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Getting slammed with high returns costs? Maybe it's time to kick that asset recovery program into high gear.

throwing it into reverse

IT'S SOMETHING NO RETAILER WANTS TO talk about, but it remains a fact of life: A staggeringly high percentage of merchandise sold is destined to be returned. Depending on the industry, rates of returns range from 3 percent to a whopping 50 percent, according to a 1998 study by Dale Rogers and Ronald S. Tibben-Lembke of the University of Nevada-Reno. That's a lot of stuff to be managed, sorted, stored and moved. And, of course, there's no upside in terms of revenue.

No upside, but there's unquestionably a downside. Returns—or the reverse flow of product from a customer back to the vendor—cost U.S. business up to 5 percent of sales each year. AMR Research estimates that approximately 4.5 percent of the $950 billion U.S. business spends on logistics each year is related to returns. That adds up to about $43 billion annually—a huge expense for the U.S. retail industry to absorb.

Or not. An all-out effort to streamline the returns process can improve company profitability by an estimated 10 to 15 percent. The gains come not only from increased asset recovery and reduced labor and inventory costs, but also from increased customer satisfaction—whether that customer is a consumer or another business. What follows are three areas of opportunity that returns-conscious companies often overlook.

1. (Re)cover your assets

Possibly the greatest area of opportunity when it comes to improving the returns process is increasing asset recovery—that is, getting the product back to as close to its original condition and into the original sales channel as fast as possible. In the typical

case, companies have at least five recovery options, listed here in descending order of revenue return:

1) Sell as new,
2) Repair or repackage and resell as new,
3) Repair or repackage and resell as used,
4) Resell at a lower value to a discount house,
5) Sell by the pound to a salvage house.

The longer the product languishes in the reverse logistics pipeline, the more value it loses. Yet, in many companies, a product can take months to go from a customer through the disposition process before it's finally taken off the books. By then, the product could have become totally obsolete. Consider the personal computer industry where a PC might have a shelf life of only three to four months. In some companies, the returns process takes this long, which means a perfectly good unit ends up being sold in a salvage channel at a fraction of its original value.

And it happens all too easily. Some suppliers have a window in which returned product is accepted from their customers—say, 60 days for a manufacturer selling to a retail customer. Though a retailer might have all of its returns sent to a central processing facility for convenience' sake, inefficiencies in the processes of getting products to the facility and handling them within the facility often mean delays past that 60-day window. That leaves the retailer with the prospect of disposing of the product at a much lower price, which can mean hundreds of millions of dollars of losses for some of the larger retail companies. In this case, simply processing the returns in the designated time window would result in a huge jump in asset value recovered.

2. Enforce your rules

In the returns world,the race may go to the swiftest … or it may go to the strictest. Many times, companies unintentionally run up their returns costs by failing to enforce their own returns guidelines. That is, they accept returns of certain products that aren't supposed to be returned or accept product returns beyond the timeframe designated in a sales contract. Just by enforcing the policies already in place, a company can reduce total returns and bolster its earnings.

But playing the heavy and denying a return may not be enough. A company also needs backup enforcement for those situations when a return has been denied, but the customer sends it back anyway. If the supplier doesn't have a system to recognize the original denial and track individual returns,the company will issue a credit. Although some sacrifices have to be made to keep a customer happy, a company that is serious about managing reverse logistics costs should do whatever's necessary to discourage unauthorized returns.

3. Streamline the handling process

Then there's the physical process of handling the return. Sending an item back through the reverse channel often requires a series of intricate, multilayered steps: Someone has to generate a Returned Merchandise Authorization (RMA) number, someone has to print a mailing label, someone must determine product handling and disposition, and someone must arrange for transportation.

And the costs add up quickly. RMAs are often generated through a phone call to a company customer service representative via an 800 number, which means the company both pays a representative to take the call and foots the long-distance calling bill. Next, the vendor—or someone designated by the vendor—must print a return mailing label and send it to the customer via some form of expedited mail, which can cost $10 or $15. Then there's the cost of transporting the item back to the seller, which must be paid for by either the customer or supplier. (Customers don't always pick the most economical carrier to return a product, which increases the costs for those companies that pay for the returned goods' transportation.) And once the product arrives at a processing facility (either a distribution center or dedicated returns facility), an employee has to determine its disposition—which means opening up the box and inspecting or even testing the product.

Happier returns?

Boosting asset recovery and streamlining the process can bring quick wins to any organization. But what about the bigger picture? For many companies, it pays to step back and look at returns from a strategic perspective. That might mean asking the following: Have we defined our strategy regarding returns? Is our process right from a strategic point of view? Should we be looking at automating all or part of the process?

By starting with strategy, companies can assure themselves that the returns are a key part of a more efficient and customer-centric business. But if they hope to improve the returns process at a strategic level, they'll need senior management's support to assure that process improvements will actually be made.

Getting this support often means demonstrating the value of a returns strategy to upper management. The key to this is collecting data on returns—if you can find it. The data to look for include total returns per year broken down by product type, time to process a return, cost to process a return, and total dollars spent on returns.

As for processes, the idea is to revamp the system so that returns can be inserted back into the selling cycle as early as possible. This typically requires some analysis or flow-charting of the returns process to identify bottlenecks and areas of opportunity. If possible, track a return from the customer through the process back to the supplier.

One option is to explore using technology to streamline the returns process. For those companies willing to invest, there's software on the market designed to generate RMAs online with SKU-specific reasons for returns, generate online mailing labels, identify where the return should go (to avoid multiple handling), and handle data collection on an ongoing basis. Information on the types and amount of returns as well as their expected arrival dates lets managers schedule receiving and handling labor so that the product is reinserted back into the selling cycle as quickly as possible.

Note that companies that have outsourced returns management to a third party still need information regarding the types and dollar amounts of returns. To gather that information, they might choose to install returns-processing software or link to their third party to get visibility into returns. Then, with that information in hand, they can track this process and use this information for planning.

Information on returns can be hard to find, but its value can be immense. What if you could see—in real time—just how many returns a specific customer was sending back to you? How about knowing which products were resulting in the most returns? Having information like that gives you a chance to develop better channel partnerships with customers and also gives operations more real-time information on defects that result in returns so they can fix the manufacturing process.

Can your current systems supply this information? If not, what do you need to get it? A little attention to questions like these can mean better returns on your returns. □

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