

Reverse logistics flips the script for e-commerce success

According to market estimates, 30% of products sold on e-commerce platforms are returned

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The reverse logistics segment is big in the US and China. India is still catching up. Photo: Abhijit Bhatlekar/Mint

New Delhi: Reverse logistics, or managing the product return process, besides repackaging and refurbishing them, is disrupting the \$160-billion Indian logistics industry.

According to market experts and reverse logistics players, the segment offers better margins compared to freight forwarding.

According to market estimates, 30% of products sold on e-commerce platforms are returned, and this is what is driving the segment in India. Till last year, the reverse logistic market was mostly unorganised, with small truckers facilitating the movement of goods. But e-commerce majors, including Amazon and Flipkart, were finding it difficult and preferred organised players.

To cash in on the opportunity, Mahindra & Mahindra recently launched its reverse logistics arm with warehouses in Mumbai and Bengaluru.

“Reverse logistics has suddenly become a big service. It was not there in the pre-e-commerce era. It’s new for all of us and the segment is still in a nascent stage. We are looking at it as a big opportunity as it has better margins than freight forwarding,” according to Pirojshaw Sarkari, CEO, Mahindra Logistics.

The segment was big in the US and China, while India was still catching up, he added.

Products returned to e-commerce players are considered dead inventory. Reverse logistics firms undertake the gradation programmes for returned products, Sarkari said.

“Under reverse logistics, we are bringing to life something that is dead. So companies are willing to pay a cost. They were getting zero out of it and, now, if it’s costing, say, Rs 70, companies are willing to share a part of it with logistics players.”

“Compared to the expectation during supply chain design, reverse logistics volumes have turned out to be higher for e-tailers. As a result, if someone comes to provide them with a solution for it, they are taking it,” according to Nishant Nishchal, principal, AT Kearney.

“Moreover, such service providers help scale-up e-tailers by not putting pressure on them to expand supply chains. Since not many players are present in the segment, margins are high. However, once the segment starts seeing growth and more players enter, margins will compete with forward logistics.”

Nishant also said logistics players might cater to the re-packaging facility, but refurbishing was not easy as it required huge investments, which logistics players might not be too keen on.

According to the Economic Survey presented by finance minister Arun Jaitley in February 2018, India’s \$160 billion logistic industry is likely to grow at a compounded annual growth rate (CAGR) of 10.5% to touch \$250 billion by 2020. The sector employs over 22 million people, growing at a CAGR of 7.8% in the last five years, it added.

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