

About the author:



Doug Fleener is a veteran retailer with over 25 years of hands-on experience with world-class

retailers including Bose Corporation and The Sharper Image. Doug is now president and managing partner of Dynamic Experiences Group, a retail consulting firm dedicated to creating unique retail experiences that allow retailers to stand out from the competition, resulting in higher sales and profits.

*Doug is a consultant, keynote speaker and author. As a consultant, Doug works with retailers of all sizes throughout the country. As a keynote speaker, Doug turns any meeting into an Experience. His audience interactive speaking programs are designed to teach retailers, small and large, how to deliver the kinds of extraordinary shopping experiences that differentiate retailers from their competition. Doug has written numerous articles and publishes two monthly newsletters, *The Retail Experience* and *The Profitable Retailer*.*

Dynamic Experiences Group
6 Manning Street
Lexington, MA 02421
Tel: 781-861-7803
Tel: 866-535-6331
www.dynamicexperiencesgroup.com

Returns and Exchanges

Policies, People, and Profits

Tools for the Experience Series

For some unknown reason I attempted the impossible one year, buying my wife a purse for Christmas. The minute she unwrapped her present, I knew it was going to join my long list of “it’s the thought that counts” gifts that missed their mark. I had bought the purse from a locally owned retailer at the nearby mall. After waiting for the post-holiday crowds to subside, my wife and I headed off to the mall to return the purse and take care of other assorted returns and exchanges. After easily returning a couple of ill-fitting sweaters at a department store, we went to return the purse. Much to our dismay and disappointment, we learned that the retailer has a very limited return policy, forcing us to exchange the purse for store credit rather than our desired refund. Even more frustrating was the fact that despite several phone calls and visits on our part, there was never a manager available to discuss our dilemma. Long story short, I ended up exchanging the purse for some unwanted products, swearing to never ever shop at that store again. And I’ve been true to my word and I’ve been telling friends and family not to shop there either.

Return and exchange policy are not easy for retailers to create or manage. They vary from retailer to retailer and differ often based on the product offer. For example, consumer electronics retailers cannot offer the same return policy as a clothing retailer. Determining the appropriate return policy is an inexact science but the results of that policy impact many parts of a retailer’s business, including sales and profits, customer satisfaction and loyalty, vendor relationships, and employee satisfaction. Let’s review each area for how it’s influenced by the return policy and vice versa.

For more information visit us at: www.dynamicexperiencesgroup.com

√ Returns and Exchanges

1. Sales and Profits

This is by far the most difficult element to balance with a return and exchange policy. A policy that is too strict, especially compared to that of a competitor, and retailers can adversely impact their top line, which impacts their bottom line. Circuit City tried a few years ago to implement a very stringent 15% restocking fee on all returns. Customers rebelled and Circuit City's main competitor pounced on the opportunity. Best Buy ran advertising emphasizing how much more customer- and return-friendly they were. Circuit City not only lost market share they've never recovered but they had to cancel the restocking fee to boot. Having a return and exchange policy that's too severe is often a silent business killer. Customers may not tell the retailer that it's one of the main reasons they don't shop in the store but retailers need to understand that it can be a contributing factor

More often, the impact on the bottom line is felt by product returns and exchanges that can't be passed on to the vendors. The result of these types of returns and exchanges is an immediate and negative impact on profits. These are the ones that sting the most and so have the most influence on what the return policy will be. It's also why so many retailers align their return and exchange policy with what's made available to them by their vendors. The more lenient key vendors are, the more lenient retailers can be. This is an area where retailers often make rash decisions on their return and exchange policy.

They may have a very successful policy that helps their market position and drives their overall business but when one customer abuses the policy they quickly change it. Every retailer should have a good estimate of what the actual impact is on their bottom line. The desired status is an exchange and return policy that balances driving topline sales without too much pressure on bottom line performance.

It's important for retailers to create a holiday-specific return and exchange policy. Most customers expect that any non-perishable products purchased during November and December be covered under a fairly liberal holiday policy. Most national retailers' policies include the ability to return or exchange purchases up to thirty days after Christmas. While many independent retailers struggle to match this timeframe, failing to do so can cost them sales and customers. It is the best interest of most retailers' to have the most liberal holiday policy possible and leverage it to their advantage.

2. Customer Satisfaction and Loyalty

While your return and exchange policies may have some influence on the customer's purchase decision, it greatly influences whether or not the customer making a return or exchange will remain your customer. Most customers have almost infinite options of where to buy. When they become unhappy with one retailer there is another retailer or website waiting to take their place. Ultimately your return and exchange policy needs to meet or exceed the customer's expectations.

√ Returns and Exchanges

The expectations are set by your industry's standard and your market position. If you're a low cost provider in your industry a customer will rarely expect you to have the most liberal return policy. If you're a high touch/high service retailer a customer naturally expects a more customer friendly return and exchange policy. Failing to meet your customer's expectation will result not only losing that customer but it can also greatly impact your reputation in the market. Exceed their expectations and you not only create loyal customer advocates but can actually become known as a "Nordstrom-like" place to shop.

Whether your policy is liberal or narrow, it's critical that it be well communicated. It should be posted at your cash wrap counter, as well as on your receipts and/or in a bag stuffer. Failing to adequately communicate your return and exchange policy leads to disappointed and unhappy customers, often times creating hostile situations.

Retailers often miss the opportunity to turn unhappy customers returning or exchanging products into loyal advocates. It's important to train employees to approach returns as an opportunity to delight the customer rather than approaching as a dreaded duty. When a customer enters the store with a return they should be met and greeted by an employee before they get to the cashwrap counter. Employees should be empathetic to the customer's situation and never hostile. They should be trained to ask the customer questions to identify why the product didn't meet their needs, listening carefully for opportunities to create a satisfied customer.

Employees are often too quick to give the customer a refund and miss the fact that a customer may be better served by showing them a different product. Most important, they should be trained on saving the customer and not, like so many retailers training on, saving the sale.

3. Vendor Relationship

In the late 1980's and early 1990's, retailers used liberal return policies to win customers from their competition. While customers loved this new approach, it created big headaches for vendors. Retailers became used to sending their vendors all of their returns and just passed through to them the increase in returns caused by the loosening of the policies. Vendors and manufacturers, seeing their profits eroding, revolted. Over time, retailers and their vendors and manufacturers have balanced out the needs of the retailer's return and exchange policy with what the vendors and manufacturers can offer the retailer.

A retailer's return and exchange is just that, the retailers, and it should not be enforced at the vendor's and manufacturer's expense. Retailers need a healthy and mutually beneficial relationship with their vendors and manufacturers. It's appropriate for you to work closely with them to create your policy and build into that policy what they can and cannot do. It's not appropriate to attempt to send all returns and exchanges back to them if it is outside their policy and guidelines. Many retailers when returning products forget the golden rule; do unto others as you would have them do unto you.

√ Returns and Exchanges

4. Employee Satisfaction

The area most often overlooked when considering the impact of a retailer's return and exchange policy is employee satisfaction. Employees bear the brunt of a customer's displeasure with either the policy itself or the way the policy has been communicated. Conversely, if the retailer has a liberal return policy the employees will also benefit. Making sure the employees have good guidelines for applying the policy is important. Creating a decision making guide can help employees understand what they can and cannot do. Empowering your staff to represent your store is very important. Criticizing their decisions after the fact without offering any guidelines can negatively impact employee morale. If employees are not applying the guidelines and policies that have been put into place then it's important to coach them on how to do so. Undermining them, especially in front of the customer, is inexcusable. Success comes from not only educating your customers but your employees as well.

One of the hardest things to teach employees is to not take it personally when a customer is upset about the return and exchange policy. Because of their pride and loyalty they have to their employer, employees often personalize what's taking place. It's important that they understand that returns and exchanges come with being a retailer and their goal is to balance the customer's expectations and the store's policies.

Your return and exchange policy can be a strategic competitive advantage for you that differentiates you from your competition. Lands' End does just that. Their "Guaranteed. Period" policy has always been an unconditional one that reads: "If you are not completely satisfied with any item you buy from us, at any time during your use of it, return it and we will refund your full purchase price." Lands' End leverages that policy in their stores, website, and catalog channels. The result is a very dedicated long-term customer base. If a retailer is going to have a liberal return policy it's a mistake to not use it to their advantage. . If a liberal policy doesn't result in either more topline or more satisfied customers, it's probably costing the retailer profits.

Another choice is to have a policy that matches your competition. While it won't differentiate your store, it won't disappoint your customer base. Rarely, if ever, should a retailer ever have a policy that falls short of their competition's policy. Only those retailers who offer a considerable price advantage can get away with offering a limited return and exchange policy, and even those retailers will still find themselves disappointing customers.

Balancing sales, profits, customer expectations, vendor policies, and employee satisfaction is never easy. It is safe to say that the more liberal your return and exchange policy can be, the happier your customers and employees are. The flip of side is that too liberal a policy and you'll see your profits dwindle away. Striking the balance is never easy, but then again, no one ever said retailing was easy. If it was, it wouldn't be as profitable.