

Report: "Returning" to Profitability

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A Reverse Logistics white paper outlining the impact of improving product returns processing. This article was originally printed in a monthly newsletter publication for the Canadian Manufacturers & Exporters - BC Division

By now, we all have some familiarity with the many supply chain solutions on the market designed to help get products to market faster and more efficiently than previously thought possible. But, while these applications all have their respective strengths and weaknesses, a common weakness in many applications is the fact that the underlying business logic assumes one-way product flow with few returns. Most manufacturers, distributors and retailers in today's market will tell you that, in the real world, two-way product flow with frequent returns more aptly describes the situation they face.

More and more, companies are turning their attention to returns management (or reverse logistics) strategies and processes in an attempt to improve profitability and customer satisfaction. They are finding that the payback can be substantial. From a customer relationship perspective, enhancing the product return process improves the customer's overall experience, impacting customer loyalty and sales. Turning to the cost side of the equation, the effective management of returns helps to reduce lost revenue, inventory cycle time and processing costs with the added benefit of maximizing the value recovered on returned products.

To be effective, a supply chain solution must consider more than product fulfillment. An effective solution recognizes the potential of a well-functioning returns process and assists with the management of four key elements: the customer relationship, the physical movement of the goods, the analysis of the returned goods, and salvage or disposition.

Customer Relations

Treat your customers well and they will treat you well in return. Supply chain software must allow for the collection and processing of information about the customer, the product and the reason for the return. The obvious reason for insisting on this capability is to assist with subsequent customer interaction, should there be any. The not-so-obvious reason for having this functionality is that it helps improve decisions concerning product production and merchandising by allowing for the analysis of why the product is being returned. Additionally, analyzing return rates by customer enhances the decision-making process concerning customer profitability.

Physical Movement

From a physical logistics perspective, an effective solution should enable the efficient processing of goods once they reach the processing center. In many organizations, returned goods are received in to the warehouse and shelved until space requirements force a decision on what to do with them. The software should facilitate the process of streaming the product through to eventual disposition as quickly as possible. This means providing advance notice to receiving personnel about what is expected, when it's expected and what should be done with the goods when they are received.

Analysis

Test and repair functionality allows for the analysis of the returned goods to determine what value is ultimately locked in to the product or to ensure that the customer is not subjected to excessive waiting for non-warranty repairs. Quality checks can determine whether a customer is entitled to a credit for the goods and can confirm the reason for return.

Salvage and Disposition

Tracking the product type, number of returned items and reason provides information which assists in the determination of what to do with the returned items. Restocking the product, reselling the product at a reduced price, recycling and outright disposal of the product are all options which need to be explored. The effective supply chain solution provides the information to make the right decision quickly.

Beyond these features, real time end-to-end visibility of the returns process allows for quick and effective decision making, enabling companies to respond swiftly to issues and questions from internal sources and customers. Visibility also helps eliminate costly expediting and makes exception handling much easier.

Focusing on what your company does to bring products back can translate into real dollars added to the bottom line. Long considered a necessary cost of

doing business, many companies are turning their attention to the value hidden in the product return process and finding that it's well worth the effort. A strong supply chain solution, or a bolt-on solution directed solely at enabling the reverse logistics process, can vastly improve your company's ability to tap into the potential found in the product returns process.