THE TRUE C$ST

OF B2B WARRANTIES, REPAIRS, AND RETURNS

Identify **The True Cost of Returns** & **What You Can Do About It**

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Introduction

Effective management of B2B reverse logistics is not only about reducing costs but also about enhancing customer satisfaction and maintaining a strong reputation. By digitizing the return process, streamlining workflows, enhancing visibility, and ensuring seamless receiving and crediting, businesses can tackle the complex challenges of reverse logistics and turn them into opportunities for growth and improved service delivery. Implementing these strategies will help ensure that the reverse logistics process supports the business objectives and drives overall efficiency.

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The Complexity of B2B Returns

Why Are B2B Returns So Complicated?

Each B2B return involves a series of steps that can significantly drain resources:

✓ **Decision Making**
Determining whether a return is justified involves analysis and judgment, often requiring input from multiple departments.

✓ **Multiple Parties**
From customer service reps to logistics managers, many individuals play a role in handling a return, multiplying the potential for delays and errors.

✓ **Communications**
Effective communication between these parties is crucial but can become a bottleneck if not managed efficiently.

✓ **Disparate Systems**
Different departments may use varied systems to handle their part of the returns process, leading to inefficiencies and data discrepancies.

✓ **Approvals**
Each return must go through several layers of approvals, each adding time and administrative costs to the process.

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Conclusion: A Call for Streamlined Processes

Understanding and addressing the complexities of B2B returns is crucial for any organization looking to maintain profitability and efficiency.

By streamlining communication, consolidating systems, and simplifying approval processes, businesses can significantly reduce the hidden costs associated with even low-volume returns.

Profit Erosion and Hidden Costs

Even if returns are a small fraction of transactions, the sheer amount of effort and coordination required can lead to significant profit erosion.

Hidden costs such as labor, lost productivity, and potential impacts on customer relationships must be factored into the overall cost analysis.

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The Financial Impact of B2B Returns

The Inescapable Reality

In the world of B2B distribution, returns are a fact of life, unavoidable even in the most well-oiled operations. However, what often flies under the radar are the numerous hidden costs associated with returns that can significantly dent your bottom line.

From the Front Lines

As Manish Gundecha, Head of Finance Transformation at HP Inc., points out in the 2023 CFO Report by US Bank,

"Cost cutting is now the top priority for finance leaders as we head into 2024."

This new focus isn't just about trimming expenses in the traditional sense. It's about rethinking how resources are allocated amid an uncertain economic climate, where consumer purchasing power is waning.

Evolving Priorities for Finance Teams

Finance teams are currently placing a heightened emphasis on cost optimization, a shift driven by the unpredictable economic environment.

This focus has catapulted from being eighth on their list of priorities just two years ago to being the foremost concern today.

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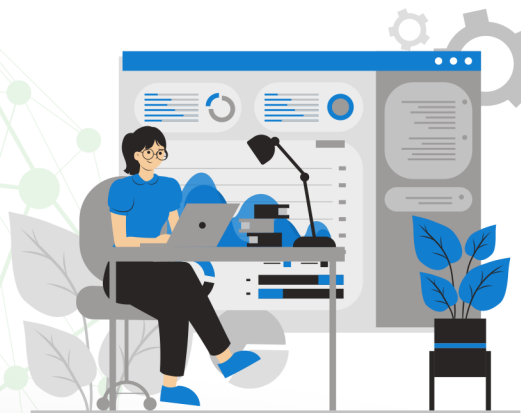**GoContinuum.ai**

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Conclusion: A New Frontier in Distributor Finance

As we navigate through these challenging times, it's evident that every cost must be scrutinized. Industry benchmarking becomes crucial to attain best-in-class status and stay competitive.

The role of technology in redefining our financial landscape is more significant than ever, promising not just efficiencies but a complete overhaul of traditional business practices.

2024 Agenda for CFOs is Clear - Cut Costs the Smart Way

Distributors and Manufacturers should make slashing costs and enhancing efficiency within financial operations are paramount, relegating time-intensive growth initiatives like mergers and acquisitions, exploration of new business models, and sustainability topics to the back burner.


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5 Hidden Costs of B2B Returns

CSR Time Drain

Customer Service Representatives (CSRs) bear a significant burden in managing returns. Their responsibilities can include extensive manual data entry, continual customer follow-ups, vendor communications, and resolving carrier disputes. This not only consumes valuable time but also diverts CSR focus from enhancing customer relationships and driving new sales.
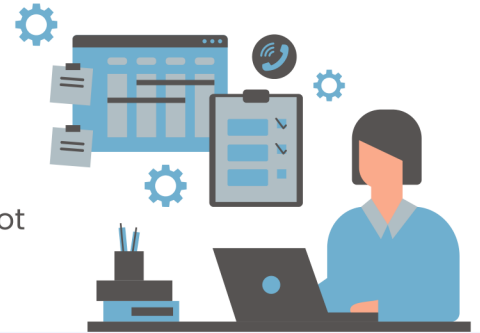
Missed Vendor Credits

A disjointed returns process, coupled with a lack of visibility into the end-to-end procedures, often leads to missed credits from vendors. These missed opportunities for financial recovery further widen the gap between potential and actual profitability.

Accounts Receivable Disputes

When credits are missed or mishandled, it frequently leads to disputes over accounts receivable. These disputes can delay cash recognition, tying up capital that could otherwise be used to fuel business operations or growth initiatives.
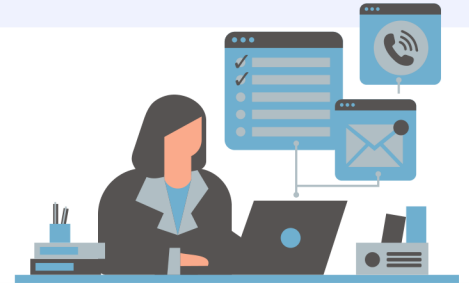
Warehouse Inefficiencies

Returns can congest loading docks and distract warehouse teams from their primary tasks, such as receiving new stock and shipping orders. This not only slows down operations but also affects overall productivity and increases operational costs.

Customer Churn

If the returns process isn't customer-friendly compared to competitors, it can lead to customer churn. Businesses often lose customers to other distributors that offer smoother, more efficient return experiences.

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Reverse Logistics Challenges: A Practical Guide

The B2B Reverse Logistics problem has been a rapidly growing issue for distribution and manufacturing organizations alike. However, the problems associated with reverse logistics present themselves differently for distributors than they do for manufacturers. Reverse logistics related to returns, warranties, and repairs have many unintended bottom-line consequences within a business:

- **Manual data entry and follow-up:** Multiple departments spend time triaging returns.

- **Paper-based and black box processes:** These leave visibility gaps and often lead to lost returns.

- **Warehouse receiving challenges:** Often lack integration with Warehouse Management Systems (WMS) and communication back to the Customer Service Representative (CSR) group.

- **3rd party approvals needed:** Vendor or carrier claims often create bottlenecks in the process.

- **Missed credits and accounts receivable disputes:** Lack of visibility to customers throughout the returns process creates downstream disputes.

When looking to solve the challenges of returns and warranties, a company must create a strategic approach to tackle the issues. This article will guide your organization in breaking down a strategic approach to shore up multiple profit-draining processes.

For the purposes of this guide, we will use the word 'return' synonymously for warranties and repairs.

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Digitize Return Requests and Remove Duplicate Entry

Most distribution and manufacturing organizations have a phone or email-based Return Request process. This reliance on human capital and availability can lead to inefficiencies. Even if a distributor has developed a digital RMA/Warranty intake form, CSR or Sales staff often have to re-enter this information into the ERP.

The real challenge with manual RMA entry is that it often ranks low on the priority list for Sales and CSR staff. Revenue-generating activities like Orders and Quotes take precedence over issuing credits. However, for customers, returns are a critical selling event that should be treated with high priority. The manual/paper/email process is often the first step where RMAs get lost, as responsibility rests with one individual.

Strategies

✓ **Create a ticketing process for RMAs** to ensure they are captured and visible by more than one person inside the organization.

✓ **Create a specific returns email box, separate from the generic CSR inbox.** All individuals who receive a return request should forward it to this box. If you have a ticketing system, these can then be auto-classified differently than other tickets.

✓ **Avoid dedicating only one person to returns.** Vacations, sick days, and resignations happen. Given returns have a lifecycle of their own, it is near impossible for someone to step into a complex return process without the necessary context.

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Workflow the Authorization Process

One of the major differences between distribution organizations and manufacturers is that manufacturers typically have a well-documented returns and warranties policy. These guidelines set a starting point to automate the approvals process.

Distributors, however, often have to deal with their own processes plus all their vendors' written policies. Documenting the hundreds of scenarios that could occur seems daunting. As a result, almost all distributors have a returns process built off of tribal knowledge.

Strategies

- ✔ **Document a process flow** for all return types that your business handles (e.g., warranties, carrier claims, drop shop returns, stocking returns).

- ✔ **Define clear roles** for who can approve returns based on reason codes, product lines, and dollar amounts.

- ✔ **Communicate updates** to customers along the way.

- ✔ **Ensure finance teams have clear visibility** to open returns to troubleshoot invoice disputes.

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Gain Visibility on Return Logistics

Assuming you have navigated through the returns approvals/authorization process, the next challenge is visibility into the product movement back up the supply chain. Product movement back upstream has significantly more blind spots than downstream.

Vendors wait for end-users to execute the shipment of an unknown entity, and distributors hope end-users ship products to the correct location. For distributors with their own fleet of trucks, returns often get lost between pickup and warehouse.

Strategies

✓ **Provide shipping labels** to customers. Even if they pay for them, this will save you many headaches and disputes down the road.

✓ **Ensure each physical touchpoint** has digital exhaust. This includes if you own your own fleet.

✓ **Provide your warehouse with visibility** to expected returns before they arrive. Docking optimization is critical to an efficient warehouse. Allowing your warehouse visibility to the flow and returns coming back within a given day will allow for efficient planning.

✓ **Track when vendors** have received products to ensure timely processing of downstream credits.

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Make the Receiving and Crediting Process Seamless

Many Warehouse Management Systems (WMS) struggle with RMA Receipt creation due to the lack of digital tracking upon creation. This final step is crucial for closing the loop on returns efficiently. Inadequacies in this area can lead to both inventory and financial discrepancies that affect the overall health of the business.

Strategies

✓ **Automate RMA receipt creation:** Implement automation tools that can track returns from the moment they are initiated. This will help in accurately updating the inventory and in preparing the warehouse for receiving.

✓ **Ensure correct warehouse and receiving operations:** Returns should trigger specific protocols for restocking and addressing "dead inventory". Effective processes and clear guidelines should be in place to manage these operations smoothly.

✓ **Issue customer credits promptly:** Develop a system that ensures customer credits are issued accurately and immediately upon the acceptance of returns. This boosts customer trust and satisfaction.

✓ **Apply manufacturer credits correctly:** Make sure that any credits due from manufacturers are applied to your account without delay. This requires good coordination between your finance and procurement teams.

✓ **Leverage digital tracking and reporting:** Use digital solutions to track every return and its status through the system. Detailed reports can help identify bottlenecks and inefficiencies in the returns process.

✓ **Train staff on RMA policies and tools:** Continuous training and updates for staff on the latest RMA policies and technological tools will ensure everyone is equipped to handle returns effectively.

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Thank you for reading!

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