

Accenture Communications & High Tech Solutions

Big Trouble with "No Trouble Found" Returns

Confronting the High Cost of Customer Returns


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Big Trouble with "No Trouble Found" Returns

How businesses seeking to achieve high performance are confronting the high cost of customer returns

What companies stand to gain by rethinking their approaches to customer returns

Accenture High Performance Business research¹ on consumer electronics manufacturers, communication carriers and electronics retailers has uncovered surprisingly large, unrecognized opportunities for manufacturers and retailers across the value chain.

By rethinking their approaches to customer returns, businesses are realizing three significant benefits:

- For manufacturers, expenses linked to returns are decreasing.

- Retailers and others throughout the value chain are reducing costly customer interactions and administrative burdens.
- At the same time, these companies are helping to reduce the impact of returns and unmet expectations on their brand and customer loyalty.

Findings from our study suggest that total landed costs associated with returns range from 5 to 6 percent for manufacturers and 2 to 3 percent of sales for retailers. Instead of treating existing returns as a normal cost of doing business, businesses looking to achieve high performance are seeing significant improvements by addressing the underlying reasons for these returns.

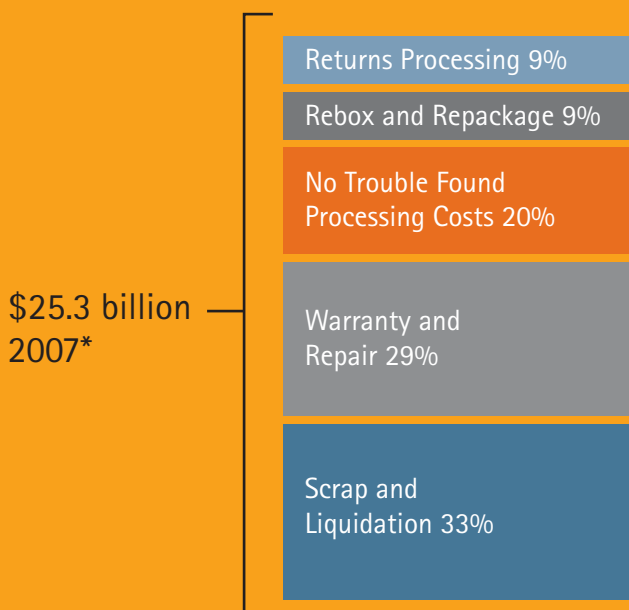
Results from a recent Accenture study have uncovered surprisingly large, unrecognized opportunities for manufacturers and retailers across the value chain.

1) Accenture Communications & High Tech

Return and repair cost breakdown

The total cost of consumer electronics returns and repairs attributed to Europe and US consumers was estimated at \$25.3 billion in 2007.

Most companies, however, are not accounting for the full breakdown of these costs.



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

The current state of returns

In the consumer electronics industry, which includes devices sold by communication carriers and electronics retailers, Accenture estimates that the average return rate for devices ranges between 11 to 20 percent in the US and 2 to 9 percent in Europe.

Of these returns consumers were much more likely to provide a reason of "Buyers Remorse" in the US (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 US (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 US. Failure rates, as defined by the original equipment manufacturer (OEM), are consistently in the sub 5 percent range globally, with minimal differences across geographies. This is further evidenced by the fact that "No Trouble Found" (NTF) rates are also consistent, ranging between 60–85 percent of returns.

These study results indicate that businesses looking to achieve high performance can see powerful payoffs by addressing the twin challenges of both returns prevention and returns processing.

Returns prevention

Although returns prevention has the highest potential to impact results, because it is considered an unavoidable cost of doing business, it is often overlooked—especially when related to completely

functional, nondefective devices. The Accenture study demonstrated three areas that can have a significant impact on NTF returns:

- Improvements in design, packaging and documentation.
- Setting customer expectations and providing proper customer education.
- Providing important after-sales support as well as important accessories which are frequently overlooked.

Unfortunately—because many companies fail to effectively measure and track NTF returns—limited feedback is available to assess difficulties and drive consistent performance improvement. A key to returns prevention is the establishment of baseline information on return metrics, such as how long a consumer had the item before returning it, the reason given for the return, or whether an alternative product was purchased in place of the return.



Offer delivery and setup services to consumers for highly technical products.

Returns processing

Data collected by Accenture's business research indicates that because many companies today fail to decouple return and repair processes, they create enormous waste and redundancies in their product returns processing. For example, potential NTF products are often not segmented early enough from defective products.

Once companies have decoupled these processes, they can focus on achieving greater profitability by

improving agility and flexibility. By handling returns and repairs with greater needs-based segmentation, these companies can also drive out significant costs.

Confronting the returns challenge

For businesses seeking to minimize expenses related to customer returns, tens of millions of dollars can be dropped from the bottom line by making strategic adjustments in return and repair processes.

The key is realignment of investments. Most companies invest significant amounts to reactively support the processing of returns while investing a proportionally smaller amount to prevent returns in the first place. By shifting investments toward prevention, companies are better able to improve their cost profile.

Returns prevention strategies: Solutions for manufacturers

- Measure the impact of returns and establish a baseline for future metrics.
- Improve product design—an obvious but often overlooked strategy.
- Enhance customer education in one or more of these areas:
 - Point of purchase (e.g., educational programs for sales professionals).
 - Point of first use (e.g., implement "priority handling" arrangements for first-time customers).
 - Point of need (e.g., embed education in the device).



Returns prevention strategies: Solutions for retailers and others

- Measure the impact of returns and track metrics to assess problem scope.
- Develop product education classes for consumers.
- Offer delivery and setup services to consumers for highly technical products.
- Proactively contact the customer the day after a purchase.
- Develop analytics to identify frequent returners.
- Provide multiple service options.

Processing strategies: Optimizing the return and 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 and repair networks. Here are some potential approaches:

- Recognize that a one-size return and repair network does not fit all.
- Decouple repair and return processes.
- Forecast and plan for returns and repairs.
- Realign the organization so that the department(s) handling returns and repairs become(s) a profit center.
- Account for different levels of product demand.
- Examine creative solutions (such as an online B2B auction site) for B product stock.
- Invest in understanding the total landed cost for returns.

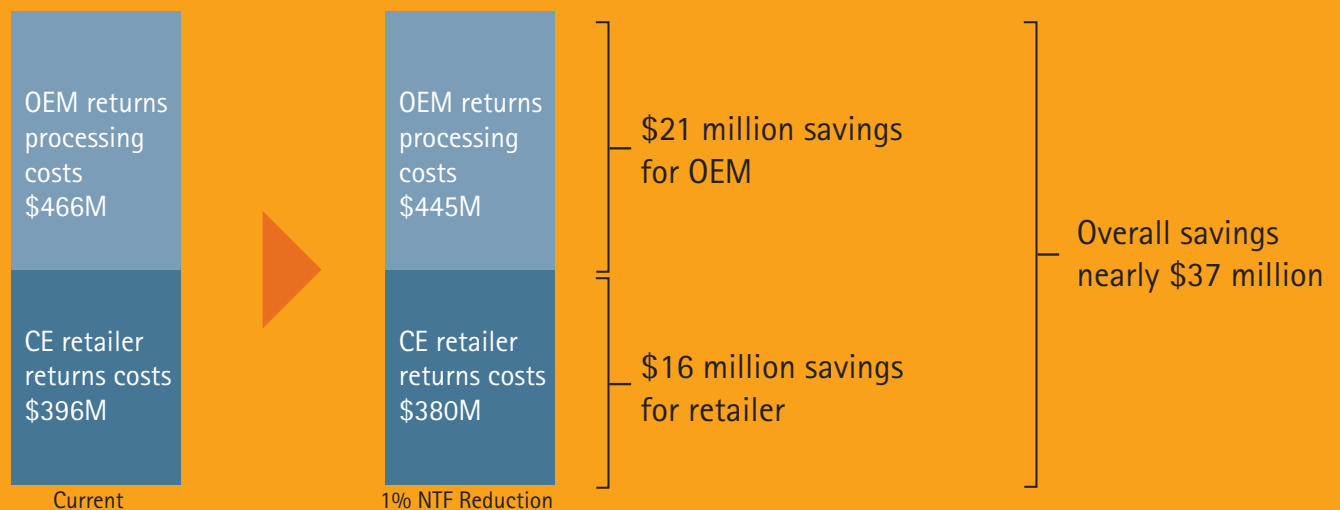
Conclusions

Five initial steps to revitalize return and repair strategies

- Focus on creating favorable customer expectations that forestall returns in order to avoid NTFs completely.
- 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 for returns.
- Look for opportunities to share responsibilities for preventing returns and streamlining return and repair networks.

Potential shared savings

For a typical \$10 billion dollar consumer electronics (CE) device manufacturer and large retailer, a 1 percent reduction in No Trouble Found returns can add up to approximately \$37 million in shared savings.



Accenture offers services and solutions designed to address the challenges facing companies in the area of returns:

- Solutions such as customer-centric service and return and repair strategies are just two innovations Accenture provides for improving returns prevention strategy.
- In the realm of customer support and knowledge management, Accenture offers customer care operations outsourcing solutions and customer care optimization, as well as solutions for building and operating call center and tech dispatch tools.
- To assist businesses with device disposition and management, Accenture provides a wide range of approaches, including warranty exception processing and outsourcing and warranty optimization, as well as claims analysis and feedback.

- For return and repair network optimization, Accenture offers service parts planning and forecasting, operation management solutions, reverse logistics network design and operation, and other flexible, customizable solutions.

For companies on the path to high performance, the prevention of returns at the onset and the management of the returns process in a smarter, more agile fashion are critical. If done correctly, the companies will realize significant benefits that will help differentiate them in the highly competitive marketplace, and help build customer and brand loyalty.

Contact

For more details on the Accenture "Big Trouble with No Trouble Found" study, or for more information on the benefits of preventing returns and improving returns processing, contact Accenture direct at +1 877 889 9009 or visit www.accenture.com/global/research_and_insights.

Outside the United States and Canada please dial +1 312 737 8842.

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