



The returns management process in supply chain strategy

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Abstract

Purpose – The purpose of this paper is to consider theory development related to returns management within supply chain strategy. The marketing/logistics relationship relative to the returns management process is investigated.

Design/methodology/approach – Grounded theory qualitative methodology. Managers in five Italian firms, across marketing and logistics roles, at strategic and operational levels were interviewed.

Findings – Four key findings emerged: strong evidence exists that strategic goals and policies are being implemented; cross-functional integration within the firms is broader than was expected; the more integrated firms deal better with external factors influencing the returns management process; and supply chain orientation – including forward and reverse supply chain flows – is linked to effective returns management.

Research limitations/implications – Firms were pre-selected for participation, due to researcher's time constraints. Additionally, given the pan-European approach to many supply chains, this Italian research needs to be replicated in other (western and eastern) European settings to determine the robustness of the factors posited to be important to the returns management process. Finally, other functional areas beyond marketing and logistics are involved in returns management, and will be more formally incorporated into future research.

Practical implications – Returns management – increasingly being recognized as affecting competitive positioning – provides an important link between marketing and logistics. The broad nature of its cross-functional impact suggests that firms would benefit by improving internal integration efforts. In particular, a firm's ability to react to and plan for the influence of external factors on the returns management process is improved by such internal integration.

Originality/value – Returns management has been under-represented in much of the logistics and supply chain literature. This paper represents the first stage of an on-going research project aimed at providing a theoretical framework for understanding the returns management process within a firm's supply chain strategy.

Keywords Returns, Supply chain management, Qualitative methods, Europe

Paper type Research paper



Introduction

Many companies have adopted and implemented supply chain initiatives, particularly as they globalize their operations. Emphasis on managing business processes across

extended supply chains is growing (Lambert *et al.*, 1998). One of these processes – returns management – focuses on the reverse supply chain, and effective management can be complicated by the boundary spanning nature of this process within a firm and across the entire supply chain (Rogers *et al.*, 2002). Effective management is important because returns can erode profitability for a firm and can impact relationships with customers and end-users, as well as impact a firm's reputation with stakeholders. In this paper, we use the Rogers *et al.* (2002) definition of returns management as all activities related to returns: avoidance, gatekeeping, reverse logistics, and disposal.

Long the forgotten step-child of logistics/supply chain managers, the strategic importance of effectively managing returns is becoming increasingly evident as firms seek to maximize the value they create for themselves and for customers. When firms view returns as just a cost center or a regulatory compliance issue, they miss potential value that can be created for themselves and their customers. Mollenkopf and Closs (2005) point out this value can only be created by understanding the multi-functional components of marketing, logistics, operations and finance/accounting functions which actively engage in managing return products. But little is known about the nature of these inter-functional relationships within firms as they relate to returns management. On the marketing and logistics front, integration of these functional areas has been studied extensively for forward supply chains (Bowersox *et al.*, 1999; Mollenkopf *et al.*, 2000; Stank *et al.*, 2001) and research interest is now developing around various aspects of reverse logistics (Carter and Ellram, 1998; Fleischmann *et al.*, 2000; Rogers and Tibben-Lembke, 2001; Mollenkopf *et al.*, 2005).

However, there has been limited attention to theory-based research in the returns management arena (Jahre, 1995a; Carter and Ellram, 1998; Daugherty *et al.*, 2001) and the issue of functional integration has been largely ignored. Marketing strategy and policy decisions can have a significant impact on the type and timing of product returns, which would influence the nature and extent of reverse logistics activities a firm would have to undertake. Yet the nature of the relationship between marketing and logistics as related to returns management and subsequent reverse logistics activities remains unknown. Thus, the current research seeks to better understand linkages between marketing and logistics at both the strategic and operation levels within firms as they deal with returns management. In trying to better understand the nature of marketing and logistics involvement in returns management, we focus on four specific research questions:

- RQ1. What is the role of the returns management process in the firm's overall supply chain strategy?
- RQ2. How are the marketing and logistics functional areas integrated into the returns management process?
- RQ3. What role does a firm's supply chain orientation play in how it engages in the returns management process?
- RQ4. What external factors influence the returns management process within the firm?

We employ a qualitative methodology, due to the exploratory nature of the research itself. Our ultimate goal is to develop theory about the returns management process within firms. As a first step, the focus of this research is returns management in

Western Europe, specifically within Italian firms. The Italian focus provides a useful starting point due to the changing environment brought about by European economic integration and a pan-European regulatory environment. This research setting provides an opportunity to study both firm-level factors as well as external factors that may influence how firms handle their returns management processes.

Background

Returns management in Italy was originally studied and approached as an accounting or production quality issue (Corsani, 1930; Ardemani, 1944; Onida, 1951; Saraceno, 1978). In the 1970-1980s, the notion of returns management in Europe became an issue related to sustainable development; recovery practices were mandated through environmental legislation. EU legislation and its green policy approach created sensitivity about products at the end of their life. Thus, reverse logistics came to be seen as a problem of sustainable development (De Brito and Dekker, 2004). The Northern European countries have a history of being involved in green issues, primarily focusing on consumer-level issues of waste and packaging recycling (Jahre, 1995a, b; Anderson and Huge Brodin, 2005). Recent legislation now mandates that all EU countries follow new legislative directives relating to packaging (Directive 99/31/EC), cars (Directive 00/53/EC), and electrical/electronic equipment (Directives 02/96/EC and 02/95/EC). These European policies stipulate that all member nations follow green policies in terms of reuse, recycling and product recovery.

The European Commission has shown interest in the development of the reverse logistics field by sponsoring international scientific projects through the European working group on reverse logistics, RevLog (Thierry *et al.*, 1995; Fleischmann *et al.*, 1997). This group has focused much of its efforts on issues such as inventory management, particularly in a remanufacturing context (Kleber *et al.*, 2002; Kiesmuller, 2003; Kiesmuller and Scherer, 2003) and issues of network design and product flow management (De Koster *et al.*, 2002; Kokkinaki *et al.*, 2002). The RevLog research has intensely focused on quantitative modeling of product recovery related issues.

In Italy, research has been limited to issues of sustainable mobility for urban transit situations (Borghesi *et al.*, 1997; Maggi, 2001) with some preliminary forays into supply chain and reverse logistics issues (Dallari and Marchet, 2003). Yet, reverse logistics and returns management issues have been absent from academic research and management attention in Italy until very recently. This is primarily due to the small size of 90 percent of Italian firms where the priority is forward logistics. However, due to the new green laws being enacted across Europe and changing market opportunities (Christopher and Peck, 2003; Borghesi, 2006) academic interest in reverse logistics and returns management is now developing in Italy. The current research represents a preliminary attempt to understand the returns management phenomenon from the perspective of Italian managers.

More generally, returns management literature has roots in both the marketing and logistics disciplines, with the early focus on reverse channels and reverse logistics, respectively. One early attempt in the marketing literature by Stanton and Zikmund (1971) focused on the role of the consumer in the reverse distribution channel for waste materials, exemplifying marketing's early focus on environmental issues (Lavidge, 1970). The study of waste disposal was deemed a social marketing issue; reverse channels of distribution were seen as a logical extension of the marketing

function, designed to bridge the physical and nonphysical gaps that exist between producers and consumers (Ginter and Starling, 1978).

By the 1980s, the logistics literature focused on product flow “going the wrong way” (Lambert and Stock, 1982), that is, the opposite way with respect to the traditional flow (Murphy and Poist, 1989). In particular, Stock (1992) was the first to approach the issue with a holistic view, trying to create an academic framework for understanding the reverse flow, with emphasis on managing returns as a problem to be solved. Kopicki *et al.* (1993) studied the opportunities created in the context of reuse, recycling and disposal of product and packaging waste. Because of the different implications of the reverse flow, they concluded that reverse logistics was becoming an important issue with respect to waste reduction. These authors also observed that reverse flows need to be managed differently than forward flows.

The changing regulatory environment also motivated academic research in the 1990s. Both American and European laws were becoming increasingly strict for manufacturers (Cairncross, 1992), leading to a focus on environmental management systems (Willits and Giuntini, 1994) across the phases of the product life cycle. Thierry *et al.* (1995) focused on issues of product recovery in specific sectors, with particular attention on cost savings associated with refurbishing activities. Other authors addressed the relationship between reverse logistics and green logistics (Güngör and Gupta, 1999; Geyer and Jackson, 2004). This stream of research centered around the cradle-to-grave approach, considering the environmental impact of waste product or packaging materials (Witt, 1986, 1993; Barry *et al.*, 1993; Ansel, 1995).

The emphasis on management practices has led researchers to examine the profitability of returns handling systems (Ansel, 1997). Rogers and Tibben-Lembke (1999) surveyed American firms and found a growing emphasis of cost reduction in managing return systems. Other researchers (Guide and van Wassenhove, 2003; Dyckhoff *et al.*, 2004) have focused their research on product recovery to reduce production costs. Blackburn *et al.* (2004) recommend the need to make disposition decisions as soon as possible in the returns process due to the time-sensitivity of most returned goods. That is, the longer it takes to make the disposition decision on a returned product, the lower the expected market value of that product when re-inserted into the forward supply chain. This is supported by Rogers *et al.* (2002), who position the returns management process as a part of a firm’s overall supply chain strategy. They demonstrate the impact of returns management on economic value added and on customer and supplier relationships. Their focus on returns avoidance, gatekeeping, reverse logistics and disposal demonstrates the need to manage returns across multiple functional areas and with firms across the supply chain. Shifting from merely a cost-focus to enhanced customer service and financial performance clearly underscores the strategic role of returns in a company’s supply chain activities.

Both Dowlatshahi (2000) and Carter and Ellram (1998) reported that the preponderance of the literature on reverse logistics was general, practitioner oriented and took the form of application cases specific to individual firms. Drawing from the logistics, marketing and management literature, Carter and Ellram (1998) proposed a model of the factors affecting a firm’s reverse logistics practices, including both external and internal factors. Following their call for theory-based research, Daugherty *et al.* (2001, 2002) provide some of the few theory-based approaches found in the literature to date, focusing on resource and relationship commitments and their

impact on overall reverse logistics performance. But little is known about how marketing and logistics managers integrate their decisions and processes with respect to returns. The current research begins to address this issue.

Methodology

Because the phenomenon of returns management from a cross-functional perspective has been previously unexplored, a qualitative research methodology was chosen. Such an approach is appropriate for generating depth of understanding when a phenomenon is poorly understood (Flint *et al.*, 2002) and over which the researcher has limited or no control. In seeking to understand the role of returns management within Italian firms, a grounded theory approach was adopted (Ellram, 1996; Strauss and Corbin, 1998). Grounded theory has its roots in social science, and is focused on understanding how people perceive and interact within a dynamic world (Flint and Mentzer, 2000). This approach has been adopted by other researchers studying phenomena in the business-to-business context (Flint *et al.*, 1997, 2002).

We used a modified theoretical sampling approach (Strauss and Corbin, 1998) due to scheduling constraints faced by the research team. Firms deemed to be appropriate candidates were pre-identified and invited to participate in the research. The invited firms were known to one member of the research team, based on long-standing relationships between his university and the relevant business community. Invitations to participate were purposefully extended to firms across different industry sectors and supply chain echelons with the expectation that such diversity would generate a breadth of issues and perspectives. Invitations to participate were sequentially extended until diversity in the sampling pool was achieved. In all cases, senior-level managers were approached; five firms agreed to participate. Each senior manager coordinated the roster of participants in his company, with guidance from the research team related to identification of appropriate functional responsibilities. In all cases, interviewees were influential decision makers involved in the returns management process.

In the end, the participant pool consisted of three manufacturing firms and two distributors of international parent firms, representing consumer durable goods; auto parts; books; pharmaceuticals; and transmission and propulsion systems for marine applications. A total of 16 managers across the five companies were interviewed, reflecting diversity along several dimensions such as function (marketing, sales, logistics, spare parts, supply chain) and level (strategic and operational), tenure on the job, organization size, industry, product lines and supply chain role. A brief description of the participating firms is provided in Table I and a profile of the managers is provided in Table II.

In lieu of formal bracketing interviews, each member of the research team wrote a "bracketing essay" prior to conducting the interviews. Bracketing is a technique to minimize researcher bias with respect to both content and interpretation of interview subject matter (Briggs, 1986). The researchers reviewed the essays with each other so as to sensitize themselves to any pre-conceived biases or expectations, and to maximize objectivity during the interviews. Additionally, the essays provided a reflective analytic framework during interpretation of the interview transcripts. In essence, bracketing is a comparative technique to reduce interpretive bias, i.e. every effort was made to ensure that the research team did not impose any pre-existing conceptions relative to what the data revealed (Valle *et al.*, 1978; Thompson *et al.*, 1989).

Company name ^a	Industry sector	Supply chain echelon	Description
Happy Home	Household appliances	Manufacturer	This multi-national (headquartered in Italy) operates in four different business sectors: heating, air conditioning and air treatment, food preparation and cooking, cleaning and ironing products Revenues are approximately €1.4 billion (Italy) Competition in the market is very intense based on factors such as innovation, quality and price. One of the main issues for this market is the growing power of retailers, particularly in the UK and Germany. Moreover, the consumer is becoming increasingly sophisticated and demanding
Booksters	Book publishing	Manufacturer (publisher)	This domestic firm is a large publisher of books and magazines, serving three distinct channels: small independent booksellers, hypermarket and mega-stores Revenues are approximately €1.6 billion (Italy) Each channel presents different opportunities and challenges and therefore must be managed very differently, albeit with the same product in each channel. In all three channels stock availability on the retail shelf is critical Little competition exists, but changes in the consumer market and opportunities for developing new channels will bring about environmental change in coming years
KarPartz	Auto spare parts	Distributor	This national distributor of auto parts/components for an important multinational, also serves a small portion of North Africa, but its main market is Italian car dealers Revenues are approximately €4.6 billion (Italy) With the implementation of the pan-European block exemption rule (2002), competition has increased, principally because this firm lost its sole distributor status
Pharmco	Pharmaceuticals	Distributor	This Italian subsidiary of an international pharmaceutical company engages in R&D, marketing, manufacture and distribution of pharmaceutical and healthcare products. The company serves two main channels: hospitals and pharmacy Revenues are approximately €34 billion (worldwide) The firm operates in a public healthcare system that imposes many constraints on providers
MarineWorld	Marine propulsion and transmissions	Manufacturer	This multinational company has headquarters in Italy Revenues are approximately €72 million (Italy) The market is not competitive, but is very demanding in terms of quality and performance of the product. Yet the end consumer has no knowledge of who this part manufacturer is

Note: ^aPseudonyms are used to protect the identity of the firms

Table I.
Profile of participating firms

Participant pseudonym	Organization	Description
Davide	Happy Home	Supply Chain Director, male, age 45, ten years with firm; responsible for global supply chain
Alberto	Happy Home	Export Service Manager, male, age 37, six years with firm, previous experience as product manager
Luigi	Happy Home	Regional Sales Director Europe, male, age 40, 12 years with firm in two different periods; export sales manager prior to current position
Massimiliano	Happy Home	Logistics project Manager, male, age 35, eight years with firm; directly involved in firm's offshoring manufacturing activities
Stefano	Booksters	Physical Distribution Director, male, age 45, ten years with firm, responsible for all inbound and outbound books coming from the customers and from production
Fabio	Booksters	Sales Hardcover Line Director, male, age 50, 12 years with firm, responsible for the sales people that work with book retailers
Alessio	KarPartz	Logistics Director, male, age 44, 15 years with firm, responsible for more than 250 people, 90,000 items, four wagons per day and 30 trucks every day
Francesco	KarPartz	Logistics Warehouse Manager, male, age 38, 17 years with firm, responsible for more than 180 workers in the warehouse
Antonio	KarPartz	Spare parts Purchasing and Distribution Manager, male, age 37, 18 years with firm, sales manager for spare parts service manager in the light commercial vehicles division prior this position
Angelo	Pharmco	Supply Chain Management Director, male, age 38, two years with firm, responsible for all the issues of Italian supply chain (distribution to customers, dealing with customers both hospitals and wholesalers, demand planning activities, warehousing and distribution until the invoicing to the final customer)
Chiara	Pharmco	Customer Service Manager, female, age 30, responsible for the aspects related to customer master data management and administrative problems (invoicing and pricing)
Michele	Pharmco	Trading Strategy Coordinator, male, age 45, responsible for pricing, competitive bidding processes, projects and special aspects of the hospital channel
Gabriele	MarineWorld	Operations Director, male, age 55, responsible for activities and processes related to the manufacturing, assembly, logistics, quality control, all the systems, safety environment and process engineering
Pino	MarineWorld	Service Manager, male, age 36, responsible for training on the new products and post-sale customer support through worldwide service networks
Tiziano	MarineWorld	Sales Manager, male, age 34, manages three main customers; responsible for the budget, for sales planning, pricing and new product development
Matteo	MarineWorld	Logistics Manager, male, age 40, 22 years with firm, responsible for production planning

Table II.
Profile of management participants

Notes: All participants are key managers for their firms with decision-making power; pseudonyms are used to protect the identity of the participants; some ages are estimates

Although the returns management process is an organizational – even a supply chain – phenomenon, we chose to focus on individual managers' perceptions of the management process. Interviews were held individually with each participating manager, and each interview lasted 60-90 minutes. The depth interviews were open ended and discovery oriented, starting with a grand tour technique borrowed from ethnography (McCracken, 1988). An interview guide that broadly identified topics of interest was used to follow up the grand tour technique. These topics were identified from previous research in returns management (Carter and Ellram, 1998; Rogers *et al.*, 2002; Mollenkopf and Closs, 2005). However, as the interviews progressed, new topics were allowed to emerge as they were brought up by the interviewees. All interviews were digitally recorded and transcribed verbatim, as were the debriefing discussions held by the research team after each set of interviews. The debriefing sessions were conducted because of the inability to code transcripts of each interview before proceeding to the next participating company, as advocated by Strauss and Corbin (1998). Thus, we attempted to solidify our perceptions and thoughts with respect to what we were hearing as we went along. The debriefing discussions were used to guide future interviews, particularly as new ideas arose. All interviews were conducted in English with the exception of two conducted in Italian. The Italian transcripts were then translated into English by a professional translator. The Italian member of the research team provided additional validation when interpreting the meaning of the translated interviews. Because we achieved information redundancy via the modified theoretical sampling approach, we were comfortable that theoretical saturation had been achieved.

To ensure rigor in the data collection and analysis, we employed two sets of trustworthiness criteria appropriate for qualitative methodology. From interpretive research we applied criteria related to credibility, transferability, dependability, confirmability and integrity (Hirschman, 1986); from grounded theory we applied criteria of fit, understanding, generality, and control (Strauss and Corbin, 1998). Table III demonstrates that the data and analyses met these criteria.

Results

We focus the discussion of our results around four inter-related aspects that emerged from the interviews: first, the role of the returns management process; second, the nature and impact of cross-functional integration; third, supply chain orientation; and fourth, external factors that influence the returns management process. Figure 1 shows these aspects of the returns management phenomenon.

The role of the returns management process

Senior management in four of the five firms acknowledges that the returns management process is not a top priority, but the reasons vary across the firms. In *Happy Home* (pseudonyms have been used for company names), returns management (and particularly the spare parts business which comprises a significant portion of returns management activities) is not a top priority, although it was noted that it is becoming an increasingly problematic issue. At this point in time, however, the firm has too many "forward" problems for returns management to be perceived as a priority. In *Pharmco*, returns management is not a major component of its business, and the firm hopes that it never will be, for legal and safety reasons. Its primary

Trustworthiness criteria	Method of addressing criteria in this study
<p><i>Credibility</i> Extent to which the results appear to be acceptable representations of the data</p>	<p>Bracketing essays were utilized during interpretation by the research team Three research team members gave input during data collection and interpretation Interviewers allowed participants to respond to interviewers' initial interpretations Result: emergent models were altered and expanded</p>
<p><i>Transferability</i> Extent to which the findings from one study in one context will apply to other contexts</p>	<p>Modified theoretical sampling Result: data from all participants were represented by the theoretical concepts</p>
<p><i>Dependability</i> Extent to which the findings are unique to time and place; the stability or consistency of explanations</p>	<p>Many experiences covering recent and past events were reflected upon by the participants Result: regardless of position of the firm and when the story took place, consistency was found across participants' stories</p>
<p><i>Confirmability</i> Extent to which interpretations are the result of the participants and the phenomenon as opposed to researcher biases</p>	<p>Interpretations, documents and summary of preliminary findings were independently reviewed by the three researchers Finding: interpretations were broadened and refined</p>
<p><i>Integrity</i> Extent to which interpretations are influenced by misinformation or evasions by participants</p>	<p>Interviews were of a non-threatening nature, anonymous and professional Result: researchers never believed that participants were trying to evade the issues being discussed</p>
<p><i>Fit</i> Extent to which findings fit with the substantive area under investigation</p>	<p>Addressed through the methods to establish credibility, dependability and confirmability Result: concepts were more deeply described, and theoretical integration was made more fluid and less linear, capturing the complexities of social interaction discovered in the data</p>
<p><i>Understanding</i> Extent to which participants by into results as possible representations of their worlds</p>	<p>Participants were asked during the interviews to confirm if researchers initial interpretations were accurate Result: colleagues and participants bought into the interpretations and subsequent findings</p>
<p><i>Generality</i> Extent to which findings discover multiple aspects of the phenomenon</p>	<p>Interviews were of sufficient length and openness to elicit many complex facets of the phenomenon and related concepts Result: captured multiple aspects of the phenomenon</p>

Table III.
Trustworthiness of the study and findings

(continued)

Table III.

Trustworthiness criteria	Method of addressing criteria in this study
<i>Control</i> Extent to which organizations can influence aspects of the theory	Some variables within the theory are aspects over which participants would have some degree of control Result: participants can influence returns management process

Source: Adapted from Flint *et al.* (2002, p. 106) and Flint and Mentzer (2000, p. 23)

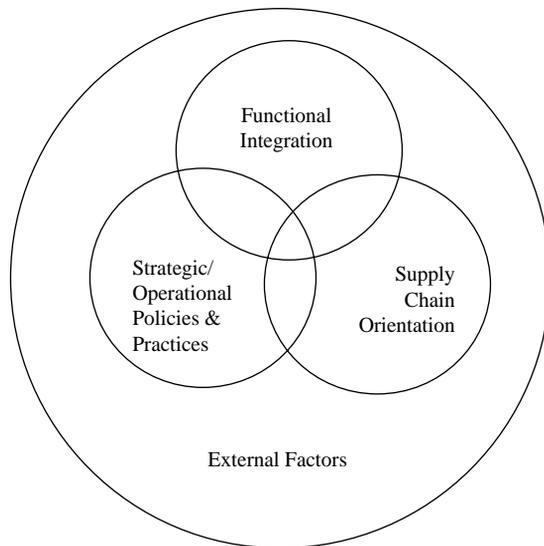


Figure 1.
A general model of the returns management process

responsibility is to be prepared to handle product recall situations and ensure that procedures are in place and strictly adhered to when and if a recall occurs.

Operational policy supports returns management at *KarPartz* and *Booksters*. That is, these firms think of their distribution channel as both a forward and backward flow. Although viewed as a normal activity, *KarPartz* policy mandates that outbound orders always take precedence over return goods in regard to space on delivery vehicles. At *Booksters*, managers have recognized the costs involved in managing returns and have proactively revamped the supply chain to minimize the volume of return goods.

Only in *MarineWorld* is returns management specifically stated as a primary priority. Ironically, the firm has very few returns. Management believes this is the case because a return is a very expensive proposition; intensive efforts are made to understand the context within which its specialized products are used so the firm may avoid returns. Quality verification and validation, in conjunction with understanding product usage at the end customer level, is inextricably tied to the returns management process in this firm.

Strategic level. Rogers *et al.* (2002) discuss the returns management process at both the strategic and operational levels. In this research, clear patterns emerged of strategic vs operational approaches to returns management. Even though returns may not be considered a priority for all five firms, each views returns management goals strategically, in multiple ways. First, a number of the firms increased customer loyalty by decreasing the risk of a return for their customers. *Happy Home* acquiesced to the increasing level of retailer power. *KarPartz* is particularly concerned with maintaining its customer base due to regulatory changes which have increased competition and provided more choices for the end consumer. *Booksters* has always considered that making the returns management process easy for its retailer customers is a given; this is particularly true with regard to its smaller customers. All but one of the firms (*MarineWorld*) pull products from customer shelves to refurbish or dispose of product in order to protect marketing channels, i.e. to ensure that product does not wind up being devalued in secondary markets or inappropriate channels. In a related manner, *Happy Home* and *Booksters* seek to improve profitability by pulling poorly selling product and replacing it with new, improved products. *Pharmco* does the same, in order to keep product past its “use by” date out of the market. Returns management is an integral component of this strategic approach. Additionally, *KarPartz* and *Booksters* utilize asset recovery programs within the returns management process, recovering delivery and packaging containers on a regular basis.

The development and use of returns avoidance, gate-keeping and disposition guidelines are integral components of these firms’ strategies. The literature suggests that a firm identify types of returns, as well as develop policy and screening mechanisms to execute these guidelines (Rogers *et al.*, 2002; Lambert, 2004). Both *KarPartz* and *Happy Home* expressly indicated that they have specific policy directives which identify the types of returns handled. For example, *Happy Home* divides returns into reasons of quality, commercial and logistics. Procedures also exist for merchandise under warranty as opposed to not under warranty. *Karpartz* has similar identifications for returns of different categories.

Returns avoidance is a critical component of the returns management process for most of these firms. *KarPartz*’s priority is to achieve returns reduction through SKU and inventory reduction; *Booksters* revamped its supply chain to minimize the volume of return goods by producing less inventory upfront and replenishing faster; *Pharmco*’s emphasis on improved order entry and order fulfillment efficiencies, and reduced transportation damage drives its focus on reducing returns; and *MarineWorld* emphasizes quality verification and validation in design and manufacturing.

Gate-keeping involves the screening of both a return request and the returned merchandise. All the firms have a gate-keeping policy. The authorization of a return request is housed in the marketing department of all of the firms except in *Pharmco*, where it is handled by logistics because returns are usually due to logistics “mistakes” (e.g. wrong product or damaged in transit). The physical screening process of return merchandise is performed at the customer locations. Authorization and physical screening seek to prevent unwarranted merchandise from entering the channel. Finally, all the firms perform a disposition activity which is performed in-house, except *Booksters*, which outsources this activity.

All the firms utilize a returns network and related product flow policies and procedures. *Happy Home*’s process is somewhat haphazard; *KartPartz* and *Pharmco*

have explicit policy and procedures in place. All of the firms have credit rules and accompanying procedures, which determine how the return goods are to be valued, and these seemed to be well-established, although there is a degree of human subjectivity involved in this value determination.

With respect to performance measurement and the returns good process, *Happy Home* makes minimal use of metrics; *Pharmco* and *KarPartz* have a set of measurements in place; *Booksters* utilizes its 3PL to collect this information, particularly productivity numbers; *MarineWorld* collects return goods information as part of its normal operations. A summary of the strategic elements of the returns management process found in the five firms is provided in Table IV, which shows that the firms do focus on returns at a strategic level, although not consistently across all the elements identified by Rogers *et al.* (2002).

Operational level. Rogers *et al.* (2002) identify several operational level returns management components. Gatekeeping at the operational level is oftentimes challenging for these firms. While the authorization procedure is an internal decision, the physical screening of the product at the initial point of return is carried out by other supply chain members (i.e. their customers). Specifically, *KarPartz* and *MarineWorld* receive return requests from their dealers, *Happy Home* and *Booksters* receive return requests from retailers, and *Pharmco* receives return requests from hospitals and pharmacies. In each of these circumstances, retail store-level clerks and other customer front-line personnel are often unwilling or unable to gatekeep returns, therefore the operational gatekeeping procedure can be problematic (Lambert, 2004) for the five firms. This is a primary reason why returns avoidance is such a priority. *Happy Home* is the only firm in our sample that does not have any explicit returns avoidance strategies in place; this may be one reason the marketing manager reported that the firm is being battered by the increased power exerted by the larger retailers – the lack of strategy results in operational mayhem.

Routing of the return goods is driven by the returns authorization procedure and is well established and well handled by firms via set policy procedures. When the product is physically received, verification, inspection and processing activities take place. Generally, this is a manual process, as was observed at *KarPartz's* and *Booksters'* facilities. At *KarPartz*, *Booksters*, and *Happy Home*, reason codes were assigned to all returns (because physical returns are so infrequent for *Pharmco* and *MarineWorld*, this issue was not explored with them).

After receipt of goods, disposition of the products must be determined. According to Rogers *et al.* (2002), this typically includes refurbishment, re-manufacturing, disassembly for parts, recycling, re-selling as is or via secondary markets, or scrap. *KarPartz* employees perform a number of these disposition activities via a series of defined written policy procedures at one of its return facilities; *Booksters* recycles almost all of its product; *Pharmco* destroys all of its product due to legal compliance regulations, and does so under control of government authority; *Happy Home* returns are sold to refurbishment companies or sent to local scrap firms; and *MarineWorld* negotiates options with customers on the rare occasion that a return must be made.

Customers must receive credit for their returns, and this activity requires negotiation and pre-established rules. For *Happy Home*, such negotiations are oftentimes a contentious process. *KarPartz*, *Pharmco* and *MarineWorld* follow very well-established procedures, as does *Booksters* – but the latter is flexible especially in

Table IV.
Summary of strategic
elements of returns
management processes

	Happy Home	Booksters	KarPartz	Pharmco	MarineWorld
<i>Strategic level</i>					
Determine RM goals and strategy	Yes	Yes	Yes		
Increase customer loyalty through more open return policies				Yes	N/A
Protect marketing channels; pull product from customer shelves to refurbish/dispose, to ensure product does not wind up being devalued in secondary markets or inappropriate channels	Yes	Yes	Yes	Yes	
Seek to improve profitability by keeping product "fresh" in the marketplace					
Utilize asset recovery programs (for packaging and delivery containers)	Yes	Yes	Yes	Yes	Yes
Adherence to legal/environmental compliance regulations is strategically important					
Develop avoidance, gatekeeping and disposition guidelines	Yes	Yes	Yes	Yes	Yes
Guidelines seen to be integral to firm strategy	Yes	Yes	Yes	Yes	Yes
Identify returns by type	Yes	Yes	Yes	Yes	Yes
Focus on returns avoidance	Yes	Yes	Yes	Yes	Yes
Focus on gatekeeping	Haphazard	Yes	Yes	Rarely used	Rarely used
Develop returns network and flow options	Yes	Yes	Yes	Yes	Yes
Develop credit rules	No	N/A	Not yet	N/A	N/A
Determine secondary markets	Minimal	Productivity-focused	Yes	Yes	Yes
Develop framework of metrics					

regard to its smaller customers (who have historically used returning goods as a mechanism to avoid paying for new products that they are interested in purchasing).

Finally, the analysis of returns and measurement of the return goods performance revealed that all the firms are very focused on cost reduction and asset reduction metrics, but do not appear to be very aware or very intent on measurement with respect to return goods' impact on short- or long-term sales, except *MarineWorld*. It should be noted that it is much easier to measure the cost components that the firms do focus on, rather than on sales impact. *MarineWorld* is the only company that performed analysis with respect to future returns avoidance, or set goals to improve future performance. Table V summarizes these findings at the operational level.

Section summary. While the returns management process is not considered a priority in the five firms, there is strong evidence that there are significant strategic goals and policies in place, not just an operational mind-set. It is also clear in Tables IV and V that returns management strategies and operational activities are incomplete at all firms. This probably relates to the non-prioritization of the returns management process. It also indicates that the strategic goals and policies related to returns management occur primarily in relation to other supply chain and/or logistics initiatives that carry a higher priority internally (e.g. focus on customer loyalty or customer service). Thus, what returns management successes these firms are enjoying occurs in spite of the low prioritization of returns management itself.

Cross-functional integration

The degree and depth of logistics-marketing integration within each of the firms varies considerably. Three of the firms exhibit high levels of cross-functional integration, but for very different reasons. We would expect to see high levels of integration at the two firms for whom returns were a "normal part of operations." Indeed, *KarPartz* scores high on integration because it recognizes that service to the dealers – which relies upon marketing and logistics working together – is the firm's competitive differentiator. The legal environment in Europe recently changed the face of competition in this industry, causing *KarPartz* to lose its sole-distributorship status in Italy. Thus, the importance of service as a differentiator is becoming increasingly clear as prices begin to drop in the marketplace. The returns management process, which is an integral component of the service offering, is therefore benefiting as well. *KarPartz* is very customer focused (both dealer and end consumer), and the firm's efficiency is achieved without sacrificing service. However, well this integration plays out through the firm's service performance, we note that the integration mindset appears to exist only at the senior level of the firm, not at the operational levels. Likewise, at *Booksters*, integration is strong due to a good working relationship between marketing and distribution managers, which has not always existed. In fact, *Booksters* is the only firm that explicitly stressed the strong personal working relationships of people across functions as a key reason why integration has improved so much in the last five years.

Pharmco is the third firm that exhibits high levels of integration, although the coordination between logistics and accounting is what stands out most prominently. This integration exists for two reasons. First, the firm experiences significant financial exposure due to the long cash-to-cash cycles which exist in this business model. Second, compliance with Sarbanes-Oxley has further increased the integration between logistics, and accounting (and marketing, as well).

Table V.
Summary of operational
elements of returns
management processes

	Happy Home	Booksters	KarPartz	Pharmco	MarineWorld
<i>Operational level</i>					
Process return request	Marketing Yes	Marketing Yes	Marketing Yes	Customer service Yes	Marketing Yes
Determine routing	Process varies by country	Established, varies by channel	An established, manual process	An established, manual process	An established, manual process
Receive returns	Refurbishing or scrap	Recycles	Multiple disposition options	Destroys, under control of government authority	Negotiate options with customers
Select disposition			Well established	Well established	Well established
Credit customer/supplier	Inconsistent across markets; often contentious	Well established, but flexible with smaller customers	Well established	Well established	Well established
Analyze returns and measure performance	Focus on cost reduction	Focus on cost/asset reduction	Focus on cost reduction	Focus on cost reduction	Focus on sales impact, improvement and returns avoidance

At the other end of the integration spectrum are *Happy Home* and *MarineWorld*. *Happy Home* exhibits a clear lack of marketing-logistics-spare parts integration. This situation is primarily created because there is poor sales visibility across the firm. The problem is now recognized as such, and is reflected in an increasing awareness of the importance of those internal customers who manage spare parts activities. There is also poor integration between marketing and logistics for product flows. The logistics manager at the firm was the only mid-level manager who acknowledged the need for marketing and logistics to “talk to each other.”

The issue of integration at *MarineWorld* is puzzling. The firm is very focused on the end-user and highly collaborative with its channel dealers. Conversely, the firm is very internally focused around a production mentality. There is very little visibility or sharing of information across functions despite the use of SAP systems. Logistics is primarily a plant-based activity that revolves around production planning. There is no upstream/downstream awareness in the logistics function. Likewise, the marketing function is primarily a sales function, which sees no need to get involved in production planning decisions. Thus, the level of marketing-logistics integration is very low in this firm.

Section summary. One generally thinks of the returns management process as primarily a physical flow, but *Pharmco*, *KarPartz*, and *Booksters* point out the equally important task of managing financial/administrative flows in the returns management process. It would appear that marketing-logistics integration, using returns management as a proxy, is best achieved when visibility of information is high and strong personal relationships are able to support the information exchange. This is consistent with the logistics literature relating to integration (Mollenkopf *et al.*, 2000; Daugherty *et al.*, 2002).

Supply chain orientation

In our investigation of integration, we discovered a link to a firm’s managerial horizons. Does the firm “see” the upstream suppliers and downstream customers (including second tier and beyond), and does the firm understand the implications of managing the upstream and downstream flows of products, services, finances and information across all organizations in the supply chain? This finding extends the current definition of supply chain orientation (Mentzer *et al.*, 2001) to suggest that supply chain orientation includes both the forward and reverse supply chain.

A weakness with regard to internal functional integration and the related ability to possess a broad supply chain orientation limits each of the firms’ returns management process, with the possible exception of *Booksters*. Senior management in *Happy Home* stated that organizational culture is important to supply chain integration (i.e. forward and back), but that the firm is “not there yet” (per Davide, Supply Chain Director). Today, the supply chain is viewed as a forward flow, while “backward [flow] is a problem.” In *KarPartz*, top management displays a supply chain orientation, although this is primarily a distributor – dealer view. At the higher levels, the supply chain is viewed as an integrated forward and backward flow, but this orientation does not permeate the more operational levels of the firm. *Booksters* management possesses a broad supply chain orientation, the firm views the entire channel from publishing to the end consumer (in a forward and reverse manner), and has taken action which reflects that it understands the implications of such an orientation.

Pharmco management views returns management as a supply chain responsibility and the supply chain director has good supply chain orientation. However, the firm's responsibility is country-specific outbound distribution, and all upstream inbound activities are managed more centrally in the organization, thus even this view is somewhat limited. *MarineWorld* did not provide any evidence of having a supply chain orientation. As mentioned previously, logistics is a plant-based mentality that revolves around production planning. While the company does focus on the end customer, this does not translate into a broader orientation of the downstream supply chain. The customer focus, while acknowledged to be important, does not transcend the internal functional silo approach to create a notion of process management across the supply chain. Equally evident was the apparent limited focus on upstream supply chain participants.

Section summary. Consistent with the literature, we saw solid evidence of the inability to effectively possess and drive a supply chain orientation due to a lack of cross-functional awareness and execution (Lambert *et al.*, 1998; Stank *et al.*, 2001). The firms generally understand the importance of functional integration in improving the returns management process, but acknowledge that performance in this area requires considerable improvement.

External factors influencing the returns management process

Another issue that became evident throughout this research relates to the external influences on the way the firms perceive, strategize or manage the returns process. External influences derive from customers, the competitive environment and the regulatory environment. These factors provide an interesting context for evaluating many of the returns management issues discussed previously.

Customer environment. The immediate customer of each firm is a retailer/dealer. No firm interacts directly with the consumer. Ironically, *MarineWorld* – the least integrated firm of the five with no explicit supply chain orientation – is most aware of the needs of its end consumers, due to the demanding nature of marine pleasure craft owners around the world. *Happy Home* is being heavily influenced by the customer market. Powerful retailers are extending increasingly favorable returns policies to their consumers, and in turn demanding that the manufacturer honor the return and credit the retailer. While the powerful retailers from the USA, UK and Germany started the returns “trouble” (terminology used by Luigi, Regional Sales Director, Europe), similar retailer expectations with respect to returns is creeping across Europe. The lack of a real returns avoidance strategy and a haphazard approach to managing the reverse flow of product, coupled with this firm's weak functional integration and lack of supply chain vision are converging to create a difficult situation for *Happy Home*. *Booksters* is also facing a changing retail environment as large footprint chains continue to gain market share from the traditional independent booksellers. However, instead of becoming victim to the retailers' demands, *Booksters* is proactively managing its marketing channels, aided by its high levels of functional integration and holistic supply chain vision.

Competitive environment. *KarPartz* faces turbulence in its competitive environment. This turbulence has been brought about primarily from the European block exemption rule which opened the industry to more competitors. Having lost its sole distributorship rights in Italy, the firm must now compete for the dealer market.

The high level of logistics-marketing integration enables the firm to proactively compete on service, while maintaining efficiencies for cost control. *Happy Home* also faces turbulence in the competitive environment. The need to reduce production costs has driven the firm to outsource in China and it must now deal with the accompanying complexity of a longer supply chain.

Regulatory environment. *Booksters* is the only firm that faces no apparent regulatory issues. Environmental regulation such as the European Waste Electronic and Electric Equipment Directive and design for the environment regulations are impacting both *Happy Home* and *KarPartz*. While both firms acknowledge the additional complexity and cost that these regulations will bring to their supply chains, neither firm appears to be developing product recovery strategies or end-of-life plans for their products. *KarPartz* appears to be in a better position to handle the additional requirements of a returns management system under these additional constraints due to the “normal” role of returns in its supply chain and a higher level of logistics-marketing integration. However, both firms will soon need to face the changing world being brought about by these regulatory changes. *Pharmco* faces regulatory changes of a different sort. The firm has had to revamp its operations to comply with Sarbanes-Oxley, yet it acknowledges that the changes have actually enabled increased supply chain efficiencies.

Section summary. The key finding suggests that while environmental change is inevitable, some firms are better able or more willing to adapt to such changes. With respect to returns management, those firms that are more highly integrated, with strategic and operational procedures in place and a strong supply chain orientation appear to be better positioned to react, or “pro-act” to their changing world.

Discussion and future research

Investigation of the five firms’ returns management processes has shed light on a previously unexplored component of the returns management process in Italy. More importantly, the research provides a preliminary understanding of the role of the returns management process in a firm’s overall supply chain strategy. While differences across firms were expected due to the distinct industrial segments explored, we found many common themes emerging from the data. These relate to the strategic as well as the operational level. Using Rogers *et al.*’s (2002) framework of the returns management process, we were able to map many characteristics of the firms’ processes and develop an understanding of how far the firms have developed with respect to returns management, and in which areas they may need to address managerial attention. Both functional integration and supply chain orientation are related to a firm’s management of the returns process. Additionally, a firm’s awareness of the external environment, in the form of customer, competitive and regulatory issues, seems to have bearing on how a firm manages its returns activities.

Managerial implications

Managers can take away several relevant points from this preliminary research. First, they should monitor and respond to the external factors which influence returns. As customer, competitive and regulatory environments continue to change, returns are an increasingly important component in managing “green” issues, consumer protection issues, and perhaps most importantly legislative issues. Moreover, these external factors impact physical flows, information flows and financial flows in the

supply chain – the scope of such impact is quite broad. Second, effectiveness of returns management seems to be enhanced when functional areas within the firm coordinate their strategic and operational activities. Among the participating companies, those with higher levels of functional integration appear to be more adaptive and pro-active in managing returns. Thus, managers need to actively pursue the breakdown of functional silo-ism when it comes to returns management. Third, managers need to integrate their reverse supply chain with the activities and processes in their forward supply chains. We saw evidence that managing returns can impact product design to minimize return volume or to make the product conducive to further processing (e.g. refurbishment), can help protect marketing channels, and can add to supply chain efficiencies.

Speculation of a causal model

The non-longitudinal approach to our in-depth interview protocol does not permit us to define a cause-and-effect structural model. However, based on the extended periods of time covered by the participants' narratives as well as the nature of the participants' discussions, we can speculate on a causal model (Figure 2), and provide direction for future research and validation. Propositions to guide future research based on our causal model are presented in Table VI. While our current findings suggest relationships between the various constructs shown in Figure 2, the nature of the relationships needs to be further explored. For example, while our findings suggest that functional integration and effectiveness of a firm's returns management process are inter-related, we are unsure as to whether the relationship is direct or whether functional integration moderates the relationship between a firm's strategic/operational policies and practices and the effectiveness of the returns management process.

Research limitations and future research

Methodological limitations must be considered. The modified sampling procedure was carefully conducted to allow a priori both literal and theoretical replication in our data collection process. Redundancy of thematic issues did emerge through our interviews, suggesting theoretical saturation was achieved. However, additional research needs to be conducted with Italian firms to see whether other themes emerge that we may have missed due to the nature of our sampling process.

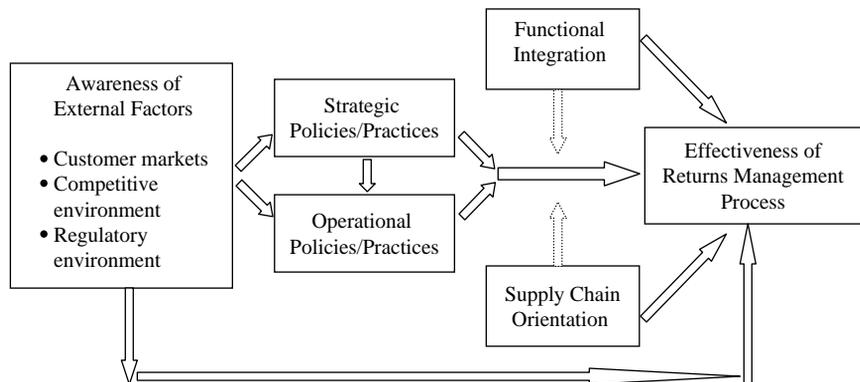


Figure 2.
A proposed causal model
of effective returns
management

Research proposition	Description
1	Strategic policies and practices are positively associated with the effectiveness of a firm's returns management process Operational policies and practices are positively associated with the effectiveness of a firm's returns management process Strategic policies and practices are positively associated with operational policies and practices
2	Functional integration is positively associated with the effectiveness of a firm's returns management process Functional integration moderates the relationship between strategic and operational policies and practices and the effectiveness of a firm's returns management process (alternative proposition)
3	Supply chain orientation is positively associated with the effectiveness of a firm's returns management process Supply chain orientation moderates the relationship between strategic and operational policies and practices and the effectiveness of a firm's returns management process (alternative proposition)
4	Awareness of external factors (customer, competitive and regulatory environments) is positively associated with a firm's strategic policies and practices Awareness of external factors (customer, competitive and regulatory environments) is positively associated with a firm's operational policies and practices Awareness of external factors (customer, competitive and regulatory environments) is positively associated with the effectiveness of a firm's returns management process

Table VI.
Propositions for future
research (as shown in
Figure 2)

Furthermore, our focus on Italian firms may in itself be limiting. Given the pan-European approach to many business practices, especially related to supply chain management, this research needs to be replicated in other national settings within western and eastern Europe to determine the robustness of the factors posited to be important to the returns management process. This is especially critical because returns management research and practice in Italy are still new and underdeveloped. Much can be learned by comparing results in Italy with practices in other European settings, such as The Netherlands or Scandinavia, where reverse logistics and sustainability issues are much more advanced in both practice and research. Ideally, this research will be extended beyond the horizons of Europe. For example, the external factors discussed in this paper may have very different influences on returns management in other parts of the world. Other factors may be even more important.

In this research, we focused primarily on the logistics-marketing interface to understand returns management, but clearly other functional areas are involved. Accounting/finance was particularly important for at least one of our firms. What role does it play in other firms? What other functional areas should be considered to better understand the returns process? Future research needs to further explore other functional linkages to develop a better understanding of integration as it relates to returns management.

We focused our efforts on single firms, and while we were able to ascertain their perceptions of broader supply chain issues related to returns, we still know very little

about the returns management process across the supply chains within which these firms operate. Future research could take a broader supply chain approach and study the returns management across firms. For example, collecting data from the customers and suppliers (at multiple tiers) of our focal firms should provide an extended understanding of returns management issues across the supply chain. Our focus on functional integration would then become a study of interorganizational integration.

Following the previous suggestion, we note that as supply chains continue to globalize, the impact on returns must be considered, and management processes need to be put in place to manage across the globally extended supply chain. For example, one of the firms we interviewed recently offshored some manufacturing activities to Asia; subsequently, it noted an unexpected decline in product quality, with a subsequent increase in return products. Alternatively, another company is on the verge of outsourcing production to Asia, but stated that they expect no changes in product quality to ensue. Is this because the managers at the second company are simply naïve, or do they have better processes in place to ensure that product quality is maintained and therefore, subsequent returns can be avoided? More importantly, the literature on supply chain globalization has not considered the impact that globalization will have on returns. Not only may quality issues cause an increase in return rates, but also returns avoidance will likely become more challenging for firms dealing with extended supply chains. The lead time involved in global supply chains may also create problems with respect to supplying replacement and spare parts. Thus, the issues related to globalization represent a rich area for future research on returns management.

Finally, future research needs to more specifically explore the role of returns management in firms' corporate social responsibility (CSR) initiatives. Although CSR was not a major topic of discussion with our participants, awareness of CSR was evident. As firms continue to develop and implement CSR programs, returns management as part of supply chain strategy may become increasingly important. Future research needs to be able to capture and assess the link between CSR and returns management.

Conclusion

Our purpose in this research was to develop an understanding of the linkage between functional integration and the way a firm manages its returns process. While we focused our attention on marketing and logistics integration, we discovered that other functional areas need to be incorporated into such research. Additionally, we identified several other factors that influence the returns management process; there may be more factors we have not yet discovered. Based on this work, we posit a preliminary theoretical model to guide future returns management research. The model needs to be further developed, but we believe theory will become an increasingly valuable tool to manage return flows within supply chains.

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