RETURN TO SENDER

Omnichannel's pervasiveness requires an efficient strategy for processing returns

by CRAIG GUILLOT

Retailers are preparing for not only the busiest season of the year but also the onslaught of post-holiday returns. A 2015 consumer survey from the National Retail Federation revealed that one out of three gift recipients returned at least one item during the holiday season.

Today's returns require a reverse logistics strategy that works from the consumer all the way back to the manufacturer. Inefficiency can result in reduced brand perception and customer satisfaction, abandoned shopping carts and loss of revenue.

A January 2016 report by technology research and advisory firm Gartner said retailers are sitting on a "ticking time bomb" due to historical underinvestment in returns management and the rising rate of returns.

Looking at the returns practices of 300 omnichannel companies, Gartner found just half of returned products were resold at full price. While retailers are opting for easier and generous return policies to stay competitive, "The ticking time bomb emerges when retailers pursue strategies that lead to increasing returns volumes while operating supply chains that lack the ability to cope with the increase that is generated," the report said.

Omnichannel retail has not only increased the number of returns but complicated the process, with more returns coming from more channels: A product bought online in Georgia and shipped from a Memphis distribution center could be returned in a store in Houston and sent via mail to a returns center in Ohio.

"If you look back 25 years ago, return to the store was the only method. It was a fairly clean process," says Jim Brill, UPS corporate returns services marketing manager. "Online purchasing and local purchasing … has really added a lot of complexity."

As omnichannel fuels more returns, fraud is rising as well, says Robert Moraca, NRF vice president for loss prevention. According to NRF's 2015 retail return fraud survey, almost 4 percent of total returns are fraudulent. Annual merchandise return fraud and abuse combined is estimated to be between $9.1 billion and $15.9 billion for the entire retail industry.

Retailers "have to balance the need for customers to have a good shopping experience versus questioning someone or holding up returns because you think there may be some fraud involved," Moraca says.

STARTING WITH CUSTOMER EXPERIENCE

The Gartner report recommends that heads of supply chains invest more in reverse logistics capabilities to support omnichannel growth objectives and manage reverse logistics independently to improve supply chains.

Gartner also recommends free or lower-cost shipping and return policies that increase online revenue and reduce basket abandonment, and says retailers should reduce excess inventories by improving the link between product being brought in and returned product already in the supply chain.

Products returned to stores need to be rapidly added to the inventory to start the return journey. Retailers must clearly identify process steps and owners in the return path, then create efficient systems to track and value the flow of product.

"Reverse logistics requires different thought processes, technologies, capabilities and expertise," Gartner said. "The process needs to be managed through dedicated resources supported by a holistic and integrated set of key performance indicators."

Jennifer Sherman, senior vice president with omnichannel retail solutions provider Kibo, says reverse logistics strategies must start with the customer experience.

A common problem is in-person returns of online merchandise. "Just being able to take that return is hard enough for many retailers," Sherman says, "let alone the disposition process if it's a product not normally sold in stores."

Louis DeJianne, UPS director for retail and consumer products, says omnichannel returns can be a strong driver of sales and customer experience: Some studies have indicated that up to 70 percent of customers make another purchase during an in-store return.

"From a retailer's perspective, it's about how do you offer [generous] return policies and mitigate and minimize the cost of returns," DeJianne says.

OPTIMIZATION THROUGH CUSTOMIZATION

Tony Sciarrotta, executive director of the Reverse Logistics Association, says optimal returns channels depend on the retailer's size, the distribution network and the merchandise. Products may go back to a liquidator, to a manufacturer or back through the forward logistics channel to the distributor.

"There are many different ways of doing it and I don't think anyone has determined the best way, because [it all] involves the complexity of tracking," Sciarrotta says.

Retailers need a high level of visibility into how returns move through the system. Sherman says traditional enterprise resource planning and inventory systems can't always track the status or disposition of products in the reverse supply chain. She says many retailers need to do "interesting software acrobatics" to obtain visibility into unknown, possibly damaged or defective, products working their way through the system.

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"That visibility and ability to disposition inventory is critical, so that we can redistribute it, resell it and not treat it like it's dead stock and useless," Sherman says.

Retailers should also strive to reduce return center inefficiencies and costs. While most traditional warehouses and distribution centers are "streamlined to the max," Sciarrotta says, most return centers are the opposite, "with stuff just dumped everywhere." He says resolving some of these visibility and organizational processes starts with software.

"It has to direct the product to the right place all the time," he says.

Many retailers are turning to third-party logistics to optimize their strategies. Rob Taylor, CEO of Convey, says more large items are being sold

ture a fake receipt for an online purchase, then use it to return something in a store, he says. "You might have a younger cashier at the return desk who doesn't quite know what a legitimate [online] receipt looks like, and they process the return."

Retailers also need systems and performance indicators for such factors as shipping and handling, tear down, time in transit to destination and value of item at disposition. "You want to be … consumer-friendly and hassle-free, but at the same time, they have to be very mindful of the costs that go along with providing that process," Brill says.

As retailers and consumers move toward a seamless experience, failures or shortcomings in the returns process can impact every channel of the busi-

Some studies have indicated that up to **70 percent** of customers make another purchase during an in-store return.

online and shipped to homes, which can be especially challenging for returns whether in the store or through the mail. Convey's platform integrates between retailers and consumers to more efficiently process large item returns.

Taylor says there's an increased desire for enhanced return services for such items. "We have a set of tools for the customer to initiate returns online, upload a picture of damage or whatever it is and then initiate that process as the retailer more efficiently makes that connection," he says.

STAFFING AND IN-STORE PROCESSES

After the holidays, buy online, return in-store policies can turn storefronts into high-volume returns processing centers. Sherman says systems that work for processing returns at large distribution centers simply don't work in stores.

Moraca says front-line staff must be better trained to reduce return fraud: It's too easy for criminals to manufac-

ness. "It's like one of the gears is out of whack in your machine and it's going to jam up the other ones in the process," Sciarrotta says.

Most retailers are aware of the inefficiencies and shortcomings in their reverse logistics channels, and many try to justify the costs of changes and improvements. Sciarrotta says while generous return policies can open the doors to more fraudulent returns and inefficiencies, retailers have to question whether they can deal with a level of fraud and inefficiency versus creating an "overly protective" system.

"Retail senior executives need to decide how much they want to spend to ensure the system works close to 100 percent, versus accepting 98 percent flow-through," he says. "Can you absorb that 1 percent, 2 percent or whatever it is?" **STORES**

Craig Guillot is based in New Orleans and writes about retail, real estate, business and personal finance. Read more of his work at www.craigguillot.com.