

International customer returns Case: Varusteleka Oy

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<p>This thesis studies the possibilities of outsourcing reverse logistics for a commissioning company. The thesis is divided into four parts; the introduction and theory, current situation, the possible solutions, and discussion.</p> <p>In the introduction, the case and case company are introduced.</p> <p>The study aims to evaluate outsourcing reverse logistics and answers the research question: What is the most efficient way to handle customer returns from North America.</p> <p>The second part consists of theory. The key concepts are introduced there, as well as the way in which the theory and concepts are applied to this study.</p> <p>The third part concerns possible third-party logistics providers. Their service portfolio is presented and evaluated with an eye on suitability to the commissioning company.</p> <p>In the fourth part, conclusions are drawn and discussed by the author. From the evaluated 3PL companies none stood out to be the clearly the best option for the commissioning company. However, all of the three should be taken into consideration when deciding how to handle the North American customer returns.</p>	
Keywords Customer returns, reverse logistics, e-commerce, returns management	

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1 Introduction

Varusteleka is a store and online retailer, selling army surplus and outdoor clothing. All functions are located in the same premises in Helsinki, Finland. The author had the opportunity to intern for the commissioning company and later being employed there. Both experiences have given valuable insight and understanding of the key processes for this study.

This study aims to provide information on reverse logistics solutions for North American customer returns. The commissioning company is looking for options to serve the existing North American customers and gain trust in prospective customers. The concentration of this thesis will be mainly on the possible solutions and mapping the current state of customer returns.

The author learned theories on reverse logistics and e-commerce customer returns to provide a solid theoretical framework for the study.

The thesis includes a primary and secondary data study on possible reverse logistics service providers for dealing customer returns from North America to Varusteleka.

The author studied the processes of multiple companies to select the ones most suited for Varusteleka needs. This study will map out possibilities for the commissioning company and will evaluate the balance between the expected costs and outcome of possible choices.

2 Case Company Introduction

Varusteleka was first established in 2003 as a one-man venture, selling army surplus from the back of his van. The founder Valteri Lindholm recruited his friends, and gradually Varusteleka became one of the leading army surplus stores in Europe. During the years the staff has changed, yet some original employees are still working for Varusteleka.

The company sells military surplus and outdoor equipment and is based in Helsinki. With revenue of 9,6 M€ in 2016 (Varusteleka. Intranet. 2016) and employing some 50 people, it is currently the biggest army surplus store in Europe. Sales abroad are increasing, and the importance of online sales is growing.

As Varusteleka is pursuing growth in US sales, also the return policy must be updated accordingly. The commissioning company already has experience in dealing with free-of-charge domestic returns and currently has contracts with the Finnish Post and DHL. Expanding the free-of-charge returns for North American customers is the next crucial step.

2.1 Research question

This study aims to find out options for outsourcing reverse logistics. The research questions are organized to guide the research towards the possible solutions for the commissioning company.

The research question is divided into investigative questions that will try to answer how international returns are handled and if there are existing companies that specialize in reverse logistics. In the conclusions chapter the question of whether these companies could be possible partners for Varusteleka in handling the customer returns, is answered.

Research Question: What is the most efficient way to handle customer returns from North America?

IQ1: How customer returns are currently handled by the commissioning company?

IQ2: What possibilities there are to improve the handling of North American customer returns?

IQ3: What actions should be taken to implement the most efficient methods of handling international returns?

2.2 Demarkation

Reverse logistics discussed in this thesis are about Varusteleka customers' product returns. Physical logistics will be discussed, as they are relevant for customer returns for the commissioning company.

This research will evaluate the possibility of co-operation with some of the existing companies for handling the logistics or international returns. These third-party logistics providers can be companies like courier services or companies specialized in customer returns. Costs and profitability are not taken into consideration as the price will not be discussed in this thesis.

2.3 International Aspects

Varusteleka Ltd. aims to be the biggest player in army surplus and quality gear retail, and generating more sales abroad as part of its strategy. Actions towards growth in the US market have been taken, and providing inexpensive or free of charge customer returns is one way of gaining trust and attracting more customers.

3 Theoretical Framework

The following chapters will present the theory behind the thesis. The theories in this study include reverse logistics, customer returns and international returns and customer service's importance. These theories will be discussed and reasoned as how they apply to the case company situation and help find solutions for the international customer returns.

3.1 E-commerce

Electronic commerce, e-commerce for short, is any activity where money is exchanged online into goods or services. Money transaction is done by transaction providers online, and payments made using customer's credit card. Nowadays most big players in present economy have a commerce presence on the world wide web. As e-commerce sales have gone up each year, it may likely prove to be more substantial than 'brick-and-mortar' store sales in the future. (Mohapatra, 2013, 9)

3.2 Reverse logistics

Reverse logistics means goods flowing back to the focal company for a number of reasons. The goods might be for example defected items, end-of-life returns for recycling or product returns (Harrison & Van Hoek, 2011, 141). Returning goods are reversed supply chain "as the customer becomes the supplier" (Waters & Rinsler, 2014, 135).

3.3 Customer returns

Customer returns are items that the end-customer has purchased and returned to the retailer for a number of reasons; wrong size, change of mind, different from product description or other.

According to Nair (2015), most common reasons for customer returns are as follows:

- Products not matching their online descriptions
- Wrong items shipped out
- Items damaged in transit
- Problems with fit and/or product quality
- Gift items that are returned

- The customer changed her mind and no longer wants the product
- Fraudulent returns

Issues causing returns due to products not matching online descriptions, shipping wrong items and problems with quality can be dealt with improving in-house operations. However, reasons such as problems with fit, unwanted gifts and change of mind cannot be controlled. Fraudulent returns are hard to prove and assumed as only a marginal problem.

According to David Egan (CBRE, 2016), the Americas Head of Industrial & logistic research states on his viewpoint that e-commerce is especially prone to customer returns. Where as the returns are 8 percent of the total revenue, in e-commerce it may rise higher; even between 15 to 30 percent. This is a niche market for third-party logistics providers.

3.4 Returns management

The case company is taking actions to minimize the customer returns, but a flexible return policy reassures customers to make the purchase in the first place, is the risk of the goods returning worth taking. As Pianaar & Vogt (2009, 46) suggest that the typical strategies and actions that are taken to lower the costs are as follows:

- Establish well-developed processes for the cost-efficient handling, recycling, reuse or disposal.
- Implement the ISO 14000 quality standard
- Refine order processes to prevent wrongly delivered goods as far as possible.
- Create appropriate channels to handle the return of unsold and/or wrongly delivered goods.
- Establish cooperation between manufacturing, marketing and procurement for better demand insight on reverse logistics operations. (Pianaar & Vogt 2009, 46)

The items can be refunded, partly refunded, replaced with same item's different variation such as size or color, or exchanged to another item of the same value. Retailers have their own return policies, varying from 14 days to 30 days, or even 100 days. The legislation of residential commerce zone, state or country, may affect the length or necessity of online sales return policy. In the European Union, the consumer has the right to cancel and return the goods or service within 14 days on distance sales such as e-commerce (Directive 2011/83/EU).

US legislation varies from federal laws to state legislation. As the Varusteleka 100-day-policy exceeds both federal and state legislation, no legal problems should occur (FindLaw, 2018).

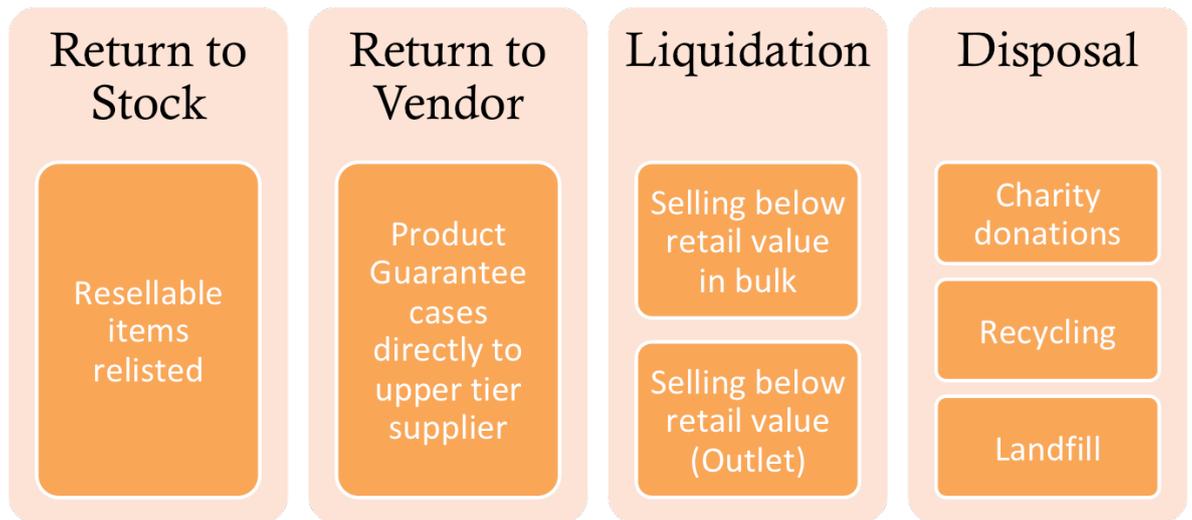


Figure 1: Customer Returns Management: returning items can be categorized and managed as follows; return to stock for resale, returning to supplier as guarantee case, liquidation or disposal.

3.5 International customer returns

International customer returns are returning items from a country different than of the retailer's. International customer returns are more complex as they might be eligible to duties and taxes if they are from outside of the retailer's economical area such as EU. Also, the price structure can be more complex and overall more expensive.

3.6 Third-party logistics – 3PL

Criteria for selecting a third-party logistics operator according to Branch (Global Supply Chain Management and International Logistics 2009, 71) includes most importantly cost and service. Other factors mentioned are as follows; improved supply chain management and continuous evaluation, using newest information technologies, collaborative partnership, value-added services, provision of core services and opportunities to expand SCM.

3.7 Problem discussion

A good return policy is a crucial part of e-commerce. In domestic markets, Varusteleka offers free returns. From Sweden, returns are free of charge within 14 days of receiving the goods. From anywhere else the customers themselves are to pay for the return as standard postal rate to Finland. Customers from selected EU countries of which the Finnish Post has contracts with can purchase a pre-made return label for a cost of 15€. North American customers experience high postal rates when returning items to Varusteleka and may cause losing potential returning customers and first-time buyers.

3.8 Performance measures

Varusteleka has been collecting data on customer returns since late 2017. Key performance indicators (KPI) give information, that can be used in forecasting future, following the progress of any changes made.

Table 1: Total customer returns 2018 to date and 2017 for comparing. The percentage of returns of outgoing parcels has decreased since 2017.

Return % total	2018	2017	Change %
January	5.56%	6.39%	12.99%
February	4.33%	5.87%	26.22%
March	5.25%	5.92%	11.40%
April	n/a	6.75%	n/a
May	n/a	5.80%	n/a
June	n/a	5.21%	n/a
July	n/a	5.65%	n/a
August	n/a	5.02%	n/a
September	n/a	5.48%	n/a
October	n/a	4.91%	n/a
November	n/a	4.75%	n/a
December	n/a	4.48%	n/a
year average	n/a	5.52%	n/a

3.9 North American customers on the rise

Sales to US 181 043t and Canada 46,501€, growth compared to previous year US +39.1% and Canada +91.5%.

Total of orders in a years time to Northern America was 3,229. According to the growth data and marketing plans the growth will continue and make North America an important market region. (Varusteleva. Intranet. 2018)

4 Customer returns from North America – Current Process at Varusteleka

The current process of customer returns from North America differs from domestic returns. The customer usually contacts Varusteleka by email informing they are making a customer return, and packs the returning item/s and pays the postal fee to Finland. Price may vary from courier service to another, but often national postal service provides the cheapest – and usually the slowest – option. The package is registered and receives a tracking id and it can be tracked and traced throughout its journey. When the package reaches its destination country, Finland, it will be sorted in the Finnish Posti center and delivered to Varusteleka along with other packages to Varusteleka in trolleys that are then signed upon reception. The packages will go through the normal international return package process in Varusteleka's inbound logistics. (Varusteleka, 2018)

4.1 Domestic returns process

The company offers free returns to their domestic customers. The return policy of Varusteleka gives the customer 100 days to reconsider their purchase. However, at the moment only domestic customers can send the returning items free of charge. International customers are responsible for the cost of returning the package, excluding Swedish and Estonian customers having 14 days free of charge return delivery due to contract with the Finnish Post and Parcel Connect.

Customers can return the item back to the store in person for exchange or refund, or they can send it in a package or letter via the Finnish Post or Matkahuolto Oy free of charge. To speed up the process, customers are advised to do a digital customer return at the online store. This way the customer can choose and reserve the product they wish to exchange and make new purchases at the same time. In case the customer returns the item for refunding, they can provide their bank account number digitally for bank transaction. The purchase is refunded once the item arrives back to the company. If the purchase was originally made with invoice contract service SVEA, the purchase is credited from the invoice instead. All in all, the digital customer return speeds up the process at the company's end as it reduces the number of handwritten letters along with returning items and also reduces the risk of running out of exchanged to – items, as they are digitally reserved from the ERP for the designated customer. (Varusteleka, 2018)

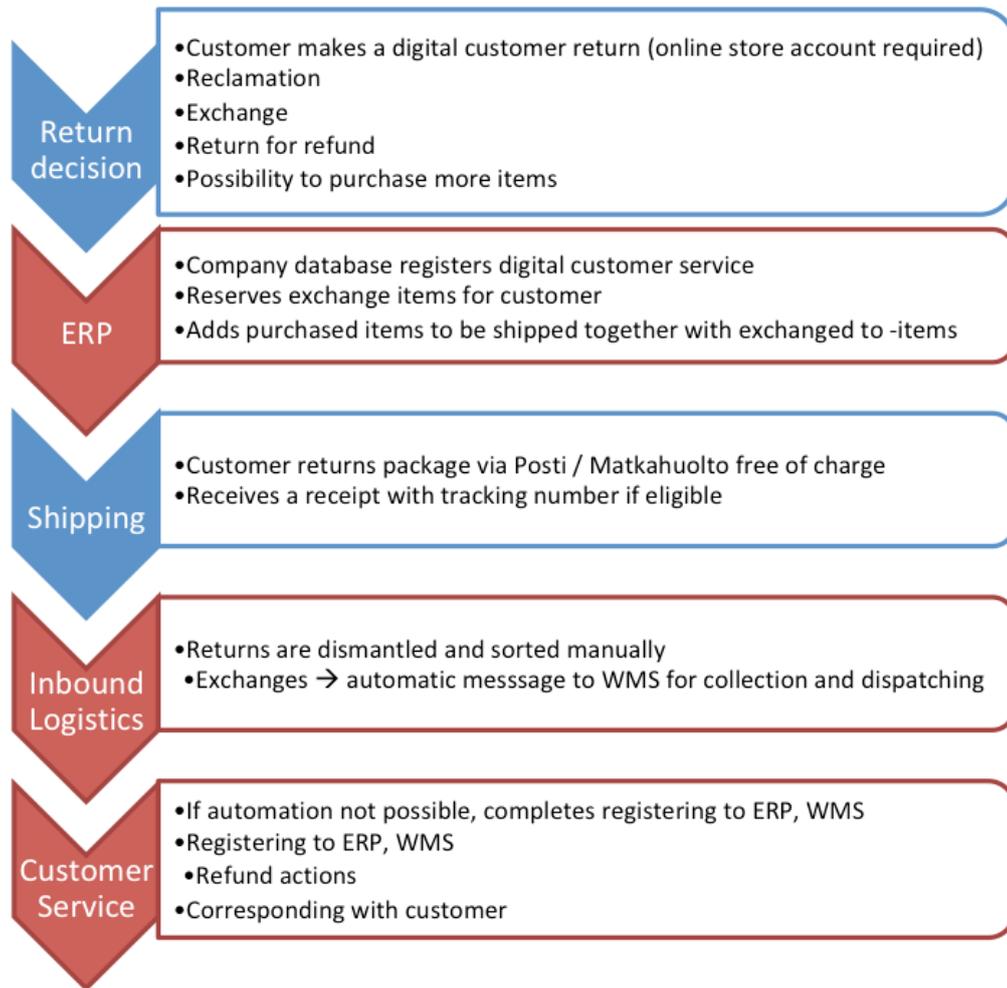


Figure 2: Domestic Returns Process; digital customer return allows extra sales, prepares ERP for the returning items and reserves exchange items for the customer. It decreases the time handling customer returns and customer receives refund or exchange items faster.

4.2 International returns process

Once the incoming trolley is dismantled, packages are opened by hand and items are sorted and placed in shelves in the warehouse to be sold again, or if broken, either discarded or sold at a discount price at the store.

Workers at the inbound logistics write a note on a paper sheet by hand for customer service providing the name, order number and the warehouse codes for the returning items. The notes are placed in a box where customer service collects them on daily basis. Notes are taken care of individually and each case can be different. Money returns are done via

transaction sites' portals. Transaction sites that are currently in use for North American customers are Paypal and Payment Highway. In case of a product exchange, the customer service makes changes to the order accordingly and places the exchange order in ERP for collection and dispatching. An email is sent out to the customer informing the return or exchange is in process.

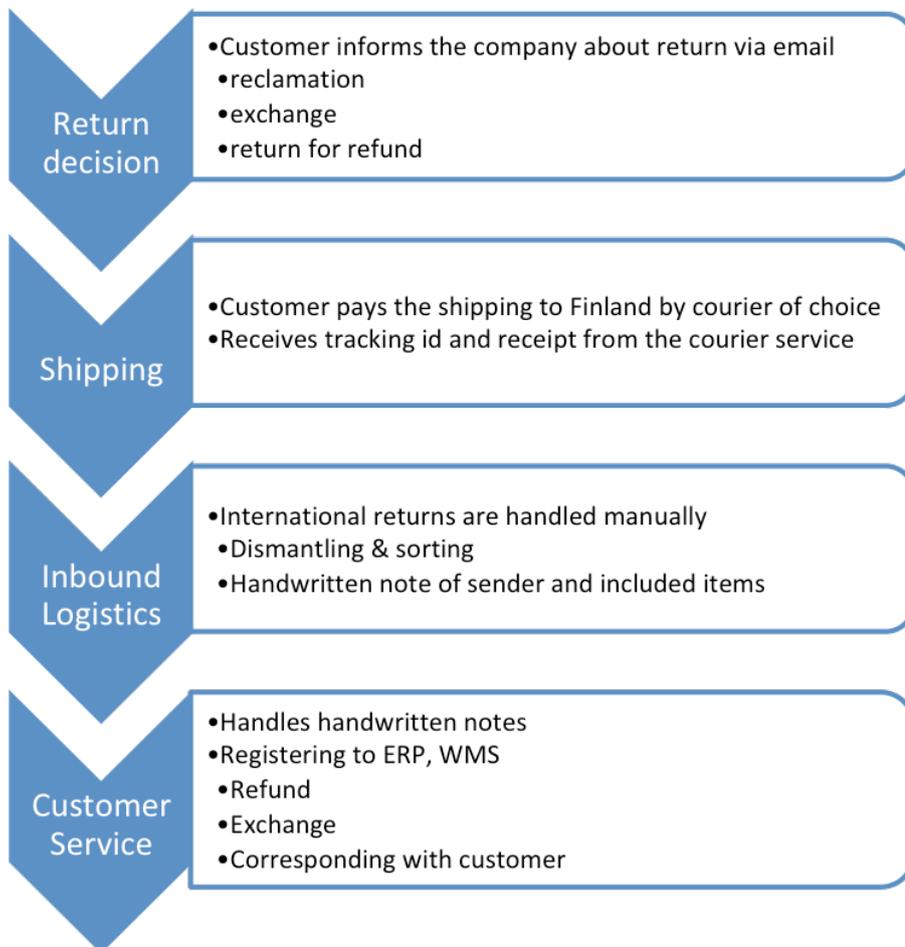


Figure 3: Customer returns from North America. The figure explains the process of the return from customer to Varusteleka. The list on right explaining the subprocesses taken during each step of the return process.

As the digital return is comparatively faster than handling hand-written letters, often missing information, Varusteleka wishes to expand the digital customer return service to International customers as well. Depending on the possibilities of outsourcing the international returns to a reverse logistics company, free returns, and digital return are still pending.

4.3 Problematics

There are several issues with the current process of customer returns from North America. As there are currently no contracts with couriers and postal services, returns between the two continents are expensive to the customers and might cause losing possible new customers due to fear of ordering an unfitting item and not being able to return or exchange with reasonable cost. The shipping fee with Posti Priority shipping method the price from Finland to North America is 9.99USD, whereas the least expensive courier option for the customer from US to Finland is 38.50 USD and up. (USPS, 2018).

Whereas the return process is expensive for the customer, the process is currently burdensome to Varusteleka, and causing unnecessary delays due to needed manual labor. Digitalization of customer returns on domestic customers has been successfully introduced in late 2017 and the workload on customer returns handling has dropped dramatically since.

4.4 Data collection methods

The nature of the study was research oriented and qualitative methods were used. Company brochures and websites, theory textbooks, online articles, and e-books provided the base for this thesis, yet mainly First-hand observation was key data collection method as the author was interning and working for the commissioning company. Daily tasks provided direct insight and hands-on experience on company procedures and working closely with customer returns allowed following company KPI's and observing obstacles in the process.

An interview with the head of customer service, Suvi Jokinen, helped determining the aspect of the study and establish the actual needs of the company. Constructive aims were set and the study would be used to solve a real-life issue of finding out which companies operating in North America would be potential third-party logistics providers for Varusteleka customer returns.

5 Solutions for reverse logistics – Outsourcing

Varusteleka aims for growing sales in North America and should the percentage of returning packages remain on the same level they have for the past two years 2017 and 2018,

There might be a need to either develop the return process in-house, or consider an outsourced reverse logistics provider (referred as 3PL onwards).

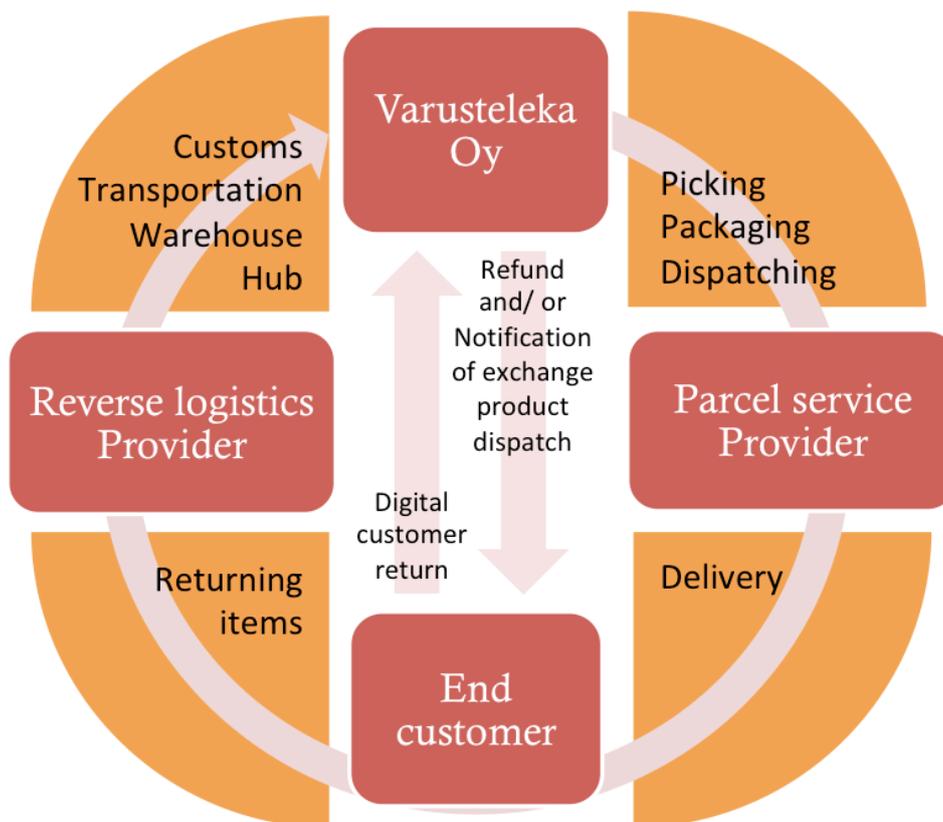


Figure 4: Return cycle for North American customer return; possible outcome of cooperation with Returns Provider also referred as third-party logistics provider.

There are many third-party logistics providers to choose from. The author has narrowed down three possible reverse logistics partners and the next chapters will be introducing and evaluating the compatibility with Varusteleka's needs. The tool used for analyzing the companies is SWOT. This technique pinpoints the possible partners' Strengths (S), Weakness (W), Opportunities (O) & Threats (T) that can be used for further evaluation.

5.1 Introduction to DHL

DHL was first established as a door-to-door service in 1969. The company grew rapidly over the years and is currently the most wide-spread postal and logistics company in the world. DHL covers 220 countries and territories, making it the world's leading postal and logistics company. DHL Group withholds divisions such as DHL Express, DHL Parcel, DHL eCommerce, DHL Global Forwarding, DHL Freight and DHL Supply Chain.

DHL has a transportation fleet of their own, including 250 aircrafts. DHL Express is globally the largest air carrier. In the US DHL express serves 50 airports, covering most states. Fulfillment warehouses are located in Europe: Germany, in North America: Ohio and California, soon in New Jersey.

5.1.1 DHL services

DHL Reverse Logistics can design a reverse supply chain for Varusteleka using new technology solutions to manage returns.

Services available or small/medium sized companies:

- Warehousing & Fulfillment
- Transportation and Distribution
- Integrated Logistics
- Customs, security, Shipment value protection
- Green Logistics
- Shipment value protection (DHL. Logistic solutions and expertise. 2018)

5.1.2 SWOT

DHL is operating globally and has a wide service portfolio to choose from. Different services have their own expertise and a suitable service for Varusteleka can be found amongst. Not only can DHL provide reverse logistics, but also managing returns, and offer value-added services to Varusteleka. Co-operation can spread from reverse logistics transport services to managing, warehousing and fulfillment if needed.

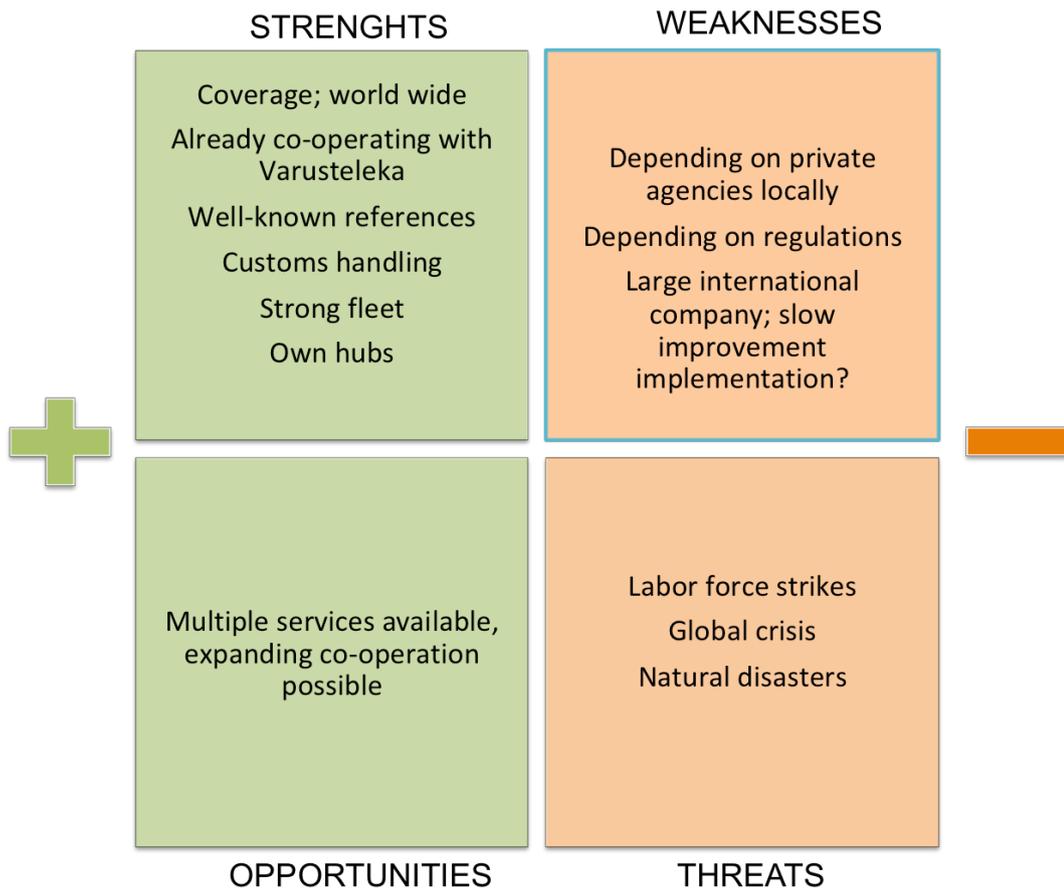


Figure 5: DHL SWOT

DHL has their own fleet of aircraft and land vehicles for various transport modes. This gives them a comparative advantage as they operate their own transportation vehicles, yet are still under the threat of labor force strikes, global crisis and natural disasters such as every transportation service company. However, operating its own hubs and planes at airports, DHL is less likely to suffer from delays that affect other commercial airlines and postal routes that are dependent on state-owned facilities. Flight, freight and customs regulations can still affect the operations.

DHL relies on private agencies, such as kiosks, grocery stores and such, serving as a pick-up and service points for customers. Although these private agencies are working under contract, they are not employed by DHL and the level of service can vary.

Like any large organization or company, size can be beneficial in many ways, but also can slow down new implementations. Adapting new software or practices can take longer than of a smaller competitor, and may potentially cost DHL important market share in the future.

5.2 Introduction to ModusLink

ModusLink offers solutions to supply chain digitally and physically. The service portfolio and their solutions are composed to improve end-to-end supply chains. (ModusLink. Solutions. 2016)

5.2.1 ModusLink solutions

ModusLink can manage various reverse logistic tasks, such as swaps and replacements, troubleshooting, refunding, repairing and fulfillment.

- consumer returns
- import / export expertise
- B2C & B2B fulfilment
- Continuous Optimization
- Analytics & Insight
- Solution Design
- Payment services
- Order management
- Consumer contact
- E-commerce Integration
- Marketplace integration (ModusLink. Corporat Brochure. 2018)

5.2.2 SWOT

ModusLink is operating on most of the continents; Europe, the Americas, Asia and Australia. Their vast variety of services allows specially knitted combination for client companies. The coverage and market share is smaller than of the biggest competitors, however, Varusteleka is mainly interested in services to and from North America.

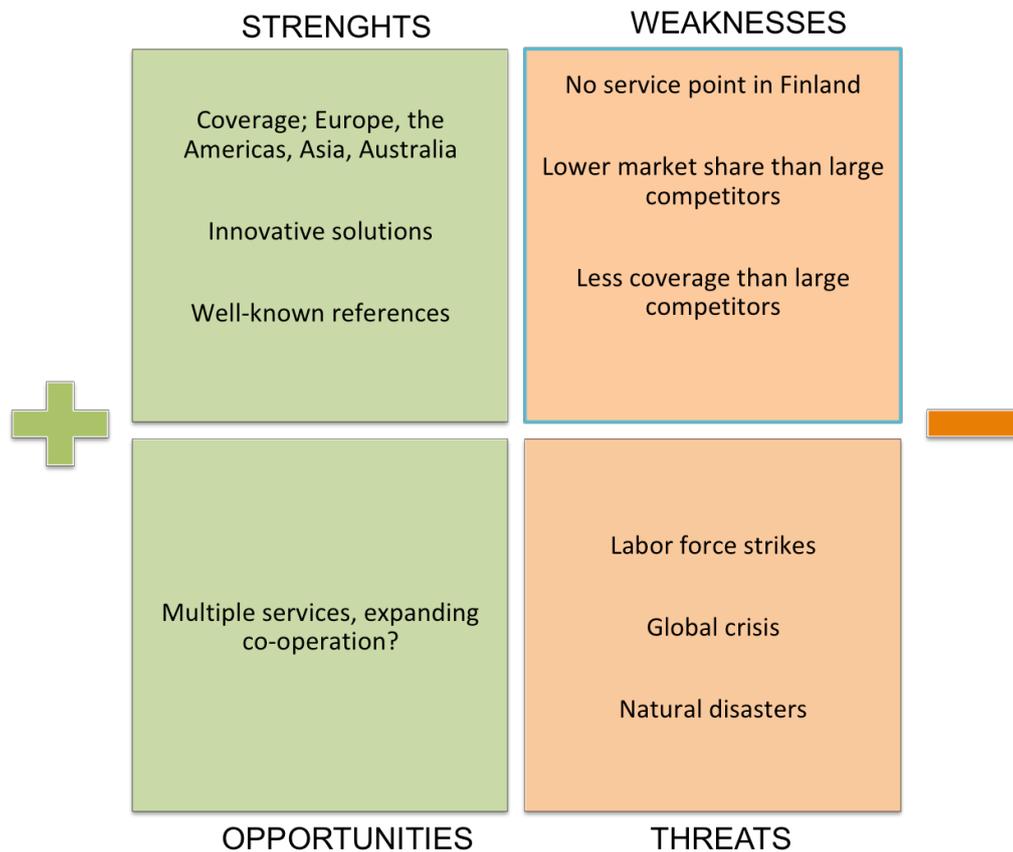


Figure 6: ModusLink SWOT

The lack of service points in Finland may be a negative thing should the operations be expanded to the Nordics and domestic markets under the same 3PL provider.

Force Majeure, such as global crisis and natural disasters may affect ModusLink; also labor force and union strikes can harm the operations.

5.3 Introduction to FedEx

FedEx was established in the United States in 1971, Arkansas. FedEx Corporation was founded in 1998 when FedEx acquired another courier service company, Caliber Systems Inc. In the 2017 the company's revenue was 60 billion USD (FedEx 2018).

Fedex currently operates in 220 countries and has a fleet of 650 airplanes, making it a notable global player. They provide various services under FedEx names as follows: Office, Express, Ground, Freight, Custom Critical, Supply Chain, Trade Networks, Services and FedEx Supply Chain.

5.3.1 FedEx Supply Chain

FedEx Supply Chain operates in 110 centers in North America, offering third-party logistics supporting all supply chain events. FedEx Supply Chain claims to be the leading returns logistics provider in the industry. In 2015, FedEx acquired GENCO, the third largest logistics provider in the North American region. With the acquisition, FedEx gained 120 centers and capacity to process returns in the pace of 400 million returns per year. (FedEx. Corporate Brochure. 2016)

Services available:

- Transportation and Distribution and transportation management
- Warehousing & Warehouse Management
- Integrated Systems and Optimization
- Handling of returning goods
 - resellable goods
 - testing
 - refurbishing, repairing
 - repacking
 - disposing, harvesting raw materials & recyclable parts
 - benchmarking
 - collaboration with trading partners
 - recall management
 - consultation (FedEx Supply Chain, 2018)

5.3.2 SWOT

FedEx is operating globally with extensive service portfolio. Varusteleka's needs now, and possibly later can be covered with existing services from FedEx. FedEx Supply Chain handles reverse logistics, but can also cover returns management, and offer value-added services to Varusteleka.

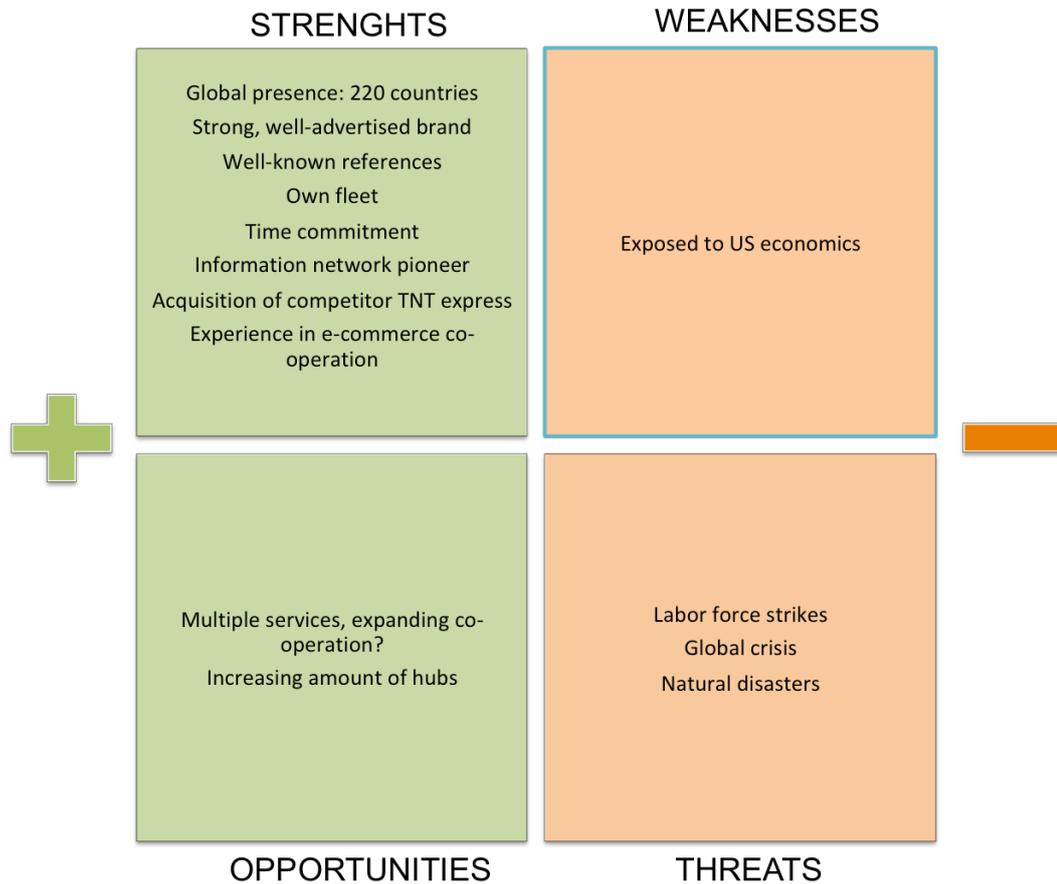


Figure 7: FedEx SWOT

FedEx has a fleet of aircraft and ground vehicles. As they are in full control of their own transportation channels and planes covering most of the transportation modes, the threat of labor force strikes, global crisis and natural disasters can affect the company services. Being strongly branded at committing to short lead-time, any delays due to inner or outer factors may harm their reputation.

Although multinational, being a US based company, they are prone to be affected by the US economics and politics. Depending on the lobbying, this may affect the company positively or can be harmful. Being strongly dependant on a specific economic region can be a risk.

6 Discussion

From the three introduced reverse logistics solution companies, ModusLink is the most concentrated in the customer care aspect. With their expertise, they cover all possible outcomes of customer returns.

Whereas DHL and FedEx are branded more as transportation companies offering reverse logistics solutions that have invaded the field of e-commerce and customer returns, ModusLink is concentrating on the process of customer returns, and offer value-added services in warehousing and fulfilment.

As Varusteleka is already co-operating with DHL express, it would be natural to seek the value-added services from the same company. Varusteleka does, however, take pride in its own processes and warehouse management and needs all operations close-knitted and functioning seamlessly. Having some crucial parts of the processes outsourced might harm the information flow and slow down some functions. It should be carefully considered which parts could be outsourced for better performance and profitability.

3PL	Online-store integration	Customer crediting	Tailored returns process	Value-added services	Warehousing & Fulfillment	Green logistics option	Door-to-Door Service	Disposal / recycling services	Real-time process platform
Fedex		✓	✓	✓	✓	✓	✓	✓	✓
DHL				✓	✓	✓	✓		
Modus Link	✓	✓	✓	✓	✓			✓	✓

Figure 8 : Comparing the three 3PL companies based on offered solutions.

Choosing the final 3PL company demands negotiations and competitive pricing. However, the most important decision factor stems from the Varusteleka state of mind. Will the company hand over one of its important interfaces with its customers to an outsourced company? The personal touch and humorous approach appeals to the customers, and changing customer service to a generic service is a value decision over anything else.

7 Personal learning

Conducting this study for the commissioning company was professionally meaningful to the author. Working as a customer service representative for the company, she deals with international customers daily, and therefore the topic is relevant to her work description. Not only was she given the chance to map the possible options for the company, the author gained professional knowledge of the international logistics.

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North American Customers

- Customer informs the company about return via email
- Reclamation
- Exchange
- Return for refund

Return decision

Domestic Customers

- Customer makes a digital customer return (online store account required)
- Reclamation
- Exchange
- Return for refund
- Possibility to purchase more items

ERP

- Company database registers digital customer return
- Reserves items for customer for exchange
- Adds purchased items to be shipped together with exchanged to - items

Shipping

- Customer pays the shipping to Finland by courier of choice
- Receives tracking id and receipt from the courier service

- Customer returns package via Posti / Matkahuolto free of charge
- Receives a receipt with tracking number if eligible

Inbound Logistics

- International returns are dismantled and sorted manually
- Handwritten note of sender and included items to Customer Service for further actions

- Returns are dismantled and sorted manually
- Exchanges → automatic message to WMS for collection and dispatching

Customer Service

- Handles handwritten notes
- Registering to ERP, WMS
- Refund actions
- Exchange actions
- Corresponding with customer

- If automation not possible, completes registering to ERP, WMS
- Registering to ERP, WMS
- Refund actions
- Corresponding with customer