Strategic Communications

Press Cutting

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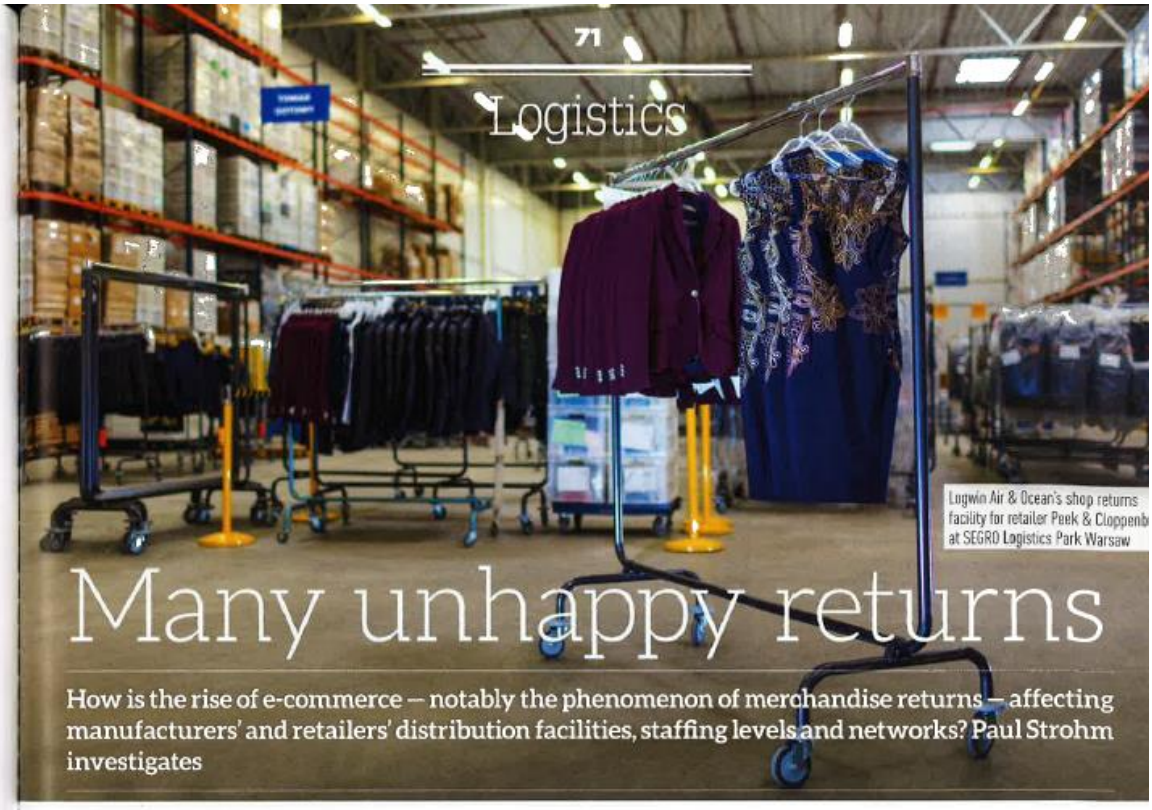

Logwin Air & Ocean's shop returns facility for retailer Peek & Cloppenb at SEGRO Logistics Park Warsaw

Many unhappy returns

How is the rise of e-commerce – notably the phenomenon of merchandise returns – affecting manufacturers' and retailers' distribution facilities, staffing levels and networks? Paul Strohm investigates

OCCASIONS concocted chiefly to boost retailers' turnover, such as 'Black Friday' and 'Cyber Monday', as well as longer established earners — Christmas, for instance — precipitate an orgy of consumption, a growing proportion of which now takes place online. Whether you take the view that retailers only have themselves to blame, or that it would be a nice problem to have, the seasonal surges in expenditure brought about by these events stretch the logistics infrastructure, providing a regular test of its ability to cope with demand peaks.

But it is not just the outward flow of goods with which logisticians must contend. For some businesses, as many as half of the items sent out will be returned by would-be purchasers. Frequently, this is because it is now customary for consumers, particularly of shoes and clothing, to order several of the same item in different colours or sizes in order to find the one that is just right — it's that "does my bum look big in this one?" moment. As a result, goods being returned through the e-commerce supply chain are no longer an intermittent event resulting from faults or mistaken purchasing, as is traditionally the case with bricks-and-mortar stores, which have actively discouraged returns. This relatively new, high-volume returns phenomenon has been facilitated by 'free returns', which encourage customers to over-order, because to do so incurs no additional cost when unwanted items are sent back to the retailer.

Opinions vary as to the proportion of goods returned. "For clothing retail, it can be 40% to 50%. It's a big issue," says Jon Sleeman, JLL's director of UK logistics and industrial research. "Customers in aggregate can be retailers' biggest supplier. That is quite a painful situation to be in."

Ekaterina Advonina, CEO of Delin Capital Asset Management (DCAM), adds: "Typically, for online fashion retailers, every third package is returned, which obviously creates a massive cost, not only for transportation but for processing."

"It is a particularly major issue for fashion retail," agrees Andy Gulliford, chief operating officer of industrial developer Segro. "Retailers can completely lose a season if they can't get returns back into stock quickly. You have got about nine weeks for a fashion season so, if you lose three or four weeks

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Ekaterina Advonina,
Delin Capital Asset Management

Logistics

on the original sale and trying to get an item back out again, you are creating 'sales' stock."
Sleeman adds: "Retail supply chains are traditionally set up to push things out to customers, from 'upstream' to 'downstream'. Anything coming back in the other direction is a pain to deal with, because it's something that the supply chain is not really set up to do. Returns, which have grown with e-commerce, are part of these generic reverse flows. It's a difficult process to deal with and adds significant costs and reduces retailer margins, which are under pressure anyway."
Some retailers have tried to reduce the proportion of returns by providing more detailed product descriptions, brand-specific sizing and virtual fittings to enable customers to increase the accuracy of their choices. But not everyone wants to do that. Many online shoppers enjoy the browsing process. "Shopping in this way is almost a hobby for some people," says Ian Worboys, chief executive of logistics developer P3. "Steps to reduce the level of returns can be as accurate as you like, but many consumers want to see and feel the garments they are buying."
Segro's Gulliford explains that retailers deal with returns in two different ways. Some use their existing 'out-shipment' facility. "I think that is leading to a greater need for mezzanine areas," he says. "Returns obviously come back messy, possibly damaged and in need of repackaging."
The second approach is to employ third-party logistics operators (3PLs) that have specialist returns divisions, such as iForce, Clipper or Doddle. Doddle works for New Look and ASOS, provides a click-and-collect service and often has small shop units at railway stations, which also include returns points.
If a retailer handles returns in-house, whether it uses the same facility in which fulfilment occurs or a dedicated facility is partly determined by volumes. "Most [dedicated] returns requirements are 'mid box': 30,000 to 75,000 sq ft [3,000 to 7,000 sq m]," Gulliford says. "They also tend to be located in urban locations, which means that people are available to work there." Returns centres are more staff-intensive because there is less scope for automation, which means a greater requirement for staff facilities and car parking.

Retailers will often try to site their dedicated e-commerce returns facility close to their fulfilment centres to make it easier to feed returned goods into the supply chain for


Returns centres are often staff-intensive

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Ian Worboys, P3

redistribution. "A returns centre is a very specific building," says P3's Worboys. "When an item is returned, it has to be visually inspected to see if has been worn or used. It is checked for smell to see if it's got perfume on it, and is examined for lipstick on shirt collars or scratches underneath shoes. They get so much stuff sent back to them, but it has to be done and it's very intensive."
There is a school of thought that sees returns centres emerging as a new and distinct asset sub-class. "In the same way that we have seen last-mile logistics become a separate type of asset sub-class in itself, I really can see a niche for reverse logistics buildings emerging," says Jack Cox, who heads CBRE's EMEA industrial and logistics capital markets team.
Outwardly, the buildings themselves would resemble fulfilment centres, Cox says, but with fewer loading doors and more car parking. The chief differentiating characteristics of these assets would be more mezzanine space, better quality LED lighting and more efficient air-handling systems to cater to the larger numbers of staff employed. For the same reason, there would be more allocation to social and amenity facilities.
Currently, canteen facilities can be deficient, JLL's Sleeman adds: "I don't think a lot of warehouses have extensive canteen facilities. Some will have, but they don't stand out as

Segro's Andy Gulliford: returns are "a global trend"

3PL Hermes handles 60 million returns in Hamburg

being fantastically served with that sort of facility. But I think that's something that people will start to look at, because the competition-for-staff issue is becoming quite acute."

Although the returns process is more labour-intensive than the outbound-fulfilment operation, one compensation is that it does not usually require as much floor-loading capacity, Segro's Gulliford points out. This, he adds, enables the use of mezzanine floors: "Where a retailer uses a corner of its fulfilment centre for returns, mezzanines are required. So we need at least floor strengthening and the height to allow a mezzanine level to be constructed, even if it is not part of the base specification."

Car parking and traffic management is another issue that needs to be considered.

JLL's Jon Sleeman: "Customers in aggregate can be retailers' biggest supplier"

"The management of cars in volume is completely different to HGV movements, and consideration is needed on shift times and the overlapping of shifts as cars both leave and arrive, to avoid peak congestion," says JLL's Sleeman.

"The entrance to the warehouse can be a big problem, especially for facilities that are open 24/7," agrees DCAM's Advonina. "There can be two staff shifts that can share the facility, so it's important to ensure that there are no bottlenecks at the entrance."

People's perception of returns centres' ability to generate traffic can also be a problem. Amazon recently announced that it was giving up on its return-centre project in Horni Pocernice on the eastern outskirts of Prague. Amazon's Czech spokesman, Karel Taschner, said that the company could not wait any longer for the planning hurdles to be cleared. The e-giant had chosen P3 to develop a new 40,000 sq m warehouse for returned goods at its P3 Prague Horni Pocernice development. The centre would have created 3,000 jobs.

Amazon had been looking to relocate its existing returned-goods centre in Dobroviz on the other side of Prague since 2013. But Horni Pocernice's residents feared that traffic would increase if Amazon's plans were approved. However, the developer argued that several smaller warehouses would be built in the park instead, which would also increase traffic. Similar protests in Brno also brought Amazon's plans for that city to a halt, says P3's Worboys

"Returns centres as a whole are very good for our business and communities," Worboys adds. "If the Czech Republic is so anti-growth, they don't deserve to have it."

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> **Jack Cox**, CBRE

The Amazon example, which would have served the company's returns function for the whole of Europe, would have been one of the largest returns centres in Europe, and certainly one of the largest dedicated centres. 3PL Hermes, part of the German Otto group, has one of the largest existing centres for outsourced returns, which is located in Hamburg. The facility employs 1,100 people and has the capacity to handle 60 million items per year.

Across Europe, reports Segro's Gulliford, returns are "a global trend that we are seeing across the portfolio". He sees the same e-commerce themes playing out, including the returns phenomenon: "While the UK is further ahead, the same themes and, broadly, the same occupiers and 3PLs are common to France and Germany and Poland, the markets in which the company is active."

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