# Valmo: Returns

## Reading Guide

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## Sec 0. Executive Summary

**Objective**: For Valmo to become a full-stack logistics partner, it is important to add the Returns leg in Valmo along with the existing forward and RTO legs. Along with this, adding returns will also give incremental CM2 margin of ~**INR 20** to Meesho (due to high 3PL return costs). In the long term, Valmo returns could help increase the overall serviceability of the platform as well.

Shared below is the platform impact of initiating returns on Valmo at different OC combinations and its associated break-up between CPDO goodness against weighted average 3PL cost & retained margin at 5% proposed discount to supplier rate card.

| Valmo Margin & Cost Summary | Impact per Return Order (INR) | Platform Impact with Valmo Return @10% OC) | Platform Impact with Valmo Return @40% OC) | Platform Impact with Valmo Return @80% OC) |
|---|---|---|---|---|
| CPDO Differential | 16.7 | 0.19 | 0.75 | 1.50 |
| Retained Margin | 3.3 | 0.04 | 0.15 | 0.30 |
| Total Margin per Return Order | **20** | **0.22** | **0.90** | **1.79** |

**Launch Timelines and Targets:** To enable the above goodness, we have to achieve 10% returns OC via Valmo by Dec-end (~25k return shipments per day). This will contribute **~1pp** to the 40% Dec'23 target of Valmo & **INR 0.47** (Valmo entitlement per order at 40% blended OC - working here) **out of INR 4.5 CPS goodness expected** to achieve the 8% overall CPS Dec R2R target. Platform level impact of the same will be INR 0.19 in CPDO and 0.04 in margin as shown in the table above. Tentative scale up plan as per below:

### Valmo Returns Scale Up

| Month | OC % (month end) | Milestones |
|---|---|---|
| Jul'23 | 0% | • Launch of MVP on 25th Jul |
| Aug'23 | 3% | • Slow scale-up at start to ensure critical features are stable and ops SOPs are being followed<br>• Rapid expansion post completion of full cycle for first set of shipments |
| Sep-Oct'23 | 3% | • No scale up during the sale period |
| Nov'23 | 6% | • Re-start expansion by Nov wk-2 |
| Dec'23 | 10% | • Rapid expansion phase |

**MVP Version**: We have followed certain design principles to move towards faster launch (to give enough time to scale before scale up freeze due to sale), and accordingly have solutioned the product.

Certain key features which have been de-prioritized in the MVP are LM Reattempt Instructions via NPR, smart and parameterised QC, etc. These features will be picked up post launch. Also, in MVP, we will make Valmo as the P0 preferred return partner for sellers (as part of Seller Enablement) till we reach a significant OC (~4% returns via Valmo). We want to test Valmo returns at this threshold scale because it gives enough diversification across FM and LM ops partners to understand problems of scale from ops and tech POV. Making Valmo the preferred partner will also limit the bias of sellers for Valmo coming from their forward and RTO experience (We are working on improving perception parallelly - but do not want that to become a blocker for returns scale up). Once we have reached the threshold stage, we will move to seller enablement completely and ensure high adoption of Valmo (We may also shift our north star metric to adoption % from OC% accordingly). To ensure that seller experience is not impacted, we will put hard guardrails on key seller metrics.

**Key alignment needed**: In course of this WS, we also intend to seek alignment on the following key open points:

1. **Pricing Differential**: What should be the pricing strategy for suppliers & how much discount should be provided to Suppliers over the existing cheapest 3PL partner? (Details here)
2. **Guardrail Metrics**: These metrics will serve as benchmarks to monitor our expansion speed while optimising for customer and seller experience (Details here)

## Sec 1. Problem Identification

Following are a select set of issues being faced in the existing supply chain of Meesho:

1. **High returns cost**: E2E 3PL partners that Meesho works with today charge ~INR 65 per return shipment. Since the design principles of Valmo are different than 3PLs, we expect Valmo to have better returns costing. These higher return costs by 3PLs are also indirectly baked in the pricing provided by the sellers.

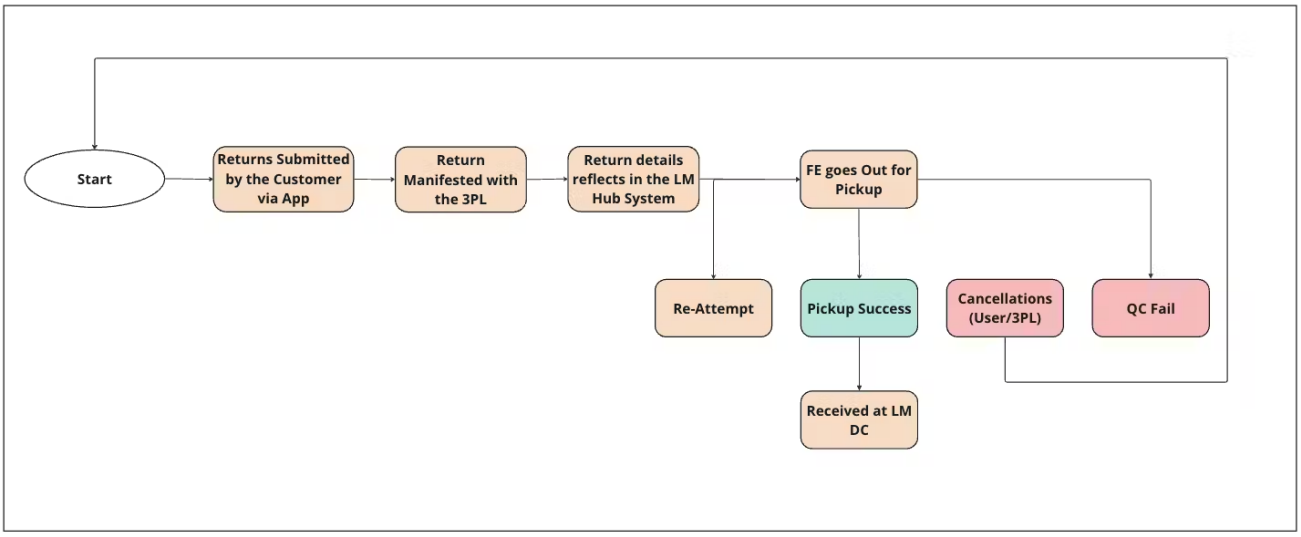
2. **Serviceability loss**: As per our allocation engine, we only accept forward orders in LM pincodes where atleast 1 3PL has return serviceability available. Currently, there are ~3.5k pincodes where none of our 3PLs have the capability to provide return services (on a daily basis). This leads to ~8k instances daily where users are not able to raise return requests. For such users, retention gets negatively impacted by ~5pp. Volumes on platform also get negatively impacted because of limited returns serviceability of our 3PLs.
3. **Valmo scope**: Currently, Valmo only handles forward and RTO legs of shipments. To make Valmo into a full stack logistics player, it is important to add the return leg. With returns, Valmo will become a end-to-end e-commerce logistics player

## Sec 2. Valmo Returns MVP

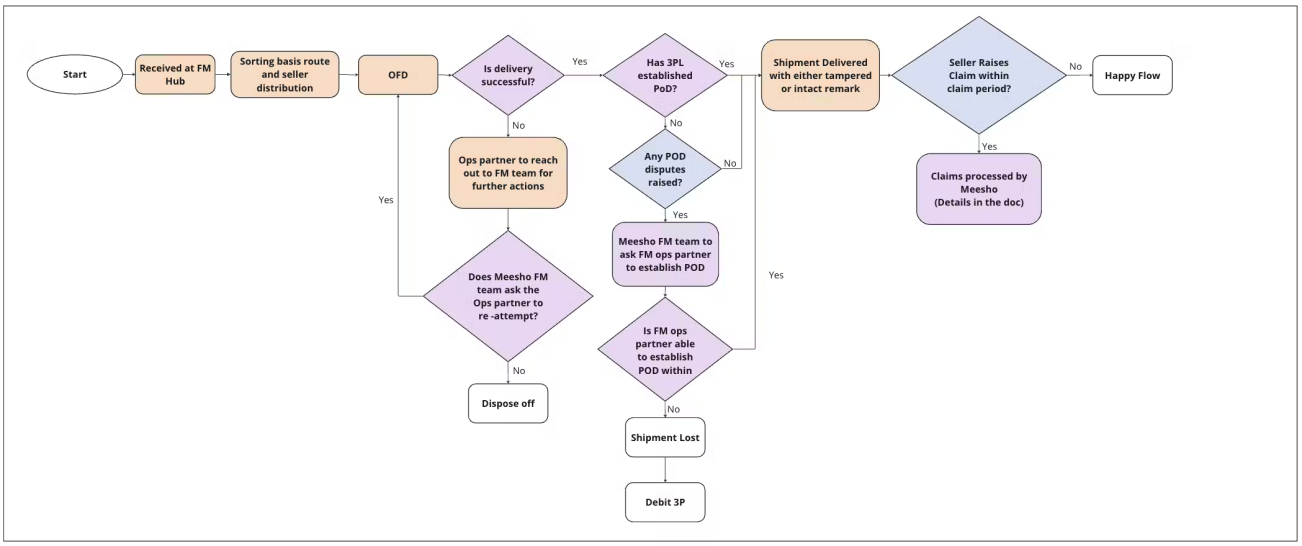
### Sec 2.1. Current E2E Returns Flow [Optional]

A reverse logistics process can be broken down into two parts: user side of journey and seller side of journey since it involves the return of the product from the customer back to the seller.

**Customer Side of Journey:**




**Seller Side of Journey:**



### Sec 2.2. Design Principles for MVP Valmo Returns

1. **Lean Methodology:** Prioritising problem validation, feature prioritisation, and continuous iteration to deliver a valuable MVP efficiently. Not aiming for full-fledged features but focusing on must-have features only.
2. **Low & Optimised Development Effort:** Minimising and optimising development effort to enable fast iteration and validation by utilising modular design, repurposing existing capabilities (for instance, leveraging the same file upload infra which is being used in the forward flow to decide the lane and supply chain ops tech configuration); third-party integrations to expedite development; and thus reducing time-to-market and not trying to re-invent the wheel.
3. **Focus on Business-Critical Features:** Concentrating on features that align with business goals and deliver significant value. Assess the impact of each feature, prioritise those that contribute to the core value proposition, and create a scalable architecture for future growth.
4. **Designing for Scale:** All logics, rules and functionalities that are to be made, will be defined such as to keep 100% Valmo scale with end state vision in focus. The core brain and different layers required either on Meesho or Shipsy end will not prove to be 100% iterative in design hence it would be crucial to design these for 100% Valmo Returns scalability while having room for variable scalability. This would mean solving for most not-iterative long term use cases in the v1 build itself.

   By adhering to these design principles, the MVP Valmo Returns can achieve efficient development, validate assumptions quickly, and deliver value to users and the business.

### Sec 2.3. MVP Valmo vs Existing E2E partners Return Flow

In the MVP version, we intend on delivering features which are the most critical to reverse logistics priorities for users, sellers and 3PLs - ensuring we are building systems for handling enough scale and driving reliability. Overall, features have been prioritized to solve for user experience, seller experience and operational excellence over cost of returns.

| Journey Type | | Milestones | | Product Features / Op | Existing E2E Partners | MVP Valmo | Why such config in Valm |
|---|---|---|---|---|---|---|---|
| **User Side of Journey & Experience** | 14 | **Return Creation with the 3PL** | 3 | **Manual Decision Making Layer** | NA | Yes | • To address the req capable of handlin different supply ch |
| | | | | **Seller Enablement** | Yes | No | • Initially we'll will ma the required sellers<br>• This is required to scale, understand a scale (otherwise ac to solve before laur<br>• Threshold scale: O via Valmo (~10k ret moving to a model returns for sellers v |
| | | | | **Orchestration Layer with Shipsy** | NA | Yes | • To further stitch all the combination of operate on the sam |
| | | **Return pickup Operations + Product Flows** | 10 | **Ops Complaince SOP** | Yes | Yes | • Required for BAU re |
| | | | | **Reattempt Instructions via NPR** | Yes | No | • NPR calling will not shipments will have cancelation)<br>• We'll pick this up as |

| | | | | | |
|---|---|---|---|---|---|
| | | **Basic Image Based QC** | Yes | Yes | • Required to reduce improve upon claim experience while ke built in check |
| | | **Params QC** | Yes | No | • Didn't adhere to the on the higher side.<br>• Plan is to pick this u MVP Launch |
| | | **Smart QC** | Yes | No | • Didn't adhere to the on the higher side. captured in case of<br>• Plan is to pick this u Launch i.e. right aft |
| | | **OTP Functionality** | Yes | Yes | • Required to keep th |
| | | **Transparent Packaging with unique Packet ID** | Yes | Yes | • Required to minimis and penalise partne seller experience |
| | | **FE Captured Pickup Image** | Yes | Yes | • Required for claim a LM partners where pickups |
| | | **Unverified 3P Cancellation trigger power with Hub Manager only** | No | Yes | • To address the sce verified cancellatio to hub in-charge |
| | | **FE Identifier** | No | Yes | • Required to analyse |
| | **Returns post-pickup LMDC Operation** 1 | **Secondary QC at LMDC** | No | No | • Required to reduce thus, improve seller<br>• It will be picked in v |
| **Seller Side of Journey & Experience** 6 | **Return Delivery to Seller** 4 | **OTP Based Delivery** | Yes | Yes | • Required to keep th check |
| | | **EPOD (Proof of Delivery Receipt)** | Yes | Yes | • Required to provide to seller, and also, f |
| | | **Tampered Delivery Remarks** | Yes | Yes | • Required for claims |
| | | **Scan and Deliver** | No | No | • Required to minimis delivery frauds<br>• We'll pick this up as |
| | **Support Experience** 2 | **Returns Tracking** | Yes | Yes | • Required to provide seller |
| | | **Claim Tickets Handling** | Yes | Yes | • Required for claims required to be route |

Note: Wherever we have taken prioritization call on tech features to keep a lean MVP, we will develop manual SOPs to limit the problems at launch.

## Sec 3. Performance and guardrail metrics

### Performance Metrics

Due to non-existence of certain features in the MVP (as defined above), performance metrics for Valmo returns will be impacted. Key performance metrics that will be impacted in v1 are:

1. **Claim rate**: Due to unavailability of Parametrized and Smart QC in v1, claim rates are expected to be ~1.5pp higher for Valmo in the v1 phase. However, this will be mitigated by a) Having high visibility into the supply chain and eliminating cases of frauds and b) Launch by Parametrized and Smart QC by v2 of Valmo returns and we target to reach non-laap levels by Dec.
2. **Seller experience**: Due to unavailability of seller enablement in MVP, seller experience might be affected till the threshold scale of 4% returns OC. This may impact the seller I/O and NPS metrics to the extent of ~20% compared to current levels for 4%OC (blended impact of 0.08%). However, we will mitigate this by a) Accepting the block request raised by sellers for Valmo and b) Having guardrails on seller I/O coming for Valmo

Apart from the above, following are the other key performance metrics that will be tracked post launch. We target to reach at E2E levels for these performance metrics by Dec-end.

- **Ops**
  - Creation to Return Pickup TAT
  - First Attempt and Overall Pickup %
  - 3PL and user cancellation %
  - Return Pickup to Seller Delivery TAT
  - Pendency across nodes
  - First attempt and Overall Seller Delivery %
- **SX**
  - QC and non-QC claim rate
  - Claim approval % (WPR and Non-WPR)
- **CX**
  - QC failure % (WPR and Non-WPR)
  - R&R NPS and I/O
- **BizFin**
  - Returns CPS
  - Claim recovery % from ops partners
  - Lost and disposed off %

### Guardrail metrics

Below are the guardrail metrics which will be closely monitored after launch. In case of breach in the guardrail targets mentioned below, expansion will be paused until the issue is identified and fixed.

(Do note that these are not the targets for these metrics but only the guardrails. Targets have been mentioned above)

| Metric Type | | Metrics | Current E2E | Guardrail target | Remarks |
|---|---|---|---|---|---|
| Tech Metrics | 4 | Manifestation Errors for returns | 1% | 1% | We shall be at par wit here in BAU |
| | | Scan Delays / misses for returns (P90) | 20mins | 20mins | We shall be at par wit here in BAU |
| | | Return tech scalability (what ops tech combinations are live) | NA | | |
| | | Refund Not Triggered % (cases when pickup scan is received after cancellation) | 0.04% | 0.2% | • Benchmarked wit misses %<br>• LaaP Stability Po continuously wor improving this ho throughout the s ensure best-in-cl experience |
| Ops Metrics | 9 | Creation to Delivery TAT- p90 | 15 days | '20 days | |
| | | Returns Picked Up % (AWB Level) | 80% | 70% | Pickup % will be drive understanding of retu is a new launch, we e lower at launch. |
| | | QC Failure % | 3.5% | 4.5% | |
| | | 3PL Cancellations % (AWB Level) | 10% | 12% | 3PL cancelation acce restricted only to hub restrict abuse of the f |
| | | Gross loss % (shipment value) | NA | | |
| | | QC Claim Rate % | 8.4% | 11% | Given absence of par we expect claim rate launch |
| | | Non-QC Claim Rate % | 21% | 25% | Image capturing has l mandatory at custom avoid non-QC claims |
| | | Claim approve % | 51% | 51% | Approval % guardrail E2E level to manage s |
| | | Returns Delivery Pendency (% of RVP pendency) | | 40% | Guardrail has been ta check on overall penc Returns |
| Experience Metrics | 2 | User Returns I/O | '0.70% | 0.85% | |
| | | Seller Returns I/O | 0.88% | 1.06% | |

## Sec 4. Pricing Valmo Returns

Valmo proposes to offer Returns to Suppliers at **5% lower pricing than cheapest rate 3PL partner** across all weight slabs **with 70% claim approval rate** (**~2X** of current 3PL approval rate) and earn Meesho an incremental **16.67% margin (INR 20)** on each Return shipment and **CPDO goodness of INR 11.2** v/s cheapest 3PL partner per return order. This will ensure achievement of both of our key objectives of driving maximum adoption for Valmo in the Return leg and improving profitability for Meesho.

**Returns Pricing for Suppliers:** Target for Valmo is to drive maximum adoption and improve profitability for Meesho. Accordingly, Valmo will be offering returns to suppliers at ~**5%** lower rate than cheapest rate 3PL partner with **70%** claim approval rate. Historically, we have seen supplier adoption increase by 6-7% for every 10 pp change in claim approval% for 3PL. We have assumed 45% eligible seller wallet share amongst all 3PLs for Valmo in our initial plan. Shared below in Table 4.1 is the proposed rate card that will be offered to suppliers for Valmo as compared to cheapest 3PL at each slab.

***Table 4.1: Valmo Return Rate Card comparison***

*INR per Return Shipment*

| Weight Slab | Valmo Rate Card | Cheapest 3PL Partner | Difference | Difference % | Volume Contribution |
|---|---|---|---|---|---|
| 0-0.5kg | 98 | 103 | -5 | **-4.9%** | 58.90% |
| 0.5-1kg | 146 | 153 | -7 | **-4.6%** | 37.64% |
| 1-1.5kg | 192 | 202 | -10 | **-5.0%** | 3.01% |
| 1.5-2kg | 239 | 251 | -12 | **-4.8%** | 0.36% |
| 2-2.5kg | 286 | 300 | -14 | **-4.7%** | 0.04% |
| 2.5-3kg | 333 | 349 | -16 | **-4.6%** | 0.02% |

Also, while determining the pricing of returns on Valmo, there is merit in looking at **effective supplier cost of returns** rather than simply rate cards being offered.
**(Effective cost of returns = Weighted average Rate Card + Amount of Claims not approved by 3PL)**
Below is the summary for each 3PL partner & Valmo:

| Partner | Valmo | DH | EE | XB | SFX |
|---|---|---|---|---|---|
| Average Return Cost for Supplier | 119.5 | 145.5 | 124.9 | 127.3 | 126.9 |
| Impact of Non-reimbursed claims | 10.8 | 25.3 | 25.0 | 21.5 | 21.6 |
| **Effective Cost to Supplier** | **130.3** | **170.7** | **149.9** | **148.9** | **148.5** |

**Returns Leg Cost Comparison & pathway to further improvement**: Valmo is targeted to be **INR 11.2 cheaper than the lowest cost 3PL** partner in the return leg and **INR 16.7** cheaper than current weighted average 3PL rate. Return leg cost has two key elements – logistics cost & supplier reimbursement. Logistic cost includes incremental cost per return order to be incurred at various nodes of the supply chain and supplier reimbursement includes claims which are currently being managed by 3PL partners. One of the key investments that we intend to make for improving Supplier Experience in the return leg is to provide a higher claim approval% than what other 3PLs are currently providing. Reimbursements to Suppliers is currently planned at **70% claim approval rate against current weighted average approval rate of ~35%.** We are targeting to recover **30%** of these claims from Valmo Ops partners and eventually move to stricter governance, tech & processes to further increase the recovery rate. Below is the stack-up of return leg cost to be incurred:

| Valmo Returns Cost Details | Amount (INR) |
|---|---|
| Logistics Cost | 29.4 |
| Packaging & Consumables | 3.0 |
| In-transit Losses | 1.9 |
| Supplier Reimbursement | 7.5 |
| **Total Cost comparable to 3PL (At 3PL Claim Approval%)** | **41.8** |
| Incremental investment for SX improvement (Increasing Claim approval to 70%) | 6.8 |
| **Total Cost of Return Leg** | **48.6** |

Shared below is the partner wise return leg cost comparison along with approval% and how Valmo will stack up against them:

| Partner | Return Leg Cost (INR) | Valmo v/s 3PL | Claim Approval Rate (% for QC claim) | Valmo v/s 3PL |
|---|---|---|---|---|
| **Valmo** | **48.6** | **-** | **70.0%** | **-** |
| DH | 77.1 | *-28.5* | 26.6% | *43.4%* |
| EE (Cheapest 3PL) | 59.8 | *-11.2* | 46.5% | *23.5%* |
| XB | 65.0 | *-16.4* | 36.1% | *33.9%* |
| SFX | 67.1 | *-18.5* | 37.5% | *32.5%* |

***Supplier reimbursements*** is the largest cost driver in Return leg contributing **~32%** of the gross cost. Hence, it is important to ensure maximum recovery against this to ensure we are running an optimised supply chain & can offer better rates to our suppliers & improve our profitability as well. While we have assumed a recovery rate of 30% considering the current Ops process & product development, we will be targeting to move towards a higher recovery% with further ops stabilization & return product enhancements.

**Margin Improvement for Meesho & BHAG entitlement:** Basis the proposed rate card & cost for return orders, Valmo will be able to earn INR 20 / 16.67% margin per return order. In terms of our CPDO goals for December, Valmo returns will be cheaper by **INR 11.2** v/s the cheapest 3PL & **INR 16.7** v/s weighted average 3PL cost. At **10% Returns OC** contribution, this will contribute **INR 0.47** to our Valmo CPDO target of being 8% lower cost than 3PL @40% blended OC and will have an overall platform impact of **INR 0.19**.
Considering the above factors, we have listed two scenarios of pricing alternatives here and seek alignment on what should be the ideal pricing strategy for initiating returns on Valmo.

## Sec 5. Scale-up Plan

Returns will be a new launch in Valmo across product & ops and will also have to deal with high anxiety areas on user and seller side (Claims, refunds, etc.). Hence, it will be important to scale up returns carefully, strictly adhering to the guardrails and performance metrics. Once the POC is successful, we will focus on rapid expansion of returns across lanes.

To start with, we will develop the required capabilities on Elastic Run ops tech and scale up 3% returns OC by August'23 end. There will be a scale up freeze in august end to plan for sale period. In the meanwhile, we will also build the return capabilities on LoadShare ops tech and scale up both platforms post sale to reach our target of 10% returns OC by Dec-end.

### MoM scaleup plan

| Month | OC % (month end) | Major milestones |
|---|---|---|
| Jul'23 | 0% | • Launch of MVP on 25th Jul on Elastic Run tech |
| Aug'23 | 3% | • Bug fixing and scale up by month end<br>• Freeze scale-up by 31st Aug and stabilize till the upcoming Diwali sale<br>• Enable v1 capabilities on Loadshare ops tech |
| Sept'23 | 3% | • Building v2 functionalities in Elastic Run<br>• If we can enable some partners with low effort, we will try to scale up to slightly in Sep also |
| Oct'23 | 3% | • Building v2 functionalities in Elastic Run |
| Nov'23 | 6% | • Launch of v2 on Elastic Run tech in Nov Wk-2<br>• Launch of v1 on Loadshare tech in Nov Wk-2 |
| Dec'23 | 10% | • Scale-up on Elastic Run tech<br>• Stabilize and scale-up Loadshare tech |

## Sec 6. Key Next Steps

Below framework will be used to enable the next scale up phase of Valmo returns

1. **Increasing tech scalability for Valmo returns:** Post PMF is established, focus will be on increasing the tech scalability of Valmo returns. This will prepare Valmo for the next phase of expansion. For instance - currently, Valmo returns is being launched through manual DML which limits the scalability of the system. At scale, returns infra will be moved to Auto DML which will provide 100% tech scalability
2. **Making Valmo the most operationally efficient 3PL:** Given that MVP has been designed to be lean for faster launch, select features have not been picked. Going forward, we will be adding tech features to make the best-in-class return offering. Along with this, improved monitoring and ground adherence to ops SOPs will ensure operational excellence for Valmo returns - solving key problems in returns today like unverified cancellations, TAT for pickup, etc.
3. **Ensuring the best seller and user experience in returns:** Seller and user experience will be important guardrails in the expansion phase. Focus will be to improve experience through initiatives like single AWB across all ops techs, low refund TATs, etc. Improved operational excellence will also contribute to experience boost. In the long term, we will aim to make Valmo the preferred 3PL choice of seller for returns.
4. **Squeezing cost goodness in returns:** Basis learnings from previous launches, we will focus on cost metrics post stabilisation of ops and experience metrics. Focus will be on improving key metrics like claim and recovery %. For instance, reducing instances of 3PL frauds / swaps in the supply chain will help reduce claim %. This will be done by capturing images of the shipment at multiple points in the supply chain. This will increase the accountability of the ops partners and will also make it easy for Valmo team to attribute the frauds and recover from the right partner. Additionally, hand-to-hand exchange will also be looked at when exchange is introduced for Valmo.
5. **Enabling additional demand for Meesho:** Valmo should also be able to provide increased serviceability by reaching remote pincodes which are unserviceable by existing 3PLs and hence provide a volume goodness to the platform as well.

## Sec 7. Key Alignments Needed

| Decision Points | Priority | Current PoV |
|---|---|---|
| Pricing Differential Goodness | P0 | Proposal: **5% Discount** to be offered to Suppliers over cheapest 3PL at all weight slabs at 70% Claim Approval rate. Margin for Meesho per order in this case will be **INR 20** per Return order<br><br>Alternative: Match the return rate card of the cheapest 3PL partner at 70% claim approval rate. Margin for Meesho per order in this case will be **INR 26** per Return order. |
| Guardrail Metrics | P0 | We have defined the guardrail metrics here which will be closely monitored after launch. In case of breach in the guardrail targets set, expansion will be paused until the issue is identified and fixed. |

## Appendix

### Return Cost CPO entitlement:

| Particulars | Amount |
|---|---|
| Cost Difference per Return Order (INR) | 16.75 |
| Return as a % to Platform | 12.5% |
| Valmo Blended OC Target | 40% |
| Valmo Return OC contribution | 10% |
| Return Order entitlement in December'23 | 0.47 |

### Key risks

Key risks for successful launch and scale up for returns could be:

1. **Increase in claims**: Frauds in the supply chain could increase the claims % for Valmo, impacting the scale up timelines
2. **Seller adoption**: Valmo has higher number of escalations from seller side as compared to the E2E 3PLs. From LODs, we understand that Valmo is not perceived as the best 3PL in the seller community. This might impact the adoption of Valmo as the preferred partner for returns by the sellers, impacting the returns OC passing through Valmo.

### Outside-in

We did multiple outside-ins with AZ, Myntra, ElasticRun and LoadShare. Following are the key learnings:

1. Image Capture at DC: To reduce fraud
2. Tracking of label re-printing
3. Reverse QC via RFID at RPC before delivering to the seller
4. Seller level bagging

5. Orphan Management System

### v2 Features:

As and when, return operations in MVP Valmo Returns are stabilised and we have scaled up to 100% atleast on ER-ER-ER combination, we'll work towards developing the following P2 functionalities on ops tech which were not prioritised in v1:

1. NPR API (Impacts partner cost as 3 attempts is mandatory now)
2. Parameterised & Smart QC (Impacts claim%)
3. Secondary QC at Hub (Impacts reimbursement %)
4. Transparent Packet ID Scanning at each Handshake (Impacts reimbursement %)
5. Bulk Label Download at LMDC (if needed) (Impacts speed)
6. Single AWB among ops techs (Pre-requisite for beta lane returns) (Impacts future scale up)
7. Auto DML (later releases) (Impacts tech scalability)