EXPLORING THE WORKFLOW OF PRODUCTS' RETURN MANAGEMENT IN B2B COMPANIES

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Abstract

The growing demand for new products also increases the market supply. However, with high number of products released in the market each year, consumers may have a difficult time in finding if a particular product is exactly what they need. Therefore, companies need to formulate return policies in case the consumer intends on returning the product. When companies have consumer return policies, it draws more customers, helps to stay competitive, and the consumer can be more at ease to order a product. According to Zailani et al. (2017, p. 24), product returns can be considered as "reverse logistics", since it involves both logistics and "products' reverse flows". The products' return can have several reasons, namely "product failure, damaged product, wrong delivery, incomplete shipments" and others (Batarfi et al., 2017; Lee, 2015, p. 50; Xu et al., 2018; Zailani et al., 2017).

According to Lee (2015), the number of consumer product returns have been increasing along the years, even though there has been an overall improvement in the products' quality. Therefore, the companies need to be able to manage the increased flow of these returns. The products' return process involves several activities such as product recovery and processing, return organisation and reverse logistics (Russo et al., 2016). Managing this flow of information, as well as all the communication between the stakeholders, is very important and needs to be carefully handled (Guide et al., 2006; Lee, 2015; Ramírez, 2012; Russo et al., 2016).

The company's ability to perform the product return management and deliver fast decisions to the consumer can help them become a competitive advantage and increase customer loyalty. In Business-to-Business (B2B) context, the costumers are in lower number which in turn will strengthen the business relationship with them. However, the "average transaction value is higher" than in the Business-to-Consumer (B2C) market and therefore the product return management has a greater impact (Lesmono et al., 2020; Russo et al., 2016, p. 890)

This study will compare the product return process between B2C companies and B2B companies, as well as look at the common practices used by these companies. It will also explore how these companies manage their consumer product returns, the product returns phases and main reasons for returns.

Keywords: Products' return, return policies, returns management, reverse-logistics, B2B, B2C

INTRODUCTION

In this expanding market with the launch of new products every day, consumers may have a difficult time finding if a particular product is exactly what they need. Even though there has been an improvement in the products' quality, the number of returns requests have been increasing along the years. Therefore, business needs to be capable to effectively manage the increased flow of these returns. (Ciribeli & Médice, 2019; Ramírez, 2012; Santos et al., 2019; Xu et al., 2018).

One way to limit and control the flow of product return is by establishing consumer return policies. The implementation of these policies can reassure the consumers of their purchase and provide a positive image in the market (Ciribeli & Médice, 2019; Ramírez, 2012; Santos et al., 2019; Xu et al., 2018).

However, the different markets, Business-to-Consumers (B2C) and Business-to-Business (B2B) may have different strategies to approach the product returns. Therefore, it is important to ascertain the differences between the markets' nature and consequent relations with their respective consumers (end-consumers or businesses).

This study intends on establish the differences between the product returns processes in B2C and B2B companies. Accordingly, the paper is structured as follows. Firstly, a definition on B2C and B2B markets and their main differences will be provided. Secondly, product return processes and their importance will be discussed, stating the main reasons for returns. Finally, the main differences in B2C and B2B product return management will be presented.

B2C AND B2B MARKETS

Business-to-consumer (B2C) companies sell their products and/or services directly to the end-consumers. B2C activities are established between the company and the consumers with whom a transaction is made. Therefore, B2C market traditionally refers to, for example, "individuals shopping for clothes for themselves at the mall" (Kolis & Jirinova, 2013; Kumar & Raheja, 2012; Saha et al., 2014, p. 294).

Business-to-business (B2B) is the type of commerce where the transaction is between two businesses, such as "between a manufacturer and a wholesaler" (Kumar & Raheja, 2012, p. 447). B2B companies establish relationships with other business, exclusively, meaning that these companies only sell their products and/or services to other companies and not to the end consumers (Kolis & Jirinova, 2013; Kumar & Raheja, 2012; Rėklaitis & Pilelienė, 2019; Saha et al., 2014).

Considering the descriptions of B2C and B2B companies, it is possible to ascertain several differences. The following Table 1 presents the differences between B2C and B2B markets.

Table 1. *Differences between B2C and B2B market (Kolis & Jirinova, 2013; Rėklaitis & Pilelienė, 2019; Saha et al., 2014)*

	B2C	**B2B**
Target	End consumers	Companies
Product range	Generalised	Specialised
Market size	Large	Small
Sales volume	Low	High
Transaction value	Low	High
Decision making	Individual	Involves several people
Demand	Desire	Necessity
Choice	Emotional	Rational
Sales cycle	Short	Long

Purchase process	Safe	Risky
Customer loyalty	Low	High

The main difference between these markets is the target. B2B companies provide their products and/or services to other businesses, while B2C sell directly to end-consumers. A reason for this difference relays on the product range of these companies, as B2C companies have a more generalised offer, whereas B2B companies exchange specialised products and/or services (Kolis & Jirinova, 2013; Rėklaitis & Pilelienė, 2019).

However, these differences will impact the market size, sales volume, and transaction values. A consequence of B2B markets being limited to a "number of specialized producers" (Rėklaitis & Pilelienė, 2019, p. 76) is that the market size of these companies will be smaller than B2C companies. Nonetheless, because of their specialised product range, B2B sales volume and transaction value is higher (Kolis & Jirinova, 2013; Rėklaitis & Pilelienė, 2019).

Due to the nature of B2B markets, the consumers' purchase decisions are more complex than in B2C markets. The decision making that goes into purchasing a product involves several people, is ruled by necessity, and product and/or company choice is done rationally. Therefore, the sales cycle is longer than the cycle in a B2C purchase and the purchase process is riskier (Rėklaitis & Pilelienė, 2019; Saha et al., 2014).

Moreover, the consumers' relationships in these two markets also differs. B2C consumers tend to be "less loyal and therefore more likely to switch" than B2B consumers, whose transactions requires more "reliability among trading partners" (Kolis & Jirinova, 2013, p. 24).

PRODUCT RETURN

In this expanding market with the launch of new products every day, consumers may have a difficult time in finding if a particular product is exactly what they need. According to Xu et al. (2018, p. 3715), consumer return policies can "eliminate consumer uncertainty about product value", which in turn will serve as a guarantee for the consumers. The use of return policies can draw more consumers, increases demand, helps companies to stay competitive, and reduces consumer's risk. It can also assist in maintaining a good relationship with the consumer, enhance their loyalty and provide an overall positive image of the company in front of the consumer market (Ciribeli & Médice, 2019; Ramírez, 2012; Santos et al., 2019; Xu et al., 2018).

According to Zailani et al. (2017, p. 24), product returns can be considered as "reverse logistics", since it involves both logistics and "products' reverse flows". This process is responsible for the flow of products from the consumers to the companies. The product return management involves several activities such as the operationalisation of the physical return of products, flow of information, finances control, and the establishing of "processes and structures to handle these activities" (Morais et al., 2017; Ramírez, 2012; Russo et al., 2016, p. 889; Zailani et al., 2017).

However, the companies that perform product return activities have to consider all the associated costs. These costs can derived from "collection, inventory, transport, and storage" processes (Ramírez, 2012, p. 1138). Even non-defective returns can result in financial losses for the companies. Therefore, developing effective product return management systems is essential to reduce the company losses (Cui et al., 2020; Morais et al., 2017; Ruiz-Benítez et al., 2014; Shaharudin et al., 2015).

The product returns process can be comprised of six phases, according to Bernon et al. (2016, p. 5). By controlling the process through these phases, the companies are able to manage the information more easily, reach a resolution faster and reduce the associated costs. The phases

are the following: customer return request; return logistics; processing and sortation; Inventory control; repair and refurbishment; and final disposition (Figure 1) (Bernon et al., 2016; Ramírez, 2012).

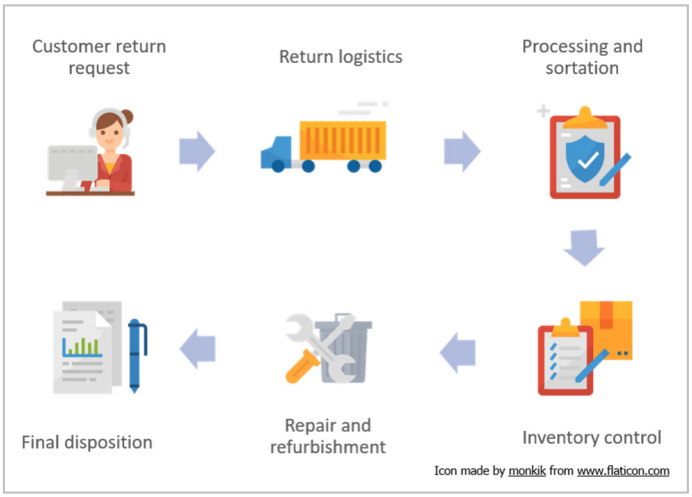

Figure 1. *Phases in product return processes (Bernon et al., 2016)*

An important aspect to consider in a customer return request is its reason. Customers decide to return a bought product for several reasons. Lee (2015, p. 50) states that the most common reasons are "product failure, damaged product, wrong delivery, incomplete shipments, lower than expected product quality, not being satisfied, and consumer fraud". Shaharudin et al. (2015, p. 222) also stated some of those reasons for returns, namely "warranty, service, and end-of-use items". Besides these reasons, there are also "false failure returns", which consist in returns where the product is in good conditions, but the consumer decides to return it (Xu et al., 2018, p. 3714). From these studies, it is possible to determine four major categories for consumer returns (Table 2).

Table 2. *Product returns reasons by categories*

Return category	Category description
Product warranty	•Product failure •Damaged product
Company service	•Wrong delivery •Incomplete shipments
Product performance	•Lower quality than expected •Costumer not satisfied
False return	•Consumer fraud •Consumer regret •Consumer not understanding how the product works

When companies have established a clear system to manage the product returns, they are able to reduce "unwanted returns" and "operational costs", effectively manage inventory levels" and "product recovery values" (Bernon et al., 2016, pp. 5–6), as well as devote the necessary human and space resources (Bernon et al., 2016; Cui et al., 2020; Lesmono et al., 2020).

B2C AND B2B PRODUCT RETURNS MANAGEMENT

According to Lee (2015), the number of consumer product returns have been increasing along the years, even though there has been an overall improvement in the products' quality. Therefore, the companies need to be able to manage the increased flow of these returns. However, depending on the market, and consequent consumers (end-consumers or businesses), the returns management is different, mainly due to the nature of these markets (section 2) (Lee, 2015; Russo et al., 2016; Stock & Mulki, 2009).

Bernon et al. (2016) states that there are six phases in the products return process (Figure 1). By following these phases, companies can manage all returns requests, process and sort the products returned, control the inventory levels or repair/refurbish the products, and finally achieve a returns disposition and consequent settlement. While, at the same time, manage all communication and information that result from these processes. Accordingly, the implementation of product returns management can directly affect internal and external stakeholders (Bernon et al., 2016; Zailani et al., 2017).

As Table 1 presented, B2C companies have a larger market size than B2B companies, thus more frequent returns. Also, because these purchases are normally based on the emotional aspect instead of rational, the consumer often regrets their purchases and intend to return them (Rėklaitis & Pilelienė, 2019; Stock & Mulki, 2009; Xu et al., 2018).

On the other hand, B2B companies sell a larger quantity of products in each order and generally these orders have a higher transaction value, therefore the customer return requests are riskier and can entail greater monetary losses. Furthermore, because B2B companies offer more specialised products, their customers are well aware of the quality and value of the product, hence the purchase, and consequent return, are thoroughly considered (Kolis & Jirinova, 2013; Russo et al., 2017; Shaharudin et al., 2015).

Stock & Mulki (2009) conducted a study to examine the product return practices of different type of businesses. The main findings were that retailers (B2C) were able to recover a higher product value from return processes than other companies (B2B). However, these companies also deny more returns requests than wholesalers and manufacturers.

On the contrary, due to the closer relations and loyalty in B2B market, there is a mutual awareness on the need to reduce product returns to maintain profit. Consequently, the return policies in these businesses are more liberal with "manufacturers (…) accepting all unsold products returned within prescribed periods of time" (Stock & Mulki, 2009, p. 52).

Both company types must properly manage their product returns, since these practices can influence the consumer buying behaviour, encourage purchase intent, and positively broaden the relationships with their target. Still, most companies do not engage in proper product returns processes. The use of knowledge management processes can help reducing the uncertainty of these practices and facilitate the activities workflow (Lesmono et al., 2020; Ramírez, 2012; Stock & Mulki, 2009).

In B2C context, consumer product returns are normally due to the discrepancy between the expected and received product. Additionally, these markets also receive more fraudulent requests since the return policies are usually very liberal to capture consumers. However, without a proper returns' management, the companies cannot control the high volume of returns and incurring in monetary losses. In order to accept return requests, B2C companies need to collect and ship the products back to their suppliers (B2B companies), which in turn will refurbish for resale, repair or dispose the damaged product (Fu et al., 2016; Lee, 2015).

There are two main reasons for B2B companies, namely manufacturers, to adopt a product return management practices: to support B2C (commercial) returns and to reach sustainable and environmental objectives. While wholesalers will adopt these practices to re-assure and

guarantee the product quality to the customer. The ability of the businesses to perform product return management and "provide fast product replacement" is necessary and serves as an advantage to these companies. In B2B context, the effectiveness of product returns management will assist in achieving customer satisfaction, reduce the returns process costs, and encourage sustainable practices by repairing, refurbish and reuse recovered parts or materials, that may not be resold, thus reducing waste (Lesmono et al., 2020, p. 51; Zailani et al., 2017)

Shaharudin et al. (2017) expressed in their study that not many B2B companies engage in returns management in an active and serious way. Thus, these businesses tend to perform these activities internally by having a "part-time management personnel" for processing and managing all customer requests and subsequent actions (Stock & Mulki, 2009, p. 52). Notwithstanding, nowadays, there are some companies that, to manage their product return processes, resort to outsourcing these activities. With the assistance of a logistics partner, these businesses can have a quicker redistribution and faster product value recovery (Purolator International, 2014; Stock & Mulki, 2009; Zailani et al., 2017).

CONCLUSIONS

This study allowed to understand the differences between B2C and B2B markets, being its main difference the target. While B2C companies sell their products/services to the general population, B2B companies only perform transactions with other business. A reason for this difference may be that B2C companies have a more generalised offer than B2B companies, which usually offer more specialised products.

Then the importance of consumer returns policies was established. These policies assist in providing a positive image in the market, helps the companies to stay competitive and increases consumer demand, since the consumer will perceive less risk in purchasing a product. The associated costs of these practices were also discussed and the main reasons for consumer return requests were provided. With this, it was possible to stablish the overall importance of a system to manage product returns.

The main differences on B2C and B2B product returns management are related with the nature of these markets. B2B customers' returns are less frequent than in B2C companies, mainly due to market size, the product range, and the product demand. Also, because the purchase process in B2B companies is riskier, the consumers will buy only the necessary products, thus leading to less returns. In B2C, the purchases are usually emotional, and the consumer often regrets their purchases and intend to return them.

With this study it was possible to attain the importance of effective returns management to reduce monetary losses, facilitate the activities workflow, achieve customer satisfaction, and encourage sustainable practices, by implementing refurbishing, repairing and recovering practices that reduce the amount of waste disposal.

For future work, it would be important to explore frameworks or software that B2C and B2B companies use to manage the increasing volume of customer return requests and improve the workflow process. Likewise, frameworks that these companies use to better control the returns process and provide feedback to the customers, as well as to establish the internal workflow communication will be analysed in the future.

This study is one of the first steps to answer a real research question of product returns management issue in a Portuguese B2B SME.

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