optoro®

3PL Returns Management Playbook: Creating a Center of Excellence

Everyone's favorite topic in logistics...Returns

When it comes to logistics, returns management is a tricky problem to solve. For many 3PLs, returns are often an afterthought to outbound fulfillment or, even worse, a part of the business they choose to ignore. 🙈

Yet research shows that retailers and brands consider effective returns management a must-have to recoup money from returned merchandise—and if not managed effectively, returns can be margin-crushers.

Why, exactly? Returns are inherently a high-touch process. There are several checkpoints to cover:

→ First, do you have **insight into what is being returned** or do you have blind returns?

→ Second, do you have a system that allows you to **process returns efficiently and effectively trigger customer refunds?** Lack of visibility can delay refunds frustrating both shoppers and retailers while increasing the number of "where is my refund" calls to customer service.

→ **Is the returned item the correct item?** If the return is a luxury item, is there a chance this is a knock-off version being returned?

→ **What is the condition of the item?** Is it eligible for resale? If so, what resale channel will yield the highest financial recovery for the retailer? Should you invest in basic value-added services (VAS) to get it to a "new" status?

→ Based on the condition, **what is the best next destination for the item?** How can you optimize where returned items go so more product goes back "on the shelf" at full price and much less goes to landfills?

→ Are these processes **straightforward and optimized** for the warehouse associates?

Unfortunately, returns processes can be subjective and can vary per item/SKU. Trying to manage returns manually or via a warehouse management system (WMS) can lead to labor-intensive, tribal-knowledge-based, and error-prone, flows that result in mediocre results and losses for retailers.

Simply put, returns are a unique, and evergreen challenge to solve. In fact, the latest research from Zebra Technologies shows that 47% of global warehouse operations leaders cited returns management as a top operational challenge in 2023.
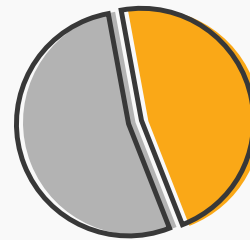
47% of global warehouse operations leaders cited returns management as a top operational challenge in 2023.

As the market continues to change, savvy 3PLs are looking to crack the code and reduce the burn of returns.

Top Challenges of Returns Management

⊗ Labor Requirements & Wage Costs

Managing returns usually requires more than 2x labor to manage than outbound fulfillment. This means most 3PLs have some of their most experienced associates dedicated to returns, and they often rely on tribal knowledge to effectively process returns. This is not only costly for 3PLs, but also an ineffective use of some of your best resources, driving up your operational costs and cutting into margin.

⊗ Slow processing times

Given the complexity, intense labor requirements, and frequency of exceptions, returned inventory can often become a time suck in terms of processing. Or even worse, your associates don't know how to process the exceptions and opt for placing items aside, creating piles of future problems to solve. This can generate backlogs that take up too much space due to delayed processing times for 3PLs and create friction between you and your customer when that customer is trying to get product into the hands of the next buyer as soon as possible.

⊗ Tedious, High-Touch Processes

Outbound fulfillment often involves pristine, new products that can more simply be picked, packed, and shipped. However, with returns retailers need to confirm that the product returned is the correct item, in the reported condition, and decide what to do with the returned item next. Of course, with anything in the supply chain, **more touches equals more costs to both you and your customers— threatening margin and overall profit-ability.**

⊗ Priority Conflict between 3PLs & Retailers

Perhaps the most important challenge with returns is the fact that many 3PLs view returns as just a part of doing (outbound) business. **However, managing returns effectively is now a top priority for retailers, and 3PLs that can solve the problem will earn more trust from their customers, resulting in higher satisfaction and retention.** After all, inventory is one of the top capital expenses for retailers, and they are looking for partners that will help them make the most of all of their assets, including returned inventory.

Additionally, many 3PLs are shifting their mindset to thinking about returns as a competitive advantage. We'll dig into this when we look at why more 3PLs are investing in 4-wall returns technology.

Can't I just use my WMS for returns management?

One of the most commonly asked questions 3PLs have when addressing returns management, is the simple (but loaded) question of **"can I just use my WMS for returns?"** This is where it is helpful to look at the original intent and core functionality of a WMS.

The intent of a warehouse management system (WMS)

If looking to use a warehouse management system for returns, it is critical to understand the original intent of a WMS. The first WMS software originated around 1975, used by the retail company J.C. Penney. The purpose of the software was to manage warehouse operations — namely how much inventory is on hand at a particular node, and tracking the pick-pack-ship process for inventory sold to consumers.

Per the Gartner glossary, a WMS was built to **"manage and intelligently execute the operations of a warehouse, distribution or fulfillment center. WMS applications offer capabilities such as receiving, put-away, stock locating, inventory management, cycle counting, task interleaving, wave planning, order allocation, order picking, replenishment, packing, shipping, labor management, yard management and automated materials handling equipment interfaces."**

And for over 50 years, warehouse management systems have been "forward-focused" on the outbound pick-pack-ship processes. However, most outbound processes are dealing with new products, with known (often pristine) conditions. While there are exceptions, they are few, and a WMS can seamlessly handle happy-path outbound fulfillment.

The Top Shortcomings of using WMS for returns

When it comes to returns management, most warehouse management systems ("WMS") come up short.

Why? In general, WMS was built to solve outbound fulfillment for shippers. Yet, when it comes to the nuances of returns, WMSs lack the robust functionality that a purpose-built system has.

A few challenges of using your WMS for returns management:

1 WMS lacks specific functionality for returns

Detailed functionality like purpose-built, unit-level control of returns receiving, test and grade, exception avoidance/management, robust dispositioning to 4+ resale channels, return-to-vendor (RTV) management and more.

2 WMS lacks automation for returns

Unless you customize your WMS, most systems lack workflow automation for the reverse logistics processes.

3 Often require up to 2-3x labor to process with a WMS

Without a defined process and dedicated returns system, most operations end up with swivel-chair processes that require more labor. At a time when labor costs are increasing and associates are hard to find/keep, leveraging technology to decrease the dependency on additional labor is paramount.

4 Complex SOPs based on item/brand

Many brands and retailers prefer to have unique processes depending on the returned item/category. This is very difficult to do without major customization to an out-of-the-box WMS.

5 Impossible for associates to memorize unique processes

The introduction of brand-specific or SKU-specific SOPs puts a challenging onus on associates (who might speak English as a second language) to read or remember unique checklists and flows.

6 Manual processes are more prone to error

When it comes to warehouse operations, technology helps mitigate human error that naturally evolves from sometimes tedious and seemingly subjective work.

7 Requires extensive (and expensive) customization for returns

If you plan to use your WMS for returns, you will most likely have to customize an OOTB solution which is costly in both time and money. Additionally, software solutions that are highly customized often run into issues with upgrading that can prevent you from having the latest and greatest version, which is critical for a competitive SaaS solution.

8 Lacks tracking and visibility

While WMS is an irreplaceable tool within the four walls, it lacks visibility outside the four walls including return tracking, omnichannel reverse routing for returns, and end-to-end visibility.

9 Lacks the focus on driving returns productivity and performance metrics

For example, units per hour for returns processing.

Introducing RMS:
Returns Management System

While a WMS will always be a critical tool in the supply chain technology stack, more 3PLs are moving towards purpose-built, best-in-breed solutions for returns.

In fact, the leading 3PLs are even starting dedicated lines of business to return management and investing in investing in the right software to transform returns management to a key differentiator for winning and retaining business.

As Gartner notes, "enterprises often purchase software from different vendors to obtain the best-of-breed offering for each application area." As more organizations move to the best-of-breed approach to technology selection, RMS is the only purpose-built technology aimed at mitigating the impact of returns holistically, both to your customer's bottom line, and your operation.

"In today's modern age of distribution, 3PLs are required to move beyond just being a low-cost solution for their customers. The focus should always be on value creation — offering services and technology that their customers lack, but need to delight customers and remain profitable. **It's all about Value Creation vs. Cost Conservation.**"
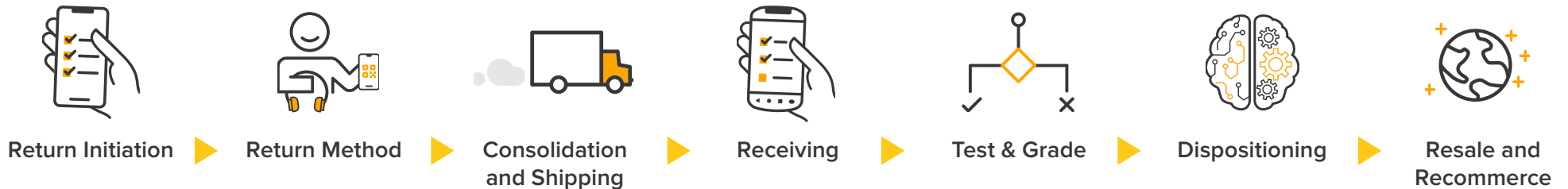
Jim Barnes // CEO, enVista

What is an RMS?

A returns management system (RMS) is a technology platform that spans the entire returns lifecycle — from return initiation, return methods, shipping consolidation, receiving, conditioning, dispositioning, and ultimately restock and resale. While a true RMS will cover the end-to-end returns journey, it is usually the latter half of the journey most relevant to 3PLs, namely:

➔ **Consolidate returns across multiple returns methods** (i.e. drop-offs, pick-ups, lockers, mail back, BORIS, etc.) to reduce shipping costs back to the distribution center

➔ **Visibility into inbound returns** reduces "blind" returns and speeding the time to refund for shoppers

➔ **Unit-level receiving and sorting**

➔ **Robust test/grade functionality** to help retailer recoup as much resale value as possible, while also offering 3PLs the ability to fold value-added services into their offer

➔ **Extensive dispositioning logic & rules** to get product to its next-best destination, whether restock, resale, or refurb

➔ **Prebuilt connectors to secondary market channels** such as recommerce providers, liquidation, or recycling

An RMS dovetails into the supply chain tech stack, integrating with other key systems including the WMS, OMS, ERP, and more. And while a returns portal is important to the returns lifecycle, you can provide your customers a value-add for returns processing technology, with a portal-agnostic approach too.

The Stages of the Returns Lifecycle

Return Initiation ▶ Return Method ▶ Consolidation and Shipping ▶ Receiving ▶ Test & Grade ▶ Dispositioning ▶ Resale and Recommerce

Benefits of an RMS

⊕ Returns Management as a Differentiator

While ~80% of a 3PLs business is outbound fulfillment, with the right technology you capitalize on the other 20% of the business and provide even more value to your customers. Usually, you have to prioritize what retailers deem a priority, and efficient returns management is now at the top of their list to boost recovery on returned merchandise and protect their margin.

⊕ Operational efficiencies to banish backlogs

Because returns are cumbersome to manage, many facilities experience a backlog of returns. To tackle the problem often requires more associates, driving up wage costs. With automated returns processing, **3PLs can increase units per hour (UPH) by up to 2x** — getting inventory processed faster with lower headcount.

⊕ A pre-packaged continuous improvement initiative

3PLs are always on the hook to deliver more for less. When it comes to reverse logistics and returns processing, there is a lot of optimization opportunity, but it is nearly impossible to unlock without the right technology. A modern RMS gives 3PLs the software they need in facilities to truly drive value from returns management and have a lever to pull for ongoing CI expectations.

⊕ 360° returns insights

One of the values of having an RMS is the nature of understanding the full picture of returns. For example, by connecting customer-generated return-reason codes to ultimate disposition status, 3PLs can provide return insights to their customers and differentiate themselves from merely task-based processors. After all, they hired you as their trusted advisor and partner to help them improve their operational performance, which should include returns management.

⊕ Less environmental impact

Returns can have a significant impact on their environment. With inefficient returns processes, not only does more product end up in landfills, but there are more carbon emissions from double-transportation costs.

With RMS, 3PLs can make environmentally-conscious decisions about how to best manage their returns with the least impact on the planet.
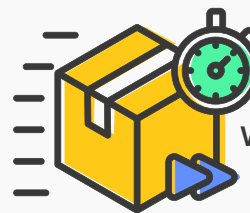
With automated returns processing, 3PLs can increase units per hour (UPH) by up to 2x

WMS vs. RMS Functionality Comparison

	Warehouse Management System (WMS)	Returns Management System (RMS)
Overall Functionality	→ Built primarily for new inventory and happy-path outbound fulfillment	→ Built to manage the nuances of returns management including unit-level receiving test/grade, and system-driven dispositioning
Inventory Control and Visibility	→ SKU/UPC level tracking	→ Unit level tracking (SKU/UPC - Condition - Return)
Disposition	→ User-generated disposition based on SOP	→ System-generated disposition (via configurable rules engine, machine learning, and AI)
Receiving Workflow	→ Desktop based, Fairly inflexible	→ Handheld → System directed by configuration
Exceptions	→ Generally managed outside WMS (e.g. spreadsheet)	→ Systematic tracking → Purpose-built tools for resolving exceptions
Returns-Specific Workflows	→ Usually none, unless system is customized	→ VAS / Test and Grade → Return to Vendor (RTV) functionality → Directed Sorting (pre-putaway)
Outbound Fulfillment	→ Core capability for D2C, B2B fulfillment	→ Systematic stock transfer to WMS → Outbound fulfillment options for non-new inventory at SKU-condition level → Integrated Recommerce and resale channels

Why 3PLs are investing in 4-wall returns software *now*

In the world of supply chain and logistics, 3PLs tend to invest in the initiatives that help them provide more value to their customers, increase their profitability on already-slim margins, and differentiate themselves from their competitors. And more often than not, these investments are in the form of software, hardware, material handling equipment (MHE), or automation.

For example, when omnichannel commerce became a key driver for retailers, more 3PLs started investing in order management systems (OMS) for the ability to offer distributed order management (DOM) to their customers. Similarly, as the labor market remains tight and associates are increasingly more costly to recruit and hire, 3PLs continually invest in automation, robotics, and labor management systems (LMS) to reduce the dependency on labor.

Now 3PLs are more cognizant than ever that omnichannel returns are a growing challenge in their facilities and an increasing pain point for their customers. And like most 4-wall operational challenges, it can be solved by investing in the right software and automation to expedite the returns process via a returns management system prebuilt with automated, predictable workflows and customizable disposition rules to help their customers get up to 95% of the inventory back to available-to-sell (ATS) status within a day or two of receipt, and systematically into the most-profitable resale channel. **More value for your customers means better profitability for you.**

"Effective returns management is crucial for third-party logistics providers. **Table stakes is to have a streamlined reverse logistics process** that includes clear communication with customers, efficient handling, and quick restocking or disposal."

Dave Hauptman // Chief Revenue Officer, Kenco

Which 3PLs need an RMS?

Given the complexity and client/vendor tension associated with retail returns, many 3PLs are looking for solutions to mitigate the impact on their business. However, there are certain 3PL profiles that will experience the greatest return on investment (ROI) with a dedicated RMS.

(+) Generally speaking, **3PLs that offer reverse logistics and have retail customers with a significant volume of returns** have the greatest need. But any 3PL with customers that see over a 10% return rate should explore offering an RMS as a technology solution.

(+) Additionally, certain retail categories have higher return rates than others — namely **apparel, accessories, footwear, bags, cosmetics, sporting goods, and home goods.** As a result, your customers in these categories are likely the ones that have a keen focus on reducing unnecessary returns, converting returns to exchanges to save the sale, and shortening the time to restock and resale for available-to-sell (ATS) returned items.

(+) Additionally, while larger enterprise retailers have been the earlier adopters of RMS, more **midsize to smaller 3PLs are considering RMS** as they look to choose solutions poised to help differentiate from competitors. While a spreadsheet, plugin, or WMS workaround may work initially— leading 3PLs often gain high yields from the right technology investments.
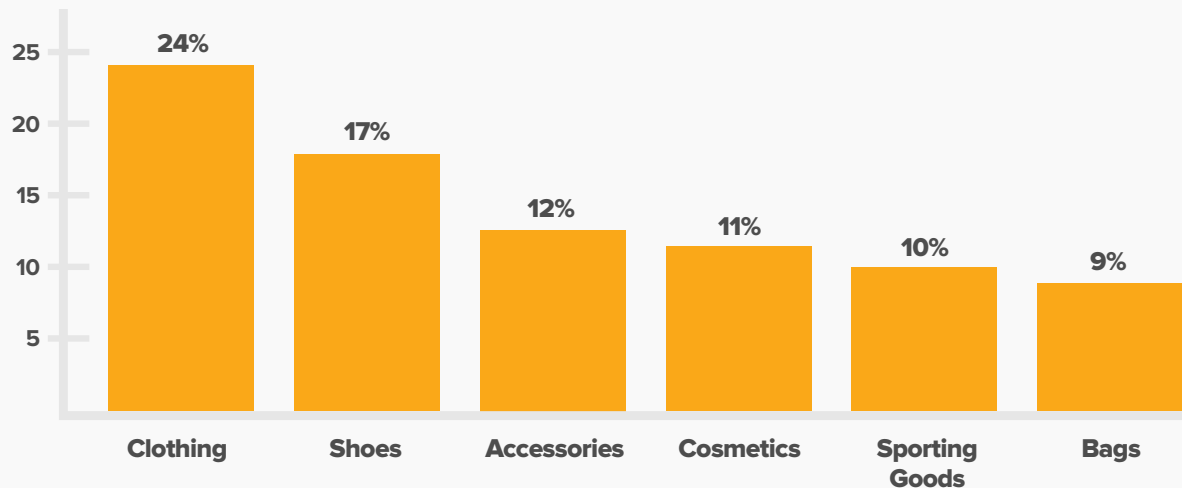
Profile of 3PLs that need an RMS

- Have retail customers in the apparel, footwear, accessories, bags, cosmetics, sporting goods, and home goods verticals with high return rates

- Have retail customers with over 10% return rate

- Have ambition to grow their ecommerce offerings

- Have omnichannel retailers solving multi-channel returns challenges

- Want more than a "good enough" solution for returns via a WMS to differentiate against their competitors

Chart showing return rates by category:

Category	Return Rate
Clothing	24%
Shoes	17%
Accessories	12%
Cosmetics	11%
Sporting Goods	10%
Bags	9%

"In order to be a successful third-party logistics company for retailers, returns can't just be something you be-grudgingly have to deal with. **Being excellent at returns is paramount for maintaining and protecting a retailer's brand.**"

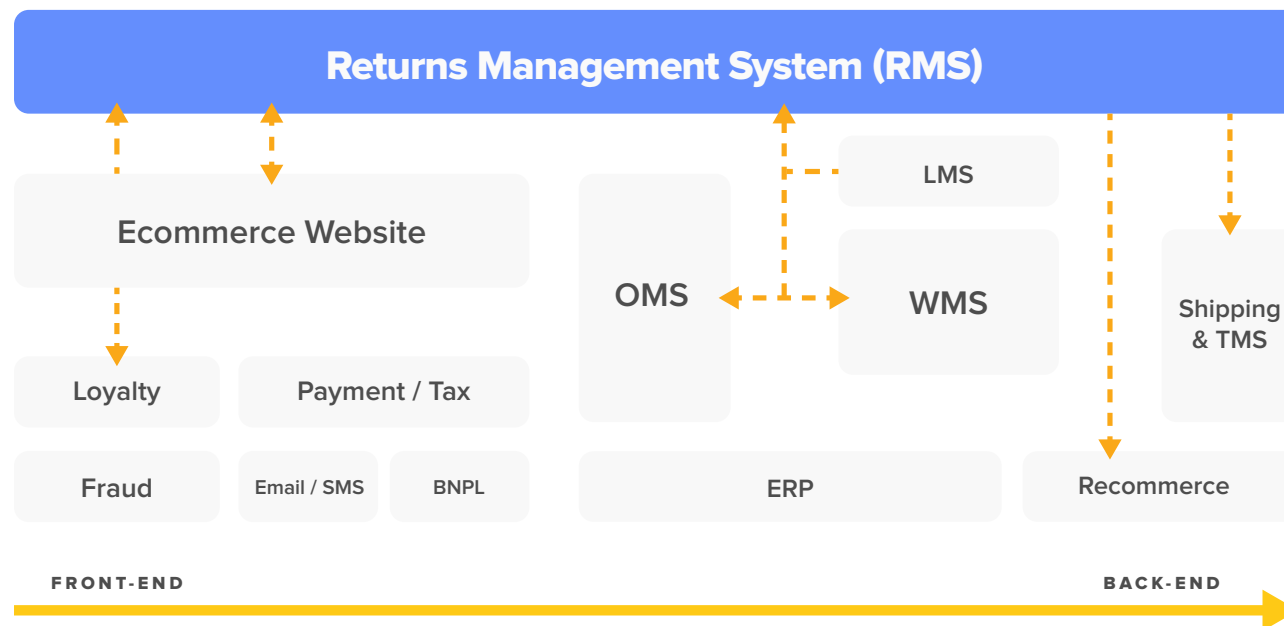*Steve Congro // Senior Director of Systems, Saddle Creek Logistics*

Where does RMS sit in the retail tech stack?

RMS dovetails nicely into your supply chain technology stack. Since RMS spans the customer-facing storefront (return initiation) through the back-end operational technology (i.e. WMS or SCE), **it weaves return insight and data into the key systems that are driving business decisions and processes** and curating the best shopper experience your customers hired you to manage on their behalf.

This is one reason more retailers are ditching monolithic technology for returns, and selecting a modern RMS approach to development and deployment — a microservices-based, API-first, cloud-native, headless architecture. Sometimes referred to as "composable" commerce, the mindset is really that you can select the right software components and capabilities that make sense for your business.

As Gartner notes, "enterprises often purchase software from different vendors to obtain the best-of-breed offering for each application area." As more organizations move to the best-of-breed approach to technology selection, RMS is the only purpose-built technology aimed at mitigating the impact of returns for 3PL, both operationally and from the ability to win and retain business.

Returns Management System (RMS)

Ecommerce Website

Loyalty

Payment / Tax

Fraud

Email / SMS

BNPL

OMS

LMS

WMS

Shipping & TMS

ERP

Recommerce

FRONT-END → BACK-END

For leading 3PLs, robust returns management is more than just a checkbox on the "services offered" listing. In fact, for leading 3PLs, finding the right solution to help their retailers handle returns is mission-critical to their 5-year growth plan. While nothing is truly one size fits all, 3PLs can alleviate many of the concerns with returns management via a modern, robust returns management system that offer their customers even more value, and more revenue.

Looking to create a center of excellence around returns management?

We've been helping retailers and 3PLs for the last 15 years solve the returns conundrum.

Optoro is a fast-growing SaaS company revolutionizing the retail industry with cutting-edge returns solutions for retailers, brands, and third-party logistics providers (3PLs). Optoro's modular Return Management System (RMS) orchestrates and streamlines return processes from returns initiation to the next customer, helping businesses maximize savings and revenue from every return while maintaining industry-leading customer satisfaction rates. Optoro's Returns Portal and Express Returns® network enhance shopper convenience, reduce returns costs, and increase repurchase rates. Optoro's Returns Processing software utilizes data and AI to reduce speed-to-stock times, eliminating backlogs.

Trusted by the world's leading retail brands, Optoro is the preferred choice for turning returns into a strategic advantage.

Learn more at optoro.com