Client Profile

The client is one of the largest retailers in the U.S. with over 300,000 employees working in roughly 2,400 stores. Revenues have grown steadily to over $68 billion. eCommerce and B2B are growing components of the marketing mix.

Situation/Problem

As the client's business grew, the amount of merchandise returned by customers also grew. Consultants from Actionable Strategies had already performed other Lean process work and were asked to look at the Reverse Logistics process which processed customer returns. This process has grown in prominence as digital customer touchpoints have become increasingly important.

Approach

Consultants applied Lean and Six Sigma tools to evaluate the process. Some of the more important approaches included:

- Process mapping including variant processes
- Site observations at stores in different locations
- Capture of key customer measurements
- Supplier metrics which was critical since the supplier in Reverse Logistics is the retail customer returning goods to the client
- Technology analysis of point-of-sale and ERP systems

Analysis of the Reverse Logistics Process revealed some anticipated situations as well as a troubling finding.
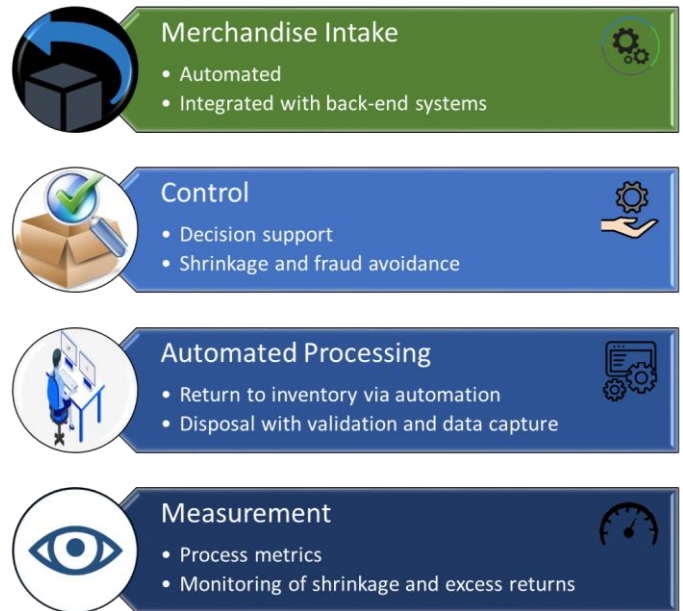
- Manual sub-processes made the return process inefficient impacting people returning merchandise.
- Because the processes were mostly manual, there was little governance with local supervisors and managers making decisions and issuing approvals leading to wide variances.
- Shrinkage rates (loss of merchandise due to theft) were high in the Reverse Logistics process, but only in certain locations. These numbers were not visible when viewed as part of aggregate shrinkage.

Solution

The solution involved a combination of process improvement and automation.

1. Define a Lean process that eliminated waste in a straight-through process
2. Automate the intake of merchandise
3. Implement controls to reduce shrinkage

Three additional sub-processes were added.

Merchandise Intake
- Automated
- Integrated with back-end systems

Control
- Decision support
- Shrinkage and fraud avoidance

Automated Processing
- Return to inventory via automation
- Disposal with validation and data capture

Measurement
- Process metrics
- Monitoring of shrinkage and excess returns

The new process eliminated specific opportunities for merchandise loss.

- Merchandise that was never put back into inventory and then sold privately by store associates
- Payment for returns of merchandise never purchased at the store but accepted and discarded as unsellable
- Reselling merchandise falsely accepted as damaged or unsellable for a fraction of the value, often to the party returning the merchandise

Results

The client was able to implement an efficient process which improved the experience for their customers. Shrinkage in the Reverse Logistics process was dramatically reduced and signaled that the company was focused on identifying illicit practices by associates.