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A Study of Product Returns in Food and Beverages Companies in Nigeria

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Abstract—

The inherent qualities of a product which do not conform to customer's expectation sometime do initiate a return of such a product at some point to either the manufacturer directly or some channel member in the supply chain. Hence, there could be product returns as long as goods are produced and sold. In recent times, managing product returns has been an area of major concern for managers because of the potential benefits that could be realized. However, the overall management of these returns depends on understanding certain critical issues such as the reasons for the returns, percentage of the product returned, the driving forces behind accepting the returns and other germane factors that needs to be considered. The study therefore present a preliminary survey of product returns in large food and beverages companies operating in Nigeria.

Keywords— Food and Beverages companies, Nigeria, Product returns, Reverse logistics, Total cost,

I. INTRODUCTION

Product returns is a natural part of trade and is impossible to avoid it completely, hence, the idea of accepting product returns has over time resulted in the trend of liberal return policies.

Currently the quantity of products returned or out of use is increasing significantly, so management of these products from the point of collection to the origin present a high degree of additional uncertainty on the customer service time, on the origin and the quality of the materials returned. So reverse logistics is critical, and its importance increases the need of information for the proper management of material flow returned [1], [2], [3], [4]. Reverse Logistics involves the process of planning, implementing, and controlling the efficient, cost effective flow of raw materials, in-process inventory, finished goods and related information from the point of consumption to the point of origin for the purpose of recapturing value or proper disposal. More precisely, reverse logistics is the process of moving goods from their typical final destination for the purpose of capturing value, or proper disposal [5].

As pointed out by [6], reverse logistics should be seen as opportunity to build competitive advantage, cut costs and improve customer satisfaction.

Reverse logistics processes are generally considered to include authorization of returns, transportation, auditing, product disposition, and creating information about the kinds of product being returned and where they are coming from [7]**.** Therefore, many companies are seeking ways to manage their returns. The paper therefore present a preliminary survey of product returns in large food and beverages companies operating in Lagos, Nigeria specifically with respect to the characteristics of the returned products and components of the reverse logistics system.

II. LITERATURE REVIEW

Reverse logistics has become a managerial priority because of the assets/value involved and the potential impact on customer relations [8]. According to [9], [10] large companies face a higher rate of returns due to more lenient return policies and therefore, the returns problem is more acute in such companies. Many firms will accept almost anything sent back up the channel regardless of reason or condition if they perceive that it could benefit customer relationship.

Customers expect their vendors to be willing and able to handle returns [11]. Products are returned for a wide a range of reasons. Previous literature depicted three main driving forces for reverse logistics activities: economic, corporate citizenship, and legislation [12]. Economic force refers to the search of cost minimization and increase revenues [13], [14]. Activities such as remanufacturing, reuse of materials, and product refurbishing have the potential to improve profitability. Even without instantaneous profit, reverse logistics may be helpful to generate indirect benefits like corporate image improvement, legislation anticipation, or competitive advantage creation [15]. The corporate citizenship, also called "extended responsibility" [16], refers to the search for a sustainable development from an environmental and social point of view. The legislation force refers to the norms imposed by any jurisdiction indicating what a firm must do. These three forces are not mutually exclusive. Indeed, they are very highly related and boundaries may be blurred [17]. For instance, the automotive industry's case showed that battery returns helped to reduce waste and production costs and simultaneously enhanced customer satisfaction [18]. Or, the recycling process of a firm may be as a consequence of a higher environmental concern in society, which at the same time may improve the firm's corporate image.

Noting the contributing factor of logistics as a principal component Supply Chain Management (SCM), [19] highlight the importance of managing not only the forward supply but also the backward or reverse logistics involved with customer relations, product returns, recycling, reuse, disposal, repair, and remanufacturing – most notably now more well known as "green logistics" also [20], [21], [22]. Noting the ubiquity of this latter aspect and the complexity of inter-locking supply chain tiers [23], aided by interstitial third parties (hence third party logistics, 3PL), the growth of reverse 3PL in this context in national and international contexts is an increasingly common and vital part of a supply chain operation logistics activities are outsourced to experienced providers [24], [25].

Without doubt, this level of complexity alluded to is inherent as a result of the interplay between design and generation of a product/service, marketing, production, delivery and customer and channel management – all of which are driven by the commoditisation of information and knowledge across the chain and amongst tier partners [26], [27]. Hence as far as 3PL is concerned, the firms concerned seek to support reverse logistics operations but at the same time ensuring economies of scale as far as leveraging information technology, human resources, cost control and expertise [28], [29].

III. METHODOLOGY

The study was carried out in Lagos State, Nigeria with the state being the most industrialized state in the country. The choice of the food and beverages sectoral group however is based on the ubiquitous nature of these companies in the study area. A total of ten (10) food and beverages companies purposively selected from the twelve (12) food and beverages that were listed on the Stakes 55 ranking of largest corporations in Nigeria and headquartered in Lagos [30] formed the sample size of the study. However, only eight (8) companies responded to the survey. Data was collected from both primary and secondary sources while descriptive tools such as tables and percentages were used for the purpose of data analysis.

IV. RESULTS AND DISCUSSION

Table I Characteristics of product returns and the percentage of respondent companies

Characteristics	Percentage(%) of companies
Causes/reasons for product:	
Packaging	25
Product quality/damage	62/5
Expiry dates	12.5
Nature of returned product:	
New	60
Barely consumed	40
Product returns rate:	
Between 1-3%	25
3% only	37.5
5% only	12.5
Between 5-10%	25
Driving forces of reverse logistics:	
Economic gains:	12.5
Economic gains/environmental legislation	37.5
Economic gains/environmental legislation/corporate reasons	50
Disposition strategies adopted:	
Recycle	50
Landfilling	25
Recycle and Re-use	25
Reverse logistics collection system:	
Centralised	75
Decentralised	25
Reverse logistics management:	
In-house	75
Outsource	25

Source: Author's survey (2017).

Results from Table I above revealed that 62.5% of the selected food and beverages companies indicated that product quality/damage accounted for product returns made to their companies while 25% of the selected food and

beverages companies cited reasons relating to packaging and the remaining 12.5% of the selected food and beverages companies stated that products are returned mainly because of issues relating to expiry dates. This goes to show that products are returned mostly because of issues relating to product quality/damage thereby indicative of the fact that the customers are dissatisfied hence they returned such products. Packaging on the other hand during handling and movement is subject to potential damage and deterioration which might be caused by impact, vibration, compression or abrasion; environmental factors such as water (condensation, rain), pressure and temperature changes and exposure to air and other potential causes of damage including infestation by fungi and bacteria. Although 12.5% of the companies cited expiry date as the reason for returns, this might be related to the fact that the finished products sometimes get to the market late thereby leaving a shorter time for the product to expire. Since the distribution channel involves several intermediaries, these goods on moving to the other channel members might have expired, hence the need for such product to be returned. Also, product returned were new as indicated by 62.5% of the selected food and beverages companies while the remaining 37.5% of the selected food and beverages companies indicated that product retuned were barely consumed..

Furthermore, 25% of the selected food and beverages companies had between 2% to 3% of their products been returned. Another 25% of the selected food and beverages companies had between 5% and 10% of their products been returned. However, 37.5% of the selected food and beverages companies usually experienced only a 3% product returns rate while the remaining 12.5% of the selected food and beverages companies usually experienced only 5% product returns.

However, both economic gains and environmental legislation were the driving forces of reverse logistics for 37.5% of the selected food and beverages companies, 50% were driven by economic gains, environmental legislation and corporate reasons to accept the returns made while 12.5% was driven by economic gains only to accept the returns made. Effective reverse logistics management support direct economic gain such as regaining value from reuse of products or parts or recycling materials as well as indirect economic gains like improving customer's relation, market protection and building brand image. Accordingly, governmental regulations regarding the environmental impact of returned products and processes is forcing companies to explore 'greener' alternatives and implement new practices of product returns management which is essential for protecting the environment. Also, companies being guided by a set of values or principles are compelled to become responsibly engaged with reverse logistics.

Only 50% of the food and beverages companies engaged in recycling of the returned products, this is attributed to the presence of valuable material which can be disassembled and recycled in-house or sent to contract recyclers. However, 25% of the food and beverages companies engaged in land filling of returned products while the remaining 25% of the food and beverages companies engaged both in recycling and re-use of the returned products. This suggests the fact that some of these companies make use of refillable components like bottles/plastic containers for packaging. Whilst, 75% of the food and beverages companies had a centralized system for collecting returns while the remaining 25% have a decentralized system through facilities distributed over various locations.

Finally, while 25% of the food and beverages companies outsource their reverse logistics operations such as the use of third party logistics in managing their returns the remaining 75% of the food and beverages companies manages their returns in-house as shown in Table I above.

V. CONCLUSIONS

The volume and the method of processing returns drive the total cost of returns. Companies can however change the way they are organized to manage returns, alter the way they process returns, use advanced technology to process returns more efficiently and to reduce returns or ultimately outsource their entire returns supply chain.

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