White Paper

How Damaged Product Impacts Your Profitability

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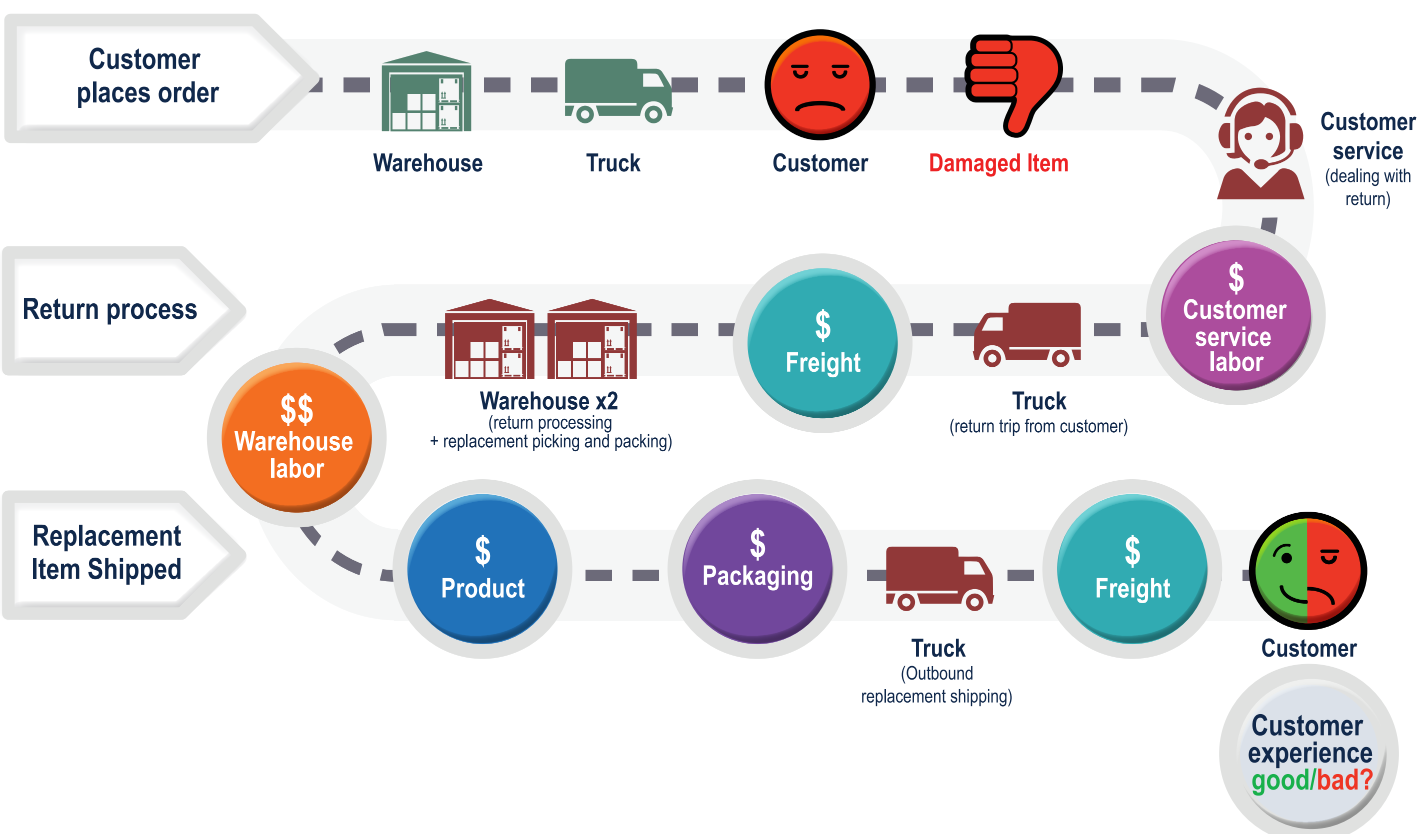
Introduction

E-commerce retailers and manufacturers put in a significant amount of effort and investment making sure the products they produce meet quality and performance goals. However, if faulty packaging results in consumers receiving your product in damaged, broken and/or non-functioning condition, the impact to the bottom line can be significant.

In fact, for larger retailers, the impact of damaged product to the bottom line can turn into millions of dollars. For a single return, hundreds of dollars in added costs can be easily incurred if every function and process was included in the calculation.

Also, the loss of future orders based on a negative experience can add up to thousands of dollars per customer.

Why does this happen? When reviewing their protective packaging options, many companies tend to focus only on the cost of the packaging itself, missing the big picture. In addition to price, here are six key areas that each product manufacturer or fulfillment operation needs to understand when trying to minimize product damage and its resulting impact on profitability.



1. Freight

This profitability consideration is the most obvious one. Companies know that when a consumer receives a damaged item, they must absorb the cost of not only shipping the product back, but also sending out a replacement item. For this example, we will use a typical ecommerce average freight expense of $11.66 for a two-day, zone 4, 5-pound residential shipment. That results in an expense and profitability loss of $23.32 (return of damaged goods and sending replacement).

2. Product replacement

Next, it's important to calculate costs of the goods. When that product comes back damaged, you either need to dispose the product and send a different one as a replacement or you have to put in time, labor and parts to repair before sending out the same product. Each company and product is different, so you need to calculate what that cost looks like for your situation.

3. Customer service labor

On average, customer service personnel spend as little as 5 minutes on the phone (oftentimes much more) or online processing a return. However, that time allocation can be much higher if the situation is complex or the customer wants to vent. Looking at national averages, customer service labor is approximately $13.01[1] per hour. However, a more accurate metric is the "loaded" number of $23.25[1] per hour which includes health benefits, hiring and recruitment, training, unemployment tax, workman's compensation, equipment, uniforms and other supplies. ([1]Payscale.com.)

4. Warehouse labor

Next up are warehouse labor costs. There are two parts to this consideration. When the returned damaged shipment comes in, an employee has to unbox it and determine if it can be fixed and resent to the consumer or put back into stock. The second part, is that the fulfillment process has to be repeated. The national average for warehouse labor expense is $13.45[1] per hour. The "loaded" hourly rate, which includes benefits,
is $24.04[1]. ([1]Payscale.com.)

5. Packaging supplies

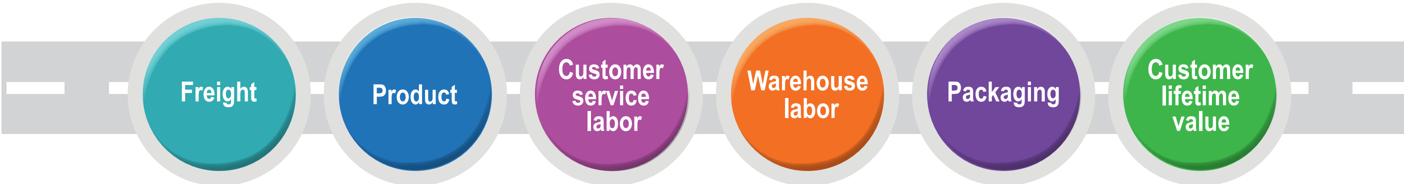
Sending a replacement shipment to the consumer also means you will be paying twice for supplies. This typically will include a corrugated box or mailer, cushioning and/or void fill, tape, labels, etc.

The type of shipping materials you use will also have bearing on what condition the product is returned to you. If the product was inadequately packed to begin with, the consumer is not likely to spend any of their own money to further protect it. That means there's a good possibility that more damage will occur on the return trip.

6. Customer lifetime value impact

This is the most expensive part of the equation—the loss of customer lifetime value.

In a recent study conducted by Packaging InSight, an overwhelming 73% of participants indicated that they would be unlikely to purchase from the company again after receiving a damaged item. This compelling



statistic highlights the importance of product protection. In fact, product protection was ranked as the "most important" characteristic of the packaging materials used to ship items to their final destination (as compared to sustainability and ease of product removal) by 80% of participants.

Additional considerations

In addition to the six key areas above, additional considerations include customer acquisition costs and the impact of both social media and environmental attributes.

Online marketing, specifically paying per click, is expensive when you take into consideration that conversion rates to acquire new customers are typically below 4%. These investments are not fully realized when customer lifetime value is reduced. It's important to broaden your thinking to include this marketing expenditure when a customer is lost.

Ecommerce companies and manufacturers also can't overlook the impact of social media on brand image and sales. According to the influencer marketing website Curalate, 92% of people are more likely to be influenced by their own social network than traditional marketing and advertising. As we have all witnessed, when someone has a negative customer experience, they tend to put it on social media. This means that in addition to the original customer not wanting to buy from the retailer again, their friends are now also significantly less likely to purchase from that company again.

Another social media aspect is the growing inclusion of unboxing videos. Consumers contemplating a purchase are able to see in advance how the product arrives and how well it is protected—layer by layer.

The environmental impact also cannot be ignored. Consumers increasingly want to do business with companies that have a positive environmental track record. If returned goods due to damages are forcing you to use 100% more shipping supplies and paying for three shipping trips instead of one, you aren't only increasing your costs, but your carbon footprint, as well.

Conclusion

For an eye-opening experience, take some time to run through all six steps of the analysis above on your own damaged product returns. You are likely to be stunned as to how high the impact of each return is to your profitability.

Selecting the right type of protective packaging solution for your specific product needs is critical to ensuring that you minimize—or even eliminate—damaged returns. Inviting a qualified protective packaging professional to provide a no-obligation audit is the first step to minimizing your returns and improving your company's profitability.

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