

## View Point



### Two Steps Forward, One Step Back...

Reverse Logistics Management: Turning the misery of product returns into a strategic differentiator in Multi-Channel Commerce

---

Saty Chawla

Contemporary retailing is all about offering mass-produced goods to meet the demand for near-custom products. What this means, is that the industry as a whole is seeking to satisfy consumer demand with an increasing number of product variants based on sizes, shapes, fits, flavors, colors, or standards. This trend has led to an explosion in the number of products and variants. Logically, this should have resulted in more satisfied shoppers. Ironically, however, such myriad choices for each product or category elevate expectations to such high levels that the slightest variation in product attributes can cause dissatisfaction. This disappointment is amplified in e-tailing and direct-selling businesses, where buyers have either small or no opportunity to touch and feel the product they are buying – until it arrives at their doorstep.

While traditional retailers may have been the purveyors of competition-fueled return policies, it was really the online businesses of the dot-com age that forever changed shopper habits. In their quest to trounce traditional retailers and overcome the challenge of physical connect with the shopper, these businesses instituted and have largely continued extremely liberal and high cost return policies.

We know these practices are here to stay when even car manufacturers start offering return policies – an automaker recently tried a 30-day money back guarantee.

Ultimately, shoppers love returning a purchase – or at least the ability to do so. And, with new products reaching the market faster, the picture is getting scarier. For retailers, unless the implications are understood and addressed appropriately, high cost return policies have the potential of costing them their business. This paper reflects on how companies can turn this relentless tide to their advantage through effective reverse logistics management.

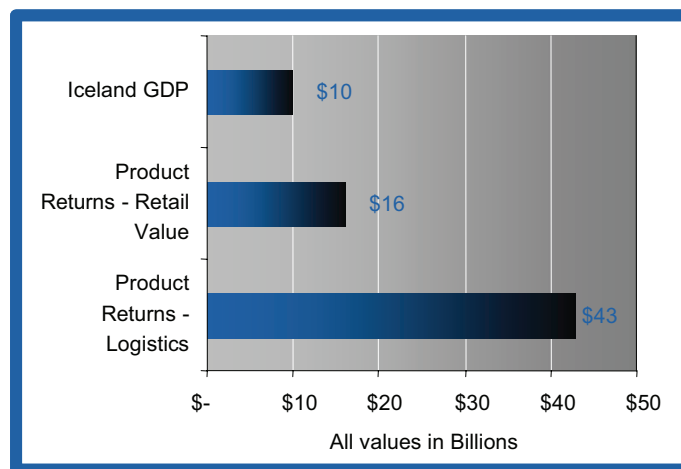
Online businesses of the dot-com age have forever changed shopper habits.

## How Big A Problem is Returns?

In the US, companies spend roughly \$950 billion annually on logistics. Around 4.5 percent of this, or \$43 billion, is expended on returns logistics. At the retail level alone, estimates for returns vary between \$16 billion to \$100 billion a year.

Depending on the industry, return rates range from around 3 percent to as high as 50 percent of total shipments. The average retail store has about a 6 percent return rate. In the consumer electronics industry the rate may be as high as 8.5 percent while in the apparel industry it is 19.4 percent. On the other hand, online apparel returns comprise a whopping 35 to 40 percent of total shipments

Despite the magnitude of these numbers, most companies pay little attention to returns management. When executives develop their logistics strategies, the focus is centered on outbound supply chain efficiency, usually without considering that their brand is suffering as big a hit due to reverse logistics inefficiencies as it can due to gaps in forward logistics.



## The Challenges In Reverse Logistics

Most challenges in managing reverse logistics can be traced to two broad categories – Process and Investment. Infosys believes it is usually a combination of both since most operations are focused on delivering products to shopper - not bringing them back from shoppers.

### *Ill-defined processes*

- Too many touch points – The higher the number of touch points, the greater the chance that the condition of the product will deteriorate, potentially with the prospect of receiving a product destined for the dumpster.
- Long cycle time – The more touch points, the longer the cycle time, and the unhappier the shopper who is left wondering about her return. It also provides little time to recondition, repackage and resell the product.
- Missing feedback mechanism – Lack of business intelligence to identify the root causes of reverse logistics issues robs retailers of any chance to improve the marketing, manufacturing, ordering, and delivery processes.

## Neglect

- Out of focus – Until not too long ago, executives held the view that making returns easier would encourage this behavior and ultimately prove counter to the company’s goals. However, that view is beginning to change now.

Reverse Logistics Executive Council (RLEC) research suggests that almost 98 per cent of shoppers base their decision to shop with an e-tailer on its return policy. As more companies enable online shopping, this fact is clearly driving a change in approach at most retailers resulting in a new focus on returns and reverse logistics.

- Dispersed View – While many retailers claim to have enabled multi-channel returns, the majority in fact have disparate systems for each channel. This invariably leads to price differences, missing item-data or, simply, a lack of cross-channel visibility of purchases.
- Limited Visibility – Most retailers have little or no visibility of work and inventory in their returns pipeline and, consequently, very little focus on advance planning to handle it. Often, the significant reasons for returns are missed out making it impossible for any trend analysis or intelligence to be built around shoppers to improve the product or process for the future.

## Addressing Process and Investment Challenges

To better manage returns for a truly satisfying customer experience that will translate into strong brand credibility and, consequently, higher sales, multi-channel retailers must pick between handling reverse logistics in-house or outsourcing the process to third party logistics (3PL) service providers.

*Specialized Software* – Although ERP and WMS (warehouse management systems) players have largely ignored reverse logistics, specialized products such as ReturnCentral from Manhattan Associates, ClickCommerce, etc., have stepped in to fill this gap. These products, integrated seamlessly in a retailer’s IT landscape, can enable an effective in-house reverse logistics mechanism.

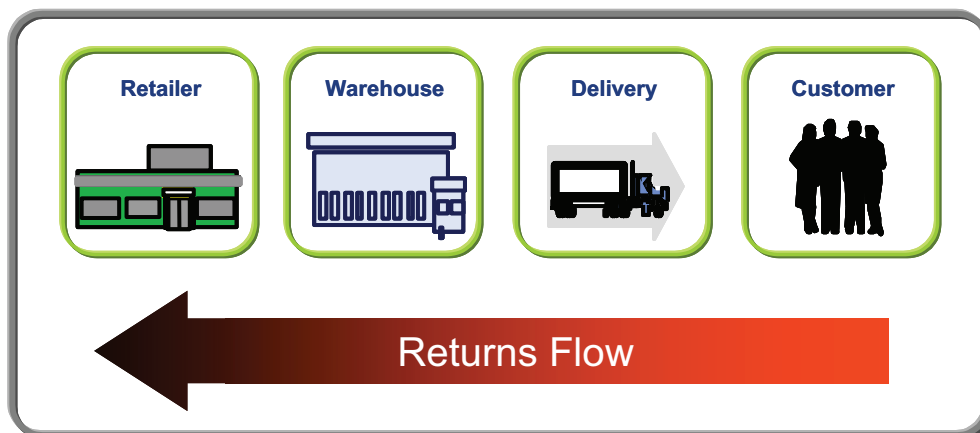
*Third-Party Logistics (3PL) Services* – Players such as UPS and Fedex have leveraged their deep logistics management expertise (systems and processes) to offer complete outsourced offerings. Retailers who have limited logistics capabilities or do not consider it core to their operations often opt for these solutions.

Infosys believes that for most large retailers a fully integrated, in-house reverse logistics solution may be the answer

While complete outsourcing to 3PLs appears appealing, it is often expensive and comes up short on support. Infosys believes that a fully integrated, in-house reverse logistics solution may be the best approach to handling customer-returns.

## Shopper-Centric Returns Management: The Infosys Approach

Infosys Consulting and Infosys Industry Solutions Consulting recommend the following roadmap for a comprehensive shopper-centric returns management solution.



## Process

*Existing Process* – Analyze existing returns process, to baseline key pieces of information, i.e., Customer satisfaction levels, Split between channels, Packages handled, Cost per package, Cycle time, Reasons for returns, etc.

*New Process* – The next step is to design a returns management process for –

- Shopper
  1. Inform shoppers of the return policy, what the company expects, and what they can expect from the retailer
  2. Remove hurdles for shoppers
  3. Take uncertainty out of the experience in terms of price, shipping charges, expected return time, taxes, etc.
  4. Assure the shopper of complete transparency during the return journey of the merchandise, i.e., email at pickup, receipt, and settlement.
- Retailer
  1. Minimize expensive touch-points and cycle time
  2. Implement effective gate-keeping to minimize asset loss and load on reverse supplychain
  3. Provide visibility of inventory in the reverse supply-chain
  4. Plan for manpower needed to process returns
  5. Seamlessly integrate with inventory, order-fulfillment and forward logistics processes to handle replacements and product shorts
  6. Provide a monitoring mechanism
- Analytics
  1. Collect data to help reduce unwanted purchases that result in returns
  2. Provide data for business intelligenceIdentify the Shopper

## Identify the Shopper

Identifying the shopper across channels - online, in store, on the phone - is a crucial step that enables an instant connection with the shopper who is typically coming from a negative shopping experience. This makes it easy to pull up the shopper profile and history as inputs for return processing.

## Provide Self-help

In Infosys' experience, Web-based tools have proved the most cost-effective methods (even for store or catalog-bought merchandise), followed by Interactive Voice Response (IVR) system. Live agent-run return tools, the most expensive method, should be used selectively, for handling either high-value or extremely aggravated shoppers, or where there is a chance to prevent a return event.

Conceptually, carefully planned use of in-store return kiosks could also help reduce the customer service lines. Shoppers would –

- Select the item to be returned from their order history
- Provide reason for return
- Print a Return Merchandise Authorization (RMA)
- Bring the merchandise to a store associate for verification and drop-off

This will reduce the need for store-associate to go through the first 3 steps while empowering the shopper.

## Order History – One Version of Truth

Infosys believes it is imperative to implement an enterprise grade central order history database shared by each and every channel without exception. This will eliminate shopper frustration and enable cross-channel returns.

This key source of historical information brings consistency in the most contentious area of returns – price. While this level of transparency, combined with self-help tools can lead to the phenomenon generally known as credit-shopping, such cases are few and far between. Besides, they are outweighed by the need to provide a positive shopper experience.

## Return Centers

Central return centers, typically set up separately from distribution centers, often prove to be the most cost-effective due to economies of scale and better visibility to returns inventory. Through seamless integration with central inventory management systems they help cut down the return cycle time for shoppers. Although regional return centers can provide the upfront service of merchandise sorting and disposal and slightly lower shipping costs to customers in the short run, this often means duplicating efforts at multiple regional centers. This can prove to be a costly affair that increases touch-points and cycle time in the long run.

## Integrate, Integrate, Integrate!

- Multi-Channel Returns – Shoppers want to be able to return products at any channel irrespective of channel of purchase. This capability goes a long way in enhancing customer experience, building loyalty, protecting the brand, and in many ways reducing long-term cost for retailers as well as the shoppers.
- Logistics Carriers – Real-time integration with logistics carriers such as UPS and FedEx not only provides a high level of comfort and transparency for shoppers, but it also offers the retailer a powerful means to anticipate the return volume for optimum workforce planning. Additionally, the retailer gets better visibility of the inventory in the reverse supply-chain.

These goals can also be accomplished by integrating with lower-cost logistics providers such as Newgistics, which utilize the United States Postal Service to consolidate merchandise in their own Regional Return Centers. They offer the same benefits of allround visibility to the retailer as well as the shopper.

Logistics providers, in turn, need access to the master item data for correct attributes of the merchandise in order to accurately calculate shipping charges and to generate an intelligent shipping label that encrypts key shopper attributes. This is useful for issuing credit and proceeding with the settlement of the transaction.

One of the reasons shoppers decide to return via mail is to avoid a store visit. Similarly, a trip to the post-office or shipper's drop-off service also figures as a sore-point. This hurdle can be overcome by providing a pick-up service. Where possible, such pick-up events or drop-off confirmations should be used to free the shopper of any liability for returns, communicating the settlement of transaction via an email.

- Order Management System – A credit processing or RMA engine will ensure that shoppers are getting what is rightfully owed to them, taking into account promotional offers, taxes, shipping charges, and any restocking fees. Such close integration also ensures that replacements are processed, filled and shipped in accordance with the retailer's policy.
- Customer Relationship Management System - Integration with CRM systems is the key to not merely track current returns, but also to predict future behavior. This enables retailers to pick their best shoppers, understand return behavior, track patterns, and work towards eliminating reasons for potential returns. It can also be effectively used to rationalize return policy between shoppers and offer similar products, cross-sell, or upsell based on their shopping and return behavior.

## Technology Implementation Considerations

- Integration with eCommerce/Online Channel – It is evident that the e-commerce channel is the most cost-effective and shopper-friendly channel to offer a comprehensive reverse logistics tool. Therefore, it is important for the reverse logistics/product returns toolkit to seamlessly operate within the existing online channel, i.e., common shopping-basket, with the intelligence to offer like-items, cross-sell, up-sell, and alternatives based on shopper history. It should intelligently apply and inform shopper of shipping charges depending on reasons for returns, replacements, or new orders, etc.
- Integration with Enterprise Systems – A reverse logistics system should seamlessly integrate with the existing set-up of order management, supply-chain, warehouse management, and distributions solutions - likely an assembly of best-of-breed solutions from a variety of vendors. This real-time integration is crucial to not only verify and validate the returns, but also reconcile them with accompanying replacements/new orders for their tie-ins to inventory, fulfillment, shipping, and business intelligence (BI) systems.
- Content/Workflow Management – With more and more retailers reaching out to consumers beyond national boundaries, multilingual capability can eliminate hurdles and build transparency for shoppers. In addition, this allows the administrators to effect temporary changes in return policies, return specials, and modification in messaging, etc. In conjunction with workflow management capability, users can be made to follow different and configurable paths, based on a variety of ever-changing criteria.

## In Summary

As part of their larger next generation commerce offerings, Infosys Consulting and Infosys Industry Solutions Consulting have built the capability for multi-channel retailers to improve the overall shopping experience through an effective and efficient returns handling process. This includes:

- Ensuring alignment to business strategy
- Redesigning customer facing returns processes
- Assessing technology options
- Defining implementation roadmap
- Designing a new organization structure
- Implementing the program

It is time retailers unlocked the value tied up in their reverse logistics operations. A focused approach toward making returns a brand differentiator will help retailers improve back-office operations while enhancing efficiency, improving customer experience and building customer loyalty.

## References and Readings

1. Returns Management, Competitive Advantage in High-Tech Manufacturing by Prasad Thrikutam, Sandeep Kumar; Infosys Ltd.
2. Getting Strategic Value From Returns by Nigel Montgomery, John Fontanella, Marc McCluskey; AMR Research
3. Many Happy Returns, by Gorkem Bedir, Dr. Jane Ammons, John Vande Vate, at EMIL
4. Reverse Logistics Is the Icing on the Customer Fulfillment Cake, By Gerald McNerney; AMR Research
5. Ways to Reduce Return Processing Costs, Gartner Group
6. Going Backwards: Reverse Logistics Trends and Practices, University of Nevada, Reno; Center for Logistics Management; Dr. Dale S. Rogers, Dr. Ronald S. Tibben-Lembke

## About the Author

Saty Chawla ([Satyajeet\\_Chawla@infosys.com](mailto:Satyajeet_Chawla@infosys.com)) is an Engagement Leader in the Next Generation Commerce practice at Infosys Consulting Inc., focusing on multi-channel commerce and reverse logistics practice areas

For her valuable inputs, the author wishes to thank research analyst Ruchi Chaturvedi Naramdeo who has a rich background in Consumer Products Goods sector, Item Data Management, etc.



For more information, contact [askus@infosys.com](mailto:askus@infosys.com)

### About Infosys

Many of the world's most successful organizations rely on Infosys to deliver measurable business value. Infosys provides business consulting, technology, engineering and outsourcing services to help clients in over 30 countries build tomorrow's enterprise.

For more information about Infosys (NASDAQ:INFY), visit [www.infosys.com](http://www.infosys.com).