Product Returns and Customer Value: A Footware Industry Case

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Abstract Managing the flow of product returns is increasingly recognized as a strategically important activity that spans different functions within and across firms, especially in terms of marketing and operations. We focus specifically on managing returns in the shoes industry. In order to explore the phenomenon of returns management, a qualitative research methodology was chosen to generate an in-depth analysis given the currently limited understanding of the present research topic. Our results suggest that returns management is recognized an increased role in inter-functional alignment and that this phenomenon is linked to different elements of the relationship value.

Keywords Customer value • Footwear industry • Functional integration • Managing returns

1 Introduction

Over the last 40 years, the international footwear market has experienced substantial changes relative to demand, supply and distribution (Moore and Fairhurst 2003; Buxey 2005; Camuffo et al. 2008; Gregori et al. 2009; Hsu and Chang 2008).

In the footwear industry, we see a vast array of products and more and more frequent outsourcing of production activities by many firms in order to achieve their competitive efficiency, which however generate more perils for the quality of

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products. It should also be noted that the intangible components of the products, such as image and post-sale service, become competitiveness elements among different firms. One of the complexity elements that we have found, and that is becoming increasingly more relevant, is the management of returns, that is, the whole of material flows connected to financial and information flows that for any reason travel back along the supply chain. The interest in this sector and phenomenon also stems from the observation of a few current trends: sales predictions that are increasingly more difficult to make, given the variability and unpredictability of the market; a difficult integration between marketing and logistics/production; the unavoidable need of the firms carrying recognized and prestigious brands to control the flow of returns, and the need to guarantee a high value-added post-sale service (Gecker and Vigoroso 2006; Verweij et al. 2008; Wehlage 2009).

From a practical perspective, Jayaraman and Luo (2007) noted that overall customer returns are estimated at 15% of sales for mass merchandisers and up to 35% for catalogue and e-commerce retailers in the United States. Furthermore, the Reverse Logistics Executive Council (RLEC 2010) estimates that RL costs account for approximately one-half of one percent of total GDP.

Blackburn et al. (2004) pointed out that the marginal value of time can be used to help managers design the right reverse supply chain. Thus managers recognized the perishability of returns and their loss of value over time and they had to extract value from the returns flow rather than simply disposing of product.

In view of this transformation in the distribution and supply area, we have observed therefore an increased complexity in market management issues (sales predictions, orders management) which make the relationship between the marketing, sales, logistics and production functions more critical. Managing the flow of product returns is increasingly recognized as a strategically important activity that spans different functions within and across firms, especially in terms of marketing and operations.

We specifically focus on managing commercial returns in the footwear industry.

Returns management includes several activities characterized by an inter-functional logic. These activities are *return avoidance* (activities aiming at minimizing upstream the number of *returns*) and *gate-keeping* (activities for the control of returns flow) as well as *reverse logistics* (*collection*, *transport*, *receipt*, *sorting*) and, last, the activities to redirect and allocate returns. There are many types of returns, Rogers et al. (2002) grouped in five categories: consumer returns, marketing (commercial) returns, asset returns, product recalls and environmental returns. We focus our paper on commercial/marketing returns, for example unsold products or job-outs or product quality reasons that retailers return to manufacturer. Briefly commercial returns are all those returns where a buyer has a contractual option to return products to the seller (Rogers et al. 2002; Flapper et al. 2005; De Brito and Dekker 2004).

By its own nature, a returned product involves several functions inside an organization: from customer service to sales/marketing, production, from logistics to management control/administration (Rogers 2002; Mollenkopf et al. 2007a). Therefore it requires coordination between these areas to afford efficient and effective management. Thus, functional integration is now recognized as an

important component of the customer value theory, which emphasizes the importance of being customer-focused and aligning resources and capabilities for superior value creation (Slater 1997; Vargo and Lusch 2008).

Analysing the role played by the returns management process within the customer value creation is certainly of some interest not just for the inter-functional aspect but also for the role it plays in relationship management strategies. We have seen that the various contributions on customer value hold that many factors may influence this parameter (Lapierre 2000; Walter et al. 2001; Graf and Maas 2008). We make no distinction between consumer-originated returns (e.g., defective product and/or buyer's remorse) or customer (retailer) originated returns (unsold product being returned from the retailer). Thus, we want to understand how a shoemaking manufacturer can manage commercial returns in order to improve customer value.

For this reason, for the purpose of this research, we have used the model proposed by Ulaga (2003), who examines in business-to-business contexts the main "value-generating" drivers. In our case, we have verified the drivers that create value in the management of commercial returns in the footwear industry.

Many are the causes that make returns management inefficient (and not effective), such as a lack of coordination among the various actors of the supply chain in terms of information, material and financial flows, a strategic management of the operations connected to this phenomenon, an integration between the various process functions, the management and the agreements of the marketing channel, and the promised service level regarding customer complaints. For this reason, the problem of managing returns should involve the whole firm, as well as the retailers and suppliers, without limiting the issue to the mere management of logistics operations when the problem arises, and stressing even the most strategic aspects with a view to recovering efficiency, improving effectiveness and creating value (Roger et al. 2002; Mollenkopf et al. 2007a, 2011c).

Thus, the focus of our paper is to investigate the returns management process in the shoemaking context. In particular, our research questions are:

- What is the relationship between customer value and returns management?
- What are the main important drivers and steps that create value related to commercial returns management in B2B context?

Therefore, the gap in the literature we wish to fill specifically refers therefore to the management of returns in the footwear industry, paying special attention to value creation for customers in a business-to-business context, particularly analysing the manufacturer and retailer relationship. To this purpose we have used the model proposed by Ulaga (2003) as a framework for the identification of value-generating drivers in the management of returns.

In the following sections we will review the relevant literature and foundations of our research, describe our research site and methodology and discuss implications in managing returns for business functional integration in order to create superior customer value in a business-to-business context of the footwear industry.

2 Literature Review

2.1 Returns Management

The literature on returns management is rooted in both marketing and logistics disciplines, with an early focus, respectively, on reverse channels and reverse logistics, respectively.

In particular, the first contributions (Guiltinan and Nwokoye 1975; Ginter and Starling 1978) focused on the recycling of returned products, or parts or components thereof, and their environmental impact. Later on, in the 1980s, returns were connected to the concept of reverse logistics, primarily related to the idea of "going the wrong way" (Lambert and Stock 1982), therefore to a logistic flow opposite to the traditional one.

Several studies have focused on the green logistics (Gungor and Gupta 1999; Geyer and Jackson 2004; Murphy and Poist 2003). This research currently considers the management of returns as a way to minimize and control their environmental impact, from cradle to grave (Andel 1995; Barry et al. 1993; Witt 1993; Jahre 1995; Walther and Spengler 2005). Other authors (Stock 1998; Carter and Ellram 1998) have identified the drivers (legislators, customers, suppliers, enterprises) and the hindrances (mainly cultural and regarding the commitment of stakeholders and the upper management) to the development of reverse logistics programs. Other contributions have proven important (Thierry et al. 1995; Rogers and Tibben-Lembke 1999) to better investigate the strategic impact of reverse logistics in terms of competitiveness and cost reduction, inventory management, particularly in a remanufacturing context (Kleber et al. 2002; Kiesmuller and Scherer 2003), and concern for environmental and packaging problems (Kocabasoglu et al. 2007). Particularly noteworthy are further studies by Stock et al. (2002), which stress the existence of a strong correlation between good returns management and returns policies, not only as a cost but also as a tool to improve customer service (Petersen and Kumar 2009; Anderson et al. 2009; Russo 2008). Further research has been carried out by other scholars that are closer to quantitative rather than managerial approaches and focus their attention on the mathematical models that support reverse logistics; particularly interesting are the approaches regarding to the concept of closed-loop supply chain Dekker and Van Der Laan 2003). Blackburn et al. (2004) recommend the need to make disposition decisions as soon as possible in the returns process due to the time-sensitivity of most returned goods.

In the supply chain literature, Rogers et al. (2002) and Mollenkopf et al. (2007a) see the returns management process as a part of the overall supply chain strategy of a firm. Their focus on returns avoidance, gate-keeping, reverse logistics and disposal demonstrates the need to manage returns across multiple functional areas and within firms across the supply chain. Returns avoidance is a relevant part of the returns management process and includes the activities that prevent and eliminate the causes of returns (defective product and packaging design, compliance with

legal requirements, poor demand management). While gate keeping involves the screening and authorization of products entering the return flow, disposition refers to inspection activities, the decisions to refurbish/remanufacture or resell or scrap the products that are returned from customers (Rogers et al. 2002). Stock, Speh, and Shear (2006) define avoidance as the "basic strategy" of managing returns (p. 58).

However, the majority of scholars tend to focus only one aspect only of this phenomenon, such as returns policies (Petersen and Kumar 2009), product recovery to reduce production costs (Guide and van Wassenhove 2006), reverse logistics (Stock and Mulki 2009) and the relationship between reverse logistics and green logistics (Jahre 1995; Geyer and Jackson 2004; Murphy and Poist 2003). Consequently, Rubio et al. 2008 call for more strategically focused research in order to develop a framework for future research.

Stock et al. (2009) have made various proposals showing how marketing, logistics, accounting and production need to be involved to manage returns. Following that research field, Mollenkopf et al. (2011c) found, using an in-depth case study, that functional integration at the marketing/operations interface in managing returns can lead to a better alignment of corporate resources and thus create higher levels of customer value.

2.2 *Customer Value in Business-to-Business Contexts and the Role of Functional Integration*

There are many definitions of customer value in a business-to-business context, intended as the customer's perception of the offer he/she receives. Customer value is primarily a trade-off between benefits and sacrifices – whether monetary or not. This trade-off is certainly influenced by what competitors offer and implies an assessment of what customers perceive in relation to what they receive (Jüttner et al. 2007). Surely, value creation is a central concept in the management and organization literature for both micro level (individual, group) and macro level (organization theory, strategic management) research (Lepack et al. 2007). As the name implies, customer value theory emphasizes the importance of being customer-focused and aligning resources and capabilities for superior value creation (Drucker 1973; Slater 1997), especially since firms find that product innovation and quality management alone no longer provide sufficient competitive advantage (Woodruff 1997). Suppliers often create account management teams that include marketing, operations, manufacturing and product design experts to more fully address the multiple dimensions of what customer organizations seek from their suppliers (Flint and Mentzer 2006; Ulaga 2003).

Customer value as a buyer behaviour has been researched for nearly 20 years. This work spans consumer (Smith and Colgate 2007; Gronroos 2008) and business (e.g., Ulaga 2003; Blocker and Flint 2007; Eggert et al. 2009; Flint et al. 2002; Woodruff and Flint 2006) contexts, with key researchers at the core covering both

(Woodruff 1997). Much of this work is traditionally referred to as customer value theory and some builds on means-end theory (Gutman 1982). Customer value theory describes how customers view what they value from products, services, and suppliers. The key focus is always on how service is exchanged for service, and not "service" for "good." Products provide a service through embedded knowledge and goal facilitation. According with Payne et al. (2008), in the specific context of the S-D logic on co-creation has focused on: co-creating the voice of the customer (Jaworski and Kohli 2006); satisfying expectations (Oliver 2006); a cost–function model for co-production (Etgar 2006); supply chain issues and value chain management (Flint and Mentzer 2006); cross-functional processes (Lambert and Garcia-Dastugue 2006); and marketing strategy effectiveness and operations efficiency (Kalaignanam and Varadarajan 2006).

Building on the service-dominant logic (Vargo and Lusch 2008), customer value concerns the co-creation of value between suppliers and customers. Extended to the concept of supply chain management, the emphasis on co-creation of value drives organizational attention towards those activities that add to customer value (such as re-design, thus reducing wasteful packaging, or increased product refurbishment), and moves the attention away from the activities that do not contribute to superior customer value, thus making firms more efficient. Value can only be created where there exists a deep understanding of customers/markets and of matching supply chain capabilities. The ability to create value often rests on the need for cross-functional and inter-firm integration and collaboration to ensure that effective generation, dissemination, interpretation and application of knowledge co-creates customer value through superior integration of both demand and supply management processes (Esper et al. 2010).

The notion of functional integration and its associated benefits has been addressed by the marketing, logistics and operations literature for many years (Kahn and Mentzer 1998; Ellinger 2000, Kim et al. 2003; Piercy 2006; Menon et al. 1996; Kahn 2009). Much of the early literature on functional integration focused on factors that hinder or enhance functional integration, such as conflict or cooperation between departments, the role of top management and the impact of the traditional silo mentality within firms and the resulting lack of interaction between functional areas (Gupta et al. 1986; Ruekert 1987).

Yalabik, Petruzzi, and Chhajed (2005) identify different components of an integrated returns-management system: the refund policy, the marketing promotion strategy, and the logistics process of physically recovering and handling the returned goods. More recently, Mollenkopf et al. (2007b) addressed the importance of functional integration for Internet retailers' marketing and operations in consumer service recovery situations. Still more recently, the demand/supply integration framework (Esper et al. 2010) emphasizes the need for extensive integration of the demand processes of marketing/sales activities and the supply processes of operations, in order to most successfully manage a supply chain that creates customer value.

3 Methodology

This research is of an explorative kind, just like other case studies of the literature (Gummesson 1991; Eisenhardt and Graebner 2007; Graebner and Eisenhardt 2004; Ellram et al. 2008; Daly et al. 2009). In business-to-business research, study profiles are continuously evolving, with new practices. Therefore the multiple case study seemed to us a good study method to analyze a phenomenon that has never been never investigated in the footwear industry (Yin 2003; Meredith 1998; Borghini et al. 2010; Piekkari et al. 2010).

In order to analyze the phenomenon of returns management, a qualitative research methodology was chosen to generate depth of understanding, given the limited current understanding of the research topic under consideration (Flint et al. 2002; Strauss and Corbin 1998). The main reason was the unexplored nature of this phenomenon in the footwear industry and the poor knowledge of the operational context inside the company.

We conducted interviews with 16 senior managers from different functions of five firms in the shoes industry in order to cover production, financial, marketing and customer service areas. The cases selection process wants to achieve the target to cover the typical business models in Italian footwear industry (SDA Bocconi report 2007): Classic (so called "partner" business model), Elegant (so called "brand integrated" business model), Casual and Smart (so called "niche" business models), Experience (so called "generalist" business model). Briefly we would like to show how different business models should create customer value through managing returns in business to business context.

To ensure rigor and solidify our knowledge in this specific industry, we also thoroughly interviewed a senior consultant, with a considerable experience in the different firms and the specific industry.

The involvement of several firms allows analysis of returns management methods in the same competitive sector although with different distribution, production, logistics and commercial practices.

It should also be noted that returns management becomes particularly relevant when examining the role played by this process within the commercial area (sales management) and for customer value creation. In this sense, it is helpful, in the variety of the real cases, to examine the role that "returns management" may play as an immaterial component of the products (service) and in particular as a value-generation process for trade clients (Ulaga 2003; Corsaro and Snehota 2010).

This fact-finding purpose called for a qualitative research method (grounded theory approach, Dubois and Gadde 2002; Strauss and Corbin 1998) which aims at discovering models and good practices rather than verifying theories.

The research questions were specifically phrased to provide an answer to "what" happened in specific situations, being as it is an exploratory research. However, this is not enough, as investigating into why and how certain phenomena occur is also necessary. Therefore, this research is in part also explanatory. In this way, we avoid

the emergence of preconceptions that might induce interviewees to back the researcher's theory.

The study of the enterprises was as follows: on desk, involving the gathering of secondary sources (questionnaire data, Internet sites, other) to profile the enterprises before the interviews; bracketing interviews, whereby each researcher has preliminarily presented his/her expectations from the interviews and research, in order to avoid the emergence of preconceptions that might induce interviewees to back the researcher's theory; in depth interviews, site visits to each firm and printed materials by the firm.

Interviews were held individually with participating managers, with each interview lasting 60–150 min. An interview protocol guide with the main topics of research was used to follow up the grand tour technique. These topics were taken from previous research works on returns management and customer value (Carter and Ellram 1998; Rogers et al. 2002; Mollenkopf et al. 2007a; Flint and Mentzer 2006; Ulaga 2003). During the research, new topics emerged from the interviews. The debriefing sessions reflect our attempt to solidify our perceptions and thoughts with respect to what we were hearing. All interviews were conducted in Italian.

4 Results and Discussion

The model proposed by Ulaga (2003) proved helpful to conduct the exploratory analysis of the contribution given by managing returns in the footwear industry. Ulaga examined the main "value-generating" drivers in business-to-business contexts. In fact, this theoretical model has been developed in this context, in which the buyer enterprise is a manufacturing enterprise. In the case at hand, most buyer enterprises are distribution companies. However, the relationships between buyers and sellers are in most cases long-standing and characterized by a high interaction level (for example, the development of collections). Further elements of a certain importance are the characteristics of the sector, with such specific features that make only a few of the drivers proposed by Ulaga (2003) relevant. Finally, returns management involves the relationship value generation process only for a few dimensions (Mollenkopf et al. 2011c).

Hence, it seems possible in our analysis not to consider the "delivery", "time to market" and "direct product cost" drivers. On the contrary, based on the empirical analysis, returns seemingly take on a particular relevance in this specific industry as for several value drivers, i.e., product quality, services support, personal interaction, supplier's know-how and process cost. The following discussion is organized according to Ulaga's framework in order to respond to our two key research questions.

4.1 Returns and Product Quality

With specific reference to production activities in the strictest sense, it is evident that the returns process may contribute to improving product quality (Gronroos 2008).

However, in most examined enterprises, there seems to be a limited processing of the data that originated from the returns, such as for example the causes that have led a given (single or multi-brand) point of sale to recall a product or a customer to report it as defective. It is indispensable to adopt a common standard among the various geographic areas to guarantee visibility to all actors along the supply chain, as well as a homogeneous classification of returns. Control and visibility of the process should be a value-added element for a product with a prestigious competitive positioning, for which it is necessary to control the distribution as well as the returns channel. Instead, *"I've got it all handwritten, but I have no idea of how many pairs return or how many I manage to replace, repair and therefore reship to the customers. That I don't know,"* as one of the manager reported to us. In effect, we observed that in Elegance, Experience and Smart much care was taken of the returns from customers, to protect the brand and enhance the relationship with the retailers. However, in practice we seldom found the company functions aligned in the pursuit of the common goal of making returns management one of the value-creating elements.

Furthermore, product quality and usability are different issues than a mere quality control at the production level and evidently call for an integration of information and objectives among the company functions. Marketing policies for the launch of new products should also be based on information on the causes of returns and related complaints during the campaigns of previous years. At least in four out of five enterprises we observed therefore a lack of an effective *returns avoidance* process. Only in *Classic* we found a real effort to learn from returned shoes for quality problems, implementing a structured attention to the selection of raw materials suppliers, from hides and vamps to leather.

It is a common occurrence in the footwear industry that much attention is paid to the design and beauty, with little importance attached to the comfort and "user's experience" of the shoes. Returns are a good sign of the existence of a wearability or usability problem, as a manager told to us: *"More attention should also be paid to the comfort and use of the products, because shoes are certainly very beautiful, boots are very beautiful but when they are worn those problems may arise that maybe one didn't think of before."*

It is clear that the best preventive activity is to lower the overall quality cost born by the enterprises and better value should be transmitted to the customers. Only by gathering information and understanding the reasons for post-sale returns can correctly lead to product improvement in the following seasons. However, only *customer service* managers have understood the added value embedded in the returns and know how to learn from them in view of an overall product quality improvement.

4.2 Returns and Service Support

As for the *service* driver, we found that being able to rely on a quick replacement of defective products or, better yet, having an efficient after-sales support are all customer-service and, consequently, marketing strategies that, without a successful returns management process, would be useless and ineffective. These efforts are certainly bound to produce a positive effect in terms of value transmission also on the image of the manufacturer/distributor, acting as a further differentiation element, which we observed in several instances. As such, one of the Classic's firm managers, referring to a domestic market, reported to us: *"Three days pass from the moment we receive it from the customer to the moment we ship it back."*

In addition to that, it should be said that customers in these instances may be in a somehow critical situation and be more "sensitive" because they observe unequal "quality expectation" and perceived/real quality, which in turn might reflect on the overall evaluation of the customer/supplier relationship. Or, in case of a product being returned not for an evident quality problem, there might be problems of a commercial nature related to the point of sale (low sell-out, low merchandise turnover, too many promotional sales with respect to regular price sales). It should be noted that return process could generated a break in customer relationship so, in some cases, firms offer a customized support service, as the Casual's Sales Manager observed: *"I have seen that there should be only one person liaising with customers, because if too many people interfere on a particular issue, then it becomes hard to manage. Therefore I give my name with the authorization number."*

The above instance is a strategic choice given the high competitive positioning – in terms of price and reputation – of at least four enterprises of the sample and the types of customers they interact with, who are very demanding especially in some foreign markets. This choice however should also produce, among the various company functions, a common aspiration to pursue customer satisfaction, which however does not occur in the returns process because there is a lack of perception of the real impact on the enterprise – in terms of costs – of the commercial returns and the potential dissatisfaction of retail customers.

A further element connected to (*pre-sales*) *service* is the communication of *returns policies* and observance of related regulations. As for our entire sample, especially Elegant, Casual and Smart, this informative activity is carried out in a non-structured way. In fact, it is neither formalized nor shared by the upper and operational management. On the contrary, we have found the opinions of the various interviewees contradictory, and an inconsistency between informal *returns policies* – in many cases, expressions like "yes, in theory it is like that, but at times. . .." – and operational practice. In this scenario, also in view of the economic impact of returns, informing and educating retail customers on the costs connected to the returns and the related return process becomes critical. In this sense, it is important to remind of the importance of observing strict procedures and establishing a collaborative and not *problem-creator* approach.

4.3 Returns and Personal Interaction

We have also observed that in this specific industry returns take on a particularly relevant role as regards the buyer/seller interaction process (personal interaction). In fact, returns management rightly belongs to the elements for the negotiation of orders ("it is a negotiation we conduct this way"). Furthermore, even from a time perspective, we observed that some commercial returns in a given season become problematic during the negotiation phases of the following season.

Regarding the activity of gate-keeping, the authorization to accept the returns is given by the sales department only. In this case, the preferred choice is always to accommodate the customer's request and to instruct the administration and finance departments to pay back the customer. In this situation, abuses on the part of customers are not infrequent. In fact, during not particularly happy seasons, customers may transform unsold items in defective items, exploiting to their advantage the intrinsic characteristics of shoes (*"each hide differs from another," "it is therefore easy to reject a pair of shoes for any reason"*) and customer service policies ("customers are always right"). Hence, gate-keeping activities are rather weak, generating, for marketing reasons, additional costs to the company general operations.

In this scenario, a critical role is played by the internal sales staff or by the agents. To this regard, we should stress the importance of the discretion of the sales staff who evaluates the methods to accept or reject the commercial returns from the retailer: *"It is therefore easy to reject a pair of shoes for any reason."*

Sales procedures (in many cases only informal and occasional) largely differ from one another and oftentimes managing returns and liaising with the customers is the responsibility of several people (sales manager, customer service, marketing).

We also found that the returns process is handled by the staff with a personal approach. In many instances, the returns management method is the result of a subjective choice, which varies based on the person adopting it as well as on the customer/market that has generated the returns. It is as though each function or area perceives, manages and organizes returns autonomously with respect to the functional objectives, thus creating within an enterprise closed silos that do not ease the flow of information from one department to another, in order to draw a benefit in terms of effectiveness and efficiency. Moreover, in other instances, the sales staff may act with a variable level of autonomy which is formally recognized only in part: "our boss ... is aware of this occurrence (replacement of unsold items) but he would prefer this not to be done."

4.4 Returns and Supplier Know-How

The supplier know-how driver by Ulaga's model (2003) constitutes a fundamental component of the set of elements that make up the value of business clients at the

same times supplier "know-how" is another element to create customer value with returns management process. The relevance of this aspect has also been confirmed in the case of the examined enterprises. However, it takes on a different perspective because the technological or in any case technical/productive component is not fundamental. Instead, the selection of materials – in terms of reliability and innovation – and suppliers (in some instances located abroad) is important. This results in less problems of qualitative non-compliance of products. In some observed enterprises – for example, the Classic enterprise – a critical role in creating customer value is played by the ability to meet the design features required by the buyers with technical solutions, within a fixed timeframe and at pre-fixed prices (target pricing).

It should also be said that another relevant element for returns avoidance is the ability to follow fashion trends as well as recommend to the customers the best choices to support sell-out, in terms of lines, models, colours, materials and sizes. Therefore the knowledge provided to retail customers on main fashion trends and real market opportunities constitutes a critical element to transfer knowledge to the customers also in view of preventing commercial returns. However it should not be overlooked that a driver for value creation comes from market knowledge. This aspect becomes particularly relevant for small clients such as multi-brand points of sale or small chains. The Sales Manager of the Elegant company, speaking of a client, remarked: *"you haven't sold it because you made it of a colour that has been made only by you, that is, I mean ..."*

Based on the investigation, it emerges that *Supplier know-how* for the footwear enterprises implies knowledge of the supply chain and production capability as well as market knowledge and design and commercial sensitivity. Supply and customer market knowledge can help the seller to provide appropriate levels of inventory in the marketplace and support the value creation of the customer (Mollenkopf et al. 2011c).

4.5 Returns and Process Cost

The value of the product changes significantly and the appropriate reverse supply chain structure is a combination of responsiveness and cost efficiency to keep the value of the commercial returns (Blackburn et al. 2004).

Returns generate several different costs which do not merely consist of the value of returned products and they are often considered a necessary cost-of-doing business. In fact, this "direct cost" should be coupled with all indirect costs connected to returned products, i.e., reverse logistics, inspection, remanufacturing, shipment to outlets, and finally, disposal. Furthermore the removal of a product from the exhibition space may jeopardize the sales results of that particular product. In this sense it is appropriate to consider the role of returned products as a "reverse-sales" element. This aspect may be particularly important, considering the strong seasonal character of these products and the quick loss in value of highly

fashionable shoes. However in the various enterprises there is no systematic activity that encompasses in an organic system all the costs (activities and persons) that are connected to the returned products.

Even though the cost of commercial returns is not clearly quantified, the examined enterprises find the administrative and logistics management rather problematic and try to avoid it also adopting specific actions and choices aiming at reducing the material flow of returns. The Classic company for example gives its major customers (mostly store chains and large distributors) a discount of approx. 1–2% off list prices. By doing this, the company eliminates any returns flow and related complaints, thus also containing the cost born by the customer. The entrepreneur remarks: *"We have implemented a returns system whereby we give a discount to the customer in the invoice of 1% to avoid the return of single pairs of shoes."*

A further and rather interesting aspect in reducing the cost of returning products is the gate-keeping procedure. It is in fact important not to accept "shoes in indecent conditions" which do not have a direct value and create process costs. To this regard, a few selected enterprises have defined procedures to remotely assess quality problems. When a real problem is found, in some instances the manufacturing company may issue a credit note or discount for the following orders.

A different situation was found with regards to enterprises that manage single-brand points of sale. While unsold items in multi-brand stores are not a problem for the manufacturing enterprises, in the case of direct points of sale the manufacturing enterprises are also exposed to risks in terms of control of the channel and protection of the brand. In general, for this kind of returns, the manufacturer adopts policies towards single-brand points of sale that allow them to order any product quantity, guaranteeing in return the collection of returned items at no additional cost. However also for unsold items, just like for returns due to quality problems or products to be replaced, in a *cost management* perspective, we should consider the loss of sale of displayed shoes that have no market, picking, packing and temporary storage at the point of sale, freight cost, cost of returns authorization procedures and subsequent payment of credit and, finally, the activities to decide the following destination of the merchandise which is usually shipped to the outlets.

Overall, despite the imprecise assessment of the actual cost of returns for the customers, footwear enterprises take specific actions in order to contain this cost.

5 Key Findings, Managerial Implications, Limitations and Future Research

In this section we will review the main key findings and managerial implications of our results. We will then describe limitations and future research.

The first element that has emerged from our investigation is certainly that the functions involved consider returns a multidimensional aspect with different

customer value impact/perception that generates much complexity to manage the process. In fact, we have found a rather variegated classification of commercial returns, which may be due to quality problems, non-compliance with orders, late shipment and delivery, unsold items from customers, and unsold items from direct or single-brand points of sale that are not always easy to identify. Moreover only customer service managers understand how the returns management process should be drive by the "commercial perishability" of the product. This classification – often scarcely structured – is coupled with the nature and resulting value of returns, which can be items to be disposed of, repaired or sold at a discounted price (second-choice or last season products).

The second element to be noted is the importance of returns management in the relationship between supplier and customer. In fact, it is part of the elements embedded in the customer service of the shoe-making enterprises and therefore an element that creates value between buyer and seller. At the same time, commercial returns are a relevant part of the relationship with the customer. In fact, "the voice of the customer" (Woodruff 1997) may be heard during this process and it constitutes a substantial part of the value creation and transmission process between supplier and customer. However we have mentioned several times that this objective is not shared by all enterprise functions, which results in the shoemaking enterprises not putting into practice effective policies of returns avoidance, improved product quality and containment of reverse logistics.

The third element to be considered is the operational and strategic role of the products returned. So the main operational problem in managing returns in the footwear industry are the so-called "defective or low-quality products" or "product replacement" excluding end-of-season unsold merchandise (*marketing/commercial returns*), which however account for a considerable percentage of the marketed products.

Despite this, managing returns is often considered – as in the case of *Elegant*, *Casual* and *Smart* – exclusively a post-sale competence, disregarding the fact that the causes of returns may also lie in other functions. This is one of the reasons that should most induce the managers to consider returns management and avoidance a transversal process of the enterprise that can actually create value for the customers, through improved product quality and service, and similarly contain the number of returned products to be recovered by the enterprise.

To sum up, we examined the main "value-generating" drivers in business-to-business contexts and we observed that different aspects of returns management involve the customer value process; however the drivers analysed have a variable role in shoemaking firms. For the drivers of *product quality*, *service support* and *personal interaction*, the majority of the firms recognise their importance for the returns process, but only in a few situations do the firms define specific managerial tools to improve or manage them in a better way. On the other hand for *supplier know-how* and *process cost* drivers many firms seem to not perceive their relevance. On this point of view a lot of managerial improvement could be brought about these firms starting with highlighting the important of the return process across the function or increasing the competence of sales people.

In addition, on a strategic level – despite the peculiarity of this industry – returns are a symptom of a lack of coordination among the various functions and reveal the need to manage distribution as well as return flows. Seasonal overstocks, unbalanced sell-in and sell-out levels at points of sale, weak gate-keeping activities are a few elements that reveal the inability of the enterprise to create value, effectively managing returns. This situation is often generated by a lack of coordination among the various company functions which results in end-of-season returns, particularly considerable for the *Elegance* and *Smart* enterprises. Let us take for example the cost to return, inspect and assess the merchandise, indirect administration costs (issue of bills, invoices, packing lists, credit notes, etc.) and time-related issues (shipment/return may take weeks).

However, we hope that our study may help future research to confirm in other contexts the evidence we gathered. Furthermore it is clear that the drivers considered for the analysis of the value of returns management are based on a model taken from the literature. It is however unclear the impact that these may have on each other and this is certainly an aspect to be investigated in future research.

Future research in this specific industry should certainly investigate more in-depth the retailers in order to describe the methods by which customers perceive the value transmitted through returns management. Furthermore an issue that we have analysed only in part is the analysis of the value attributed to after-sales and returned products in contexts that are different from a geographical and competitive standpoint.

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