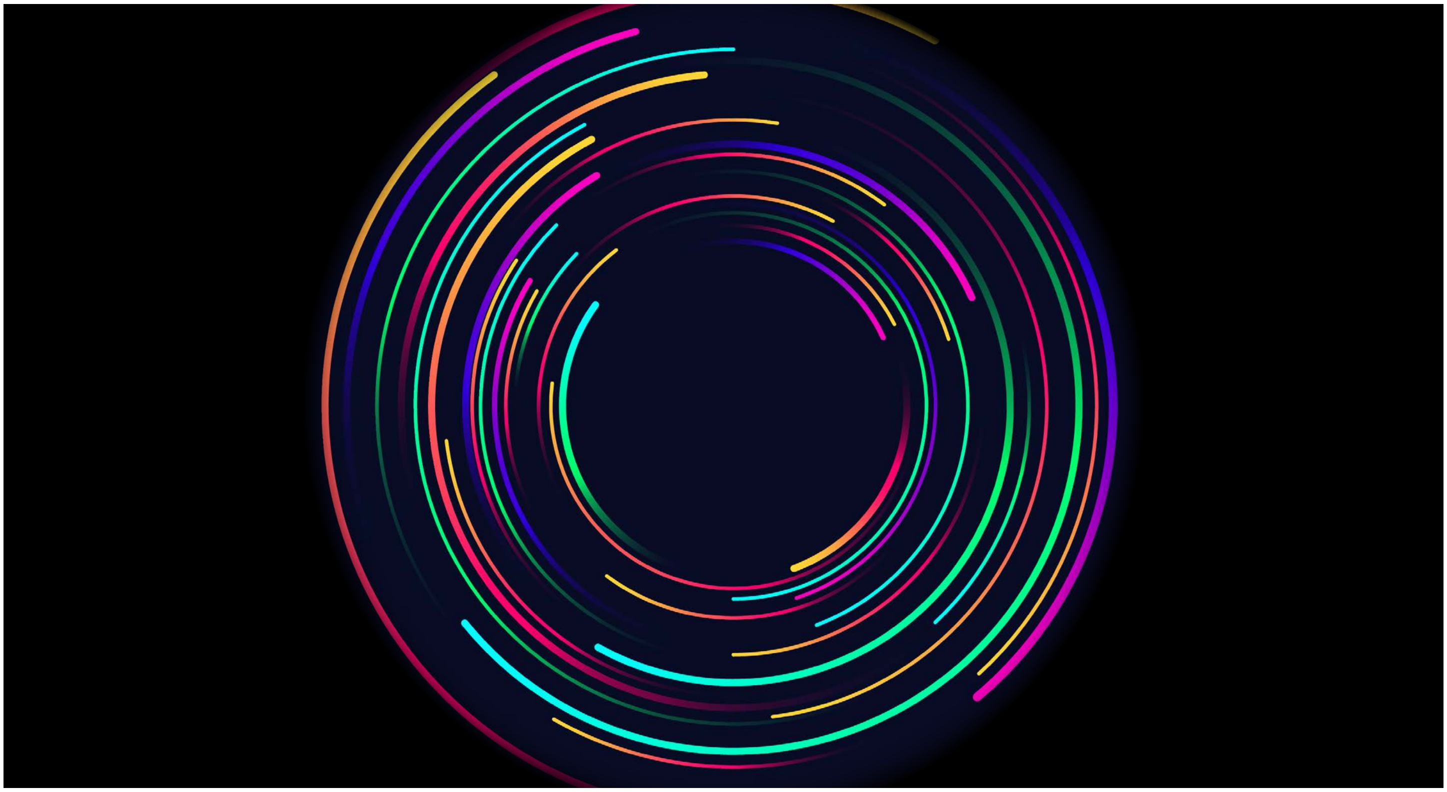


# Reverse logistics

## Managing supply chain disruption amid COVID-19

As retailers navigate operational and supply chain disruption exacerbated by COVID-19, new reverse logistics challenges emerge, and traditional pain points intensify. To recover and thrive now and in the future, retailers need to address weaknesses in their reverse logistics strategies to better protect profits and resources while satisfying the shifting needs of customers.

### The churn of returns

The rise of e-commerce has delivered historic opportunities for businesses to reach more customers by selling goods online. As online purchases increase, however, so too do the challenges of managing returns.[1] Items bought online are now three times more likely to be returned, compared with in-store purchases, and reverse logistics challenges escalate along with return volume.

Reverse logistics refers to the process of managing product returns from consumers back to sellers, manufacturers, and suppliers. Without aligning reverse logistics strategies and processes, organizations can suffer significant inventory, freight, and labor costs, as well as product depreciation and recovery losses. Pain points around inventory, customer service, sales, delivery, and merchandise disposition are intensifying as retailers look for solutions to better manage reverse logistics.

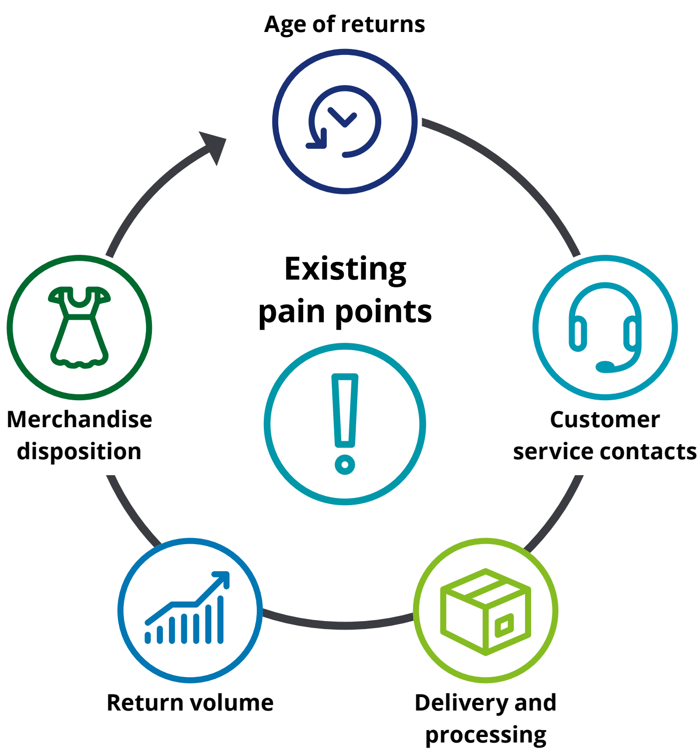
| Age of returns | Customer service contacts | Return volume | Delivery and processing | Merchandise disposition |
|---|---|---|---|---|
| Items that are returned after their peak selling season create **incongruent inventory** that must be marked down or marked out of salable stock | When customers need assistance to execute a return or to track their return or credit status, it costs companies an average of **$5 per contact** | Every item returned affects a company's GMROI by **decreasing sales and increasing expense** throughout the organization | Moving returned items **challenges supply chains**. Inefficiencies lead to unproductive use of space, incremental delivery spend, and delay customer credit | Moving items too many times or unprofitable refurbishment efforts **can exceed the cost of goods** and further deplete margins |

## COVID-19: Escalating logistics pain points

Adding to traditional reverse logistics challenges, retailers are now operating within a state of continuous disruption driven by the COVID-19 pandemic. The global social and economic upheaval makes it more important than ever for organizations to have a sound reverse logistics strategy in place. Robust reverse logistics capabilities are critical to maintaining organizational health, especially in times of crisis.

The COVID-19 pandemic has elevated the importance of reverse logistics, as retailers worldwide grapple with rising inventory turn and operating expenses.

The current crisis exposes existing vulnerabilities in weak reverse logistics processes, pressing organizations to focus on their critical pain points in order to recover and thrive in the next normal. These pain points include:




**More e-commerce equals more returns:** Nonessential, omni retailers were forced to close stores and operate as e-com only

**Halted and extended returns:** Customer return operations were halted or the time allowed to return extended

**Liquidation and off-price surplus:** Closure of top US off-price outlets and slow sales have created an excess of fashion apparel

**Supplier capability impacts:** Return-to-vendor (RTV) or allowance channels may be unavailable due to financial or operational changes

## More e-commerce equals more returns

**Escalated pain points**: Return volume · Customer service contacts · Delivery and processing

Before COVID-19, the pace of online returns outpaced in-store returns by 30%. At the height of the pandemic, more than 20% of the top US retailers were online-only.[2] As a result, retailers experienced a surge of online sales activity that mimicked the fervor of "Black Friday," with return rates on par with postholiday levels. Adding to the challenge, temporary and permanent store closures will force customers to make these returns via mail, increasing delivery and processing expenses. Even as stores reopen, many customers continue to shop online for convenience or due to health concerns. Retailers must prepare for an unprecedented volume increase in returns. Companies with pre–COVID-19 sales penetration of 80% in-store and 20% online typically experienced a total average return rate of 10%.[3] Today, with a dramatic increase in online purchasing and returns, return rates could increase to as high as 30%, especially during the time when only online channels are operational.[4]

Understanding the dynamics behind how, when, and why customers return items is critical to minimizing return volumes and maximizing the customer experience. Every product return is a chance to learn more about the customer, drive the next sale, and make it stick.

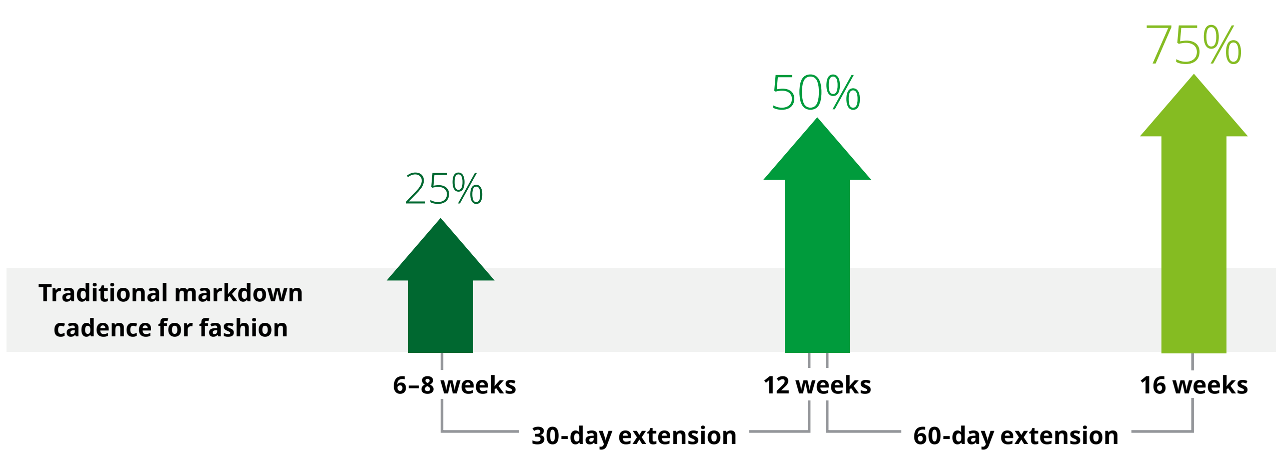
## Halted and extended returns

**Escalated pain points**: Age of returns · Merchandise disposition

In response to the pandemic, more than 30% of top US retailers extended the time allowed for returns—or halted returns processing altogether.[5] While these strategies were necessary due to safety and logistics around returning items during shutdowns, retailer profitability suffered.

The key to maintaining the profitability of returned items is getting them back into salable inventory during their peak sales life cycle. With customers holding return items longer due to closures or return suspensions, retailers are forced to offer deeper discounts and mark-outs of even first-quality goods, cutting into profitability.

It is important for retailers to shape their return policy to balance the customer experience, competitive landscape, and profit margins when establishing the time frame they will allow for returns.



## Liquidation and off-price surplus

**Escalated pain points**

Delivery and processing

Return volume

Merchandise disposition

As organizations continue to respond to and recover from the crisis, many retailers are finding that they have too many seasonal goods on hand. A variety of factors are converging to force retailers to disposition excess goods amid the pandemic:

- Store closures have resulted in retailers having excess acquired and private label inventory
- Higher return volume coupled with slower returns results in more return items being marked out of stock
- Off-price outlet closures and deep discounting in the primary market can decrease secondary market demand
- Canceled orders and other supply chain disruptions results in wholesalers liquidating surplus inventory

Retailers will need to reevaluate their markdown strategies, identify new liquidation channels, and learn how to liquidate internally to address these surplus items.

## Supplier capability impacts

**Escalated pain points**

Delivery and processing

Merchandise disposition

Many retailers are lacking support from business partners, who are limited by the current economic climate and operational changes driven by the crisis. With traditional retailer-supplier agreements upended, a ripple effect ensues. Every challenge in the retail industry affects wholesale suppliers—and vice versa. As a result, suppliers may not be able to provide traditional support to offset reverse logistics costs for retail partners.

Additionally, many manufacturers in segments such as fashion and beauty are in the process of retooling operations to produce medical and cleaning supplies in response to the pandemic. This change in production models can impede their ability to accommodate other returns, which ultimately affects retailers and their customers.

Retailers will need to continue to assess their pricing and promtional strategies to keep selling floors fresh and maintain profitability.

**Common retailer and supplier agreements**

- **Markdown allowance for slow sellers**
- **Damage allowance for quality issues**
- **End-of-season RTVs for surplus inventory**

### How Deloitte can help

The level of disruption taking place in the retail and wholesale industry is historic. Inbound merchandise and sales recovery are intensifying existing returns management challenges and creating new ones. All eyes focus on reverse logistics to help normalize retail operations. To navigate the complexities of this journey, organizations can benefit from a trusted guide with capabilities and solutions tailored to micro and macro levels of change.

Deloitte has the capabilities to prepare organizations for unavoidable disruption—and the experience to help retailers recover and thrive in the next normal.

To meet the challenges of unprecedented change, retailers must apply reverse logistics insights throughout the supply chain and transform return processes for COVID-19 and beyond.

| | Age of returns | Customer service contacts | Return volume | Delivery and processing | Merchandise disposition |
|---|---|---|---|---|---|
| **Traditional pain points** | Items that are returned after their peak selling season create **incongruent inventory** that must be marked down or marked out of salable stock | When customers need assistance to execute a return or to track their return or credit status, it costs companies an average of **$5 per contact** | Every item returned affects a company's GMROI by **decreasing sales and increasing expense** throughout the organization | Moving returned items **challenges supply chains**. Inefficiencies lead to unproductive use of space, incremental delivery spend, and delay customer credit | Moving items too many times or unprofitable refurbishment efforts **can exceed the cost of goods** and further deplete margins |
| **Deloitte capabilities** | Informed analytics to define **optimum return life cycle**. Benchmark policies to ensure internal, customer experience, and competitive alignment | Identifying and assessing **highest-contact** drivers for returns due to policy, site, and operational issues | Assessment of suppliers, product types, or internal processes that result in **excessive return units or higher return rates** | Supply chain optimization solutions to resolve **short-term** inefficiencies and develop a **seamless reverse logistics network** | Establishing **clear and concise return disposition standards** and optimal channels to recover product value |

## Endnotes


1. Deloitte, *Bringing it back: Retailers need a synchronized reverse logistics strategy,* 2019, https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-bringing-it-back.pdf.
2. Deloitte Consulting LLP internal analysis.
3. Ibid.
4. Ibid.
5. Ibid.


## Let's talk: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