

Returns Management Inc.

Unlock Profits In Your Product Returns

Secrets that improve your product returns.

Table of Contents

Introduction.....	2
Product Returns are a Problem	3
There are Many Ways to Deal With Returns.....	3
Here's how to get the most Profit.....	5
How to Pick your Support.....	5
What You Must Do Next.....	7
Additional Resources	7

Table of Figures

Figure 1 Planning for best returns value.....	5
Figure 2 Organizational environment for product returns.....	6

Introduction

This is the third in a three part series on Returns Management systems and processes.

The first paper “Managing Returns, Art to Science” outlined the approach we developed for an effective Returns Management process that can be used by most companies for their products.

The first paper can be found at www.returnsmanagement.com.

The terms defined below clarify our meaning as we use them in these papers.

Reverse Logistics – encompasses the traditional logistics activities of transportation and inventory management, but its focus shifts to getting product back from customers rather than moving product to customers. Reverse Logistics is part of a broader supply chain management process called Returns Management.

Returns Management – includes all activities related to returns flow, reverse logistics, effective gatekeeping, and returns avoidance. Returns management addresses the systematic value added approach to the entire backward flow of products from returns prevention through resale of product. This incorporates the steps for product rework to achieve a certifiable level of quality. Certifiable quality produces the highest resale values.

Product Returns are a Problem

Wouldn't you like to make your life easier and make more money? We'll show you the secrets that many companies use to easily make money from their product returns.

Returns management is the process of returning product **as well as** the transformation of the product back to sellable condition.

The art of Returns Management is rapidly changing to science as more software and services are developed and used by companies like yours. Service providers now offer turnkey solutions for returns management to manufacturers, distributors and retailers.

An interesting article in the July 2005 issue of Global Logistics & Supply Chain Strategies Magazine states, "over 50% of all companies can unlock the hidden value in their returns to produce higher revenue (with lower cost)."

Many companies, maybe even yours, have not developed a profitable plan for their product returns. We will answer these questions and more about returns.

- Why do my returned products continue to pile up?
- How do I create a Returns Management solution for my business?
- How do I profit from product returns?
- How do I do this with everything else I have to do?

Your company is probably focused on the forward supply chain. You have metrics in place to keep everyone's attention on forward revenue measures. The cost of returns may be considered "too small" to be of concern, or perhaps the costs are buried in warranty costs. The costs for product returns may not be known or documented. When real costs are known, you will want to spring into action.

And that's the reason for this paper. We provide easy to understand information about potential solutions. We will provide tools so that you can make better decisions to solve your returns problems.

There are Many Ways to Deal With Returns

You can deal with returns by:

- **Do nothing** - if you have no returns or returns are not a problem, then doing nothing may be acceptable, but if you have troublesome returns, doing nothing can add serious costs and reduce your bottom line. It can also begin to interfere with your forward logistics supply chain.

By doing nothing, none of the product cost or lost revenue is recovered.

- **Liquidate** – many large and small companies, liquidate their product "as-is". Liquidation is generally the easiest and fastest solution for eliminating product returns. There are lots of troubles with this solution, including lost revenue, lack of control of your brand, and improper claims from end purchasers. Typically, liquidation results in:
 - recovery of only 10% to 30% of product cost,
 - allows others the opportunity to resell product with your name on it with unknown quality, and

- could permit the reseller's customers an opportunity to return and repair these items under your warranty plan.
- **Outlet/overstock stores** – this is similar to the liquidation strategy and is generally good for product that is obsolete, overstock, irregular and refurbished. Low or no profit for the manufacturer results unless the manufacturer owns the store. Typically outlet/overstock stores provide:
 - recovery of 10% to 50% of the product cost,
 - others with an opportunity to resell product with your name on it with unknown quality, and
 - provides the reseller's customers an opportunity to return and repair these items under your warranty plan.
- **Donate** – the potential altruism of this can't cover the fact that the costs for doing this are very high. It's important to consult your tax adviser before proceeding with donations. There are situations where the donation can actually add cost to your business and the accepting party. Donations generally have:
 - no typical situations and are unique,
 - the ability to donate is not infinite, and
 - requires more effort to dispose of these products without polluting your "A" market
- **Destroy/Write-off** – this is the ultimate loss for product returns. However, it may be the right solution for some situations where the product has low value or channel conflict might occur. It is suggested that the product be destroyed and certified as destroyed, or you must be prepared to see it resurface from resellers on the Internet and through other outlets. Typically destroy/write-off results in a negative product cost of -20% to -40%.
- **Resale auctions** – the ability to sell returns via auction is relatively new and has expanded rapidly. The upside is a greater percentage of recovered value from the returned product for refurbished returns with certified high quality. The downside is more work is required to sell the products using this avenue, however this cost is generally recovered along with added profit. This option can have mixed results for "As-Is" & "Open Box" product. Typical results from resale auctions can be:
 - refurbished product usually recovers from 100% of product costs to 70% of retail,
 - "As-Is" & "Open Box" usually recovers 25% to 125% of product cost,
 - you control the resale of a product with your name and reputation behind it- (what's that worth?), and
 - you control unwarranted warranty costs
- **Private resale** – this has been practiced primarily for overstocks or obsolete products, however it is now being used for some product returns that have been refurbished or are of verifiable quality. Typical returns from this recoup up to 70% of retail price.

So which of these is the right way to deal with your product returns? It depends on your needs and we have some answers below for you.

Here's how to get the most Profit

All of the choices described above can be successful applied individually or in combinations to your unique situation. Choosing the best way for you can be a challenge. The alternatives range from costly and time consuming to profitable and use little of your time. Making the right choice requires you to:

- define what you need as your goal (fewer returns, lower return costs, profit),
- perform a cost benefit analysis of each method,
- use one or more of the methods described to achieve your goals,
- then get your results and bask in the glory.

Many companies offer software and web based tools that can help you locate, track, and manage products as they are returned. These tools can be simple and easy to use. Many companies already use these tools. But, these tools only help you get the product returned efficiently.

To get the highest profits, you need to resell your product with certified quality and offer a warranty.

Spending a minimum of your time and getting the highest profit is the preferred outcome as this simple graphic shows. Outsourcing may help you get the results you want with only a little of your own time spent on returns.

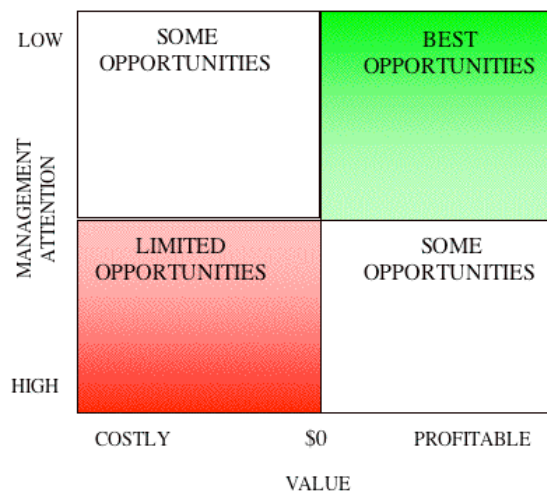


Figure 1 Planning for Best Returns Value

How to Pick your Support

Outsourcing can generate more value if the partner selected has strategic value and can implement processes that fit your business needs. This involves asking the right questions. The questions to ask a returns service provider are not “How do you handle

returns?” They are “How can you create a comprehensive returns management plan for our products that:

- helps to reduce the number of returns that must be dealt with from our customers,
- transforms inherently negative customer experiences into a valuable strategic asset, and
- generates profits from returns that were previously a loss?

Viewed from this perspective, the approach to returns management involves multiple parties, processes and applications. With such complexity, the first step to take is to conduct a Reverse Process Study. Begin with the supply chain process and consider all the pieces and costs that might play a part in the ultimate solution.

RMI provides an analytical tool for customers (www.returnsmanagement.com), which provides a look at the real costs of your current reverse logistics process, and compares that with outsourced Returns Management solution costs. Using real or actual costs provides improved decision-making.

The returns process is not simply the physical return flow of products. It includes the interactions inside your business needed to manage and account for the returned product. This is illustrated in Figure 2 below. Product return opportunities can be improved by managing the conflicts that arise due to differing department goals and priorities. Third party suppliers can be enlisted; for example, carriers and 3PL providers can provide visibility to the returns channel when your company cannot.

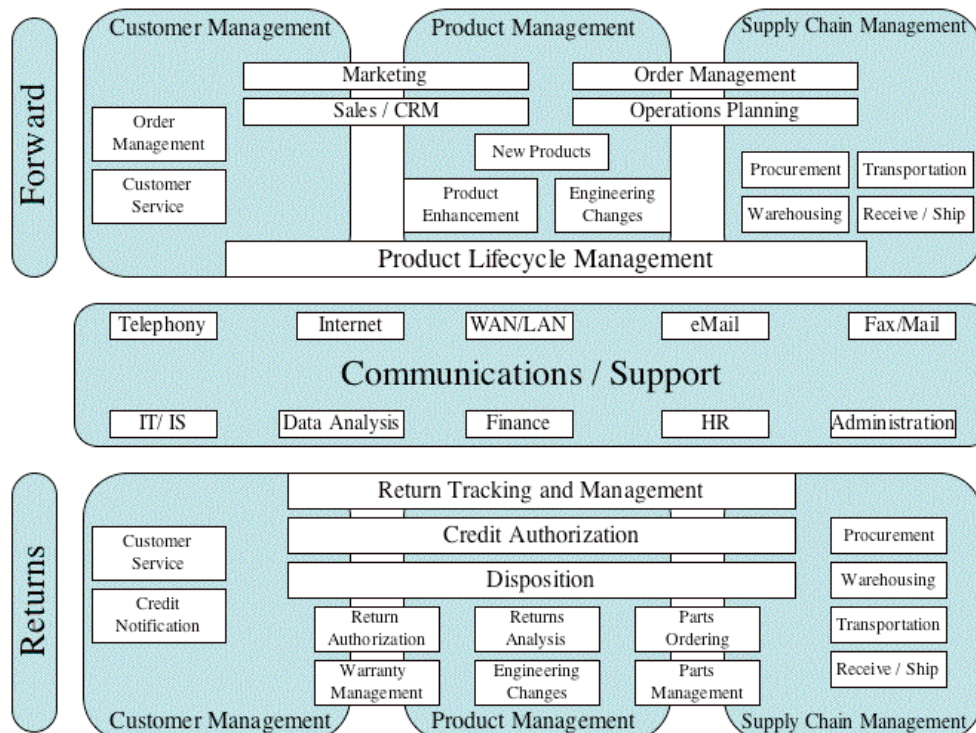


Figure 2 Organizational Environment for Product Returns

What You Must Do Next

Do you have the expertise and time to perform this yourself? Or do you need help? The right next steps can accelerate your profit growth, lower your costs, or even improve your customer's image of you. Help is available and can be arranged with a phone call or email.

Your 3PL provider or other supply chain partners can help you with this work. You can also call on dedicated companies that work exclusively in this area. You just need to decide and then ask for support.

For our help and support, please contact us at:

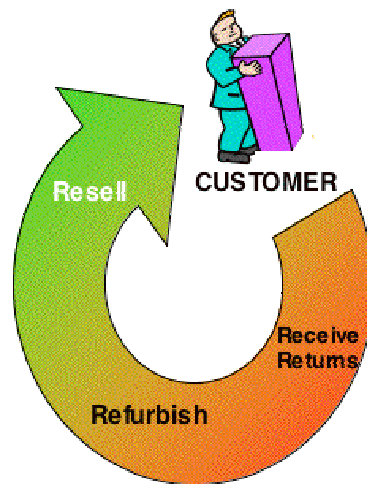
kirkk@returnsmanagement.com

or call 630.592.7744

Additional Resources

1. "Going Backwards: Reverse Logistics Trends and Practices". Rogers and Tibben-Lembke. 1999.
2. CEA, Product Returns Special Interest Group, October 2004.
3. "Returns Management: How to Convert Trash to Treasure", Global Logistics & Supply Chain Strategies Magazine - July 2005
(<http://glscs.texterity.com/glscs/200507/?pg=78&pm=2>)
4. "Rethinking Reverse Logistics", Inbound Logistics – July 2005

Closing the loop on **Returns** . . . for a **Profit**.



The benefits to our clients are ;
- retention of sales profit
- improved operating costs
- greater customer satisfaction

Our company's focus is to reduce the number of product returns you receive and cost effectively process those products that are returned for our clients.

Returns Management Inc.
"From **Loss** to . . . **Profit**"

<http://www.returnsmanagement.com/>

630.592.7744

kirkk@returnsmanagement.com