E-Commerce Reverse Logistics Framework Strategy for The Automotive Aftermarket Industry

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How to Set Up an E-Commerce Reverse Logistics Framework Strategy for the Automotive Aftermarket Industry as Proven By the Retail World

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The online retail market for automotive aftermarket parts industry and accessories continues to emerge as a tremendous growth opportunity for the aftermarket parts industry. While estimated sales volumes of the online parts industry vary, assessments range from $2 billion to $4 billion annually.

In its March 2014 report, “Digital Disruption: e-Tailing in the Automotive Aftermarket,” AASA reported that aftermarket e-tailing has grown dramatically, with an estimated 60 percent of growth occurring in the past four years. Because of that, Booz & Company estimated that by 2018, e-tailing market size could reach 7.3 percent of market penetration. Aftermarket suppliers must have an effective presence online in the purchase process to capitalize on the opportunities in DIY and DIFM.

It is clear that the popularity and potential for online retailing of automotive parts can be a benefit to the industry. While the idea of changing business models to include e-commerce might seem daunting to some, the benefits can be reduced costs, increased sales, improved customer service and, ultimately, loyalty.

Before You Accelerate Toward E-Commerce

Making the decision to engage in e-commerce is one thing, but it’s important to understand all of the factors that will influence this decision before moving forward. Embracing e-commerce is much more than putting up an online storefront. It’s changing your business and sales model, your channel relationships, your supply chain, and quite possibly your company vision and culture.

Do know that a lot of the research in e-commerce is centered on retail, or direct to consumer. There is not yet a ton of information on automotive aftermarket suppliers, who ship larger freight that is better suited for less than truckload or full truckload e-commerce freight shipping solutions quite yet, but the strategies of the customer experience and e-commerce reverse logistics will still have the same trends and applications.
E-Commerce Reverse Logistics is Something You Must Consider as you take your Products Online

If you do run an e-Commerce store or are thinking about putting your manufactured, remanufactured, or distribution catalog online, as an automotive aftermarket supplier, product returns are unavoidable. Reverse logistics in an e-commerce environment is a challenging part of your business. Customer service is essential to getting and keeping your online customers. The handling of your customer product returns is an essential component of your customer service program.

In order to effectively deal with product returns you need to ensure you are addressing not only the needs of your customers, but also the needs of your company to ensure you are minimizing the cost and impact of the returns on your company since they can have a very significant impact on your profits.

The goal of this article is to help you to assess and improve your e-Commerce Reverse Logistics. To assist you to better understand e-Commerce Reverse Logistics, this article starts by outlining some key e-Commerce Reverse Logistics facts and findings. The report then outlines an e-Commerce Reverse Logistics Framework you can use to assess and analyze your operations. Each key item of the framework is discussed in detail to outline the key issues and review some best practices examples from some of the best know e-Commerce companies.

Do know that a lot of the research around e-commerce is centered around retail, or direct to consumer. There are not yet a ton of information on manufacturers and distributors who ship larger freight that is better suited for less than truckload or full truckload quite yet, but the strategies of the customer experience and e-commerce reverse logistics will still have the same trends and applications.

E-Commerce Reverse Logistics Facts and Findings

A considerable amount of research has been performed to understand e-Commerce buyer behaviors. From this research, a considerable number of findings have emerged related to the customer’s ability to return goods.
Customer Behavior

“Merchants will need to pay close attention to building return policies that are customer friendly,” said Paul Bates, vice president of Information Products Group for BizRate.com. “Online buyers tell us every day that the key to winning their loyalty is the level and quality of customer support.” (Source: Bizrate.com Survey). Other relevant findings from the BizRate.com research are:

- Eighty-nine percent of online buyers say return policies influence their decision to shop with an e-retailer.
- The three leading products returned were clothing (27 percent), computer software (20 percent) and books (15 percent).
- Certain attributes of return policies can actually drive potential customers away. These include:
  - the inability to receive credit on a credit or debit card (85 percent)
  - time limit to return products that is “too short” (68 percent).
- Other attributes that online buyers consider important are:
  - whether the merchant allows products to be returned by mail (66 percent)
  - the ability to exchange a product for another item (58 percent)
  - Sixty-two percent of consumers said they would prefer to return products by mail instead of traveling to a brick-and-mortar store.

E-Commerce Reverse Logistics Framework

In order to assess and analyze your e-Commerce Reverse Logistics you need to understand the key components for effective e-Commerce reverse logistics.

![Diagram of Key Components of e-Commerce Reverse Logistics](diagram.png)

**Key Components of e-Commerce Reverse Logistics**

- Returns Policy and Preparation
- Receiving
- Inspection and Sorting
- Ship Exchange
- Issue Credit
- Asset Recovery
  - Restock (Unopened)
  - Repackage For Sale
  - Return To Vendor
  - Disposition
  - Scrap

**Customer Satisfaction**

**Corporate Satisfaction**
The key components are Returns Policy, Returns preparation, Receiving, Ship an Exchange or issue a Credit, Inspection and sorting, and finally Asset Recovery which can be made up of Restocking, Repackaging for Sale, Return To Vendor, Disposition and Scrap.

Throughout the entire process you need to satisfy two groups, the Customers and your Company. Most returns operations we have visited are very focused on the customer, but often do not devote enough attention to satisfying the Company. There are often considerable opportunities to improve profitability by focusing more attention to your corporate needs.

**Returns Policy**

Setup of your returns policy is a trade-off between reducing the impact of returns and encouraging customers to buy. In order to remain competitive, the Return policies for most major e-Commerce companies are now fairly similar and have been created to encourage the customer. Returns policies need to address the following key areas for customers:

- What they are allowed to Return or Exchange
- If they must contact someone to arrange or authorize the return
- Any Costs for Return goods
- Who pays shipping for the returning goods and the replacement goods
- Where the goods can be returned
- When they will receive a credit or replacement item
- How long they have to perform a return

Nordstrom's (www.nordstrom.com) for example offers “free exchanges, easy returns”.

They separate their returns into 2 categories, Free Merchandise Exchanges and Easy Merchandise Returns.

For Exchanges, the customer is given a special incentive, free return postage. In addition, if the customer phones in the exchange request, they will ship the in-stock items immediately to speed the process. A credit is issued when the goods are returned and a new charge is created for any new items shipped. The free return shipping incentive helps remove some of the risk and uncertainty away from buying clothing on-line, since the customers often perceive a risk that the clothing will not fit and need to be returned.

For Returns, Nordstrom states that the customer is responsible for the return shipping cost. However, they offer to simplify and reduce the cost of the return shipping process for the customer by enclosing an optional pre-paid shipping label. The label has a flat fee charge of only $5.00 if used and is deducted from their refund credit. As an alternative the customer can return the items at the nearest Nordstrom store.
In both cases Nordstrom promises a credit or refund will be issued 10-14 days after the return goods are received.

Most e-Commerce companies make the customer responsible for return shipping, unless the return is required as a result of something out of the customer’s control. For example, Drugstore.com (www.drugstore.com) offers free return shipping if the return is a result of their error, such as the shipment of incorrect product.

The electronics retailer, Best Buy (www.bestbuy.com) limits the return period to 30 days of receipt. They will charge a 15% restocking fee on returns or exchanges to ANY product not returned in “like new condition”, unless defective, damaged upon delivery, or if the wrong product was delivered.

Sometimes different Returns policies are required depending on the products. Amazon (www.amazon.com) has a list of over 28 different Returns policies for each category of different products such as books, electronics, beauty products or televisions larger than 27 inches.

**Returns Preparation**

Preparing and equipping your customers to handle their returns is one of the areas with the biggest payoff for your e-Commerce returns processing.

There is a conflict or trade-off here. The easier you make it for your customers to return goods, the more goods you will have returned. It is unlikely your CEO wants to see an increase in your returns volume. However, as the statistics outlined above, poor returns policies often scare away buyers.

When you return goods to a manufacturer for credit or warranty service, you typically need to obtain approval from the company before sending an item back. Someone reviews your request to ensure it is valid and then issues you an RMA or RA (Return Materials Authorization or Return Authorization).

Most bricks and mortar retailers now have a “no quibble” policy, allowing customers to return anything they wish. No questions are asked and no reason is required.

Since the bricks and mortar retailers have this policy, the customer expects the e-Commerce retailers to have the same policy. Since the customer does not really need a reason to return an item, e-Commerce retailers have removed the requirement for the customer to call to request a return authorization (RMA).

Now a Customer Service person is no longer communicating directly with the customer to explain the return process. As a result, very clear instructions need to be sent with the original goods, so the customer knows exactly the process required to return an item.
This “do-it-yourself” process has a downside. There is no opportunity to “train” a customer to return their goods properly, so the cost of poor or incomplete instructions is high because it leads to significant difficulties for the receiving staff that need to process the items when they arrive back at your warehouse.

An e-commerce reverse logistics tactic that major e-Commerce retailers are including with their shipped packages are as follows:

- Easy to follow instructions
- Return Form – for the customer to complete to help you with their return reasons and comments. The return reasons may help you identify how to handle the returned product, such as DOA (dead on arrival) that may require testing rather than re-stocking. The customers may also indicate if they seek a credit or an exchange.
- Return labels – that include shipping address and an identifier number or bar code for the receiving team to quickly match the returned items to the original purchase so a credit can be issued.
- Pre-paid shipping identifier on the shipping label – if the return qualifies, the retailer pays the shipping otherwise the shipping cost will be deducted from the customer credit. Offering to arrange the shipping and to deduct if from the customer’s credit can be an advantage to the customer who do not wish to stand in line at the post office to ship the package. You can also offer the customer a lower shipping and insurance cost since you can pass on your shipping volume discounts.

A sample of a stock prepaid shipping label from Nordstrom’s is below. If possible these labels should be created at the time of the outbound shipment and should also include the customer return address and an order identifier number or bar code to reduce the lookup time for your receiving team.

As stated in the beginning, this post is around a framework that has been proven in the retail world. All may not apply to those automotive aftermarket suppliers who ship larger freight, such
as moves on LTL or Full Truckload, but the core ideas of planning and putting together a reverse logistics program are vital to success. Many more in the automotive aftermarket space, especially those who will need less than truckload e-commerce freight shipping solutions, are now coming online with products to sell direct to consumers in a B2B setting. Unfortunately, unlike the last 15 years retail in the B2C setting had to master the customer experience of online shipping, B2B players who offer an E-commerce option, don’t have that luxury.

**Reverse Logistics in E-Commerce is No Longer a HOPE to have but a NEED to Have**

It’s no secret that a positive experience delivered to a customer determines whether that customer will come back. This is true in pretty much any industry, but especially true in the automotive aftermarket suppliers industry where collaborative relationships between suppliers and customers in a B2B setting are vital for long term success.

Shippers who have set up online shopping carts must enhance the user experience prior to pressing the “buy” button but also focus on the post-purchase site experience to keep customer retention metrics at satisfactory levels.

This is where many who are now shipping products used to the traditional flow of logistics vs. the reverse logistics in e-commerce that occurs with introducing an online shopping experience for customers, drop the ball. Often, once a freight shipper starts doing e-commerce logistics, they have a need to consider reverse logistics for the first time. By incorporating new strategies to optimize this process, shippers can increase customer retention and add new revenue streams to the direct business beyond the traditional brick and mortar channel.

Here are some key metrics to support the reverse logistics in e-commerce business case:

- 85% of customers say they will stop buying from a business if the returns process is a hassle (Harris Interactive)
- 95% of customers say that they will likely shop with a catalog or business again if the online returns process is convenient (Harris Interactive)
- 40% of shoppers don’t buy online due to returns difficulty (Jupiter Research)
- Customers who have their complaint resolved quickly have a re-purchase intention rate of 82% (McKinsey)

Reverse logistics in e-commerce are an inevitable fact of online retail. As the depth of online product categories became apparent in the last three years, the importance of setting up a reverse logistics process as part of your e-commerce logistics strategy increases as well. Provide a bad returns experience and you undoubtedly reduce the chance of a customer coming back for a repeat purchase. Let’s continue the rest of the various elements you must explore when setting up the reverse logistics part of your e-commerce strategy.
Receiving

Processing returned packages is a very challenging task. The key purpose for a detailed receiving process is to issue credits or permit product exchange. The key challenge is proper identification to ensure proper matching to the original order. Since customers are managing their own returns, there is considerable variation in the labeling and contents.

Your receiving team needs to inspect and validate:

1. Who has returned the freight?
2. What goods have been received?
3. The condition of the freight
4. Does the freight match the original purchase?

Receiving is a labor intensive process. Many companies set up an “assembly line” for their team to quickly and efficiently process these inbound items. Considerable skills and training are often required in the areas of product identification and product handling rules.

The impact of good return instructions is clearly noticeable at this stage in the reverse logistics in e-commerce process. But despite the best efforts of your company, many customers will not follow the instructions, resulting in difficulties in identification and matching to issue a prompt credit. This of course leads to unhappy customers (even though it was caused by their inability to follow simple directions).

Your return processes need to accommodate all possible exceptions quickly and effectively. The Receiving process of reverse logistics in e-commerce is full of exceptions and returned items that do not fit the standard rule set. If these exceptions are not handled quickly and effectively your receiving team has three problems:

1. The assembly line processing breaks down, since valuable time is wasted trying to special handle one item, which slows down processing for the entire team and often leads to a backlog
2. Items that need to be specially handled get set aside and delayed even further
3. Customers will call for status updates. This creates more problems since someone must spend valuable time handling the trace requests to track down the goods and issue the credit.

Poor processes lead to backlogs and a stressful working environment for your Receiving team. Good processes lead to fast turnaround times, fast credits and happy customers.
**Issue Credit or Ship an Exchange Item**

Once the freight has been received and validated by the receiving team, a credit can be issued or an exchange can be shipped.

Issuing credits can be very costly to your company if not performed well. Care must be taken to ensure your receiving team is properly matching the original items purchased, with the actual items returned. Since many shippers who have employed e-Commerce strategies have big gaps in their receiving processes, items often go missing. As a result, the customer service people are often instructed to issue un-validated credits upon customer request because they have no way of verifying if the customer really did return their freight.

Good receiving and credit processes can significantly reduce the workload for your customer service personnel who handle the status update calls and emails from customers looking for their credits.

**Inspection and Sorting for Reverse Logistics in E-Commerce**

The main purpose of inspection and sorting is to stream the returned items to the path of highest selling price or recovery value. This process is often combined or is attached to the receiving process since it is a logical next step while the inbound goods are being handled.

At this stage, the customer goods have been received and their credits have been processed and satisfied. Now it is time to satisfy your corporate needs. This is best done by recovering the highest value possible from the returned goods.

Training and product knowledge are often important for the inspection and sorting process. It is a labor intensive process. The better your team understands the products, the faster they can make decisions on how to process the products and the greater the likelihood of them capturing a higher recovery for that item.

Processing the returned items is often set up in an assembly line format to enable easy separation of the product as it flows to the next stage. Processing is very dependent on the type of products being handled. Depending on the volumes you need to handle, several stages may
be required to streamline the processing. Often similar products or items requiring similar processing are physically streamed and consolidated until there is enough volume to move it to the next stage (i.e. when a pallet is full). Sometimes tests or test equipment is used to determine how to stream an item.

Each returned item is often given a unique identification tag for tracing and gather statistics on processing and disposition.

Products can be streamed according to their final destination, such as:

- **Restock** – unopened boxes can go straight back to new inventory
- **Repackaging for sale** – open box goods in “as new” condition that can be resold on the e-Commerce site
- **Return to Vendor** – to be returned to the original vendor where they were purchased for credit or exchange
- **Disposition** – items that have value, but will not be re-sold at the e-Commerce site
- **Scrap** – damaged or obsolete goods

**Asset Recovery**

Even though the customer did not want to keep the goods, these returned items need to be viewed as “assets”. An asset has value and can be sold. The challenge is to find or recover the highest value for each item.

In order to recover the highest value, these returned “assets” are often handled as follows:

- **Restock** – little loss of value if processed quickly and the product is still current
- **Repackaging for sale** – open box goods in “as new” condition can often be sold in a “clearance” area of your e-Commerce site or moved to a local “bricks and mortar” branch. These “B” goods are often sold for slightly less than retail, but often higher than original cost. This is often the best channel for these goods since handling is minimized, and turnaround time is quicker.
- **Return to Vendor** – defective goods, warranty issues or vendor agreements often allow for return of goods. This channel often means you will recover full cost of the items, but the cost of handling must be considered. For instance if the goods are not defective, it may be more prudent to sell the goods for cost plus a margin on your site.
- **Disposition** – Freight that you do not wish to resell on your site, often still hold considerable value. A number of great disposition sources and services now exist for just about any products in any condition.
- **Scrap** – almost nothing is scrap anymore. If you have a lot of it, someone is usually willing to buy it from you.

Careful attention to rapidly processing, sorting and resale of your returned “assets” is one of the best opportunities for profit in your reverse logistics in e-commerce operations.
Outsourcing your Reverse Logistics and E-Commerce Logistics

Many shippers do not view the handling and processing of reverse logistics in e-commerce or reverse logistics in general, as a core competency. A number of companies have outsourced partners in one or more of the key Reverse Logistics areas such as transportation management, returned goods processing, e-commerce logistics technology, and services such as freight claims, accounting, and carrier relations.

It is important to understand the processes you need before you outsource, so you can define what needs to be done, how it needs to be done and how to measure success so you are able to effectively choose which partner can best fit your needs. Use our handy 3PL checklist to understand your needs as a shipper.

Conclusion

Reverse Logistics in e-commerce is a newly emerging area that is just starting to get the attention of senior management and shipper executives who are looking at or have already implemented an e-commerce channel. It is highly likely that your company has significant challenges in this area. Do not be afraid, you are not alone. (They do not even teach courses on Reverse Logistics in school yet). This is a “New Frontier” and should be viewed as an excellent opportunity to improve your corporate profitability.

Never before has the notion of the customer experience been more important than it is today. Customers are driving the supply chain, and the companies that provide the best experience are more likely to benefit from repeat business. A survey—conducted by comScore and commissioned by UPS—found that one of the most important factors driving today’s online shoppers is the customer experience. At the heart of a good customer experience online is a strong reverse logistics program. Key to the e-commerce experience was the ability for customers to not only pick from a range of delivery options, take advantage of hassle-free return processes and have online visibility of their shipments. Automotive aftermarket suppliers who best meet and manage their online experience may have a more meaningful advantage over competition.

Before you do anything, it’s important to conduct an in-depth analysis of your business, your sales channels and your supply chain as a whole to ensure that you are set up to capitalize on e-commerce adoption. Some third-party logistics providers can help you with these discussions, especially providers with expertise in the automotive aftermarket. Engaging professionals not only will help you to get started on the right foot, but can reduce the risk of negative customer experiences that could damage your brand. Perhaps most importantly, they can help you begin to take advantage of this key growth market sooner rather than later.

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