



Returns Management Strategy: Recapture Revenue

The following [paper](#) provides a contextual overview of U.S. business practices with regard to managing returns. The paper will examine the advantages of a properly maintained returns process and discuss important options to consider in developing a reverse logistics strategy.

Executive Summary

A survey by the National Retail Federation found that in 2011 almost nine percent of total retail sales were returned to their place of purchase. This figure represents about \$200 billion annually to U.S. businesses and a 12 percent increase since 2008. But despite this significant impact on the bottom line, most businesses do not have policies, processes, or infrastructures in place to manage returns. A study by Intermec Research found that more than half of all businesses surveyed do not have the capability to determine if returned goods should be discarded, returned to vendor, or moved back into inventory. The Intermec survey also found that 44 percent of distribution center managers consider returns a “pain point” in their operations.

With the rate of returns expected to continue an upward trajectory, businesses are recognizing the need to take control, and in some cases, are turning returns management into profit centers. In the past, returns might have been allowed to gather in a pile, but now businesses are increasingly incorporating reverse logistics strategies into their supply chains. Reverse logistics — the process of planning, implementing, and controlling the efficient flow of goods from the point of consumption to the point of origin for purposes of recapturing value or proper disposal — is now seen as a critical component of the bottom line. A 2010 survey by Aberdeen found that 87 percent of respondents said effective reverse logistics management was either “extremely” or “very important” to their performance, up from 74 percent who felt that way in 2007.

As important as the decision to develop a reverse logistics strategy, so are the components of that strategy. A good strategy will help a business do the following:

- Improve customer satisfaction/retention
- Reduce processing and transportation costs
- Recapture revenue on the secondary market
- Capture critical product performance data

U.S. businesses with customer bases in Canada have the added obstacle of navigating the border clearance process. Goods shipped as U.S. exports come back as imports. Businesses must have the capability to move these goods across the border and ensure compliance with the complex U.S. and Canadian customs processes.

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Product Returns — Understanding the Increase in Returns

Previously, a typical sales transaction ended with an exchange of payment for goods and the issuance of a sales receipt. In today's environment, there is a one in 12 chance that the retailer will see their product again in the form of a customer return. The National Retail Federation estimates that consumer returns totaled more than \$200 billion during 2011, a 12 percent increase since 2008. This upward trajectory is expected to continue for the foreseeable future.

Many businesses turned a blind eye to customer returns in the past, not investing the necessary manpower and resources to process the rejected merchandise. Proper processing adds touch points to the supply chain, including customer service, warehouse operations, finance, transportation, distribution, and sales.

As returns have increased, businesses must actively address what has become a strain on their bottom line. Before a business decides on an implementation strategy for returns management, it's necessary to understand why products are being returned. A 2009 survey by the Supply Chain Consortium reported six top reasons for returning a product. These categories represent nearly 75 percent of all reasons for returns:

- Customer ordered incorrect product or size
- Customer decided product not needed or wanted
- Customer returned with no reason given
- Product did not fit description on website or catalog
- Product did not fit customer's expectation
- Company shipped incorrect product or size

These findings are consistent with analysis by reverse logistics consultant Greve-Davis that less than 20 percent of returned products are defective. Greve-Davis focused on business-to-business transactions and found

that reasons for returns paralleled business-to-consumer returns. For example, on average, one out of six parts is returned because it either isn't needed, the customer ordered the wrong part, or more were ordered than were needed. Other reasons for returns to manufacturers include the following:

- **Product recalls** – the federal government recalled more than 1,000 products during 2010
- **End-of-Life recalls** – generated when new models of a product are released, causing older models to be cleared from store shelves
- **Seasonal recalls** – generated by change in seasons

Examining this data, an overwhelming majority of returns are not defective, which presents a good opportunity for a retailer or manufacturer to recapture value from the product. Undamaged merchandise can be sold in a secondary market venue, such as a manufacturer outlet store, dollar store, or via an “overstock” website.

Consider the consumer electronics industry. A report by Accenture management consultants found that roughly \$17 billion in consumer electronics were returned during 2012, an increase of 21 percent since 2007. Only five percent of those returns were because of breakage or product defects. Sixty-eight percent of returned products are characterized as “No Trouble Found,” the products meet all required specifications when tested. While the Accenture report focused on ways to prevent customers from returning products in the first place, Best Buy Chief Marketing Officer Barry Judge estimates secondary market sales of consumer electronics in excess of \$15 billion. ■

Returns Management — Critical to Customer Service

Proper management of the returns process is an integral part of customer service. Handled efficiently, a business can solidify a customer relationship, while a poorly managed returns process will drive customers away. A 2012 survey of online shoppers by comScore found that 85 percent said they would not make a repeat purchase from a retailer if the returns process was not convenient, while 95 percent said they would return to a retailer with a convenient returns policy.

Businesses have a lot at stake in keeping their customers happy. Paul Timm points out in *Seven Power Strategies for Building Customer Loyalty*, “[t]he alternative to building customer loyalty is to constantly scramble to replace the inevitably lost [customers]. It costs five times as much to generate a new customer as it does to keep an existing one...”

Businesses are increasingly implementing returns processes that make the transaction as easy as possible for the consumer. Zappos.com raised the bar with its “free returns, no questions asked” policy. While most businesses cannot afford to be as generous, customer satisfaction can be attained in other ways:

- Including a return label with the original shipment
- 24/7 tracking capability
- Efficient problem resolution
- Friendly customer service

How a company chooses to handle returns can have a significant impact on the bottom line as well as on relationships with customers. Handled efficiently, returns can be a source of revenue, adding as much as five percent to total sales. ■

Solutions — Determine Your Best Returns Process

Once your business has decided on the terms of your returns policy (i.e., how many days from point of sale will returns be accepted, whether to issue refunds or credit, is original packaging mandatory), the next step is to work with your logistics partner to develop a plan for (a) allowing customers to send returns and (b) managing the logistics of the process. Included in this must be accommodations for accepting returns from non-U.S. customers. Your Canadian customers, for example, must have an easily accessible process to send a return. Accepting returns from international customers will trigger a separate set of considerations, ranging from border clearance to distribution networks. A logistics provider with direct experience in the Canadian market will be best suited to help navigate the process of bringing goods back into the U.S.

Technology has enabled many innovations in returns management logistics. Today a business's returns strategy is every bit as effective and cost efficient as its outbound logistics plans. Among other things, a technology-driven returns strategy should do the following:

- Allow business insight into the volume of returns
- Provide businesses with a “heads-up” to any potential product defect
- Prevent returns from being incorrectly addressed or delivered
- Trigger shipments that require special compliance or border clearance requirements
- Facilitate the returns process for consumers
- Allow 24/7 tracking capability for consumers

Technology has enabled businesses to gain control of their returns process. But as with most things, the devil is in the details, and a business must work closely with its logistics provider to develop a returns strategy that meets its unique needs. A comprehensive returns strategy should include the following components:

- **Flexibility in Scheduling.** Build a returns management strategy that offers your business the level of service you need. Assess your need to receive returns on a daily basis, or does a weekly or even biweekly schedule seem more appropriate for your business.
- **Centralized Returns Centers.** A growing trend is to process returns at a dedicated returns center rather than via a traditional distribution center. Most distribution centers are geared toward outbound shipments rather than processing individualized returns. A dedicated returns center allows businesses to focus resources and build best practices. Problems associated with multiple retailers or consumers individually returning goods can be averted. Having a dedicated returns center in place can be as much as 20 times more efficient than having multiple processing points.
- **Border Consolidation.** If a border crossing is involved, consider having your shipments consolidated so many small shipments clear customs as a single unit. Border consolidation can facilitate the customs review process and reduce costs as well.
- **Integrated Returns Material Authorization (RMA).** Through the RMA process, a customer will contact your business, via an 800 number or a web-based portal, to notify you of his/her intention to return a product, upon receipt of an RMA number for the package, your business will be able to track the package through the entire returns process. There are two methods for assigning an RMA number:
 1. A returns authorization label can be preprinted and sent to customers with the outbound shipment, and the customer can fill in the RMA on that label.
 2. A web-based system can print a label after the RMA number has been assigned.

There are many advantages to the RMA process:

- Preprinted labels ensure returns are delivered to a predetermined facility.
- Preprinted bar codes enable precise information to be captured with a reason code and provide advance notice of exactly what is being returned and when.
- RMA numbers allow employees to easily track returns and serve as a reference point.
- **Multichannel Visibility.** The effect that your returns process will have on customer satisfaction cannot be overstated. Customers are demanding returns be handled quickly and with complete visibility into the process. As stated previously, 85 percent of shoppers will not return to a retailer if the returns process is not convenient. Allowing visibility into the process can give customers direct information about the status of their return and an explanation should a delay occur.
 - Web-based portals allow consumers 24/7 access to information about their return. Key company systems — finance, customer service, warehousing — could be integrated to give customers updated progress reports.
 - Carrier integration allows RMAs to be linked with carrier tracking numbers, which can then link to automatically generated notifications or made available on a web-based portal.

- **Sustainability.** It is important to incorporate sustainability wherever possible. An obvious place to start is by finding “second lives” for returned merchandise. The 80 percent of goods returned with no defects can be sold in an outlet, a dollar store, or an “overstock” website. For returns that are defective, sustainability can be attained by repairing the good or by breaking it down to its component parts, which can be sold on a secondary market.
 - Sustainability can easily be incorporated into your logistics process:
 - Use of web-based processing eliminates paperwork.
 - Dedicated returns centers reduce number of deliveries and reduce instances of products being rerouted.
 - Reusable envelopes and packaging eliminate waste.
 - Steps can be taken to ensure that repairs and replacement items are returned to customers in size-appropriate packaging. ■

Solutions — Processing Your Returns

Once your customer's return arrives at your designated processing center, there is a small window in which to identify and resolve the reason for the return. One study found that 70 percent of consumers expect service on their returns within 48 hours.

- **Expedited Problem Identification.** Considering only about 20 percent of returned goods are defective, it is essential for returned merchandise to be received, evaluated, and processed as quickly as possible. As discussed above, a dedicated returns processing center will have trained personnel who can initiate the proper response:
 - **Refund/Credit:** If a refund or merchandise credit is due, this can easily be accomplished by integrating internal business functions. Off-the-shelf software solutions are available to manage the process.
 - **Replacement:** An ample inventory should be maintained at your processing center to ensure items returned because of sizing and other nonperformance issues can quickly be processed.
 - **Repair:** A returns facility stocked with spare parts can facilitate minor repairs. Managing the repair process has traditionally been the weak link for many businesses. A report by the Reverse Logistics Association found that “managing the ‘return and repair’ processes accounts for 10 percent of overall supply chain costs. Ineffective processes can compound this cost and reduce profits by as much as 30 percent.” Businesses are rectifying this problem by outsourcing their repairs or contracting with repair centers.
 - **Secondary Market Sales:** The explosive growth of secondary markets has enabled many businesses to recoup lost revenue — and even turn a profit — from product returns. Goods previously written off as a cost of doing business are now being refurbished, repackaged, and resold.

Secondary market venues include outlets, discount stores, overstock websites, auctions, and flea markets. Reverse logistics consultants Greve-Davis estimate the value of the secondary market accounts for 2.28 percent of total U.S. gross domestic product. ■

Solutions — Returns from Canada

Returns management becomes even trickier when the items originate outside of the U.S. Products reentering the U.S. from Canada are international transactions and must comply with all applicable customs requirements. It should be noted, instances of products being returned to the U.S. from Canada are hardly unusual. According to the U.S. Trade Representative, “returns” was the fifth largest import category during 2011, behind fuel and oil, vehicles, machinery, and plastic. Total returns from Canada during 2011 were valued at \$8.6 billion.

In addition to the regulatory hurdles Canadian returns must clear, there are other issues. A U.S. business must be certain its logistics provider can guarantee service and has a capable distribution network in place. Equally important, a U.S. business must be able to meet Canadian consumers’ high expectations for customer service and convenience.

Canadian demand for U.S. goods has surged in recent years as the Canadian dollar has grown in value and e-commerce has taken root. With this affinity for U.S. goods have come high expectations for customer service and guaranteed delivery. A 2012 survey by American Express of global consumer attitudes found that 61 percent of Canadians said they did not complete a purchase because of poor customer service. Thus, there is little tolerance for businesses unable to successfully process consumer returns.

In preparing your returns management strategy, it is essential to be aware of, and to plan for, several considerations:

- **Returns from Canada are “international transactions.”**

Like all international transactions, goods must be in compliance with all necessary paperwork filings, security procedures, and duty and tax requirements. In addition, returned goods may face additional obstacles including the following:

- Defective goods may be ineligible for export or may require additional export licenses.
- Goods being imported back into the U.S. may require payment of additional duties and taxes.

- Goods being returned for repair may be regarded as “temporary imports” and therefore subject to preferable treatment (which requires completion of proper paperwork).
- Border officials may require proof of original purchase.

- **Intra-Canada Consolidation.** An intra-Canada consolidation plan is an intelligent method to gain control over your Canadian returns. Returns can be brought to a designated facility near the border and then held until a predetermined date. Advantages to intra-Canada consolidation include cost efficiencies, reduced border clearance wait times, and greater flexibility.
- **Canadian Distribution Network is essential.** The country of Canada accounts for 3.8 million square miles, making it second only to Russia in terms of territorial size. Fortunately for U.S. businesses trying to tap into the Canadian market, most of Canada’s 35 million residents are located in urban areas, with 90 percent of the population living within 100 miles of the U.S. border. In order to reach Canadian consumers living in less populated regions, an extensive intra-Canada distribution network will be needed. Many U.S. businesses make the mistake of assuming that their U.S. logistics provider will be capable of handling their Canadian shipments. Unfortunately, this is usually not the case. As these U.S. businesses have learned the hard way, there is no substitute for genuine experience and expertise in the Canadian market.
- **Canadian demographics must be considered.** Because of the close proximity of the two countries, both geographically and culturally, many businesses assume doing business in Canada is similar to U.S. business transactions. This thinking fails to take into account Canada’s unique culture, and procedures and standards. For example, consider the following:

Bilingual: Canada is officially a bilingual country, with both English and French considered the official languages. While most Canadians speak English, more than 7 million residents speak French. Most French speakers live in Quebec, but there are pockets throughout the country where French is spoken.

- **Metric System:** Canada is also somewhat bilingual when it comes to measurement systems. While Canadians generally use the metric system to measure distances, speed limits, and gasoline, it is not uncommon to find venues that record measurements in inches, pounds, and miles.
- **Labeling:** Just as the U.S. government imposes specific labeling requirements on products sold in this country, so does the Canadian government. The country's Consumer Packaging and Labeling Act mandates specific information must be included on various consumer product labels — including a mandate that information must be in both English and French, and quantities must be expressed in metric units. ■

Conclusion

Consumer product returns account for as much as 8 percent of a typical business's total sales, a figure that has increased by 12 percent over the past four years. As businesses have recognized the impact of returns to their bottom lines, they are increasingly implementing management strategies to recapture value from product returns and promote good customer service in the process. Successful returns management strategies can help a business add as much as five percent to overall revenue.

Businesses are realizing, among other things, that roughly 80 percent of product returns have no defects. In fact, most products are returned because consumers ordered the wrong size, needed a different color, changed their mind, or because the product wasn't what they were expecting. These undamaged products, which were previously discarded as "unsellable," are now finding second lives in alternate venues including outlets, dollar stores, overstock websites, and auctions. The secondary market has become so important to U.S. businesses that its total value worldwide is estimated to range from \$60 to \$80 billion.

A well-managed returns process will enable a business to get ahead of the game, to know exactly what products are being returned and when, or to have inventory in place to quickly offer replacements or perform repairs. Perhaps most important, a well-executed returns program will allow 24/7 insight and tracking capability for customers. This component is critically important, with 85 percent of consumers indicating they will not return to a business that does not have a convenient returns process.

Implementing a convenient returns process can be trickier when an international border crossing is involved. As U.S. businesses have broadened their customer bases into Canada, the rate of returns from Canada has grown significantly. Businesses need to understand the complexities of bringing goods back into the U.S. Unique customs clearance requirements must be met, duties paid, and voluminous paperwork filed. In addition, a solid distribution plan must be in place that can reach the most remote regions of Canada and offer a U.S. business the flexibility it needs to determine when and where returns will be sent.

Integral to building a returns management strategy is a solid logistics partner. A good logistics partner will understand your business objectives and develop a plan that offers exactly the type of returns management process you need. Don't be fooled by a logistics provider who tries to sell you on a "one size fits all" approach. Your business is unique, and so are your logistics needs. ■

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