

Reverse Logistics in E-com: A Trust Factor



Reverse logistics is a decade old service, but it has recently sharpened its focus on its position in the e-commerce market. It is indeed one of the biggest operational challenges in the world of e-commerce freight logistics due to the steep volume and cost of benefits, including improved customer satisfaction, decreased resource investment levels and reduction in storage and distribution costs. **Roselin Kiro** with inputs from experts in the industry ventures into the importance of reverse logistics in e-commerce which is no longer a hope to have but a need to have

It is not about choice...reverse logistics is as integral to a supply chain as is forward logistics. E-commerce relies on returns; it is no secret that a positive returns experience determines whether the customer will come back. So, even though it is a cost to the e-commerce company at a micro-level, but at the macro-level it is an inevitable need for the very existence of the e-commerce model to work and build confidence for customers to buy products without the touch and feel experience. It goes a very long way in building confidence for the customers.

Big Role in E-Commerce

Reverse logistics in e-commerce is an unavoidable fact of online retail. As the depth of online product categories became apparent in the past few years, the importance of setting up a reverse logistics process as part of e-commerce logistics strategy has increased as well. Surprisingly, returns are three to four times more expensive than forward shipments. Speaking about the relevance of returns in e-commerce **Hitendra Chaturvedi, Founder & CEO, GreenDust** avowed, "Where there will be forward logistics, there will always be reverse logistics created because of returns. The cost and efficiency of reverse logistics is bad because typically e-com companies would never focus on it in the beginning, and when problem exacerbates and becomes a drain on growth and profitability, is when it catches attention of people. So reverse logistics in itself is not inefficient, but our lack of focus makes it inefficient. Any supply chain professional will tell you that strength of any supply chain is the strength of its weakest link



and not focussing on returns alongside forward fulfillment makes the reverse logistics the weakest link and bring down the strength of the entire chain." Given the status quo of the reverse logistics, it has opened an opportunity to create and manage customer relationships and build customer loyalty to the retailers. Speaking about the credibility of customers with e-sellers, **Sachin Dalal - Co-founder infibeam and Head of Logistic platform, infibeam.com** said, "E-commerce dealing with retail of physical goods can't work without reverse logistics support. The main reasons for its importance are a set of offerings that are considered essential these days. These services include: damages returns, COD returns, 'Try and Buy' functionality and 'Buy Back' offers. In fact, reverse



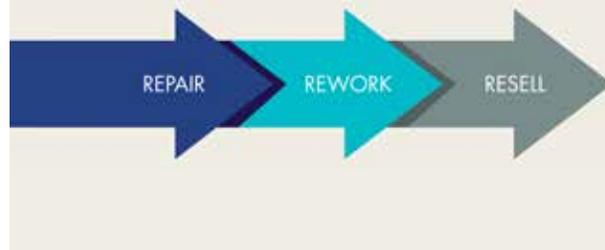
Praveen Sinha
MD and Founder, Jabong.com

“Online return policies in India are becoming more customer friendly. Easy return policies are helping the e-commerce companies to gain faith of the customers in the business model. It is also becoming a tool to retain the customers and win their loyalty for a longer term.”

logistics is even more important today for online marketplace platforms that have e-sellers with varying credits and ratings and brand recognition. Absence of reverse logistics is a blocker for any online customer to buy from such e-sellers owing to the low trust factor. Online marketplace platforms thus can't do without reverse logistics services. The initial extra cost will go a long way to build credibility with online buyers". Harmonising to it, **Peyush Bansal, CEO and Founder, Lenskart.com** said, "Reverse Logistics may be expensive to forward logistics, but it is an investment opportunity of building company 'Trust' amongst customers. It helps them build confidence of where they are buying from and the product satisfaction. This certainly is a critical factor in purchase decision that a consumer experience or executes. No doubt it makes 'un-satisfied customers' happy and long term loyalty, thereby, strengthening the brand." On the other hand **Praveen Sinha, MD and Founder, Jabong.com**, added by saying, "Reverse logistics is as important as forward logistics in e-commerce business. Ease of returning the products to the vendor from the comfort of home helps in gaining confidence of the customers and delight them." E-commerce companies are accepting the returns within the specified time limit which necessitates the need for reverse logistics. Agreeing to it **Sanjiv Kathuria, Co-Founder and CEO, DotZot** said, "Because of the limited time, reverse logistics plays crucial role in the satisfaction levels of the individual customer. The product has to be picked up from individual customer, process it



and then deliver it to the e-commerce firm. The alarming fact is that as very few places in India are planned, finding the correct address to pick up the product is at times a challenging task



especially in tier III and tier IV cities. The processing takes the same time as of forward logistics, but the cost increases when it comes to picking and ensuring the condition of the product." Without reverse logistics there will be no existence of e-commerce firms. In fact it has become a profitable factor for them. Anticipating this, **Sunnanda Panda Mor, Founder and CEO, RevLog Resources** said, "E-commerce companies are constantly striving to enhance the users experience not only prior to purchase but also post purchase to keep customer retention metrics at a satisfactory level. So, in conclusion, reverse logistics is a reality of e-commerce in fact I take a step forward, returns management is one of the pillars of e-commerce without which it cannot exist." Therefore, if companies strategise reverse logistics then they can reduce cost and make it profitable.

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Co-founder infibeam and Head of Logistic platform, infibeam.com



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Online Return Policies: Who Owns the Returns?

Policies are important for building trust with customers initially so that e-retailers hope customers would value more over their lifecycle than falling for heavy discounts. Moreover with damages under control and more reliable and better-rated sellers on marketplace, returns will reduce. Dalal said "The e-commerce marketplace platform manages returns while driving accountability with the sourcing vendors and the logistics partners. The marketplaces also do blacklist customers who are repeat returners." Explaining about the online return policy then and now, Chaturvedi stated, "Traditionally returning a product to a retailer in India was a difficult task. The experience was deliberately made so harrowing for the customer that he would dread just thinking about returning the product. What traditional offline retailers forgot was that draconian return policies meant bad customer experience. Offline retailers (most of them) just did not care as they thought their



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customers did not have a choice. One of the biggest reasons for e-com success is not only the price but convenience and experience. Customer can now buy and easily return a product and that build trust. Trust makes repeat buy happen...something that most traditional retailers in India forgot. Customers were looking for options and as soon as e-com gave them that option they made it a huge success.” There was a time when customers examined the products, touch and felt it before paying and leaving the shop as they were hesitant that once they step out of the shop, there is no guarantee that the shop would exchange the product or not. With the advent of e-commerce the return policies have been made very liberal for the comfort of the customers. In fact most customers perceive that the more liberal the returns process, the better the quality of the products. Avowing about the ownership of the returns, Mor said, “The returns is mainly the responsibility of the e-commerce company, but depending on the supply chain flow and the terms of agreement between the parties of return chain, the final ownership can be determined depending on the stage where

Product Return Policies: India vis-a-vis Other Countries

Sinha: “The return policies in India are as good as any other country. The competitive landscape in the e-commerce business in India has ensured that the customer gets best of the services including a very customer friendly return policy.”

Peyush: “In India, returns policies range from few weeks to 30 day period. For electronics this gets supported by warranty or extended warranty. Globally, particularly US, the return policy is three months to even six months. The difference is that in India e-commerce is still emerging phase and yet not geared up to handle or manage returns for such long terms.”

Kathuria: “Generally Indian firms prefer for the replacement/exchange in the 1st step. If they are unable to provide either of this, then they prefer for the return policy. The return policies of e-commerce companies in India are at par with the worldwide norms.”

Chaturvedi: “In traditional retail we are at the bottom when it comes to customer service. In e-commerce our return rates are between 12 per cent to 15 per cent and this is in line with return rates in developing countries. For example, in the US e-commerce return rates are between 10 per cent to 15 per cent.”



the returns happen”. On the other hand Peyush informed that “Most of the times, no one own the returns. That goes so because most of

Suresh Bansal
 Director and Head of Supply Chain Solutions, DTDC



“The way e-commerce business is emerging, the role of 3PL or as we call it e-fulfillment service providers, has become very important and critical. So it makes lot of sense to give the job to those who expertise in it and the e-commerce firms can focus on their core business.”

the purchase agreement between retailers and manufacturers does not have clear terms of understanding. Purchase department may not have involved supply chain department (who is the effected one on returns) while engaging a purchase contract. So these costs are not built in purchase cost or agreement of taking back by manufacturer.” Meanwhile Kathuria stated that product returns are pulling back the growth of the industry creating negative impact to the e-commerce firms. He said, “E-commerce companies in India are experiencing six to eight per cent product returns and it is estimated that in the last financial year, the industry has recorded the returns of value \$1 billion which is pulling back the growth of industry. This is creating negative impact to the e-commerce firms leaving them in grey area and making them to think twice about their reverse logistics. Because of these returns, e-commerce firms started to track the behavior of the shoppers. Indian e-commerce giants like Flipkart, Amazon and Snapdeal are closely monitoring their shopper’s behaviour and trying to reduce the misuse of the return policy. The ownership of the returns is currently bore by e-commerce companies which is haul on their bottom-line.” It can be well said that online return policies in India are developing market place of its own.

Various Processes Covered Under Reverse Logistics

Reverse logistics flow, however, is a different story altogether. The basic steps include



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- Taking return request from the customer through online platform or customer care centre.
- Product pick up from the customer.
- Quality check post pick up.
- Acceptance of the returned product by the vendor

The logical flow of returns is moving the products back through forward logistics but it includes more challenges and complexities. According to Mor, “The first step is getting a return request from a customer, picking up the returned product, issuing credit or shipping an exchanged item, inspection and sorting of the returned product and then finally the destiny of the returned product. These returned products are assets, which have value, so the challenge is to find or recover the highest value for the product at the shortest possible time. The dynamics on ground require product and process expertise to leverage the best value for the asset at the shortest possible time leading to best profit opportunity for reverse logistics in e-commerce operations.” Explaining about the same Peyush said, “There are two parts to it. First, quick connect back to retailer/manufacturer, sorting, accounting for failures and evaluation to reduce it in future. Second part relates to realisation of these returns such as – Servicing repairs, secondary market, for CSR (corporate social responsibility) purpose or scrap salvage value”. Adding into it Dalal said, “A customer may refuse to accept a shipment which is intimated back to e-tailer through Management Information Service reports from courier. E-tailer may contact customer to ascertain the reason for rejected shipment or may try to convince customer to accept it when courier makes a second attempt of delivery. Even when reattempts of delivery fail, the courier backtracks the shipment back to the original seller with return acknowledgment on delivery manifest. In event of direct rejects, sellers can try liquidating returned inventory either through special deals or outsource it to refurbished and second-hand goods dealers”.

Role of 3PL in E-Commerce Logistics

E-commerce companies look forward to the third-party logistics service providers to provide support for reverse logistics. The way e-commerce business is emerging, the role of 3PL also known as e-fulfillment service providers, has become very important and critical. According to Suresh Bansal, Director and Head of Supply Chain Solutions, DTDC, “The e-commerce companies are focussed in their business model i.e. to bring as many customers and supply to their side, and not to spend too much money on warehouses running the e-fulfillment and the last minute delivery. So, it makes a lot of sense to give this job to an expert organisation like ours, and there are many other suppliers also who can run much well while the e-commerce firms can focus on their core business.” On the other hand talking about the role, advantages and drawbacks of 3PL service providers, the e-com companies have a different tale to tell. According to Dalal, “3PL are a key part of the entire supply-distribution chain for e-commerce companies. But it still needs to grow and meet their expectations. 3PL service providers still have a long way to ensure reliable delivery and reduce damages. Most of them don’t have direct presence at all locations but rather sub-contract shipments through a network of small-time agents. This makes the sector very unorganised, tracking difficult and

Dr Sunnanda Panda Mor
Founder and CEO, RevLog Resources



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many cases of lost/damaged shipments.” Talking about the lack of infrastructure in the 3PL, Peyush avowed, “In the current times, 3PL is not geared up with infrastructure to manage the given e-commerce market demand. E-commerce is all on the backbone of deliveries to customer – air, surface, innovative ways to reach out. Considering the challenges in the upsurge of demand, e-commerce players are building their own logistics infrastructure to have reliability and develop competitive advantage in market.” Answering to the



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challenges and meeting the expectation of the e-com companies, Suresh said, “Problem is expectation vs. delivery. When customers purchase products from a very beautifully located air-conditioned showroom they first look at the product, feel it, examine and then purchase it, which they get it in a beautiful package. This is one experience. But if an e-commerce company wants to match with this experience, it is technically and logically never ever possible.



It is because in the former situation, the logistics has taken place before the customer has bought the product from the store, but in the latter situation the logistics process starts after the customer has bought the product. It has to go for repack, for transportation, single package has to be handled and has to go through many activities like

multi location, multi transportation, multi modal etc. The biggest challenge for us is packaging, because non of the consumer items ever manufactured are packed in a transport worthy packaging but in display worthy packaging. So the product has to be repacked and made worthy for transportation.” The role of 3PL is extremely important as they are the touch points for the customer

for an e-commerce firm. Their processes, agility, commitment and fulfillment service levels help in achieving customer delight for any e-commerce firm. E-commerce orders require customised processes from 3PL vendors to keep up to the commitments with the customers. 3PLs are more collaborators rather than vendors for e-commerce business since the business demands the same.

Waste has always been a contentious issue. What is done with the goods collected back from the customers? According to Mor, “Trashing goods collected from customers should not be the motive of an e-commerce company, not after they have spend money to actually collect the same. The intent of the company should be to recover the maximum value from the returns. Again this would vary from product to product but the goal is to reduce waste. If there is no recovery possible or the cost of recovery outweighs the cost, then products are scrapped.” Adding into it Chaturvedi said, “It is the responsibility of OEM and e-commerce companies to work with reverse logistics parties who will first do their utmost to reduce waste by trying to repair the returns.” Dalai added, “Nothing is



directly dumped but rather goes through a chain of companies that sell refurbished and second-hand products. Companies also liquidate such inventory with special deals to customers that don't mind a scratch or dent on product for a handsome discount. Ultimately with time damages' percentage will reduce with better supply-chain that will help limit trashing automatically.”

The way out

Returns are not just a cost center for retailers rather it is a crucial factor to improve the credibility and image of business for them. Providing a bad returns experience can undoubtedly reduce the chance of the customer coming back for a repeat purchase. However more research and analysis is required to run the flow of reverse logistics smooth. The strength of any supply chain is to focus on the returns. After all the sole purpose of the e-commerce firms is to have a competitive edge and not lose out on the customer base because it is for them that the e-com firms are accelerating.