A "Returning Problem"

Reducing the Quantity and Cost of Product Returns in Consumer Electronics

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Accenture research estimates that in 2011, US consumer electronics (CE) manufacturers, communication carriers and electronics retailers will spend an estimated $16.7 billion to receive, assess, repair, rebox, restock and resell returned merchandise.[1] Put another way, manufacturers spend about 5 percent to 6 percent of revenues to manage all aspects of a customer return. For retailers, returns represent approximately 2 percent to 3 percent of sales. This would be a gargantuan concern in any industry. But in a sector where margins are thin, competition is brutal and "customer experience" is a key differentiator, high return levels should be seen as a problem of unsustainable magnitude.

Fortunately, the extent of the problem is proportionate to the size of the opportunity. There is great potential for manufacturers and retailers to develop formal programs that dramatically reduce the number and cost of customer returns. The two groups also have the power to design better, more efficient ways to process returns. Together, these approaches could save these companies millions of dollars and create formidable new sources of competitive advantage.

One reason the problem—and the opportunity—are so large is that, according to our research, more than two thirds of costs associated with returns can be characterized as No Trouble Found (NTF). In other words, the products did not meet the customer's requirements or expectations, or the customer believed the product had a hardware or software failure, even though no problem was detected when the item was tested against specifications set by the retailer, carrier or manufacturer.

Similarly, consumer electronics firms could cut costs by implementing more sophisticated approaches to returns processing. Closer collaboration between manufacturer and retailer is a good starting point. Another is developing distinctive strategies, methodologies and tools specifically designed for the returns supply chain. After all, returns operations are unique; it is not effective to position them as simple supply chain appendages or as mirror images of forward-focused supply chains.

This Accenture Point of View examines the scope of the returns dilemma, discusses recent research that frames the problem, explains why improvement opportunities are so vast, and presents a variety of ways that electronics manufacturers, communication carriers and electronics retailers can cut costs by reducing the quantity of returns and improving their post-sale supply chains.

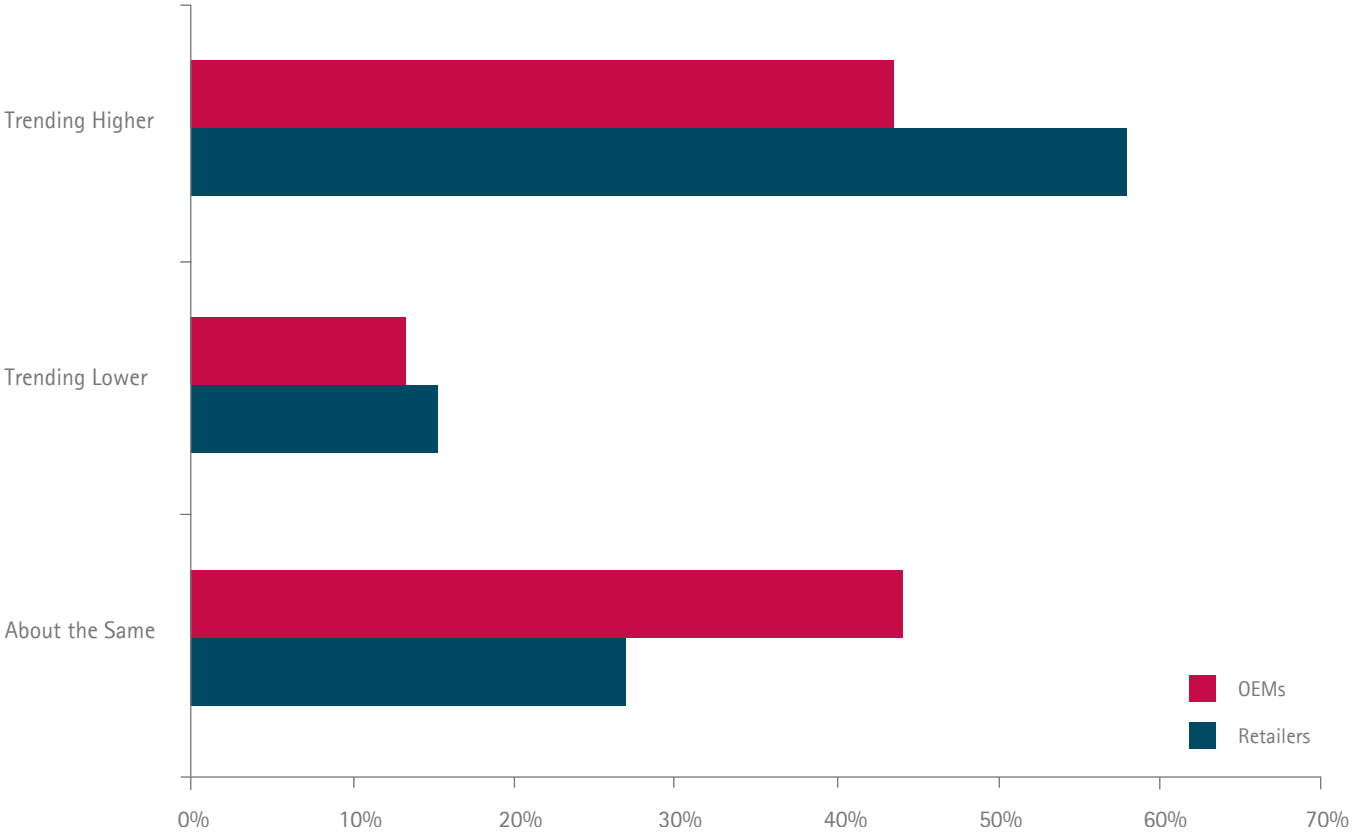
The hidden costs of customer returns

Figure 1: Breakdown of returns costs in the consumer electronics sector according to Accenture research.

As noted previously, Accenture research estimates that the annual cost of consumer electronics returns in the United States is estimated to reach $16.7 billion in 2011. Given this magnitude, Accenture recently set out to understand the problem more fully and determine what actions could be taken in response. Approximately 100 consumer electronics manufacturer, communication carriers and CE retail executives responded to a subsequent survey on trends on customer returns. Within the scope of the research were manufacturers and retailers of wireless handsets, personal computers, set top boxes, digital video recorders, high definition televisions, game players and software, MP3 players, computer software, printers and peripherals, GPS devices, home and vehicle audio systems, CE accessories and media.

The research effort's most important finding may be that most consumer electronics companies do not fully account for the cost of returns—much less do everything possible to reduce them. Consider all the costs that go into processing a returned and repaired/repackaged product (Figure 1). At a typical consumer electronics firm, only warranty costs (approximately 30 percent of the total) are identified as a line item in cost of goods sold (COGS). Accenture research and interviews confirm that the remaining 70 percent of returns costs are categorized either as "selling, general & administrative (SG&A)" or as part of operational overhead. Yet a fundamental first step in reducing returns and processing them more effectively is tracking and analyzing costs in each of the categories shown in Figure 1 (NTF testing, returns processing, liquidation, and warranty reserve).

Figure 2: Recipients of a recent Accenture survey were asked "How do your current return rates compare to the previous three to five years?"



A second area of concern identified by Accenture researchers is that the return rate for consumer electronics devices is between 11 percent and 20 percent and rising (Figure 2). In fact, approximately 58 percent of consumer electronics retailers and 43 percent of consumer electronics OEMs are experiencing higher return rates than in previous years.[2] Of these returns:

- 68 percent are characterized as "no trouble found."
- 27 percent are associated with "buyer's remorse."
- 5 percent are defective.

The bottom line is that 95 percent of returns are ultimately unconnected to product defects!

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Clearly, there are significant benefits associated with reducing the incidence and impact of NTF and buyer's remorse returns (the "non-defective" 95 percent). For example:

- Manufacturers would benefit by reducing the far-reaching expenses (testing, shipping, reporting, repackaging, etc.) linked to products that have been returned by the consumer but operate properly when checked.
- Electronics retailers and communication carriers would be able to lower costly customer interactions and administrative burdens associated with assessing, restocking and arranging for the proper disposition of returned merchandise.
- Manufacturers, carriers and retailers would all enjoy the benefits of increase brand- and customer loyalty.

Proactive solutions

The first thing manufacturers and retailers can do is to stop thinking of returns as a normal cost of doing business. After all, our research suggests that total landed costs associated with returns is 5 percent to 6 percent of revenues for manufacturers and 2 percent to 3 percent of sales for retailers. And a (very feasible) 1 percent reduction in the number of customer returns translates to roughly a 4 percent reduction in return/repair costs. This represents about $21 million in annual savings for a typical manufacturer and around $16 million for a large retailer (Figure 3). The message is clear: High return rates should not be considered "normal;" they are a problem that is worth correcting.

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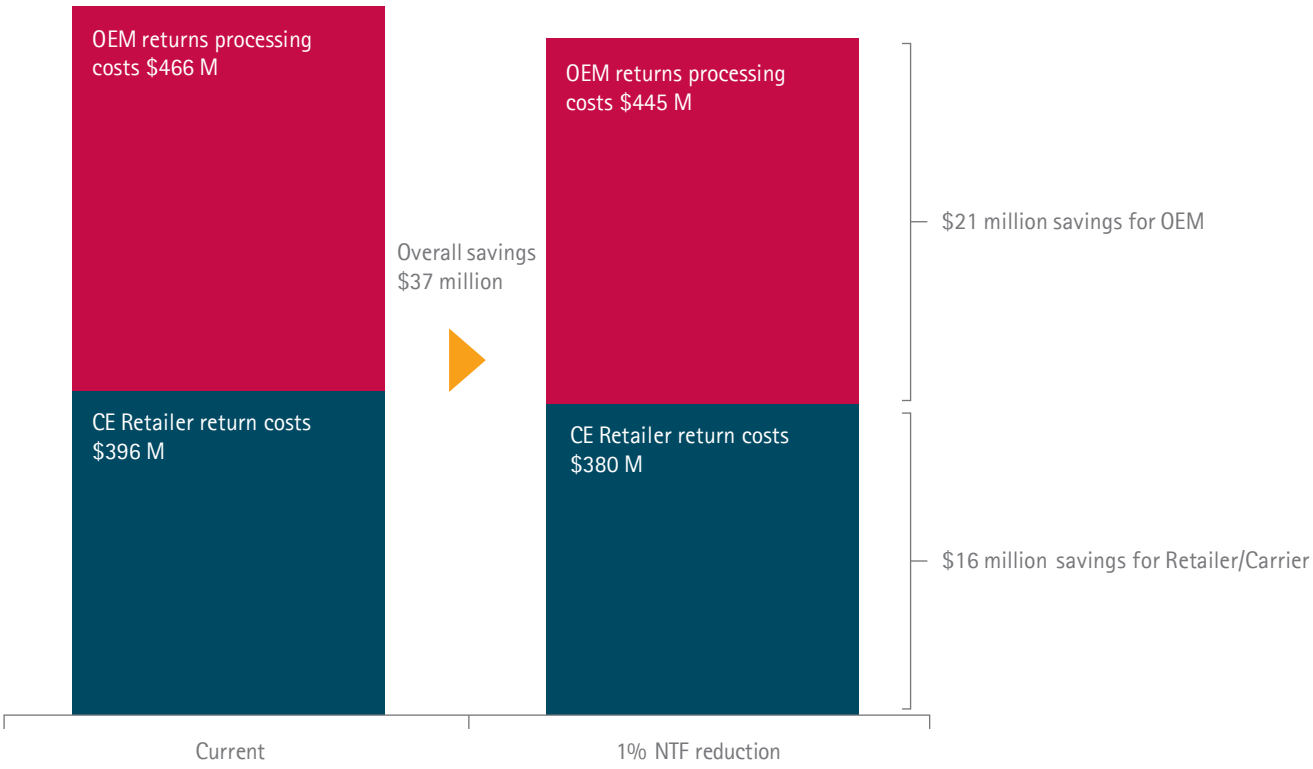
Commensurate with a change in mindset ("high returns are not normal"), manufacturers and retailers can focus on addressing the twin challenges of 1) reducing returns levels and 2) improving their returns–processing operations.

The next sections contain a variety of ways that both these objectives can be reached. However, it is important to begin with a brief discussion about metrics, collaboration and communication. Most companies struggle with measurement and analysis challenges and this hinders their ability to gauge total landed costs. When it comes to returns, comprehensive measurement requires ongoing, systematic capture and analysis of the reasons customers give when returning a product. Measurement savvy not only guides the company towards product and service improvements, it also provides new insights on how best to triage returns. In addition, the inter-organizational nature of returns management means there is merit in manufacturers and retailers understanding each others' perceptions and practices. Prospects for improvement in this area are good: Survey input shows that, in recent years, collaboration in the area of returns data shared by manufacturers, retailers and communication carriers has increased.

To keep the ball rolling, manufacturers need to measure more effectively and extensively, and accept that high NTF returns are not simply the result of overly-permissive retail return policies. Oftentimes, high NTF return rates are symptomatic of problems with a product's design, manufacture, packaging or instructions. Conversely, communication carriers and CE retailers should realize that, to some degree, return problems are self-inflicted.

Figure 3: A 1 percent reduction in the number of open-box returns ultimately designated Not Trouble Found will reduce return and repair costs by 4 percent for both the device manufacturer (OEM) and the retailer.



*This example assumes a $10 B CE device manufacturer with an ASP at retail of $299

1. Reducing Customer Returns

Over the past two decades, consumers have come to expect high levels of customer service in every segment of commerce. This is especially true for electronic items which, enhanced by new technology, have become vastly more complex and require more and more support. Such expectations contribute to customer impatience with products they can't figure out and with support systems that are hard to access or insufficiently helpful. Moreover, consumers know that retailers and manufacturers will accept returns of merchandise that they (the customer) find to be defective, unwanted or (for whatever reason) unusable.

The simple reality is that most CE manufacturers, retailers and communication carriers have not done enough to help consumers understand, set up, use and optimize the products they have purchased. Most companies, in fact, invest considerable sums to manage returns and relatively little to proactively prevent returns (Figure 4). Not unlike health care, both CE manufacturers and retailers need to refocus their investment strategies on prevention.

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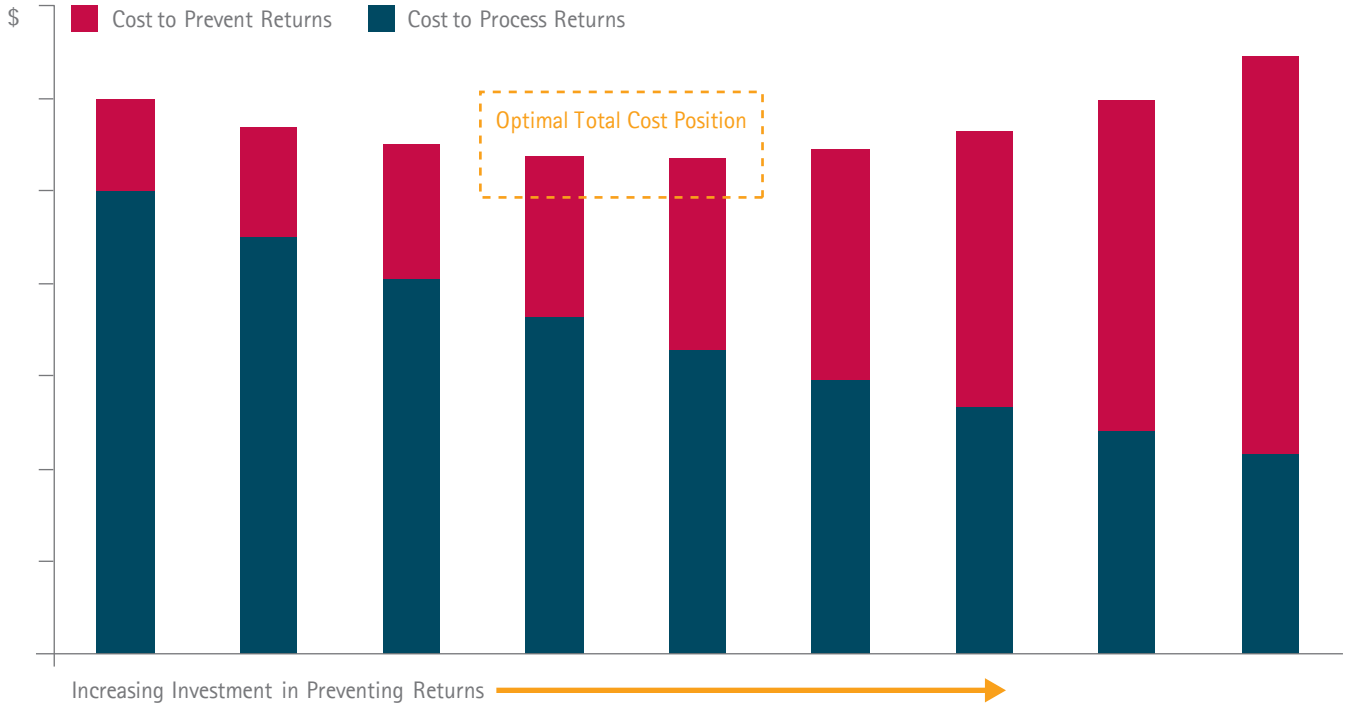
Improving the Stages of the Customer Experience

In some cases, the returns issue has a design problem at its core (basic flaws or higher-than-necessary levels of complexity). Quality control and the minimization of complexity should always be manufacturing priorities, but in many cases, all that is needed is to improve the customer's buying, implementation and usage experience. Think of this experience as having three distinct stages, with strong potential for improvement at each: 1) point of purchase, 2) point of first use and 3) point of need.

Point of purchase. At the point of purchase, manufacturers must concentrate on their ability to improve the retail buying experience. One way to do this is to roll out education programs for retail sales professionals. By expanding training focused on the form, fit and function of a product, manufacturers can help prepare retail sales personnel—making sure the latter are well prepared to address questions, concerns and issues that arise during the buying process. Some manufacturers have deployed online learning or certification programs that offer special rewards to sales professionals that undergo training.

Figure 4: Enhancing investments to reduce the total cost of returns.

Every manufacturer's and retailer's goal should be to determine the optimal (most cost effective) mix of returns prevention versus returns processing. Our hypothesis is that if most organizations fully measure the cost of returns, they will find that their investments are disproportionately stacked in favor of reacting to returns, rather than focusing on the prevention of returns; and that more prevention efforts result in a lower overall cost structure.



Social media and web content are changing the way we live, work and communicate, and they can also help CE companies minimize returns. For example, well-designed websites help people become more informed consumers by providing documentation, FAQs and implementation training—all of which can help consumers make more-informed purchase decisions and subsequently reduce returns. The same sites may also offer consumers a forum to rate and review their purchases, which further educates other buyers. Similarly, social media, chat resources and online videos that provide setup and usage guidance can improve the "customer-training" experience. These media also build loyalty and advocacy among a product's most knowledgeable customers.

One company that Accenture researched was able to reduce its return rate by half a percentage point by offering product videos on a major social media site. Less than 3 minutes long, the videos demonstrate product functionality and setup. Net effect? Fewer returns and happier customers.

Point of first use. At the point of first use, the key concern is ensuring the product's usability. Toward this end, manufacturers could enhance the out-of-the-box experience with better-illustrated "getting started" guides that help consumers set up their devices. These should be much easier to understand than lengthy instruction manuals (but obviously do not replace them). Multimedia customer-education resources such as accompanying DVDs and online tutorials also provide an engaging way to help customers learn about the product.

Less common but oftentimes effective are "priority handling" policies. If a first-time customer contacts the call center, that call might warrant special handling that avoids lengthy wait times and connects customers with personnel familiar with first timers' issues. The mission is about sales and image building as much as support. After all, since returns are so easy, the product is not really sold until the customer is contentedly using it. Call center staff must be able to get the customer up and running on this first call and build excitement concerning the product's value. For example, a "first timer technician" might also take a moment to introduce shortcuts or hidden features to the caller.

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Developing direct communication channels with customers can also ensure that the product stays sold. To engage product purchasers before they return products, one surveyed manufacturer deploys a "set-up concierge." Accessed via an 800 number, the program helps customers set up smart phones to work with their personal computers.

Point of need. At the point of need, the challenge is to address a customer's current concerns and problems with the product. In this context, manufacturers could distinguish themselves by building remote diagnostics capabilities. Such solutions not only enable repairs to be handled remotely but can also identify (and head off) conflicts arising from improper set-up or configuration of a device.

If a customer is unable to rapidly resolve his or her problems on-line, an efficient contact center experience is critical. Many device manufacturers now include flyers with their products that encourage customers to call their contact center rather than returning the device. Accenture research shows that one of the top factors in a compelling customer experience is a personable and capable agent, and a support experience that solves the problem the first time a customer calls. This relates closely to the measurement issues discussed previously: Manufacturers should understand the relationship between increased returns and poor phone support or abysmally slow wait times. Is it possible that attempting to save money by limiting the number of telephone support personnel is actually costing the company money by raising customer returns?

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Return-prevention Strategies for CE Retailers and Communication Carriers

When it comes to returns, retailers and communication carriers have more or less the same challenge as manufacturers: create a satisfactory user experience that helps a bought product stay bought. However, there are unique behaviors that retailers and communication carriers can exert to reduce the returns problem. For example, many customer-facing organizations fail to set reasonable customer expectations or educate the buyer properly. In addition, many retail sales staffs are not sufficiently knowledgeable about their products and thus try to sidestep critical issues that they don't fully understand. In other cases, store advertising, signage and literature fail to communicate a realistic level of complexity or explain what accessories or knowledge the customer needs to launch and operate a device.

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Consider the following five steps that retailers and communication carriers could take to address the returns problem:

Measure the impact of returns. Like manufacturers, retailers need their own metrics to assess the scope of the problem and follow trends over time. As always, it is critical to begin with a baseline in order to benchmark the current impact of returns. Using that information, they can determine cost-appropriate levels of improvement and introduce new approaches as necessary.

For retailers, the most important metrics are return rates by item; item class and manufacturer; length of time since purchase; and reason for the return. It is nearly impossible to determine what new approaches might reduce return rates without this information. One retailer Accenture interviewed also tracks return rates by retail sales person. NTFs are particularly important since these are, theoretically, 100 percent avoidable. The reason for any return that is ultimately deemed NTF should be studied particularly closely.

Develop product-education classes for consumers. The best example may be Apple's Genius Bar which—in addition to creating a generally pleasurable and fruitful support experience—handles training programs for groups and individuals. Better than almost any other manufacturer/retailer, Apple understands that loyalty is largely forged by a positive, personalized relationship.

Offer delivery and setup services to consumers for highly technical products. Accenture research reveals that offering value-added services can radically reduce returns, often by as much as 20 percent, while generating additional revenue. (Best Buy's Geek Squad is probably the best known example.) Given the benefits associated with reduced returns and improved brand image, there is a strong case to be made even without the additional revenue.

Invest in proactive customer service on high-cost/high-return products. The idea here is to assist customers before they have a chance to become frustrated and return an item. By demonstrating interest in the customer's success, retailers not only head off potential implementation and usage problems, but also strengthen their brands' image. One wireless device manufacturer worked closely with a wireless carrier to put in place a proactive customer contact program

Figure 5: Percentage of survey respondents interested in having computers maintained using various methods.

	Provided by a friend or family member	Handled in my home by an onsite visit by a technician	Self directed and guided by training manuals/online forums/training support	Provided by technicians through a telephone call center with me on the phone	Provided by technicians via e-mail or online chat	Provided remotely by accessing my computer at night or during non-use hours	Take it into a retail store/ computer repair shop
Total	51%	40%	39%	36%	36%	33%	28%
18-24	53%	41%	43%	30%	37%	28%	31%
25-34	55%	38%	47%	34%	39%	34%	31%
35-44	51%	41%	41%	40%	39%	36%	28%
45-54	47%	41%	41%	38%	36%	31%	27%
55-64	48%	43%	34%	38%	34%	35%	27%
65+	53%	38%	27%	35%	28%	33%	26%
Male	44%	36%	45%	35%	35%	32%	27%
Female	58%	45%	33%	37%	37%	34%	30%

for complex data devices sold at the carrier's retail stores. By reaching out in the first 24 hours, the collaboration cut buyer's remorse returns by up to 20 percent.

One wireless device manufacturer worked closely with a wireless carrier to put in place a proactive customer contact program for complex data devices sold at the carrier's retail stores. By reaching out in the first 24 hours, the collaboration cut buyer's remorse returns by up to 20 percent.

Provide multiple service options. Customers value choice. They have different ideas about what is convenient, how they want to solve problems and what is worth paying for. Moreover, people not only have widely differing preferences, their choices also vary by age and gender (Figure 5).[3] Some, for example, prefer self-help via the Web while others prefer telephone support or exchange/repair by mail. Another group may prefer the face-to-face interaction and speed of in-person support at a retail facility. A retailer or communication carrier that provides a choice of service and support options is enhancing the customer's experience and potentially reducing return rates. Because more than two thirds of all returns are ultimately labeled NTF, in-person service centers can be a particularly valuable solution—weeding out NTFs before they become returns.

Leading Practices in CE Product Returns

Accenture research on customer returns in consumer electronics reveals several behaviors that can be labeled "leading practice." Simply put, manufacturers and retailers that excel in this area...

• **Measure the impact of returns.** Using quantifiable means, they have determined the cost impact of returns and identified the optimal mix of investments in returns prevention versus returns processing. Their measurement activities involve examinations of all costs and processes associated with device returns. At a minimum, they understand what it costs to receive, process and disposition No Trouble Found products.

• **Create simpler product designs.** Leading practice companies know that easy-to-use products improve the customer experience. In fact, a survey of US consumers found that consumers' tolerance levels for making a device work is approximately 20 minutes.[4] After that, they tend to give up and return the product. Fortunately, there are tools and strategies that can address this challenge.

• **Emphasize customer education.** Industry research suggests that a key contributor to high return rates is insufficient education of the customer. One study by the Consumer Electronics Association found that the top four actions companies could take to reduce return rates are: encourage more pre-purchase research by the consumer; provide better pre-sale info; improve telephone support; and create more informative in-store displays.[5] Not mentioned but also vital is creating favorable, yet reasonable, customer expectations.

• **Aggressively encourage customer feedback to help determine the causes of returns.**

2. Processing Strategies: Optimizing the Return/Repair Network

Many of the companies Accenture studied have a one-size-fits-all strategy when it comes to processing returns. They lack the ability to quickly and efficiently segregate NTF products from truly defective products early in the returns process. They may excel at getting new products to market swiftly, but returns pile up in a stock room. They often are unable to differentiate products tied to stable demand from those with spiky demand, which means they can't make sensible cost decisions about whether a repair should occur in Memphis or Mexico. In fact, they may not be able to determine if it is appropriate to repair a product at all.

Accenture's view is that companies can realize notable gains in profitability by bringing new levels of innovation, agility and flexibility to their returns processing efforts. By streamlining and optimizing their return/repair networks—often applying greater levels of segmentation—they can drive out significant costs. Following are some specific ideas:

Work to understand the total landed cost of returns. Accenture recommends that retailers and manufacturers develop a more thorough understanding of total landed costs for returns—accounting for factors such as transportation and shipping, inventory, labor and materials. Supply chain network modeling tools are available to help companies understand key tradeoffs, such as "cost to serve versus customer service expectations."

Acknowledge that a one-size-fits-all approach rarely works. Volume, complexity of repair, cost of repair, cost of product and customer demand all must be considered when developing a returns network. Various combinations of these factors need to engender different responses. For example, it may be effective to centralize the return/repair process for a product with stable demand that requires complex diagnosis and repair by highly skilled technicians. By contrast, a high-demand product that requires rudimentary diagnosis by minimally trained personnel may lend itself to a decentralized repair network geared to faster turnaround.

Decouple return and repair processes. Companies may find that it is more cost effective and expedient to position return and repair processes as discrete activities that can be performed at one or more sites

(e.g., Triage, Level 1 repair, Level 2 repair). Decoupling these processes can increase the responsiveness and flexibility of return/repair networks. One large communication carrier reduced its repair and return cycle from weeks to days by moving its triage operations to its retail store and adding Level 1 repair capabilities at its distribution sites.

Implement strategies for quickly identifying No Trouble Found (NTF) items and returning them to inventory as soon as possible.

Forecast and plan for returns and repairs. Even the simplest repairs tap into parts inventories, which means that (more sophisticated) inventory management techniques may be needed to ensure and confirm that necessary stocks are available to meet service requirements. Consider using specialized spare parts inventory planning tools that factor in the "drivers" of repairs and the associated parts consumption (e.g., installed base, mean time between failures, warranty data). From an organizational perspective, returns planning should have a slot on the sales and operations planning (S&OP) agenda, where returns metrics are reviewed and continuous improvement opportunities are identified.

Account for different levels of product demand. Manufacturers and retailers should be able to confirm that their return/repair networks can accommodate peak demand for a particular product. When demand is high, returned products need to be rapidly processed and put back on shelves. By contrast, products linked to stable demand may not require rapid re-stocking, so a different, less costly repair approach may be preferable.

Explore creative solutions for B stock. Many of the manufacturers and retailers studied by Accenture have recently expanded their online auction activities for B product stock. In fact, many leading retailers are approaching the secondary market customer with the same zeal applied to brick and mortar customers. They're moving liquidation in-house and thus increasing profits by avoiding the middleman.

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A Returning Opportunity

Working together, CE manufacturers, retailers and communication carriers have a distinct and very large opportunity to 1) reduce customer returns and 2) make the processing of necessary returns less arduous, less costly and, in some cases, more profitable. The reason for such vast improvement potential is simple: A great majority of returned products are not defective, thus implying that most returns associated with consumer electronics devices are preventable. 95 percent of returns are ultimately unconnected to product defects!

At the same time, smarter investments in return and repair operations—calibrated and segmented to reflect cost realities and market conditions—are another potential win.

The bottom line, of course, is new potential for broad cost improvements, greater competitive differentiation, increased customer loyalty and a stronger brand image—all of which contribute mightily to higher profitability and the attainment of high performance.

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