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Limiting the Pain Points and Maximizing Success When Remarketing Consumer Technology Returns



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The Pain

As an OEM or retailer, dealing with consumer product returns is a part of daily life. It would be optimal if every item, once sold, stayed in the market. However, for many different reasons, a percentage of consumers will choose to return the item for credit. Once the consumer has been credited, the question that remains is how to re-coup the lost profit or minimize the loss on the initial investment. For example, if a tablet computer with a cost of \$400 was sold to a consumer for \$500 and then later returned, the seller loses the \$100 profit. If the tablet can be

returned to market at a sell price of \$450, the seller re-coups 50% of their profit. Conversely, if the tablet is re-sold for less than \$400, the seller will be faced with a loss in the initial investment. To add further complexity, the product will probably incur additional costs to ready it for market. Additional costs could include; handling, audit, repackaging, refurbishment, data removal and remarketing services. Lastly, technology products devalue quickly over time. Very rapid devaluation strikes when there are new product entrants, end of life issues, and consumer backlash over performance. The rate of devaluation is a cost unto itself but not knowing rate of change or the drivers of the devaluation can lead to staggering losses.

Therefore, it is paramount for an OEM or retailer to partner with a reverse logistics partner that can design and deploy a program that maximizes remarketing value and minimizes return to market costs.

The Formulas to Success

The desire to remove cost from the equation is generally the initial focus for a new client when they approach FastAsset for crafting custom solution. That is a good start; however, from FastAsset's perspective, optimizing a program to remove costs is only the foundation of a successful and sustainable program. Creating a program that also optimizes value recovery and velocity is at least equally as crucial to our client's overall success. Here is how FastAsset defines optimal value recovery and optimal velocity:

Optimal Value Recovery – Maximizing the recovery value for the item across all major B2C and B2B channels and prioritizing the channels offering such that the highest overall dollar recovery can be achieved.

Optimal Velocity – Managing channels to maximize the total number of items that can be successfully remarketed in any given period of time be it a week, a month, a year or longer.

Measuring Value Recovery

The financial equations for remarketing returned goods can be defined as follows:

$$\mathbf{NRV = RV - TCRM}$$

NRV = Net Recovery Value. This is the goal of any remarketing strategy.

RV = Remarketed Value. This is the price at which the item is remarketed once it has been audited, tested, refurbished and/or re-packaged.

TCRM = Total Cost of Return to Market. This is the total of the following cost buckets, some or all of which will apply to any given returned product.

- Logistics, handling and warehousing
- Triage, testing, data wiping, firmware reset
- L1 and L2 refurbishment
- Repackaging, warranty provision
- Remarketing
- Post-sales support

$$\mathbf{RP = NRV / IS}$$

RP = Recovery Percentage. NRV/IS . The actual percentage of the Initial Sale that is recovered once the product has been prepared for market and then re-sold.

IS = Initial Sale. This is the price at which the OEM sold the product to the retailer or the price at which the retailer sold the product to the end-user.

Example – Single Unit

Here is an example for a single unit. A notebook computer originally sold to an end-user at retailer MSRP of \$500:

$$\mathbf{IS = \$500}$$

A tablet computer is returned for unknown reasons. FastAsset receives it from the retailer returns center, audits it and determines that it has a hard failure plus will require some plastics work. The unit is put through L2 repair, the drive is wiped and the OS is re-loaded. Ultimately it is re-packaged with FastAsset warranty

paperwork. FastAsset then remarkets it into the B2C or B2B channel that will recover the highest dollar value for that unit.

FastAsset remarkets the notebook via its B2C channel and it is sold for \$425.

RV = \$425

In this example, assume a \$45 total logistic and refurbishment cost + \$34 (\$425 x 8%) fee for FastAsset channel remarketing and post-sales support (\$34)

TCRM = \$79.

RV-TCRM = NRV NRV/IS = RP

$\$425 - \$79 = \$346$ $\$346 / \$500 = 69\%$

In this example, the net retail value is \$346 and the retailer recovered 69% of MSRP¹ once all costs and value have been factored. It is an excellent recovery. Now let's assume that there are 5,000 units of that SKU that are returned over a 3 month period.

Example – Multiple Units

IS now equals the total initial sales at multiple MSRPs as the tablet computer was re-priced over time in order to remain competitive with other models.

TCRM now equals the total of cost for all 5,000 units. Returning those units to market condition will require differing degrees of effort; simple data wipe, audit, parts replacement and plastics repair. Some units will be BER (beyond economical repair) and will be used for parts harvesting or recycled.

RV now equals the total recovery value for all units that are remarketed.

NRV and RP are now for the total 5,000 units.

¹ % of MSRP will vary based on various factors such as product age, level of work required to return product to marketable condition, and channel demand.

Here is the example for the 5,000 returned notebooks:

In this model we assume that a weighted average sale price of \$486.77 (Average of 5,000 units sold over three months (2,250@\$500, 2,150@\$479 and 600@\$465) X 5,000 units sold.

IS = \$2,433,850.

Assume that FastAsset then remarkets 90% of the product at an average \$410 average recovery value (assuming that 10% of returns are non-repairable) x 4,500 units sold

RV = \$1,845,000.

Lastly, assume a total logistics and repair cost of \$170,000 (\$34 average cost x 5,000 units) + \$147,600 (\$1,845,000 x .08%) total cost to remarket and provide post-sales support².

TCRM = \$317,600.

RV-TCRM = NRV NRV/IS = RP

\$1,845,000 - \$317,600 = \$1,527,400 \$1,527,400/\$2,433,850 = 63% of MSRP³

Balancing Value Recovery and Velocity

In order to drive the highest NRV from the remarketing of customer returns in any given period, it is crucial to simultaneously minimize costs, drive the highest possible recovery values and maximize the number of units successfully sold.

NRV in any given time period is the sum of the values recovered across all sales platforms being utilized. For example, a typical program created and managed by FastAsset could be expressed as follows:

NRV (eBay) + NRV (Amazon) + NRV (national retail) + NRV (regional retail) + NRV (e-tail) + NRV (VAR) + NRV (parts sales) + NRV (scrap value) = Total NRV (Time Period X)

² Remarketing cost is generally factored as a percentage of recovery value (RV) rather than MSRP as it is then tied directly to the ability of the remarketer to drive the highest possible values for every item.

³ See footnote 1.

Successful programs that are truly optimizing value recovery will measure and continually adapt to maximize the NRV across all available markets in any given time period. Here is an example of why multi-channel management is so crucial:

B2C	4%						
	month 1	month 2	month 3	month 4	month 5	month 6	Total
Value	\$ 500	\$ 480	\$ 461	\$ 442	\$ 425	\$ 408	
Qty	500	500	500	500	500	500	3000
NRV	\$ 250,000	\$ 240,000	\$ 230,400	\$ 221,184	\$ 212,337	\$ 203,843	\$ 1,357,764

Retail	4%						
	month 1	month 2	month 3	month 4	month 5	month 6	Total
Value	\$ 475	\$ 456	\$ 438				
Qty	1400	1000	600				3000
NRV	\$ 665,000	\$ 456,000	\$ 262,656				\$ 1,383,656

In the example above we have a tablet computer with a starting NRV (B2C) of \$500 and a starting NRV (Retail) of \$475. The 5% delta in price reflects the additional margin that is captured by B2C⁴. In this example, both channels devalue at 4% per month.

As mentioned previously, there is an effective cap on sales through B2C that is far lower than the combined monthly totals that can be moved through traditional retail and e-tail channels. This is reflected in the 3,000 units moving through each channel – 6 months required for B2C and three months for B2B. The net result is even with a 5% starting price delta, the retail channel can recover a higher overall dollar value and do so in a far shorter time. The client has received its NRV in 30 days and the channel is ready to be re-loaded. In real-life, the channels factors are far more complex and the market is much more fluid. For an OEM or retailer, rarely are the resources to constantly do this type of channel analysis available.

⁴ In this example the 10-15% fees associated with B2C sales have been removed. The 5% delta represents a comparison of net numbers.

Therefore, it is crucial to have a partner like FastAsset that has a dedicated team constantly performing this sophisticated analysis and managing the channel load-balancing.

Pitfalls to Avoid

In recent years, B2C direct sales via the Internet has become the most visible method for maximizing value. The common selling point for B2C is marketing directly to a consumer without the layers of potential middle-men removed. The result is maximum value for a remarketed.

While this is in general an accurate statement and B2C is a great tool, there are pitfalls with solely relying on B2C. The internet is primarily about creating transparency through the dissemination of information and too much transparency creates exposure. At some point, that exposure can lead to price wars, the appearance of over-supply and hyper-commoditization. Additionally, there are limits on velocity that can be achieved via B2C sales.

For example, an OEM might have 20,000 units of a particular replacement notebook battery that has reached end-of-life yet; however, due to low demand, the effective market via Amazon and EBay for that item might be collectively under 200 units a month. For this reason, FastAsset is often approached by clients that has over-relied on the B2C marketplace and now has a massive backlog of unsold products. OEMs and retailers have sensibly cultivated a partnership with a reverse-logistics provider that can access multiple channels from e-tailers and bricks-and-mortar to VARS and exporters and can balance those channels to best match velocity to available supply.

Velocity, without adequate thought into maximizing value, can be a pitfall as well. FastAsset is observing a trend in the marketplace that could potentially offer challenges in the years ahead. Certain large retailers are wrestling with large and ongoing streams of returned products that must be continually moved into the channel to avoid those products cluttering their returns centers and bringing their operations to a stand-still. The up-and-coming trend is for product liquidators and online auction-houses to remarket those returns via the truckload with minimal effort put to readying the returns for market. Broadcast-style emails that read

“Retailer X store returns by the truckload” are presented more and more frequently.

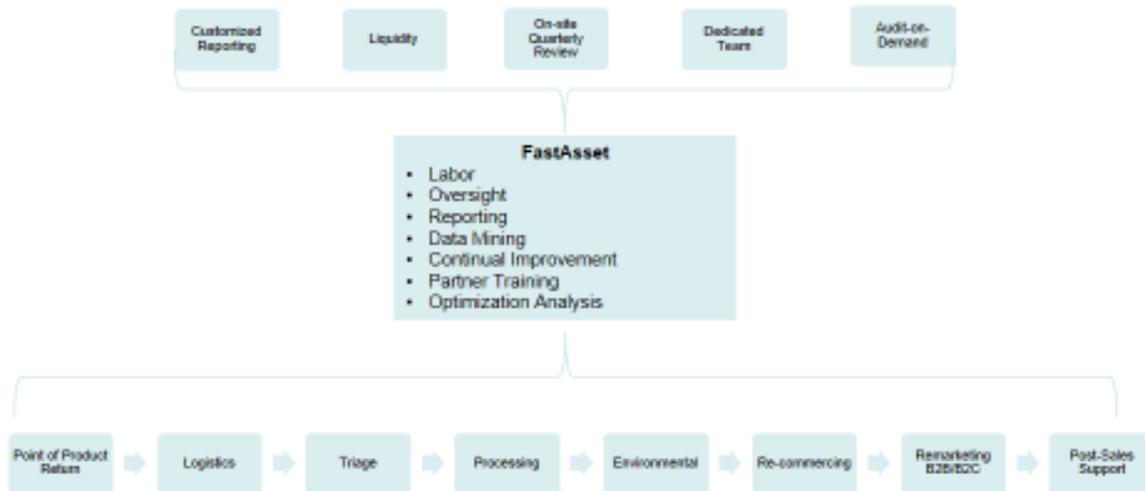
When a truckload of returns has not been audited, sorted and value-graded before sale, the seller places a lot of the risk for product conformity and quality onto the buyer. For example, the buyer might be purchasing a truckload that does not meet specified requirements and a good portion of it might be non-salable. On the other hand, the retailer might be leaving a lot of value on the table because the load exceeded expectations. FastAsset has customer relationships with a lot of the companies that are purchasing these flows and in their minds this process is a gamble. The hope is always that the product will exceed expectations and that they will make higher than expected margins. If they are successful than they will continue to purchase the goods but once they have lost the gamble a few times they inevitably will cease to purchase the goods or seek to pay a reduced dollar value and the process begins again, but with a lower recovery value for the retailer. Over time, this type of market saturation could serve to bring down the overall value of a retailer’s returns until the entire process is no longer cost-effective and the original problem of clutter at the returns center comes back again while the effective customer-base is now disillusioned.

Certainly moving products with high velocity is sometimes the paramount concern; however, it can lessen the value of the retailer’s brand image to be directly associated with liquidation and FastAsset counsels its clients to remain anonymous during the process. Lastly, items that would traditionally recover a higher value in the marketplace can be effectively hidden within the truckload flow. FastAsset’s more successful retail clients are cognizant that sorting and segregating high value product flows from lower quality flows offers a higher overall value recovery even with the additional costs considered.

Summary

The optimal balance of value and velocity occurs when multiple channels for remarketing are balanced to maximize net recovery in any given period of time. For an OEM or retailer, working with a partner that can design and deploy a value recovery process that is cost-effective, efficient and sustainable is paramount to long-term success.

Your Returns Channel Optimized



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