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A Forward Look at Reverse Logistics

In today's marketplace, retailers, wholesalers and third party logistics (3PL) providers cannot afford to deliver a subpar customer experience – to any customer – at any point of interaction. While many elements impact customer satisfaction, reverse logistics is a crucial component that is largely overlooked and impacts the bottom line. Gartner Research notes that improperly handled returns can reduce profits by 35 percent. In fact, at least six, and as high as 35 percent of top line company revenue is typically sitting dormant in the warehouse or on the loading dock as a result of broken reverse logistics processes.

According to leading supply chain analysts, the reverse logistics process is a critical point of customer satisfaction and competitive differentiation. Yet, it is also a common source of confusion, cost, and inefficiency for companies, especially those that approach merchandise returns as individual, disjointed transactions. Companies that proficiently and cost-effectively collect merchandise and process returns, shortening the time from return origination to resale, are uniquely positioned to enhance customer satisfaction and to significantly reduce costs.

Reverse Logistics Matters

Reverse logistics is more than just returns management; it is comprised of activities related to returns avoidance, gate-keeping, disposal and

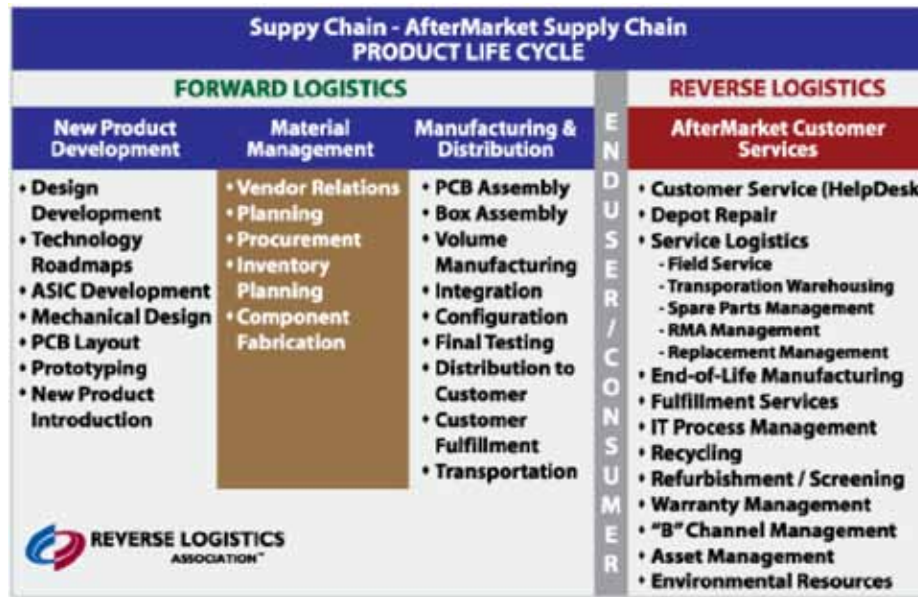
all other after-market supply chain issues. Reverse Logistics, increasingly recognized as affecting competitive positioning, enables companies to deliver against customer service promises. An effective reverse logistics strategy allows companies to create least-cost, positive customer return experiences by effectively managing exceptions and streamlining processes. Conversely, companies that make it challenging for customers and/or internal teams quickly realize Business Weekly's finding, "... the cost of regaining a customer can be 10x the cost of properly maintaining one." For example, with the right tools in place, it is possible to eliminate 30 percent or more of return-related customer contacts.

Opportunity in Reverse Logistics

According to the Reverse Logistics Association (RLA), the industries using reverse logistics are vast (see table on next page). For some companies, reverse logistics is also a frequent business process. RLA found that a company could spend up to 7% of its gross sales on the reverse logistics process which is managed by a third party such as 3PLs. For example, a company with \$100 million in revenue could expect to spend up to \$7 million to have a 3PL organization manage their reverse logistics process.

The best reverse logistics strategy weighs the potential monetary costs associated with process changes and solution investments against the 'opportunity cost' of customer satisfaction and retention.





return in all subsequent steps in the process. The customer is instructed to enclose a reference to this identification along with the returning product.

It is becoming a standard procedure to use some sort of a return label for ease in tracking and identifying the returned package. The identification of both a customer and an original order reference number on a return label can greatly aid a return clerk in accessing information necessary to qualify and quantify the returned merchandise.

There are various ways to initiate customer returns:

- **Return label provided during original shipment:** A common practice for e-commerce companies and the online stores of brick-and-mortar companies is to enclose a return label along with the product when it is shipped to the customer. The customer then has the option of returning all or part of the purchase without requiring further permission from the seller. The return is subject to terms and conditions usually outlined on the return label itself. The return label must be enclosed with the returning products and may state the reasons for returning the purchase. The seller may also choose to direct the customer to use a pre-specified freight carrier for shipping the returned product.
- **Customer request for a return:** One of the more traditional methods of managing returns is to institute a policy whereby the

Determinant Factors for Reverse Logistics

For organizations contemplating a synchronized reverse logistics program, it is important to consider the following components:

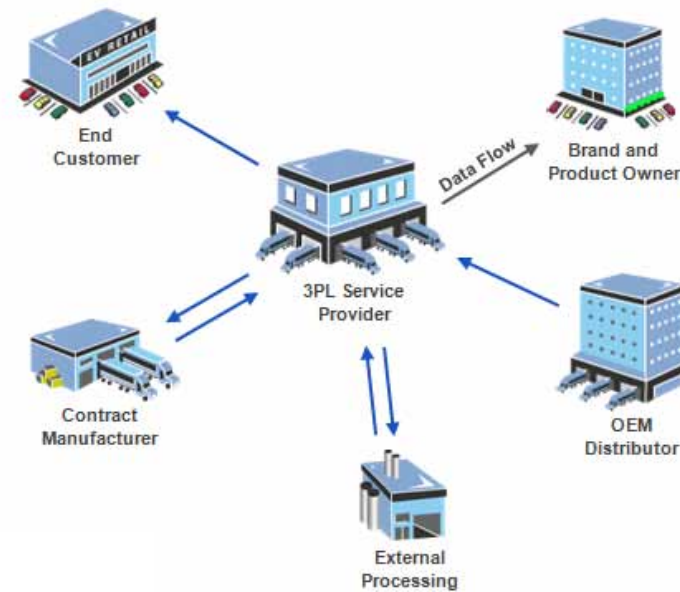
- Which customers and/or items are eligible for reverse logistics services?
- What is the procedure customers and/or consumers must follow for returning items and ultimately receiving proper credit?
- What is the procedure organizations must follow to process returned items and what are the financial impacts?
- If reverse logistics is being provided as a service to another party, how are the returns processing services billed?

By answering these questions, an organization will begin to understand specific areas where a synchronized reverse logistics program can reduce costs and increase the bottom line.

Return Authorization

The returns process begins with a customer request to return a certain purchase. The request is evaluated against existing terms of service or warranty, for example, a product can be returned or exchanged within 30 days of purchase if customers are not satisfied with the product for any reasons. If deemed eligible, the customer is issued a unique number (return authorization number) that serves as the identification for the

Standard Reverse Logistics Process



customer must contact the merchant and receive a formal return merchandise authorization (RMA) to return the product in question. This allows the merchant to determine beforehand whether the item is eligible for return and initiates the reverse logistics process. By requiring a RMA, the merchant can determine the credit amount for the item up front and recommend a mode of freight for the product to be returned, including which party is responsible for paying the freight. The merchant can issue a unique RMA access number that relates back to the customer and item(s) being returned, thus providing easy access for return facility to process the merchandise according to company standards.

- **Customer self-service return:** One of the

more sophisticated methods of reverse logistics (and the one generating the most biggest bottom line savings) is for merchants to provide customers with a web-based self-service portal where customers can log in and walk through a series of steps to validate the item being returned, and generate all necessary paperwork -- such as RMA documents -- to include with the actual return. In some cases, carrier shipping labels may also be generated. This self-serve approach and the accompanying documents help to streamline returns processing. Automating the creation and validation of return requests in this manner can drive down operational costs and improve customer service while ensuring adherence to company protocol or policy.

Receiving

Once returns arrive at the return processing facility, they are received and inspected. The receiving process matches the return authorization against goods that are returned. Because customers may not always follow the process for return authorization, the receiving team at the dock will need to institute exception management policies for scenarios such as:

- The returned items were different from what was authorized.
- The returned goods have different serial numbers from what was authorized. Serialized products are usually high-value goods such as electronics items of high-importance (e.g. Radio and wireless equipment that needs to be uniquely traceable in operation) and must be handled appropriately. The wrong serial numbers will raise a red flag and require exception management.
- The goods were returned without a RMA.
- The goods were returned for a blanket RMA covering multiple returns and this RMA is no longer active or valid, or has been completely consumed.
- The customer never accepted or received the shipped goods and the freight carrier ships them back to a return address, often the returns processing facility. This process is also called refusal return.

Some goods are sold by packaging several different goods together, e.g. an electronics

item and an accessory may be packaged together and sold as a distinct SKU. The receiving procedure for these packaged items may require a process to separate the package constituents and ensure that all such components have been returned and are in proper condition. This process is typically known as de-kitting. The rules for denoting a packaged product as “dekittable” can change by customer, product, physical condition of the returned “kit” product, and the circumstances of the return. Each component usually follows its own flow for triage and disposition in the follow-on processing phases.

Qualification

Qualification is the process by which the returned products are triaged to determine if the return qualifies under the terms and conditions of return.

The qualification phase is typically a rule-driven process for return processors to follow pre-specified steps to inspect the returned goods; to record the characteristics of the condition of the goods; to automatically perform actions such as calculating credits due to customer; to calculate penalties for items such as shipping and handling charges; to accumulate service charges for inspection steps performed; to categorize product into a proper stock grade; and to determine the final destination of the returns.

A reverse logistics provider may require and maintain multiple such qualification rules so

that each rule is tailored to a particular scenario. For example, there could be different rules for each return reason (e.g. exchange, refund); rules for different types of items; rules for a different type of customer; rules for a combination of customers and items; and rules to handle a product categories, etc.

Disposition

The disposition is the disposal of the returns based on the final destination determined in Qualification phase. The destinations of the return could be:

1. Return to Sender (RTS): During Qualification it may be discovered that the customer obtained a return authorization by presenting inaccurate information (for example, the product was claimed new but was used). In such cases the product is usually returned back to the sender with an appropriate explanation of why the return claim was denied.
2. Return to Manufacturer/Vendor (RTM/RTV): This scenario usually occurs when an intermediate supply chain entity such as a distributor accepts returns from its end customer. The returns processor for this distributor may find the returned product to be eligible for returning to the manufacturer or vendor from whom the product was initially purchased. Now the distributor must play the role of the customer and request a return authorization from the manufacturer/vendor, and must follow the agreed upon product return terms between these two parties.
3. Repair/Refurbish: A customer may return a product for either repair or replacement. These returned goods will be evaluated to determine whether they can be repaired during the Qualification process. These products are sent back to the customer after undergoing the repair process. In some cases, customers may get the replacements without the long waiting period for their returned items for repair. In another scenario, returned high-value items can be refurbished and resold, thus presenting revenue-generating opportunities to the original shipper or manufacturer. Repair/refurbishment can take place in-house or at an external facility.
4. Return to Fulfillment Warehouse: If the returned product is in the original, pristine condition, it can be sent to a fulfillment warehouse to fill incoming orders. Refurbished or “like new” products can be labeled as such and can be sold at discounted prices.
5. Salvage: Returned goods may be in a condition where they are no longer usable. However, these goods can often be stripped apart for their components, which can be re-used or recycled. Such goods are deemed as salvaged and are often sold to other parties and serve as a stream of revenue for the returns processor. Another example is that low-value

items may not justify the costs associated with inbound freight, handling, processing and disposal, and are best discarded directly by the customer.

Financial Settlement

Some of the most common financial settlements for returns include issuing credit for customers, debit charges for the costs of the return processing, and related service charges.

Credits to Customers – Qualification rules determine if a product is credit-eligible and calculate the necessary credit amount. This credit calculation is used to issue applicable credits to the customer. It is important the credits against a return be kept track of, so that multiple credit issuances do not occur for the same returned product.

Debit Charges – Shipping and handling charges, restocking fees, and ineligible return penalties are some of the reasons for creating debit transactions for a customer against a return.

Service Charges – A third-party returns processor, such as a 3PL, will charge service fees based on the amount of effort required for processing returned products on behalf of other parties. The returns processor can track these charges for every processed unit while stepping through the qualification rules.

Client-Side Services

Internal teams must put customer satisfaction and retention at the forefront. Developing a synchronized returns process that can accommodate unique business processes and customer/product rules is not trivial. To achieve success, it takes dedicated resources to create processes and capture rules that will accomplish the highest customer satisfaction at the lowest cost for the business. Reverse logistics software and solutions are frequently a key component of the reverse logistics process and can help both the efficiency and effectiveness of the program. As with any software implementation, the most effective solutions are those that complement processes that are well thought out, efficient, but may be manual, thus requiring automation. Skipping key organizational preparation for this type of implementation is not a recipe for success; if your organization cannot find dedicated resources internally to support this project, consider qualified outsourced resources who can dedicate time to this effort.

Key Reverse Logistics Capabilities

Highly configurable and scalable reverse logistics solutions exist to meet the varying requirements of companies across many industry segments. For companies dealing with a variety of channels and product categories, as well as those in the 3PL industry, these solutions can be especially helpful to

meet the unique inbound and outbound requirements across all combinations of channels and product lines.

Key capabilities that are important to consider when evaluating a reverse logistics solution include:

- Quick and comprehensive setup of returns program parameters, including customer attributes, item cross-references, item grading rules, warranty rules, qualification and disposition rules, return quantity tolerances, vendor attributes and credit/processing fee rules.
- Configurable, rule-driven validations to control Return Authorization issuance and approval leading to reduced ineligible returns.
- Rapid setup of complex return-qualification rules by creating new rules using a web-based rule-authoring tool or copying and modifying existing rules.
- Support for complex scenarios such as returns processing for serialized items, dekitting of items, identification and rapid processing of invalid returns, tolerance-based blanket returns, decoding of manufactured date codes tracking number-based return validation, and tracking of third-party repair processes.
- Support for multiple dispositions such as ship to third-party, return to customer, return to vendor, grade and ship to shipping warehouse, etc.

In today's competitive market, it is imperative that companies continually evaluate their supply chain efficiency and opportunities for cost containment, avoidance and reduction.

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- Role-based assignment of triaging tasks to allow for experienced labor to carry out the most complex triaging tasks, and for customer account representatives to make a determination regarding final disposition of products returned under exception scenarios.
- Role-based security-enabled access to application features to ensure improved usability and workflow control, and appropriate confidentiality of information.
- Logging of audit trail and qualification rationale for every single returned item, to enable audit of historical information if required.
- Detailed financial transaction tracking such as charges and credits.
- Seamless integration with order management, WMS solutions and financial sys-

tems, as well as with other data sources.

- Ability to support unauthorized returns in an efficient and consistent manner to increase velocity in the returned product and eliminate physical hold ups for return associates.

Summary

Organizations often question whether the return on investment of implementing reverse logistics solution is justified. For companies that have not yet streamlined their reverse logistics with a synchronized solution, reverse logistics represent a significant source of untapped profitability that can increase net profits by 35 percent according to Gartner Research.

Companies should keep in mind that the more permutations involved in deciding

which customers and products are eligible for returns, the more it costs to manage the return process. Implementing the right solutions can increase the ability to rapidly manage multiple returns programs and rules, and thus reduce the costs. Faster returns processing results in more rapid and accurate credit back to customers, which in turn leads to higher customer satisfaction and retention.

Reverse logistics is an important component to many companies' supply chain strategies. The best approach increases customer satisfaction and reduces the costs and inefficiency in operations. Companies that take the time to understand and improve all of the factors that impact their returns processes will deliver superior customer service, gain competitive advantage, and increase bottom-line profitability.

Prepared by:



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