White Paper: Returns in the Retail Supply Chain With A Specific Focus on e-Commerce

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A Look At The Effect E-Commerce Has Had On The Complex World Of Returns And The Innovative Approach 3PL Partners Have Taken To Manage These Processes In The Retail Supply Chain.

Introduction

In the supply chain there are two unique and distinct process flows, forward and reverse logistics. While forward logistics handles the onward movement of product from manufacturer to distribution center (DC) to final customer, reverse logistics masters the complex world of consumer and retailer returns. There are third party logistics (3PL) providers who only operate in reverse logistics, however many forward 3PL providers offer an element of reverse logistics processing in their service portfolios.

In recent years, the rise in e-Commerce sales has led to an increase in the amount of items returned. A 2015 study conducted by the National Retail Federation, revealed that on average 8% of goods purchased were returned, adding up to nearly $260 billion dollars[1] in product. This increase in returns created a challenging situation for retailers and an opportunity for their 3PL providers.

This white paper will explore the impact of e-Commerce on reverse logistics, highlighting the customer driven process at the distribution center level.

Background: Rise in eCommerce

With the advancement of e-Commerce in the early 2000s[2], consumer behavior towards traditional brick and mortars slowly began to evolve. From 2011 to 2016, the e-Commerce industry saw an increase in growth from $202 billion to $327 billion, an impressive 62% growth rate for the five year span[3]. The majority of consumers viewed the traditional method of shopping as a chore instead of a luxury, preferring to shop online instead. As a result, nearly 1/3[4] of all online purchases, were returned to the DC, in comparison to the 8%[5] previously returned to brick and mortars. This change in consumer shopping behavior brought a myriad of logistical challenges for retailers and a new opportunity for 3PL providers.

Background: Engineering a Solution

As providers of logistical services, 3PL's have a duty to engineer returns solutions that are specific to their customers, keeping their brand and supply chain needs top of mind.

Retail vs. e-Tail
Every returns solution is specific to the retailer's needs so it is important to note there are distinct differences between retail returns back to the 3PL and consumer e-commerce returns. Many times, the close of a 'season' will drive a new set in a store and with it an influx of returned product to the DC. Retailers who sell their product online are known as e-tailers and require a

different returns process than that of brick and mortar stores. Many times e-tailers are not the ones returning product to the DC; it is the e-tailers customer, the consumer.

Customer Driven
In a process completely defined by the retailer, 3PL provider's work with their customer's to define 'return rules' for their product's classification and disposition when and if it is returned to the warehouse. While these rules are vast and all encompassing, they can range from the time structure for reporting returns back to the retailer to the eventual disposition of returned product. Once these rules are defined, returns can be accepted at the DC.

Accounting for Returned Items
The returns process is initiated by the customer notifying the retailer they wish to return an item. The retailer continues the process by generating a Returned Merchandise Authorization (RMA). This will generate a returned shipment and inform the 3PL provider that a return is on its way back to the warehouse. All items received at the DC must be received into the Warehouse Management System (WMS) and returns are no exception. This allows the product and its unique identifiers to physically and systemically be accounted for.

Reconciling to the RMA
Upon receipt to the DC, the 3PL provider acknowledges the returned product has made it back to the warehouse and immediately begins to reconcile the returned item to the RMA that has been issued. By reconciling the RMA, the 3PL provider is then able to determine if a replacement product or part needs to immediately be shipped back to the customer. This step in the returns process is especially important because the customer's experience is ultimately on the line. By being timely during this stage, the 3PL provider is able to quickly ship a replacement or issue a credit to the customer, if need be, resulting in a satisfying experience.

Background: Assigning Product Disposition

Once the RMA has been reconciled, product is then inspected based on quality, configuration, and other variables defined in the agreed upon 'return rules'. After physical inspection, product is dispositioned of accordingly. 3PL's work with their customers to define parameters for assigning product disposition guidelines that are not only specific to product and brand, but also within the limits of the law. This ensures disposition requirements align strategically with brand elements, but also comply with federal guidelines. While product disposition is not standard within the industry, there are guidelines set by the federal government to ensure certain products are not resold to customers.

Return to Stock
The parameters for what can and cannot be returned to stock are thoroughly defined in guidelines set by the retailer. Often, product is returned to the warehouse due to damaged packaging, either in store or in transit. In the logistics industry this is referred to as a 'gift box' damage. During the returns process these types of damages are common where physical product is intact, but the packaging itself is damaged and not fit for sale. By replacing the

product's packaging, the item can be returned to stock and resold. Typically, 'return to stock' product is not stored in the same warehouse location as product that has not been previously shipped. This becomes product classified as 'B level' product. Most 3PL providers separate 'b level' product both physically and systemically in the warehouse and WMS, ensuring the correct version of product is picked based on the type of order. Often 'gift box' damaged products are resent as a warranty replacement part for a malfunctioning item. The process for re-sending a warranty replacement part is treated as a forward process, allowing a 3PL provider to use their expertise in forward logistics to satisfy the customer. By working with a 3PL provider who specializes in both forward and reverse logistics, the replacement process is streamlined allowing for a quick turnaround and satisfied customer.

Refurbish
Based on the return rules set by the retailer, many times returned items cannot be resold and alternative solutions must be explored. Most common among electronics, a 'clean and screen' process identifies defective parts upon inspection and replaces them resulting in a functioning product. In order for this process to be effective, many 3PL providers will return these items back to the manufacturer as they must be, by law, marked as 'refurbished'[6] in order to be resold.

Reverse Kit
In some circumstances, product components are recovered once a return arrives at the warehouse and saved for further use. This is referred to as component reclamation. A widely used example of this is separating and saving a charger from an electronic device. Once these component parts have been reclaimed, they are normally stored in the warehouse for further use as a replacement part or used to complete a whole product.

Scrap
While some products can be returned to stock or refurbished, many cannot and must be disposed of accordingly. 3PL provider's work with the retailer to further define parameters for product destruction and certificates are often provided. Careful disposal also includes identifying hazardous materials that must follow a strict disposal protocol. It is the job of the 3PL provider to work with the retailer to identify hazardous materials within products and factor them into the disposal protocol. When applicable, the 3PL will often engage a recycler to recycle as many product components as possible, bringing a green element to the supply chain.

Conclusion

The average e-commerce customer places a high value on easy returns, evidenced by over 63%[7] of online shoppers who read a retailer's return policy before making a purchase. Even more dramatic, studies have shown that when free returns are offered, e-commerce sales increase by as much as 357%[8]. Working with a 3PL provider to streamline a returns process, provides many benefits including product centrality and ease of destruction. A streamlined returns process that not only works with your brand but creates a cohesive experience for your customer will pay dividends to come.

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As an innovator in the industry, MD Logistics combines trends and an entrepreneurial mindset in developing turn-key solutions for their customers. Operating as a 3PL provider, MD Logistics is able to use their expertise to develop a personalized returns solution as a value-added service for their customers who require it. In developing a return solution, MD Logistics does so in tandem with the customer, ensuring all supply chain needs and brand requirements are met. By being able to offer forward and reverse logistics solutions as a single provider, MD Logistics is able to provide a streamlined process and quick reaction time to its customers, resulting in a satisfied consumer.

Resources

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