

***Returns Management – Is this the next untapped market?  
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Returns Management or the handling of returned goods, has to date generally been managed as a back room activity and was not considered to be particularly strategic. It is now being brought to senior management's attention and is viewed as an addressable and important part of multi-channel retail business.

At its simplest level, the management of returned goods consists of getting the goods back from the customer in the first place and then either disposing of them, returning to the manufacturer, re-furbishing or selling the goods on. But with more sophisticated systems and processes, returned goods can be put back into inventory or perhaps broken down into component parts. These actions can cut costs, increase profits and improve customer service.

The way in which a company manages huge volumes of product and parts returns is key to its financial success, customer satisfaction and repeat sales. Depending on the type of product, returns can go through a variety of processes such as inspection, testing, refurbishment, disposal, or stock replenishment. Yet, many companies do not possess the infrastructure or processes to manage this effectively.

For a new business looking to enter into the home shopping market, returns management presents a highly complex task and unfortunately it is one that is often at worst overlooked, or at best underestimated. They need to consider the key criteria such as: - economies of scale; improved refurbishment; goods not fit for stock, claims for missing goods, and the transportation of product back to the supplier. How companies handle product returns is a key differentiator. Not many companies have the facilities to provide this type of service, but if done effectively it can lead to considerable cost savings and increased customer satisfaction. This is achieved through efficient collection processes, tight interfaces with suppliers, effective quality control rules and reduced enquiries, with customers getting refunds back as quickly as possible.

In a business where customers trade on fixed credit levels the earliest updating of returned merchandise to the customer accounts allows the customer new credit to make new purchases. This is particularly important when businesses are looking for every last sales opportunity to maximise service levels.

A customer returned item is a probable sale to another customer, the returns flow of merchandise is a key ingredient in the overall supply chain. A returns warehouse can often be a company's main supplier. So it is critical that the returns rate is factored into company forecasting. Some returned goods might not be fit for stock, while others can be simply re-packaged and distributed once again. An important factor here is to ensure that suppliers' packaging specifications at the front-end are aligned with the returns warehouse's capability at the back-end. For example, why have twenty folding board options for clothing, if the returns warehouse can only handle six? For footwear, why have boxes sealed with tape, which ruins the box upon opening? A simple design change to the box should improve its reusability.

Clearly every business needs to maximise its sales opportunities by processing the returns backlog accurately and quickly to achieve two key factors. Firstly, the importance of quickly updating the customers' account cannot be overstated. Secondly, customers' expectation of a prompt and efficient service has never been higher. Next day and time slot delivery has raised expectations to new levels. If the time taken from returns collection to account update is greater than three or four days, you will be failing to meet customer expectation, and increase enquiry levels and the cost of operations as a result. It is important to link cause with effect, particularly when dealing with customer enquiries.

To date there has been a lot of focus on the outbound rather than the in-bound process, although this is now beginning to change. To meet customer expectation some retailers have created local collection points in-store, as customers are not always available to receive goods. Other options are being developed, but this all adds further cost into the process.

So the major challenge for the returns management industry is how to enhance the effectiveness and quality of the service offered whilst still remaining cost efficient?

One solution is to simplify the whole returns process, from collection to refund. The easier this process becomes the more inclined customers will be to repeat purchase. There is normally a time delay between goods being returned and the customers' account being credited. During this time customer expectation has to be carefully managed, preferably proactively.

Service providers have started to adopt new approaches to manage this critical process. Some are evaluating the use of community stores or automated solutions such as locker banks to enable the customer to immediately return the product and obtain proof of receipt at the point at which the goods are handed over.

In the US, catalogue companies have joined with distribution companies to significantly reduce the time delay issue. This has been achieved by enabling customers to be credited at the point at which goods are collected. So considerably improving the service offered, by 'pushing' closer to customer 'touch-points', to complete the transaction. The lead-time between goods being handed over and the payment being received has been dramatically reduced.

Returns management has become a more pressing issue recently due to the growth of remote retailing. The Internet and Interactive TV have increased the desire to shop from home. To meet this demand retailers have had to adopt a multi-channel strategy that allows customers to return product via the contact point of their choice. So there needs to be multi-channel integration for both the in-bound and out-bound routes.

The dynamics and economics of remote retail are different to those of a 'bricks and mortar' channel. Since remote retail targets an audience for which there is no face-to-face contact, managing that relationship remotely presents new issues and different cost structures.

Retailers do not measure the frequency with which a product is picked off the shelf, examined and put back. The model starts off with Gross Demand, and is then eroded by cancellations due to stock not available, returns, claims for goods lost in the post, down to Net despatches. However, the margin generated on the net despatches achieved must cover the costs of handling all orders taken, all goods sent out and all returns back in. The retailer needs to adopt the right processes and the necessary level of control to benefit from returns' management. Yet, for both processes, the same principle applies, businesses must ensure that the customer experience is managed effectively.

The benefits of an effective returns' management function are clear. The increased ability to inspect, reject or refurbish returned goods back on the market and to gain data relating to why goods are returned in the first instance, will be critical to future business success. If an item is returning at very high levels, this can lead to a reconsideration of the marketing, packaging or selection strategies for those products. If companies continue to ignore the potential benefits of returns' management, and suffer from the downsides of ignoring the basic requirements, they will fail to compete.

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