

## LOGISTICS REPORT

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BUSINESS | LOGISTICS REPORT

## The Rising Cost of Free Returns

More retailers are granting free shipping on returns, delighting customers but raising costs for the companies



FedEx and UPS have started charging shippers based on the dimensional size of packages, raising the cost of returns for retailers. *PHOTO: BLOOMBERG NEWS*

By **LORETTA CHAO**

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Free shipping on returns are increasingly a reality for retailers offering online shopping,

further adding to e-commerce fulfillment costs even as companies struggle with tightening margins.

About 49% of retailers now offer free return shipping, according to a new study released this month by the National Retail Federation, underscoring how companies that had long been resistant to footing the bill for returns are being forced to do so by their customers.

“To remain competitive, we expect this will significantly increase over the next year, though retailers clearly will need to manage the cost aspect as well,” said the report, which was prepared with e-commerce consultancy FitForCommerce.

Many surveys have shown that consumers will often judge a company on its return policy. However, such policies are adding to the cost of e-commerce, which already weighs on margins before returns are even made. Shipping costs are high and consumers demand speed and convenience while balking at paying extra for better service, analysts say. Meanwhile United Parcel Service Inc. and FedEx Corp. have both instituted new pricing policies based on dimensional size, translating to a significant increase in shipping costs this year, according to shipping strategy consulting and auditing firm Shipware LLC.

“Unfortunately it’s the cost of doing business in the e-commerce world,” said Gordon Glazer, a Shipware consultant.

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retailers have turned to cheaper solutions, such as shipping to customers using United Parcel Service or FedEx, but taking returns through lower-cost solutions from third party providers such as Newgistics that rely on the U.S. Postal Service. But experts say higher costs will be unavoidable.

“You will continue to see the returns increase as long as the customers are not having to pay for the return services,” said Satish Jindel, president of SJ Consulting Group Inc. and shipping data firm ShipMatrix Inc.

The added costs will put a strain on retailers gearing up for the peak holiday season, which historically is followed by a surge in returns. In January, returns were up 15%

over average return rates for 2014, and the volume is growing, Mr. Jindel said.

Companies have invested in reverse logistics capabilities to help with growing return volumes. In January, FedEx acquired Genco Distribution Systems Inc., a third-party logistics provider specializing in product returns, for \$1.4 billion.

“Returns have been blowing up for us,” said Chris Dunn, who works in business development at TrueShip LLC, a Scottsdale, Ariz.-based company that provides embedded solutions for retail websites, including one that enables customers to print return shipping labels.

“There’s been a notable change in attitudes ... In years past, retailers weren’t all that receptive to it, they were thinking that by not offering, people will not return” their purchases, Mr. Dunn said. “They’re starting to realize that you’re still going to return, and you’re not going to buy from that retailer again.”

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