

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 recently completed a study¹ of consumer electronics manufacturers, communication carriers and electronics retailers. The results from this study have 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.

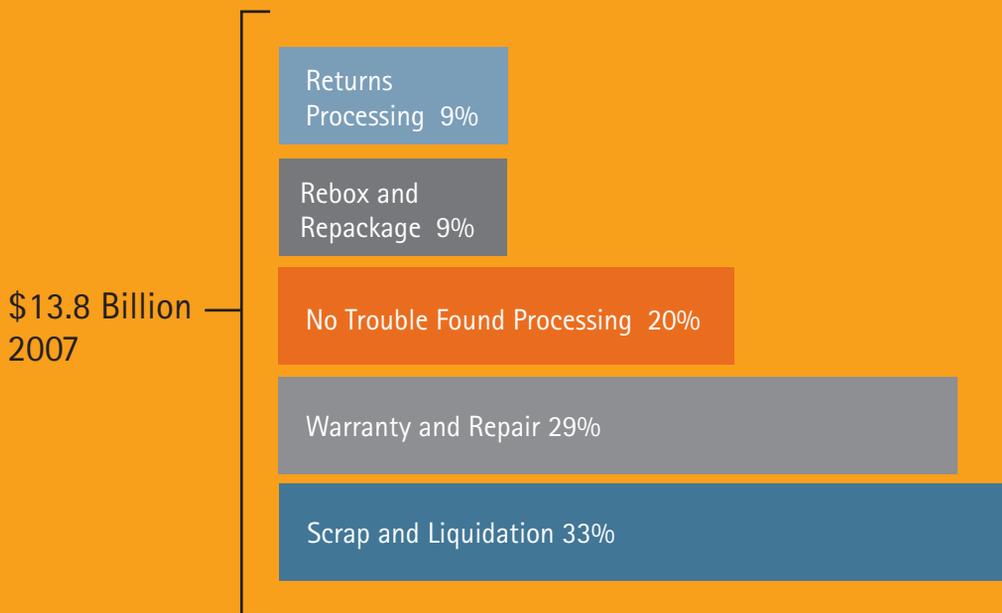
Findings from our study suggest that total landed costs associated with returns range from five to six percent for manufacturers and two to three percent of sales for retailers. Instead of treating existing returns as a normal cost of doing business, businesses looking to achieve high performance are 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) Big Trouble with No Trouble Found: How Consumer Electronics Companies Confront the High Cost of Customer Returns

Returns and Repairs Cost Breakdown

The total cost of consumer electronics returns and repairs attributed to U.S. consumers was estimated at \$13.8 billion in 2007. Most companies, however, are not accounting for the full breakdown of these costs.



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 from 11 to 20 percent. Of these:

- More than two-thirds (68 percent) can be characterized as “No Trouble Found” (NTF).
- Buyer’s remorse accounts for 27 percent of returns.
- Approximately 5 percent of returns are recognized as failures or defective.

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, non-defective 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.

Returns processing

Data collected by Accenture's study 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.



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

Confronting the returns challenge

For businesses seeking to minimize expenses related to customer returns, tens of millions of dollars can be dropped to 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.



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 is critical.

Processing strategies: optimizing the return and repair network

- 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 becomes 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.

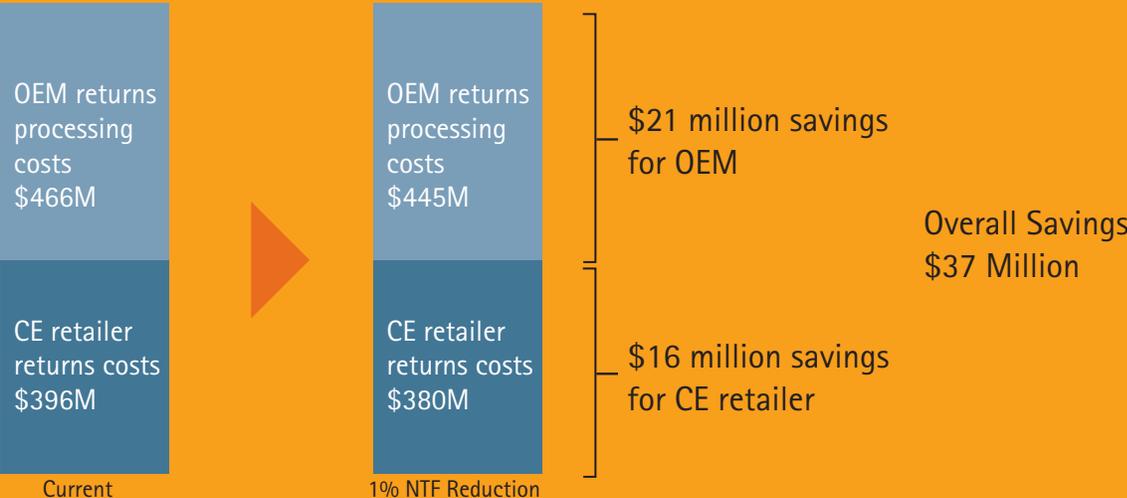
Conclusions

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 electronic device manufacturer and large retailer, a one 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 & 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, 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 is 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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