TACKLING *holiday* returns WITH TECHNOLOGY

By Paul Busch

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A holiday hangover, buyer's remorse or impulse buying gone bad—no matter what you call it, around 10 to 15 percent of merchandise, once purchased/gifted/unwrapped, will be heading back to Canadian retailers and manufacturers this holiday season.

Holiday sales can account for as much as 30 percent of total annual revenue for most retailers. But on the heels of the biggest shopping season of the year—which runs from the end of October through Boxing Day—comes a rush of returned merchandise that will end up significantly cutting into the bottom line (while simultaneously putting a damper on your holiday cheer).

This season, in particular, will bring higher return rates as more consumers than ever are expected to shop online (e-commerce return rates are almost double that of bricks and mortar stores). Heightened consumer expectations of relaxed cross-channel returned policies and gift-recipient dislike will also play a role in the reason for return.

Though lots of it will be in functionally and cosmetically perfect condition, much of the product won't be put back on store or virtual shelves due to the high cost of restocking or rerouting individual items.

In most cases it's more efficient to mark the inventory for liquidation and sell it into the secondary market. Having a proper liquidation solution in place, especially one that recoups top dollar for the merchandise is crucial.

So, how can an organization update its liquidation program in order to achieve maximum recovery for returns and other overstock merchandise slated for liquidation (post holiday and all year round)? The answer is really quite simple (and likely involves something you are already doing in your forward supply chain). By applying technology and data-driven methods to your liquidation program, you can increase recovery, in some cases by double digits.

Ditching the middleman broker

Let's first take a look at why conventional methods of dealing with customer returns and excess inventory are—like the inventory itself—obsolete.

Consider this:

- If you've historically sold your inventory to one or two brokers, your recovery value will remain low because brokers are experts at negotiating prices down in order to maximize their own profits. They make money by buying at lower prices, not by selling at higher prices.
- Selling directly to a broker can mean a lack of control over who is eventually buying your inventory and how your brand enters the secondary market.
- Time spent negotiating deals for every lot of merchandise you have to sell (phone, fax, email), takes you away from core, strategic business activities.

Applying technology to liquidation

Over the past few years a shift has taken place in how organizations manage their returned and overstock inventory. Many are bypassing layers of middlemen and incorporating technology-based liquidation programs into their overall business strategy.

This type of solution allows thousands of buyers to compete for the inventory, pushing prices up (versus a broker negotiating them down). Most likely there is already a robust secondary market and buyer base for your product(s). In every major city around the globe there are businesses that purchase excess and returned inventory for resale. The secret to success is the ability to gain access to this buyer base.

A web-based solution is one way to make this happen.

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This could entail launching an online auction liquidation marketplace that can be customized, integrated, and marketed based on your unique inventory needs, or leveraging an established B2B liquidation marketplace.

Either way, you are automating the process, ensuring a faster sales cycle and proprietary market intelligence in the form of real data on market prices. What's more, you can recover substantially more with less work, which will positively impact your bottom line.

Many of the world's top retailers, including the world's largest retailer and e-retailer, along with Canada's biggest appliance manufacturer, are using a web-based, automated auction approach and increasing recovery for their returned and excess merchandise by 30 to 80 percent and sometimes much more.

Solutions for success

Keep in mind, having the technology and/or leveraging the web-based solution is the first step, but to deliver optimal results requires specific skills and expertise. With liquidation auctions, knowing how to assemble the inventory as well as how to target, drive and sustain the right buyers will substantially increase recovery.

Furthermore you should be prepared to analyze the data the platform generates and know how to react to those results. Data-driven strategies, when applied to an online liquidation marketplace can often increase recovery by 50 percent and sometimes much more.

With that, let's take look at how to build a formula for success through bidder acquisition and retention, sustained bidder competition, and inventory optimization.

Find the right buyers

Having the right buyers is a critical first step to maximizing recovery. By segmenting buyers by product category, condition code and ability to participate (financial ability, geographic location, etc.) you can properly drive demand. Whether you handle it in-house or via a solutions provider, developing effective, robust demand generation campaigns can increase recovery significantly.

Sustain bidder competition

More bidder competition, among the right buyers, means higher prices every time, so continually investing in attracting new buyers through targeted demand generation programs is critical. Consider this: there is up to a 300 percent increase in recovery rates as competition grows from under five bidders to more than 15 bidders.

Generate repeat buyers

Repeat buyers create a foundation on which to build a successful marketplace and can result in a triple digit increase in recovery. There are many operational elements that contribute to success here including: building customer loyalty programs that reward repeat purchases or marketing campaigns that target buyers based on their past bidding and buying history.

Optimize your inventory

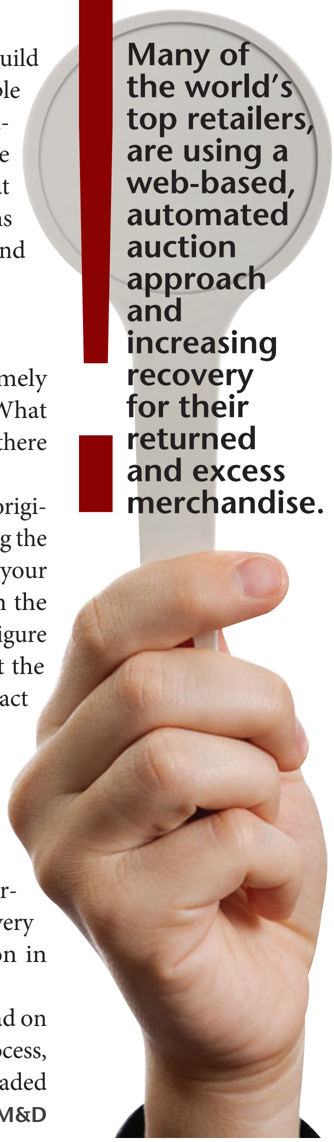
How auction lots are assembled is also extremely important to maximizing recovery numbers. What works best here is unique to every situation, and there are many variables to be tweaked and tested.

This might include segmenting by product type, original MSRP per item, overall lot size and even taking the time of year into consideration (eg: recovery on your cold-weather holiday returns will be higher in the winter/fall versus summer). It can take a while to figure out what optimal configurations look like, but the best-optimized lots can have a double-digit impact on recovery rate.

Many happy returns

In today's return-happy landscape, it literally pays to rethink whatever program(s) you have in place for the handling and remarketing of this merchandise—after December 26 and all year long. Every dollar increase in recovery value, or reduction in expense, equals another dollar of profit.

By facing returned and excess merchandise head on and applying fresh thinking to the liquidation process, it can become a strategic asset rather than a dreaded afterthought. **MM&D**



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