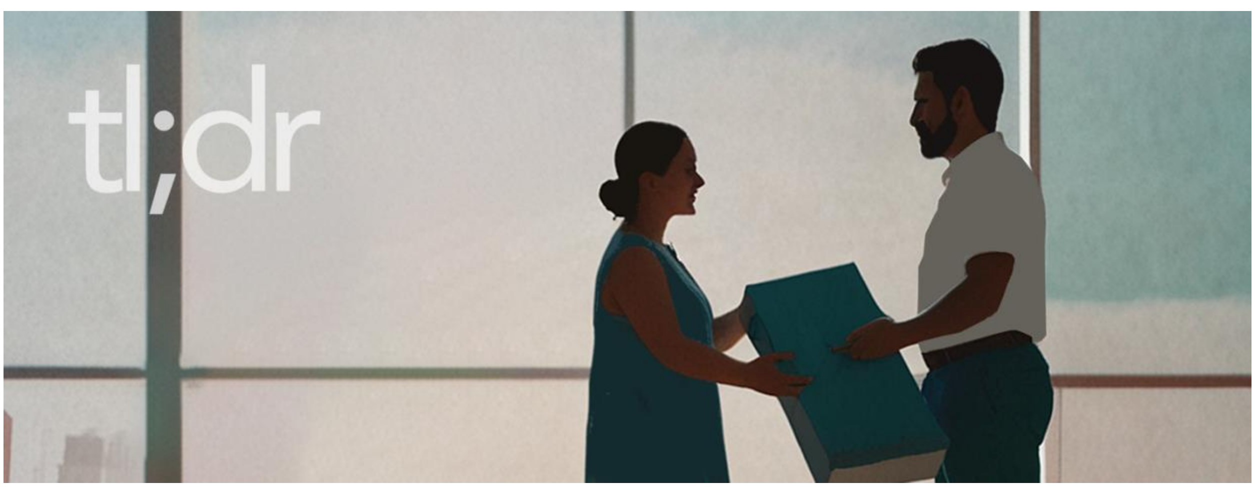
Maximizing BFCM Profitability by Strategically Managing Open Box Returns

TL;DR

Black Friday and Cyber Monday (BFCM) can account for up to 50% of annual revenue for many merchants, but high return rates during this period can significantly erode profits. Effective management of returns, particularly through reselling open box items at 80% of their original list price, is essential to maintaining profitability. Without this strategy, merchants risk losing all the profits gained during BFCM due to the cost of returns. By implementing a targeted approach to resell these items, merchants can ensure that the gains from BFCM are preserved and carried into Q1.



Introduction

The BFCM period is crucial for retailers, often representing the largest sales spike of the year. However, the period also generates a disproportionate number of returns, which, if unmanaged, can result in significant financial losses. In this white paper, we explore the financial dynamics of BFCM, the impact of high return rates on profitability, and the critical role that a well-executed strategy for managing and reselling open box returns plays in preserving overall profitability.

The Financial Dynamics of BFCM

Average Order Value (AOV): During BFCM, AOV typically increases as consumers take advantage of bundled deals and discounts. For example, in 2023, AOV for online orders was $109.60, a noticeable increase from non-holiday periods (U.S. Chamber of Commerce, Tidio). While higher AOV boosts revenue, it also raises the stakes?if these higher-value orders are returned, the financial impact is more severe.

Return Rates: Return rates during BFCM can range between 25% to 30%, much higher than the average annual return rate of about 10% (U.S. Chamber of Commerce). For every $1 billion in BFCM sales, up to $300 million may be returned. These returns, coupled with the cost of goods sold (COGS), shipping, and processing fees, can erode profitability if not mitigated effectively.

The Cost of Returns

Managing returns is costly. Retailers face several expenses, including shipping costs, inspection, restocking, and potential markdowns. The total cost of processing a return can range between 15% to 30% of the item's original price, depending on the industry and product type (BEUMER Group, Retail TouchPoints). For many merchants, this means that a significant portion of BFCM profits is consumed by the cost of returns. This is especially true for items with low margins, where even a modest return rate can turn a profitable campaign into a loss.

The Open Box Strategy: Sticking the Landing

Reselling Returns at 80% of List Price: One of the most effective ways to recover the value lost to returns is by reselling open box items at a discounted price. Our model shows that reselling open box items at 80% of their original list price is critical for maintaining profitability.
Break-Even Point: If a merchant experiences a 30% return rate on $1 million in BFCM sales, they could face returns totaling $300,000. If these returns are resold at 80% of the original price, the merchant recovers $240,000. Assuming processing costs of $60,000 (20% of the value), the net loss from returns is neutralized, preserving the overall profitability of the BFCM campaign.
Impact on Q1 Results: Reselling open box items not only recovers lost revenue but also provides a boost to Q1 sales. The resale of open box items can mitigate the post-holiday sales slump, providing a steady stream of revenue that might otherwise be lost.

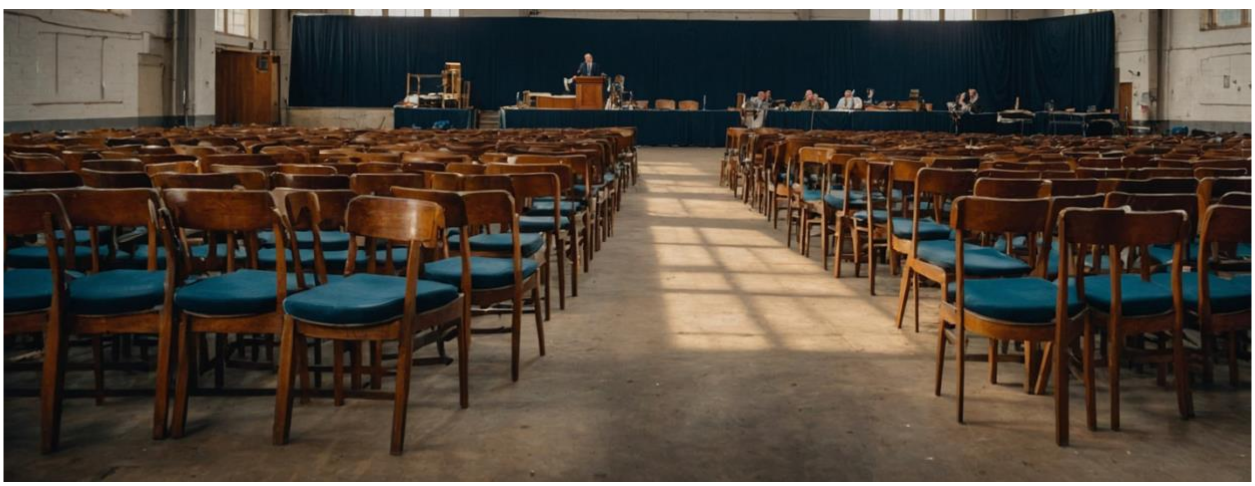
Amplio's Q3 2023 Liquidation Auction Report: The Secondary Market Challenge

According to Amplio's Q3 2023 Liquidation Auction Report, recovery rates on secondary markets, such as online liquidation auctions, are significantly lower than what merchants can achieve by selling returned items on their own platforms. The report highlights that the median recovery rate across categories is just 9%, with some categories like Clothing, Jewelry, and Beauty seeing rates below 2% (Retail TouchPoints).

For example:

- **Home & Garden:** A relatively strong category on liquidation platforms, yet it still only sees a median recovery rate of 12% (BEUMER Group).
- **Clothing & Jewelry:** These categories suffer from abysmally low recovery rates, often below 2%, even when sold as new items (BEUMER Group, Retail TouchPoints).

These figures starkly contrast with the 80% recovery rate that can be achieved by reselling open box returns directly on a merchant's own site. Selling through a merchant's eCommerce platform allows for better control over pricing, presentation, and customer experience, resulting in significantly higher recovery values. Furthermore, avoiding the fees and commissions associated with liquidation platforms enhances net profitability (BEUMER Group, Retail TouchPoints).



Conclusion

BFCM is a vital sales period, but its profitability hinges on more than just generating high revenue?it requires effective management of returns. The data from Amplio's report underscores the importance of reselling open box returns on a merchant's own platform to maximize recovery rates. By implementing a strategic plan to resell open box returns at 80% of their original price, merchants can prevent returns from eroding their BFCM profits. This approach ensures that the gains made during BFCM are not lost and that the merchant can "stick the landing" into Q1 with a strong financial footing.

In gymnastics, a flawless routine is only successful if the landing is stuck. For merchants, reselling open box returns is the key to sticking the landing on a successful BFCM campaign, ensuring that the season's revenue translates into real, sustainable profit.

Sources

- U.S. Chamber of Commerce, "The State of E-commerce in 2023."
- Tidio. "Black Friday Facts & Cyber Monday Stats"
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