Journal of Advanced Zoology
ISSN: 0253-7214
Volume 45 Issue S4 Year 2024 Page 272-276

Impact Of Return To Origin On E-Commerce Business

Dr. Janardan Pawar[1], Mr. Snehesh Sabale[2]

[1] Research Guide, Research Centre in Commerce and Management (Commerce), Indira College of Commerce and Science, Pune 33, Affiliated to Savitribai Phule Pune University, and Principal In-charge, Indira College of Commerce and Science, Pune 33.*
Email: janardanp@iccs.ac.in
[2] Research Scholar, Research Centre in Commerce and Management (Commerce), Indira College of Commerce and Science, Pune 33, Affiliated to Savitribai Phule Pune University, and Assistant professor, Department of Commerce, Indira College of Commerce and Science, Pune 33.
Email: sneheshsabale@gmail.com

***Corresponding Author:** Dr. Janardan Pawar*
**Research Guide, Research Centre in Commerce and Management (Commerce), Indira College of Commerce and Science, Pune 33, Affiliated to Savitribai Phule Pune University, and Principal In-charge, Indira College of Commerce and Science, Pune 33.*
Email: janardanp@iccs.ac.in

Abstract

E- commerce is a boom in the modern business. E-commerce (electronic commerce) is the activity of electronically buying or selling products on online services or over the Internet. E-commerce is one of the most dynamic and important sectors of the economy as well as one of the main factors leading to greater competitiveness. The development of E-commerce is driven by rapidly expanding Internet access, but also by growing mobility and popularity of portable devices, via which customers order goods and services at a convenient time and place more and more frequently. The strength of a business is determined by how well it can manage to provide its products and services at the right price, time, and quality. In today's fierce competitive world, E-commerce businesses are often up against their peers from different geographical regions. It makes perfect sense for a company to expand its operations geographically, which would allow them the advantages of quickly reaching out to more customers and building good word of mouth for the brand. But, it also give rise to the risks like additional costs associated with logistics, longer delivery time than expected, problems with adjusting the inventory levels to match customer needs at each location, etc. That's why it makes sense to think about Return to Origin (RTO) before calculating revenue and profits. So, this paper is on impact of RTO on E-commerce business and it also discussed preliminary findings of research undertaken with the Indian ecommerce company.

Keywords: E-Commerce, Returns, Value for Customer, Satisfaction, Reverse Logistics, Customer Support.

Introduction:

RTO, or Return to Origin, is a term used in E-commerce to describe the return of a package to the seller when it cannot be delivered to the customer for any reason. This can occur if the delivery attempt fails or if the customer refuses to accept the package. As a result, the package is marked as RTO and sent back to the seller.

Unfortunately, sellers must bear the cost of both forward and reverse logistics in such cases, which can be a significant financial burden. In fact, returns and exchanges can account for up to 50% of an E-commerce retailer's revenue.
Return to Origin is defined as the process in which an order never reaches the customer and is sent back to the warehouse citing a variety of reasons. Return to Origin poses significant challenges for E-commerce brands, impacting their operational efficiency and financial stability. The right to return in E-commerce in India results from the Act on Consumer Rights.
In Internet shopping, impossibility to check goods before buying them. Customers cannot check them physically, so returns at online shops are more frequent than in retail shops.
A business may claim that it provides free shipping for orders above a specific amount. In such cases, the return shipment of any item may not be covered under RTO.
RTO can be defined as below
Received Quantity – Shipped Quantity + Lost Item = Total Quantity
Where Received Quantity = Quantity of items received in returns minus quantity sent to customers.
Shipped Quantity = Quantity shipped to customers.
Lost Item = Quantities lost during the shipping process
So, the Return to Origin (RTO) is defined as the total quantity of items sent back to a retailer by the customers minus the total quantity of items shipped out to customers and loss during shipping.

Literature Review:

1. The work on this paper is done on Return policy in Study on Returning Policy in E-Commerce environment based on system dynamics (Liping An, Yanmin Du, Lingyun Tong -2016)- this paper build supply chain with one manufacturer and two retailers based on system dynamics which involves in manufacturing, purchasing, marketing and returning. It compares the profit of manufacturer and retailer respectively and turn out that the manufacturer can get more profit if consumer return the goods to retailer.
2. Managing return in E-business-(Dushantha Dissanayake and Mohini singh- 2006), this paper is discussed about the managing returned goods. It highlights that managing return in E- business sales allow recapturing value from products, however most of organization do not have reverse logistics as a business process in their organisation. This paper more discusses about the need of reverse logistics, why online customer return goods? What organisation do with return goods etc.
   From the above research work more of the paper discuss about the manging goods of RTO, environment-based dynamics system etc. we found the gap about the discussing about process of RTO, reasons of RTO, and what are the impact of RTO in E-commerce business.

Objective of Study:
1. to understand the process of RTO
2. To identify the reasons for RTO
3. To analyse the products category-wise RTO in Ecommerce.
4. To identify the impact of RTO on business in e commerce industry.

Research Methodology:

This research paper which aims to study the impact of RTO on e-commerce business industry through Primary and secondary data. As this paper's main objective is to understand the process of RTO, identify reasons for RTO, and category wise RTO in E-commerce business industry using quantitative methods.
To complete the main objective, we survey ecommerce companies who sell the products online for shopping and allows return shipments if customer don't like it. Based on the data analysed in the literature review, a questionnaire was developed. The questionnaire included key questions as what products category buy, what is percentage of return of products and main reason of return of products.
The respondent size is 5 companies in India which doing major ecommerce business in India, the collected data is based on percentage only its does not show actual value due to internal policy of company.

What is Return to Origin (RTO):

Based on the secondary data, RTO, or Return to Origin, is a term used in E-commerce to describe the return of a package to the seller when it cannot be delivered to the customer for any reason. This can occur if the delivery attempt fails or if the customer refuses to accept the package. As a result, the package is marked as RTO and sent back to the seller.

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To calculate the RTO for your business, use the RTO rate formula below:

RTO rate = (Orders not delivered and returns + Orders cancelled before delivery) / Total number of orders

The RTO rate represents the percentage of orders that were not successfully delivered. This is an essential metric to track as it indicates the efficiency of your shipping process. A lower RTO rate is desirable as it implies that products can be shipped faster and more reliably.

Top Reasons for Return to Origin?

Return to origin in E-commerce is a part of the deal for D2C sellers because several reasons may lead to a return to origin. But it is vital to identify them so that you can reduce the possibility and implications of E-commerce returns. Here are the reasons for RTO.

1. Incorrect user information

When a customer adds inaccurate information such as an incorrect address, phone number, and email, they are eventually set up for a return to origin situation. If the delivery person tries to reach such customers, they are unreachable. There is no option other than returning the product to the warehouse and marking the customer as an invalid user. Besides incorrect details, ambiguous information and spelling errors may also cause problems. Missing out on zip codes is one of the common instances. As a seller, verifying and confirming customer information before shipping the package is important to avoid any errors and reduce the risk of RTO.

2. Unavailability of customers

Another common reason for E-commerce product return is the unavailability of a customer to receive it. The logistics partner usually makes multiple delivery attempts before marking it for return-to-origin. Keeping customers in the loop by sending real-time tracking information or giving them a phone call before delivery can prevent RTO due to the non-availability of customers.

3. Lack of customer intent

Surprisingly, a buyer who orders a product online may end up rejecting or returning it because of a lack of intent. The reasons may vary, from a change of mind at the last moment, getting the same item at a lower price or earlier from another seller, not requiring the product any more, and more. Whatever the reason, a seller cannot force them to accept the order, even if it sounds right.

4. Delivery of damaged or wrong products

Delivery of damaged or wrong products is another reason for return to origin. Damaged items can result from mishandling during shipping, while wrong products may be due to errors in order fulfilment. When customers receive damaged or incorrect products, they may return the item rather than keep it. If this happens, check with customers if they would like an exchange or store credits for the return.

5. COD payment is not ready

At times, the reason for RTO could be as simple as the recipient not having the cash payment to honor a COD order. They will probably ask the delivery person to ship it back to the seller.

Another reason COD orders are prone to RTO is that customers may change their minds or have second thoughts about their purchase while waiting for the order to arrive. Since they have yet to pay for the item, it may be easier for them to cancel the order or return it.

E-commerce merchants need to be aware of these risks and possibilities and take proactive measures to address them. Fortunately, it is possible to address most of them and protect the business and profits in the long run.

Analyse the Products Category-wise RTO in Ecommerce:

According to primary data received (Fig.1), Many companies share details in the terms of numbers and % out of total returns

1. COD Vs Online Payment
Out of total return COD orders return is 62% and Online payment return is 38%.

2. Returns in the terms of categories
There are many categories for shopping in ecommerce, clothing categories returns percentage is high due to size issue, actual images vs physical received images, Quality etc. then bags and accessories having more returns after clothing.

3. No returns customers
50 % of customers are not always return the products and main reason is they are spending more time to select range and choice of products. Once they confirm then only order.

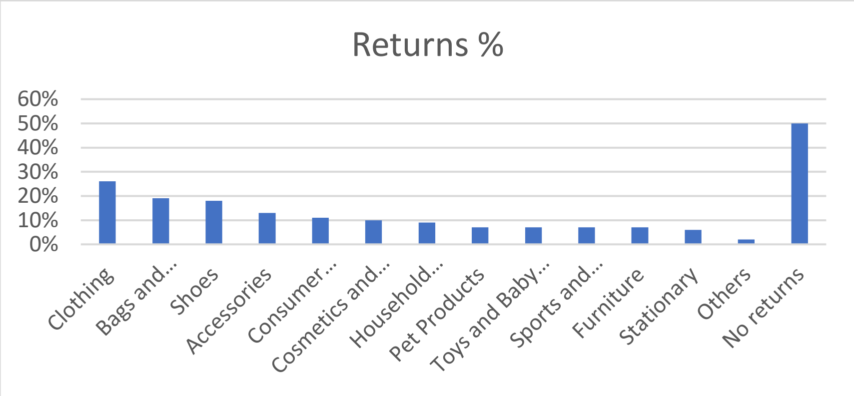

Fig1. Return of Goods Category wise)

RTO Impacts Business Profitability despite High Order Volume?

Research indicates that returns make up a daunting 30%+ of E-commerce shipping. It means a seller can expect one-fifth of their D2C orders to return. Even worse, it can affect a business's bottom line due to the cost associated with shipping and managing inventory. Here are some potential pain points caused by the return to origin-

1. Cost of forward and reverse logistics
The most evident reason to worry is the cost of forward and reverse logistics. The seller ends up paying for shipping the item initially (if they offer free shipping) and repeating it when it gets shipped back to them. That's double the sum. They also pay operational costs in order processing, such as the cost of packaging, quality testing, and labour. These can add up to a significant sum that is enough to erode the profit margins.

2. Cost of managing damaged products
Some products returned by customers may be damaged or in a condition that makes them unsellable. In such cases, E-commerce companies have to bear the cost of managing these products, which may include repairing or disposing of them.

3. Cost of repackaging and quality checks
When the seller gets another order for a return to origin product, they have to repeat the entire order processing schedule, from repackaging to quality checks and getting in touch with logistics.

4. Cost of blocked inventory
When a product is returned, it takes up space in the warehouse, blocking inventory that could have been sold. This space comes at a cost, as the E-commerce company has to pay for warehousing storage.

5. Loss of marketplace commission
The loss compounds if one sells through marketplace. Depending on the marketplace a seller collaborates with, they may not get a refund for sales commission even if the order does not get through. On top of that, most marketplaces charge an additional fee for a return to origin.

When these costs are added up, they can have a massive impact on the business's profitability. And it worsens because of the sheer number of RTOs they encounter. Consider how much you can lose when one in five orders returns to the origin.

Conclusion:

As per study it concludes that many factors are responsible for the return of goods. Which come out with positive as well as negative impact on business likewise it affects the operational cost, time, etc.
So, every organisation should be more attention towards the factors to reduce the RTO rate and take necessary action to come out positive impact.

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