

Accenture Communications & High Tech
Big Trouble with No Trouble Found:
How Consumer Electronics Firms
Confront the High Cost of
Customer Returns

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Executive Summary

Accenture's High Performance Business research has revealed that in 2007 consumer electronics manufacturers, communication carriers and electronics retailers will spend an estimated \$13.8 billion in the U.S. assessing, repairing, repackaging, restocking, and reselling returned merchandise. In Europe, the figure is estimated at \$11.5 billion. In an industry where margins are thin, competition is brutal and the "customer experience" is becoming a key differentiator, this is not just a financial problem—it's a threat to future growth.

But this problem also represents an opportunity. By taking active steps to prevent customer returns upfront and improve returns processing when they occur, companies can competitively differentiate themselves, deliver impressive gains to the bottom line and achieve high performance. This is one of the central findings of a new study by Accenture on the market dynamics and opportunities now associated with managing returns in the consumer electronics field.¹

Accenture's business research also suggests aggregate returns rates in the U.S. and Europe have been influenced by differing retailer return policies. While product failure rates (as a percentage of all returns) are virtually the same globally, our research indicates that European policies drive a higher percentage of product failure claims in Europe than in the US. Our hypothesis is quite simple: customers claim a device is broken to comply with the retailer's return policy. Equally interesting, 62–85% of all returns, whether in the United States or Europe, can be characterized as "No Trouble Found" (NTF). In other words, the products did not meet the customer's requirements or expectations, or were perceived as faulty by the customer, yet yielded no detectable fault or problem when tested by the retailer, carrier, or manufacturer.

However, strategies and solutions exist that can prevent such returns in the first place. Accenture contends that businesses striving for high performance in the consumer electronics sector consider employing a number of educational, design-related and service-based actions focused on ease of use throughout the product life-cycle. This should dramatically reduce customer returns and therefore reduce returns handling costs.

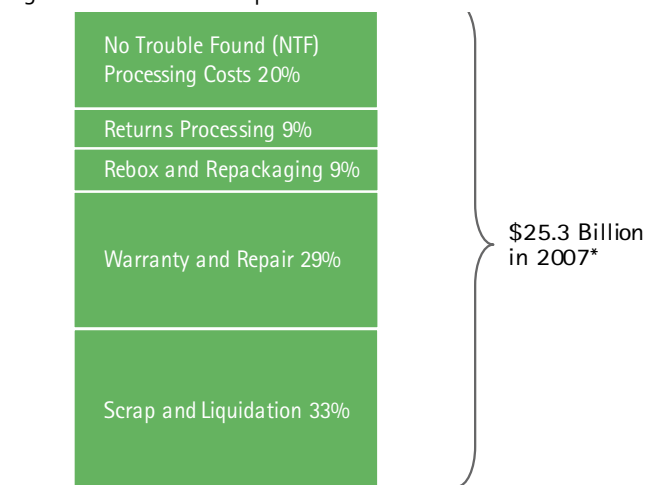
Similarly, consumer electronics firms can cut costs substantially by rethinking their approaches to returns processing. Businesses looking to achieve high performance have slashed operating costs by streamlining and optimizing their return/repair networks. Some, for instance, have redesigned their processes to ensure returned products are treated differently depending on whether consumer demand for them is high or merely stable.

Accenture's research suggests that total landed costs for returns are about 5–6% of revenues for manufacturers and 2–3% of sales for retailers. The savings associated with these new approaches can be measured in the tens of millions for large enterprises.

Accenture believes manufacturers, retailers and communication carriers have an opportunity to transform the state of returns in the consumer electronics market. Through disciplined analysis of returns strategies, processes and costs, they can identify the actions necessary to drive out costs and drive profitability to new levels.

¹Accenture Communications & High Tech

Figure 1. Return and Repair Cost Breakdown



*Estimated Cost for Europe and US combined based on Accenture studies and industry surveys.

The Hidden Costs of Customer Returns

The total cost of consumer electronics returns attributed to U.S. based consumers was estimated at \$13.8 billion in 2007. In Europe, the estimated figure for the same period is \$11.5 billion. Given the magnitude of returns, Accenture decided to explore the issue more deeply to learn whether they are being managed as effectively as possible.

What we discovered is that most companies in the sector are not even fully accounting for these costs—much less doing all that can be done to reduce them. (Figure 1)

Consider the breakdown of costs that go into the processing of a returned and repaired/repackaged product (see Figure 1). In the case of a typical consumer electronics firm, only Warranty and Repair costs (representing just 29% of the total) are calculated in the costs associated with product returns.

But high performance companies are focused on both tracking and reducing costs in each of these categories. Through preventative action pre-return and enhanced processes post-return, they are driving significant gains in overall financial performance.

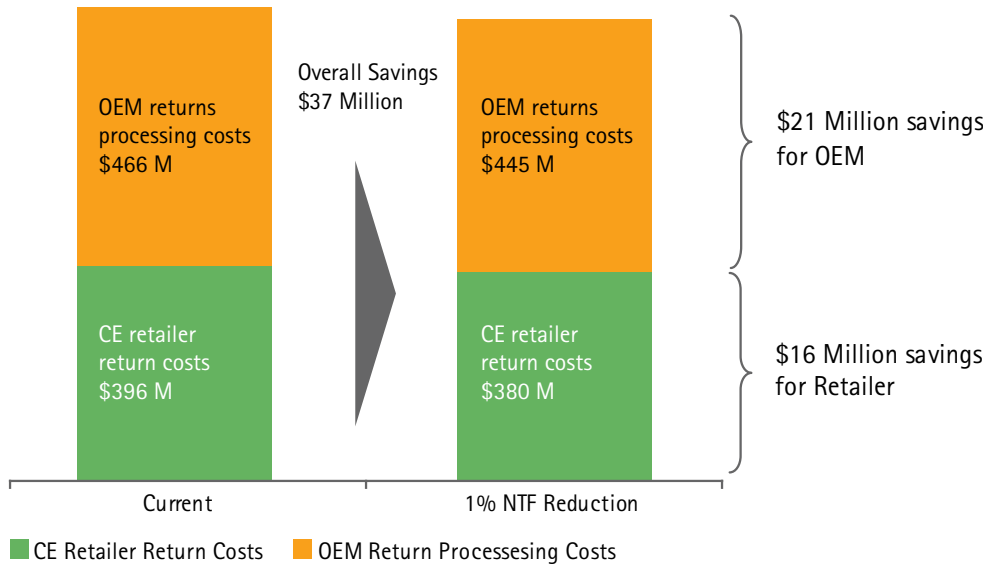
Industries Studied

For 2007, it is estimated that consumer electronics companies shipped 1.9 billion products in the U.S. alone, according to the Consumer Electronics Association.² The value at wholesale is expected to reach \$160 billion in 2008. In Western Europe, industry revenue is expected to climb to \$155 billion. Among the products considered within the scope of the consumer electronics sector: digital cameras and recorders, video players and recorders, computer monitors, flat panel and high definition televisions, game players and software, MP3 players, personal computers, computer software, printers and peripherals, wireless handsets, GPS devices, home and vehicle audio systems, consumer electronics accessories and media.

²Consumer Electronics Association, U.S. Consumer Electronics Sales and Forecast Report 2003 – 2007.

Figure 2. Impact of a 1% reduction of No Trouble Found (NTF)

In the example below, Accenture research found that a 1% reduction in No Trouble Found returns will reduce return and repair costs by 4% for both the CE retailer and the CE device manufacturer



Accenture estimates that the average return rate for consumer electronics devices ranges between 11% and 20% in the US and 2% to 9% in Europe.

Of these returns consumers were much more likely to provide a reason of "Buyers Remorse" in the U.S. (27%) than in Europe (6%). However, instances of a Consumer claiming that a device is "broken or damaged" is much higher in Europe (59%) than in the U.S. (26%).

Our hypothesis is that the difference is tied to retailer return policies. European retailers are less likely to accept a "Buyers Remorse" return than in the U.S. Failure rates, as defined by the OEM, are consistently in the sub 5% range globally, with minimal differences across geographies. This is further evidenced by the fact that "No Trouble Found" rates are also consistent, ranging between 60-85% of returns.

Accenture's analysis suggests if manufacturers and retailers can reduce the incidence and impact of both NTF and buyers remorse returns by rethinking their existing approach to the problem, it would allow them to address the current profit leakage tied to NTF returns. As a result:

- Manufacturers can cut far-reaching expenses now linked to products that have been returned by the consumer, but operate properly when tested.
- Electronics retailers and communication carriers can reduce costly customer interactions and administrative burdens associated with assessing, restocking, and arranging for the proper disposition of returned merchandise.
- Manufacturers, carriers and retailers can help reduce the impact to brand and customer loyalty now related to customer returns and unmet expectations.

Accenture's High Performance Business research suggests that the total landed costs associated with returns is in the range of 5-6% of revenues for manufacturers and 2-3% of sales for retailers.

Considering the scale of these costs, we believe companies make a mistake by treating existing returns as a normal cost of doing business. Indeed, our analysis suggests that a 1% reduction in NTF returns translates into around 4% reduction in return/repair costs for retailers and manufacturers. This adds up to approximately \$37 million in joint savings for a typical \$10 billion consumer electronics device manufacturer and a large consumer electronics retailer (see Figure 2).

Accenture contends companies can generate powerful payoffs by addressing the twin challenges of returns prevention and returns processing.

Prevention represents a particularly compelling opportunity for cost reduction in the pursuit of high

performance. High NTF rates indicate that much can be done to ensure consumer electronics customers have a more successful experience with their products.

However, we believe notable improvements can be made by rethinking returns processing as well. We see unexploited opportunities to further improve existing return and repair networks. Considering that returns can never be entirely eliminated, it's important to understand the cost reduction opportunities associated with processing them more intelligently.

Of course, both prevention and processing will need to be more comprehensively and precisely measured if these gains are to be realized. At this point, companies are struggling with the challenge of comprehensive measurement and analysis—contributing to the relatively low awareness about total landed costs. Comprehensive measurement requires systematic data capture and analysis of the reasons customers give when returning a product to identify and triage the disposition of the item returned.

Prevention and processing costs are not the whole story, however. Tremendous customer loyalty costs can also be associated with product returns. For instance:

- If a return happens, over 60% of the time it happens within two weeks of purchase.³
- 25% of people who returned a product for any reason are unlikely to buy that brand of product again in the future.⁴
- The cost of acquiring a new customer is five to seven times the cost of retaining an existing one.⁵

This data suggests that the “loyalty factor” associated with a positive product and brand experience may be even more financially critical than the savings we link to reduced returns costs.

Clearly, companies in consumer electronics have much to gain by rethinking their returns strategies. Improving return policies, however, will require cooperation and collaboration among retailers and manufacturers. Our analysis suggests that manufacturers and retailers can no longer point fingers of blame at each other for the current state of returns.

- Consumer electronics manufacturers need to understand that high figures associated with “No Trouble Found” should not be solely associated with permissive retail return policies and poor in-store education. High NTF rates also can be an indicator of issues associated with the design, manufacturing and packaging of a product.
- Communication carriers and consumer electronics retailers, meanwhile, should realize that returns may not be simply tied to poor product design or faulty product. Damage to reputations and profits associated with returns may be partially self-inflicted.

Working together, consumer electronics manufacturers, retailers, and communication carriers have an opportunity to transform the state of returns in the consumer electronics market.

As our research shows, they can dramatically enhance their profitability, strengthen customer loyalty and drive impressive gains in shareholder value.

Diagnosing the Customer Returns Problem

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 consumer electronics products, enhanced by new technologies which result in increased support needs.

This expectation contributes to customer impatience with products they can't figure out and support that is less than helpful. Many consumers take comfort in knowing that retailers and manufacturers will bear the risk of accepting the return of defective, unsatisfying, and unwanted purchases.

The implication of today's high NTF rates is that both manufacturers and retailers have done too little to help consumers effectively adopt, apply and implement the products they've sold them. The consequences of inaction are costly to all parties.

Consumer electronics retailers and communication carriers bear the initial cost burden of NTF returns as customer service representatives accept products and issue refunds (and/or handle exchanges). In fact, one major consumer electronics retailer informed us that its consumer electronics device return rates were running on average between 10–13% of total items sold, with the costs of disposition, repair and/or liquidation for customer returns equaling that of 2–3% of the companies' total gross sales.

But the lion's share of the cost burden is borne by consumer electronics manufacturers as products are returned by the retailer and must be appropriately managed. Accenture's High Performance Business research suggests that the total landed costs associated with such challenges is actually in the range of 5–6% of revenues. The magnitude of this figure becomes particularly clear when one considers the hidden expenses linked to NTFs. Manufacturers do not generally measure the full costs associated with “dispositioning” products for resale or liquidation in their calculations on returns. As a result, the problem has garnered limited senior management attention.

³Hebert, Tim, 2005: A Product Returns Odyssey, Consumer Electronics Association Study, 2005.

⁴Ibid.

⁵Reichheld, Frederick F., *Loyalty Rules: How Today's Leaders Build Lasting Relationships*, Harvard Business School Press, 2003.

Finally, consumers are hurt by sub-optimal product usage experiences. Whether they are unable to activate their cell phones, operate their high definition televisions or launch programs on their personal computers, they can quickly become frustrated and disappointed. Accenture analysis has clearly demonstrated that poor customer service experiences have a dramatic impact on brand loyalty. These factors can play a major role in the growth and profitability of all companies in the sector.^{6 7}

...Returns Prevention and Returns Processing

To understand the full gravity of the returns problem, it's important to examine the problem from two perspectives: returns prevention and returns processing.

Accenture finds that returns prevention—especially when it's related to completely functional, non-defective devices—is often not given enough focus as a problem aspect although it has the highest potential to impact results.

Our research demonstrates that weaknesses in the design, packaging and documentation of devices can have a major impact on NTF returns.

For example, a wireless router that promises "trouble-free setup," yet requires knowledge of wireless networking for installation, is likely to result in a disappointing experience for a consumer with little knowledge of wireless networking. In this case, the manufacturer might better meet customer expectations by improving (i.e. simplifying) the product's design and packaging while providing documentation and auto set up tools that are more in line with the consumer's skill level. To use another example, the adoption of one page inserts and two

page set-up guides by some manufacturers has helped but more needs to be done to create an enhanced user adoption experience.

Retailers, meantime, often exacerbate the NTF problem by failing to set customer expectations or educate them properly. In many cases, retail sales staffs are not sufficiently knowledgeable about their products. In other cases, store advertising, signage and literature fails to position products appropriately for customers as to the level of complexity or as to what added accessories they need to purchase to operate a device. This results in purchasers finding they are not able to operate their newly purchased products without additional support or another trip to the store to buy the missing accessory.

In addition, Accenture has found that consumer electronics manufacturers, retailers and communication carriers generally don't effectively measure and track NTF returns. They don't elicit or solicit feedback to determine the cause of returns. This makes it nearly impossible to drive consistent performance improvement.

Returns processing is the other half of the problem now facing manufacturers and retailers. Too many companies fail to decouple the return and repair processes. This leads to enormous waste and redundancy as perfectly fine packages and devices are sent in for refurbishing and new packaging when perhaps all they needed were new cord ties and shrink-wrapping to be resalable. It is critical to rapidly segment NTF returns from defective products. However, this requires companies to design supply chains that give them high levels of flexibility in the returns process.

Many of the companies that we looked at have a "one size fits all" strategy with respect to reverse logistics. They cannot quickly and efficiently segregate NTF products from truly defective products early in the returns process. They cannot differentiate products that are tied to stable demand from those with spiky demand. As a result, they are unable to make sensible cost decisions about whether a repair should occur in Memphis or Mexico. They may not even 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 agility and flexibility to their returns processing efforts. By handling returns and repairs with greater needs-based segmentation, they can drive out significant costs. While products typically flow quickly to a market, returns tend to pile up in the stock room to be sent back less rapidly. This might work for products where on-shelf inventory levels are adequate. Hot products, which are likely to fly off the shelves, are a different story. In this case, slow restocking creates an unfulfilled customer demand which could be mitigated by getting NTF returns quickly back into stock and available for resell.

Confronting the Customer Returns Challenge

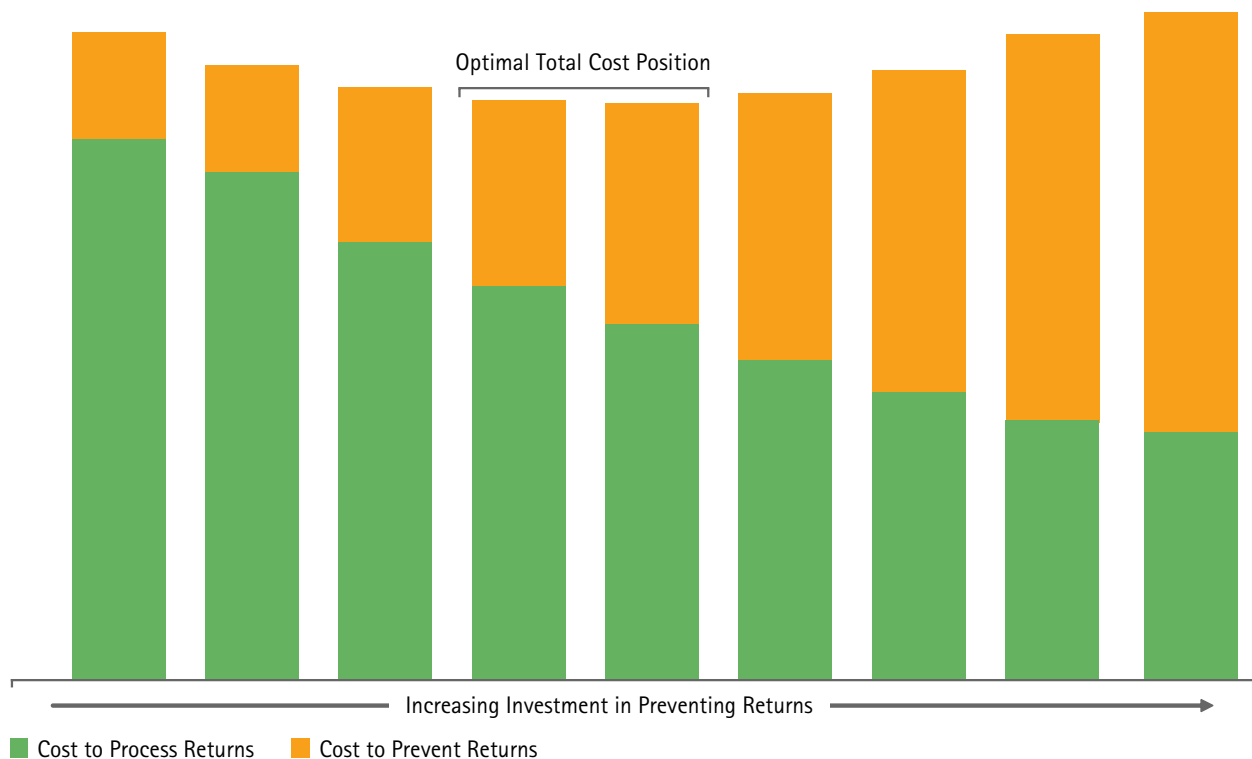
The problems associated with customer returns are surmountable. It is impossible to eliminate all returns and the costs associated with those returns, however, it is possible to better adjust where a manufacturer invests to manage the returns process.

⁶Driggs, Woodruff and Susan Piotroski, *Experiencing the Brand; Branding the Experience*, Accenture research report, 2005

⁷Driggs, Woodruff W., Steven S. Ramsey and Paul F. Nunes, "Think Your Customers are Loyal? Think Again," *Outlook Journal*, September 2006

Figure 3. Enhancing Investments to Reduce the Total Cost of Returns

A company's goal is to determine the optimal mix of spend on returns prevention v.s. returns processing. Accenture's hypothesis is that if most organizations fully measured the cost of returns, they would find that they are likely on the left side of optimal, and investment in returns prevention results in lower overall cost structure.



Based on our research, Accenture believes that most manufacturers can improve the investment made in returns, drive a higher level of customer satisfaction and increased brand loyalty over time with a lower total investment in returns management.

It is accomplished through a realignment of investments.

Most companies invest a sizeable amount to reactively support processing returns and a relatively smaller sum to proactively work to prevent returns. On the cost optimization model above, (Figure 3), most companies fall on the left side of the model. This is an opportunity area for many companies to shift their investment strategies toward prevention and toward an improved cost profile.

As with most investment areas, there is a law of diminishing returns for returns prevention. This point varies for each company, but our observations indicate most companies are still far from the improved investment allocation. We suggest that manufacturers and retailers develop metrics that allow them to recognize the point of improved returns associated with their investments in such efforts.

Returns Prevention Strategies: Solutions for Manufacturers

Accenture recommends that consumer electronics manufacturers formulate an approach to manage and control the costs of consumer electronics device returns. Our research reveals a number of leading practices that can measurably reduce these costs. Among them:

Measure the impact of returns

Establish a baseline of measurement in order to benchmark the impact of returns. This process involves an examination of all costs and processes associated with device returns. At minimum, in order to measure the impact of returns, manufacturers should understand the costs to receive, process and disposition their No Trouble Found products.

Improve product design

Obvious but often underinvested, it is critical that products be easy to use if customers are to have a good experience with the product. In fact, a recent survey of US consumers found that consumer's tolerance level for making a device work is approximately 20 minutes.⁸ After that period of time, purchasers tend to give up and return the product if they can't get it to work as expected.

To address this challenge, consumer electronics manufacturers must place more emphasis on enhancing the user experience. Fortunately, there are tools and strategies that can address this challenge. Many companies have successfully applied the Kano Model (which was first introduced by Noriaki Kano in the 1980s) to help companies determine what features will truly delight users.⁹

Despite these tools and strategies, far too many products appear to be designed without taking the user significantly into consideration. As a result, users are confounded when trying to set up and use the product. In fact, many or most of the features packaged into products are never used by their owners, either because they can't figure out how to use them or they don't know they exist. Products that have a focus on ease of use will be returned less and increase brand value because they have been designed with ease of use in mind.

Enhance customer education

Industry research suggests another core factor influencing high return rates is insufficient education of the customer. One study by the Consumer Electronics Association indicated the top four actions that could reduce return rates were: more research by consumer before purchase; better presales info from sales people; better manufacturer telephone support; and more informative in-store displays.¹⁰

All of these items fall into the category of customer education. Accenture sees opportunities to enhance customer education in three areas: 1) the point of purchase; 2) the point of first use; and 3) the point of need.

At the point of purchase, manufacturers must concentrate on their ability to indirectly influence the retail experience.

Among the possible actions available to them:

Roll out education programs for retail sales professionals. By expanding training on the form, fit, and function of the product, manufacturers can help prepare individuals on the front-line of the retail experience, making sure they are well prepared to address questions, concerns and issues that arise in the consumer buying process. One way to achieve this is to enhance or develop online learning or certification programs, offering special rewards to sales professionals that complete them. Open a store within a store. Some manufacturers are now placing their people in a retail outlet to increase awareness of their solutions. This model has been used in clothing retail for many years. There is evidence to suggest that this strategy successfully enhances the brands of both the manufacturer and the retailer.

Increase Web-based content.

Invest in opportunities to educate the consumer when purchases are made online. For example, a major HDTV OEM has launched the "HDTV Learning Center" on its Website to help prospective customers understand the value of its products. Others are using Web 2.0 technologies to create communities that develop "mash-ups" of content and searchable video as well as customer forums on use and assessment of products/solutions.

At the point of first use, the key concern is the usability of the product itself. Here, manufacturers can:

Enhance the "out of the box" experience. One-page, "getting started" guides are certainly a good first step in terms of helping consumers set up their devices. They are much easier to understand than lengthy instruction

manuals. Many consumer electronics OEMs have recognized and confronted this issue by developing visually oriented set up guides. Similarly, multimedia customer education resources—such as accompanying DVDs and online tutorials—provide an engaging way to learn how to use a new product.

Implement "priority handling" arrangements. If a "first time" customer contacts the call center, the call needs to be handled with special care. Call centers should avoid focusing on average call handling time. Instead, they should focus on customer education, get the customer up and running on this first call and build excitement around the product's value. Indeed, special teams—and specially trained reps—might be assigned to this critical challenge.

Develop direct communications channels with customers. To engage product purchasers before they return products to the retailers, one manufacturer we studied introduced a "Set-up Concierge." Through a toll free number, this program assists customers with setting up smart phones to work with their personal computers.

At the point of need, the challenge is to address a customer's current concerns and problems with the product. Options in this case consist of:

Embed education in the device. Integrate insight into the device itself to address customer needs on an "on-demand" basis. Xerox, for example, has for years produced photocopiers that provide step-by-step instructions on how to resolve issues such as paper jams and toner replacement. Digital camera OEMs such as Hewlett-Packard provide guidance on usage issues at the point of need.

⁸den Ouden, Elke, 2006 Thesis at the Technical University of Eindhoven (Netherlands)

⁹Kano, Noriaki, "Attractive Quality and Must-Be Quality," The Journal of the Japanese Society for Quality Control, April, 1984

¹⁰Hebert, Tim, 2005: A Product Returns Odyssey, Consumer Electronics Association Study, 2005

Build remote diagnostics capabilities. Recent advancements in software and service offer manufacturers the ability to remotely diagnose customer issues with certain devices (e.g. personal computers). Such solutions not only enable repairs to be handled remotely but can also determine conflicts arising from improper set-up or configuration of a device.

Provide personalized customer care. If a customer is unable to rapidly resolve their questions on-line, an efficient contact center experience is critical. Many consumer electronics device manufacturers now have flyers shipped with their products educating customers to call their contact center rather than returning the device. Our research shows that one of the top factors in a compelling customer experience is a personable and capable agent. By educating and resolving the issue quickly and effectively, the company reinforces the value of the brand. The key is to have capable and personable agents that are properly aligned to the issues the customer is calling about.

Introduce online community forums. Web-based, community groups and user forums enable customers to share their experiences and insights. This deepens consumer connection to the brand. AT&T, Dell and Nintendo are among the companies now sponsoring online forums for users and implementers of their products. These forums expand the knowledge base and create vehicles for on-going support as well.

Prevention Strategies: Solutions for Consumer Electronics Retailers and Communication Carriers

Just as manufacturers have a critical role to play in returns prevention, retailers also can take key steps to address the returns problem. Among them:

Measure the impact of returns

Like manufacturers, retailers have their own set of metrics to track in order to assess the scope of this problem—and follow trends over time. Again, it's critical to begin with a baseline in order to benchmark the current impact of returns. Thereafter, retailers can monitor these metrics, drive improvements and introduce new approaches as necessary. Retailers should focus on measuring return rates by item, item class, and manufacturer, length of time since purchase and reason for returns. The NTF returns issue, in particular, requires that detailed metrics be kept on the reason for return—something most retailers don't do with adequate detail. However, it is nearly impossible to determine when or what new tactics might reduce return rates without these detailed metrics.

One retailer interviewed is also tracking the return rate by retail sales person. It is believed further product education may be required for certain sales people who average a higher percentage of customer returns than their peers.

Develop product education classes for consumers

For instance, the Apple Genius Bar has developed training programs for groups and individuals that have proven popular and effective. While consultation is provided by reservation only, the service is well received and directly impacts the customer experience positively.

Offer delivery and set up services to consumers for highly technical products

Best Buy's Geek Squad and Circuit City's Firedog have demonstrated that retailers can radically reduce returns—sometimes by as much as 20%—by offering delivery and installation services ensuring that CE products properly perform in the customer's home. Not only have these services gener-

ated substantial services revenues for the retailers, they have prevented returns.¹¹ Such findings suggest it may be worthwhile to invest more aggressively in these services. Given the benefits associated with reduced returns and improved brand image, there's even a case to be made for merely breaking even on such offerings.

Proactively contact the customer the day after a purchase

By demonstrating interest in the customer's success, retailers not only head off potential usage and implementation problems, but also strengthen their brands in the minds of customers. Such approaches give retailers (and manufacturers) an opportunity to assist customers before they have a chance to become frustrated and return the unit. 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, buyer's remorse returns were cut by up to 20%.

Develop analytics to identify frequent "returners"

Recognizing that some customers are more profitable than others, smart retailers can take steps to account for individuals with a high propensity to return products. Such analysis represents an opportunity not only to prevent bad actors from returning high definition televisions the day after the Super Bowl, but represents an opportunity to identify—and reward—the best customers.

¹¹Tapscott, Don and Anthony D. Williams, "The Wiki Workplace," Business Week Magazine, March 26, 2007

Provide multiple service options

Customers value choice. They also have different ideas about what is convenient. Some prefer self-help via web, some prefer the ease of exchange or repair by mail, and others prefer the face-to-face interaction and speed of in-person support at a retail facility. A choice of service and support options enhances the overall customer experience while helping to reduce overall costs. Given that NTF rates for most categories of consumer devices are in the 50-90% range (as a percentage of total returns), in-person service centers can be a particularly valuable solution. Such centers have the potential to weed out NTFs before they can be accepted as returns.

Processing Strategies: Optimizing the Return/ Repair Network

Although preventing returns is certainly the first line of defense for businesses striving for high performance, manufacturers, carriers and retailers still have opportunities to slash operational costs by streamlining and optimizing their return/repair networks. Here are some potential approaches:

Recognize that one size return/repair network does not fit all

Volume, complexity of repair, cost of repair, cost of product, and customer demand are all factors that must be considered when developing a returns network. Leading companies recognize that different products require different return supply chains.

For example, it may be effective to centralize the return and repair process for a product with stable demand that requires complex diagnosis and repairs by highly skilled technicians.

By contrast, another product in hot demand that requires minimal diagnosis by minimally trained personnel may lend itself to a decentralized repair network that provides for a faster fulfillment cycle to meet customer demand.

Decouple repair and return processes

Consider decoupling repair and returns processes into discrete elements that can be performed in one or more sites (i.e. Triage, Level 1 repair, Level 2 repair, etc). Decoupling these processes can increase the responsiveness and flexibility of return/repair networks. One large communication carrier, for example, 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.

Forecast and plan for returns and repairs

Even the simplest repairs consume parts inventory. This inventory must be planned for in order to help confirm the appropriate levels of stock are available to meet service level requirements. Too much inventory leads to excess and obsolete stock. Too little means failed service levels. Consider using spare parts inventory planning tools that factor in the "drivers" for repairs and the associated parts consumption (i.e. 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

As previously mentioned, it's vital for retailers and manufacturers to help confirm their return/repair network accommodates high demand for a particular product. When demand is high (or spiky), it's important to confirm returned products are rapidly processed and put back on shelves. By contrast, products linked to stable demand are less prone to require rapid re-stocking—leading to a different set of options in terms of how they are processed.

Examine creative solutions for B Stock

A few retailers and manufacturers we studied have instituted an online B2B auction marketplace for employees, contractors, friends and family to purchase certain types of B product stock. The employee benefits by purchasing products at a significant discount; the retailer benefits by cutting out liquidator costs.

Invest in understanding the total landed cost for returns

Accenture recommends that retailers and manufacturers develop a thorough understanding of the 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 understand the tradeoffs of cost to serve versus customer service expectations. While most organizations now have a siloed view of the costs associated with returns, it's critical to develop a comprehensive view of such costs in order to ensure operational inefficiencies in the return/repair network are isolated and addressed.

Conclusion and Suggested Action Items

Accenture's research shows that a vast proportion of returns associated with consumer electronics devices are preventable. NTF returns are tied to functional, salable products that have not met the customer's expectations.

Given this trend, reducing preventable returns could make a significant impact on the bottom lines of manufacturers, communication carriers and retailers. At the same time, smarter investment in return and repair optimization—calibrated to bring about the biggest returns by focusing on the quickest, least costly repackaging and repairs—represents another big potential win for companies in the field.

To revitalize return and repair strategies, companies should take the following initial steps:

- Focus on creating favorable customer expectations that forestall returns;
- Support the product before and after sales with effective, attractive alternatives to returns;
- Implement strategies for immediately identifying NTF merchandise and return it to inventory as soon as possible;
- Elicit customer feedback to determine causes of returns; and
- Look for opportunities to share the responsibilities for preventing returns and streamlining return/repair networks.

To become or remain high-performance businesses in the consumer electronics marketplace, retailers, carriers and manufacturers must rethink the ways they've approached the challenge of returns in the past. By preventing returns at the outset and handling them in a smart, agile fashion as they occur, companies have an excellent opportunity to drive high performance in today's hyper-competitive markets.

Accenture Product Returns Analysis Background and Methodology

Genesis of the analysis

Accenture works with a large number of companies in the consumer electronics and telecommunications industries, including handset manufacturers, OEMs and carriers. In our client work we started to notice with increasing frequency a disconnect on the costs of product returns from a retailer/carrier perspective and the warranty return reserve numbers predicted by OEM.

Additionally both groups acknowledge that they were experiencing difficulties with "No Trouble Found" returns but were having difficulty quantifying the cost impact to the bottom line. These observations resulted in our attempt to explain this disconnect and monetize the effect of "No Trouble Found" returns.

Data sources of the analysis

Much of the costing and return numbers used in this analysis come from confidential client sources based on our engagements and we are not at liberty to disclose these sources.

These numbers and our analysis were then supplemented by other published studies we found which are referenced in our Point of View.

European return data

Due to the lack of a pan-European CEA (Consumer Electronics Association) data source, Accenture commissioned an independent third party (The BPRI Group) to approximate the CEA survey via telephone surveys in Europe and Latin America, reaching over 500 households in each surveyed country for more than 5000 interviews. The data collected and compiled from these surveys was used as a basis for our European analysis. The Latin America data was deemed not statistically relevant and was not used in our analysis.

Calculations and assumptions used to support our analysis:

Market data (from CEA forecast report)

- 2007 forecast data, All figures are for US only.
- 1.9 billion units sold (CEA)
- \$160 billion in sales at wholesale (CEA)
- \$211 billion in sales at retail (Accenture estimate)

Return costs

- \$13.8 Billion (Accenture calculation)
- Retail vs OEM split
 - Retailer costs 2-3% of revenue (\$5.2 B)
 - OEM costs 5 -6% of revenue (8.6 B)
- Breakdown of 13.8B by category
 - Scrap & Liquidation—33%
 - Warranty and repair—29%
 - NTF processing and screening—20%
 - Rebox and repackage—9%
 - Returns processing—9%

Return rates

- 10-13% at retail—Includes all return categories (Buyers remorse, defectives, NTFs)
- Return rates by consumer electronics products range from 6% (PCs) to 20-25% (Wireless phones, GPS units, MP3, and Wireless networking gear)

Reasons for customer returning—goods—Customer perspective (CEA)

- Buyers remorse—26%
- Product is defective (product failure)—25%
- Product does not work as expected—49%

Reasons for customer returns—OEM and retailer perspective (Variety of studies—WDG, Forrester, Aberdeen, Phillips*)

- No trouble found—68%
- Buyers remorse—27%
- Actual failure—5%

NTF rates (expressed as a percentage of total returns, LESS Buyers remorse)

- Industry average runs between 68% to 90%, depending upon device: High—Wireless networking gear, phones, and MP3's; Low—PCs and TVs.
- Our report assumed an average rate of 80%

Impact of 1% reduction of no trouble returns (Accenture finding)

- 1% reduction in NTF returns = 4% reduction in return/repair costs
- Both retailer and OEM will experience cost savings at the same rate (4%)
- Example for typical \$10 billion consumer electronics device manufacturer —Overall savings of \$37 million— \$21 million for OEM and \$16 million for retailer.

*Studies used in analysis not cited previously:

1. WDS Global (Doug Overton), "Investigating the "no trouble found" phenomenon", 7/2006
2. Forrester, (Patrick Connaughton) "Best Practices—Taking Control of your Aftermarket Supply Chain" 11/2006
3. Aberdeen, Benchmarking report, "Industry Best Practices in Reverse Logistics" 1/2007
4. Phillips (Tony Sciarrotta), "How Phillips Reduced Returns", Supply Chain Management Review 11/

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