

SupplyChainDigest™

Expert Insight: Best Practices in Warehouse Returns

With the right approach, companies can streamline the flow and reduce the high costs of reverse logistics

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Have you ever wondered what your local store does with the items that you take back as damaged or unusable? Most industries today have liberal returns policies that can quickly tax distribution networks when large quantities of items go through the reverse logistics process. Often the distributing warehouse bears the brunt of these costs and efforts associated with returns.

Thankfully, this area is also where a properly organized process, supported by latest hardware and software technologies, can produce a competitive advantage, attract new suppliers and control the returns process. In this article we will review common problems that plague returns operations in the warehouse and suggest remedies drawn from best practices.

Common Problems

The returns area of a warehouse is commonly full of a mix of open cartons from many different SKU's that need to be identified and sorted according to disposition. Through this sorting process, credits must also be issued and return-to-vendor tracking created. The combination of process complexity and low priority of reverse logistics typically means little attention is given to improving the returns process. As a result, warehouse managers tend to treat it as a necessary evil.

Problems affecting returns processing in the warehouse include:

- The work area is too small or poorly laid out
- The process is paper intensive in order to describe and track reasons for returned product
- Lack of real time tracking of incoming merchandise does not permit quick put away or cross docking

- Poor process integration into the warehouse does not allow returned merchandise to be immediately allocated and shipped. Orders are often shipped short, while saleable inventory is present on the returns dock
- Lack of tracking and accountability for un-saleable merchandise that is used to bill back the vendor

The problems in the customer service department include:

- Slow, error prone data entry and credit processing based on a multitude of papers delivered from the returns dock
- No link between data collection and credit processing, allowing over-credit given to the customer
- It is difficult to segregate problems by customer, salesperson, truck driver or warehouseman to eliminate misconduct

Despite the fact that returns operations are inherently problematic and do not yield to simple automation, companies can gain competitive advantage by applying some of the industry's best practices.

Best Practices Process

Despite the fact that returns operations are inherently problematic and do not yield to simple automation, some companies have gained competitive advantage by applying some of the industry's best practices. We will analyze a best practice process from two aspects: business processes and data collection and flow.

Business Processes

Returns are fundamentally complex because of how they impact physical inventory, electronic inventory and accounting systems. All items must be identified, assigned to a customer or account, assigned a disposition and then physically sorted for processing. Since some of the product might be discarded or kept back for vendor chargeback's, not all merchandise enters electronic inventory; some merchandise must be repacked and accounted for manually versus electronically. Finally, credits are generally issued at a later time and often for only some part of a return, including discarded or un-saleable goods. This process is difficult to automate with a generic ERP package and very challenging with a simple paper process. Specialized returns systems, whether part of a Warehouse Management System (WMS) or stand-alone, can support effective automation with appropriate setup. The software must:

- Separate the physical process from the accounting process and allow for gaps between physical and accounting realities. For example, out of a returned pallet only part of the pallet may be added to inventory and a different part of it may be credited to the customer.
- Separate responsibility over physical inventory from responsibility over customer credits. A warehouse employee should not be concerned with how and when a customer will receive credit. Credit processors use an electronic transaction log of returns dock activity to release customer credits.
- Distinguish between return reasons and physical disposition. The former describes why customer returned it. The latter describes physical state of the merchandise. Credit clerks must understand return reasons. Warehouseman must understand the dispositions.

- Try to control the returns process through “Returns Authorizations.” With Return Authorizations, the pre-approved returns can be received quickly thereby simplifying the returns identification and speeding overall processing. To enable radio frequency (RF) equipment automation and verification, these expected returns should be entered into the system prior to arrival.
- Stage saleable merchandise by a putaway zone. Most of the returned merchandise is generally in saleable condition and will be returned to the storage area. To streamline the subsequent put away process, saleable products should be staged on pallets by destination zone.
- Track un-saleable merchandise with a bar-coded label. Any merchandise that is not saleable and cannot be discarded is usually stored according to vendor guidelines. While some vendors simply require an inventory report to issue credits, others will send a sales representative to inspect the goods or to ship to the vendor. A complete audit trail consisting of return reason, date of initial shipment, date of return, customer name, etc. will assure legitimacy of the claim and improve supplier relationships.

Look for returns processing modules that can be tightly integrated with the Warehouse Management System. This allows for real-time inventory control, immediate inventory allocation, instant picking from the returns area, and cross-docking to a shipping dock.

Data Collection and Flow

The second aspect to analyze a best practice process is from data collections and flow.

- **Handheld Scanners:** Just as RF equipment has proven indispensable in the warehouse environment; this technology is especially valuable in the returns process. RF screens should prompt for RMA#, SKU or UPC code, quantity, disposition and physical state of the merchandise.
- **Interface into WMS:** Returns processing modules should be tightly integrated into the existing WMS. The integration allows for real-time inventory control, immediate inventory allocation, instant picking from the returns area, and cross-docking to a shipping dock.
- **Interface into Accounting System:** Any data collected about returned merchandise should be made available to the accounting system to serve as a basis for credit processing. This data flow ensures that credits are issued only after merchandise is inspected. It also reduces opportunities for crediting errors.

Summary

Prudent and consistent application of RF technology, reengineering of business processes, and streamlining of physical operations based on industry's best practices, warehouse managers can enjoy increased throughput and accuracy while driving improvements to the organization's bottom line.

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