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# SECONDARY MARKETS – A COMMERCIAL INTRODUCTION TO LIFE AFTER THE RETURN

A COMMERCIAL PRIMER FOR MULTICHANNEL RETAILERS AND BRANDS

# Editor's introduction

Returns are a growing problem for retailers. Coping with the volume, processing and cost of returns is a significant challenge for retailers who would after all rather concentrate on selling goods than taking them back.

But the growth in ecommerce, coupled with the consumer expectation for free returns, is driving rates ever higher. In 2017 IMRG tracked a rise in the average rate of returns to 23% in the UK – the highest level since it started measuring it in 2010.

Returns can be an operational minefield and retailers need to work out how to receive, process, store and then dispose of such goods without it impacting margins and increasing costs per order as a result.

For some the processing will simply be getting products back into stock for resale, but for many retailers the opportunity for traditional full-price resale simply isn't worth the processing time and investment.

And of course, returns drain on ROI since surplus and returned goods are held up with the customer, in a warehouse or in storage awaiting redistribution, rather than earning money.

But it's not only returns that retailers need to find solutions for. From excess stock to damaged goods traditional liquidation solutions often have limitations that mean they cannot scale or flex with a growing business.

In this whitepaper, alongside our partner B-Stock, we look at the role of secondary markets – those post-retail channels that provide outlets for unwanted goods – for dealing with returns and excess stock and the value that can be realised from doing so.

We look at the historic barriers to the secondary market and how those can be overcome and examine a more professional approach to liquidating

stock than the jobbers of the past. We look at the opportunities to make more money than ever from returned or excess stock and its role in sustainability too and look at where appetite for the secondary market will go in the future.

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**LIZ MORRELL** Research editor

# The pain point of returns

As return rates continue to rise, the cost associated with processing returned merchandise back on the shelf or returning to vendor is becoming a major pain point. Consider this: it costs twice the amount to process an online return for resale as it does to sell it the first time around. What's more, by the time an item is returned, a newer product – that can be sold at full price – may now be on the shelf; this is often the case for specialist retailers with quickly rotating inventory. It's no surprise then that more retailers are opting to sell their returned and excess inventory into the secondary market to offset loss.

Defined as post-retail channels that provide a means to sell and buy returned, excess or other previously unwanted goods, the secondary market includes channels like factory outlets, discount shops, markets, and auction channels.

In addition to the spike in returns, a few factors are contributing to the growth of the secondary market:

**Consumer behaviour is shifting:** Buying a used or heavily discounted product no longer has a stigma attached to it. Getting a deal on eBay or frequenting a charity shop to find a secondhand treasure is now brag worthy. Plus, people like the idea of sustainability.

**Social responsibility:** Sending items to landfills is now socially unacceptable in the eyes of consumers and investors. We've seen headline-grabbing stories of burned and buried inventory and subsequent backlash on those retailers.

**Better recovery (minimise more loss):** One of the biggest drivers of secondary market growth is the ability to offset loss from returned and unsold goods. Depending on what channel a retailer chooses, there is great opportunity to achieve high pricing. Even liquidation – if managed correctly – is becoming a viable option.

**Brand protection:** Knowing how your merchandise enters the secondary market and who is buying is important. Many retailers are opting to own their own secondary channel(s) in order to have greater lifecycle oversight of their products and brands.

In the past, options for returned and excess

stock were limited to selling to a jobber or landfilling. Now, dozens of channels exist, and can be leveraged depending on the retailer's goal (recovery, brand protection, risk aversion, etc.): a surplus of designer swimsuits could sell at factory outlet stores; a truckload of mixed, grade A merchandise could sell to TK Maxx, about-to-expire food products are often bought by convenience stores.

Newer technology-based methods for selling into the secondary market are also being leveraged. For example, many retailers are opting to build their own B2B marketplaces in order to auction bulk quantities of returned and excess merchandise to business buyers around the country.

From salvage and discount store owners to online sellers to independent shops, refurbishers, and exporters, a robust buyer base exists for just about every product regardless of condition.

Unless you have a zero returns policy or 100% of your returns go back to the vendor, you will face the challenge of processing returns. Couple that with the fact that retailers and manufacturers are under a microscope for sustainable (and ethical) business practices, it's clear there should be a strategic, ongoing process to mitigate the impact of returns. That process should include leveraging the secondary market.



B-Stock offers the world's leading auction platform for returned and overstock inventory. By setting up a dynamic where goods are sold directly to a diverse base of approved business buyers, retailers experience greater demand, higher pricing, and a faster sales cycle.



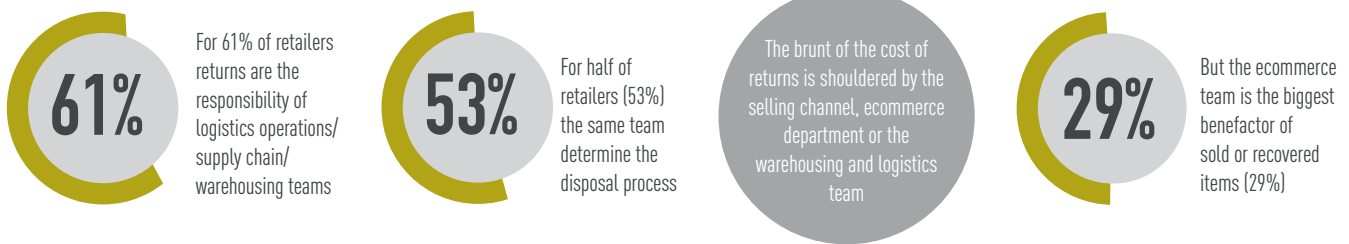
**BEN WHITAKER**  
Director EMEA, B-Stock

# Survey results: What's happening with returns?

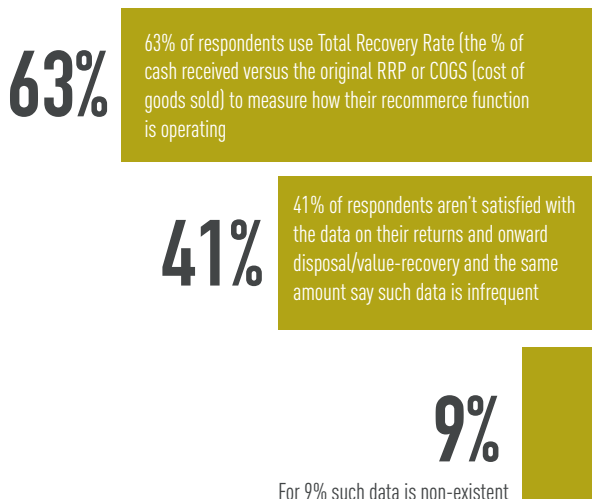
In our retailer survey we looked at how retailers are handling returns and who's responsible for them in a bid to better understand the potential for these goods within the secondary market.

## KEY SURVEY RESULTS

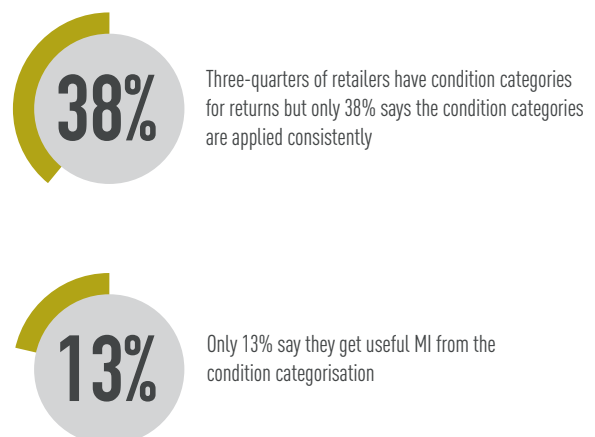
### Whose responsibility is returns?



### How are retailers keeping track of stock and returns and how good is their information?



### Are retailers categorising stock?



# The need for a better alternative

## What does the secondary market comprise and what role does it play?

The secondary market is a post-retail channel that can encompass anything from discount stores to auction sites that allow another route to market for product. The sector is growing as retailer and consumer appetite for getting more for their money grows. In the US post retail sales – including both returns and overstocked items – totalled \$554 billion in 2016, growing at around 7.5% a year, according to Zac Rogers, an operations and supply chain professor at Colorado State University's business school. Indeed the figure is said to be up 79% since 2008, representing 3% of GDP.

In Europe a continued growth of ecommerce is also seeing an associated rise in the rate of returns and although the secondary market isn't as dominant as in the US it's a market that continues to prove popular for retailers and customers alike.

With consumer expectations and trends changing fast product can quickly become obsolete or, if it's been returned in less than ideal circumstances, is no longer viable for normal sale. Both returns and excess inventory are at an all-time high and with returns often costing twice as much to process back onto shelf as to sell retailers often need another option to deal with such stock.

So, what's the solution? The cost of repackaging and reselling can often outweigh the value gained and so in past horror stories have abounded of products going to landfill or being discarded. Indeed according to one secondary market specialist around £4 billion worth of goods end up on the rubbish heap each year.

But in today's world of sustainability that is simply not an option that businesses can afford since it's likely to prompt huge consumer backlash against its environmental impact.

The secondary market has long existed to help retailers and brands shift overstock (b-stock) items but is increasingly being used to help manage returns too. Traditionally sold through a liquidator – often on to jobbers – new options such as auction sites are helping retailers and brands to maximise the return they get from such stock.

### How has the market developed?

Traditionally a retailer or brand would return to vendor, sell to a single jobber or liquidator or could burn, destroy or landfill stock. With sustainability a key issue for retailers from Marks and Spencer to H&M this simply isn't a viable solution and better approaches to realising value from unwanted stock have to be sought.

Stores dedicated to selling brands at discounted prices, such as Ross and TK Maxx, have exploded in popularity – and helped to change both brand and customer perception of selling products through the secondary market.

TK Maxx for example now has more than 500 stores across Europe. Its parent company TJX Companies comprises more than 3,8000 stores in nine countries and in a 40-year history claims to have seen only one year with an annual comparable store sales decline. The stores offer prices at up to 60% less than RRP and product is bought through a number of channels – from department store cancellations, excess branded product or simply taking advantage of a retailer wanting to clear merchandise.

Similarly, many brands – such as Nordstrom, Nike and Next -- have extensive outlet portfolios which are also helping to fuel customer demand for reduced price product. Other secondary market options can include online sellers – particularly through the likes of eBay, online sellers and mom and pop shops.

Retailers are realising the value to be had, according to Graham Best, CEO of ReBOUND Returns. "They're seeing the potential profits that are being had across peer-to-peer and individual sales and tapping into these margins is becoming a high priority for some," he says.

**SECONDARY  
RETAIL SALES**  
**\$554.2 BILLION**

**37%**

SALVAGE DEALER

**24%**

ONLINE AUCTION HOUSES

**17%**

OTHER (PAWN SHOPS, FLEA  
MARKETS, CHARITIES)

**15%**

VALUE RETAILERS /  
DOLLAR STORES

**7%**

FACTORY OUTLETS

# How is the secondary market perceived?

The secondary market has historically been hampered by issues around perception – but what’s the reality and how has it changed?

## Why are retailers hesitant about the secondary market?

Our survey showed that brand perception (33%), pricing confusion and operational challenges (both 14%) are the top three concerns about using secondary market. That was followed by no profit and loss benefit and the additional customer support needed (both 11%). Only 3% were worried about secondary markets cannibalising sales.

One multichannel designer and premium shoes and accessories business we interviewed for this whitepaper said they use the specific distressed channels such as eBay for selling returns, with its major advantage being cash recovery. However, the retailer admitted to being worried about brand protection and said it aimed to minimise its use of such channels.

A major car brand, who distributes accessories and parts for the UK and Irish markets, said that returns are sent back to the fulfiller or the company’s head office. Product is returned to stock for resale or a warranty claim on the supplier and scrapped if the item is damaged. Excess stock is either discounted or scrapped. He also worried about brand harm.

Dr Dale Rogers, ON Semiconductor professor of business at Arizona State University and an expert on the secondary market says this is a view that has to change and that for some the secondary market can actually generate higher income. “For some brands when selling through primary channels their margin is lower than if they sell through their own factory outlets so the numbers for the secondary market actually work better,” he says.

## THE CONSUMER VIEW

Consumers don’t typically know anything about the secondary market – but they know the bargains that can be had from it. For them their perception is around stores such as discount stores, online deal marketplaces such as eBay or Craigslist, or off-price stores such as TK Maxx. The growth of these has meant they know there are great deals to be had and buying in such places is no longer taboo but simply a cleverer, cheaper way to shop. “Scoring a deal is the name of the game for customers,” says the boss of one retailer whose fashion business is based on sourcing end of line, cancellation and job lot stock through the secondary market.

## THE RETAILER AND BRAND VIEW

Naturally in an ideal world a retailer or brand would avoid product being sold on the secondary market since they get less than if the product was sold at full price. They also often worry about a lack of control of their brand and customer perception of it. But as we have seen returns and excess stock are inevitable and need to be handled responsibly and at the greatest margin possible. As a result, the secondary market provides a valuable channel to offload and recoup value, whilst newer ways of accessing the market allow for higher pricing, greater control and a faster sales cycle. A brand or manufacturer however needs to ensure ultimate control on how the brand enters the secondary market and where it is sold, and most will sell to a specific group of business buyers whilst others will delabel and export.

## THE BUSINESS BUYER VIEW

For independent discount store owners, second-hand stores, online sellers and so on, the secondary market is a primary source of their stock. Previously such businesses would have bought stock through liquidators or jobbers, but the increasing sophistication of the market means that they can now access inventory directly from the retailer or brand – buying in bulk to get a cheaper price whilst also building a relationship with the brand or retailer directly. The greater value of returns and additional methods for retailers and brands to sell to secondary market buyers means there is more inventory available for such buyers than ever before, further increasing demand and potential in the market.

# The state of the market in 2018

How is the secondary market changing and where could it be heading?

## What works on the secondary market and where?

As mentioned above the hunger for chain discount stores such as TK Maxx has meant that customers know that there are bargains to be had on pretty much any product category they are into – which itself drives the vendor demand for secondary market goods. Products from electronics to clothing, health and beauty and home improvement do well in the secondary market but generally anything that is popular in the primary market will also be popular in the secondary market. Clothing and apparel and electronics are also two of the biggest markets for returns.

As we've seen in the US the secondary market is growing strongly. Dr Rogers says this is due to a number of factors that include returns being harder to do; a customer happier to buy at discount and an expansion of dollar type stores taking over traditional space in shopping malls. "It's a really interesting, disruptive time and the secondary market is thriving here," he says.

In Europe he believes the market has been held back somewhat by customer perceptions, but says that is starting to change. "You can absolutely see it coming," he says.

With countries such as UK, Germany, France, Italy and Spain leading the way in terms of full-price sales online retailers in such countries can also have the highest online return rates – which can be 35 to 40% for Germany for example – so secondary market options make sense.

"The biggest secondary markets are in the major economies (mostly Western Europe) due to more stock being returned; additionally the biggest populations always have a larger percentage of people interested in b-stock/secondary market goods," says Ben Whitaker, director EMEA for B-Stock. "In Western Europe, the vast majority of Grade A/B stock will stay and be sold into the secondary market, in its original country of sale," he says.

In Eastern Europe the pattern is slightly different thanks to higher rates of

unemployment and lower wages meaning a greater demand for secondary market products that are at a lower price point. "You'll see more grade C/D stock heading over there, and a larger buyer base for it. What's more, there are more processing plants in Eastern Europe that can refurbish the stock and turn it into a reusable product," says Whitaker.

The secondary market operates like the prime market, so retailers need to consider the time of year when offloading product, remembering they will achieve higher prices on inventory that's season applicable.

## How are retailers handling returns currently?

Our survey of retailers looked at who was responsible for returns and how retailers managed it to understand the opportunity for the secondary market. We found that responsibility for returns runs across functions in many businesses. For 3 in 5 retailers (61%) it was the logistics/operations/supply chain/warehousing team. For 47% ecommerce had a responsibility and for 34% retail and store operations.

When it comes to determining the disposal process for when and how disposal takes place for more than half of retailers (53%) this was also the responsibility of the logistics/operations/supply chain/warehousing team and of the ecommerce team for 24%.

The cost of returns is split more equally however with the selling channel bearing the brunt for 37% of respondents, and warehousing and logistics or the ecommerce department for 29% of respondents, although the ecommerce team is the biggest benefactor of sold or recovered items (29%), followed by the original sales channel for 21% of respondents. 13% of respondents have a dedicated off-price or marketplaces team who get the benefit of such goods.

63% of respondents use Total Recovery Rate (the % of cash received versus the original RRP or COGS (cost of goods sold) to measure

how their recommerce function is operating but 41% of respondents aren't satisfied with the data on their returns and onward disposal/ value-recovery and the same amount say such data is infrequent.

It also seems that retailers aren't getting all that they need from condition categorisation. Whilst three-quarters of retailers have condition categories for returns 38% says the condition categories are applied consistently and only 13% say they get useful MI from the condition categorisation.

31% say they review the returns categories and gradings on a regular basis and only 28% say that they have confidence in the training given to returns assessors or graders. 19% use a third party to access or process the returns.

### How are brand concerns being overcome?

Retailers and brands often do have concerns about the secondary market given they are fiercely protective of where their brand goes with brand perception being the biggest concern for a third of those we surveyed.

"The ability to control where the branded merchandise ends up and who is buying it, is key," says Whitaker. Now, brands have more options about where and how they offload their merchandise. For example some manufacturers sell to a select group of buyers who then sell to consumers whilst some speciality retailers delabel their clothes and ship overseas, whilst others send them to their own outlet stores and others to discount chains.

"What's more, consumers are privy to the fact that certain brands can be purchased at off-price store. Given that this means it's no longer taboo for many brands this too is driving demand," he says.

### The rise of the online auction format in the secondary market

The value of the auction market has long been evident for the secondary market, proved by the popularity of the likes of eBay for selling on returned or excess stock.

But retailers are increasingly adopting the marketplace format directly too. John Lewis launched John Lewis Trade Auctions in

2017. The business to business marketplace, which operates via B-Stock, sells customer-returned and new condition and overstocked merchandise in weekly online auctions in less than truckload quantities.

Auction sites allow retailers to sell inventory across all conditions, products, and lot sizes to a larger group of buyers who, by the very fact that they are competing for product, push pricing up. The larger buyer base also means that inventory can be sold more consistently, enabling a faster sales cycle.

Whitaker says having a clear approach here is vital. "The best way to manage/control an auction site is to build your own (or leverage a PaaS offering), approve who can bid, invest in attracting new - but the right - buyers, implement auction strategies to boost buyer engagement and provide quality customer support," he says.

He says B-Stock has seen a 113% year on year increase in auction listings across all its European marketplaces between 2016 and 2017 and has witnessed a 995% growth in monthly listings since its EU marketplace inception in 2015.

## 5 MAIN POINTS RETAILERS SHOULD CONSIDER WHEN USING THE SECONDARY MARKET TO ENSURE THEY DON'T NEGATIVELY IMPACT BUSINESS

- 1. BRAND CONTROL:** Who sees and buys your excess inventory and how it enters the secondary market really matters.
- 2. RECOVERY/PRICING:** Depending on what channel you choose, there is great opportunity to offset loss from returned goods. Even liquidation - if managed correctly - is becoming a viable option.
- 3. VELOCITY:** The ability to move inventory as needed - regardless of volume, time of year, or product category.
- 4. TRANSPARENCY:** Sending items to landfills is now socially unacceptable in the eyes of consumers and investors.
- 5. EFFICIENCY:** By automating your process you'll improve the operational efficiency. This might include an automated solution - like an online auction platform.



# What's the future of the secondary market?

As we have seen the market is changing rapidly. Retailers and brands are being held accountable for where their excess stock ends up with burning or landfilling no longer a financially or socially acceptable option. Retailers and brands that follow this route run the risk of consumer backlash – especially amongst customer bases such as millennials who are one of the most socially conscious generations yet.

“Selling into the secondary market supports the circular economy, enabling a second life for these products. Even better, if a retailer can leverage a channel that enables higher pricing on the stock (such as an online auction) then it's a win, win,” says Whitaker.

Customer, brand and retailer perceptions are all changing too and as more realise the value of the secondary market not only for excess stock but for returned product too then the market will continue to grow, particularly as perceptions change and it becomes more acceptable in Europe too.

The greater opportunity to leverage different channels to sell into the secondary market will also fuel change in a market that historically has relied on outdated models, according to Whitaker. “Selling to a single liquidator for a rock bottom price will become obsolete. Depending on the retailer's goal: recovery, velocity, control there are now plenty of methods available to accomplish these things,” he says.

## The increasing impact of cross border returns

Cross border returns and ecommerce returns will continue to have a huge impact, particularly where retailers are dealing with an international market. “Cross border returns are a costly endeavour-- if possible it's better to keep the inventory in the country where the return took place and sell it straight into the secondary market,” says Whitaker. He says that for his EU-based

clients around half of everything they sell stays local because of the cost associated with logistics.

## The need to regulate where stock goes

Despite the hesitation by some of selling into the secondary market natural market forces will likely dictate its continued growth and it will increasingly become the rule for retailers and brands and be expected by consumers.

And this means a need for regulation, according to Whitaker. “As the secondary market grows, so will the need to regulate it. It's going to be so important for retailers to control the channel by which their inventory flows into the secondary market,” he says.

## Spreading risk

Dr Rogers says that retailers need to consider a portfolio of distribution models – of which secondary markets are important. “It's a risk management approach. It makes sense to have a portfolio of different distribution channels so if inventory doesn't sell in the primary channel you reposition it on the secondary market,” he says.

And as we have seen the increased focus on sustainability and environmental responsibility is also driving retailers to consider a better option for stock. “It's financially wise to use the secondary market. If you think about the cost equation as the cost of landfill have gone up and regulation such as the WEEE Directive have come into force there's a greater incentive to keep tuff out of landfill – both on the cost of doing it and the lost value of trying to resell goods,” says Dr Rogers.

He believes it's a market most retailers should be looking at but that some have ignored. “Just like in ecommerce where some firms have been slow to embrace ecommerce some first have been slow to embrace the secondary market too,” he says.

If retailers want to realise more value from returns and excess stock that's an approach that has to change.

# Conclusion:

As we have seen the secondary market is growing steadily across the world and its influencing factors look set to continue its growth. Additional methods of accessing the secondary market are allowing the brand or retailer to increasingly have better control and achieve better pricing for unwanted, excess or returned stock.

The secondary market is becoming a place where retailers can find a second life for their returned, excess and other liquidation goods. There is a huge demand for these items, both from business buyers and end users alike and as yet another channel to market it makes sense to examine the market's potential.

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 ISSN 1759-0582

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Published globally by InternetRetailing Media Services Limited.

## 10 THINGS WE'VE LEARNED ABOUT THE SECONDARY MARKET

1. **The secondary market offers valuable alternatives for retailers to dispose of stock more profitably.**
2. **Returns are increasingly being diverted to the secondary market as well as excess stock.**
3. **Perceptions and professionalism of the secondary market is changing.**
4. **Whilst the US dominates the secondary market similar factors are at play in Europe – which means similar growth should be expected.**
5. **Consumers love a deal (and the idea of sustainability): buying a used or heavily discounted product no longer has a stigma attached to it. Getting a deal on eBay or frequenting a charity shop to find a second-hand item is brag-worthy.**
6. **In the past, options for returned and excess stock were limited to selling to a liquidator or landfilling. Now, many secondary market channels exist, and can be leveraged depending on the retailer's goal (recovery, brand protection, risk aversion, etc.)**
7. **Technology is enabling a more efficient way for stock to enter into the secondary market, boosting pricing and the velocity in which the inventory can be cleared from the warehouse. Some of the world's top retailers are using PaaS offerings to sell their returned and excess merchandise.**
8. **A robust secondary market buyer base exists for just about every product: all across the EU there are buyers that purchase these goods for resale. The key is the ability to tap into this buyer base directly.**
9. **Secondary market options provide a more sustainable alternative to getting rid of unwanted stock, reducing consumer backlash to wastage.**
10. **The secondary market also allows retailers to better meet responsibilities around waste and carbon emissions.**



# How big is your returns problem?

- + Sell directly to 100,000+ targeted business buyers in 130 countries
- + Online auction platform creates competition, pushing prices up
- + Sell any type of product, condition or quantity; from pallets to truckloads
- + Used by the world's largest retailers to recover more for returns and overstock

Learn more at  
[www.bstock.com](http://www.bstock.com)





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An InternetRetailing whitepaper produced in association with B-Stock