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Returns Management Process
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Supply Chain Management

Supply Chain Management Processes

Information Flow

Tier 2 Supplier
Tier 1 Supplier
Manufacturer
Customer
Consumer/End user

Tier 1 Supplier
Customer

PRODUCT FLOW

Purchasing
Logistics
Marketing

Production
R&D
Finance

R&D
Finance

MANUFACTURING FLOW MANAGEMENT
PRODUCT DEVELOPMENT AND COMMERCIALIZATION

CUSTOMER RELATIONSHIP MANAGEMENT
SUPPLIER RELATIONSHIP MANAGEMENT
CUSTOMER SERVICE MANAGEMENT
DEMAND MANAGEMENT
ORDER FULFILLMENT

 RETURNS MANAGEMENT

© Supply Chain Management Institute. Source: Supply Chain Management: Processes, Partnerships, Performance, p. 160
Returns management includes all activities related to returns, reverse logistics, gatekeeping and avoidance.

It is not just another name for reverse logistics!
Why Is It Important?

• Retail consumer returns are estimated to be approximately 6% of revenue.

• Logistics costs associated with managing returns have been estimated at 4% of an organization’s total logistics costs.

• It can have a significant impact on the bottom-line through:
  • Fewer markdowns
  • Improved asset recovery
  • Reduced environmental impact and disposal costs
  • Reduced obsolete inventory

More Numbers on Returns

- Cost of processing a return can be 2-3 times that of an outbound shipment.

- The average cost of processing per return for items bought online is $30-$35.

- 37% of online buyers were deterred from buying online because of return and exchange processes that were too difficult.

- Liquidators and outlet stores buy returned goods at only 10%-20% of their original value.

Types of Returns

- Consumer returns
- Marketing returns
- Asset returns
- Product recalls
- Environmental Returns

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**Returns Management**

**Strategic Sub-Processes**
- Determine Returns Management Goals and Strategy
- Develop Avoidance, Gatekeeping & Disposition Guidelines
- Develop Return Network and Flow Options
- Develop Credit Rules
- Determine Secondary Markets
- Develop Framework of Metrics

**Processes Interfaces**
- Customer Relationship Mgt
- Supplier Relationship Management
- Customer Service Management
- Demand Management
- Order Fulfillment
- Manufacturing Flow Management
- Product Development & Commercialization

**Operational Sub-processes**
- Receive Return Request
- Determine Routing
- Receive Returns
- Select Disposition
- Credit Consumer/Supplier
- Analyze Returns and Measure Performance
Strategic Sub-Processes

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Process Interfaces
- Customer Relationship Management
- Supplier Relationship Management
- Customer Service Management
- Demand Management
- Order Fulfillment
- Manufacturing Flow Management
- Product Development & Commercialization

Strategic Sub-Processes

Activities
- Determine the role of returns in firm’s strategy
- Determine how to best recapture value and recover assets
- Review environmental and legal compliance issues
- Understand supply chain constraints and capabilities

- Determine types of returns firm might face
- Establish structure to identify avoidance opportunities
- Develop return policies and screening mechanisms
- Develop dispositions options

- Develop reverse logistics network
- Determine transportation modes and methodologies
- Structure plans for recalls

- Determine how returned product will be valued
- Develop credit authorization guidelines
- Establish credit policies

- Find and examine potential secondary markets
- Determine rules for using secondary markets
- Develop remanufacturing/refurbishing strategies

- Link returns performance to EVA
- Determine appropriate metrics and set goals
Strategic Sub-Process #1

Determine Returns Management Goals and Strategy

• Determine the role of returns in firm’s strategy.

• Determine how to best recapture value and recover assets.

• Review environmental and legal compliance issues.

• Understand supply chain constraints and capabilities.

What is the Strategic Role of Returns?

- Competitive reasons
- Product freshness
- Customer loyalty and trust (reduced risk)
- Legal / safety
- Recapture value, recover assets
- Protect margin and channels
- Cash flow
- Good corporate citizenship
Develop Avoidance, Gatekeeping & Disposition Guidelines

• Determine types of returns firm might face.

• Establish structure to identify avoidance opportunities.

• Develop returns policies and screening mechanisms.

• Develop disposition options.
Return Avoidance

Streamlining the reverse logistics system is important for reducing costs and improving customer service.

However, the real opportunity is to develop and sell the product such that return requests are minimized.

This ‘return avoidance’ can be achieved in many ways. For example:
- Improved product quality and consistency
- Better instructions so the consumer knows how to operate the product
- ‘Ease-of-use’ initiatives such as set-up posters
- Fixing internal policies that lead to end-of-quarter loads (that can often lead to more returned product)
Gatekeeping

• Gatekeeping is the screening of both the return request and the returned merchandise.

• Gatekeeping assures that only product that should be returned to a specific point in the network is allowed to enter the return flow.
Disposition

• Disposition refers to the decision about what to do with product that is returned.

• Disposition options can include resale in the primary market, resale in a secondary market, recycle, remanufacture or disposal.

• Disposition options need to be considered carefully because the choice can have impact on customer satisfaction, future sales (due to cannibalization) brand value, and total cost.
Develop Return Network and Flow Options

- Develop reverse logistics network.
- Determine transportation modes and methodologies.
- Structure plans for recalls.
Strategic Sub-Process #4

Develop Credit Rules

• Determine how returned product will be valued.

• Develop credit authorization guidelines.

• Establish credit policies.
Strategic Sub-Process #5

Determine Secondary Markets

• Find and examine potential secondary markets.

• Determine rules for using secondary markets.

• Develop remanufacturing/refurbishing strategies.
Strategic Sub-Process #6

Develop Framework of Metrics

- Link returns performance to EVA.

- Determine appropriate metrics and set goals.
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How RM effects EVA®

- Obtain repeat business
- Increase sales volume
- Increase customer loyalty
- Resale of product in secondary channels
- Fewer markdowns, therefore higher sales price
- Asset Recovery
- Reduce direct materials through recycling
- Duty Drawback
- Remanufacture, Refurbish
- Reduce environmental or waste disposal costs
- Reduce customer service costs
- Reduce freight bill
- Reduce receiving, handling and storage
- Reduce documentation and credit processing
- Fewer returns because of improved quality
- Reduce obsolete inventory
- Reduce raw materials inventory through recycling
- Reduce Accounts Receivable
- Improve asset utilization and rationalization
Operational Sub-Processes

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Process Interfaces

Customer Relationship Management
Supplier Relationship Management
Customer Service Management
Demand Management
Order Fulfillment
Manufacturing Flow Management
Product Development & Commercialization

Operational Sub-Processes

Activities

Receive Return Request
- Initiate customer return request
- Implement gatekeeping guidelines

Determine Routing
- Review routing guidelines
- Plan routing
- Generate return material authorizations (RMAs)

Receive Returns
- Receive returned material
- Verify, inspect and process return (gatekeeping)
- Determine return reason

Select Disposition
- Apply disposition guidelines
- Transport product to final disposition

Credit Consumer/Supplier
- Coordinate credit authorization across supply chain
- Negotiate settlement

Analyze Returns and Measure Performance
- Analyze returns and identify opportunities for avoidance
- Calculate process metrics and link to EVA
- Set goals for performance improvement
Operational Sub-Process #1

Receive Return Request

- Initiate customer return request.
- Implement gatekeeping guidelines.

Operational Sub-Process #2

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Determine Routing

• Review routing guidelines.

• Plan routing.

• Generate return material authorizations (RMAs).
Operational Sub-Process #3

Receive Returns

• Receive returned material.

• Verify, inspect and process return (gatekeeping).

• Determine return reason.
Operational Sub-Process #4

Select Disposition

• Apply disposition guidelines.

• Transport product to final disposition.
Operational Sub-Process #5

Credit Consumer/Supplier

• Coordinate credit authorization across supply chain.

• Negotiate settlement.
Operational Sub-Process #6

Analyze Returns and Measure Performance

• Analyze returns and identify opportunities for avoidance.

• Calculate process metrics and link to EVA.

• Set goals for performance improvement.
Conclusions

• Managing returns is a strategic part of doing business and can have very high costs.

• It is about more than reverse logistics; it also includes avoidance and gatekeeping.

• It can have significant impacts on the profitability of the firm and its customers and suppliers.