



THE OMNI-RETURNS EXPERIENCE

ANY WHERE, ANY TIME – THE CONSUMER IS IN CHARGE

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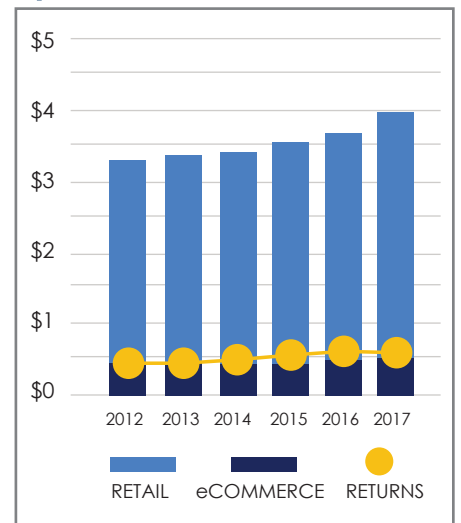
The intersection of physical and cyber retail has come to fruition. The new environment is to be everywhere the consumer is, and consists of physical and virtual access to merchandise and services. Choices in merchandise, price, delivery speed, buy online pick-up in store, buy on-line return to store, and an increasing number of apps and amenities will continue to redirect the shopping experience.

The rapid growth of e-commerce, m-commerce, and omni-channel require retailers to become more flexible and responsive to the new business model. It also drives many branded manufacturers to sell on-line, and direct to consumers, to build brand awareness and increase sales. Whatever the consumer wants – we will try it. Whatever my competitors are doing – I better do it too.

Technology and processes to enable visibility, velocity, and agility to meet market demands is paramount to the omni-channel challenge. This includes consideration of a returns strategy to control costs, efficiencies, and maintain profitability of returned and unwanted merchandise.

Returned merchandise value is equivalent to the e-commerce market size, each approaching 10% of overall retail sales. To put this in perspective, the value of returns is larger than Wal-Mart's total U.S. sales. Supply chain executives are paying attention. The consumer experience is a top priority for merchants to gain market share, therefore a top priority needs to include the omni-returns experience. A bad consumer returns experience will decrease sales, while a good consumer returns experience will bring the shopper back, building loyalty and sales.

U.S. retail sales are on track to exceed **\$4 trillion in 2017**¹

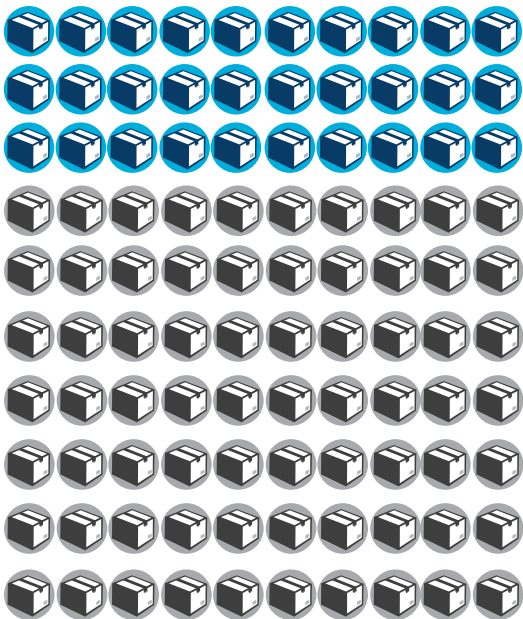


By 2017, projected e-commerce sales will reach **\$440 billion**²

By 2017, projected retail returns will be equivalent to **\$460 billion**³

1. US Census Bureau, 2014 US Retail Sales, 4% annual growth, February 2015 2. Statista, U.S. retail e-commerce 2010 to 2018, February 2015 3. National Retail Federation, 2014 Returns Survey, December 2014

Consumers return 9 of every 100 in-store purchases and 30 of every 100 on-line purchases.⁴



RETURNS POLICIES – HOW THEY WILL CHANGE

A major deterrent to completing on-line purchases is the hassle and cost of returning unwanted items. “Importance of a flexible return policy” is rated as “Very Important” by 53.2% of the respondents in the NRF’s March 2015 Consumer Survey.⁵

Physical stores have the advantage for returns. This puts non-store retailers at a disadvantage prompting them to offer free shipping for returns. The one-upmanship game proliferates.

Should omni-channel retailers offer free returns shipping for purchases on-line? Those offering free returns shipping are department stores, who predominately sell clothing and accessories. The items are usually small and lightweight, minimizing the cost of shipping.

The cost of shipping and the cost of lost sales will be the driver of retail returns policies. It can be safe to say that items with low shipping costs will gravitate to free shipping policies. For goods that are costly to ship, the policies will drive returns to local operations, either stores or physical returns centers. When establishing returns policies, don’t forget to take the cost of loss or damage in returns logistics into consideration.

RETURNS PRE-PAID SHIPPING LABELS

If the returns policy directs the consumer to ship the item back, a pre-paid shipping label controls the method and cost of returns. An on-line registration process verifies the purchase data (reducing fraud) and captures product level detail to route the product to the nearest demand point. A data driven returns decision tool makes it easier for the shipper, and moves the product directly to the appropriate fulfillment center or store, included in the open-to-buy inventory. If the shipper identifies the product as damaged, or the disposition model indicates ship to returns center for processing, there are fewer product touches and lower costs.

RETURN TO STORE

An option for the shopper to return the on-line order to a local store is lowest cost for the consumer and the retailer, if the retailer can sell the returned item at the store. If the returned product is not a good fit for the local store merchandise or fulfillment strategy, consolidating of the returns for shipment to a fulfillment or returns center is the next lowest cost option.

⁴Rampant Returns Plague E-Retailers, WSJ, December 2013

⁵Online- Importance of Flexible Return Policy, NRF Monthly Consumer Survey, March 2015



“A multi-brand on-line and catalog retailer focuses on providing outstanding customer service in execution of fulfillment and returns. Without a store channel to accept returns, we want the customer to be confident that a return will be seamless and hassle free and never is the reason they do not place an order.

Convenience of reusable shipping pouches with a self-adhesive return shipping label is important to a great customer experience. Fast refunds is crucial, therefore we issue credits within 24 hours of receipt. Visibility to shipment and refund status adds confidence in the customer experience.

Automation of the returns process in the fulfillment center provides operational efficiencies. It starts with customized, automated returns workstations that use systems and data to link returned merchandise to new active customer orders. If a returned item (in pristine condition) matches an ordered item, cross belt sorters take the unit directly to order fulfillment.

World class returns processing requires strong organizational commitment, outstanding customer service and operational excellence.”

Executive Vice President, Multi-brand On-line & Catalog Retailer



OMNI-CHANNEL MERCHANDISE RETURNS

“Buy-on-line return to store” is a natural succession of ideas. The service is convenient for the shopper and eliminates parcel shipping costs for the consumer or the retailer. The option enables retailers to facilitate exchanges, pay refunds immediately, prompts additional shopping and sales, and improves customer loyalty.

Fifty-nine percent of retailers allow consumer to return products through any channel. Adding in the number of respondents that expect to offer “return anywhere” in the **next year, 82% of retailers** will have omni-returns policies by 2016.⁶

As growth of on-line sales continues to outpace growth of in-store sales, the impact of internet purchases returned to stores will exasperate store personnel. Merchandise that is not in the store’s assortment will create confusion and a waste stream of neglected merchandise, time and cost.

Enabling consumers to buy anywhere and return anywhere complicates the ability for retailers to reconcile inventory. From the same Gartner report referenced above, the following statistics paint a picture of how far store operators have to go in establishing a strategy for on-line orders returned to store.

59% of retailers accept returns anywhere⁶



Only 34%

have visibility to cross-channel inventory for transfers⁶

Only 18%

have automated systems to re-allocate inventory by channel demand⁶

⁶Multichannel Retail and Consumer Product Companies Must Reinvent Their Processes to Boost Profits and Gain a Competitive Edge” (Gartner, January 22, 2015)

In omni-channel, the fluidity of inventory between channels enables retailers to reallocate merchandise to the point of demand. Online order fulfillment can pull from stock in warehouses, stores, returns, and in-transit. Only one third of companies have fully integrated **open-to-buy process** into reverse logistics operations.⁷

The failure to include returned goods into available inventory for sale will likely result in purchasing more inventory than is needed, higher volumes of unsold merchandise, excessive markdowns and more goods to liquidate at the end of each season.

To avoid this, retailers need visibility to inventory at all stages of its lifecycle, including in-transit, to establish capabilities to transfer product to the point of demand.

Today, with the consumer in charge, returns are more than a cost of doing business. Returns management is a strategic consideration, requiring technology investment, operations planning, and labor allocation.



“The returns experience is a critical touch point so processing must be done quickly and the experience must be easy for the customer.

The best scenario is to have the product brought back to a store; it is the fastest, convenient for most of our customers and the most efficient way to get merchandise back on the shelf for purchase. An added benefit is while in the store, customers may buy additional merchandise. Return to store is the lowest cost for our company.

Returns are the third largest cost (per unit) of a distribution center. Processing is complex and labor intensive. Therefore, product that is returned and not re-stocked, goes to a third-party logistic (3PL) returns center for processing. The advantage of outsourcing returns is that it provides a dedicated focus with time and cost efficiencies. When a fulfillment center is responsible for returns, limited resources are often diverted to the primary function of filling new customer orders when sales volume spikes.

Inefficient returns processing delays customer credit, creates a backlog of returned goods, and increases costs in the long run.”

Senior Vice President Distribution Services, Multi-brand Omni-Channel Retailer



⁷“Multichannel Retail and Consumer Product Companies Must Reinvent Their Processes to Boost Profits and Gain a Competitive Edge” (Gartner, January 22, 2015)

BUILDING AN OMNI-RETURNS MODEL

A crack in the foundation of the strengthening retail industry is that the programs put in place to lure shoppers back are creating unintended consequences. Once an expectation is set, it is hard to turn back. Once the shopper begins to return products to the stores, the retailer needs to have a process in place to handle those products or costs will escalate quickly.

When asked to name the top three challenges in omni-channel supply chain operations, 65% of the respondents listed “what to do with the increase in on-line purchases being returned to stores” as a major challenge⁸.

In a recent Gartner report title “Returns—The Ticking Time Bomb of Multichannel Retailing,” 55% of respondents considered “Improving the efficiency of the returns process and technology” as very or extremely important. Conversely, only 42% believed that they do this well or extremely well⁹.

The notion of delegating returns back into stock for the stores or on-line orders only alleviates a portion of the returns volume. Few companies measure the percentage of returns that sell at full retail once back in stock. For those that do, 48% of returned merchandise selling at full price is the current North American market benchmark¹⁰.

How retailers handle the other 52% of returned merchandise is why greater understanding of the reverse logistics process is important to controlling losses and maintaining value of returned goods.

Sears Holdings, as an example, collaborates with GENCO, a third-party logistics (3PL) firm, to manage returns from its Sears and K-Mart stores. Outsourcing returns management to an experienced 3PL enables economies of scale, transportation consolidation, and technology integration to track, report and monitor the reverse process.



“Success in the omni-channel environment is the speed of execution, at the lowest cost; drawing from one pool of inventory to dynamically route to-store or direct to-customer. Leveraging available store and distribution center capacity and stocking inventory close to the customer are cost efficient strategies. The cost of shipping is a critical factor in the ability to participate in omni-channel, profitably. Returns processing can benefit from similar strategies of proximity and flexibility of inventory.

Sears Holdings is offering more convenience to its members and customers. For example, in-vehicle curbside pick-up and returns at Sears and Kmart stores makes it easier (and lower cost) to sell large items online with “at store” pick-up.

The cost savings of systems based reverse logistics capabilities enables in-store pre-sort of returned product, back on-shelf, back to vendor, or liquidated, quickly. Margin retention of returned products is achieved through returning to stock or liquidating while the merchandise still has value to the customer.”

Bill Hutchinson, Chief Supply Chain Officer, and SVP, Sears Holdings



⁸ Supply Chain Execution 2014: Making Omni-channel Profitable (Retail Systems Research, December 2013)

⁹ Returns — The Ticking Time Bomb of Multichannel Retailing (Gartner, September 2014)

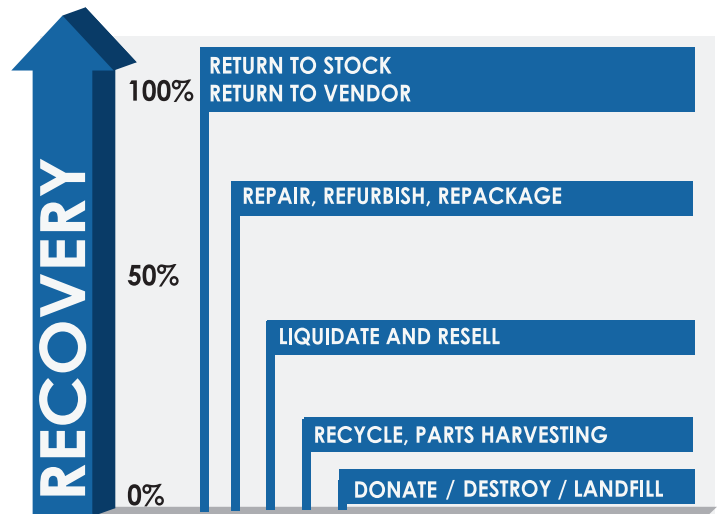
¹⁰ Multichannel Retail and Consumer Product Companies Must Reinvent Their Processes to Boost Profits and Gain a Competitive Edge (Gartner, January 22, 2015)

WHAT IS IMPORTANT TO A REVERSE LOGISTICS STRATEGY?

The challenge of reverse logistics is shrinking profit margins, as returned product idles in the supply chain. An infrastructure designed to maximize the net recovery of returned goods is at the heart of a good reverse strategy. Three critical components are transportation, facilities, and systems support. Net recovery is the resale value less the cost of operations.

If retailers are unable to return damaged product to vendors for credit, liquidating the product to the secondary market represents an opportunity for gross margin recovery. The best liquidation programs offer robust returns management software to sort merchandise into the liquidation channel that maximizes net recovery.

These channels include bulk liquidation, B2B pallet auctions, B2C item sales, and inspection/testing/repair for high-value electronics merchandise to retain maximum value.



Implementing a strategic reverse logistics solution results in a shorter reverse cycle, faster cash recovery and the potential of **15-30% higher recovery value.**¹¹

CAPTURE DATA

In-store scanning of returned product, synchronized with retailer and vendor returns policies, expedites the decision to return to stock, or move the merchandise to a centralized return center. The value of using a systems driven returns process includes accuracy (reduced human error and processing time); timeliness (handle once and move to the next stage); flexibility (update product and disposition rules); intelligence (reporting and analysis); and visibility (where and why).

Recovery
increase of
3% to 5%¹¹

CONSOLIDATE RETURNED MERCHANDISE

The returns process requires the same or greater level of engineering as forward logistics. Expertise in processing of dissimilar merchandise, sorting the goods to like merchandise, and applying standardized protocol for disposition, are cost and time saving activities.

A centralized returns center allows consolidation of returned merchandise for economies of scale in sortation, processing and shipping to final disposition (vendor, liquidation, recycling, destroy). Scale reduces transportation costs and improves resell value in the secondary retail market.

Recovery
increase of
5% to 15%¹¹

¹¹ GENCO

THE 'EXTRA MILE' IN LOGISTICS

Omni-Channel retail has always recognized “the last mile” to the customer’s home as a key, but expensive, piece of the customer experience. Now, returns are creating “the extra mile” back to the returns center for processing. This “extra mile” is also costly and an important piece of the customer’s experience. The value of “extra mile” strategies are faster processing time, reduced shipping costs, and higher asset recovery value. The value of an omni-returns strategy is the difference in profits and loss.

Beyond delivery to the consumer, the “extra mile” in retail logistics is 10-30% of sales going back through the supply chain. The cost of transporting goods in the reverse logistics’ cycle represents 40-60% of the total cost of returns.¹² Managing these costs should have equal attention in omni-channel strategies as delivering the goods to the consumer. Consolidation of volume, having processing centers that are closer to the customer and including the returns volume in carrier contracts are effective ways to manage the cost of “the extra mile”.

OMNI-RETURNS – VOICE OF THE EXPERTS

Experts in Reverse Logistics attest that the earlier the product is inducted into the reverse logistics process, the greater the opportunity to retain product value in resale. In support of the returns process, data and pre-determined disposition rules enable an acceleration of the cash ecosystem. In liquidation, premium buyers are looking for quality product, segregated by category, and in quantities to garner the highest market price early in the returned product’s lifecycle.

Executing omni-channel reverse logistics is inherently complex. Extensive technology investment is essential to connect what and where inventory is in the supply chain. Product data capture, at the point of receiving the return, is necessary to expedite returned goods to stock, return to vendor, liquidate, donate or destroy. As product value dwindles, it is imperative to have a plan in place.



“For the retailer who has stores and ecommerce, the challenge is when someone buys online and brings it back to the retail store for credit. The advantage for the consumer is convenience and no shipping costs. The challenge or opportunity for the retailer is what to do with the returns.

Visibility into cross channel inventory and returned merchandise will drive change and efficiencies in omni-returns processing. An on-line return authorization or an in-store product scan can trigger an immediate disposition decision. Product restocked provides the lowest cost and highest recovery value. If that is not possible, quickly processing returns to vendors and liquidation improves the ability to keep the merchandise profitable.

The returns side of the supply chain is where the magic is, we call it the inventory to cash ecosystem.

How are you going to capitalize on the returned merchandise? Is it through back in stock for resale, a return-to-vendor option, or liquidation? It becomes how fast you can transfer the return back into cash to create magic for the retailer.”

Curt Bimschleger, Senior Vice President of Retail Logistics, GENCO



¹¹ GENCO

A WINNING COMBINATION

Implementing a strategic, data driven omni-channel returns process is an undeniable winning situation for both the customer and the retailer. A good customer experience is positive, seamless, and easy to do. When poor execution of a returns process plagues the on-line retailer, the consumer is likely to become frustrated and vow to never shop on the website again, as well as warning their friends to beware.

A good retailer experience is an efficient process for accepting returns, issuing credit or exchange, and moving returned goods back in to stock, return to vendor or liquidate quickly to maintain a positive cash flow. An ill devised returns process results in returned goods piling up at stores, distribution centers and inhibiting positive cash flow. Instead of retaining margins through restocking or liquidation, returned goods are heavily marked down, donated, or destroyed. The dissatisfaction of the customer in the returns process can create ill will and jeopardize repeat business.

 CUSTOMER EXPERIENCE	 RETAILERS EXPERIENCE		
<p>BAD</p> <p>"It is such a hassle to return products bought on line."</p> <p>"Why do I have to wait a week to get my refund? If I could return it to a store I would get my money back right away."</p> <p>"I'll never shop at this site again."</p>	<p>GOOD</p> <p>"That was easy."</p> <p>"Wow, my return was already credited to my bank account the next day."</p> <p>"This store has a great returns process, I will buy from this website again."</p>	<p>BAD</p> <p>"These returns keep piling up; I'll have to add staff or overtime to keep up."</p> <p>"Customer calls and complaints about their refunds and exchanges are driving me crazy."</p> <p>"So much paperwork to credit refunds, return damages to vendors, markdown out of season stock."</p>	<p>GOOD</p> <p>"This is great – no more overtime to process these returns."</p> <p>"Scan, tag, done."</p> <p>"My monthly reports show much stronger margins due to lower costs of processing and liquidating instead of marking down."</p>

ONWARD - FORWARD AND BACKWARDS

Omni>Returns, goods bought on-line or in-stores and returned in-store will exceed \$400 billion in the next two years. Purchases on-line are returned three times more often than merchandise bought in stores, accelerating the pressure for a strategic returns process.

It is best to consider a holistic supply chain, one that begins with merchandise procurement and goes beyond final delivery to the "extra-mile" of returns processing. A top tier returns strategy includes system integration, inventory visibility, automated routing and disposition, and a means to refurbish and liquidate product for maximum asset recovery. For economies of scale in transportation and labor, consolidating returns in a dedicated returns facility improves throughput and reduces overall costs.

Retailers with the best-in-class returns process have three things in common:

1. Outstanding Customer Experience – Flexible returns policies and fast credit and exchanges.
2. Speed – Processing returned goods back on-shelf, shipped to a returns center for return to vendor, or liquidate to the secondary market.
3. Results – Customer loyalty, lower costs, and higher yields.

ABOUT SEDLAK

Sedlak is an industry leader in supply chain consulting with over 50 years of experience in providing supply chain strategy, distribution, transportation, planning, and inventory optimization services. Sedlak helps companies grow sales and improve their bottom line performance through expert analysis of business challenges and development of executable plans to support growth and drive operations improvement.

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