



## Reverse Logistics: the new opportunities for Thai logistics players in e-Commerce trend



### Highlight

- The trend of “reverse logistics”, the process in which customers return products to sellers, is on the rise. The driving factor behind this phenomenon is the free shipping and returns policy adopted by e-Commerce businesses. It is estimated that the reverse logistics accounts for around 30% of all online purchases. In 2018, it is expected that the total value of reverse logistics market will be worth USD 1.1 trillion. Europe will be the region that contributes the most to this statistic, accounting for 45% of all returns globally. The main categories of products involved in reverse logistics are fashion and apparels, as well as consumer electronics through the return policy.
- EIC views reverse logistics in Thailand is worth around THB 3 billion and will continue to increase due to the growth of e-Commerce, especially B2C, and the free shipping and returns policy that increases the likelihood of products being returned. These factors represent opportunities for transport and logistics businesses to enter the reverse logistics market. In addition to providing services in returning products, having a warehouse operations to support reverse logistics for failed deliveries and customer returns should be considered by logistics service providers.

Reverse logistics, or the returning of products by customers to the sellers, is showing continuous growth supported by the free shipping and returns policy of online retailers. Reverse logistics mainly occurs as part of the e-Commerce businesses whereby customers wanting to return their purchases because of various reasons including products that are damaged, defective, doesn't match descriptions, or receiving wrong products, to name a few. It is estimated that reverse logistics accounts for 30% of online purchases. Meanwhile, the growth of the global e-Commerce market is expected to reach 23%YOY in 2018 representing 12% of the worldwide retail market. Consequently, the reverse logistics trend is expected to grow alongside the e-Commerce market. Furthermore, PwC found that the free return shipping policy is the most important driving factor that contributes to online purchasing by consumers, supporting the rise of reverse logistics trend.

In 2018, it is expected that the global reverse logistics market will be worth USD 1.1 trillion following the growth of 22%CAGR in the past 3 years especially in Europe. The main product

categories involved in reverse logistics are fashion and apparels (30%) and consumer electronics (15%). Reverse logistics in Europe accounts for 45% of the total because of consumer rights to return purchases, which allow customers to return purchases made via online, telephone, and email in all instances within 14 days. Therefore, if such rights are introduced worldwide, the reverse logistics market will play an increasingly important role in the transport and logistics ecosystem in support of returning online purchases.

**In Thailand, reverse logistics services are on the rise due to the growth of e-Commerce, especially B2C and free shipping and returns policy of online purchases** It is expected that the value of the e-Commerce market in Thailand will grow by 18%YOY in 2018 to reach THB 70 billion. The main drivers will be the purchases on fashion and apparels, as well as consumer electronics which are products Thai consumers prefer to buy online. Nevertheless, these products are also the most returned products as well, since consumers do not get to choose and try the products before buying leading to wrong purchases being made in a frequent manner. Although Thailand has no specific consumer rights regulations for customer returns and refund to all online purchases, online retailers especially B2C are offering their own return and refund policy to increase competitiveness and attract customers. The main consideration in adopting an online return policy is that the process must be fast, convenient, and free of charge. This is to create a positive experience for customers and reinforce their confidence in using the online channel in making purchases. An example of this is provided by Lazada whose policy allows consumers to return their purchases within 14 calendar days depending on the products. Customers must complete a form to initiate this process by stating the reason for returning, refund method, and drop-off courier such as a post office or a convenience store. Once the form is completed, customers then print and attached the document to the drop-off courier. Importantly, the label already includes free shipping so that customers do not have to pay. Customers are then able to track the status of their returns within 14 days when waiting for their refunds.

The rise of e-Commerce and the free shipping and returns policy will support and help the reverse logistics business in Thailand, currently worth around THB 3 billion, to also grow at the same time. This trend will have positive effects on both the logistics in delivering products to consumers and the return shipments alike.

**In addition to returning products to sellers, having a warehouse management to support reverse logistics will help businesses to add value to their operations** Especially in the case of failed delivery attempt and products that have not been opened, accounting for 5%-10% of total online purchases, which are still in good conditions and can be resold. These products require an effective warehouse operations to stock prior to reselling without having to immediately return to the original sellers. The adoption of warehouse management will help to support reverse logistics and allow businesses to increase their income channels to 3 ways including the shipping fees of unsuccessful deliveries, the logistics fees from the re-ordering of products, and the returning of products to the original sellers in case of not receiving any new orders and re-orders.

**EIC views that pick-up and drop-off location, warehouse management, and using technology are 3 important factors that businesses must consider if they are to enter the reverse logistics**

**market** Reverse logistics show signs of continued growth in the near future. Adding the growth to the fact that there are still not many businesses offering such a service, reverse logistics represents an important opportunity for new players to enter the market, especially in support of B2C e-Commerce. EIC views that if a new business is to enter the reverse logistics market, they must consider the following three important factors, which are 1) Having a pick-up and drop-off point that is easy to access such as in sky train and underground stations, convenient stores, shopping malls or petrol stations 2) Possessing a warehouse management system for failed delivery products that will help to increase incomes from re-stocking products and deliver to both sellers and customers and 3) Enabling technology to support services such as using API connect to a database to handle purchase orders in limiting mistakes and reduce the time taken per order. EIC reckons that reverse logistics is a business sector worth keeping an eye on as an operation that will help logistics and warehouse specialists expand their operations.

## Implication

- **Businesses wanting to enter the reverse logistics market should consider three important factors, which are: having pick-up and drop-off location, warehouse management, and using technology to support such operations**

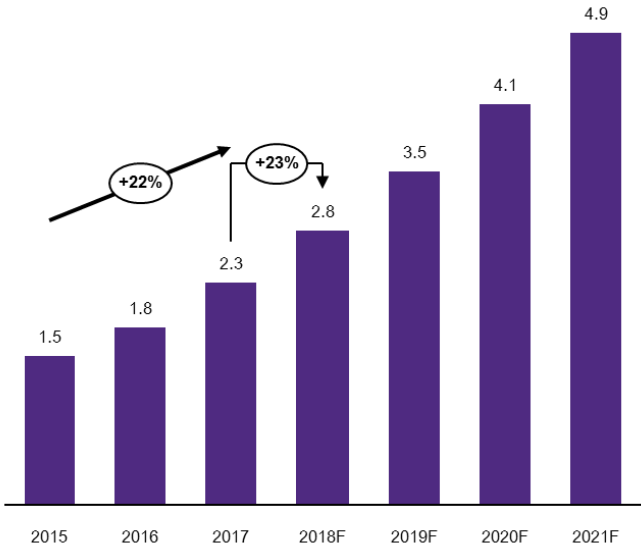
While demands for reverse logistics services continue to rise as a result of the growth in e-Commerce, the number of businesses operating in this sector is still limited. Therefore, reverse logistics represent an important opportunity for businesses in the transport and logistics market to expand their operations. Additionally, the collecting products from a drop-off point will help increase the volume of return products to the original sellers.

- **Online retailers should have a strategy in servicing reverse logistics as a consequent of having a free shipping and returns policy**

That will increase the volume of products being returned especially during the sale campaign in which purchase orders will be higher than normal. Thus, online retailers should have a plan in case there is a need for an increased capability to accept products being returned. Furthermore, online retailers need to also outsource logistics services providers specialising in reverse logistics operations to help manage product shipments in order to minimise impacts on other aspects of their business operations.

Figure 1: Value of global e-Commerce market.

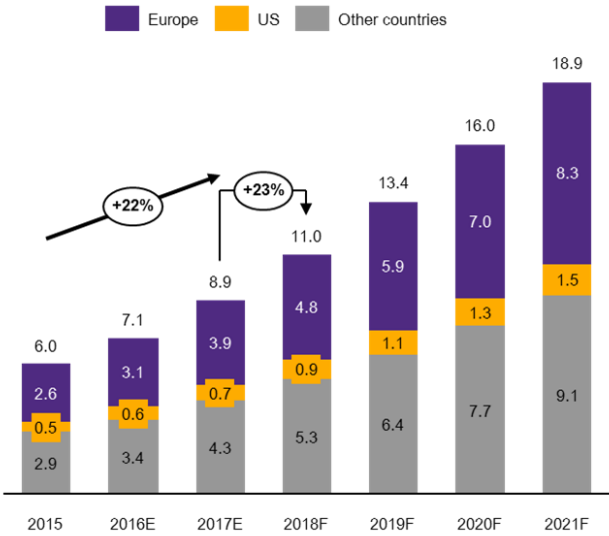
Unit: Trillion USD



Source: EIC analysis based on data from eMarketer

Figure 2: Value of global reverse logistics market expected to increase alongside the growth of e-Commerce.

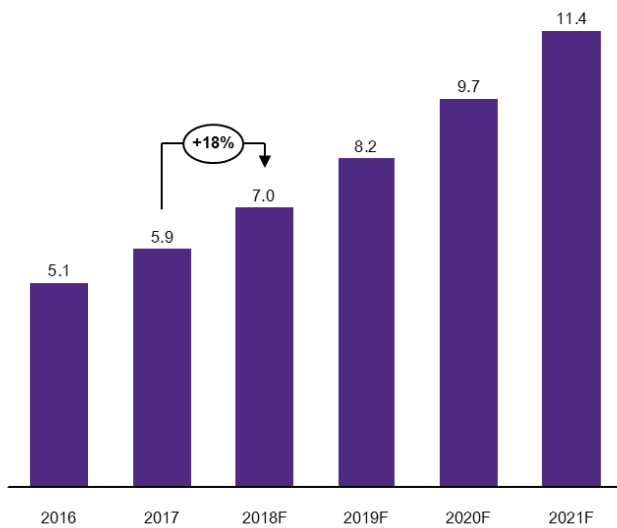
Unit: Hundred billion USD



Source: EIC analysis based on data from IHL Group

Figure 3: Value of e-Commerce market in Thailand

Unit: Ten billion THB



Source: EIC analysis based on data from eMarketer

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