

European Reverse Logistics



Why are ecommerce returns rising?

The digital revolution, fuelled by national lockdowns in 2020 and 2021, has boosted the need for shoppers to buy online given the restrictions to physical retail. The level of ecommerce jumped from 19% to 28% of total retail sales in the UK over the course of 2020 according to the ONS, although the spike in the volume of goods bought online is creating new problems for retailers.

Forrester and eMarketer estimate the current level of ecommerce returns to be 20%, whereas the proportion of bricks and mortar returns is between 8-10%, which is having a significant impact on retailers' profit margins. IHL Group estimate that the cost of return deliveries across EMEA has risen from \$234 billion to \$388 billion between 2015 and 2019.

Of course, one of the first reasons for online returns exceeding in-store

returns is down to the ability for consumers to inspect, examine and try the product in store before purchasing.

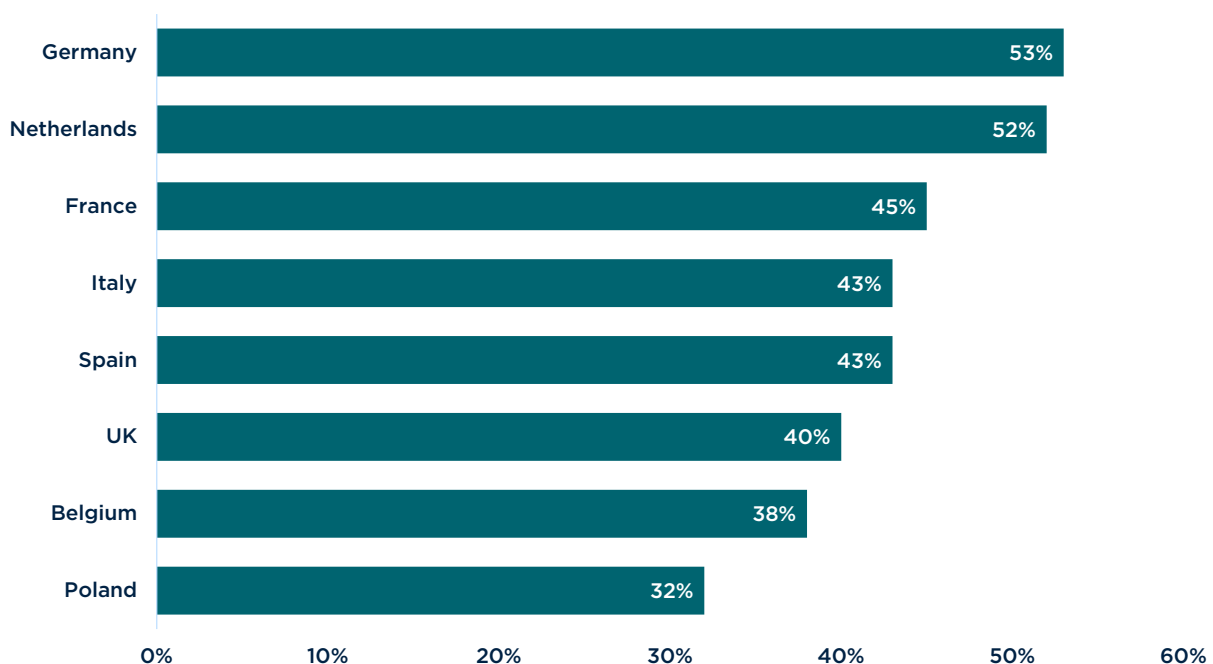
However, one of the challenges for the sustainable growth of ecommerce has been the perceived ease of returns and many customers buy with an intention to return some of their items, for example ordering two sizes of the same shoe. Retailers are being forced to either factor returns into prices as a result, or clamp down on serial returners in order to maintain profit margins. Smaller online retailers are also becoming forced to offer free deliveries in order to compete with the most established online retailers.

Online retailers' membership schemes are also likely to have contributed to the rise in returns. By paying a monthly subscription for free delivery and returns, the marginal cost of purchasing/returning goods online

is reduced and the perceived "risk" of buying a product that is not suitable is removed. 17% of EU28 respondents announced that they would not buy online due to concerns about returning goods, according to a Eurostat survey.

PostNord's survey of European consumers indicates that German shoppers were the most likely to have returned a package in 2018, with 53% of respondents having returned items. This could partly be down to payment methods- in Germany for example, it is usual to pay for ecommerce purchases by credit card and consumers are charged at a later point for their online orders, whereas in the UK, consumers are generally charged at the point of purchase. It's also worth considering that the increasing ease of purchasing a good online using website cookies at checkout etc could ultimately result in a rise in impulse or "panic" purchases.

Chart 1: Share of population returning online purchases 2018 (%)



Source: PostNord

How are online retailers dealing with ecommerce returns?

Europe's retailers are now having to adapt their logistics operations to deal with ecommerce returns as consumers are faced with more ways to return goods bought online across the continent.

Netherlands

Third party logistics operators (3PLs) are introducing new measures to improve the ease of returning goods and faster process inbound returns. For example, food delivery company, Picnic has partnered with DHL to pick up packages from consumers' front doors in Picnic's electric vehicles for returns to drop off at distribution warehouses. The cost of delivery is cross-subsidised between the outbound food delivery and return package collection journeys and packages are then picked up by DHL at the sorting depot.

Germany

Amazon's parcel delivery lockers are becoming more established, although it remains most common for consumers to return goods to post offices, where DHL, Hermes and DPD are the main parcel delivery operators. Amazon's 130,000 sq m Monchengladbach distribution centre caters for the German and Dutch markets and was acquired by Samsung Securities in 2019.

CEE

Some multinational ecommerce operators are now developing dedicated centres across Central Eastern Europe (CEE) to process returns. Amazon's returns warehouses in Dobroviz, Czech Republic and Sered, Slovakia cater for returns across CEE markets, similar to the Dunfermline

returns centre for Amazon's UK returns.

However, most online retailers continue to carry out returns operations from their existing distribution centres. Poland remains a key distribution hotspot among ecommerce operators in Europe due to cheaper labour costs, proximity to the rest of Europe, access to power and ability to develop new stock. Zalando's distribution centres are strategically located across Poland to cater for distribution and returns within the Baltic and Scandinavian markets.

For smaller online retailers, we are seeing a rising number of parcel drop off lockers emerge from companies such as Polish company, Inpost. These companies partner with online retailers and parcel delivery companies to provide a convenient drop off point in urban areas, including shopping centres and transport hubs.

Norway

Telecom operator Telenor has partnered with delivery service Helthjem and Kolonial for in-home deliveries. Customers choose an option for home delivery inside the front door and drivers receive a single use code for the digital lock to open the door, with a similar service available for collection of parcels. Assa Abloy and Scandinavian postal service, PostNord also trialled an Inhome Delivery scheme using digital locks from Yale Doorman. In other cases, consumers have adopted digital boxes outside their front doors for delivery and collection of parcels.

US

Outside Europe, Amazon and US retailer Kohl's have formed a partnership for consumers to return Amazon goods in Kohl's stores drop off goods without packaging or labels. Despite shopper footfall being significantly down, the partnership has provided Kohl's with a boost in in-store sales. Kohl's CEO, Michelle Gass announced that in 2020, over two million new visitors went to Kohl's stores to return an Amazon purchase - a service it's offered in all stores for nearly two years, and that a third were millennials.

We have also observed Amazon's Key In-Car service where delivery companies can unlock the vehicle's boot, leave the package and secure the vehicle without the use of a key for Volvo and General Motors vehicles.

UK

In order to compete with traditional delivery companies, Uber has launched Uber Connect, an on-demand service to send parcels (up to a weight of 13 kilograms) within UK cities. Initially the focus is on the more highly dense conurbations of London and Manchester, where consumers have the ability to return packages quickly and efficiently.

Logistics company, Clipper has been appointed by a number of retailers including ASOS and John Lewis to process returns through their "Boomerang" service. The service turns returns into new goods, including quality checks, repairs and relabelling for same day customer refunds.

How is technology being adopted to reduce returns?

One rising problem for Europe's retailers is the falling level of warehouse availability and shortage of land for new developments. European logistics vacancy rates now hover at an average of 5.3% in 2020, and retail distribution centres are having to become more efficient to deal with returns.

Thus, we are now seeing more corporate investment within supply chains as a result of the rising ecommerce and returns. Globally, €44bn was transacted in "supply chain technology" during 2020, marking a 109% increase from €21bn in 2019, according to Pitchbook. A rising focus of this capital is targeting the "foodtech" submarket stemming from

rising demand for food delivery.

However, retailers are investing in new technology to find the most suitable product for their customers to ultimately reduce the probability of a package being returned. One example is the implementation of augmented reality (AR) in online purchases. UK retailers, Argos, for example has developed an augmented reality shopping app for consumers to configure sofas, televisions, cabinets etc in their own homes to visualise the product before purchasing. More focus is now being applied to adapting AR to the online fashion sector.

Retailers are also becoming willing to offer a trial period for consumer

goods. Amazon Wardrobe offers Prime members the opportunity to "try before you buy" and are not charged on the date of order, but are allowed a 7-day try-on period and if the goods are not returned by the end of the deadline, the money will not leave their account.

Retailers are now paying additional focus on consumers' spending habits and sanctioning serial returners from their previous order history. ASOS, for example, has adapted its returns policy so that returns remain sustainable for the company and for the environment.



What is the environmental impact of ecommerce returns?

Despite the increased ease of purchasing for consumers, rising ecommerce returns are beginning to have a negative impact. US reverse logistics operator, Optoro, estimate that 25% of returns are destroyed or end up on landfills as unsellable inventory. As a result, Boston Consulting Group estimate that €7bn of returned goods are destroyed every year in Germany alone.

Policy makers are now implementing sanctions on offending retailers. In 2020, France committed to outlaw the destruction of unsold products including clothing and electricals by 2023. Retailers will be forced to repair, re-use, resell or recycle goods instead. The German

environmental ministry is reportedly visiting various ecommerce merchants in order to gain a sense of the proportion of goods which are thrown out, in anticipation of new regulation being introduced, according to Bloomberg.

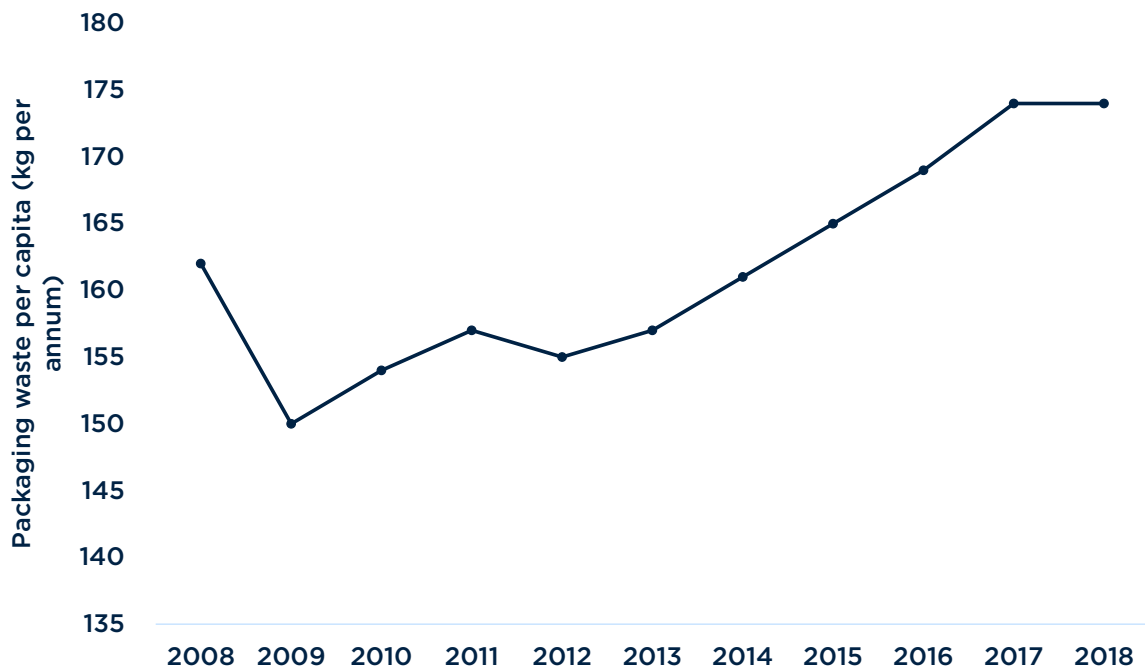
This has created opportunities for the emergence of “re-commerce” companies, such as blinq.com, which acts as a returns liquidator for resale to consumers in order to reduce waste.

Parcel delivery companies are also seeking more sustainable ways to deliver goods across Europe. Over the past three years, we have observed the annual number of electric vehicle sales almost treble to 742,000 in order to

reduce carbon footprint, according to EV-Vehicles. Amazon’s fleet of electric vehicles are now making deliveries in Los Angeles and Amazon plan to expand this to 100,000 vehicles by 2030 in order to meet the company’s climate pledge aiming to have net zero carbon emissions by 2040.

A rising environmental concern for policymakers is the level of packaging waste across European markets. Latest data from Eurostat indicates the level of packaging waste generated across EU-27 states increased from 157kg to 174kg per capita between 2013 to 2018, rising at an annualised rate of 2%. At a national level, Germany, Luxembourg and Italy marked the highest levels of packaging waste generated per head.

Chart 2: Packaging waste generated per capita



Source: Eurostat

Outlook- How will returns impact demand for logistics space?

Rising levels of ecommerce activity, for both delivery and returns, is creating new demand for logistics space. What is clear is that there is no one-size-fits-all solution to returning goods as consumers prioritise convenience and retailers and parcel delivery companies accommodate these changing preferences in their warehouse layouts.

Take up from parcel delivery companies alone in the UK reached 275,000 sq m (three million sq ft) during 2020, rising from 3% to 6% of total logistics demand from the previous year.

OFCOM's parcel delivery data indicates that in the UK, 2.8 billion packages were delivered in 2020,

marking annualised growth of 9.1% over the past four years. This indicates that for every one million packages delivered in the UK, this creates demand for an additional 100 sq m (1,050 sq ft) of warehouse demand from parcel delivery companies.

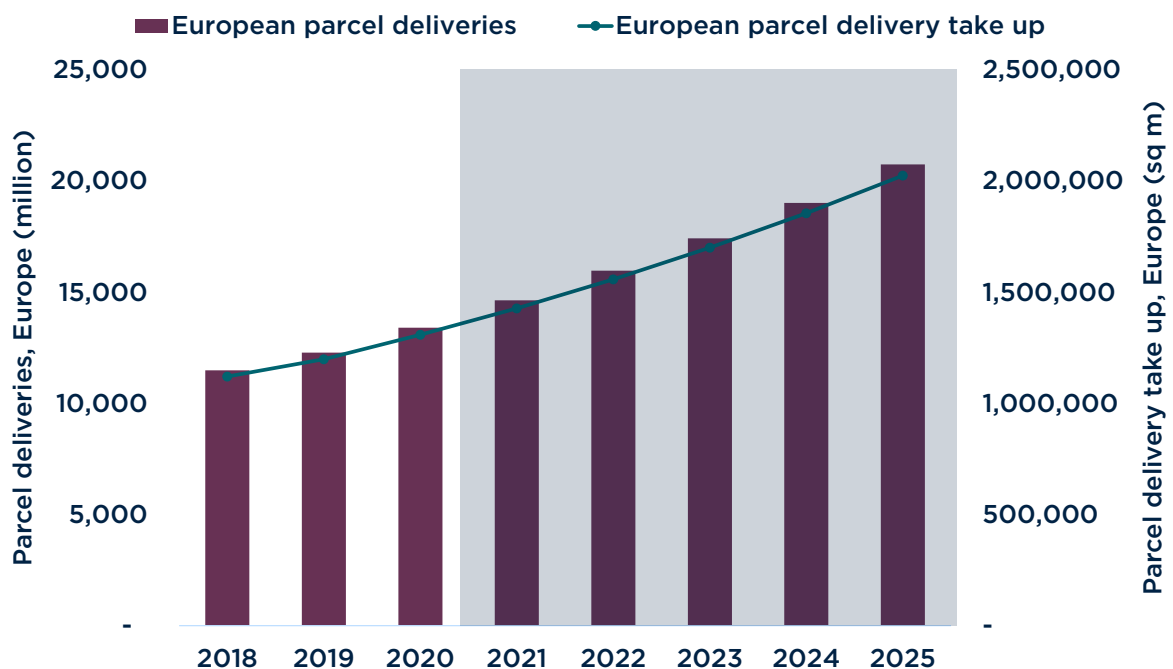
Parcel delivery data from Effigy Consulting indicates a total of 12.3 billion parcels were delivered in Europe during 2019. Adopting the 9.1% annualised growth rate in UK parcel deliveries, Savills Research forecast that an additional 8.6m sq m of warehouse space will be required from European parcel delivery companies between 2021-25.

Assuming that 20% of goods bought online are returned over this period,

an estimated 1.7 sq m of this space will be required to accommodate and process returns from parcel delivery companies. Rather than a like-for-like relationship between parcel returns and logistics demand, this is more likely to be in the form of a ripple effect for new demand from associated trading partners.

Retailers' omnichannel strategies will become increasingly important in reducing the overall number of returns. We expect to see more retailers using their store portfolios for distribution of goods, taking some of the demand away from the logistics market as a result.

Chart 3: European parcel deliveries and parcel delivery take up



Source: Savills Research, Ofcom, Effigy Consulting, forecasts from 2020 onwards



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