I changed my mind

A study of product returns; how they can be managed to create opportunities and lower costs

Annika Lenart
Spring semester 2008

This study has been made as a basis for a master thesis and has been supervised by Dr. Joachim Timlon. Note that none of the data in this report is to be reprinted, reproduced or copied without the author’s written permission.
“I changed my mind” is a case study aimed at investigating returns. Returns are often negative occurrences and can be seen as the last “block” in a supply chain. However, what this study shows is that a return is a great source for customer profiling and can lead to an increase in market shares if managed correctly. Many companies go about investigating satisfied customers and what aspects these customers are satisfied with. Instead this research focuses on finding out what dissatisfied customer feel and why they decided to return a specific product. Investigations are also made concerning the internal processes to manage product returns and if they can be improved at the case company (thereby lowering costs).

This study shows how interrelated the supply chain is and illustrates how product returns can be lowered by changing the input in the supply chain. Reputation is a fragile thing and can be hurt from mismanagement related to returns and therefore I feel that it is important to study this phenomenon which is not often brought into light but nonetheless exits in almost every company (that offers returnable products).

Enjoy your reading and see how your company can prevent your customers from changing their minds.

Stockholm Spring 2008

Annika Lenart
ACKNOWLEDGEMENTS

Special thanks to Alfa for letting me investigate their organization in depth and for all their engagement and help, especially to the process manager for guiding me through the organization and for his patience. I also want to thank Beta and Omega who has found time to go through their involvement in the returns process and found my work interesting for which I am grateful.

I want to thank my family; my mother, father and sister, for their patience through this process, for listening, being there and for all their support. An extra thanks to my grandparents and their support all the way from Poland.

I want to thank my professor, Dr. Timlon, for guiding me through the process and believing in my abilities to solve problems that came up during my writing. I also want to thank Åsa Sjöblom for her support and her help at BBS, for making it possible for me to graduate in spring 2008.

Stockholm, 2008
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1. INTRODUCTION

*I changed my mind* is a title representing the viewpoint of a customer who has purchased a wireless modem and had a change of hearts, which in turn has lead to a *product return*. This thesis will investigate and discuss the phenomenon of product returns on the telecom market, starting with why the topic was chosen, followed by identifying what problems product returns denote.

1.1 BACKGROUND

Telecom business is rapid changing and dynamic in its character. Sweden is a tough market for any company within the industry. Therefore, it is important to take every opportunity to understand the market and consumers better to be able to exploit opportunities. One phenomenon that could be equally a threat as well as an opportunity for any company whether in the telecom business or any other business are product returns. The following are the main reasons why it is important to study the subject.

Product returns are explained by Stock et al (2006) as cost centers for companies and also sources for potential customer dissatisfaction. They acknowledge the importance of effective and efficient systems and processes for product returns since, companies that engage in selling physical products will most likely be subjected to returns in some form (ibid). Customers have the power of choice, consequently it is not only important to understand why they choose a specific company or product; it is even more important to understand why they would not choose that company or that product or; change their minds. By studying product returns management and gathering data on products returns, companies can build a better overview and understanding of potential opportunities and threats and also how they can lower return associated costs.
The risks that arise if returns are not managed are high costs that returns produce. Companies are not maximizing their opportunities (Stock et al, 2006) and capabilities (Grant, 2008) if they do not pay attention to managing returns. This problem is two-fold; companies first of all will find it challenging to meet product return goals if they do not understand the underlying reasons for their existence. Secondly, products return processes are costly for companies especially if the decision process is slow. Further these issues get more complex if a third party is involved due to matters like transparency (Stock et al, 2006).

Returns are described as a negative occurrence in companies and the cost can be high, alternatively Stock et al (2003) have identified how product returns can be seen as opportunity instead of a threat. If processes are managed and costs are controlled, this could be a source of consumer information which can be used to gain valuable consumer knowledge. With this knowledge companies can add value to their supply chains through building capabilities based on current and new resources (Grant, 2008).

1.2 PROBLEMATIZATION

Stock et al (2006) identifies two types of returns; controllable and uncontrollable returns. As the names suggest the latter one is out of the company’s span of control in the short run and thus will not be a part of this study. What is interesting, are the controllable returns and what problems they can create and be associated with if left unsupervised. Stock et al (2006) and Lambert (2004) address the high costs returns are associated with. Inefficient returns management is costly because sub-processes such as logistics, repackaging, mending among other processes are all time consuming and require resources investments. The returned product is subjected to a series of stages before and if, reintroduced to the market. If the product is reintroduced to the supply chain, to yet again be sold on the market it has to be checked for potential damages, repackaged, administrative issues such as adding the product to warehouse systems or/and bookkeeping. The employees in these different processes can lack knowledge to
handle the product, which entail that the process will be slower, tying up products to the returns stock (ibid).

If the product is too damaged and therefore not reintroduced to the supply chain, other problems arise. Depending on the product, some products can still have spare parts that can be re-used in new production. To be able to make such a process efficient, employees have to have extensive knowledge of the product and how spare parts can be profitably reused. If there is a lack of knowledge, parts risk to be stocked that do not improve the company’s profitability and instead cost in space and processing costs. Simultaneously, parts can be disposed of that would have lowered costs but instead they are wasted. There is also the question of time in this matter, just like discussed above. Decision making should be fast if costs are to be kept low (Lambert, 2004).

The third alternative is that damaged products are disposed of, since they can neither be reintroduced to circulation nor reused in any cost-saving/profitable way. These products add a great deal to the costs for a company. They have not only been produced, marketed, sold, resend, moved through some type of return management process and then disposed of. All of these steps have added costs to the product finally never generated any profit. Costs have a spill over effect within a company. If costs are high in product returns, this will result in less money in the budget for other efforts such as marketing, research and development and hiring. If these efforts are affected, it will change the overall quality of the product and also communication with the market; current as well as potential customers. If customers are affected in a negative way they form a bad opinion of the brand, the product and the company (Lambert, 2004). Because customer’s choice is higher today, customers have no reason to stay loyal and thus switch to the competitor resulting in a decreasing market share for the initial company. Dissatisfied customers also have a tendency to share their dissatisfaction with friends and family which further affects company image (Olsson, Autumn 2004, Kalmar).
High inefficiency, meaning cost issues, are often connected to high ineffectiveness, meaning the processes from receiving the products to the point where they are checked, repackaged or mended, depending on its appearance on arrival (ibid). Inefficiency in this remark is the processes chosen to support product returns are not functioning at their maximum/best capacity. Lambert (2004) recognizes pre-steps before the product is returned; first and foremost there is a request from the customer to return the product. The customer needs to contact the firm and most likely inform them of the reason for the return. Many companies suffer from problems at this point in the return process, as they do not hold any type of records over the reasons for the return or try to avoid it. If efforts for gathering the underlying reasons for the return are not made, strategically measures for decreasing returns will be challenging if not impossible, because companies lack an understanding of their customers needs. If the customer needs in turn are not understood by the company, packaging and inventing new products/innovations that the customer will find attractive is not based on the customers needs. If customers are not satisfied with the products that the company is offering they will either try them and return them and turn to competitors, or turn to the competitors without trying the product at all. Either way market shares are lost, cost are high without sufficient profits and the initial company is risking their existence; without the knowledge of customer needs their amount of customers is limited or non at all. No customers equal no profits which, sooner or later, will set the company in bankruptcy if no solution is found to the problem. There are companies that do gather statistical data on there reasons for the return but never use this data to minimize the amount of returns. The consequences for this type of behavior are the same as having no data at all.

The product return process is described in five steps (by Stock et al, 2006):

(Pre-step) Customer notifies company concerning planned return where the company has the opportunity to ask for more information (Lambert, 2004).

(1) Receiving the product and acknowledging that it has been received. This step can create high costs, seeing that it is time consuming. Products that are returned long after they where
purchased create the most problems since their value has dropped and administrative cost increase.

(2) Sort and Stage. Bottom-line is that products are sorted according to earlier developed criteria’s for example according to channel they have been returned through or their current condition. Problems arise due to high time consuming procedures and clear criteria’s have to be chosen to match what the company needs to keep records of (Stock et al, 2006).

(3) Processing involves returning the products to warehouse and separating the products from the administrative work. Problems occur in this stage if there is a lack of information and thus will delay processing and the administrative work (ibid).

(4) Analyzing (Stock et al, 2006) or selecting disposition (Lambert, 2004) is calculating the value of the returned products and thus implies that the personnel at this point must be knowledgeable which is not always the case. At this stage the future of the returned product is decided, whereas it goes back to warehouse, is recycled, or resold. If personnel lack the knowledge to make a correct judgment, products can be wasted for no reason. This in turn increases ineffectiveness and inefficiency (Stock et al, 2006), creating a bad circle of events through disregard to developing their capabilities (Grant, 2008).

(5) Support is the final stage in processing the returned item and the final sorting. It involves physically moving the returned item to the decided location; store, warehouse or repair/repack (Stock et al, 2006). Lambert (2004) also adds that credit needs to be given to the customer which can create problems as negotiations are involved within the company over the amount to be returned. Without proper integration of the departments in this process it could result in potential profits being tied up to the product for a long time and the products are creating process costs. Money tied up to a warehouse implies that the company is lacking a flow and not fully using its resources to gain revenue (Stock et al, 2006). With global competitive markets companies need to focus on cutting costs wherever they can, to gain competitive advantage (ibid). Resources need to be managed and capabilities created from this management (Grant, 2008) If costs due to product return processes are increasing, the company will have a difficult time decreasing price for the product for their customers in the same rate as their competitors,
and price is known as being an important criteria when evaluating options for the customer (Jobber & Lancaster, 2006).

In some companies salaries are based on a pay-by-performance wage, which in turn often signifies that either the sales people are (only) paid on the basis of what they sell, or a standard salary can be given joint with bonuses for reaching sales quotas (set by the company) (Johnston & Marshall, 2006). Because these payments are tied up to amount of items sold this in turn insinuates that even if the report states that a sales representative has sold 150 items many companies do not take into account, when paying by performance, the amount of items returned. This is putting the company’s finances out of balance, if a company is experiencing a high return rate this will negatively affect their profits (Chaido, Westerville, Spring 2008). How much this will affect the company depends one the size of the company, the amount of bonuses that are paid, and the amount of returns, however costs will be, more or less, higher affecting the total budget and thus removing money from other projects or departments.

There are several types of returns such as consumer, marketing, asset environment returns as well as product recalls (Lambert, 2004). This research will be limited to customer returns. If returns are both inefficient and ineffective it will affect the customer, since it will take time for the customer to acquire their credit back. This reflects badly on the company in the eyes of the customer. A happy customer will tell maybe 3-5 people about their experience, an unhappy customer will tell 10-15 people (Olsson, autumn 2004, Kalmar). If there is no return management in place the company is essentially loosing out on getting to know their customers. There is an opportunity lost, if a company is suffering from what they believe to be too many returns, and no effort is put into investigating why this is happening. Not only is the company loosing current customer but also potential customers through word-of-mouth.

According to Lambert (2004) many of the returns are due to remorse or product defects. If the customer is feeling remorse in their product purchase, the product might be less attractive, to
costly or to hard to use; either way there is an underlying reason for the remorse that the companies are not investigating. If not investigated; how are companies to eliminate or even minimize returns? If there is a lack in understanding the market and the companies are merely pushing products on to the customers, and these efforts will not decrease returns. Issues such as too pushy sales representatives could make the customer purchase the product even though the product does not solve their problems, consequentially leading to returns. There is a lack from a company perspective, to educate and control distribution channels to ensure parties understand the product and its possibilities but also its limitations. This is important because training you representatives can ensure that the gap between promises and reality can be kept closed. If they do promise too much, the company is risking returns where the trust is lost between the parities leading to less or no repurchases resulting in no more profits from that customer and probably potential customers close to this person (ibid).

“For your people to be innovative and motivated, you need to consider human needs. If you feel good and appreciated, you are much more open to many things than if you always need to defend yourself”

(p.18, Krogh et al, 2000)

Grant (2008) discusses how resources and capabilities can become a source of profit, which can be applied in the case of product returns since there are definitely many resources and capabilities involved in the return process. However, to be able to turn these into profit centers, organizations need to identify these capabilities and to understand the process and functions in the organization. If this is not done companies are functioning but not to their full potential. Creating a competitive advantage and creating value chains will become an almost impossible task, this is not the focus in this research however, and there is an interest to investigate how opportunities can be created through returns. It has previously been stated that the telecom market is highly competitive in Sweden and many companies had to leave the market. Therefore, each company needs to find their niche to be able to withstand the pressure form the
market and product returns is one function that needs to be analyzed to fully investigate opportunities to get better (ibid).

The importance of studying product returns is high since there are a lot of problems and costs connected to them, which are creating a malevolence circle for companies. However there are many opportunities to break the patterns and create positive outcomes too, if companies know how to go about creating these. Figure 1 illustrates the components of this research and also the correlation/the point of integration between the customer and company dimension.

![Figure 1 Main Components of This Research (Own)](image)

1.3 Research Problem

How can companies create opportunities and lower costs through the returns management process?

- How can companies’ lower costs through analyzing the product return management process?
- How can companies reduce returns (thus costs) and create opportunities through analyzing customer buying behavior?
- How can companies lower costs through identifying resources and capabilities and how is this connected to product returns?
The purpose of researching this subject is to give companies a better understanding of what returns management is and how it can strategically fit into their organization to minimize returns and related costs as well as create opportunities.

*The purpose will be reached through:*

**Describing** product returns management, the process of understanding customer buying behavior and identifying resources and capabilities.

**Analyzing** the returns process at the case company (Alpha) and the causes for product returns to be able to…

**Recommend** how companies can minimize costs and create opportunities through practicing returns management and understanding consumer behavior.
1.5 DISPOSITION

This thesis is based on six chapters. The first chapter has described the purpose and the background of this thesis. The chapter was summed up in a few questions that will be the base for both theoretical and empirical studies.

The second chapter describes the method used when writing and researching this thesis. Discussed in this chapter among other things is research process, delimitations, validity of the research etc.

The third chapter explores the theoretical possibilities for creating opportunities through product returns and lowering costs associated with these. This framework has been carefully adapted to the empirical framework using systematic combing.

The forth chapter presents the results of the research, summing up interviews and data gathered form different sources at Alpha. By combining this data with the theoretical work, it has created a base for an analytical review.

The fifth chapter presents the analytical review and combines both theoretical and empirical research.

The sixth chapter sums up this research and aims to answer the research question stated in chapter one. It also provides general recommendations for any company that is subjected to product returns and wants some guidelines on how to get ahead.

Finally, references and appendixes are presented.
2. METHODOLOGY

This chapter presents the processes involved in creating this thesis; from being inspired by the subject to researching it.

2.1 THE RESEARCH STRATEGY

About case studies:

“…investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple resources of evidence are used.”

(p. 23, Yin, 1989)

A case study is a type of qualitative study approach, it investigates a real environment were there are no set rules between phenomenon and context. A case study is also a situation where the researcher cannot control the phenomenon, and is a method most appropriate where the research question is a “how”-question. It can also include several sub-cases in one case study (Backman, 1998). This case study will include the phenomenon of product returns at Alpha: the case company. The study is divided into two sections; investigating the internal processes at Alpha and investigating the external forces in form of Alpha return customers. Case studies are especially appropriate when there is a need for an understanding of a specific process and where the initial situation is complex. In this thesis a process question has been identified:

How can companies create opportunities and lower costs through the returns management process?

A case study can be one of three things; it can be descriptive, elucidative or explorative (ibid). This thesis will have an elucidative approach which implies that I will make the situation clear and explain the return processes as well as consumer behavior. An organization has been chosen for the case study that is subjected to problems due to product returns. This study is constructed to give a deeper and better understanding of the practical work that is involved in the
management processes and customer behavior. However, case studies do have weaknesses. Dubois and Gadde (2003) have identified one weakness being that they only describe a contemporary issue (ibid) for one specific case and thus generalizations from such a case are not to be drawn (Yin, 1984). Yin (1984) however mentions that even though generalizations should not be made, case studies are preferred when analytical generalizations are made in respective to statistical. Another risk with one specific case, like in this research, is that it may not develop or go the way the researcher anticipated (ibid), nonetheless the case company has meet my expectations, thus making this research possible. The next section will describe which and why the research approach for this study has been chosen.

2.2 SYSTEMATIC COMBINING

The research for this paper spans over 10 weeks during the spring of 2008. During this time I have been going back and forth between theoretical investigations combined with empirical studies of the case company; Alpha. The name of the case company will be protected by using the name Alpha instead, due to their request. Theoretical models will be used to better understand the empirical studies presented, models are at times adapted to the case company to get a better understanding of the product return process.

Combining the work process with theoretical studies is called abduction. By doing this, findings will direct the researchers work since theories and empirical research is constantly adapted to each other (Dubois & Gadde, 2002). Alvesson and Sköldberg (1994) describe abduction by stating that the case is supposed to be interpreted from a hypothetically general pattern that can explain the case in question. Further, interpretations are added to the case based on theoretical findings. They also describe abduction as mix of two approaches; inductive and deductive. An inductive approach implicates that the author, from a few different observations that illustrate the same result, generalizes that this in fact is ‘a truth’. There are problems with such an approach. When the ‘truth’ observed is taken out of context and a general rule is created from
that observation, this rule does not apply in all cases. This type of approach is based on empirical studies that are applied to theory.

A deductive approach does the opposite, thus taking a general truth and applies it on specific cases, thus taking theory and applying empirical results to it. The problem with a deductive approach is that the general rule does not always apply to the specific case (ibid). Neither of these approaches will give the flexibility a systematic combining can. Systematic combining enables the researcher to go back and forth, match, direct and redirect work depending on the empirical framework, theories that are available and add them to the case which will develop into a thesis (Dubois & Gadde, 2003). Abduction or a systematic combining approach will be used in this thesis, thus theories will be weighted against the empirical results and vice versa. This enables the results to be presented more accurately to reality, instead of making general rules from one case analysis to apply for the markets overall. This approach has made it possible to have a better focus and centralize the issues.

2.3 THE RESEARCH PROCESS

The research process has been divided into three main parts; the research/interviews, the theoretical contribution and the practical utility (analyzing results). Due to time limits delimitations have been made before and during the research to make it more focused.

Andersen (1998) holds that delimitations are meant to help the author to define the research area, whom and what kind of references and resources should be used, forming a frame or reference for a thesis. As there are interdependencies in all processes in companies delimitations become more complex (Dubois & Gadde, 2003). It was clear after talking to the case company that we would have to limit the research scope to the Swedish market. Further there are several types of returns, according to earlier research; marketing returns, asset returns, product recalls, environmental returns, since these are all broad subjects this research has been limited to
There are also two other types of returns; controllable and non-controllable (Stock et al, 2006), this thesis is limited to explaining how the issue of controllable returns can be managed.

For the empirical framework data had to be gathered about current product returns at the case company to form an accurate view of the situation and processes and thus, unveiling the underlying reasons for the existing problems. The problem that arises when interviewing people is accuracy of the statement made by interviewees and how true the reason for returning the product is. Thus, it is important to get to the point where you can make the interviewee’s explicitly sharing their experience by asking open ended questions followed by “why-questions”. Another problem that may occur during interviews is that the interviewee creates a picture of what they think the researcher needs, and thus adapts answers to this perception; this problem is also referred to as impression management. To minimize the risk of impressions arising the researcher continuously asks open-ended questions, follow-up questions as well as try to get detailed explanations and reasoning from the interviewee. During the interviews both these obstacles where considered and there is a need to understand not only underlying customer behavior there was also a need to fully understand the internal processes at the case company for product returns. The sources are however valid and reliable, the results and analysis of the results give a clear picture of the underlying reasons for returns.
FIGURE 2 THE RESEARCH PROGRESS (OWN)

One obstacle was that the physical unit as well as the product returns warehouse is situated hundred of miles from the main company and thus physically out of reach for me to investigate other then via phone and email. When conducting interviews via phone or email there is always the risk of misunderstanding as well as the lack of fully understanding one and another. Body language plays a big role in communicating with people and I feel that it is almost always better to meet the interviewee in person but due to the physical distance this was not possible.

Three blocks for research where constructed. First I needed to understand what returns management implies and how they can be managed. To understand product returns I needed to get to the root of the problem and understand the reasons as to why customers return products. Finally, after conducting this research I saw a need to explain the meaning of resources and
capabilities in companies to tie together the first two topics. This was a result of systematic combing; theory was added after it became obvious that the empirical study combined with theoretical framework could not fully explain the phenomenon of product returns. It was also interesting to investigate if there where any other actions that either the customer or the case company conducted that lead to majority of the returns. The theoretical framework was mended and fitted to the empirical findings as well as the other way, finally forming a good basis for analysis for this specific case study.

2.4 SOURCES OF EVIDENCE

Data has been gathered in two forms in this study; primary data and secondary data. Primary data is data that the researcher gathers through e.g. structured and unstructured interviews, inquiries, observations and other type of psychological tests (Andersen, 1998). The empirical data collection in this thesis is partly based on primary data collection such as interviews and observations of product returns and the customers returning products. When interviews are conducted they can be standardized, which entail that the interviewees have been asked the same questions (ibid). To standardize interviews is not an alternative in this research as the aim is to gain a broader understanding of the subject. 33 customers have been interviewed and the number is based on research results. The interviewees were subjected to basically the same problems and when it was evident that these were re-occurring the number of interviews was 30, however three more interviews were added just to make sure no new data or information was indeed reliable.

In this research there are two realms of interviews; one with the employees at Alpha involved with the internal product returns management and what happens with the product when returned by a customer. The second type of interviews will be conducted with Alpha customers that have returned products, this to investigate the underlying reasons for the return as well as trying to find a pattern among the customers. Guidelines have been created before the interviews, although the main tactic is to use answers to base follow up questions and to only guide the
interview process and not have a controlled script. This enables me to gain a more in-depth knowledge from both interviewed groups. The type of questions the researcher will ask will affect the answers (Andersen, 1998). Thus asking open ended questions enabled me (the researcher) to gather as much information as possible and then select which information is relevant for the research. The alternative is to ask direct non-open ended questions and risk that they will turn out to insufficient for the analysis. Open ended questions also gives an opportunity for a more relaxed atmosphere as a discussion can be conducted and there is more room for follow up questions to issues that the researcher might not have considered (ibid). More of the tactics used and reasons why is discussed in section 2.3 The research process. This tactic has showed to be very effective when interviewing customers, or people just like talking about negative experiences they have been subjected to supporting one of the theories discussed in the upcoming chapter.

The interviews have differed in length and preparation from the interviewees. They have also been conducted at different times. All the interviewees at Alpha, Beta and Omega have been introduced to the spectrum of subjects in time before the interviews. A general introduction has been sent by e mail to give an overview. Due to the fact that I have been doing a lot of my research at Alphas main office, much of the information has been observations and the empirical data at times comes from more spontaneous questions that have been asked when I have noticed a specific behavior or an event. All interviewees have been chosen carefully and their positions and knowledge of the return process has served as a good basis for this research. Criticism of sources is an important aspect to consider when researching and writing and therefore written sources that have been used and backed up by other sources and interviewees are knowledgeable employees working with the returns process however in all companies 2 or interviews have been conducted for reassurance that the information is correct.

Secondary data collection is the collection of data that has already been researched and collected by others. It can embody documents, notes, archives, movies et cetera. It is of importance to be able to judge if the secondary data that has been collected by others is relevant in your case
There are three types of secondary data; process data, bookkeeping documents and research data. Process data involves ordinary activities that can be seen in a society e.g. information from movies, video, magazines, reports et cetera. Bookkeeping documents are documents that are created in connection with control and management e.g. accounting, statistics from companies, personnel registers. Research data is data from institutions and organizations (Andersen, 1998). Empirical data in this thesis is based upon interviews as well as data collection that is connected to the research area. Articles are one resource which has proved to be a great resource of information on Product Returns Management as well as the data Alpha has supplied themselves on product return statistics.

2.5 VALIDITY & RELIABILITY

Due to the fact that this is a case study based on a systematic combining methodology it is treated as an example and the data collected is isolated to present time, meaning that if the same data was collected in a few years it would most likely differ due to experience and learning within the organization as well as changes on the market. Nonetheless, a case study approach is used to explain the phenomenon of product returns as the processes without any real life context would not withstand the same strength when analyzing. The explanatory power and transparency of the theoretical utility is what Yin (2003) defines as the internal validity of a research. Internal validity can not be generalized; it is only relevant to a specific study. Internal validity aims at establishing a casual relationship where the study results in fact make a difference for companies. The cause and effect in this study are related, it aims to explain where costs can be identified in the return process, if input in resources are altered this will have an effect on lowering costs associated with returns. The theoretical utility needs to be genuine to be able to create analytical value between the empirical data and theory. This is the case in this research and therefore the internal validity is acceptable. The analytical data is based on the empirical findings and the correlation between this and the theory is genuine.
In this case, the theoretical framework for the product return process is relevant to explain and understand the processes at Alpha. It is of importance to limit the theoretical framework to get to the core of the problem. How can companies such as Alpha minimize product returns through the understanding the products returns process as well as their customers. The theoretical framework thus has to be focused and appropriate for solving the issues at hand (Dubois & Gadde, 2002). Throughout the analytical work the transparency and the internal validity becomes evident as the correlations and the strength of the theoretical framework to explain the empirical studies becomes apparent. Through systematic combining the theoretical framework has been adapted to the empirical studies and vice versa to get a clear and focused base for analysis.

There is a concept called **construct validity** that is of essence to discuss. Construct validity is explained by Merriam (1989) to be the legitimate analytical interference between theories in the theoretical construct, thus are the theories chosen significant/connected to each other. Instead of generalizing from my study against outward like in external validity, construct validity aims at generalizing inward. For example are labels correct to explain what is actually investigated. The theories chosen are interdependent to explain how to create opportunities to lower costs and create opportunities through returns management (the interrelations are explained in more detail in section 2.4) making the construct validity satisfactory.

**External validity** is whether the result and conclusions can be used in another context (companies, places and time) then this specific case thus generalized. To be able to obtain high external validity the internal validity must be high (Merriam, 1989). This specific research was constructed to get an in-depth understanding of the returns process and the underlying reasons why returns exist at all. In customer interviews customers have been chosen randomly from a list of returns customers and I have had no effect on where customers are geographically or age groups when calling. By using specific case company, I have restricted my findings to this specific case and focused on processes and customers tied to this specific company and thus should not be considered as a generalization but rather as a context-bound extrapolation.
(Merriam, 1989) meaning in which situations and how, the empirical and theoretical studies emerged and if they are consistent with collected empirical data. Even though this study is based on a specific case the general idea of how product returns can be managed and the theoretical construct for understanding customer behavior can be utilizable for other companies and thus making the external validity adequate.

**Reliability** is whether the research results have credibility. If the research was done again, would it give the same results, when asking the same questions? There are factors that will affect the result and thus making the outcome dynamic and changeable depending on time and situation (Bryman, 2002). If the study was repeated it would have given the same results, this is how Yin (2003) describes reliability. Reliability measures are not adequate when defined as above to explain case studies. People lie, change their opinions and are wrong in some cases. Companies evolve, change and the business as well as consumer environment changes. Observations and interpretations of situations can also be wrong and thus the same study done again can produce significantly different results. However, in social science reliability should rather be based on if the empirical data together with theoretical findings are consistent with the data the researcher has collected (Merriam, 1989) and thus making this case study reliability adequate. Further to increase the creditability of this research the interviewees where not subjected to theoretical terms to confuse them, such as “do you believe that you follow the consumer buying behavior process”. Such measures would not give adequate and reliable answers, it would have confused most people to the point where there would be no answer, and they would answer without knowing the significance of the question, thus theoretical terminology was left out.
This chapter aims to give a theoretical base for understanding the threats and opportunities companies have to face when dealing with product returns. “In general, the greater the rate of change in a firm’s external environment, the more likely it is that internal sources and capabilities will provide a secure foundation for a long-term strategy” (p. 127, Grant, 2008). This chapter will begin with the investigation of the internal forces that can be altered to create opportunities and lower costs followed by a look into the external forces; the customer dimension.

3.1 MANAGING PRODUCT RETURNS

The returns management process is complex and therefore it will first be illustrated.

FIGURE 3 RETURNS MANAGEMENT (P.153, LAMBERT, 2003)
The returns management process is of importance to companies since it is an opportunity for organizations to locate and understand the reason why returns occur. It is also an opportunity to reuse assets or avoid returns generally and thus decrease the cost. Lambert (2003) identifies returns management to be an integrated part of the supply chain management in the way that returns affect several departments along the supply chain. Lambert (2003) defines returns management as;

"Returns management is that part of supply chain management that includes returns, reverse logistics, gatekeeping, and avoidance”

(p. 152, Lambert, 2003)

Myers and Cheung (2008) further develop the importance of the supply chain by addressing the importance of supply chains being based on consumer demand. Supply chains need to have characteristics such as “…agility, adaptability and alignment…” (p.2, Myers & Cheung, 2008). To reach full alignment there should be knowledge sharing among all players in the supply chain whether internal or external, although there is still a fear to share too much information with customers and suppliers, knowing that competitors can get a hold of this information. The authors state that transparency is profitable for the company; better information from customers, a more open relationship will help the company understand their customers. With this information companies can improve the supply chain and decrease the amount of displeased customers. To be able to reach such profitable transparency, information has to be fully disclosed with the risk of having it reach parties that do not work within the supply chain (ibid).

There are several types of returns in a company (marketing, asset, product recalls, environment returns) and this research will be focused on consumer returns since they are usually the majority of the returns. Consumer returns are due to, for example remorse or product defects, either way it is important for the company to introduce returns management as consumer returns can have a big effect on the company’s external reputation and depending on the situation marketing efforts
might be useful to handle the situation (e.g. giving the customer a free product/subscription) (Lambert, 2003).

Returns management is divided up in three parts (see figure 3); the strategic sub-processes which is the base for implementation of returns management internally (the “behind the scenes”) in the company. The operational sub-processes is where the company tries to achieve the goals they set in the strategic processes and realizing that those. Identified in the figure are also process interferences, for example; customer relationship management will have an effect on all the strategic sub-processes as well as on the operational level; for example, when returns are analyzed, when companies gather information to why there was a return in the first place. The operational and strategic sub-processes are created and involve managers and people from different parts of the supply chain and can also involve external “third parties” that work together to find solution to the product returns process by developing strategic ideas and then realizing them in an operational level. An in-depth explanation of the strategic and operational process will now be presented.

3.1.1 THE STRATEGIC SUB-PROCESSES

“Strategy is concerned with matching a firm’s resources and capabilities to the opportunities that arise in the external environment”

(p. 125, Grant, 2008)

3.1.1.1 DETERMINE RETURNS MANAGEMENT GOALS

To offer customers the possibility to easily be able to return products is connected to building trust as well as loyalty, since companies are reducing the risk consumers take when buying their product. Therefore, having a good returns policy implies that firm’s increase the chance of the customer buying again. This is especially important since our society is directed more and more towards purchasing goods over the internet and customers can not physically see what they buy.
and know if the product lives up to company promises. Another aspect of returns is to use them to improve profits; companies are at different points in time suffering from more returns from a specific channel. By taking away this channel and putting the products where the returns percentage is lower, the firm is actively working towards decreasing returns in addition to increasing profits. Channels are therefore important to control to avoid a damaged brand reflection. Representation of a company’s brand can be enhanced through product returns by taking responsibility for the society through accepting returns from discontented customers. For the products that do get returned there is still profit to be made; through repair, repack and reuse depending on the condition of the product when it is returned (ibid).

When trying to create a returns management systems, one of the main players should be those closest to the customer, customer relationship management is one alternative as they can best understand what the customers need and what they expect from the product and the company (Lambert, 2003). To be able to reach transparency and understanding, knowledge has to be shared in the supply chain because “knowledge makes for more efficient supply chains” (p. 1, Cheung & Myers, 2008). Further focus should be on how the returns system can best improve profits and how it fits into the customer service strategy efforts in the company. There needs to be a match or interrelations between returns management and many other processes in a company. A consideration that arises is legal and environmental issues that are involved not only with the supply chain but also specifically with product returns and consumer rights. There are laws in Sweden where the consumer is protected and has the right to return a product in certain circumstances, there are also legal and environmental issues that address how you dispose of products. According to Swedish law product may be returned within 14 days after purchase (Ramberg, 1995) if they are not damaged, companies often add; in the original package that has nor been opened. Further, complaints are to be given to the company within a limited time to inform them of the damaged product and it should be replaced with a compatible one (§ 32 Swedish trade law) (ibid). Depending on the company, and if they wish to have an environmentally friendly image or not (concerning repackaging or recycling), the legal basics must be complied too. When developing goals and strategies it is important to understand the interrelations and functions of the whole supply chain to best use it to the company’s advantage.
For example; cost and capacity for remanufacturing is provided by manufacturing flow management and, order fulfillment plays a big part in product returns as they are able to explain the physical flow constraints of the logistic system in addition to the information technology (Lambert, 2003).

3.1.1.2 DEVELOP RETURNS AVOIDANCE, GATEKEEPING AND DISPOSITION GUIDELINES

When goals and strategies are in place it is time to identify what types of returns a company is subjected too and develop policies to handle returns that can be anticipated. This step also involves understanding what type of opportunities there are to avoid these anticipated returns. If successful in introducing avoidance, gatekeeping and disposition guidelines that are effective, a company can minimize returned items and thus items that need to go back in the supply chain.

The link in between this step in strategic sub-processes and process interference exists because order fulfillment assists in developing disposition guidelines that in turn are based on the competency and capacity of the distribution system. Further, the demand management assists with forecasting on a long term basis to help develop guidelines. Product development and commercialization support with product quality and finally supplier relationship management give a hand with creating procedures for avoidance and gatekeeping.

Return avoidance can be explained as a way of approaching the consumer and selling the good to prevent returns, therefore minimizing them. Lambert (2003) provides some examples on how this can be done. He mentions the importance of explaining the product so that the consumer knows how to use it. Improving quality and thus avoiding returns due to damaged products is another way of avoiding returns. If the supplier is affected by these actions, they need to be informed and involved in these efforts. Finally, being specific about the products capabilities for the purpose of matching customer expectations with the reality of what the company is able to offer and thus increases customer satisfaction. Gatekeeping “is the screening of both the return request and the returned merchandise” (p158, Lambert, 2003). Gatekeeping is where the consumer makes an effort to contact the company and inform them of the planned return of their product. At this point it is up to the employees to make sure that the return is legitimate and if it
is, use their knowledge to help the consumer as best as possible to reverse the return and hence a majority of the avoid costs. The sales representatives bare a big responsibility and have to be educated to make the right decision at this point and should consequently be integrated with customer relationship management as well as supplier relationship management to be able to manage relationships over the supply chain.

Finally, disposition is the process that refers to deciding what happens with the returned product (Lambert, 2003). Stock et al (2006) mentions the importance of knowledge of the product at this point to be able to make a good assessment of the condition of the good to decide if it is going to be resold, repaired or recycled. Either way, it is important to create rules for different options within the supply chain (Lambert, 2003). It is important that this process is fast and Stock et al (2006) mentions progressive disposition where the main focus is getting the returned products through repackaging, recycling etc as fast as possible.

3.1.1.3 DEVELOP RETURNS NETWORK AND FLOW OPTIONS

It is not given that returns networks will become an internal affair in companies; there is the choice of outsourcing this step to a third party, if so, this decision will be taken in this sub-process. Another challenge will be determining transportation and procedures. Depending on the company and the landscape, firms might decide on different tactics when it comes to returns. Some companies have central networks for returns others do not need this, depending on size and amount of returns.

This sub-process involves several of the process interferences as seen in the figure above (figure number 3). CRM’s involvement is customer based; they see too that the returns process is to the customers’ satisfaction. As systems and resources for both in and out flows of products are usually the same at companies, the order fulfillment managers are also involved in this sub-process. Further, development and commercialization is involved in that they get feedback from this sub-process concerning development of new products. This research will be based on consumer returns; nevertheless it is important to understand that developing a network will differ
depending on the type of returns that companies are subjected to. Another point mentioned by Lambert (2003) is the importance of reacting quickly to returns and thus avoiding a bad representation of the brand or/and the company by subjecting the customer to a slow response in for example crediting bills.

3.1.1.4 DEVELOP CREDIT RULES
This sub-process involves suppliers as well as customer relationship managers and aims to determine credit rules for returned goods. The returned goods value has to be determined and authorization guidelines will be established in this process together with credit policies (Lambert, 2004).

3.1.1.5 DETERMINE SECONDARY MARKETS
By involving supply and customer management, secondary markets can be determined. Secondary markets are markets those where companies can sell products that have been returned, if the company wishes to keep these separated from original products. There are risk involved in using a secondary market since it can ‘hurt a company’ or their product image and so they should be considered carefully. Companies should also consider the effects of sales cannibalization\(^1\) on the primary product that a secondary market could have.

3.1.1.6 DEVELOP FRAMEWORK OF METRICS
Framework of metrics implies all the costs and finances that are tied to the product return. Companies should, according to Lambert (2003) have control over the costs that returns involve, which products are returned and why. They should also have metrics over how many products can be resold or recycled and how much this costs them. To be able to achieve such measures, metrics should be developed together with customer relationship managers who are close to the

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\(^1\) Sales cannibalization in this case means that sales of the primary product would go down due to secondary market where returned products are sold to generate profit from those.
customer as well as supply managers for recycling, reuse, packaging or repairs. Measures should also be included in the PSA\textsuperscript{2}.

### 3.1.2 THE OPERATIONAL SUB-PROCESSES

The operational sub-processes are the processes where the strategic sub-process are realized and put into action. Strategic processes are also built up from six sub-processes (see figure 3) which are explained in detail.

#### 3.1.2.1 RECEIVE RETURN REQUEST

The consumer can use different channels to communicate a return request depending on what the company offers. Channels that a consumer can use could be a phone call, going to the retailer, using mail services or give notice online. Usually these differ depending on where the consumer made the purchase. When the consumer makes a request to return the product it is essential to have developed good gatekeeping no matter what channel the consumer uses. When interacting with the consumer a suggestion for a different solution should be discussed and an effort should be made to understand why the customer wishes to return the product (Lambert, 2003).

#### 3.1.2.2 DETERMINE ROUTING

If no alternative solutions are decided upon when receiving the return request, a plan of the physical movement of the good from the customer back to the company has to be decided on. The routings have been determined in the strategic process and now it has to be executed by, for example, a third party to ship the good back to the warehouse. While this is done the final location of the returned good is notified about the arrival (Lambert, 2003).

#### 3.1.2.3 RECEIVE RETURNS

\textsuperscript{2} PSA – Product Service Agreement
When the product arrives at the destination whether it is a specific center for returned goods or a warehouse it needs to be processed. The product needs to be checked for damages as well as being verified that it arrived and then sorted accordingly. It is important that this process is quick as returned products are costly to take care of; also a slow process implies that potential cash flow is tied up. Sorting the product should be based on reasons for return and the Reverse Logistic Executive Council has developed codes for this purpose. These codes will help the company better understand why consumers are returning products as well as being able to introduce better preventive processes, avoidance. This will generate an overall picture of product returns that could be developed into depth; however, this is a very costly effort for companies (Lambert, 2003).

3.1.2.4 SELECT DISPOSITION

In the strategic processes rules where determined for dispositions and where the returned product should end up and what should happen with it; recycle, resell, remanufacture et cetera. It is significant that the rules developed are clear and employees well educated for the correct decisions to be made. It is also important that this process is fast due to the constant decreasing value of the returned good. Lambert (2003) highlights that reusing parts of goods that are returned is often less expensive then manufacturing goods from new materials and therefore this should be considered in the company.

3.1.2.5 CREDIT CUSTOMER/SUPPLIER

Rules determined in the PSA will make this process easier as the amount of credit returned needs to be determined. If the PSA rules do not cover a specific product return situation, the credit needs to be negotiated with other parts of the supply chain such as customer relationship management in addition to supply management (Lambert, 2003). Crediting should be efficient/fast, seeing that it affects the consumers view on the company (Stock et al, 2006).

3.1.2.6 ANALYZE RETURNS AND MEASURE PERFORMANCE
This sub-process is of significance to developing sustainable efforts for returns avoidance and identifying opportunities to do so. It involves analyzing data from the different sub-processes and giving constant feedback to the strategic processes, for the purpose developing sufficient guidelines a reliable data base should be build (Lambert, 2003). This requires highly trained employees (Stock et al, 2006). The data gathered and analyzed in this step should be shared to all interference processes to achieve improvement at all levels in the company, both preventive and after the fact. This yet again, supports Cheung’s and Myer’s (2008) idea of knowledge sharing for a better supply chain. The analysis should generate goals for performance as well as objectives for improvement for the whole. Thus, it is important that these goals and objective are clear and communicated to the whole company (Lambert, 2003).

In all above sub-process whether strategic or operational there are important issues to address such as personnel training in all departments (Stock et al, 2006), from front-line employees that work with gatekeeping to management that analyze processes to be able to create sufficient guidelines (Lambert, 2003). There is the choice for formal and informal education for employees as well as having a full time employed team that process returns (ibid). According to Stock et al, (2006) companies that engage in both types of education, have the best working returns management systems. Another factor that affects the success of teams is communication within the processes. Good, clear and quick communication in addition to information sharing has been identified as key factors for success, especially when considering how quick this process reaches the consumer (ibid).

Effective management of product returns result in satisfied customers and that in turn implies that the chance of repeat purchase increases. To be able to create effective product returns management and improve customer service, companies have to understand their customer base and the underlying reasons for product returns for the root causes to be eliminated (Stock et al, 2006). Section 3.2 will consequently discuss the consumer dimension of product purchases and returns.
3.2 THE CONSUMER DIMENSION

The consumers’ perspective is significant since it illustrates customer needs and can create opportunities to gain competitive advantage. Researchers have identified a process which the consumer undergoes before purchasing a product. Even if the internal strategy can create a competitive advantage through the use of capabilities, in this case it has to be based partly on the external environment.

“Despite the difficulties in assessing the value of customer relationships, its economic consequences are real and are the dominant criteria which determine how to behave in a customer relationship”

(p. 74, Ford et al, 2003)

Eriksson and Åkerman (1999) discuss in depth the importance of understanding one’s customer and letting them guide the company, the importance of listening and asking questions about expectations and needs. More is produced today than is needed and thus, an understanding of the market can put companies ahead. Research has showed that trust is one of the most important factors when creating customer relationships where the bottom line is described as keeping what you promised (ibid). McDonald et al (2000) are supporting this idea of trust, trust can be seen as a base for working out problems that can occur in a customer-buyer relationship. Customer needs are illustrated through a pyramid of different levels. The base is quality and trust, the mid level is information and the top of the pyramid consists of communication and dialog. Customers create a bond with a company when they feel that their needs are understood as well as their interests. Some customers however are not interested in creating a relationship even though they are committed to the company, meaning that the communication has to be adapted to the situation (Eriksson & Åkerman, 1999).
One Swedish company has done extensive research on the reasons why customers change suppliers and the result illustrates that the top one reason for changing a supplier is based on product/service followed by price issues, alternation or chance and competitor offers. The same company also investigated the reasons for not switching suppliers. Number one reason was relationship issues followed by geographic location, product/service, price and quality; in that order (Eriksson & Åkerman, 1999). The authors also discuss customers’ perceived quality of the product which is based on earlier experience as well as company image. Another aspect to consider from a customers point of view are expectations. The authors have divided expectations into two categories “hard expectation” which are issues like price, quality, suppliers, rights to exchange the product etc. The second category is “soft expectation” which are issues that are created when parties are interacting and are thus subjective to the issue, therefore these expectations cannot be standardized (e.g. consumer flexibility, knowledge, problem solving capabilities) (ibid).

3.2.1 CONSUMER BUYING BEHAVIOR

The buyer undergoes a process before purchasing a good or service, by understanding this process companies can create products and offers that are more competitive by better meeting customer needs and expectations. The process presented in figure 4 is a five step process identified by the authors Jobber and Lancaster (2006). There are other authors that have developed this process into further categories but they are mostly focused on business to business buying behavior and thus not used here.

When needs are identified by the buyer it is necessary for the company to understand these and to connect their offers with

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**FIGURE 4 BUYING BEHAVIOR (P. 81, JOBBER & LANCASTER, 2006)**
customer needs. Needs are described to happen naturally during the processes of change in each individual's life. For example, a need for wireless internet might arise with buying a summer cabin. The customer subsequently starts to gather information about companies available on the market who offer a service or product that could satisfy the needs. Depending on the information gathered, the buyer could potentially narrow down their alternatives to a few suppliers that meet the needs of the buyer best. When this is completed, the buyer evaluates the alternatives on the table based on criteria’s such as price, brand, performance, etc. Customers engage and evaluating which product or supplier they will base their choice on criteria’s. Criteria’s can be based on economical measures, social measures; such as social belonging or personal criteria which entails; how the product is connected to the person psychologically. Knowing customer criteria can help in developing and sending the correct message to attract certain segments to a company’s product (Jobber & Lancaster, 2006). Evaluation is also based on consumer beliefs about the product and company as well as attitudes which are based on beliefs. Finally evaluation is also affected by intentions. Intentions entail whether the attitudes towards the product and company will affect the intention of buying the product or not.

The last step in consumer buying behavior is post-purchase behavior which is when the buyer reflects over the purchase and will here decide if he/she is satisfied with their decision to buy the product. Some customers suffer from anxiety after a purchase. The seller or the encounter (personal or not) has convinced them to buy the product and the customer felt it was the best match for their needs. Something happens at this moment that affects the customer and they start questioning their purchase. They change their minds! These events illustrate the importance of after-sales management as well as making sure products are not forced on customers that do not match their needs for the purpose of a “right now”-profit. Even if profits are secured for the moment the customer has developed discontent towards the firm and its products minimizing the chance for further purchases.

3.2.1 FACTORS AFFECTING THE DECISION PROCESS
Other then criteria’s there are factors that will affect the consumers’ decision making process. Jobber and Lancaster (2006) list three major forces (1) The buying situation, (2) Personal Influence and (3) Social Influence.

The **buying situation** is divided up into three subcategories:

- Extensive problem-solving
- Limited problem-solving
- Automatic Response

Depending on if the problem is new or not to the customer a different amount of energy is put into finding a solution to the problem. If the problem is new more extensive research will be conducted (ibid), it will take more time and (every so often) cost the customer money (McDonald & Rogers, 1998). If the customer instead have some previous knowledge on the issue it will be easier for him/her to find a solution or know where to look for it. It can also involve already having a company but being uncertain if the customer will stay loyal to it or not, this is limited problem solving. Automatic response is where the problem occurs on a regular basis and the customer already has a company in place to solve the problem when it does occur. Consumers exist on all levels and depending on their level of involvement (high or low) in the purchase they move to different buying situations (Jobber & Lancaster, 2006).

![FIGURE 5 PURCHASE INVOLVEMENT & BUYING BEHAVIOR (P. 86, JOBBER & LANCASTER, 2006)]
Personal Influence is the psychology behind the decision making such as what motivates the person, consumers’ personality, and perceptions of the situation along with learning abilities. These are subjective factors that influence a person and in return their actions. The authors have connected these factors of influence to companies creating personalized brands that attract a certain type of personality. They also argue that even though companies engage in such activities, it is tough to get a good understanding of individuals’ personalities and what will make them buy a product. Lifestyles have an effect on purchasing decisions as well. Lifestyle will determine what types of needs are going to be created; people’s activities, their opinions as well as their interest will shape how they live. Thus, companies can target specific lifestyle groups to ensure that their problems are solved by their product (ibid).

The third and final influencing factor is social influence. Social influence is constructed from surrounding culture, social class, family as well as other reference groups. All these can influence a buyer’s behavior and actions (Jobber & Lancaster, 2006).

3.3 RESOURCES AND CAPABILITIES

“Strategy is concerned with matching a firm’s resources and capabilities to the opportunities that arise in the external environment”

(p.125, Grant, 2008)

Grant (2008) presents a resource based view that focuses on bringing forward difference within companies rather then every company doing the same thing, thus creating advantages. To understand this approach resources and capabilities need to be distinguished.

Resources in companies are tangible, intangible or human. Tangible resources consist of financial resources such ad cash and borrowing capacity. Tangible resources can be replaced, removed or used in different area within a cooperation to create opportunities. They are also a source that can have investment opportunities and thus be used in a more profitable way.
Physical resources are the second category of resources and involve resources such as plants and land. These resources can have more value than other resources however, these have a tendency to be under and overvalued at companies. One example is brand assets; these are often disregarded at companies. Brand assets can be calculated by multiplying the price premium (paid by customer) times annual sales. Intangible resources are those that can not be touched: technologies, reputation, culture et cetera. Finally, human resources consist of the skills of employees, communication capacity and motivation abilities within a company. The value for human resources is complex to appraise. Employees are not owned by the company and are therefore not included in balance sheets. There has been a shift in companies to better assess human resources. Companies hire people based on learning capacity, motivation and attitude rather then qualifications.

A company may have tangible, intangible and human resources, nevertheless what makes a company function are their capabilities. Flying an airplane requires not only resources but the cooperation and integration of resources. If the goal for a company is to get the airplane in the air the efforts to make this happen is their organizational capability, thus to organize and integrate resources in such a way that their goal is reached. These capabilities allow for the creation of competitive advantage through the creation of a core competence. A core competence is described to:

"Make a disproportionate contribution to ultimate customer value, or to provide efficiency with which that value is delivered, and provide a basis for entering new markets"

(p.135, grant, 2008)
There are two ways of classifying capabilities: through a functional analysis or through a value chain analysis. A functional analysis is identifying an organization's different functions and seeing capabilities that exist within each of these functions. Functions own or more accurately: corporate functions such as financial control, sales and distribution were companies have speed and efficiency of distribution and speed of the ordering process. A value chain analysis is instead a separation of activities. Porter for example has developed a chain of activities where these are divided into primary and support activities, each of these activities has a capability corresponding to it.

Within companies these capabilities are created daily. They are what Grant (2008) calls capability routines. Employees engage daily in tasks together, these tasks are integrated processes where there are limited instructions how they should execute them. These are patterns which have been learned and are now more patterns/a regular behavior. Sales, marketing, ordering, logistics are examples of functions which engage in daily routines in organizations. When working through learning by doing efficiency is created. There is however a less positive side with capabilities that are created in functions through routinization, organizations can become less flexible when situation occur outside of the normal pattern.

Moreover, capabilities can be divided into functions and be brought forward through smaller teams. However, when discussing the hierarchy of capabilities it becomes evident that these functional capabilities rely on each other and are integrated. One example of such hierarchy
integration can be seen in appendix IV. Some functions or task may involve several functions and be complex to solve. One solution can be to form cross-functional teams in this case to draw knowledge from different functional capabilities.

To analyze resources and capabilities, Grant (2008) suggest looking from the outside in. What are the factors that make a company successful, after assessing successes companies should look inward to evaluate what functional capabilities made the successes possible. This will help identify the companies’ capabilities and further there should be a focus on what resources were needed to create these capabilities, thus identifying resources. The second step, after gathering above data and information is to assess which resources and capabilities are most important to get and sustain competitive advantage. The strengths and weaknesses should also be assessed in relation to competitors. To be able to correctly evaluate a company’s capabilities and resources managers need to look both within and outside the company. One opportunity is to benchmark other organizations successful functions. Basically, this implies to observe what work in other organizations and adapt processes or functions to your own organization. By comparing own functions to others capabilities can be assessed more easily.

Capabilities are created in a company and will affect future developments. It is therefore suggested that companies look into why processes and functions have their existing form. It is important to understand what affected their development and what factors and circumstances where in place when they were created.

“In general, the greater the rate of change in a firm’s external environment, the more likely it is that the internal resources and capabilities will provide a secure foundation for a long-term strategy”

(p.127, Grant, 2008)
3.4 SYNTHESIS

The synthesis aims at shortly answering the questions, stated in chapter one, based on theoretical research.

Through analyzing the return process companies are able to identify functions and resources that are bearing costs. By gathering such data companies are able to analyze and
evaluate opportunities to make costs savings through for example better gatekeeping, faster process, outsourcing logistics et cetera.

How can companies reduce returns (thus costs) and create opportunities through analyzing customer buying behavior?

- By analyzing consumer behavior companies are able investigate why consumers wanted to buy your product, what their need was, expectations and how the company’s efforts affected customer behavior. Companies are also able to assess which channels are most effective to reach the customer and what in the company’s offer attracted the customer. When conducting interviews concerning product return, companies are able to ask about the post-purchase evaluation and why the customer returned the product. If there is a pattern among returns where companies send an incorrect message through communication channels they can affect this by changing the message, thus reducing returns.

- Through getting to know customers companies can adapt their own behavior to reduce returns that are caused due to the company’s actions, thus reducing returns and costs. Knowing what and who affects company’s potential customers buying behavior will help them adapt and affect these sources. If the research result shows that people are affected by lifestyle, for example traveling, this can be highlighted in marketing communication campaigns. The buying situation will help companies’ assess how much and what information customers need and through these actions reduce controllable returns.

How can companies lower costs through identifying resources and capabilities and how is this connected to product returns?

- By identifying resources and capabilities companies are able to assess their importance in different functions of the company, and how well these resources play in to creating
capabilities. If the company is to improve their capabilities they might need to move resources within the company. In product returns cost can be high and these financial resources could instead be used to enhance marketing efforts. Therefore assessing evaluating how returns costs can be lowered enables the company to move these resources where they built or improve capabilities.

- Capabilities can improve through creating and acknowledging cross-functional capabilities. This implies seeing the interrelations among functions and how they work more efficiently together. Creating efficiency can lower costs.

- Routine capabilities can lower costs through routine processes; however routine should not stand in the way of flexibility.
4. CASE STUDY: RETURNS MANAGEMENT AT ALPHA

The case study involves different “departments” at Alpha; how they interpret the returns management process and the reasons for product returns. To start of, two people at Alpha have been interviewed; the process manager who actively works with the return process, and the sales manager who has a more proactive role. Customer Service (Beta) has been interviewed; they are a firm Alpha outsources to. Two people have been interviewed; sales representative and administrative personnel (who investigated returns). Finally, two people at the warehouse (Omega) have been interviewed one that works in the warehouse that processes returns and one who develops logistics; this is a company that Alpha outsources logistics to. The outline for interviews with customers can be found in the appendix (number II).
4.1 INTERNAL PROCESSES FOR PRODUCT RETURNS

The following will be a presentation of interviews that have been conducted to understand the internal processes at Alpha, Beta and finally Omega and to understand why these processes have been implemented.

4.1.1 ALPHA: MAIN OFFICE

Two interviews follow at Alpha, with the process manager and with the sales manager.

4.1.1.1 THE PROCESS MANAGER ABOUT RETURNS

The process manager has been at Alpha for about a year and will be the main responsible person to address any changes that need to be considered based on the results of this investigation. Data has been gathered during several talks, interviews and email correspondence and these were the main points discussed.

Alpha offers a trial period for their customers, implying that the customer can order the modem and try it for 14 days and return it if the wish too. This trial period is based on Swedish law, which states that customers should be able to return products of this sort. Turning this to a “trial period” is a marketing strategy from Alphas marketing department. The aim is to let the customer try the product and hopefully they will keep it. However, this strategy has generated 75% of the returns made to Alpha. The other 25% is due to damaged modems that are returned and replaced by new once from the company. There are three channels that customers can buy from; the Internet, Customer Service (Beta) and Retailers (e.g. Stjärna Frykant and the Phone House). The channel that generates most returns is Costumer Service (Beta) at 45% followed by the Internet at 35% and finally retailers at 20%. Alpha has tried a third channel, using “selling stations” at malls but this generated a return rate at 75% and was therefore removed.

The returns end up in an external product warehouse where they are processed (Omega). Alpha has calculated that it takes approximately 23 days to get the product physically from the
customer back to the warehouse. The official policy is that the customer has to notify customer
service within the 14 “trial” days and let them know that they intend to return the product.

Product returns management is not as developed as employees and managers at Alpha wishes;
this is why they have gladly agreed to participate as empirical support for my thesis, to find out
how they can better manage product returns and to get an understanding of why customers are
returning products. The current solution has been developed as a temporary start up solution
(company is about a year old) and did not want to tie to many resources to the company. This is
where outsourcing became the answer; it allows the company to focus on their core business. In
the future hopefully more warehouses can be used and in the sense that they will compete with
each other, lowering costs.

The goal at Alpha is to have satisfied customers and to win back displeased customers as they
are aware of the high costs to attract new ones. The main office is also aware of the reputation
damage a discontented customer can have resting on a company and their products. Their goal is
thus not only to have happy customers, but to keep them happy and loyal to their brand.

Knowing that people are at times unwilling to use the internet as their buying channel and that
some customer need to ask questions about the product, customer service was set up as well as
the use of retailers. Customer service, customer support (technical questions) and retailers are
educated about the abilities of the product. Customer service are given a spectrum within which
they can create better deals for customers such as a month free use, extended trial periods or
offer products that will enhance the main products technical abilities. If they wish to extend the
“free month” or the customers need special treatment the issue has to be communicated and
decided by the main office. The way customer service processes return request will depend on
the return cause and thus strategies to win back customer will be adapted to the situation.
Trying to win back the customer is possible since statistics show that 70-80% calls customer service before making a return request, consequently giving customer service the possibility to interact and be able to find a better solution to their problems. This is a policy that is also stated in the information leaflet that is given to the customer. If customers wish to return the product they have to contact Alpha (thus Beta) or the retailer. However, sometimes customers are determined to return the product, most often due to download rate or connectivity of the modem. If the customer has called customer service they will give the customer information to send the product to the external third party warehouse and at the same time gather cause information that is registered in RMS (more information about this in the Beta interviews) and assign a case code to the matter. When the product arrives at the warehouse it is put in a separate warehouse system for returns and when the returns warehouse is around 200 products they are checked. This wait is due to the cost connected to examining products. It is more lucrative to wait until a certain amount of products have piled up and then check them for potential damages.

When discussing the possibilities to reuse damaged products and as a result decrease return costs, Alpha is aware of this possibility however according to the main office it is too expensive for them to engage in such activities. Right now Alpha instead makes sure that they acquire extra modems from their supplier to cover potential damaged products. It would be more expensive to send 1000 modems and then realize seven are broken. It makes more sense to negotiate with the supplier and get 1015 modems in one order as their biggest supplier of modems is situated in Asia, sending one or two extras would cost more in handling costs than just backing up the main order with some extra modems. Quality control is done by taking random samples from the order and testing them, this is done at the supplier (most often in Asia).

Discussions followed on credit checks and what rules have been introduced at Alpha today, to check customer’s ability to pay. Credit rules for business-to-business customers have been developed, and companies’ ability to pay is checked before the order is send out. For private customer a system has not yet been developed, however is under construction due to returns causes. More specifically there are customers that order products and when the product is
delivered to the post office, customers do not retrieve the product due to different reasons (see appendix III). Since Alpha works with a pay on delivery strategy, this in turn implies that the products is stuck at the post office, and then finally send back to the external warehouse and has not generated any profit at all. There is a positive side with these types of returns; the packaging is usually intact and thus, it can be resold without repackaging expenses. However, more money would be saved if this could be avoided overall; therefore credit systems are being developed at Alpha. The system that is in place today “pay on deliver” is reevaluated because there are too many products that are not picked up from the post office. Customers are also fully reimbursed currently, which is a cost for the company; however they rather give to whole sum back to keep the customer happy and the system less complex. Only crediting customers partly would cost the same or even more in processing costs due to the complexity of such an action. In the future the CRM system should be able to credit customers automatically when a return is registered.

The products that do get returned are checked and processed and if they are not damaged physically, they are repacked and resold. There is no real second market for modems yet seeing that it is a relatively new product on the market. When customers purchase a modem they need to sign up a subscription with the company from a year up, tying them to the company for a longer time. In the future, the process manager at Alpha believes there will be a bigger secondary market for wireless broadband modems although today the market has been limited due to strategic moves on behalf of the current market players.

Today, Alpha is not sure how much returns cost the company, an estimate has been done where they state that, excluding costs for manual labor a single return costs about 550 SEK. No specific cost controls have been introduced to keep costs down from Alpha, they are still very new on the market and they have chosen to focus on other matters right now. The 550 SEK are divided as follows: 100SEK initial handling cost plus 50SEK for registering the return, plus another 200SEK for crediting the customer on behalf of Beta. 200SEK process costs at Omega.
4.1.1.2 SALES MANAGER ABOUT PROACTIVE WORK

Discussions with the sales manager mainly concerned a proactive view on product returns. Alpha just hired a sales manager; Peter, full time and when we meet he had worked for the company for six weeks, however he has had years of experience within the telecom business. Peter identifies one of the main proactive actions being “satisfying of customers from moment one”. If a customer tries Alphas product and it does not work, this will stick with the customer for a long period of time. Companies can not afford making a bad first impression. Another issue that is discussed is the lack of product testing before sending it to the customer, doing this could decrease the amount of returns that are due to quality issues. There is a test center today for products that are damaged. If this center could also test products sent by the suppliers this could in return lead to a decrease in quality default returns.

When discussing with Peter I mention the map on the website and there was an instant reaction. A majority, if not all, customers have complained about the gap between what Alpha promises and what the product actually can perform. Peter’s response to this discussion is that there is no space left to get better, the map shows that the network is at its full capacity even though it is still under development. His suggestion is that instead of the current map progression, maps are introduced that show a monthly progression and where new sites are built. A more accurate picture of what the company actually offers, thus reducing the gap. A third point which is discussed are channels where the product is sold and how important it is to evaluate channels which you use and the impact they have on the product. If you choose a “knowledgeable” channel this will reflect positively on your product and vice versa, if you chose a less knowledgeable channel this can have a negative effect on your organization. It is also important that employees at these channels, whether internal or external, have knowledge about the product and their performance. Peter finally mentions the importance to evaluate the current agreement between Omega and Alpha. The prices for returns are too high today and there is a need to introduce some competition to lower this price.
4.1.2 BETA: CUSTOMER SERVICE

Customer service has a two-fold task; they receive potential sales calls where they have the opportunity to sell a product and they call up customers that have for some reason returned a product. They also make sure customers get a package/envelope (this is physically sent by Omega) that they can send back their product in. Customer service is an outsourced service and will thus be referred to as Beta, since they are a separate company from whom Alpha purchases services.

When Beta calls up customers they introduce themselves as employees from Alpha. They also present their reason for calling and that the call concerns a returned product. Further, they steer the conversation towards finding out why the customer returned the product. Their general view of reasons for returns are; technical problems, customers not picking up their product due to different reasons such as money shortage. At times the customer did not get any notice from the post office that the package had arrived. If the latter is the reason another one is sent by customer service. In the case of technical problems customer service tries to provide products and support to enhance the speed of the internet and at the same time they extend the trial period for that customer.

Beta receives a general training from Alpha about the product; how it looks and works. For technical issues the customers need to talk to the support department. Customer service keep in touch with the main office mainly via email and through shared systems where the main office can extract information about product returns, RMS³.

When engaging in sells the strategy is more pulling then pushing strategy that is applied. Beta tries to inform the customer about the product and how it works rather then trick people into purchasing it. Mostly, Beta receives questions concerning the speed of the internet at their

³ RMS - Returns Management System
location and how fast they can get the modem. Usually this would be within three working days
but if the customer needs it faster Beta will help them find the closest retailer. When buying
through customer service private customers pay cash on delivery at your local post office,
companies get billed.

4.1.2.1 BEHIND THE SCENES

Interview with ‘Anna’ responsible for handling administrative recognition of product returns,
which have been made at the warehouse. She is also responsible to investigate causes for returns,
if for some reason these are unknown. When she passes return and “okay’s” them Omega can go
ahead and process the return.

Daily routines for Anna; Comes into office and enters data that she has received from Omega.
The process is as follows; the warehouse registers returned products into the RMS making it
available to Beta. Anna’s job is to investigate returns in the system and ads a RMA or ESN code
to the product. The code is based on the reason for the product return (see below for code
options). If no reason is given, Beta (Anna) tracks each errand, making it possible for customer
service reps to call up the correct customer and gather more information. Before turning the
matter over to Customer Service, Anna investigates the return herself to see whether the
customer contacted anyone before returning the product and the time passed since the customer
purchased the product. If the customer did not contact Betas customer service the errand will be
passed on to the sales reps at Beta for further investigation. Customer service has several options
when calling the customer in the system that they can chose from when investigating reasons for
return such as:

1. unknown
2. damaged product
3. reclaim
4. bought another/a different one
5. bad reception
6. low internet speed
The RMA code will be based on the reason for the return and thus easily tracked. Depending on how much time has elapsed since the purchase, reimbursement will be considered. At times the reason for the return is quality or damage to the product and thus Anna will make sure a new one is send. Other times the customer is still within the trial period, if an invoice has been send it will be credited; usually this is the case with business customers. With private customers there is a “cash on delivery” policy and these customers need to be reimbursed for their payment. These customers are listed in a “repayment” list and taken care of at another department at Beta. At times returns are not accepted by Beta and this can be due to the investigation done by customer service via the RMS and communicated to the warehouse. Reasons are given to the warehouse as to why the return is not accepted (package is broken, “test period” is over, the product is damaged, or other reason), either way the reason is communicated to the customer from customer service and product is sent back to customer via Omega.

Anna perceives the main reasons for returning products to be (1) a lack in technology; thus not meeting clients needs, (2) customers do not pick up their product from the post office, and (3) damaged products; not working. Even though warehouse is physically very far from customer service this has not been a problem according to Anna. Before Alpha turned to the return management system (RMS) they used to send excel sheets in the beginning of every week from warehouse to customer service informing them about any product returns that they received. This was a slow and often inaccurate process. After a while, emails where send twice a week and it was hard to make the processes smooth for both parties and information seemed to differ among the three parties. Since RMS was introduced customer service has no complaints. The
system allows them to extract data on reasons for returns, channels that generate more returns then others and this data is communicated to a contact person at Alpha that visits the customer service center on a regular basis.

4.1.3 THE WAREHOUSE & THEIR TASKS

The warehouse at Alpha is outsourced to a company I chose to call Omega which is situated near the city of Gothenburg. Omega specializes in the telecom field and IT where they have a multitude of customers in the field. Omega’s values focus on “…being the best supplier of creative and flexible solutions within product and information handling, with the focal point being actors within the telecom business in Scandinavia” (Omegas website). Their core values are: “…integrity, accomplishment, quality, respect, learning and community involvement…” (Omegas website). Omega’s idea is to offer services within different parts of the value chain that are not the core business for their customers and thus filling this need. They have an environmentally friendly focus through recycling, working with companies that turn work toward a better environment etc. In the case of Alpha, Omega serves as a logistic center which sends products to customers and retailers. They also handle product returns and share a system (RMS) with Beta and Alpha, where both parties can track the returned product. Omega is owned by and American Mother Company and they have a market share of 10% in the world. Omega in Sweden is only one of many daughter companies in Europe (around 30 in the world).

The interviewees are Marcus (Warehouse, Service Department) and Jon (Logistics Service Developer). Marcus specializes on the return process and works in the warehouse while Jon is the man behind the processes that are implemented to handle returns.

Omega developed a system together with Alpha, the Return Management System. This system allows several parties to log on and find information they are looking for; in this case Alpha and Beta. According to Omega 95% of the returns are from end-customers and the remaining from
retailers, however the internal process for returns management is the same for both. The internal process is the following (this happens on a daily basis at Omega):

- Omega controls the returned unit to see whether it is physically damaged. After assessing the product its ESN\(^4\) number is inserted into the RMS to see whether Beta already registered the return, if not Omega registers the return themselves.

  - Information registered in the RMS: ESN number, series number, customers name, signature, return cause, IDH number (usually order number) which is the same for Alpha and Omega to ensure both can correctly track information and finally date when the customer received the product.

- Information in the system is checked and information is added if there is such a need. If the item is physically broken it is noted in the return information. Thereafter the return status is changes to “delivered”.

- Beta logs on to the system and updates it:
  a. If everything is ok the return has “passed”, meaning that Beta has to inform the person responsible for crediting to make sure that the return is recognized.
  b. If the return has not passed due to some reason Omega returns the item to the customer and adds an explanation to why the return has not passed.

Omega logs into the system and chooses “service action”

  a. If the unit has been used it needs to be tested, thus choosing “needs to be tested”
  b. If the unit has not been used (most often packages that have not been picked up from the post office) the unit is “no measures”/OK
  c. If the unit is damaged it is registered as “damaged”.

- The returned item is now processed in RMS and closed by Omega

- Omega gathers all returned and processed products and sort them, this is done on a daily basis (mornings).

- The unit will be sorted into either
  a. Pick-up Warehouse (non-used products)
  b. To production: checks products and repackages

\(^4\) Product number
Data from the past two and a half months show that about 35% of the returns are sorted into Pick-up, 60% to productions for checks and 5% are broken/damaged. The cost is the same for all these returns, if they are to be repackaged this will be an added cost. The exact number for this added cost is unknown. To be able to track the products better they are given different codes depending on where they are in the system. Further there are daily calls and emails with Alpha to keep everyone informed. Alpha needs to decide where returns “go” if they are opened or damaged. The companies are integrated and sales have contact with sales, logistic reps with logistic reps et cetera. There are some issues where Omega does believe their communications and information transparency is excellent but there needs to be a faster decision making concerning products that need special attention. Currently, these products end up sitting in the warehouse for long periods of time. The same goes for Beta, it takes to long to process a received return at Beta; passing returns. What happens is that Omega receives a return in the morning and before processing it further then to enter information into the RMS they need an “ok/passed” from Beta. If Beta does not pass the return this means that investigation is made on their behalf to see whether the returns followed procedures, if not it is send back to the customer.

It generally takes one day for products, where the original box is intact, to be processed. This process will depend on the “ok” from Beta and Marcus and Jon admit that this process could be faster if decisions where made faster. When the returned product is damaged the process is longer, usually it takes about 24 hours to get feedback from Beta and then it depends on how damaged the product is, if materials to repair it are supplied by Alpha or if Omega needs to wait for it as well as instructions from Alpha on how to proceed. This is a process ultimately would take three days but that rarely happens. If the product is damaged it ends up at the production department for software checks. The personnel at production are all Omega employees and they have technical knowledge from both school and Omega. They take care of software checks but do not repair any of the products on their own; this is not a part of Omegas’ service portfolio.
Omega does not supply any return analyses as Alpha has access to all the information and reports to do this on their own if there is a need.

According to Marcus and Jon (010508) the most frequent return causes are “trial period”, Products are not picked up from the post office and damaged products. There is no standard box for returns yet. Customers usually use the original package to send it back. However there have been some problems with theses packages and Omega is now talking about introducing a thicker envelope to provide the customers with. When a customer calls in to customer service, Beta informs Omega about the return and Omega sends out return stickers to the customer. After asking why these are not put in the original package to save time and labor effort, the answer was that this is a high cost if the return rate is low. The stickers cost money to produce and if returns are not high enough there is no point. How many returns are considered to be enough to change this strategy is unclear. The same goes for the procedures that are in place today. When Omega receives a return they check the RMS to see whether Beta already registered the return, this is done at the point where the product is physically at Omega and not before. First of all Jon and Marcus explain that it would be hard to asses beforehand when the product would arrive even if it is registered and secondly, for the amount of returns that they have today this is more efficient. If the return rate would change other procedures might be discussed with Alpha.

Omega sends a monthly invoice to Alpha for all processed product returns. According to Omega there are around 50-80 returns per week and one return costs approximately 200SEK. Marcus and Jon also add that returns have been up too 100-150 per week just a few months ago. They also quickly mention the old system based on sending excel sheets with return information and how, together with Alpha, a new system was developed to better fit the company’s needs and make the process more efficient and information correct. Finally transportation of product returns has been decided on with Alpha and also due to the fact that Omega cooperates with the post office. If customers wish to use other companies such as FedEx or DHL they are free too but the stickers send by Omega have a stamp from the Swedish post office.
4.2 WHY DID CONSUMER’S CHANGE THEIR MINDS

This section will present the consumer dimension of product returns. 33 customers have been interviewed and the results in more detail can be seen in appendix IV. The base for the interviews can be read in appendix II. All feelings and emotions expressed in this section are emotions the customers articulated; I have tried to be as neutral as possible in these interviews. The whole consumer buying process will be presented and analyzed in chapter 5. This has been done to investigate patterns between need, expectations, Alphas market communication and the reason for returning the product.

4.2.1 BUYING THE PRODUCT

Customers at Alpha have had different reasons for purchasing mainly wireless modems. Many customers do not have any other choice then using Alphas services due to the landscape of technology available today. These customers have often returned the product due to failure in performance from the modem, e.g. no connection to the internet or the connection is too slow.

The main reasons for buying the product are (listed in order from most frequent answer to least frequent answers):

- Lack of other options
- Travel a lot (most often work related) and need to be mobile in Sweden (Norway and Denmark) – car, train, out on the Baltic sea
- Lack of a good option for permanent/fixed internet connection
- Lower costs (today’s alternative too expensive)
- Make laptop mobile through mobile modem
- Use in summer cabin
- Fun to try
4.2.2 CHOOSING ALPHA

The above is the need identified by customers that participated in the research. After identifying the need, customers where asked how and why they choose Alpha. Many of the customers heard from friends about Alphas existence, other had seen ads in business magazines, via the internet or having the knowledge of the old network being taken over by Alpha (and knowing the capability and coverage of this frequency band). Customers searched for more information usually through Alphas website, called customer service, emailed or found the closest retailer to find out more about the product. There are customers however that did not go through this search process but rather stumbled upon Alphas existence through having the need of mobile broadband and then having a retailer reassure them that this was the best solution for the customer on the market. The main competitors when deciding which offer to take was Hi3G, TeliaSonera and fixed broadband (ADSL). Yet customers chose Alphas solution based on competitive price, promised performance in speed and coverage, and the international aspect of the service (being able to use the mobile broadband to a competitive price in other countries outside of Sweden).

Finally the customers sooner or later decided they wanted to purchase the product. There are several issues that customers address already within the first interaction with Alpha. From the specimen of customers that have returned products there is more or less a division between the channels chosen (biggest is the internet) to purchase the product.

4.2.3 PURCHASING AND INTERACTING

All three channels that are offered by Alpha have been used; retailers, customer service and internet. Important to add is that when returning the product a majority of all customers end up talking to customer service even if the purchased their product through another channel. Many customers state that this is the information that is given by the company; that you need to call customer service. All types of interactions involved questions about coverage in the geographical area where the customer wanted to use the modem. All channels, verbal or non-
verbal, assured the customer that they would have coverage within the area and also promised good performance in regards to MG bit per second in downloads. Customers consequently got the product in their mail box and tried it on their computer.

4.2.4 THE AFTERMATH – POST-PURCHASE EVALUATION

What happens getting this differs from customer to customer; some explain that the modem was “dead” implying that they could not make it work at all. Others received a working modem, but only ever so often, some days it worked other it did not. There are also technical issues for the customers that use a Macintosh where the installations program showed trouble. Finally, there are those that actually make the modem work but the download speed was not compatible to what they had expected when ordering the product. Why; because Alpha had promised more according to the customers.

After conducting interviews with Alphas product returns customers it is evident that there are several issues that cause returns. One frequent reason for returns is the promise of coverage both online and by customer service at the location of the customer. There is a gap between promises from the company and the actual capacity of the product and services. Another frequent problem is getting online and also staying online. According to one of the interviewees the frequency band used by Alpha covers lot of space with only a few base stations however, it lacks in capacity, when a lot of pressure is put on it, meaning a lot of customers using the service at once the download rate decreases. On the other hand the Turbo 3G networks can handle a lot of pressure and still offer a good internet speed, but needs a lot of base stations to make this possible.

What happens after the purchase is complex as customers not only experience problems with the actual product but also with the after service on Alphas (and Betas) behalf. The problems
identified are listed accordingly to their frequency among customer interviews to get a better overview in upcoming discussions:

**Problems due to purchase:**

- Promises of coverage vs. reality of the situation/ communication with customer (knowledge)service
- Capacity/Speed
- Connecting to the internet
- Credited bills – time issue
- Return process – to complex
- Price – too expensive for what Alphas actually offers
- Macintosh and the modem plus other technological issues
- Collection of debts because subscription fees are not paid due to no subscription
- Connecting on the train
- Invoice send even if customer is no subscribing
- Is not allowed to return product

After customers have purchased the product and for one or another reason customers change their minds and the majority call customer service. Customer service has in the most of the cases just told the customers where to send the product and also asked for their credit card number to be able to credit the bill. In some of the cases customer service has offered another product; an antenna, to better the reception for the modem. Some of the customers tired the alternative solution; others believed that such a solution destroys the idea of having a mobile modem, and some found this solution too expensive. All customers send the modem back via the Swedish post office, which was the easy step in the return process, according to customers. After returning the good numerous customers received subscription fees for the past three months and after calling customer service again, got the excuse that something went wrong in the bookkeeping, or that you had to pay a months fee even though the customer had a 14 days free trial period. Customers that already where distressed got even more angry with the company. A majority of the customers had issues getting their money back and many had to wait one to three months and call and remind Alpha about crediting their invoice.
In spite of all these negativities that are presented by these customers, there are customers that believe in the idea and think that Alpha can be very successful if the start controlling problems and developing the technology. Customers also believe that promises should be made that can be kept so that expectations are not shattered when people receive the product. The biggest and most frequently issue that was discussed during these interviews was the map that Alpha presents on the website, showing in which part of the country the have coverage. These maps were interpreted by this specimen of customers as misleading. The gap between the map and reality was often brought up as a big disappointment. For more detailed information see appendix IV.

4.3 SYNTHESIS

The empirical synthesis does not aim to answer the questions stated. Rather the question guides the synthesis and sums up important point that will be used to establish connections between the empirical and theoretical data.

How can companies’ lower costs through analyzing the product return management process?

- The management process at Alpha today is to costly according to employees at Alpha. One return costs around 550SEK. Alpha does not have a physical in-house return management but logistics including returns are outsourced to the Omega warehouse and Beta. No actual analyses are made of returns currently at Alpha, however the goal is to reduce returns and understand processes and customers better. Alpha and Omega have developed a returns system together called RMS where Omega registers returns. This system is new and data can be retrieved from all parties involved.
• Omega send out post slips to customers that wish to return the product, the register products, sort, separate and do software checks. Omega costs about 200 SEK per returned product. The communication between Omega and Alpha is good and close according to the interviewees. Processes could however be more effective if decision making was faster at Alpha concerning damaged products and if the return cause investigation at Beta was faster; returned products could be registered faster.

• Customer service is also outsourced at Alpha to a company called Beta. Beta is physically located miles from Alpha and takes care of customer calls, both in consideration to potential customers, technical information (through support) and displeased customers requesting to return the product. Their sales strategy is informative and for return request the strategy is based on individual cases. Beta also calls customers and investigates return causes and registers these in the RMS. The communication with Alpha seems sufficient and there is an Alpha representative visiting Beta on a regular basis.

How can companies reduce returns (thus costs) and create opportunities through analyzing customer buying behavior?

• Buying Alphas modem is mostly due to traveling habits or lack of other options.
• Communication with Alpha through different channels (retail, internet or phone) has ensured the customer connectivity and speed which has been wrongful information.
• Information about the company and first impression has most frequently been given by either ads in magazines or friends and family.
• The reason for returning the product has in most cases been connected to expectations which originate from promises made through sales channels. Alpha did not live up to its promises.

How can companies lower costs through identifying resources and capabilities and how is this connected to product returns?
- I Changed My Mind -

- Alpha has started to investigate their resources and capabilities through the hiring of the new sales manager and their interest to lower product returns.
- Communication and cross functional capabilities have not been considered yet in accordance to product returns but will hopefully after presenting the results of this study.
- Financial resources have been calculated by request to have data for this investigation and has enabled in identifying the actual costs per returned product.
5. ANALYSIS: PROCESSES AND CHANGING MINDS

The analysis of returns management at Alpha will be based on a systematic combining approach (for explanation see chapter 2; Methodology). The analysis explains in depth the processes at Alpha and also the consumer perspective from a behavioral point of view. Throughout this chapter Alpha should be treated as an example, other companies may be subjected to different problems.

5.1 MANAGING PRODUCT RETURNS AT ALPHA

There are three actors that are all integrated in the value chain. To an outsider (for example the customer) all three companies are seen as one; Alpha. As an insider you are aware of the separation both in a geographical sense, and also in the sense that Beta (Customer Service) and Omega (Warehouse) are companies to which Alpha has outsourced parts of their value chain. This is often done due to financial reasons and to achieve a more centered focus on the business core, which is the case for Alpha. The analysis will separate the three actors to better understand the viewpoint of all concerning product returns. Suppliers are a fourth actor in the Alpha supply chain network however; they are not the focal point in this research. They are not a part of the return process however; they are a part of the value chain and control quality management.

a. Alpha; the core which the customer can see and whom they (think) they interact with.

b. Beta; Customer Service – the company customers actually interact with via phone and email. They contacts customers that have returned products to investigate causes and register this in RMS.

c. Omega; the Warehouse – send and receives products offered by Alpha and in accordance with Beta handle the physical process of product returns.

d. The suppliers – quality control management, random testing of products.
This figure illustrates the product and information flows (in and out) identified in the Alpha network.

Having three different actors involved in the return process, where there is a constant need to integrate and confirm information, strengthens the necessity for transparency. Full alignment between the actors needs to be reached through knowledge sharing and effective systems. Companies can be cautious when becoming transparent because there is a fear of information slipping to competitors, especially in the case of the warehouse where their customer base and market share is one of the biggest in Sweden when it comes to telecoms. Sharing information is nevertheless still of importance since sharing in this case can enable Omega, Beta and Alpha to understand their customers better, and thus better adapt to their needs and demands, which in turn, if successful, will have an effect on profitability.
5.1.1. THE STRATEGIC SUB-PROCESS

The strategic sub-process illustrated the work behind the operational sub-process, meaning the layout for how operations will be processed and executed. All three actors are involved in this process.

5.1.1.1 DETERMINE RETURNS MANAGEMENT GOALS

When customers can easily return a product companies send a message to the customers; they can be trusted. This is a strategic way of building loyalty since the company (Alpha) reduces risk taking for customers. Alpha has what they call a 14 day “trial period” which may be a law driven effort; however marketed as a complimentary service on behalf of the company it can create trust. Customers have reacted to this strategy in a positive way and decided to try out the product (see 5.2 consumer dimension for further information on research results). However, according to Omega, this trial period is one of the main reasons for returns.

Returns management and determining goals can lead to an increase in profits and by investigating and analyzing channels that have a high return rate these channels can be limited or excluded. Products from these channels can then be placed in channels where the return rate is lower and in this way ensuring more profits. Alpha has experienced one channel being a burden to the company since it had a 75% return rate (mall stands) and as a result this channel was cut of completely. The products returned to the warehouse to be sold via phone, internet or retailers instead, bearing in mind that they produce a much lower return rate. Keeping channels such as the mall stands could and probably did damage Alphas image. The sales manager emphasizes the importance of choosing the right distribution channels such as retailers, since they will reflect on you product and brand. He categorizes these efforts as a proactive work to decrease product returns and thus costs.

When discussing goals and creating returns management systems one of the main players in this development should be customer relationship managers, they are closest to the customer and should have a better understanding of customer needs. Beta and retailers are the actors closest to
the customer and daily interacting and solving problems and requests with Alphas customers and technical supports is there to back them up. Nonetheless, neither Beta nor retailers are a part of the strategic processes currently; they take all orders from Alphas main office. Transparency is encouraged to be able to reach a more efficient supply chain and companies, through focusing on how returns systems best can fit in to these processes, can make returns profitable.

5.1.1.2 DEVELOP RETURNS AVOIDANCE, GATEKEEPING AND DISPOSITION GUIDELINES

When above goals and strategies are determined a company should investigate what type of returns they are subjected to and recognize opportunities to avoid returns. For example Alpha determined that mall stands where generating a high return rate and thus removed this channel to avoid returns. Order fulfillment at Alpha is done by the Internet, retailers or Beta (customer service); the latter two have a chance to affect the customer on a more personal level and therefore can be involved in gatekeeping. Gatekeeping should be developed as a common effort form all actors. In this specific case Alpha should work together with Beta to create strategies for gatekeeping.

In a proactive sense, products are not forced on to the customer but rather an informative approach is taken. This is not done intentionally to reduce product returns but theoretically explained as return avoidance through adapting your approach to the customer state of mind, it can also be seen as a negotiation tactic. Further, there is the aspect of technological improvements from the suppliers to avoid returns. According to Alpha such measures are done by ordering a larger quantity then needed from the suppliers to back up any malfunctions in the products ordered. Alpha does not have any quality control over production at their suppliers; such measures are addressed internally at these companies. However Omega listed damaged product as a top three reason for returned products which implies that current quality controls may not be sufficient and Alphas profits suffer from these specific returns. However the last moths report show a 5% return in technically damaged products, which is a positive result for Alpha.
Alpha has done some strategic preparation to create sustainable gatekeeping. When a customer wants to return a product instructions are given to call customer service (Beta) before doing so. Beta has a chance to question the return and see whether measures on Alphas behalf can be made to please the customer, and thus avoiding the return overall. Due to technical problems that the case study customers have been experiencing, this has not always been an option but at times Beta has managed to turn it into a possibility. By using gatekeeping Beta has managed to upgrade some customers systems and enhancing product performance by offering antennas. Gatekeeping is based on knowledge and customers have experienced a lack of technological knowledge at Beta, in these cases gatekeeping has turned out to inadequate which leads to high costs. Training is given to Beta in the basics of the products; however this has turned out to be insufficient for some customers in this research.

Customer support is given a frame within where they can offer customer added value to keep the customer. This effort has been developed by Alpha, because they know the cost difference between keeping a customer and attracting a new one is big. If customers are still not satisfied, Beta consults Alpha and may get to extend the given framework and offer customer something more, such as three free subscription months. If the customer still is not satisfied a notification is put in the RMS system and Omega is notified about the return. Omega sends out a return sticker to the customer, which was a cooperative decision involving Alpha and Omega to get the products back as quick as possible. Disposition is decided by Omega and depends on the amount of product returned. To make the process more efficient a returns system was introduced (RMS) to be able to store information and track the return, which has been successful. The data gathered currently is the same for all involved actors compared to the excel sheet days. The only concern is that the system is up and working but it is not used to its full extend by Alpha to extract information.

5.1.1.3 DEVELOP RETURNS NETWORK AND FLOW OPTIONS
A returns network is determined depending on the size and preference of the company as well as the amount of returns. Logistics is outsourced to Omega at Alpha. The decision to outsource is
based on costs tied to do build a warehouse on their own and tying more investment to Alpha. The choice of Omega is based on their extensive knowledge of handling products within the telecom business. Omega and Alpha have developed a returns system based on quick returns where the customer sends the product directly via mail to Omega where it is processed in the return warehouse. The process in short is:

- Beta is supposed to receive a returns request and enter this into the returns system
- Omega sends out return slip to customer
- Customer sends the product back to Omega preferably via the Swedish post office with which Omega cooperates (Customer is allowed to choose other means to return the product if they wish too)
- Returned product arrives at the warehouse and is sorted and ends up at the return warehouse for processing

The satisfaction of the return process has not been measured yet at Alpha and this thesis is the foundation for further investigation for them. This investigation is also intended to make companies aware of how much an ineffective process can damage customer relations; this is further discussed in the consumer dimension chapter (5.2).

To ease the process a set of codes have been developed to gather information on the reason for returns, these codes are the same for all three actors:

a. unknown
b. damaged product
c. reclaim
d. bought another/a different one
e. bad reception
f. low internet speed
g. system/web issues
Flow options have also been developed depending on the condition of the product when it arrives at Omega. More information about these flows will be given in the operation chapter but the underlying reason for them to look the way they do, are due to the amount and the type (not opened, broken, etc) of returns that are received today. The process has been identified as the best for the situation, and knowledge about processing has come from years of experience. Further details where left out in these interviews due to the protection of competitive advantage.

5.1.1.4 DEVELOP CREDIT RULES
Credit rules are to be established in an organization to have a set of rules concerning credits and paybacks to private as well as business customers. If rules are set, cases do not have to be considered on an individual basis, thus saving time and money. Credit rules have been established set at Alpha on a business to business basis. Before a company purchases a product their credit liability is checked and if the company wants to return the product, in accordance to rules, they get full reimbursement and a credited invoice is send. For private customers the process is more complicated, credits are not checked and customers pay at the point of delivery. Alpha has been subjected to many cases where customers do not retrieve their packages due to lack of money or they changed their minds etc. Therefore rules are under construction for these types of cases. For returned products the customer is asked for their bank account (if a return request is valid) and Beta registers their account number for reimbursement and this is physically taken care of at another department at Beta.

5.1.1.5 DETERMINE SECONDARY MARKETS
If companies wish to keep their returned warehouse separated from their other products a secondary market can be created. Due to the nature of the product in this investigation; wireless modems such markets do not exist yet at Alpha. However, the process manager at Alpha turns the question around and contemplates the possibility of having a second market created by customers. If customers eventually want to sell their modems this could become possible if existing subscriptions can be transferred to new customers. Having a second market for modems on the behalf of Alpha is not an option today; the question would be; what would be the difference? The technology still has to work, the products needs to be presented well not to hurt the company’s image, which entails that only the price would differ. Why take a lower price for a product which could be sold for full price on the original market? There would be a big risk of cannibalization within this business because products would be offered to a lower price but with the same qualities, customers would rather buy these if they believed that the quality was the same. If they did not believe in the quality, this market would eliminate itself due to low demand.

5.1.1.6 DEVELOP FRAMEWORK OF METRICS

Currently framework of metrics, thus costs that are tied to product returns are indistinguishable, not fully known at Alpha. They are a relatively new company on the market and the return rate is higher then they expected. When talking to both Alpha and their warehouse Omega costs have been estimated from these parties. Companies should have control over the amount of returns, the costs associated with them and also how many returns can be resold and these should be included in the PSA. These measures are not calculated and consequently an effort is made here based on the information gathered from Omega and Alpha.
<table>
<thead>
<tr>
<th>Amount of returns</th>
<th>Weekly cost (SEK)</th>
<th>Monthly cost (SEK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>27 500</td>
<td>110 000</td>
</tr>
<tr>
<td>60</td>
<td>33 000</td>
<td>132 000</td>
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<tr>
<td>70</td>
<td>38 500</td>
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<td>80</td>
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<td>77 000</td>
<td>308 000</td>
</tr>
<tr>
<td>150</td>
<td>82 500</td>
<td>330 000</td>
</tr>
</tbody>
</table>

Alphas cost/ return 550SEK

These are the costs based on Alphas calculations of cost/return and how much accumulated returns cost per month. If Alpha gets 50-80 returns a week the amount of products that are resold and re-introduced to the out flowing supply chain. These costs are a sum of administrative and processing costs from Beta and Omega. Omegas costs can vary, if the product needs to be checked these cost estimates will have to increase. Currently about 60% of the products that are returned needs checking. The cost for packages that go directly to pick-up cost the same as those that are broken (200SEK)

5.1.2 THE OPERATIONAL SUB-PROCESS

Alpha has developed some strategic processes connected to product returns together with Omega. This section will illustrate how these actions are realized at Omega, Beta and Alpha.

5.1.2.1 RECEIVE RETURNS REQUEST

Channels that can be used to communicate a return request can differ. At Alpha consumers are instructed to call Customer Service (Beta) but there are customers that disregard this and send a package directly to Omega with either some information about the return or in the same state.
they received the product. If this occurs, Omega registers the return and contacts Beta who does further investigation by calling the customer and investigate the case more in depth. When Beta is conducting this investigation Omega has to wait before further registration can be conducted. There are cases where the return does not pass; Beta then informs Omega about this and Omega sends back the returned product to the customer. There are also cases where the customer has registered his return via the Internet (usually this is done by consumers that have purchased the product online). When customers call Beta, there is a “gatekeeping procedure” where the customer is asked about the reasons for return and a solution is discussed to meet customer demands. The discussions usually concern an extended trial period, to try antennas, try other types of modems or to try it in other places (physically). Free subscription months are also an option to keep the customer. There are several cases in this study that have proved efficient gatekeeping where the customer upgraded their modem and still have Alpha as their internet supplier today. Cases where there is close to no gatekeeping, are those where the customer calls in to Beta and the modem is not connecting at all. Customer service or support has concluded that this customer is in a “dark spot” (no connectivity), thus the customer is directly instructed to return the modem.

5.1.2.2 DETERMINE ROUTING

When the discussion is over and the customer still is determined to return the product, the customer is directed by Beta to wait for a post slip from Alpha. In reality Beta informs Omega about the return and Omega is the one sending out the slip with their address and a post stamp. This has been a decision Omega and Alpha worked on together and determined this is the fastest way to get the product from the customer back to the warehouse. Omega added that there is no reason to send post slips with the original package because returns are not high enough and producing these slips is costly and in this way costs are cut.

5.1.2.3 RECEIVE RETURNS

When returns finally are send by the customers, which usually takes a few days due to the fact that they have to wait for the slip from Omega before they can send the package, the arrive at
Omegas warehouse to be processed. The process is illustrated to get a better understanding of the options Omega has developed for the products.

![Diagram of the Physical Returns Process]

If the return is passed by Beta it gets registered in the RMS. The system registers ESN, series numbers, customer name, signature, returns cause, IDH number. All this is recorded to be bale to track the return when it is yet again sorted into either i) testing, ii) damaged or iii) ok. For the last category this process including Betas evaluation should not take more then one day. If the product however ends up in the first two categories the optimal time to process it would be three days, since Omega needs to await instructions from Alpha, this rarely is the case. The information that is gathered in the RMS is not used in any analyses at Omega since Alpha and Beta can both access the system and extract any information they wish. Analyzing this data can be used as a basis for creating avoidance strategies. For example according to the data gather in compliance to this thesis one reoccurring reason for returning products was the mismatch between information given about speed and connectivity online and by customer service and the reality customers experienced. One example of an avoidance strategy is to bring this information closer together and thus avoiding these returns.

5.1.2.4 SELECT DISPOSITION
Disposition was discussed in the section above since they are so closely tied together. Dispositions, thus what happens to the product is illustrated in the figure. Making this process fast (time vise) is important because products are constantly loosing their values and in the case of Alpha fast decision making in points i) and ii) will mean lower costs since less manpower and storage is used. When asked if parts are reused from those products that are damaged in production, Alpha has decided to not engage in such procedures since the large majority of their suppliers are situated in Asia and sending spare part over to them would not make sense in regards to shipping costs. Instead Omega has educated people in their production department that can do software checks for those products that are less damaged or to see whether anything is broken at all or if costs can be cut through repackaging the product and reselling.

5.1.2.5 CREDIT CUSTOMER/SUPPLIER
The amount of credit returned should be determined in the PSA and rules developed concerning the credit amount returned to the customer. The credit should be a discussion that involves the whole supply chain and the company image should be considered in these calculations. At Alpha there are legal aspects to returns that have to be regarded as well as the company image when discussing credits. Customer have complaints to the time it has taken to get money back and since the process to credit a customer is complex there will be some issues regarding this. When Beta receives a return request they register the customers’ bank account number but the actual payment is done at another department at Beta. Current systems seem insufficient in the eyes if customers since they have to call and remind Alpha about the crediting, or give them their account number again, still it takes months to get money back. Further customers have also been billed subscription payments even though they never where subscribers. Even though these specific customers had to go through a process that was perceived as slow, the whole amount paid was returned to the customer in all cases. This is due to 1) the complexity of only returning a certain percentage and 2) the company’s image was considered when making this decision.

5.1.2.6 ANALYZE RETURNS AND MEASURE PERFORMANCE
Analyzing returns and causes is a way to create sustainable efforts to avoid and thus decrease product returns. This thesis is an effort to do just this; to create a base and analysis to identify where Alpha, Beta and Omega can improve their processes and what needs to be done to achieve their goal. They wish to understand their customers better and why they return the product. Alpha also want to figure out if there are any measures that can be taken internally to lower costs in addition to in turn transform threats into opportunities. One big factor to consider when reading this thesis is that whomever and whatever company undergoes such a research it is important to share the results among all actors in the value chain. In this specific case it involves Alpha, Beta and Omega. Further discussion on improvements that can be made based in results in this investigation can be read about in the next chapter; Conclusion and Recommendations.

5.2 THE CONSUMER DIMENSION

Alphas customers have been included in researching how to best process product returns to gain a competitive advantage and decrease returns. To gain a competitive advantage and decrease costs, therefore lower returns over all. To be able to decrease returns they need to be controlled and companies need to get to the bottom line; why do customers change their mind? The following will present an analysis of the data gathered from 33 Alpha clients (both business and private) to better understand the opportunities to reach the goal of fewer discontent customers.

Overall, research (not mine, but backed up by my results) explains that the bottom line for companies should be (1) keeping your promises, consequently creating a relationship toward your customer and forming (2) trust. Trust is another important factor as well as (3) quality of what you offer your customers. Alpha has room for improvement in all three of these, according to their former and current customers.
Promises are given both on the website, via customer service and retailers, of performance (download speed) and coverage almost everywhere in Sweden. This has created a picture in the mind of the consumer, and either due to lack of other options or an interest in trying out the products; it has eventually lead to a purchase which has resulted in disappointment. Alpha had failed in fulfilling the bottom line. Information given by the company in form of promises and whether the mobile modem would work or not was incorrect and dialogue and communication with Alpha was inefficient for theses customers.

Researchers have recognized reasons for switching suppliers and the main cause for doing so has been identified as *due to the product or service*, which is backed up by the research conducted to investigate this specific case. The second alternative; price, has not been too much of an issue at Alpha but when customers where asked why they left their previous supplier if they had any, the main reason was price followed by better offers from Alpha. Some of Alpha’s customers never left their other supplier. During Alpha’s free trial time they also had another supplier which they kept after trying Alphas modem due to bad quality of product and service performance.

Further there is an issue of perceived quality that has been very low at Alpha since it never met the customer’s expectations. More specifically; the *hard expectations* where low from the customers point of view since the modems performance has been low or not working at all, according to the interviewees. In theses specific cases the price is seen as to high in comparison to the quality, the rights to exchange the products have been perceived as a little complex but sufficient. The *soft expectations* for example interaction and knowledge of customer service has been low too. According to a majority of the interviewees customer service has been unable to answer questions relating too technical problems and geographic performance at the customer’s location. These questions are answered primarily by customer support and even then customers feel there is a lack in knowledge. There are occurrences where customer service calls back to the customer after consulting with support to answer questions; this has been a seemingly slow process in the customer’s point of view.
5.2.1 ALPHA’S CONSUMER BUYING BEHAVIOR

The figure below (figure 7) presents a simple process illustration of how the customers at Alpha perceived the experience of buying mobile modems but also returning them and sharing their experience with family and friends.

Buying behavior has been acknowledged as a five step process and when conduction this research these steps have worked as a fundamental framework to understanding Alphas customers. The buying process illustrates a better overview for firms when they focus on meeting customer demands and work proactively. This has been one of the main issues for Alpha customers, they have not had their expectations and needs meet by the product and they feel that Alpha has failed them on this point.
Needs have been recognized by asking customers the question why they wanted to buy a modem. Customers have answered some of the following, supporting the theory that changes in individuals life are a factor in creating a need. One factor that created a need in these specific cases was \textit{creating an option where there was none for many customers}. The Swedish telecom landscape has left out many potential customers when building the fixed internet network and thus many people where left without an option, especially in the north of Sweden. By introducing this option through national coverage and mobile modems, Alpha created and interest among many customers that in turn created a need. Another group of customers wanted to use their computer at work and make it portable; some wanted to be able to stay connected
when out in their summer cabin and others figured it would be fun to try since Alpha offers a trial period.

All customers that took a part in the research where asked why they choose Alpha and how they found out about the company to better understand their information gathering process. Information gathering usually consists of a consumer investigating market options and opportunities and considering which company and which product best match their needs. When information has been gathered consumers narrow down their options and finally pick a company with the aim solving their problems. The concern with this definition and Alphas case is that a majority of customers had no point of reference when choosing or a very narrow one. Alpha offers a geographical coverage superior to their competitor which insinuates that they can reach a potential customer base where other companies have no access yet. This in turn means that the evaluation and choice of appropriate product for these customers is rather an “either or” for these customers.

Nonetheless, there are a number of customers that did actually have a choice in their selection and did evaluate their options. These customers focused mainly on four things; coverage, download speed, price and also the trial period that Alpha offers. There where customers that felt nostalgic about using the old telecom network and thus chose Alpha instead of another supplier. There are also customers that tell a story of retailers that have assured them that this is the best choice for them. Either way they have criteria’s to choose from based on both economical measures but in a way also social measure seeing that people want to stay connected to the rest of the world or be able to email work or just stay entertained. Evaluation will also depend on what the person has heard about the product from friends and relatives. Some of the customers have received information about the products through these channels and have decided to try it. Assuring customers that a product will function and promising better performance then is possible leads to disappointment for these customers, in addition customers loose trust in the company. This in turn lowers the possibility of the customer ever choosing to buy again from this organization.
Intentions have also played a part in the evaluation of the product. The consumer has formed a picture an attitude towards the product that has affected whether they decided to buy it or not. In this research, all have come to the conclusion that they did want to buy the mobile modem. This decision might be formed from different sources such as trust to the retailer, family or just the nostalgic part of using the old telecom network that has a good reputation when used for cell phones. However, in the post-purchase evaluation customers have changed their attitude towards the company and the product due to different reasons. This attitude will affect other potential customers that undergo the same decision process as these customers. When evaluating alternatives potential customers might turn to another company due to the power of word of mouth.

For most customers the choice of a mobile broadband connection was new, classifying it as an extensive problem solving situation where there is more investigation done compared to situations where you already have a lot of knowledge of the product. There is also the question of staying loyal to the company. Because Alpha’s trial period the consumer can make a choice whether they are satisfied with the product and thus will stay loyal or not, which was not the situation in majority of the cases in this research. There are a few cases of limited problem solving where the customer already was a customer at Alpha and just needed an upgrade of these system to better solve their problems and meet their needs. There are also personal influences that have affected the purchase for these customers. Alpha has created a marketing strategy which has targeted customers that have a problem getting online and thus reached these.
Finally, customers have also been reached on a more personal level by adapting to peoples lifestyles. Many of the customers’ have a need to use internet in their summer cabin to be able to reach work or due to long commuting hours want to be able to work “on the road”. By acknowledging these patterns and changes in lifestyle, Alpha has created a product to meet growing demands on the market. Customers have purchased the product to fit their lifestyle but found that they are not able to connect on the train or the performance is too low in their summer cabin, leading to returns. This is yet another example of not meeting customer expectations that are built through promises on the company’s behalf. One customer commented that the product would have been fantastic, if it worked. It also has to be added that comments and impressions in this study are limited to a certain amount of people and to people that have returned the product due to dissatisfaction and thus do not represent a summed picture of all customers, however they are a valid representation of returns customers. Family and social influence will also have a great effect on decision making when buying products and the power of word of mouth cannot be underlined enough. Customers that are displeased will tell others according to studies, and many of these customers confirm it even though they have not been asked.

5.3 RESOURCES AND CAPABILITIES

“…returns management capabilities can be used strategically to enhance the overall performance of the company…can be used to improve customer loyalty, improve profits, and enhance the brand or firm’s public image”

(p. 153, Lambert, 2003)

The competition on the telecom market in Sweden is tough and for operators this implies that they have to distinguish themselves on the market. One approach to take to gain differentiation is to identify, evaluate and analyze your company’s resources and capabilities. Alpha is
currently undergoing an overall strategy change where information due to competition has not been disclosed for this research.

_Tangible resources_ have been discussed at Alpha through costs that are generated per returned product. Currently these costs are around 550SEK/return and the company generates about 50-80 returns per week. Tangible resources should be identified which they have been in this case. This money that is dedicated to returns could be decreased through several actions described in earlier chapters and will be discussed in chapter 6 in further detail. Resources should be evaluated to asses if the can be moved to other functions where they can better support, develop and sustain capabilities. The financial burden of 110 000 – 176 000SEK per month could be used to improve marketing communication or to train sales representatives.

_Physical resources_ are more difficult to identify. However resources such as the brand should not be disregarded. Product returns can have an effect on decreased sales volumes and thus annual sales will decrec meaning that the calculated brand asset will decrease. This demonstrates that physical resources do get affected by returns. _Intangible resources_ like technology can be improved through quality management and reputation can be upheld by meeting customer needs. By ensuring that promises are made by the company and also kept, product returns can be decreased and resources have generated an improved capability of the company. In the case of Alpha this is an issue that needs to be addressed; both in the matter of quality and more accurate marketing communication to decrease displeased customers.

Finally, _human resources_ in the case of product returns are complex since there are one or more parties involved in the process. All these employees have skills and communicate. The communication capacity at Alpha and between the third parties could be improved through identifying which resources are more effective both human (communication skills) and physical (via phone, meetings). When hiring at Alpha personal characteristics such as communication and learning skills should therefore be considered.
All these resources at Alpha create capabilities and through cross function capabilities, the process of product returns is possible. At Alpha and Omega there are employees in different functions that exchange information with the same function at the other company. Omega’s sales communicate with Alpha’s sales department and so forth. At Alpha different functions should be more involved in the product returns process. To maximize capabilities of the returns process this implies that several functions should be involved and today this does not seem to be occurring at Alpha. There is a huge opportunity to improve their organizational capabilities and goal to reduce the amount of returns. Alpha can improve their core competency through better adapt there offer and in that way give customer a higher value both in the outflow of products but also in the backflow of products.

There are two ways of classifying capabilities: through a functional analysis or through a value chain analysis. Alpha has not done either when discussing product returns. There are no analyses concerning which function and how much they are or should be integrated with product returns. In earlier discussions it has become evident that the feedback gathered from product returns customers should be used to improve marketing and sales efforts to reduce controllable returns. Currently such efforts are discussed but where they will lead is unclear. Routine capabilities at Alpha concerning returns were introduced at the start of the company about a year ago. These routines have been followed but are slowly being questioned today. They have been working ok so far and returns have been decreased but at the same time so have sales. Even though capabilities such as routine capabilities do ensure a faster process they are not always appropriate when dealing with a changing environment. The environment for mobile modems is constantly changing and developing and so is the company today and therefore these returns routines should be overlooked and evaluated to ensure that resources are used in the best way possible and see how cross functional capabilities can be developed. A hierarchy of capabilities can be developed internally at Alpha to assess how functions are interrelated (one example is illustrated in appendix IV). One solution in the case of product returns at Alpha is to create a
cross-functional team to analyze and discuss the current situation; this allows different types of business knowledge to inter exchange.

To analyze resources and capabilities it is suggested that companies should look from the outside in. What are the factors that make a company successful, after assessing successes companies should look inward to evaluate what functional capabilities made the successes possible. Further this research centers on looking outward for answer however; in this case the center is on where the company has been less successful. Turning to the displeased customer base have enabled Alpha to recognize areas where their capabilities are weaker. Identifying their weakness helps Alpha to redirect recourses to create stronger capabilities. This is the reason why this research has been shaped the way it is; one side the internal processes have been investigated, one the other; the external customer environment for returns customers has been investigated too. To create success within the field of product returns Alpha can benchmark this process through investigating how other firms process product returns successfully. The sales manager at Alpha has previous experience and can be used as a source of information in this case. When conducting changes Alpha needs to remember the forces that affected the system and the way it currently looks and evaluate what changes have been made to alter changes.

5.4 SYNTHESIS

This synthesis aims to combine the theoretical and empirical synthesis based on the research questions.

How can companies’ lower costs through analyzing the product return management process?

- The strategic sub-process at Alpha is limited and more attention should be centered on creating avoidance and gatekeeping strategies based on marketing communication to lower returns and consequently costs. It has become evident that customers’ expectations do not match what the company has delivered. Current metrics show a cost
of 550 SEK per returned product which, multiplied by amount of returns and weeks results in a monthly cost of 110,000 - 176,000 SEK. If the communication between Beta, Alpha and Omega can be faster these costs might be negotiated and lowered.

- An alternative is to introduce competition to Omega and consequently lower costs. Omega costs for processing products are 200 SEK not depending on where they are sorted; pick-up, damaged or need checking (checking is somewhat more expensive if repackaged). There are opportunities to lower prices for the two categories that do not need more attention then sorting through negotiations or the introduction of competitors.

- Credit rules can ensure that products are correctly returned and create routine capabilities at Beta making it easier to judge the return situation. Routine capabilities make processes more efficient and less time consuming which in turn cuts costs.

- Introducing a frequent analysis of returns can create opportunities to lower costs at Alpha through pinpointing which resources cost more and which capabilities can be improved through conducting a functional analysis.

- These improvements will automatically improve the operational sub-processes since they are based on the strategic sub-process and therefore decrease costs.

*How can companies reduce returns (thus costs) and create opportunities through analyzing customer buying behavior?*

- Analyzing customer buying behavior generates and opportunity to gather information from a customer base that is displeased with the company’s service. This is a source of information on how companies can better meet the markets needs and through identifying the customer buying behavior companies such as Alpha can adapt and lower product returns through meeting customer expectations. In the specific case of Alpha their marketing communication has been misleading for the customers that participated in this study. By adapting and improving marketing communication Alpha can reduce these controllable returns.
Knowing the underlying reasons for buying the product can help Alpha target specific needs and lifestyles in their marketing communication.

*How can companies lower costs through identifying resources and capabilities and how is this connected to product returns?*

Through identifying resources and capabilities that are connected to product returns companies can assess how well these are functioning today. In the case of Alpha there is a connection between return causes and the marketing department. Since no real analyses are made today there is little or no information to base marketing efforts on and therefore a proactive avoidance strategy is close to impossible to form. Through assessing resources and capabilities in functions there is an opportunity to introduce routine capabilities and lower cost through more efficient processes. A functional analysis will also show where costs are higher and therefore a bigger burden for the company as in the case of cost per returned product. Identifying resources connected to the process gives way to evaluate their importance and how these are contribute to creating capabilities.

Building capabilities can lead to creating a competitive advantage and even if this is not a topic discussed in this thesis, a competitive advantage implies being better to meet customer needs through lower costs which can be done through lowering costs connected to product returns.
6. CONCLUSION AND RECOMMENDATIONS

Why do customers change their minds? Can companies cut costs and if so, how? Can resources and capability identifying make a difference? The investigation has reached an end, and this chapter aims at presenting answers to the questions stated in the first chapter and provides general recommendations.

6.1 CONCLUSION

6.1.1 HOW CAN COMPANIES LOWER COSTS THROUGH ANALYZING THE PRODUCT RETURN MANAGEMENT PROCESS?

Companies have several opportunities to decrease costs associated with returns. The return management process was the first explored topic in chapter 3 and it will also be the basis to answer this question. Alpha is used as an example to illustrate specifics.

Companies can lower costs through creating an opportunity to gate keep and create avoidance. At Alpha, for example, there is a policy where customers are informed that they should call customer service before returning the product. This creates a possibility for Alpha to interact with the customer and make adjustments in their offer, product or service to satisfy the customer, avoiding the return. By developing strategies together with customer service, guidelines can be made to better understand customer needs to be able to meet these. Offers can be created to satisfy the customer. These offers need to be weighted against the cost for loosing that customer. If the company can convince to customer to stay they have saved approximately 550 SEK (minus the effort cost to keep the customer) in return costs and also gained in profits from regular subscription fees and a good word of mouth. This the next best option for keeping the customer. The best option would be avoiding displeasing the customer at all, more on this topic in section 6.2.
If the customer decides to return the product even though efforts to avoid this have been made, there are still possibilities to lower costs. Information can be gathered as to why the customer changed their mind. A database can be created and analyzed monthly or quarterly. By gathering data there is an opportunity to see patterns in consumer behavior and also possibilities for the company to re-strategies to improve in areas where the consumer has felt dissatisfaction. Thus, *proactively decreasing returns and therefore lowering costs*. This is one area where Alpha has exhibited a weakness during this research. Data is gathered and systems are in place where data can be extracted at any time and still there is a lack to regularly analyze this data. This has resulted in 110 000-176 000SEK in monthly costs that can be reduced through identifying controllable returns and introducing strategies to avoid these. In the case of Alpha marketing communication has to be adapted to what they are able to offer. Another action on Alphas behalf is to introduce competition to Omega in thus introduce a “price war” to lower costs.

### Figure 15 Possibilities to Lower Costs at Alpha (Own)

Since every company differs in strategies, resources, goal, capabilities et cetera this question will be based on Alphas specific situation and using Alphas situation to pinpoint where cost savings can be made. Figure 13 illustrates the internal processes at Omega, Alphas third party logistics firm. The circles illustrate processes where Alpha has an opportunity to become more cost effective based on the theoretical framework presented in this research.
(1) **Receiving the product and acknowledging that it has been received.** There is an opportunity to cut costs in this stage in the case of Alpha. Due to the structure of product returns and the involvement of both Beta and Omega in this stage, there is an opportunity to speed up the process and thus cut costs in the sense that products that can be directly resold are not tied up to the return stock. By managing the administrative work faster at Beta, Omega can pass the product faster, implying that the process of registering the product and sorting it will be faster.

This stage should be reviewed at any company to distinguish if there are possibilities to cut costs through more effective communication and the development routines that save time and cost. Returned products should not be tied to the return stock for longer period of time if there is an opportunity to resell them thus lowering stock processing cost and increasing revenue.

(2) **Sort and Stage** and (3) **Processing.** All companies should investigate these processes identify which processes and resources cost more to be able to make correct assessments about their situation. *The key is introducing cost saving processes based on speed and time to avoid any possible sources of revenue being tied up to the return stock for too long. Companies also should consider reusing spare parts of damaged products to lower total costs.* Even if this is a process that has been assessed as costly for Alpha this does not have to be the case at other companies.

In the case of Alpha this sub-process is related to the fact that employees at Omega have to be knowledgeable to be able to assess the state of the product when it arrives at the warehouse. Assessing the current situation for Alpha based on interviews, this sub-process is functioning well, except the high costs from Omega. The costs for processing ‘damaged’, ‘passed’ and ‘needs checking’ products are currently more or less the same. 60% of the products that return today need processing however the 35% needs repackaging and 5% do not need any special attention from Omega; therefore there is no need to have such high costs for these products.
Registration could also be faster in the case of Alpha where Beta can investigate cases faster and therefore products are not tied up to long to the return stock but can be checked and resold, assuring revenue. Policies for what happens with damaged products should be introduced to cut costs since currently they take up space and cost money at Omega.

Data that is recorded in systems when returns are received should be carefully considered. Collecting data on the cause for the return can generate statistics and be a base for analysis and this is important because…

(4) **Analyzing and selecting disposition** Analyzing returns data gives companies an opportunity to asses their efforts and adapt these to the market needs. A company which can deliver what they promise and what the customer needs can reduce controllable returns. If these returns are reduced costs are automatically reduced. Therefore, analyzing returns data leads to cost decreases in product returns processes.

In Sweden the choice for disposition is limited and the cheapest choice in the case of Alpha has been using the Swedish post office to get the product back to the warehouse quickly. Every company needs to asses the best and most cost effective rout. Moreover, in the case of Alpha post slips are not sent directly in the original package due to high costs of producing them and a return frequency where this cost would be o high, *this is how Alpha cuts costs.* However, if the return rate is high or there is a need to get the product back to the warehouse fast these can be considered. *The faster the product returns to the warehouse the quicker it can be assessed and re-sold, which generates revenue.* These are opportunities to cut costs through using the company’s resources better and more efficient based on the resources and capabilities your specific company has.
(5) **Support** is the final stage and highlights *the importance of cutting cost through faster returns processes*. In competitive markets companies need to focus on cutting costs and in this specific case it is about *decreasing the amount of potential revenue tied up to returns stocks*. Simpler described; to get products back on the market faster. In the case of Alpha 60% of the products need to be checked and repacked. Ensuring that these processes are fast in turn ensures that products can be resold faster, for this process to be fast all actors need to ensure that communication is fast and efficient.

**In conclusion**: there are several areas within the return process that give the opportunity of decreasing costs or eliminating them overall. Alpha as well as any company subjected to a return rate which is considered to be too high should implement more control over these costs. Sources should be identified that generate higher costs then others and prioritized. If a company only has one firm that handles warehouse services, alternative warehouses can be introduced to create competition and therefore lower overall costs.

6.1.2 HOW CAN COMPANIES REDUCE RETURNS (THUS COSTS) AND CREATE OPPORTUNITIES THROUGH ANALYZING CUSTOMER BUYING BEHAVIOR?

This is the proactive approach for companies to seize the opportunity to avoid controllable returns through analyzing customer buying behavior and thus lower costs associated with returns.

Knowing your customer and their needs, demands and expectations enables companies to meet these, thus ensuring success on the market. Creating an environment where this is possible requires companies to constantly study their customers. In this specific case the product discussed is based on technology within the telecom business these have a tendency to develop very fast, consequently changing the customers’ requirements and therefore knowing your customers should be a constant concern in situations where the external environment is dynamic.
Companies should engage in getting to know their customers on a frequent basis to ensure a competitive advantage. In general this study the need has been identified to get online. The need has been directly connected to the return cause. Customers have a need to get online; Alpha communicates information that in turn leads to customer expectations, when these are not meet customers have changed their minds. Companies need to get to the bottom line; to why the customer purchased their good and what expectations are protruded from the company in the consumer mind; how and why companies affect the consumers buying behavior. Gathering such data and analyzing the result should be done by professionals and should be communicated to the supply chain so that changes can be made in the correct functions.

*Returns can be decreased through proactively ensuring that strategies and marketing communication not only matches the company’s abilities to perform but also what customers need and expect.* In the case of Alpha the company communicated speed and connectivity which they did not deliver. These expectations on how well the product would work were based in how the customer interpreted marketing communication for Alpha. By taking this information and changing marketing communication to adapt to the reality of what Alpha can offer the customers they have created return avoidance. Returns due to these specific causes can then decrease. *This is how using customer buying behavior research can proactively create return avoidance and reduce returns overall, thus cutting returns costs.*

Figure 14 illustrates how the buying behavior process is linked to company efforts. The company “producers” ensure that data and information is accessible for the consumer and this data will affect how the consumer proceeds. Expectations are also generated in this interaction though promises made by companies. *Ensuring that these promises are kept will reduce returns.* Internally companies need to integrate functions to be able to reduce returns. *Data gathering and analysis on reasons for product returns has to be shared and communicated to the whole supply chain to be able to reach sustainable results.*
In conclusion: There are many opportunities to reduce and avoid returns based on customer data if firms integrate functions and efforts. Customer buying behavior investigates not only post-purchase evaluation but also the initial need. Knowing the initial need can help find patterns for returns based on promises from companies and customer expectations.

6.3 HOW CAN COMPANIES LOWER COSTS THROUGH IDENTIFYING RESOURCES AND CAPABILITIES CONNECTED TO PRODUCT RETURNS?

If strategy is matching a company’s resources and capabilities to the external environment opportunities, this has been conducted in this research. Customer buying behavior has been the external influence tied to internal opportunities to cut costs associated with product returns through focusing on resources and capabilities at Alpha. This section offers an overall view of what needs to be considered to be successful in above efforts.
Indentifying resources and capabilities through functional or/and value chain analysis enables companies including Alpha to assess their tangible, intangible, human and physical resources. Weaknesses and strengths can be identified and assessed and through realizing the interrelations between the value chain functions and products returns, more effective process systems can be created. This can be done through cross functional teams to create routine capabilities, such as gatekeeping, and thus directly lowering costs because these processes are done faster and more efficient. *Realizing hierarchical and cross functional nature of a company’s product returns will create a basis to better develop strategic and operational processes which will ensure cost cuts.*

*Identifying resources and capabilities will reduce cost directly and indirectly through organizing (mapping out) and better understanding of your own company and the internal processes.* It also includes questioning implemented processes and if there are still the optimal choice for companies that are subjected to constant change. In the case of Alpha, is Omega still the best choice based on cost or is it time to consider employing another actor to introduce competition.

In question one identifying capabilities and resources has been conducted through for example seeing that the resources Alpha possesses are not fully used. Processes could be faster to tie fewer resources to the return stock and the marketing function could better adapt marketing communication to set expectations that Alpha is able to meet. *Costs can be cut through ensuring that organizational capabilities are created through bringing all the value chain functions together and seeing their work as integrated functions instead of separate thus creating more effective and communicating organizations.*

FIGURE 17 INTEGRATED VALUE CHAIN FUNCTIONS (INSPIRED BY MCDONALD ET AL, 2000)
This thesis has been based on the company I have chosen to call Alpha. This company has been suffering from a return rate that is comprehended to be too high, and there is a lack of understanding why customers change their minds. This is a phenomenon that I believe is a reoccurring in companies and therefore this research can be of interest to any company. However, companies should be aware of the nature of the discussions in this thesis. Results are based on one company, Alpha, which is subjected to a specific situation, due to their external and internal environment, which may not match other companies. Nevertheless discussions are also based on a theoretical framework which is common for organizations and returns and no specific market or business, therefore interesting to any company.

The research has been based on three dimensions; 1) To study the psychology of customer minds and dig in to their thoughts and emotions concerning their buying behavior, and 2) to investigate the internal procedures for processing returns and efforts for avoiding them and 3) to tie these together by understanding resource and capabilities forces. Returns have showed to be a financial burden for Alpha and the internal process is a little slow in some specific functions. From the customers viewpoint the main issue is the gap between what they feel Alpha has promised them and what they really received, this is why customers have changed their mind.

There are three main ideas for companies to create opportunities and to lower costs

1) To lower costs and create opportunities: Investigate how product returns efforts currently function and what possibilities there are to manage and decrease costs for these, through gatekeeping, better disposition guidelines, progressive disposition, credit rules et cetera. When investigating these issues also make sure that systems are in place that allow the analyzing of reasons for returns.

2) To lower costs and create opportunities: Companies need to know their customers. By knowing your returns customer companies know there expectations and how they might
have failed to meet theses. This information creates an opportunity to adapt efforts to meet these expectations and thus reducing returns and costs. In Alphas case the main opportunity created, is the knowledge that customers are dissatisfied with the connectivity and thus the opportunity to invest and make these better, as well as creating marketing communication that better represents reality, has been created.

3) *To lower costs and create opportunities:* to be able to fully exploit points mentioned above companies need to be aware and have identified their resources and what capabilities they have; which capabilities are strengths and which creates a weakness. This creates an opportunity to create competitive advantage which is not discussed in this thesis but for further reading see Grant (2008). Costs can be cut through introducing routine capabilities such as gatekeeping procedures. Creating cross functional teams introduces more integration between functions and thus better understanding of how the return process is interrelated which equals lower costs as communication and efficiency can be increased.
On a last note: companies that sell products that can be returned will most likely never entirely eliminate returns since customers still can change their minds, they might run out of money or something else occurs to trigger the return so called uncontrollable returns. However, returns that are controllable such as those in this case, that were based on wrong information from Alpha or Beta can be changed and managed. Alpha for example should change their coverage map based on results in this research. If controlled factors are managed and returns are investigated properly such returns can be close to eliminated and this thesis has shown companies where to look and how to start working towards creating a competitive advantage and creating value in their supply chains.
6.2 RECOMMENDATIONS

Companies should recognize the opportunities hidden in product returns. This is a topic that has a bad reputation; no company wants to experience returns; instead they want to be profitable. To improve profitability, costs need to be lowered and companies need to withstand pressure from competition. They also need to make sure they are offering a product or service that is demanded by the market.

6.2.1 IN GENERAL

To be able to offer general recommendations these have been based mainly on the theoretical framework and further the order has been switched. When discussing product returns it has become evident that it is necessary to get and overview of the current internal operations in general and then to look at your customers. Further conducting this research companies have created a solid foundation to base their analysis on the current and future of the internal returns process. Therefore in general companies should:

1) Identify your company’s resources and capabilities

- Returns management should involve the whole supply chain, identify and coordinate resources to lower costs through creating efficiency

- Identify processes that have high costs to prioritize these; create a metrics system

- Investigate resources for example can spare parts be reused in production to lower the overall cost, is it cost worthy to send out return slips in the original package

- Hiring people based on characteristics such as ability to learn and motivation

- Introduce training to all sales channels, and adapting it to strategic returns goals and avoidance, to enhance capabilities
- Evaluate the effectively of pay-by–performance if such exists and include returns in calculations

2) **Know your discontent customers**

- Conduct customer interviews on a regular basis

- Create information gathering systems for your returns customers through creating policies where customers need to contact the company before returning the product

- Use information gathered to improve capabilities

3) **Analyze internal return processes**

- Create strong strategic policies through using sub-processes presented in this research: e.g. gatekeeping, avoidance, metrics, and disposition

- Make sure that strategic decisions are communicated to ensure these are operationally carried out

- Create transparency within these processes to decrease the risk of miscommunication and increase efficiency

4) **Realize the interrelations between the these three recommendations and thus use them all to create a sustainable effort**

6.2.2 IN THE CASE OF ALPHA

Since this thesis is based on a specific case, recommendation specified to the case company will be given too.

1) **Identify your company’s resources and capabilities**
Alpha needs to realize interrelation between functions and that returns data should be communicated to the whole company to improve every function is involved. Currently the strongest relation should be between sales channels (gatekeeping), marketing efforts (communicate correct information), product development (continue developing the coverage system). When hiring Alpha should include fast learning skills and motivational characteristics in their evaluation criteria.

2) **Know your discontent customers**

Continue to gather information on discontent customers to create an opportunity to amend their customer offerings. A system, RMS, has been introduced to support data gathering, Alpha needs to use it and have monthly reports in the biggest return cause, amount and cost to constantly be able to improve. This data needs to be communicated to every department.

3) **Analyze internal return processes to decrease costs**

- Introduce better control over sales channels and what they communicate to create avoidance. Create and develop gatekeeping strategies and ensure these are communicated to all sales channels through for example training.

- Develop framework of metrics to be able to have control over costs.

- Improve crediting routines to lower costs associated with products that have not even been picked up by customer from the post-office.

- Adapt marketing communication to current geographical coverage by creating “development” maps that illustrate a progress in building stations for geographical coverage.

- Decision making for damaged products needs to speed up to lower costs.

- Investigation of returned products should be faster to lower the amount of time products are tied to the returns stock.
- I Changed My Mind -

• The costs associated with Omega and Beta should be investigated to find opportunities to lower them; either through introducing competition or/and contract negotiations.
7. REFERENCES

7.1 ARTICLES


7.2 LITERATURE


7.3 THE INTERNET


• Research for information on case company. Retrieved during April and May 2008 from: www.Omega.se


7.4 INTERVIEWS

Interviews are shortly described due to confidentiality requested by these companies, therefore names have been changed and at times only the position is given.

7.4.1 PERSONAL INTERVIEWS


7.4.2 PHONE INTERVIEWS

- 33 Customers to Alpha. April-May 2008. Sweden
- Jon (Logistics Service Developer) Omega. 010508. Gothenburg
- Marcus (Warehouse, Service Department) Omega. 010508. Gothenburg

7.4.3 EMAIL INTERVIEWS

- Jon (Logistics Service Developer) Omega. 010508. Gothenburg
- Marcus (Warehouse, Service Department) Omega. 010508. Gothenburg

7.5 LECTURES

- Chaido; Andrew. Spring 2008, Otterbein College, Westerville, Ohio, USA
- Olsson, Autumn 2004, Baltic business School, Kalmar, Sweden
APPENDIXES

I. STATISTICAL DATA; RETURNS ACCORDING TO RMS

FIGURE 19 STATISTICAL DATA FROM THE PAST WEEKS AT ALPHA

<table>
<thead>
<tr>
<th></th>
<th>Returns</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broken Modem</td>
<td>185</td>
<td>0.1917</td>
</tr>
<tr>
<td>Claim</td>
<td>23</td>
<td>0.0238</td>
</tr>
<tr>
<td>Purchased a new modem</td>
<td>16</td>
<td>0.0166</td>
</tr>
<tr>
<td>Bad coverage</td>
<td>46</td>
<td>0.0476</td>
</tr>
<tr>
<td>Low upload rate</td>
<td>4</td>
<td>0.0041</td>
</tr>
<tr>
<td>Network problems</td>
<td>3</td>
<td>0.0031</td>
</tr>
<tr>
<td>Did not pick up</td>
<td>293</td>
<td>0.3036</td>
</tr>
<tr>
<td>Wrong address</td>
<td>7</td>
<td>0.0073</td>
</tr>
<tr>
<td>Test period</td>
<td>89</td>
<td>0.0922</td>
</tr>
<tr>
<td>Other reason</td>
<td>67</td>
<td>0.0694</td>
</tr>
</tbody>
</table>

2008-01-01 to 2008-05-09
- I Changed My Mind -

<table>
<thead>
<tr>
<th>Unknown</th>
<th>204</th>
<th>0.211398964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wrongly sent</td>
<td>26</td>
<td>0.026943005</td>
</tr>
<tr>
<td>Returned by retailer</td>
<td>2</td>
<td>0.002072539</td>
</tr>
<tr>
<td>Total</td>
<td>965</td>
<td>1</td>
</tr>
</tbody>
</table>

II. INTERVIEW BASE FOR ALPHAS PRODUCT RETURNS

1. Why wireless internet and wireless modems?
2. Where did you find information about suppliers that exist and how did you hear of Alpha?
3. What made you look a second time at their offer?
4. Did you know that they existed beforehand or did you find them during your research?
5. Did you have any other internet supplier before Alfa? If yes, whom? And why did you choose to change?
6. What did you expect from Alphas product?
7. When you decided to purchase from Alpha, how did you go about it?
8. How was your initial interaction with the company?
9. What kind of information did you receive?
10. What was your initial reaction when you tried out the product?
11. In your eyes, did Alpha live up to your expectations? Why, why not?
12. What happened??
13. How did you go about returning the product?
14. Did you speak to customer service? If so, what did they tell you?
15. How much time elapsed before your invoice got credited?
16. Where in Sweden are you?
17. Is there anything you wish to add about your experience with Alpha?

III. REASONS FOR NOT PICKING UP PACKAGE

This is a presentation of data gathered the past five weeks on the reasons for not picking up packages that have been ordered. These customers are not a part of the study but have changed their minds. These calculations have been made by Beta (customer service). Customer service has not been able to reach 50% of the customers.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changed their mind</td>
<td>15</td>
</tr>
<tr>
<td>Delivery problems</td>
<td>10</td>
</tr>
<tr>
<td>Did not know package arrived</td>
<td>10</td>
</tr>
<tr>
<td>No answer</td>
<td>32</td>
</tr>
<tr>
<td>Not had time to pick up yet</td>
<td>10</td>
</tr>
</tbody>
</table>
IV. HIERARCHICAL CAPABILITIES

![Diagram of Hierarchical Capabilities]

FIGURE 20 HIERARCHICAL CAPABILITIES (P. 138, GRANT, 2008)
### V. A SUMMARY OF CUSTOMER INTERVIEWS

<table>
<thead>
<tr>
<th>Channel</th>
<th>Need recognition</th>
<th>Cause for Return</th>
<th>Moreover...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retailer</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Travels in Sweden</td>
<td>Problems connecting to Mac</td>
<td>Have updated the system but is thinking about changing</td>
</tr>
<tr>
<td>2</td>
<td>Summer cabin - Karlstad</td>
<td>Maximum speed 200 MGBt</td>
<td>Invoice sent after return</td>
</tr>
<tr>
<td>3</td>
<td>Thinly populated area</td>
<td>Upload speed &amp; connectivity</td>
<td>Crediting was to time consuming</td>
</tr>
<tr>
<td>4</td>
<td>Sundsvall</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Country side-Härjedalen</td>
<td>Couldn’t connect</td>
<td>“Black spot” no base could reach</td>
</tr>
<tr>
<td>6</td>
<td>No alternative - Södertälje</td>
<td>Upgraded</td>
<td>W-LAN</td>
</tr>
<tr>
<td>7</td>
<td>Travel - Train Sthm Östersund</td>
<td>Couldn’t connect</td>
<td>Customer service didn’t believe customer</td>
</tr>
<tr>
<td>8</td>
<td>Travel to Norway</td>
<td>Received two modems</td>
<td>Problems with Mac computer</td>
</tr>
<tr>
<td>9</td>
<td>No alternative Västerbotten</td>
<td>Upload speed to slow</td>
<td>Changed modems</td>
</tr>
<tr>
<td>10</td>
<td>Fun to try - Skellefteå</td>
<td>Upload speed to slow</td>
<td>Invoice sent after return</td>
</tr>
<tr>
<td><strong>Internet</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Travels-base Sthm</td>
<td>Connectivity; Mac+Linus</td>
<td>New modem, doesn’t really work need to re-install every tome</td>
</tr>
<tr>
<td>12</td>
<td>Connect and be mobile-Humelgården</td>
<td>No problems</td>
<td>Bad interaction with customer service</td>
</tr>
<tr>
<td>13</td>
<td>No alternative Lindköping</td>
<td>Disconnections</td>
<td>Invoice problems</td>
</tr>
<tr>
<td>14</td>
<td>Travel Hudiksvall+Norrland</td>
<td>Upgrade but not good enough</td>
<td>Disconnects, insufficient response thinking about sending back</td>
</tr>
<tr>
<td>15</td>
<td>Travels Köpenhamn-Sthm</td>
<td>Upload speed to slow</td>
<td>International coverage, doesn’t work</td>
</tr>
<tr>
<td>16</td>
<td>No phones-Varberg</td>
<td>No connectivity</td>
<td>Were promised a solution, took to long</td>
</tr>
<tr>
<td>17</td>
<td>Travels-Lidköping</td>
<td>Couldn’t connect</td>
<td>Collection on a modems that was returned</td>
</tr>
<tr>
<td>18</td>
<td>Travels-Sweden</td>
<td>Couldn’t connect</td>
<td>Collection, 3 moths to receive crediting</td>
</tr>
<tr>
<td>19</td>
<td>No alternative Värmland</td>
<td>Received two modems</td>
<td>More cord alternatives</td>
</tr>
<tr>
<td>20</td>
<td>No alternative Norrköping</td>
<td>Couldn’t connect</td>
<td>Remind about crediting</td>
</tr>
<tr>
<td>21</td>
<td>Laptop, try period</td>
<td>Technology did not match computer</td>
<td>Overall ok experience</td>
</tr>
<tr>
<td>22</td>
<td>Travels-Sweden(base GBG)</td>
<td>Couldn’t connect everywhere</td>
<td>Pretty smooth experience</td>
</tr>
<tr>
<td>23</td>
<td>No alternative Gislaved</td>
<td>Upload speed &amp; connectivity</td>
<td>Max speed 0.16MGBt Paid 250 SEK &quot;free trial period&quot;</td>
</tr>
<tr>
<td>24</td>
<td>No alternative Strömme</td>
<td>Damaged modem</td>
<td>No reason to try different solutions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer</th>
<th>Service</th>
<th>Technology that works out to sea</th>
<th>Couldn’t connect</th>
<th>Still uses old modem, Customer service has to little knowledge but are nice</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Cheaper alternative</td>
<td>Couldn’t connect</td>
<td>Wanted to try to find a good complete solution, no bad feelings toward Alpha</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Bad fixed connectivity Blekinge</td>
<td>Upload speed to slow</td>
<td>Had to wait fro customer service to find information and call back to customer</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>No alternative. På landet-Säffle</td>
<td>Couldn’t connect</td>
<td>Price ok if it had worked</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Mobile instead of fixed-Gällivare</td>
<td>Couldn’t connect</td>
<td>Upset about lack of knowledge</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>No alternative På landet-Gäddedda</td>
<td>Worked for a week</td>
<td>37 call and antennas later the couple gave up on trying to make it work</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Mobile laptop-Falkenberg</td>
<td>Couldn’t connect</td>
<td>Did not want to try different solutions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Test pilot</th>
<th>and other</th>
<th>Between Trosa and Nyköping</th>
<th>Is not allowed to return</th>
<th>Worked perfectly until it was launched then the technology gave up</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>Trial period</td>
<td>More satisfied with old supplier</td>
<td>Telia lowered their price</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Travels</td>
<td>Invoice issues</td>
<td>Does not work in parts of Norrland</td>
<td></td>
</tr>
</tbody>
</table>