TAKING COST OUT OF THE REVERSE SUPPLY CHAIN

Peter Fuller, Retail Business Unit Director of Norbert Dentressangle, examines how, through the adoption of appropriate technology and best practices in the reverse supply chain (and a bit of vision), it is possible for returns and recovery management not only to become an entirely cost neutral activity but also to promote customer loyalty and drive sales.

REFUNDS go with the territory in retail, with high street retailers expecting an average returns rate of 10%. However, research from Stockshifters.com in May 2010 found that online shoppers return an average of 22% of items purchased - a figure which increases significantly following the peak Christmas trading period. The Stockshifters research went on to warn that online traders could face losses upwards of £9.4bn this year due to the growing number of returns.

By far the simplest way to reduce the cost of returns is to reduce the rate and volume of returned product. Whilst impossible to eradicate, the incidence of returns and the associated costs can be dramatically reduced by working with vendors and carriers to minimise product damage and improve delivery accuracy. Indeed, through the introduction of improvements in packaging, materials handling and carrier management, one of Norbert Dentressangle's customers – a major DIY retailer – was able to reduce return rates by 42%. ND also increased the average recovery value of returned product by 70 - 80%.

CLOSING THE PHYSICAL LOOP

In traditional supply chains, integrating the outbound and inbound supply chains is common and has clear advantages in terms of both cost and vehicle utilisation (and therefore the environment). Given the discrepancy in their profiles however, there is little opportunity to close the store/home delivery loop.

The growth of 'click and collect' and return to store services increasingly creates a new supply chain dynamic depending on how retailers get the stock from the stock holding point into the store – using traditional supply chain routes (eg adding ecommerce order to store delivery replenishments) or potentially new routes via parcel carriers, pallet networks or dedicated 'round robin' vehicles. This is especially relevant where drop shipping is used and where the physical store replenishment and ecommerce supply chains are not integrated.

Whilst an accepted click and collect supply chain model is yet to emerge, tying these additional delivery streams to the reverse supply chain (including store returns) provides an opportunity to streamline processes and improve vehicle utilisation, or carrier efficiency on collection of store based returns.

Halfords and Marks & Spencer are amongst those, not only to have spotted this opportunity, but to be actively taking advantage of it.

An even greater opportunity exists in relation to collaboration between retailers, allowing the customer to collect or return goods from or to one retailer via another retailer's stores. This, along with increasing recognition that competitive advantage is achieved through product assortment, availability and price and not necessarily through the supply chain, represents another step towards the possibility of shared user returns centres, offering substantial cost and efficiency benefits.

Whilst not without its problems, this is undoubtedly the future, with Alliance Boots leading the vanguard, being on the verge of effectively providing pureplay fashion retailer ASOS with 2,600 outlets whilst anticipating increased sales as a result of the additional footfall this will create in its stores.

And, given the massive environmental benefits associated with shared trading, delivery, transport, collection and disposition networks, the retail supply chain would do well to innovate now and get ahead of the game or face being forced down this path by tougher and tougher environmental legislation in coming years.

In the short term however, direct from consumer returns are likely to remain the norm. Efficiency in dealing with these is imperative in building brand loyalty, basket value and repeat purchasing. On the flip side, according to recent research from Collect+, poor returns experiences lead to 58% of online shoppers permanently shunning outlets.

By engaging with all elements of the supply chain, frustrations can be reduced and brand loyalty increased by addressing:

- Original manufacturer packaging (fit for purpose, robust enough to withstand a courier/2-man delivery process, adaptable by product type);
- Range auditing – what is being returned, why, what can be improved, what should be removed;
- Stockholding point of despatch packaging & processes – specific operator training, spot audits, 3rd party operator agreements;
- Carrier agreements on damage levels and pre-contract compliance testing;
- Availability of multiple return options – return via store, return via alternative retailer store, collect from location of choice, carrier upgrade options for returns, pre-paid or ready to use returns packaging (eg carrier packs/envelopes);
- Clear and easy to understand returns process;
- Quick and effective credit approval processes based on slick product returns handling;
- Effective disposition routes for revenue recovery.

RECOVERY MANAGEMENT

As well as reducing the costs associated with the movement of returned product, what happens to that product when it reaches the handling point is critical in order to maximise the recovery value.

Value is achieved by having a range of disposition routes available for a range of different returns scenarios, taking into consideration factors including:

- Type/value of product;
- Reason for return (broken, over ordered eg clothes for sizing, didn't like, WEEE, etc);
- Branded v non-branded items;
- Repair v disposal v destruction (value judgements);
- Legislation compliance;
- Brand image/protection through management of channel conflict (relationship management);
- Carbon reduction targets.

Progressive companies are taking a more aggressive approach to managing returns, with a focus on getting product back into existing sales channels quicker, through multiple channel options.

In the majority of cases, there is a hierarchy of disposition routes for returned items, dependent on the recovery value they typically yield. These include – in order of desirability - returning perfect items to stock for re-sale at full price (100% of retail price), returning selected marked or discontinued items to stock for sale (either by the retailer or a re-seller) at a mark down (50-90% of retail price), returning faulty products or those purchased on a sale or return basis to the vendor for a credit (100% of cost price), product re-work such as re-packaging or repair (50-90% of retail price), the sale of items to a 'jobber' (10-80% of retail price), recycling (5-20% of cost price) donating items to charity (feel good factor plus possible good publicity) or, if there is no other option, disposing of the item (0% recovery value plus cost of disposal).

Through integration with retailers' EPOS systems, a new breed of returns management systems allow retailers to capture information about the nature and condition of products which are returned to store. This allows the retailer to decide what should be done with that product in order to realise maximum value. And, with the ability to make that decision before product is received at the returns handling point, retailers can also significantly reduce the dwell time of that product when it gets there, realising the value in the product in the shortest possible time.

Having a clear and easy disposition route process can also assist with new product sales and customer relationship management. Take-back schemes are on the increase, encouraging customers to buy a new product without worrying about how to dispose of the old one, especially given the increasingly strict legislation around the disposal of end of life electrical equipment under the WEEE (Waste Electrical and Electronic Equipment) Directive.

In addition to helping both consumers and retailers meet their obligations under this legislation, more effective returns and recovery management also significantly reduces waste to landfill – with landfill tax at £48 per tonne and an escalator which will see this increase to £80 by 2014, this is a priority for retailers.

Whilst recovery management is a mature discipline in the US, in the UK, many retailers are only now beginning to 'grasp the nettle'. However, those which have done so successfully are realising massive bottom line benefits. ■