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COMMERCIAL REAL ESTATE SERVICES

THE OPPORTUNITIES AND CHALLENGES CAUSED BY REVERSE LOGISTICS

EACH YEAR IN THE U.S. ALONE...

$400B
worth of merchandise is returned.

That's equivalent to the
30th
largest economy.

And this totals roughly
5.1B
returned items.

Source: Optoro 2019 Impact Report

It is a truth universally acknowledged that the industrial sector is the darling of the commercial real estate investment world. Compared to any other asset class, industrial has been yielding higher rates of return for nearly half a decade. These returns, moreover, are not just a statistical phenomenon. Rather, they are the result of a fundamental shift in consumer behavior and preferences. Consumers increasingly prefer to shop online instead of going to brick and mortar stores. In the US, internet sales were up 12% in the first quarter of 2019 compared to the year prior. What's more, E-Commerce sales currently account for over 11% of total retail sales, and the percentage is only growing. Worldwide, E-Commerce sales exceeded $1.5 trillion last year.

The rise in E-Commerce is causing a massive amount of disruption in global supply chains and the network of storage and distribution facilities used to fulfill consumer demand. This disruption is not limited to affecting the standard supply chain where goods move from the seller (or manufacturer) to the buyer (or end-user). It is equally causing a tremendous amount of challenges and opportunities for reverse logistics, the movement of goods from the end-user to the seller.

Due to the fact that E-Commerce sales have a much higher return rate than those of brick-and-mortar stores, the reverse logistics operations of firms are tested to the hilt. As much as 30% of online purchases will be returned. Combined with the returns from brick and mortar retail, that's over $650 million worth of returns annually. The cost and expense of all of these returns are immense, but how a firm manages its reverse logistics operation in terms of brand value, customer satisfaction, growth, and profitability will be the difference between success and failure.

To remain competitive, retailers increasingly must offer free returns in addition to providing an easy return process. But even an easy return process has significant costs attached to it. Due to issues regarding process time, liquidation recovery, shipping, handling, and attendant labor costs, shipped returns can result in more than $50 billion in profit loss and more than 10 billion unnecessary shipments.[1]

Often overlooked, reverse logistics also incur sizeable costs from increasing amounts of depreciation associated with rising product inventories. Because the overall return rate grows by 10% each year, a higher amount of inventory is subject to depreciation, with the level of depreciation varying with the product type. For example, electronics lose between 4% and 8% of their value per month while fashion apparel depreciates by 20% to 50% of its value within eight to sixteen weeks according to logistics software start-up Optoro.[2]

Consequently, efficiently managing returns is a key concern for any retailer. There is no one strategy used by all firms. For instance, since they do not have physical locations, Amazon now offers free returns for Prime members in more than 1,000 Kohl's locations, allowing customers to drop off their unpackaged items at the store while receiving a 25% discount at Kohl's[3]. By contrast, Happy Returns, third-party return and logistics solution provider, has now enabled customers to send back their online returns by dropping them off at a kiosk.[4]

In terms of its real estate impact and footprint, a reverse logistics supply chain requires as much as 20% more space than a traditional forward-flowing logistics supply chain[5]. Although the types of products being returned will determine the particular real estate requirement; typically, older-generation space is preferred over modern top of the line warehouses, and buildings with lower ceiling heights are more frequently used given the difficulty of stacking irregular and oddly shaped pallet-loads onto tall racks.

To both maximize their space for outbound logistics and to economize their overall overhead, many retailers now outsource their reverse logistics operation to third-party logistics (3PL) firms such as CH Robinson, XPO Logistics, and UPS Supply Chain Solutions.[6] This has been an enormous boon for the 3PL industry, which has grown by over 25% in terms of square footage since 2016[7] and whose revenue is expected to total over $19 billion by year-end. The industry's revenues, in other words, are expected to double from the $9.5 billion it achieved from its North American E-Commerce operations in 2016[8].

Without question, in the E-Commerce era, no firm can treat reverse logistics as an afterthought.

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Sources: Supplychain.toolbox.com, Optoro, Kohl's, Businesswire.com, Logistics Management, Armstrong & Associates

[1] Supplychain.toolbox.com: "Free Returns Are Costing Billions in Supply Chain Losses" https://bit.ly/32MWK0R

[2] Optoro: Various White Paper found here: https://bit.ly/2IhyLNW

[3] Kohl's: https://bit.ly/39n39Ct

[4] Businesswire.com https://bwnews.pr/2TjnK4X

[5] Per Optoro https://bit.ly/2IhyLNW

[6] Logistics Management: https://bit.ly/2TlPy8M

[7] Logistics Management: https://bit.ly/3asTQRQ

[8] Armstrong & Associates: https://bit.ly/2wtRjrv