THE UNREALIZED COST OF RETURNS

A complete guide to quantify the true cost of B2B Returns for Distributors and Manufacturers

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Hidden Costs of B2B Returns

No matter how good the operation, returns are an unavoidable part of any Distribution business. Overlooked are the many hidden costs associated with returns that directly impact the bottom line. According to US Bank's 2023 CFO Report, Cost Cutting has become the #1 priority for finance leaders. However, cost cutting is being thought about in a completely new way heading into 2024.

' Cost optimization has ebbed and flowed as a priority for finance teams, but now it's right up there due to the uncertain economic environment and reduced consumer purchasing power. In an uncertain economic environment, everything needs to be reviewed, especially cost. It requires benchmarking with industry peers to become best in class. '

MANISH GUNDECHA

Head of Finance Transformation, HP Inc.

2023 CFO TOP PRIORITIES

1.

Pivot to new priorities:

Today, finance leaders rank cutting costs and driving efficiencies within the finance function as their number one priority. Two years ago, this was only eighth on the agenda. To allow finance teams to focus on this task, there will be much less time devoted to growth initiatives such as M&A, evaluating new business models and topics such as ESG.

2.

Reimagine operational function with technology:

Unlike two years ago, the primary plan to cut costs is to invest in new technology. The majority also believe that artificial intelligence (AI) could completely redefine how operations function. AI aside, there is strong interest in data analytics and cloud computing.

LOW RETURNS VOLUME DOES NOT NECESSARILY MEAN LOW COST

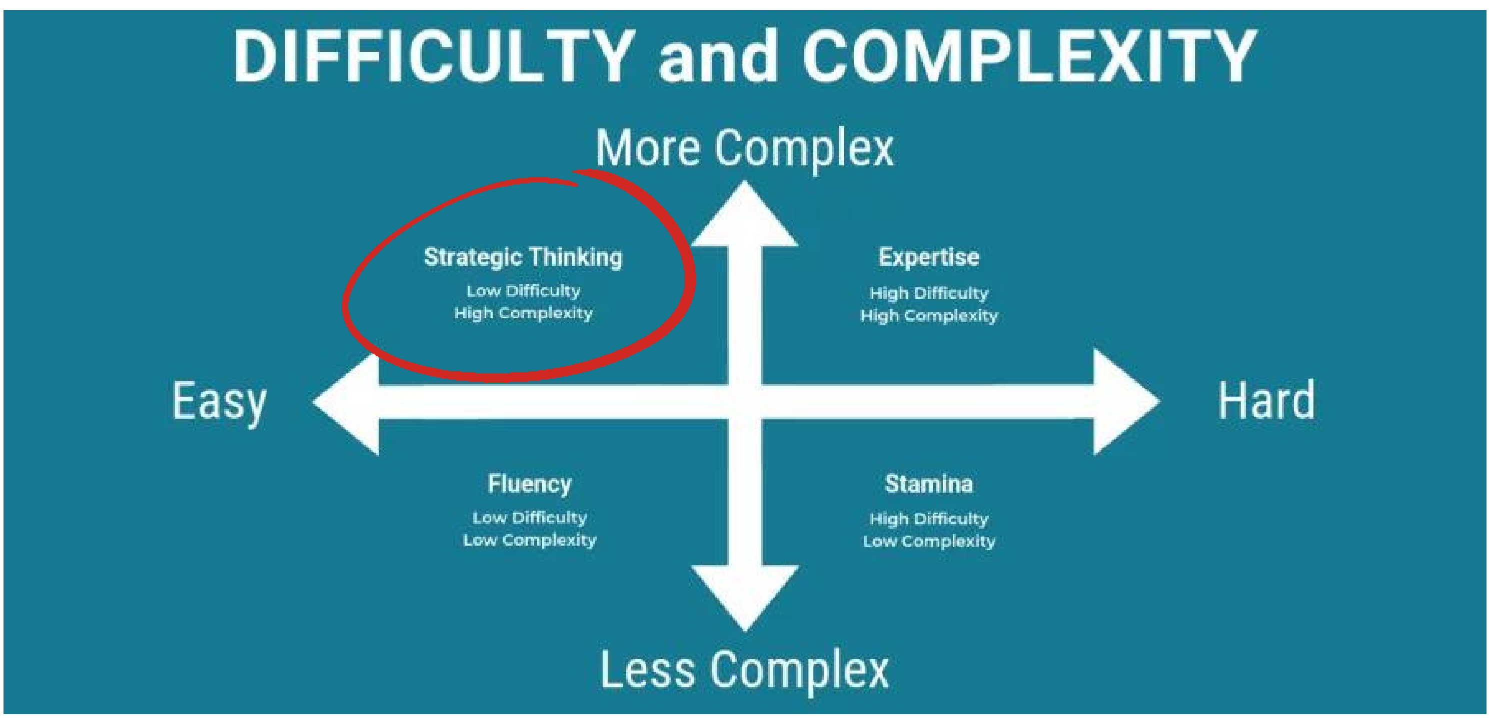
At Continuum, we often hear executives explain that returns are a small percentage of their overall sales. This is typical for most distribution organizations; however,

THE RETURNS VOLUME MAY NOT DIRECTLY CORRELATE TO PROFIT EROSION ASSOCIATED

↓ RETURN VOLUME ≠ ↓ RETURNS COST

THE B2C RETURNS PROBLEM IS A VOLUME ISSUE. THE B2B RETURNS PROBLEM IS A COMPLEXITY ISSUE.

The Challenge with B2B returns is the amount of decision making, number of parties involved, communications, disparate systems, and approvals required to process a single RMA.



5 Hidden Costs of B2B Returns

1. *CSR Time spent on manual data entry, customer follow-up, vendor communications and carrier disputes.*

2. *Missed credits from Vendors due to a disjointed process and lack of visibility to the end to end returns process.*

3. *AR Disputes over missed credits to customers leading to delayed cash recognition.*

4. *Warehouse delays due to returns congesting loading docks and distract warehouse teams from receiving stock and shipping orders.*

5. *Customer Churn due to other distributors being easier to do business with.*

According to a 2021 study from Emerald insight, B2C retailer returns cost approximately 17%-30% of the original sale price. However, in B2B this number is up to 10x higher costing up to 300x the original sale price due to the downstream impacts of a flawed B2B returns process.

Financial Highlight: Hard Cost Breakdown

To understand the true cost of a returns process on a distribution business it is important to understand the RMA lifecycle in granular detail with all costs associated.

**Exhibit A*

Activity & Actions	Activity Owner	Estimated Cost
RMA Request: Data Entry: -Phone/email communication with end user -Email back and forth to ensure all required information is provided	End User Customer + CSR	**$6.30 - $12**
Vendor approval Process: -Email communication with vendor to understand amount vendor will credit -Gather more information from end user to provide back to vendor -Finalize credit amount and apply restocking fees	CSR + Vendor + Product Specialist + End User Customer	**$10-$20**
RMA Authorization Process: -Approve the RMA for return and inspection Work with stakeholders to identify the correct location for returned product (vendor, owned warehouse, repair facility, other)	CSR + Supply chain team	**$5-$10**
RMA Follow Up: -Get Tracking Number details from client -Follow up to ensure product is being sent	CSR	**$4-$6**

Exhibit A Continued

Activity & Actions	Activity Owner	Estimated Cost
RMA Receiving: -Manual review of shipment to identify it is a return -Move product to returns location in warehouse -Manually inspect product to validate reason codes -Receive into stock or decide to 'end of life' product Create RMA receipt in ERP or WMS	End User Customer + CSR	**$20**
Applying credits: -Manually apply credit back to the customer account minus restocking fees	CSR + Vendor + Product Specialist + End User Customer	**$3.50 - $6**
Vendor Credits: -Manual follow up with vendor for credit *warranty, damage, carrier, product issue returns	CSR + Supply chain team	**$5-$10**

Total Cost for single RMA: $53.80 - $99

RMA COST MODEL

$50MM DISTRIBUTOR AVERAGES
1,600+ RETURNS PER YEAR

≥ $86,080 MANAUL LABOR PER YEAR

MISSED CREDITS FROM VENDORS

Return types that may require credits from vendors:

Repairs

Warranty's

Drop Ship Returns

Carrier Claims

Main Reasons Vendor Credits Related to Returns are Often Missed

1. *Manufacturer returns processes are just as disjointed as distributors. It is the distributors responsibility to ensure credit memos are given for returns.*

2. *Distribution and manufacturing companies have a wide gap between their ERP, Warehouse Systems, Financial reporting and vendor communication. It is easy for returns to get lost at any step within the process*

The Cost of Missed Vendor Credits on Returns

It is hard to quantify the number of missed vendor credits retroactively without a thorough audit process. However, vendor credits are one of the rare transactions in a Distribution organization that drop dollars directly to the bottom line. Ensuring these credits are applied have a meaninful impact on cashflow and profitability.

CASH RECOGNITION:
A/R DISPUTES DUE TO RETURNS

TOP 3 REASONS FOR A/R DISPUTES:

PRICE DISPUTES

TERM DISPUTES

CREDIT DISPUTES

WHILE RETURNS ARE A LOW PRIORITY ACTIVITY TO A DISTRIBUTOR, THEY ARE A HIGH PRIORITY TO END USER CUSTOMERS. THE WIDE GAP IN THIS VALUE CHAIN CREATES A POINT OF TENSION IN THE DISTRIBUTOR/CUSTOMER RELATIONSHIP.

RETURNS ISSUES LEADING TO A/R DISPUTES WITH CUSTOMERS

Lost returns:
- *in warehouse*
- *with carrier*
- *or customer never sent*

Return Denied but not communicated to customer

Return recieved but forgot to apply credit

STOP LETTING A POOR RETURNS PROCESS GET IN THE WAY OF CASH RECOGNITION

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2023

CONCLUSION

THE STATE OF B2B RETURNS

B2B Returns have remained largely unchanged over the past few decades. B2C buying experiences are driving pressures on B2B organizations to focus on the ease of doing business. Heading into 2024 it is imperative to quantify the total cost of B2B returns processes on distribution organizations. Effectively quantifying your Returns Cost includes Labor costs, A/R issues associated, profit dollar vendor credits missed, and customer experiences impacted.

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