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Returns Management for Logistics Service Providers Playbook

Creating a Center of Excellence



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- Why LSPs are investing in 4-wall returns software now
- Which LSPs need an RMS?
- Where does RMS sit in the retail tech stack?

Everyone's favourite topic in logistics... returns



AS THE MARKET CONTINUES TO CHANGE, SAVVY LSPS ARE LOOKING TO CRACK THE CODE AND REDUCE THE BURN OF RETURNS.

When it comes to logistics, returns management is a tricky problem to solve. For many LSPs, returns are often an afterthought to outbound fulfillment or, even worse, a part of the business they choose to ignore.

Yet research shows that retailers and brands consider effective returns management a must-have from LSPs to recoup money from returned merchandise—and if not managed effectively, returns can be margin-crushers.

Why, exactly?

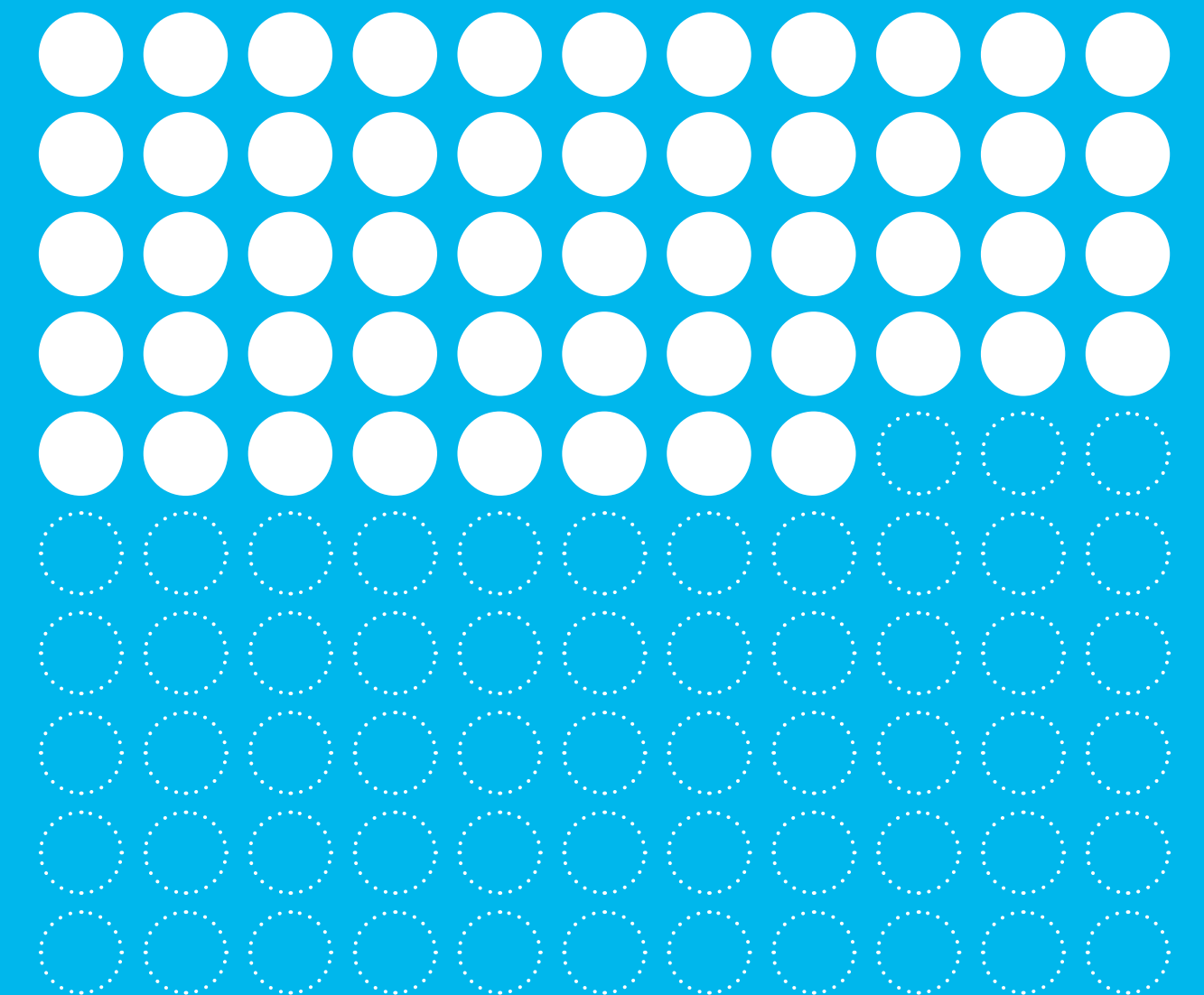
Returns are inherently a high-touch process. There are several checkpoints to cover:

- First, do you have insight into what is being returned, or do you have blind returns?
- Second, do you have a system that allows you to process returns efficiently and effectively trigger customer refunds? Lack of visibility can delay refunds, frustrating both shoppers and retailers while increasing the number of “where is my refund” calls to customer service.

- Is the returned item the correct item? If the return is for a luxury item, is there a chance it is a counterfeit?
- What is the condition of the item? Is it eligible for resale? If so, what resale channel will yield the highest financial recovery for the retailer? Should you invest in basic value-added services (VAS) to get it to a “new” status?
- Based on the condition, what is the best next destination for the item? How can you optimize where returned items go so more product goes back “on the shelf” at full price and much less goes to landfills?
- Are these processes straightforward and optimized for the warehouse associates? Unfortunately, returns processes can be subjective and can vary per item/SKU. Trying to manage returns manually or via a warehouse management system (WMS) can lead to labor-intensive, tribal-knowledge-based, and error-prone flows that result in mediocre results and losses for retailers.

Simply put, returns are a unique and evergreen challenge. In fact, the latest research shows that 47% of global warehouse operations leaders cited returns management as a top operational challenge in 2023.

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Top challenges of Returns Management

Labor Requirements & Wage Costs



Managing returns usually requires 2x the labor than outbound fulfillment. This means most LSPs have some of their most experienced associates dedicated to returns, and they often rely on tribal knowledge to effectively process returns. This is not only costly for LSPs, but also an ineffective use of some of your best resources, driving up your operational costs and cutting into margin.

Slow processing times



Given the complexity, intense labor requirements, and frequency of exceptions, returned inventory can often become a time suck in terms of processing. Or even worse, your associates don't know how to process the exceptions and opt for placing items aside, creating piles of future problems to solve. This can generate backlogs that take up too much space due to delayed processing times for LSPs and create friction between you and your customer when that customer is trying to get the product into the hands of the next buyer as soon as possible.

Tedious, High-Touch Processes



Outbound fulfillment often involves pristine, new products that can be picked, packed, and shipped more easily. However, with returns, retailers need to confirm that the product returned is the correct item, in the reported condition, and decide what to do with the returned item next. Of course, with anything in the supply chain, more touches mean more costs for both you and your customers—threatening margins and overall profitability.

Priority Conflict between LSPs & Retailers



Perhaps the most important challenge with returns is the fact that many LSPs view returns as just a part of doing (outbound) business. However, managing returns effectively is now a top priority for retailers, and LSPs that solve this problem will earn greater customer trust, leading to higher satisfaction and retention. After all, inventory is one of retailers' top capital expenses, and they are looking for partners who can help them maximize their assets, including returned inventory. Additionally, many LSPs are shifting their mindset to thinking about returns as a competitive advantage. We'll dig into this when we look at why more LSPs are investing in 4-wall returns technology.



The top shortcomings of using existing systems to manage returns

When it comes to returns management, most basic systems come up short.

Why? In general, many LSPs leverage basic returns functionality within their WMS to solve outbound fulfillment for shippers. Yet when it comes to nuances of returns, their WMS lacks the robust functionality that a purpose-built system has.

1 Most systems lack specific functionality for returns

Detailed functionality like purpose-built, unit-level control of returns receiving, test and grade, exception avoidance/management, robust dispositioning to 4+ resale channels, return-to-vendor (RTV) management, and more.

2 Existing basic functions within a WMS lacks workflow automation for returns

Unless you customize your WMS, most systems lack workflow automation for the reverse logistics processes.

3 Highly labor-intensive to process returns

Without a defined process and dedicated returns system, most operations end up with swivel-chair processes that require more labor. At a time when labor costs are increasing and associates are hard to find/keep, leveraging technology to decrease the dependency on additional labor is paramount.

4 Complex and highly manual SOPs based on item/brand

Many brands and retailers prefer to have unique processes depending on the returned item/category. This is very difficult to do without major customization to an out-of-the-box (OOTB) capabilities within your current OMS or WMS software.

5 Impossible for associates to memorize unique processes

The introduction of brand-specific or SKU specific SOPs puts a challenging onus on associates who might speak English as a second language to read or remember unique checklists and flows.

6 Manual processes are more prone to error

When it comes to warehouse operations, technology helps mitigate human error that naturally evolves from sometimes tedious and seemingly subjective work.

7 Requires extensive (and expensive) customization for returns

If you plan to use your WMS for returns, you will most likely have to customize an OOTB solution which is costly in both time and money. Additionally, software solutions that are highly customized often run into issues with upgrading that can prevent you from having the latest and greatest version, which is critical for a competitive SaaS solution.

8 Lacks tracking and visibility

While WMS is an irreplaceable tool within the four walls, it lacks visibility outside the four walls including return tracking, omnichannel reverse routing for returns, and end-to-end visibility.

9 Lacks focus on driving returns productivity and performance metrics

Majority of WMS systems are designed for outbound operations and not for reverse logistics processing. Many fall short in areas like maximizing units processed per hour, and getting more returns resold at full price.

Top challenges of Returns Management

More and more LSPs are recognizing the importance and value of establishing dedicated lines of business for returns management and investing in the right software to transform returns management into a key differentiator for winning and retaining businesses.

As Gartner notes, “enterprises often purchase software from different vendors to obtain the best-of-breed offering for each application area.” As more organizations move to the best-of-breed approach to technology selection, RMS is the only purpose-built technology aimed at mitigating the impact of returns holistically, both to your customer’s bottom line, and your operation.

In today’s modern age of distribution, LSPs are required to move beyond just being a low-cost solution for their customers. The focus should always be on value creation — offering services and technology that their customers lack, but need to delight customers and remain profitable.

It’s all about Value Creation vs. Cost Conservation.

JIM BARNES
CEO, ENVISTA

What is a Returns Management System?

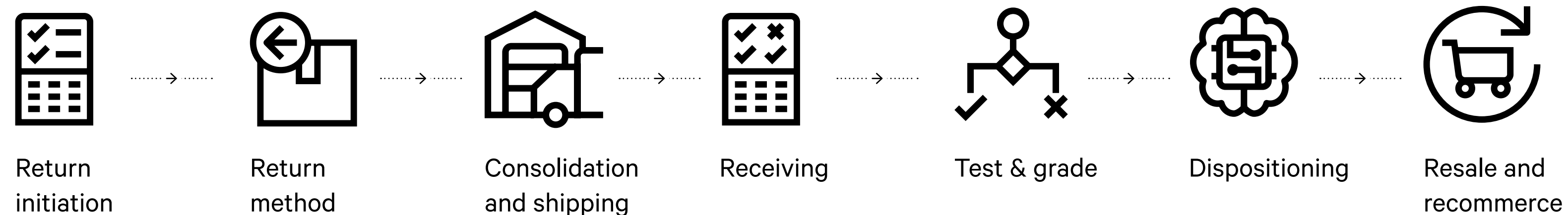
A returns management system (RMS) is a technology platform that spans the entire returns lifecycle—from return initiation and methods, shipping consolidation, receiving, conditioning, dispositioning, and ultimately restocking and resale. While a true RMS will cover the end-to-end returns journey, it is usually the latter half of the journey most relevant to LSPs, namely:

- Consolidate returns across multiple returns methods (i.e., drop-offs, pick-ups, lockers, mail back, BORIS, etc.) to reduce shipping costs back to the distribution center
- Visibility into inbound returns reduces “blind” returns and speeds the time to refund for shoppers
- Unit-level receiving and sorting

- Robust test/grade functionality to help retailer recoup as much resale value as possible, while also offering LSPs the ability to fold value-added services into their offer
- Extensive dispositioning logic & rules to get product to its next-best destination, whether restock, resale, or refurb
- Prebuilt connectors to secondary market channels such as recommerce providers, liquidation, or recycling

An RMS dovetails into the supply chain tech stack, integrating with other key systems including the WMS, OMS, ERP, and more. And while a returns portal is important to the returns lifecycle, you can provide your customers a value-add for returns processing technology, with a portal-agnostic approach too.

The stages of the returns lifecycle



Benefits of a Returns Management System

Returns Management as a Differentiator

While ~80% of a LSP's business is outbound fulfillment, with the right technology you can capitalize on the remaining 20% and deliver even more value to your customers. Usually, you have to prioritize retailers' priorities, and efficient returns management is now at the top of their list to boost recovery of returned merchandise and protect margins.

Operational efficiencies to banish backlogs

Because returns are cumbersome to manage, many facilities experience return backlogs. Tackling the problem often requires additional associates, which drives up wage costs. With automated returns processing, LSPs can increase units per hour (UPH) by up to 2x, enabling faster inventory processing with a lower headcount.

A pre-packaged continuous improvement initiative

LSPs are always under pressure to deliver more for less. When it comes to reverse logistics and returns processing, there is significant optimization opportunity, but it is nearly impossible to unlock without the right technology. A modern RMS gives LSPs the software they need in their facilities to truly drive value from returns management and provide a lever to meet ongoing customer expectations

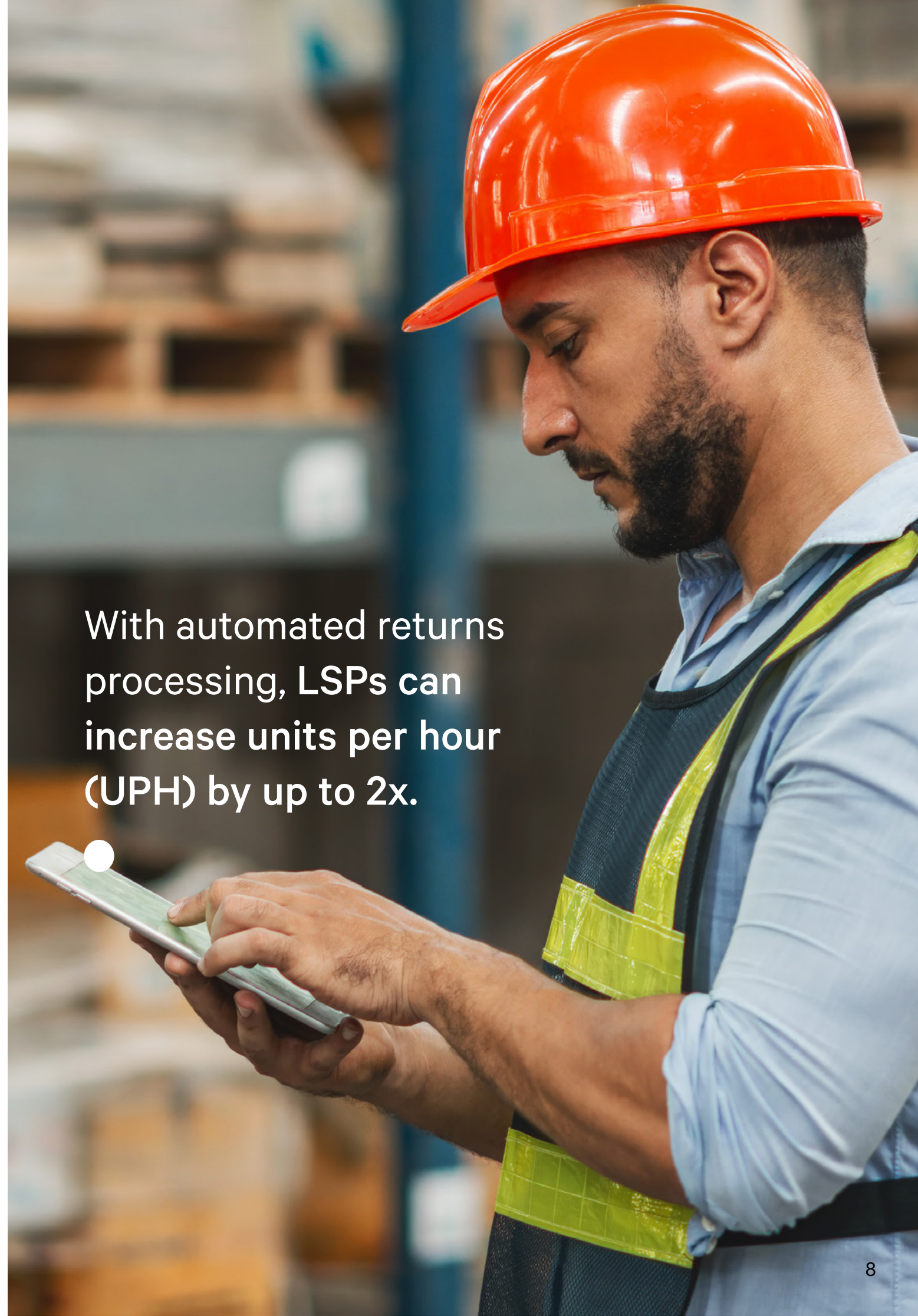
360° returns insights

One of the benefits of having an RMS is the ability to understand the full picture of returns. For example, by connecting customer-generated return-reason codes to ultimate disposition status, LSPs can provide return insights to their customers and differentiate themselves from merely task-based processors. After all, they hired you as their trusted advisor and partner to help them improve their operational performance, including returns management.

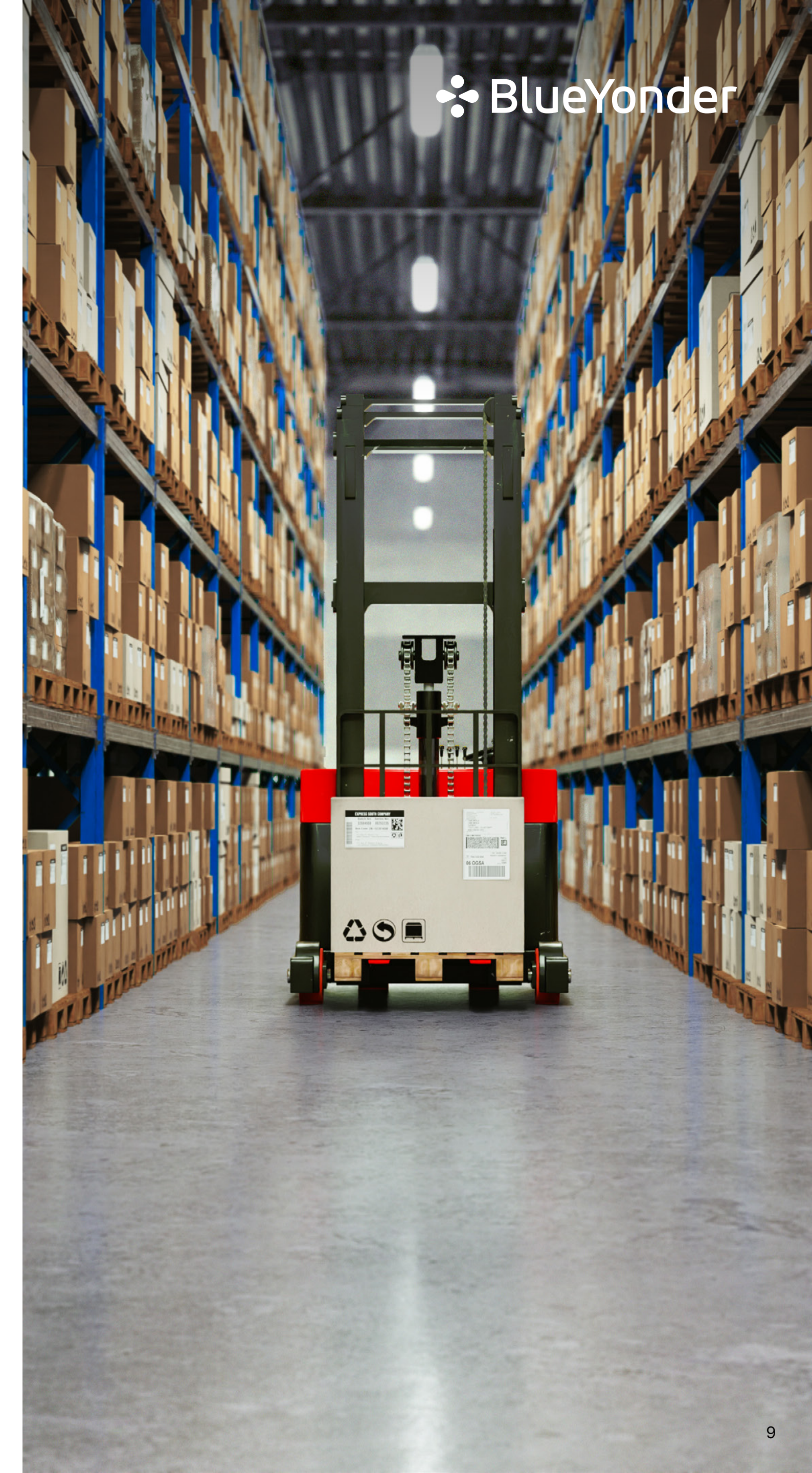
Less environmental impact

Returns can have a significant impact on their environment. With inefficient returns processes, not only does more product end up in landfills, but there are more carbon emissions from double-transportation costs. With RMS, LSPs can make environmentally-conscious decisions about how to best manage their returns with the least impact on the planet.

With automated returns processing, LSPs can increase units per hour (UPH) by up to 2x.



Basic vs Purpose Built Returns Functionality Comparison



	Basic returns functionality	Return Management System (RMS)
Overall Functionality	Built primarily for new inventory and happy-path outbound fulfillment	Built primarily for new inventory and happy-path outbound fulfillment
Inventory Control and Visibility	SKU/UPC level tracking	Unit level tracking (SKU/UPC – Condition – Return)
Disposition	User-generated disposition based on SOP	System-generated disposition (via configurable rules engine, machine learning, and AI)
Receiving Workflow	Desktop based, fairly inflexible	Handheld System directed by configuration
Exceptions	Generally managed on spreadsheets manually	Systematic tracking Purpose-built tools for resolving exceptions
Returns-Specific Workflows	Usually none, unless system is customized	VAS / Test and Grade Return to Vendor (RTV) functionality Directed Sorting (pre-putaway)
Outbound Fulfillment	Desktop based, fairly inflexible	Systematic stock transfer to WMS/OMS Outbound fulfillment options for non-new inventory at SKU-condition level Integrated Recommerce and sale channels

Why LSPs are investing in 4-wall returns software now

In the world of supply chain and logistics, LSPs tend to invest in initiatives that help them deliver greater value to their customers, improve profitability on already slim margins, and differentiate themselves from competitors. And more often than not, these investments are in the form of software, hardware, material handling equipment (MHE), or automation. For example, as omni-channel commerce became a key driver for retailers, more LSPs began investing in order management systems (OMS) to enable distributed order management (DOM) for their customers. Similarly, as the labor market remains tight and associates are increasingly costly to recruit and hire, LSPs continually invest in automation, robotics, and labor

management systems (LMS) to reduce labor dependency. Now, LSPs are more cognizant than ever that omni-channel returns are a growing challenge in their facilities and an increasing pain point for their customers. And like most 4-wall operational challenges, it can be solved by investing in the right software and automation to expedite the returns process via a returns management system prebuilt with automated, predictable workflows and customizable disposition rules to help their customers get up to 95% of the inventory back to available-to-sell (ATS) status within a day or two of receipt, and systematically into the most-profitable resale channel. More value for your customers means better profitability for you.

Effective returns management is crucial for logistics service providers. Table stakes is to have a streamlined reverse logistics process that includes clear communication with customers, efficient handling, and quick restocking or disposal.

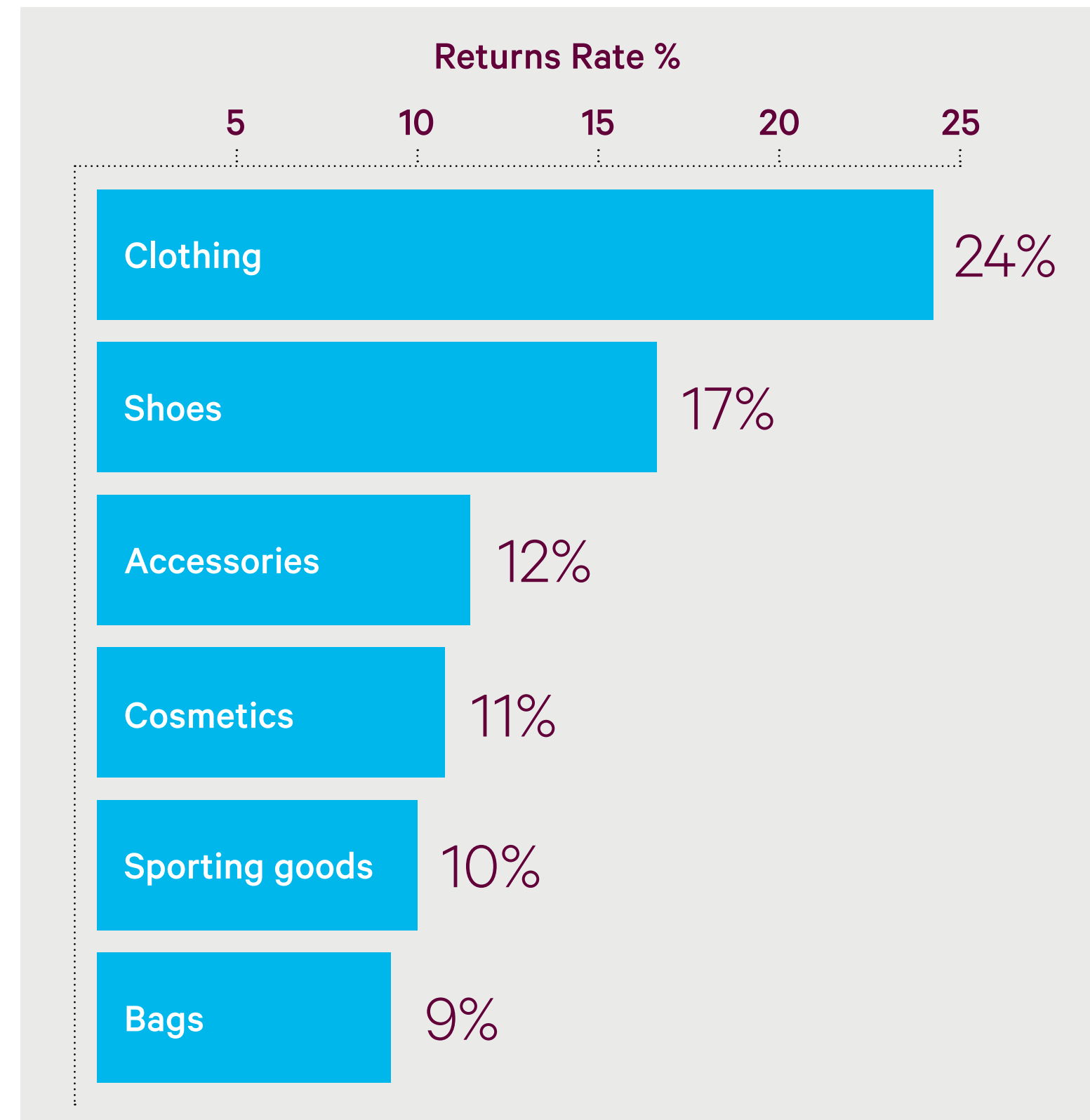
DAVE HAUPTMAN

CHIEF REVENUE OFFICER, KENCO

Which LSPs need an RMS?

Given the complexity and client/vendor tensions associated with retail returns, many LSPs are seeking solutions to mitigate the impact on their businesses. However, certain LSP profiles will realize the greatest return on investment (ROI) with a dedicated RMS.

- ▶ LSPs that offer reverse logistics and have retail customers with a significant volume of returns have the greatest need. But any LSP with customers experiencing a return rate over 10% should explore offering an RMS as a technology solution.
- ▶ Additionally, certain retail categories have higher return rates than others — namely apparel, accessories, footwear, bags, cosmetics, sporting goods, and home goods. As a result, your customers in these categories are likely those with a keen focus on reducing unnecessary returns, converting returns to exchanges to preserve sales, and shortening the time to restock and resale available-to-sell (ATS) returned items.
- ▶ Additionally, while larger enterprise retailers have been early adopters of RMS, more midsize and smaller LSPs are considering RMS as they seek solutions that can help them differentiate from competitors. While a spreadsheet, plugin, or WMS workaround may work initially, leading LSPs often gain high yields from the right technology investments.



Profile of LSPs that need an RMS

- Have retail customers in the apparel, footwear, and accessories, bags, cosmetics, sporting goods, and home goods verticals with high return rates
- Have retail customers with over 10% return rate
- Have the ambition to grow their e-commerce offerings
- Have omni-channel retailers solving multi-channel returns challenges
- Want more than a “good enough” solution for returns via their basic capabilities to differentiate against their competitors

In order to be a successful third-party logistics company for retailers, returns can't just be something you begrudgingly have to deal with. Being excellent at returns is paramount for maintaining and protecting a retailer's brand.

STEVE CONGRO

SENIOR DIRECTOR OF SYSTEMS, SADDLE CREEK LOGISTICS

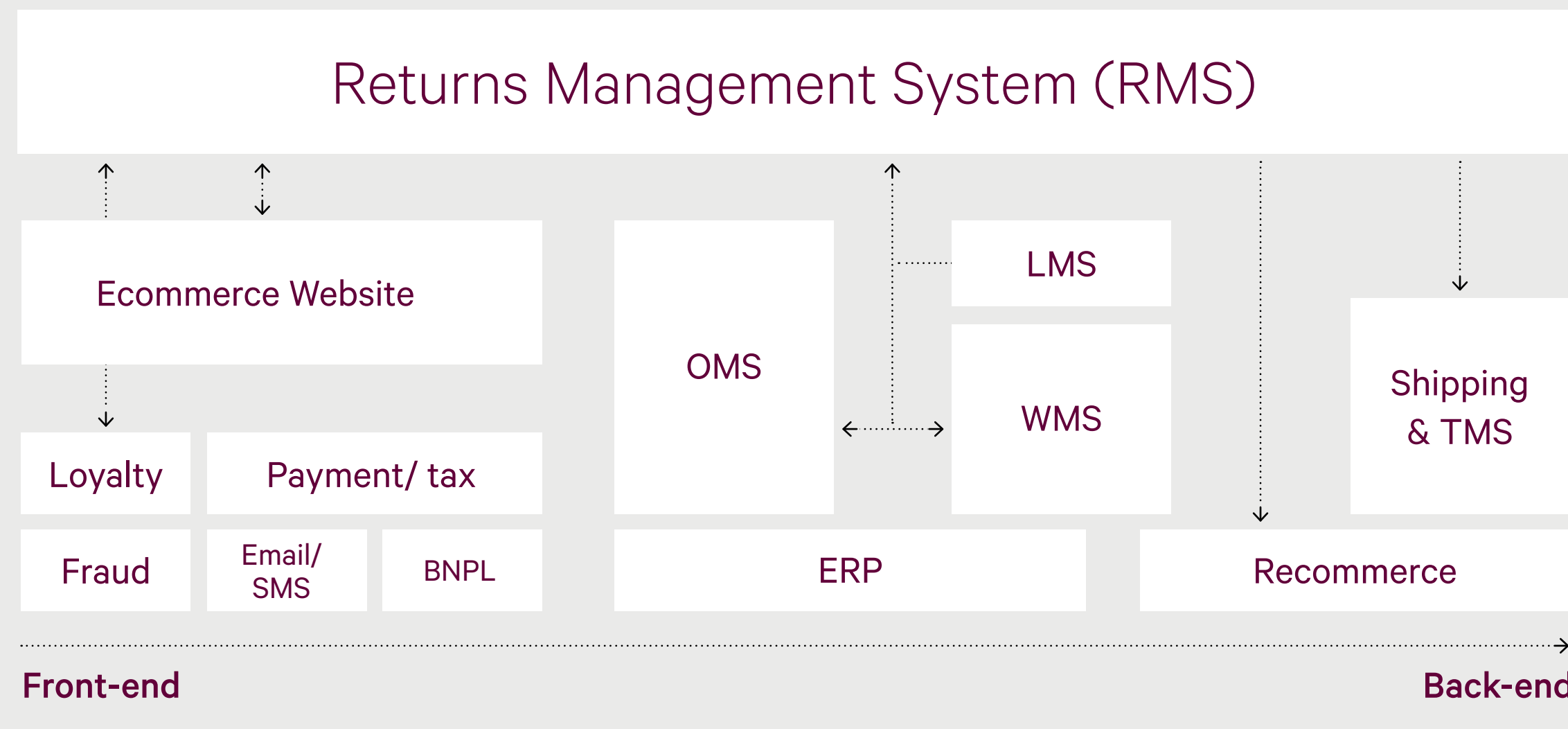
Where does RMS sit in the supply chain tech stack?

RMS integrates seamlessly with your supply chain technology stack. Since RMS spans the customer-facing storefront (return initiation) through the back-end operational technology (i.e. WMS or SCE), it weaves return insight and data into the key systems that are driving business decisions and processes and curating the best shopper experience your customers hired you to manage on their behalf.

This is one reason more retailers and LSPs are ditching monolithic technology for returns and selecting a modern RMS approach to development and deployment — a microservices-based, API-first, cloud-native, headless architecture.

Sometimes referred to as “Composable” commerce is the mindset that you can select the right software components and capabilities that make sense for your business.

As Gartner notes, “enterprises often purchase software from different vendors to obtain the best-of-breed offering for each application area.” As more organizations move to a best-of-breed approach to technology selection, RMS is the only purpose-built technology designed to mitigate the impact of returns on LSP operations and on the ability to win and retain business.



Looking to create a center of excellence around returns management?

We've been helping retailers and LSPs for the last 15 years solve the returns conundrum.

Talk to one of our experts today →