COHEN Asset Management™

CAM's Industrial Corner

NEWSWORTHY INFORMATION FOR OUR INVESTORS

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Commentary from Cohen Asset Management®

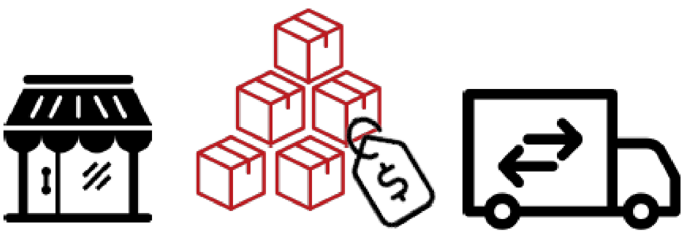
By Maxx Cohen, Acquisitions

The following article examines reverse logistics – particularly, the returning of goods purchased online – and the impact that these returns have on the supply chain and logistics facilities.

Feature Article

Returns: A Hidden Cost of E-commerce

By Jones Lang LaSalle



The opportiunies and risks that reverse logistics bring in industrial real estate.

With consumer buying expectations driving constant change via e-commerce and mobile commerce - returns and the amount of capital spent on reverse logistics strategies are an unmistakable and a potentially growing friction point in the supply chain. A National Retail Federation survey from the fall of 2015 cites 49 percent of retailers now offer free return shipping. How companies handle returns has a meaningful impact on the warehouse & distribution real estate market, as well the need for dedicated returns processing space to restocking, liquidation, or the need to outsource some or all of these needs to a third party. Companies have many variables to consider:

Handling returns in-house

How are returns processed, from where (a store or a dedicated logistics facility, or a portion of one) - and are goods re-stocked into existing inventory? How will this impact future space needs and facility utilization?

Outsourcing of the returns process

To mitigate costs and capitalize on external efficiencies, using a third party logistics provider (3PL) to handle returns provides flexibility within the supply chain for many companies. This could provide an additional future boost to space demands around the country from 3PL's that offer these services.

The costs of shipping returns

How companies bear the costs of returns (free or with a re-stocking fee), the frequency, the impact on valuable customer loyalty and the final destination of a returned product is a complex supply chain issue and depends on the seller.

How are online purchases that are returned to a physical store accounted for? If the costs of re-stocking or re-selling returns is too high, is a wholesaler or liquidator eventually a potential option to unload returned or unwanted inventory?

According to the National Retail Federation, merchandise returns in the United States were valued at $260.5 billion in 2015, roughly 8 percent of total sales, and it has been reported that one-third of all products purchased online are returned - which continue to exert cost pressures on sellers if e-commerce continues to grow by double digits.

This could have a dramatic impact on the margins of omnichannel retailers and 3PL providers, especially those with a heavier exposure to apparel, where online returns are even higher:

A Sedlak Management Consultant blog from 2016 cites a Gartner, Inc. survey that 59 percent of retailers allow consumers to return products via any buying chanel, and 82 percent of respondents expect to add the option to return via any channel in the next year.

Further growth in e-commerce seems inevitable, and as a result, growth in returns. The need for logistics space to facilitate returns & reverse logistics is expected to increase as well. As competitiveness in the global omnichannel marketplace grows as well - the companies that can create efficiencies for returns in their end-to-end supply chain and leverage their physical distribution network to help reduce costs will benefit the most.

About Us

Cohen Asset Management, Inc. ("CAM") is a private real estate investment firm. The firm's relationships extend to high net worth individuals, institutional investors and domestic business entities. The company was formed to engage primarily in the business of acquiring, owning, developing, and managing net leased income-producing industrial and office properties nationwide. CAM is an active operator and sponsor of real estate assets and has a well-established reputation as a value added investor focusing on real estate opportunities that are inefficiently priced due to a variety of circumstances such as vacancies, rollover risk, sub-optimal management, inefficient current use, deferred maintenance, long-term undervalued leases or other unfavorable property and market conditions. CAM creates value by correcting these deficiencies. Additionally, CAM has studied and completed research on capital flows that can impact the identified target markets on which it focuses.

CAM has acquired, developed, and sold real estate throughout the United States and its principals have had hands-on experience over many market cycles. CAM combines the talents and hands-on operating expertise of an entrepreneurial company with the discipline and research capabilities of an investment firm. CAM has established a reputation for excellence by providing superior results to its investors while focusing on a measurable goals and what it takes to achieve them. It is this commitment that allows CAM and its Affiliates to continue attracting new investors while at the same time expanding its asset base.

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