractive to millennials and bridge millennials, who are among the most active online shoppers. Our research shows that 72 percent and 74 of consumers in these age groups, respectively, would consider shopping with merchants who offer such discounts. This compares to 66 percent of Gen X and 54 percent of baby boomer consumers who say the same.

TABLE 3:

FACTORS THAT MIGHT ENCOURAGE HOLIDAY SHOPPERS TO CHOOSE CERTAIN eTAILERS

Share of holiday shoppers who consider select factors when choosing where to shop online, by generation

	Average	 Generation Z	 Millennials	 Bridge millennials	 Generation X	 Baby boomers and seniors
• Free shipping	83.8%	71.0%	82.0%	85.0%	86.4%	87.4%
• Confirmation of delivery by email or text	75.8%	68.1%	75.4%	79.6%	80.0%	75.5%
• Rigorous communication about delivery dates and real-time tracking of shipped items	72.1%	76.3%	75.8%	76.4%	74.4%	65.8%
• The option to buy online and return items to a local physical location	64.8%	63.5%	72.3%	72.9%	68.4%	55.7%
• The option to receive discounts on items if I agree to keep them when I planned to return them	63.8%	66.2%	72.3%	73.6%	65.9%	54.0%
• The option to return items if they do not arrive by a specific date	60.5%	61.6%	67.2%	70.2%	59.6%	54.9%
• The option to buy online and pickup my items at a local physical location	59.9%	57.9%	72.0%	73.7%	62.3%	47.8%
• The option to receive loyalty points or rewards if I agree to keep items I was planning to return	57.5%	67.2%	68.2%	68.0%	58.6%	44.0%
• Shipping that is guaranteed to arrive by a specific date, but is not free	56.9%	63.4%	66.3%	67.5%	60.2%	43.9%

Source: PYMNTS.com

CONCLUSION

The 2020 holiday shopping season resulted in a windfall for some retailers, but 63 percent of those sales are at risk of being returned — especially among the nine out of 10 shoppers who made at least one of their holiday purchases online. Providing discounts on items that arrived late or on items that consumers might otherwise have returned can help reduce the risk of returns and safeguard retailers' sales. Offering the online shopping features that consumers want can enhance their online shopping experiences and attract new customers.



ONLINE ORDERING'S RETURN ROUND TRIP

METHODOLOGY

PYMNTS issued a survey to a census-balanced panel of 2,268 U.S. residents from Dec. 29, 2020, to Dec. 31, 2020, as a follow-up to our continuing series of studies examining consumers' behavioral changes following the pandemic's onset. Respondents were 50 years old, on average, 52 percent were female and 32 percent held college degrees. We also collected data from consumers in different income brackets: 34 percent of respondents declared annual incomes of over \$100,000, 31 percent earned between \$50,000 and \$100,000 and 36 percent earned \$50,000 or less.



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