

# **HOW RETURNS AND REVERSE LOGISTICS CAN INFLUENCE CONSUMER BRAND LOYALTY**

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# SUMMARY

**The U.S. Commerce Department reports that ecommerce represents 14% of all retail sales, with 76% coming from brick and mortar. More interesting is that ecommerce accounts for over 50% of all retail sales growth.**

However, this brings with it considerable challenges, as ecommerce growth has been identified as a leading driver of the retail returns market. In 2018, the National Retail Federation (NRF) reported that consumers returned an average of 10% of all goods purchased. This statistic is expected to rise substantially over time: The retail returns market is projected to grow to over \$500 billion in the U.S. by 2020.<sup>1</sup>

But online consumers are returning merchandise at an even greater rate. "According to Invesp, at least 30% of all products ordered online either from retailers or directly from manufacturers are returned, compared with only 8.9% bought in brick-and-mortar shops."<sup>2</sup>

**It's clear that retailers need to ensure that they can operate profitably in this unified commerce ecosystem.**

In this whitepaper, Honeywell will explore the dynamics of returns and emphasize the strategic importance for retailers to have a robust reverse logistics process to bolster their brand and add to their bottom line in today's hyper-competitive retail marketplace. We'll also share best practices that we see emerging.

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1. Optoro, Returns On The Rise, Blog, Posted March 30, 2018

2. Gartner, How B2B Companies Can Learn From B2C to Build Better Returns Processes and Improve Customer Service, Tom Enright, et al., Refreshed August 7, 2018, Published February 28, 2017

# ECOMMERCE WILL CONTINUE TO DRIVE MORE RETURNS

# 1

Ecommerce and the resulting convenience of the customer shopping experience is evolving rapidly, driving steady increases in online returns annually.



The rise in returns is reflective of the shopping environment that has been created to attract and keep the consumer returning, with trends such as:

- Vast selection from massive item catalogs
- Purchases at the click of a button on your mobile phone
- Purchases readily available by voice commands
- Next-day shipping, same-day shipping, buy online/pick-up in-store
- Free shipping
- Liberal return policies, free shipping on returns

Many of these dynamics are integral within consumer-centric return policies that provide for a more frictionless, hassle-free returns process. Key attributes of a consumer-centric returns policy include:

- No questions asked about the reason(s) for the return
- Not having to pay for product to be returned
- Having a 14–30 day window in which the shopper can return product – and increasingly, having no returns window at all
- Benefitting from faster retailer refunds

Ecommerce allows consumers to buy goods easier and faster than ever before, with just a click of a button or voice command. But because of these increasingly liberal return policies, consumers have a tendency to make more purchases, with the promise of free returns.

At first glance, this is obviously a positive result of more online sales for retailers. However, managing returns on the back-end is becoming more complex. Omni-channel retail operations and rising consumer expectations are causing retailers to review their reverse logistics processes. But they need to be mindful of the following trends:

- 89% of customers are less likely to shop again with a retailer after a poor returns experience<sup>3</sup>
- 87% of consumers prefer to make returns in-store<sup>4</sup>
- 89% of shoppers check return policies before making a purchase<sup>4</sup>

Let's take a deeper look at the returns process, composed of: (1) the customer returns policy; and (2) the retailer's process/strategy for managing returns, in what is commonly referred to as the *reverse supply chain*.

The discipline of reverse logistics can be complex and sometimes does not fully mature into a consistent process for the retailer. There are a variety of variables such as an organization's lack of strategy, resources, and governance that are required to optimize their reverse logistics operations.

Gartner writes, "Retailers are not very good at managing returns right now, and so unless they invest in their ability to manage returns, the volume of returns coming back will cause problems in their overall supply chain. *Dealing with returns the old way is a ticking time bomb turning into a major cash hole.*"<sup>5</sup>



3. Optoro State of Retail Returns Study, 2018

4. Optoro Retail Returns and the Consumer Experience Report, 2018

5. A \$260 Billion Ticking Time Bomb: The Costly Business of Retail Returns, CNBC.com, Tom Enright, December 2016

To help describe the reverse logistics ecosystem, Gartner has developed the “Circular Supply Chain.”<sup>6</sup> In this model, the right half of the traditional go-to-market supply chain has historically been independent of the reverse logistics process shown on the left.

In fact, Gartner states that both halves of this supply chain are equally important. They manage different volumes. They have different financial cost matrices but need to be viewed equally from an organizational focus, and thus be appropriately measured and staffed.

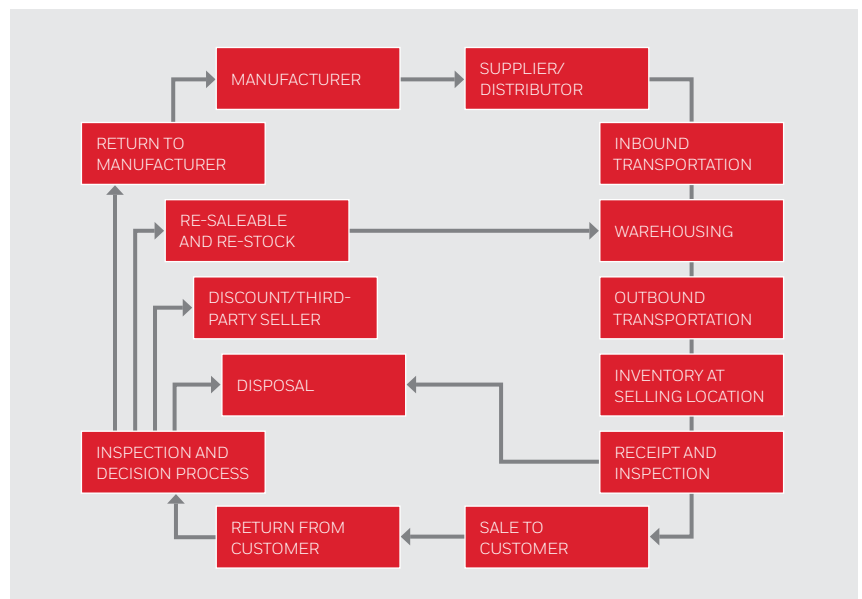
Most supply chains are built as a pipe that focuses primarily on getting products to market for sale. They accept that some products will come back up the pipe the wrong way. In such instances, there is an impact on the retailer’s ability to launch products successfully in the market. So it’s no surprise that returns tend to be less of a priority.

The Circular Supply Chain model suggests that there is no other way when it comes to delivering products – speed is of the essence. Think about it: If a manager decided to leave a pallet of goods at the loading bay instead of expeditiously putting it away for picking and restocking, he/she would be reprimanded or dismissed. Is there any difference in having a storeroom full of returned products that no one has taken time to disposition properly?

Returns are inventory. The retailer has already sold the product once, and is now taking it back into inventory. Hence, it’s critical that the product is dispositioned correctly in the reverse logistics process to re-coup as much value as possible to offset the loss of revenue.

Ultimately, performance measurement is based on how efficiently the retailer can realize maximum value from the returned products. This is especially important for products with limited selling periods, or to ensure compliance with relevant disposal or wastage statutes.

**Gartner – Circular Supply Chain**



6. Gartner, How B2B Companies Can Learn From B2C to Build Better Returns Processes and Improve Customer Service, Tom Enright, et al., Refreshed August 7, 2018, Published February 28, 2017

# THE BENEFITS OF A REVERSE LOGISTICS STRATEGY

# 3

According to a Peerless Research Group (PRG) survey, 60% of retailers consider reverse logistics important to their companies. Yet only 32% have any formal corporate position or process for managing reverse logistics operations.<sup>7</sup>



*The returns optimization platform of Optoro, Honeywell's leading reverse logistics partner.*

Let's take a look at more of these PRG findings. Only 17% of retailers have a department/division that is solely dedicated to reverse logistics. Most other retailers simply spread the responsibility across various departments.

And 72% admit that their reverse logistics platform is not prepared to handle a growing ecommerce business.

If the majority of companies believe in the value of reverse logistics, what keeps them from taking action toward optimizing their processes? Could it be tradition or uncertainty of a better way?

<sup>7</sup> Peerless Research Group, Reverse Logistics Practices, March 2018

# THE SEARCH FOR EFFECTIVE REVERSE LOGISTICS SOLUTIONS

# 4

How effective and efficient do you think traditional returns solutions are? Typically, you can go to any store and find a pile of returns that have accumulated for days, weeks, and sometimes even months. The responsibility for managing store returns has unceremoniously been given to an associate who tries to determine the best disposition for that merchandise.

It is a near impossible task to think that every retailer can expect to have a team of dedicated associates who completely understand the returns process and can dynamically and accurately make the right decision on every return in real time. Usually, it goes straight to the clearance pile even though it could be sold for full price.

Add to this an industry where there is financial waste culminating in \$50+ billion of margin left on the table, operational waste with over 10 billion needless human touches, and environmental waste with 5+ billion pounds of goods sent to landfills.<sup>8</sup> In short, these retailers are wrestling with:

- A massively fragmented market with little transparency
- Multiple, unnecessary, and redundant touch-points
- Poor retailer recovery (15–35% cost of goods sold [COGS])
- Items taking 4–6 months to go through the entire returns process

Those retailers who have realized the value of addressing the reverse logistics supply chain are capitalizing on returns to gain new business. For example, because of the recent Kohl's–Amazon partnership, which allows Amazon shoppers to return inventory to Kohl's stores, Kohl's has seen an 8.5% increase in customer traffic to its stores.<sup>9</sup>

Dedicated state-of-the-art decision-making solutions, like those from Honeywell's leading reverse logistics partner [Optoro](#), are essential due to their product return evaluation expertise in the inspection of returned products. In fact, within the last few years, 16% of retailers and manufacturers have actively deployed software management systems such as Optoro's Returns Optimization Platform to manage returns. These technologies have proven to reduce transportation costs, enable higher recovery of returned and excess inventory, lower labor costs, improve brand control, and allow retailers to expand their forward sales.<sup>10</sup>

8. Optoro State of Retail Returns Study, 2018

9. Rupp, Lindsey, "Amazon Returns Called 'No Brainer' Buoying Kohl's Traffic," Bloomberg, 2018

10. 4 Retail Trends: The Link Between Returns and Customer Loyalty, Optoro, 2019



# RETURNS OPTIMIZATION PLATFORMS: WHY LEADING RETAILERS AND CONSUMER BRANDS ARE EMBRACING THESE TECHNOLOGIES

# 5

Returns Optimization Platforms are a new category of software solutions that span the entire reverse logistics lifecycle and help create more value from returned and excess inventory for retailers. These technologies remove cost from the supply chain and are proving to be critical to increase inventory recovery and velocity, reduce warehouse costs, and enhance overall visibility.

## HOW HONEYWELL PARTNERED WITH OPTORO TO HELP RETAILERS WIN WITH REVERSE LOGISTICS

Honeywell is helping retailers better manage their reverse logistics operations through key partnerships with industry leaders like Optoro. Honeywell is a reseller of Optoro's Returns Optimization Platform designed to help retailers reduce financial, operational, and environmental waste from returns.

Many of the top 20 U.S. retailers and manufacturers use Optoro's technology. Optoro's client list includes companies such as Target, BJ's, Best Buy, Staples, and Bed, Bath and Beyond.

**How does it work?** An associate using a Honeywell Mobility Edge™ mobile computer (e.g., CT40, CT60), scans the barcode of the returned product and is guided through a predefined series of questions that properly disposition the return.

Optoro's software then uses proprietary algorithms to determine how to best disposition a returned item to get maximum value. The algorithm's decision logic can be applied to any return point, whether in a store or at a warehouse or distribution center. Merchandise can then get back into the forward supply chain more efficiently, coordinating efforts on the sales floor and in the stock room.

The Optoro solution delivers a robust returns optimization platform to maximize inventory value, create a cohesive customer experience, and prepare an organization for more long-term success than is achievable through disparate technology. In the hands of a retail associate, the Optoro solution scans a return and immediately determines the correct disposition for that individual item.

- **Return to shelf.** An undamaged, new product can be put on the shelf for resale, allowing a retailer to profit from a product that may have otherwise sat on a backroom shelf in limbo.
- **Return to vendor.** The return could be broken, missing an essential piece, or have another issue that the manufacturer of the product needs to address. In those cases, the retailer may need to send the item back to a vendor or manufacturer.



- **Remarket.** Another option is remarketing the item on a secondary marketplace. Optoro has its own remarketing channels, Blinq.com and Bulq.com, and can also plug into other secondary marketplaces or a retailer's own branded outlet.
- **Donate or recycle.** If the retailer cannot profit from the return, then donating the item to charity could be the best option. In other situations, the product materials could be recycled to create new goods. Both options help prevent retailers from immediately throwing away returned goods, which helps reduce waste in landfills.

## RETAILER REVERSE LOGISTICS PROBLEM

## HONEYWELL AND OPTORO SOLUTION

Unrealized value for returned goods	Maximizes profitability on all returned inventory, by optimizing and automating channel selection, optimizing Return to Vendor (RTV) outcomes, and connecting turnkey, brand-protected secondary channels.
Inefficient and costly returns processing	Significantly reduces processing costs associated with returns by being able to lower warehouse and in-store processing costs, eliminate duplicate touches, and optimize inbound and outbound shipping.
Limited visibility	Leverages data to enhance performance with better visibility to: <ul style="list-style-type: none"> <li>• Improve performance from unit-level and program-level tracking and quantified sustainability reporting.</li> <li>• Gain better insights into return reasons from SKU-level profitability and vendor-level defect reporting.</li> </ul>
Poor customer and associate experience	Streamlines the store receiving process with guided workflows that allow store associates to spend less time managing returns and more time on front-of-store activities that create a better experience for shoppers. And better processing of returned goods means fewer items on markdown and less clogged-up clearance racks.

## THE OPTORO SOLUTION AT WORK: A CASE STUDY

**Background:** A \$12+ billion multi-channel retailer needed a way to manage the returns associated with 20% growth in its ecommerce business. They also required a better way to minimize the loss of value from any excess inventory or damaged goods in their distribution center. Prior to investing in a technology solution, they relied on rule-based and subjective decision making and used traditional bulk-liquidation methods.

The retailer realized that these solutions would not be enough as ecommerce sales grew, and sought out a user-friendly platform to lower processing costs and time, maximize recovery on returned inventory, and improve company-wide visibility into returns.

**Results:** The retailer decided to deploy the Optoro returns optimization solution and experienced:

- 200% improvement in units-per-hour processing
- 12% increase in blended retail recovery
- 22% reduction in landfill waste<sup>11</sup>

11. Returns Optimization Platforms: The Solution Retailers Need to Improve Returns Processing, Optoro, 2018

# ACHIEVE BETTER OUTCOMES WITH HONEYWELL IN-STORE RETAIL SOLUTIONS

# 7



From the storefront to the backroom, Honeywell's In-Store Retail solutions open up powerful new possibilities for your stores. We can help you overcome every barrier to create a consistently great in-store experience for today's consumers – making your operation more profitable, and keeping them coming back for more.

Our consistent track record of bringing innovation to retail, combined with our expansive network of independent software vendors, including Optoro, helps us define solutions that deliver to our customer experience. We're able to provide all the hardware and software needs in one place, aligning your associates and equipping them with the right IoT tools and data insights. This not only helps automate and optimize processes to make them more profitable, but also provides immediate satisfaction to consumers' changing needs.

**Take your reverse logistics to the next level and explore what your stores can achieve. Contact us today.**

#### For more information

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