

Thought Leadership Series

# Six Things to Consider to Make Returns a Competitive Advantage



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With the increase in eCom orders comes an increase in returns. The average rate of eCommerce returns is two to three times that of in-store purchases. The correct returns process can reduce inventory by over 20%. Globally, 73% of shoppers say the returns experience affects their likelihood to buy again from a particular company<sup>1</sup>. Returns are often complex and unpredictable, creating reverse logistics challenges and potential service failures. This highlights the need for an efficient and profitable returns process that is easy, fast, free, and seamless for the customer.

So, how do you turn handling returns into an opportunity for competitive advantage?

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<sup>1</sup> UPS Pulse of the Online Shopper Report



### **1. Decide whether or not you want to deal with returns.**

There are logistics providers who specialize in returns. If you outsource this function, you recoup less of your investment and have less control over the process. These 3PLs have developed processes and standards for disposition that rival the discipline of most outbound distribution operations. Their procedures and training are often much better than those of in-house returns operations. Many have invested in automation to reduce cycle time and labor cost. However, using a third party may delay the disposition and return of inventory to stock for resale.

### **2. Determine what returns are worth to you.**

All returns are not created equal. What is the value of the merchandise and how much margin do you have to work with to try to resell it? This will guide investments in labor, equipment, training, etc., as well as the disposition strategy for returns (restock, discount, return to supplier or scrap). Shipping cost will also influence how much you can invest and whether or not to centralize operations in a multi-site network. You must balance economies of scale against transportation cost.

### **3. Measure and manage returns as closely as you do the rest of your inventory.**

Metrics and management are key. With most returns operations, there's opportunity to improve how you measure and manage the cost structure for returns. Data from product returns can also be used to improve planning for new products or inform future purchasing, design and manufacturing decisions by identifying products with high rates of failure. Focus on processes and institute the same management and control over returns as you do over other inventory. Consider:

- How long does it take to cycle through returns?
- What percent of returns can you salvage?
- What is the cost per unit handled in the returns process?
- What is the margin impact (salvage/disposition value divided by cost)?
- What categories, vendors, customers, etc. have the largest volume and dollar impact on returns?
- What can you learn from returns to help make better purchasing and inventory deployment decisions in the future?

#### **4. Work toward a single view of inventory.**

Visibility to inventory is critical in an omni-channel returns environment. Having visibility to a single real-time view of inventory, including returns, allows you to make better decisions about order fulfillment and replenishment. Can you fulfill orders directly from returns? Can you confidently ship orders from the store knowing that you have the inventory in returns to replenish that stock? Ulta Beauty implemented what they call fast fulfillment centers that replenish product to stores quickly which allows them to treat retail locations as distribution nodes. This enables customers to order online and return in store, but also redistributes that returned item to where it needs to be quickly. When you take a broader view of supply/demand, you can make better decisions to optimize the recovery value and inventory productivity of returns.

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#### **5. Mitigate the need for returns.**

Many companies are investing in fitting technology and enhanced fit guides online to help shoppers find the right fit and minimize the need for customers to return as many products. With the proper fit information, the customer is less likely to order multiple sizes only to return the one that doesn't fit. Providing more product attribute information, clear images from multiple angles, and product reviews can diminish returns as shoppers make better informed decisions.





## 6. Consider return policies.

Return policies should incentivize the lowest cost return option and de-incentivize returns for consumers who are on the fence about whether to keep an item. Encouraging store returns where possible has the added advantage of providing another sales opportunity. Can you offer free shipping and charge for returns? You train your customers with your policies.

“Preventable returns are costing retailers \$642.6 billion each year.”

**IHL, Retailers and the Ghost Economy**

### Case Study: Returns Put Constant Pressure on Auto Parts Aftermarket

The auto parts aftermarket, which has one of the highest rates of product returns of any industry, offers a good example of how to handle returns more efficiently. Returns consistently run in the mid- to high 20's as a percent of revenue. It's a constant pressure to restock and resell inventory quickly as both professional installers and do-it-yourselfers often order multiple parts and then return the unused parts when the repair is complete. While most large aftermarket distribution operations have the benefit of a closed loop transportation system, which represents a significant savings in shipping cost, there are other lessons to be learned from an industry that has both a complex and consistently high returns rate. At one automotive aftermarket distributor:

- Returns are systemically driven. Systems enable visibility into what is coming into the DC for disposition, enabling the returns team to plan for and manage returns better.
- Rules for disposition of product are clearly defined and metrics are put in place to support return-to-stock goals.
- Returns are processed in a dedicated area in the DC with a returns team that is trained and staffed as part of operation, including a management team dedicated to carefully managing this critical area of the business.

“Bad processes cause the greatest distortion costing companies \$285 billion, followed by data disconnect at \$223 billion.”

#### IHL, Retailers and the Ghost Economy

## Summary

Expect returns to increase as online sales grow. Companies that take a strategic approach to handling returns efficiently will continue to delight customers without negative impact to profitability. Those who fail to apply discipline to this aspect of their business will see reverse logistics costs rise. The returns experience is as critical as the purchase experience in earning and maintaining customer loyalty. Balancing cost and customer expectations is challenging, but when handled well, returns can increase customer satisfaction, encourage incremental sales, and drive competitive advantage.

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