

The Retailer's Atlas for Omnichannel Returns

A strategic roadmap for navigating reverse logistics
in the new retail reality.



Executive Summary

Fueled by e-commerce, the new state of retail is truly an omnichannel one, and companies will flourish or flounder based on how well their supply chain can meet customer expectations. Just as products flow through brick-and-mortar stores and e-commerce fulfillment centers, returns now have the potential to come back through those same channels — making reverse logistics a strategic priority for omnichannel retailers. In this white paper, the experts at FedEx Supply Chain provide several helpful strategies for navigating reverse logistics in the new retail reality.

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Table of Contents

- ▶ **Foster customer loyalty through returns.....4**
- ▶ **Enable faster credit processing for customers.....5**
- ▶ **Speed processes and add value through continuous improvement.....6**
- ▶ **Boost collaboration between in-store operations and supply chain management.....7**
- ▶ **Optimize your disposition logic.....8**
- ▶ **Modify policy leniency to improve profitability.....9**
- ▶ **Work with vendors to reduce returns.....10**
- ▶ **Take demand planning one step further.....10**
- ▶ **Walking the path to better reverse logistics.....11**
- ▶ **Acknowledgements & References.....12**

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E-commerce has fundamentally altered how companies go to market — driving traditional retailers to adopt omnichannel strategies to meet customer expectations. Conversely, pure-play internet retailers are building out their own networks of physical locations to “forge closer customer relations.”¹ Either way you look, the new state of retail is truly an omnichannel one, and companies will flourish or flounder based on how well their supply chain can meet customer expectations.

To create a more customer-centric supply chain, retailers are looking to returns processing, or reverse logistics, as a strategic priority. Due to omnichannel shopping expectations, consumers now expect the ability to return products anywhere — whether that means returning the product to a brick-and-mortar store, shipping an item back to a returns center or taking an item back to a third-party location. Consumers expect fast crediting as well, creating an omnichannel returns environment with more frequent returns of greater complexity and cost.²

“When you think about the things that are driving returns — from e-commerce and customer expectations to the complexity of products and manufacturer agreements — it is becoming increasingly challenging to manage them,” explains Ryan Kelly, Senior Vice President of Sales, Strategy and Communications at FedEx Supply Chain. “Reverse logistics can no longer be relegated to the back corner of your warehouse or the discount rack.”

The question then becomes: How can companies enact an appealing return policy — one that fosters a great customer experience and drives customer loyalty — while managing the complexities and costs of omnichannel returns? There isn't an easy answer, but the reverse logistics experts at FedEx Supply Chain have compiled several strategies to help companies navigate reverse logistics in the new retail reality.

Why prioritize returns?

In the U.S. alone, 8 percent of all retail purchases were returned in 2015, an approximate value of \$260 billion.³

- During the holiday season, return rates grow to about 10 percent.
- E-commerce return rates can reach up to 40 percent for product categories like apparel.
- Less than 50 percent of returns are resold at full price, resulting in a loss in sales of about 10 percent for retailers.

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Foster customer loyalty through returns.

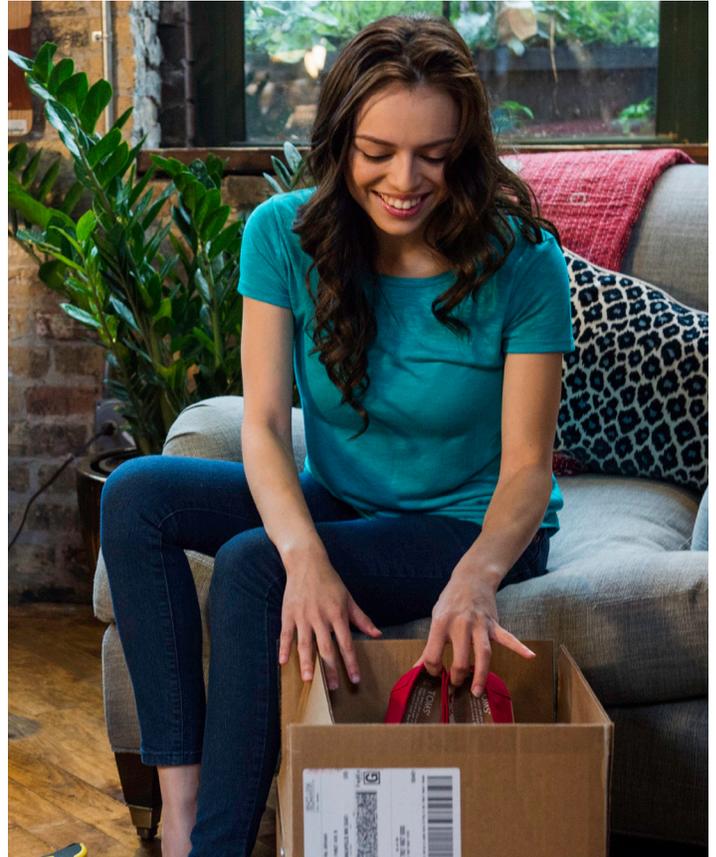
Returns are too often seen as an unfortunate reality of doing business. Instead, they should be viewed as an opportunity to enhance the customer experience and foster customer loyalty. As the *Harvard Business Review* reported, increasing customer retention rates by as little as 5 percent can increase profitability by as high as 95 percent, largely because “acquiring a new customer is anywhere from five to 25 times more expensive than retaining an existing one.”⁴ So while omnichannel commerce may lead to more returns of higher costs and complexity, you can leverage those returns to develop loyal customers through an outstanding brand experience.

Fostering customer retention through returns starts at a macro level. Your return policy can be the difference between securing an order and losing out to a competitor for a lifetime. That said, it’s not just the policy itself that can impact the buying decision. As Kelly explains, “It’s also about the retailer’s philosophy and approach to returns in general. Is your company encouraging returns? Are you trying to make it a simple and hassle-free process? All of those things impact the customer experience.”

At a more tactical level, companies should create a value-added returns process that achieves the right blend of customer satisfaction and customer engagement — two distinct concepts that need to align to your company’s strategic positioning. To understand the difference, think of customer satisfaction as the fundamentals of your service or product offering, such as “price point or product features.”⁵ Engagement can then be understood as an emotional connection. Wherever your company lands on the spectrum, both customer service and supply chain functions should support that positioning.

As an example, retailers known for high levels of customer satisfaction perform the fundamentals well, such as timely and accurate e-commerce fulfillment. Those companies can then go beyond that to achieve high levels of customer engagement by training customer service to create memorable and meaningful interactions. Customers are more likely to go back to a brand whose customer service team exceeded expectations — and handling returns provides the perfect window for this type of engagement. By building trust through returns, retailers can build a more intimate relationship with customers, gather more information from them, and better tailor product and service offerings.

Not only can a high level of engagement help create meaningful interactions with customers, but it can also help prevent returns from happening at all. “There is a customer experience aspect to returns that shouldn’t be taken for granted,” Kelly comments. “The customer service department can absolutely change return rates. The more complex a product, the more likely it is that your customer service team can educate consumers and prevent a return in the first place.”



Enable faster credit processing for customers.

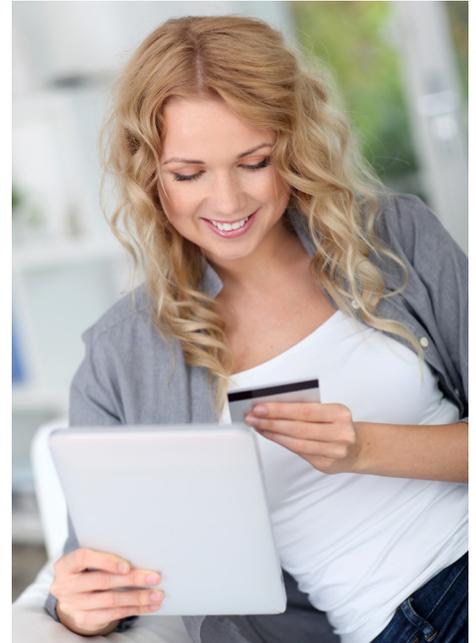
Coinciding with fostering brand loyalty, it's becoming imperative to quickly credit consumers after a return. Increasingly, customers want the returns process to be as easy as the initial transaction. In fact, the ability to buy online and return in-store "is emerging as a core consumer preference," having increased in popularity by 50 percent from 2016 to 2017, according to survey results from JDA Software.⁶ By tangibly handing over the good and ensuring the return, consumers get a greater sense of control and can receive credit immediately.

"Consumers want their money back fast, and if it takes too long, people start to lose trust in the system," explains Brady Totten, Senior Strategy Analyst at FedEx Supply Chain. "Did the delivery provider lose track of the package? Did I provide sufficient information? Am I ever going to get my credit back? These questions are typical in the customer experience. If consumers don't trust the process, it's going to hinder their likelihood of buying on a website again."

Simplifying the process by directly enabling returns at physical locations can free up customer service to focus less on troubleshooting and more on higher-value activities. If call volume goes down by eliminating inquiries about a return's status, the customer service team can spend more time on solving important problems that can improve your overall business, such as facilitating sales or reporting critical information to product development and marketing.

"When dealing with returns, customer service can help save or facilitate a sale, and that's a revenue-generating activity," Totten comments. "Even in an exchange scenario, they are still recuperating revenue for the company. Troubleshooting inquiries are non-revenue-generating calls that can be prevented with the right system in place."

To enable your customer service team to foster engagement, there is a definitive need for a robust IT system, one that tracks inventory locations and proactively provides consumers with real-time updates. "Just by exposing data, the customer can answer their own questions quickly," Totten explains. "By communicating with more notifications about the status of a return throughout the process, you can build trust and credibility with the customer, helping to facilitate another sale. Whereas, if the return status is in a black hole, customers are not likely to purchase another item."



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Speed processes and add value through continuous improvement.

It's helpful to view returns in a favorable light, but you also need to be realistic. Every activity from the point of return to the final disposition incurs costs. With returns, time is your enemy. Not only do transportation, workforce and warehousing drive costs, but the time it takes a product to reach final disposition also degrades an item's value. This makes it vital to drive continuous improvement throughout the reverse logistics stream.

The concept of continuous improvement cannot be stressed enough, and this strategy should fuel each activity within your reverse logistics operations. The longer a returned good sits on a shelf, in a truck or in the backroom of a store, the less value you can recuperate. The cost implications become more severe when you consider the potential for duplicated processes, touchpoints and transportation along an omnichannel returns channel. This is where finding a third-party logistics provider with a proven track record of operational excellence can be beneficial for companies looking to improve reverse logistics operations.



“From an operational standpoint, instead of looking just at how you can process products more efficiently and with higher quality, the key is to keep your eyes open for opportunities that add value to the retailer,” says Steve Stayduhar, Senior Manager of Operations at FedEx Supply Chain. “You can’t just assume that everyone upstream is doing things properly. The returns center is the last place to catch potential mistakes — such as incorrectly dispositioned items — and those can be your biggest dollar-saving opportunities in terms of continuous improvement.”

In addition, continuous improvement requires a data-driven approach, starting with standardized processes and baseline key performance indicators (KPIs). With those in place, areas for improvement can be identified and projects implemented to reduce the time, processes and transportation required to maximize value from a return. Developing a working culture focused on continuous improvement is also important, meaning that projects that drive efficiency should be incentivized appropriately. These programs should extend along the supply chain all the way through in-store operations.

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Boost collaboration between in-store operations and supply chain management.

There are times when organizational silos can hinder informed decision-making about returns. Break down those silos by fostering collaboration and communication between supply chain management and in-store operations. “There are always upstream changes that happen in the supply chain — and due to lack of communication or insight, those who process returns are not ready for it,” Kelly explains. “As a result, in-store personnel and others along the reverse supply chain can become overwhelmed.”

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To encourage collaboration, education at the store level is key — especially regarding your returns strategy and its overarching disposition logic. Education can be taken a step further by developing performance standards and formalized training for in-store employees. For example, returns processing can be used to provide an opportunity for high-performing employees to advance their careers within your organization. By investing in talent development, retailers can make returns processing at the store level a value-added hub for developing talent and creating a great customer experience. Those initiatives can make disposition more efficient and accurate upfront, helping curtail unnecessary touchpoints and transportation costs further down the reverse logistics stream.

Employee training and advancement efforts can be further enhanced through technology systems that integrate across stores, distribution centers and returns centers to provide full inventory visibility. In order for that to happen, there needs to be improved linkages between the various IT systems within your organization, including the point of sale (POS) system, the order management system (OMS), the warehouse management system (WMS) and the enterprise resource planning system (ERP).² Collectively, a selection of those systems can be tailored to your business to improve the overall efficacy of your returns processing.



Optimize your disposition logic.

While speed is vital for returns processing, both the accuracy and strategy behind your disposition system are also critical. If you simply push products to recycle or salvage without consistent evaluation, it can be detrimental to operating income. On the other hand, if you transport low-value items upstream for additional refurbishment, only to liquidate later, you can also needlessly increase costs. Consequently, you should optimize the net recovery value of the return — or the recovery value after the costs to carry and process inventory are considered.

“Not long ago, companies viewed returns simply as a problem that had to be dealt with, and they wanted to dispose of returns as quickly and cost-effectively as possible,” Stayduhar explains. “Today, we are seeing companies — usually directed by the chief financial officer — trying to figure out how to recapture the most value from the merchandise. The ultimate goal across all groups is to lower the cost of reverse logistics and maximize the value of returns.”

The key to optimizing your disposition process lies in understanding returns within the context of your business. When do returns occur, and what are the causes? What disposition options are available, and which method makes the most financial sense? For you to truly grasp that information and make the most sensible decisions, you need platforms for aggregating and analyzing returns data.

“For fully optimized disposition, you need to have good analytics — both retrospective and predictive — on a product’s value,” Kelly explains. “That helps determine what the product’s value is at the time of disposition, and what it will be in a secondary channel. With that information, you can determine how much to invest in that product — from a repair, refurbishment or transportation perspective.”

Disposition fundamentals

- **Return to stock:** New items with no damage can be redeployed immediately. Many other returns are either like-new or fully functional products that may have a slightly damaged package. By repackaging returns quickly, these products can be transformed to market-ready status for nearly full value.
- **Return to vendor:** Oftentimes, returns occur due to faulty manufacturing or damage incurred while in the hands of the manufacturer. In these instances, return authorizations need to be secured to receive credits. Frequently, companies lean on third-party logistics providers to help validate the returns for both parties.
- **Merchant-initiated returns:** There are times when manufacturers provide more flexibility with returned products due to the seasonality or fleeting value of the good.
- **Refurbishment:** Depending on the resale value of a product, refurbishment services can be deployed to recapture value. This disposition strategy is common for high-end electronics, as their value can be preserved with a data wipe or a new screen.
- **Liquidation:** Immediate liquidation from a centralized returns center avoids processing costs and maximizes recovery value by avoiding further product devaluation.
- **Recycling:** Products with little to no market value can be sent to recycling. Any expense incurred is lost profit. To improve cash flow, this inventory should be identified and dispositioned immediately at the point of return.
- **Demanufacturing:** For a portion of high-value inventory, cash generated from selling sub-assemblies may exceed the net recovery value from repairing faulty units and reselling into secondary markets. A profitable demanufacturing strategy requires a thorough knowledge of the market for sub-assemblies.

Keep in mind that no organization is the same, and every reverse logistics operation will be unique. Different types of products and fluctuating throughput incur different costs, and those same differences impact the size, location, layout, workforce requirements and processes involved at a returns center. In addition, various vendor agreements will dictate disposition methods, and your specific industry will do the same.

Modify policy leniency to improve profitability.



From a financial perspective, there is an inherent paradox to returns: How do you create a return policy that will increase sales without driving excessive returns that lessen profitability? To help answer that question, researchers have provided insight into how return-policy leniency can increase sales and reduce returns. In a study published in *The Journal of Retailing*, researchers analyzed return policies based on five different dimensions of leniency.⁷ They included:

- **Time leniency:** The time period during which a return is accepted by the retailer (e.g., 30-day return policy, 60-day return policy, etc.)
- **Monetary leniency:** How much money the retailer refunds for a return (e.g., money-back guarantee, charging a restocking fee, etc.)
- **Effort leniency:** How much hassle on the part of the consumer is involved (e.g., filling out a form, presenting identification, etc.)
- **Scope leniency:** What products are covered by the return policy (e.g., are items on sale included?)
- **Exchange leniency:** What consumers get for returning the good (e.g., cash, store credit, replacement good, etc.)

Interestingly, different mixes of leniency worked to accomplish different goals. According to the research, return policies with greater leniency regarding money and effort help increase initial and subsequent purchases. In addition, policies offering monetary awards to consumers also increase purchases. When looking to reduce returns, return policies should be less lenient regarding time, exchange and scope.

The study's most important finding was that returns do make business sense: Even though "a lenient policy increases both sales and returns, the jump in the former is significantly higher than the increase in the latter."⁸ In addition, the researchers noted that retailers need to carefully craft their return policy so that it aligns with their business objectives — as it's not enough to simply enact a liberal policy. Each dimension of the policy should be regarded before implementing a return policy. The supply chain and customer service functions of your organization then need to be educated and resourced to help execute on your return policy.

Work with vendors to reduce returns.

If there is one thing that both manufacturers and retailers can agree on, it's that returns are a major cost center. Employing evaluative processes, such as damage research activities and returns report cards, can be effective measures for minimizing returns. Information from those processes can then be shared throughout the retailer's supply chain to help remediate issues, whether it involves inconsistent material handling processes or defects in packaging. The results of those efforts can then be used to inform the manufacturer's product development and marketing teams to improve the product and better manage customer expectations.

In addition, there are times when retail return policies may also be too liberal. In those cases, inspection and repackaging can help drive resales at full value by reallocating inventory back to stock — reducing the occurrence of returns for both the manufacturer and the retailer. That is why it's critical for product types and their corresponding return policies to be evaluated from the perspectives of both vendor and retailer. Marketing returns, seasonal returns and merchant-initiated returns are each categories where the retailer can better dictate financial terms for items that have higher return rates.

Third-party logistics providers are in a unique position to help both manufacturers and retailers better manage returns, as they can serve as an intermediary between both parties. Typically, retailers can have a cap on their returns per quarter based on purchases for the previous quarter. At FedEx Supply Chain, we can provide the retailer's buying team information about the number of returns for each vendor, in addition to providing the condition of the merchandise by capturing that information at the time of the initial scan. Companies can then compare that data to the amount of sales to determine a course of action, allowing them to make quicker decisions about moving goods to different dispositions.

Take demand planning one step further.

“You have to look at capacity at every point of your operation, from points of entry and docks to your equipment and workforce.”

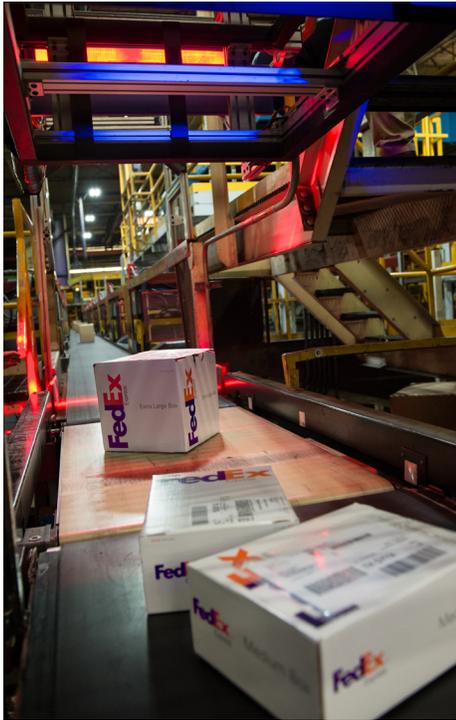
– **Steve Stayduhar**, Senior Manager, Operations, FedEx Supply Chain

Reverse logistics operations can be blindsided by spikes in returns, often without any indication of what's coming. Just as demand planning informs supply chain management on the fulfillment side, there should be a corresponding process in place to predict peaks in returns. Not only can this reverse-demand planning help supply chain management, but the process can also help reduce costs. If returns are managed proactively, and systems for fast and accurate disposition are in place, you can recover more value from those returns by readying operations for efficiency and designing better secondary-market strategies.

“Managing omnichannel returns can be challenging, given the high SKU count, the product differentiation and the multiple channels, but there are ways to prepare,” Stayduhar explains. “We do many of our own forecasts based on historical data, helping us understand the return rates for varying types of products at different times of year. The key is to use all the tools you have in place, including outbound forecasts, historical return rates, and any other market trends or promotions.”

Ultimately, a good returns process ties back to planning your operations based on your products, seasonality and customer behavior. Those will impact everything from the amount of processing stations required within your facility to the number of employees and shifts you need to run. Preventative maintenance for critical equipment should also be performed prior to a peak to help eliminate potential downtime. As Stayduhar explains, “You have to look at capacity at every point of your operation, from points of entry and docks to your equipment and workforce.”

Walking the path to better reverse logistics.



With retail returns becoming such a focal point for generating customer loyalty and increasing company profitability, it's paramount to prioritize returns within your organization's overall strategy. As Gallup notes, "Companies are what they invest in. The best organizations invest time, energy and money into the advancement of their mission."⁵ As a retailer, returns need to be part of your mission to deliver on your brand promise and increase profitability.

"When you walk into a returns center as opposed to a fulfillment center, they are absolutely different," Kelly says. "They have to be managed differently. They have different technologies that power them. If your returns are complex, invest in them. They aren't going away. Be purposeful. Have a strategy."

Managing returns brings with it many critical business issues that require resources and expertise to handle. The strategies discussed in this white paper can provide a helpful framework to guide companies through the landscape of omnichannel returns, but that is only a start. Companies either need to make a serious investment in dedicated internal resources and technology to manage returns, or turn to an experienced third-party logistics provider whose core competency is reverse logistics.

Go to supplychain.fedex.com to learn how FedEx Supply Chain can support your reverse logistics strategy.

More info

- Contact your FedEx account executive
- Email solution@fedex.com
- Go to supplychain.fedex.com

Acknowledgments

Ryan Kelly

Ryan leads the commercial team at FedEx Supply Chain, including sales, strategy and communications. Additionally, he champions new solution development and actively engages in FedEx enterprise initiatives. Since joining the company in 2008, Ryan has held a variety of roles at the company, including finance and corporate development.

Dave Shipcott

With more than 20 years of experience in retail and logistics, Dave has an in-depth understanding of what it takes to drive operational excellence in a returns facility. Dave joined FedEx Supply Chain in 1997, and he has served in roles of increasing responsibility in operations ever since, with a primary focus on reverse logistics in the retail industry.

Steve Stayduhar

A logistics and transportation leader, Steve has more than 10 years of experience in launching and managing multi-facility networks, including retail, consumer goods and e-commerce. Steve joined FedEx Supply Chain in 2014 as a senior manager of operations, and he continues to deliver bottom-line results by satisfying customers, while driving highly productive and efficient operations.

Donnie Lockhart

With 30 years of experience in manufacturing and logistics across the electronics and retail industries, Donnie has proven experience in leveraging quality management systems to optimize reverse logistics operations. Now serving as a senior manager of operations, Donnie has worked for FedEx Supply Chain for more than 11 years, supporting operations across the company's diverse network of facilities.

Brady Totten

Formerly a business development analyst, Brady now works as a senior strategy analyst at FedEx Supply Chain, providing leadership in market research, new product development and cross-functional collaboration with other FedEx operating companies. She joined the company in 2011 and supported integration efforts with FedEx.

Clinton Shaffer

Clinton previously worked in communications, where he authored several white papers and case studies for FedEx Supply Chain. He has a diverse background in research, communications and editing for several vertical-based publications, and he now serves as a senior strategy analyst supporting the Technology Solutions group at the company.

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