

Apparel Business May Not Be Good Fit for Amazon.com

Event

On 3 November 2002, Amazon.com launched an apparel store in partnership with a dozen clothing companies, including Eddie Bauer, Nordstrom, Inc. and Gap, Inc.

GartnerG2 Analysis

On the surface, this appears to be an easy deal, with advantages on both sides. Amazon.com provides the traffic and takes a commission for every sale. Amazon's partner retailers manage the fulfillment as well as returns, in most cases. The major advantage for Amazon.com is that all purchases are completed on the Amazon site. It collects the addresses and credit card information of all new apparel customers. Retailers can take advantage of Amazon's popularity and readymade customer base, which adds additional sales opportunities beyond their own Web stores.

For Amazon, this also means managing refunds and credits. The return traffic could be considerable, given the high return rate for apparel.

GartnerG2 feels that Amazon.com may have underestimated the complexity of resolving returns, which is a major headache for every clothing retailer.

Online apparel spending increased from \$5.4 billion in 2001 to \$7 billion in 2002. However, apparel returns can reach 35%, more than for any other product bought online or offline. Returns exceeded \$1 billion in 2001 and an August 2002 GartnerG2 survey of 100 specialty retailers indicates that returns will exceed \$1.5 billion for 2002.

GartnerG2 estimates that fees for returns range from \$3.00 to \$12.00 per item, depending on how the customer and retailer interact. With high turnover of apparel, the cost of processing a return reduces or eliminates the profit on each item and cuts deeply into the overall profit margin. The potential fees could cost Amazon a bundle if it doesn't charge the retailers for these transaction fees.

Amazon.com is attempting to become the biggest portal online, but with this venture into the world of online apparel sales, it may be over-reaching and could undermine its heretofore successful business model.

Gerri Spieler

"With this latest deal, Amazon.com is walking into is every clothing retailer's headache: resolving returns."



GartnerG2 Recommends

- **Amazon.com: Negotiate a deal to protect against the high cost of returns management.** With your strong online name and existing customer base, you're in a position to press apparel retailers for some accommodation on this score.
- **Amazon.com: Require all apparel retailers to have a uniform returns process using a Web template.** Returns will be inevitable, but you can cut the costs substantially if you automate the process to the fullest extent possible.
- **Apparel retailers: Use a sizing wizard on your site to reduce returns and all the associated costs.** Prevention is the best medicine in this case. Every return you can prevent by helping assure correct sizing before the sale will show up on the bottom line. It is to everyone's benefit to get it right the first time.
- **All retailers: Use the online Web store channel as a customer service and communication device for all customer needs,** whether they bought online or in a brick-and-mortar store.

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Summary: Returns offer merchants a chance to improve customer service, gain information about customers and easily lead them back into the virtual store. It's a matter of improving the return process by creating a template on the Web site.

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