CLARKSTON CONSULTING

INSIGHTS

Maximizing Your Return Dollar...

By Minimizing the Return Cycle

"Time is money" has never had more meaning than during these difficult days, particularly in the reverse logistics and returns industry. Consider what each month, week, day, or even hour costs the manufacturer while customer returns sit in the warehouse? Do you really know the true cost of those returns, piece by piece, pallet by pallet? Are you accounting for costs such as freight, handling, system, storage, selling, refurbishment, and repackaging? And not just material costs but *time* costs as well? Once you take into account all these costs, you realize the full impact and the true extent time can play in the cost of your reverse logistics process. And clearly, if you can reduce the *time* multiplier in this equation, you can save significant money. It turns out the key to reducing that time is making the decision of what to do with the return sooner rather than later, before the product even starts making its way back from the customer.

Consumer products companies (CP) already have the software applications in place to track returns, determine the best method of shipping product back, and eventually figuring out what to do with it. These applications are sophisticated, and they typically have the functionality and capability to streamline returns and save money. But, as is the case with all technologies, it's not the system itself, but the process and the way you use the system that delivers the best results.

> "The key to saving time — and thus money — in the returns process is making the decision of what to do with the return sooner, rather than later, before the product even starts making its way back from the customer."

Traditional returns process is reactive

The diagram pictured below shows the most common process used to deal with returns today. Notice how many opportunities there are to save time.

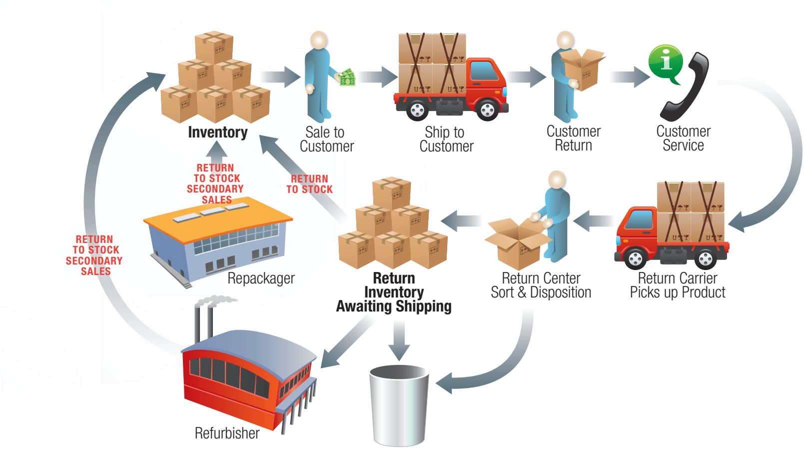


Figure: **Common returns process has significant opportunities for savings.**

As it happens, we know there are basically four dispositions possible for returns:

1. **Scrap it** (the "greener" the better) or **donate it**.
2. **Repackage** the item, returning to finished goods inventory to be sold in the primary or secondary market.
3. **Refurbish** the item for sale in a secondary market.
4. **Return item immediately** to finished goods inventory to be sold again.

Since we already know the likely dispositions a return will take, why do CP manufacturers continue to use the standard method for returning goods? Why would you want to bring it back into your warehouse where you or a Reverse Logistics (RL) company consolidates and dispositions every piece? Unless you are bringing the product back to your warehouse to place directly into finished goods inventory, you're wasting time. You are probably consolidating your returns to have them sent to a repackager, refurbisher, or recycler. Why waste all this time in consolidating and double handling your product? With today's technology and a clear understanding of your returns process, why not direct your returns to your service partners immediately?

RADAR methodology drives time from the returns process

Resell and Disposition Actual Returns (RADAR) is the methodology of pre-determining the course of action for each return. Working with leading CP companies, we have learned that by using the knowledge you have within your ERP and WMS systems, you know the history and thus the likely outcome for each return. The RADAR methodology says you will pre-define the process and eventual outcome for that return prior to it ever leaving your building for the initial sale. Within the master data elements of your inventory, you will pre-assign a return disposition to that item.

RADAR

Resell & Disposition Actual Returns

By understanding each disposition option in the returns process, we can see how the RADAR methodology saves time and money.

Scrap or Donate

When an item is pre-dispositioned in the material master file as a scrap or donated item, you will still issue a return material authorization (RMA) to your customer, but the return destination will be to a local scrap dealer or local charity. The local scrap dealer will charge you just like they do today, either by the piece received or by weight. A charity will take the product without charge. Your savings include:

- **Freight** – you are now shipping from a customer directly to the local scrap dealers or local charities, so you likely will have reduced inbound freight, as well as no outbound freight for this return.

- **Labor** – you will not receive and consolidate at your local returns center.
- **Storage space** – you no longer have to accumulate product before sending it off to scrap dealers or charities.
- **Time** - you achieve faster cash impact to your financials, rather than having returned products on your books.

Repackaging

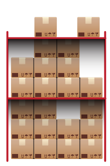
Often times you have returns that can be resold as new product, but in order to do so you must repackage it. (Every company should check state and federal laws governing the repackaging of returned goods). Apparel is a good example of a type of product that would be returned for repackaging. It is quite common for direct sales companies to sell clothing that consumers return because the color, size, or style is not what they wanted. Just because the customer tried it on does not mean it cannot be resold as new. The same scenario happens every day at department stores where many people try on clothes. The items they do not buy go right back on the shelves as new goods. On the other hand, there are certainly products that would not be eligible for repackaging, such as vitamins and OTC drugs, DVD and other media, and food items. The general rule-of-thumb for repackaging has been, "if the factory seal has not been broken, it can be repackaged and sold as new". If the seal has been broken it must be resold as "refurbished/refreshed/remanufactured." Again, check the state and federal laws surrounding your product.

If you disposition the product as "Repackaging," the return should go directly to the repackaging source, whether that be your own facility or a third party designated for that task. As you might have guessed, you save:

- **Freight** - by not consolidating and shipping it to a repackager.
- **Storage space** - required while accumulating product to be sent to the repackager.
- **Labor** – not having to receive and consolidate at your local returns center.
- **Time** – immediate cash impact to your financials, rather than having returned products on your books.


Freight


Labor


Storage


Time

Refurbishment / Remanufacture

If the item is refurbished or remanufactured back to OEM specifications, it may have a salvage value. In the electronics industry there is memory in many devices. This situation requires a mandatory return of the product back to a refurbisher to insure all customer data has been wiped clean from the product. Many retailers or manufacturers want to control the re-entry of their refurbished product into the secondary market. In other cases, the retailers and manufacturers just want to get their money out of the salvage value and be done with it. In either case the RADAR methodology works exactly the same. Each SKU is pre-defined as to what will happen to the item when it is returned. The real beauty of this disposition is the ease with which a retailer or manufacturer can convert that return into cash.

For those companies wanting to control the re-entry of their refurbished goods into the secondary market, the pre-disposition will still return the item to a pre-defined refurbisher. When the refurbisher receives the goods, an EDI message is sent to your host system providing a receipt of the RMA, giving a credit to your customer, and then augmenting consigned inventory at the refurbishment company. Based on your sales strategy, you will keep the refurbished inventory at the refurbisher until you ship it back to your inventory, or you sell it off to a customer. Your savings in this type of disposition resembles those of the scrap process:

- **Freight** – you will not consolidate and ship the item to a refurbisher.
- **Labor** – will not be required to receive and consolidate at your local returns center.
- **Storage space** – will not be required while accumulating product to be sent to the refurbisher.
- **Time** - immediate cash impact to your financials, rather than having returned products on your books.

Those companies wanting to liquidate their refurbished/remanufactured returns immediately can save significant money. The market is full of refurbishers and recyclers who are willing to pay top dollar for the returns you offer. Today most companies consolidate their returns at the RL center and then put "Lots" up for bid. The highest bidder wins the Lot, works out payment terms, and the product is shipped to them (FOB). The process optimizes your return dollar, but it takes time and as we said earlier "*time is money*." Pre-selling your returns inventory is the wave of the future. Companies can work purchase deals in advance of any returns. When the return happens, the product gets sent directly to the new buyer. An EDI message is created to notify you of the RMA receipt, inventory is moved back to you, and then simultaneously a sale is made of that item to your new customer. Within milliseconds you have converted a returned item into cash for your company. In this scenario your savings are significant:

- **Freight** – your buyers will not pay for freight to get the product so they will be more inclined to pay a higher price.
- **Labor** – you will not receive and consolidate at your local returns center; the sales department will not have to sell individual Lots; and you avoid costs for loading/shipping the product to the new buyer.
- **Storage space** – required while accumulating product to be sold off by the Lot, or waiting for the Lot buyer to arrange shipping.
- **Inventory costs** – while product sits in your building.
- **Opportunity loss** – when cash is not available for the entire time you own the return
- **Time –** immediate cash impact to your financials, rather than having returned products on your books.

Returned to Finished Goods

There are times when you do get returns that will automatically go back into finished goods upon receipt. Unfortunately you cannot pre-disposition this type of product via the master data file, but you will pre-disposition it via the bill of lading or shipping label. The items that can go back into finished goods are the refused or undeliverable shipments. By creating the proper return labels on the product, you can automatically send the product back into your finished goods warehouse. The last thing you want to do is to have it come through the normal returns group where this product gets mixed in with every other type of return and you risk opening the product and devaluing it immediately. By segregating your refused or undeliverable product, you will incur savings:

- **Labor** – not having to receive and consolidate at your local returns center.
- **Time** – immediate cash impact to your financials, rather than having returned products on your books.

Pre-dispositioning saves time, makes money

The common thread in all these scenarios is that you can save time by pre-dispositioning your product and avoid consolidated returns centers for all your returns. Of course there is a place for consolidated returns centers, but they need to be used efficiently and correctly. The best-in-class reverse logistics vendors will partner with you— educate you on how to pre-disposition your items. By using the RADAR methodology, you can pre-disposition your product and minimize freight, labor, and storage costs while shortening the time to convert that return item into cash.

CLARKSTON CONSULTING

Headquarters
Research Triangle Park
1007 Slater Road, Suite 400
Durham, NC 27703
Phone: 800-652-4274
Fax: 919-484-4450

www.clarkstonconsulting.com

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For more information, email us at
info@clarkstonconsulting.com