

The Rise of Refurbished Products

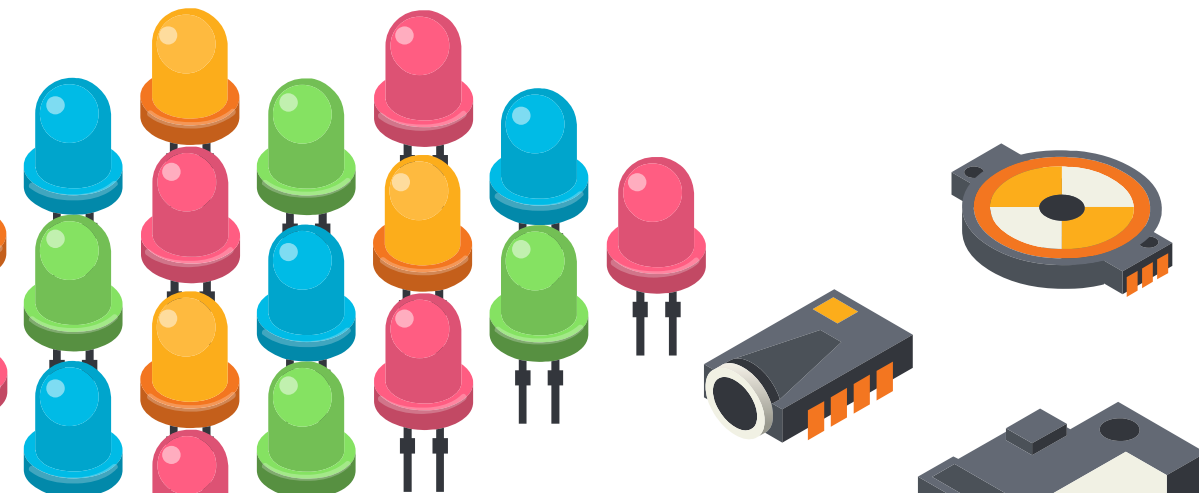
Author:

Jim Rallo, President of Liquidity Services' Retail Supply Chain Group



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Introduction

Many manufacturers and retailers have viewed refurbished products as a lesser priority. However, recent research shows there is real value in applying strategic planning to this area of business. The refurbished market is rich with opportunity and can affect the perception of a brand and growth opportunities in the secondary market.

The Refurbished Market is Bigger than You May Think

The refurbished market for consumer electronics is estimated to be \$10 billion. That's bigger than many businesses may realize – and it shows no sign of slowing down. Why?

When organizations think of refurbished consumer electronics, they might imagine laptops that do not operate at their optimum capacity, or bear significant visual damage. The reality is much different – and consumers are starting to realize that fact in droves. Many refurbished products are restored to full manufacturer conditions, boasting the capability to provide consumers with a quality product at an affordable price.

The refurbished market for consumer electronics is estimated to be \$10 billion

As a result, many premier consumer brands are entering the refurbished market, providing "B" stock products which offer "A" stock quality. These brands expand share and gain loyalties with consumers who previously couldn't access the brand on the primary market. They are growing by leveraging their reverse supply chain better and more intelligently than less progressive competitors.

In addition to providing a closer look into the refurbished market for consumers, this white paper presents strategies for building out your plan for refurbished products to tap this growing market.

Where Consumers Stand on Refurbished Products

In 2014, Liquidity Services conducted a survey in order to measure consumer preferences for purchasing refurbished product through online marketplaces. We surveyed 1,407 registrants in B2C marketplaces, including Secondipity.com. The results spoke volumes about the importance of providing consumers with a range of conditioned goods, and can help guide best practices for how to position and sell refurbished products.

Consumers are buying refurbished and plan to continue buying refurbished

Refurbished products are readily accepted as an option for electronics; 75% of survey respondents say they are likely to buy refurbished electronics and 94% state they have bought refurbished in the last three years. These statistics validate that, despite traditional taboos, refurbished products are a viable option for modern-day consumers. Consequently, product manufacturers and retailers alike have tremendous incentive to pay attention to refurbished products and the many consumers who are shopping for these products. Focusing on only one product tier is a missed opportunity to expand the quantity of customers purchasing product in the secondary market.



Surveyed over

1,400

buyers in B2C online marketplaces



94%

of survey respondents have bought refurbished electronics in the last 3 years

Consumers are overwhelmingly satisfied with their purchase of refurbished products

According to our survey, 84% of consumers who have purchased refurbished products are satisfied with product functionality and the price paid for the value received. The quality of refurbished products continues to increase, and positive experiences with refurbished products can serve as a gateway for consumers to be introduced to additional products for a particular brand. As consumers move up the economic ladder, these experiences can trigger future purchases of “A” stock products with the same brand.

84% *of consumers who have purchased refurbished products are satisfied with product functionality and the price paid for the value received*

Consumers are talking to their circles about refurbished products, and have good things to say

A testimonial from a trusted friend or family member can be the most powerful motivator to purchase a particular brand or type of product, and 81% of the consumers surveyed are likely to recommend buying refurbished products to their family and friends. Based on the survey results, the majority of consumers who purchase refurbished products have positive experiences and share their experiences with people in their lives. This equates to positive brand perception and sales for companies who engage consumers in secondary markets in a strategic manner.

81% *of consumers are likely to recommend buying refurbished products to their family and friends*

Best Practices for Selling Refurbished Products

The refurbished market is rife with opportunity for product manufacturers and retailers. Aligning with best practices will ensure the greatest potential for leveraging this growing market of consumers. The following strategies provide guidance on considerations to take into account when designing a secondary-market strategy for refurbished products.

Be online

The majority of consumers who buy refurbished do so online. Of consumers surveyed, 82% are more likely to purchase online than in-store. This parallels with the increased growth in e-commerce sales across the retail sector as a whole. An eMarketer article noted that “While brick-and-mortar sales still command a vast majority of the retail market...ecommerce sales are increasing much faster.”¹ Desktop e-commerce alone is expected to grow by 12% annually, according to comScore.²

Of consumers surveyed, 82% are more likely to purchase online than in-store

¹ eMarketer. “Total US Retail Sales Top \$4.5 Trillion in 2013, Outpace GDP Growth.” 10 April 2014. Web. 19 May 2014. <<http://www.emarketer.com/Article/Total-US-Retail-Sales-Top-3645-Trillion-2013-Outpace-GDP-Growth/1010756>>.

² comScore. “comScore Reports \$56.1 Billion in Q1 2014 Desktop-Based U.S. Retail E-Commerce Spending, Up 12 Percent vs. Year Ago.” comScore. 13 May 2014. Web. 19 May 2014. <http://www.comscore.com/Insights/Press_Releases/2014/5/comScore_Reports_56.1_Billion_in_Q1_2014_Desktop_Based_US_Retail_ECommerce_Spending_Up_12_Percent_vs_Year_Ago>.

Given this growth, focusing on just one channel or tier of product will be a detriment to retailers and manufacturers. It's critical to have a compelling online experience that's optimized to bring in high volumes of the right consumers looking for refurbished goods. Setting up separate online channels to engage with consumers can be a tremendous investment of time and resources. Working in partnership with a vendor that has established online channels and that understands secondary markets will provide the greatest recovery available on refurbished products.

Emphasize the deal factor

Refurbished products can provide the capabilities a consumer is looking for at a cost far below "A"-good prices: 80% of consumers consider price important when choosing electronics and 96% say buying refurbished helps them save money. Additionally, 74% state that refurbished products allow them to meet their needs without paying for more than they need, and 45% say they allow them to try out a new product without larger financial commitment. These statistics speak to a much larger, emerging portrait of the online consumer – financially savvy, eager to try out new products and brands without investing in the brand-new product, and focused on meeting both their budgetary requirements and consumer gadget needs.

96% of consumers say buying refurbished helps them save money

Congratulate them on being green

Today, many consumers are concerned with sustainability and want to be environmentally responsible. Nearly half of survey respondents agree that they're buying refurbished electronics because "I consider myself a sustainable consumer who avoids electronics being dumped into a landfill." While consumers are price-conscious, they are also clearly concerned with the way their buying behavior impacts the planet. More importantly, many consumers understand there is a connection between buying refurbished products and being sustainable by monitoring

their overall carbon footprint. Companies who understand that consumers are motivated to be green and emphasize this quality of refurbished product in an honest and transparent way will benefit from increased brand loyalty and positive word-of-mouth.



Nearly half of survey respondents consider themselves sustainable consumers

Build trust through accurate details and warranties

The more information you can provide to help a consumer make a decision they feel is informed, the better. In fact, consumers feel that accurate information on product condition is a top consideration, second only to price. This information includes relevant product features, whether accessories are included (or not included) with the purchase, and product photos for consumers to gain a fuller picture of the item they are considering for purchase.

In addition, it's important to note that refurbished products are available in various condition grades and that providing accurate information on the product condition will result in more satisfied customers. Confidence in the product being sold is also a relevant factor. When buying refurbished, 68% also state that warranty information is key, which demonstrates that the seller is willing to back the quality of its refurbished products for a given amount of time. This often separates the quality refurbished products from non-quality products in the eyes of consumers.

68%

of consumers state that warranty information is key to buying refurbished

A brand name matters

Established brands contribute to the consumer's trust factor and 57% percent of consumers say that a brand-name refurbished product is a key consideration in their purchase decision. They believe that a powerful brand cares about accurately representing its product in all channels, "A"-good markets or otherwise. This presents both an opportunity and a potential challenge. If consumers are eager to try out a product from a particular brand and purchase an item in secondary markets where there has been a lack of emphasis on the brand's part, the consumer may have a negative experience and may share that experience with their network. Conversely, companies can extend their brand into the secondary markets, demonstrating their commitment to the customer experience by addressing their concerns, working with a provider with trusted online channels and that aligns with best practices.

57%

of consumers consider a brand-name product to be a key consideration in their purchase decision

Must-Haves for Partners Selling Your Refurbished Products

Must-Haves

- ✓ Understand your needs
- ✓ Data-driven
- ✓ Close to buyers
- ✓ Optimized buying experience
- ✓ One-touch logistics
- ✓ Prioritize compliance

Do they understand and cater to your unique needs?

One size does not fit all when it comes to managing refurbished products to sell in secondary markets. A vendor with a consultative approach will seek to understand your specific requirements and goals, address your concerns, and set the appropriate strategy. Your company and product are unique and you should have a uniquely tailored solution in the reverse supply chain.

Are they data-driven?

The product lifecycle does not end after purchase. The ability for customers to return products in an easy manner and for secondary-market consumers to gain access to quality, refurbished product plays a critical role in the product lifecycle. Great vendor partners apply data and analytics to illuminate the secondary market, knowing when and where to sell your refurbished product – and how much it's worth.

How close are they to potential buyers?

Hunting for secondary-market buyers takes time and energy that is better dedicated to core business functional areas, such as customer service and delivering new and improved product to market. A trusted partner possesses established marketplaces and a significant number of buyers in target geographies who already have deep trust for their secondary-market goods. They also know how to effectively market product to prospects and nurture existing buyer relationships to maximize demand for your product.

Do they optimize the buying experience?

The buyer engagement is ideally more than a one-time transaction. An optimal experience in secondary markets with your products enhances overall brand perception. A vendor that provides accurate product details in listings, high-quality customer service, and reliable fulfillment operations will deliver an effortless and enjoyable experience for buyers, leading to better impressions for your brand.

Do they offer one-touch logistics?

Rather than worrying about managing multiple vendor relationships, a single partner who manages refurbishment and sales in one solution adapted to your company's needs saves you time and money. A vendor with a comprehensive service offering supported by a dedicated account representative makes managing your returned product a hassle-free experience while producing positive outcomes. You should benefit from all the advantages of having a vendor manage the secondary markets, without having it take away from your employees' time allocated to managing sales and customer service in the primary market.

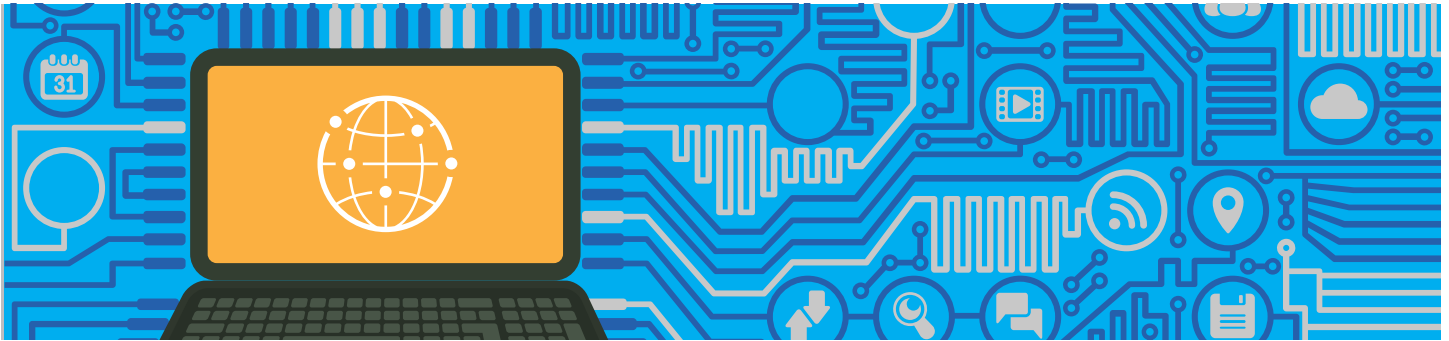
Do they consider compliance a priority?

Secondary markets harbor great financial and brand-enhancement potential. However, a misstep in the management of returns and refurbished goods can result in fines and negative publicity for your company. A vendor with a robust compliance function that prioritizes integrity and transparency is well-positioned to steer you clear of these risks. They can also demonstrate due diligence through compliance oversight and added-value services, such as data wiping for returned products.

A vendor that provides accurate product details in listings, high-quality customer service, and reliable fulfillment operations will deliver an effortless and enjoyable experience for buyers, leading to better impressions for your brand.

Case Study

Comprehensive Refurbishment Strategy Enhances Brand Perception for Global Computer Manufacturer



Challenge

A global OEM had been selling its refurbished products to a limited group of wholesalers and retailers via a single distributor, which resulted in decreased recovery value and negatively impacted its “A” product positioning. Recognizing the potential in a high-impact refurbished product program to improve its market, the company worked with Liquidity Services to sell more directly to consumers while delivering greater recovery and velocity in secondary product flows.

Solution

Poorly managed product disposition in secondary markets can impact a brand’s integrity and revenue in its primary channels, so emphasis was placed on designing a multi-channel experience to positively affect how consumers engaged with the brand. Liquidity Services launched new consumer-branded online marketplaces with top-tier customer service and fulfillment for the OEM on more than 12 sales channels, including eBay, Amazon.com and other third-party marketplaces, as well as Secondpity.com. Additionally, Liquidity Services set up drop-ship capabilities for these products on major retailer sites. This solution resulted in the sale of more than 500,000 units in the first year, increasing recovery, velocity, and brand perception for the manufacturers’ product in secondary markets.

Results

Through this solution, recovery on surplus products increased by over 20% in the first six months of the program while balancing the amount of on-hand inventory in the client’s reverse supply chain and expanding the transparent channels where product was sold. Additionally, by delivering an optimal customer experience around refurbished products, the OEM’s brand is now viewed very positively within all major consumer marketplaces, creating new customer growth at higher margins. In a survey conducted with consumers about their experiences purchasing two different brands of the OEM’s refurbished products on Liquidity Services’ B2C channels, results were overwhelmingly positive:

- 83% said they would recommend the respective OEM brand to a friend
- 91% are either satisfied or very satisfied with their purchase experience of the respective brand
- In ranking eight popular computer brands in order of best to least — before and after customer purchase(s) on the Liquidity Services sales channel — our client is benefitting from a 19.3% increase in the weighted average of the clients’ brands

Conclusion

Refurbished products are a growing resource for consumers to try out new products from their favorite brands and to be more sustainable and price-conscious in their buying behavior. The rise of the refurbished market presents an opportunity for smart organizations, but can quickly become a challenge and barrier to growth for companies who are unprepared without a strategy in place.

Companies would be wise to build a strategy to tap this growing market. Additionally, aligning with best practices in their program for refurbished products will improve results and ensure a positive customer experience in secondary markets. The better the experiences that product manufacturers and retailers provide for refurbished goods, the more they will reinforce their brand strength and enhance consumer trust.

About Liquidity Services

Liquidity Services (NASDAQ: LQDT) is the leader in managing surplus across the globe to maximize return, more efficiently and more strategically. No matter the type of surplus asset or where it is located, we optimize and execute surplus management strategies to achieve your business goals. We are the industry innovator, leveraging insights from over 500,000 annual transactions and \$1 billion in annual sales proceeds to continuously pioneer a superior model for managing the reverse supply chain. With Liquidity Services, you have a partner who maximizes the total value you can expect for your surplus – higher recovery, more efficient processes, simplified and consistent operations, global coverage, lower risks, sustainable solutions, and service from people you can trust to deliver results. Learn more at [LiquidityServices.com](https://www.LiquidityServices.com).

Author

James M. Rallo serves as President of the Retail Supply Chain Group, which helps hundreds of the world's top retailers and consumer OEMs unlock strategic value in their reverse supply chain, enhancing brand protection for clients. His team supports strategic supply chain initiatives, which significantly drive recovery on surplus and overstock inventory through comprehensive and scalable multi-channel solutions.

Jim has also served as Chief Financial Officer and Treasurer of Liquidity Services since February 2005. Liquidity Services has made six material acquisitions in the U.S., Canada, and the U.K. since Jim joined the company and his financial oversight has been a key contributor to the company's continued growth. Prior to joining the company, Jim served as Chief Financial Officer and Treasurer of Sleep Services of America, Inc. He also served as Vice President of Deutsche Bank Alex. Brown's Healthcare Investment Banking Group. Jim was recognized with top honors from the Tech Council of Maryland as CFO of the Year in 2013 and by the Northern Virginia Technology Council with the Public Company CFO of the Year Award for Outstanding Achievement in 2009. Jim is a CPA and serves as a founding member on the University of Virginia's Darden School of Business Strategic CFO Roundtable.