

LANCO CATALOGUE SALES

Chris Anderson prepared this case under the supervision of Professor Peter C. Bell solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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The directors' meeting of LanCo Catalogue Sales had been quite heated. At issue was the high level of product returns that the company was experiencing. There was no disagreement over the impact of these returns: they were eroding profitability at a remarkable rate. However, the directors split into two camps over what to do about the problem. One camp believed that speeding up shipments would reduce the returned merchandise, while the other camp believed that this would merely increase shipping costs and reduce profits even further.

LanCo management was determined that the "returns problem" must first be understood; then actions must be taken to reduce returns in order to improve the profitability of the company.

THE COMPANY

LanCo Catalogue Sales was a mail order company that distributed a very successful catalogue, took orders from the catalogue, and shipped the ordered products to the customers. LanCo targeted low to middle income households, advertising its catalogue in magazines and newspapers. The company maintained a large catalogue distribution list made up of all previous product purchasers and catalogue recipients, and distributed catalogues to this list five times annually, roughly corresponding to four seasonal catalogues plus a special holiday catalogue mailed in early November. Sales growth had been steady and had now reached \$70,000,000 in annual sales.

THE PROBLEM OF RETURNED MERCHANDISE

LanCo, like many other mail-order businesses, used cash-on-delivery (COD) transactions to compete with larger houses that usually required the customer's payment before the goods were shipped. An advantage of COD shipping was that sales resistance was very low, resulting in relatively large gross sales per catalogue mailed. COD was attractive to customers, in part because this method of shipping made it easy for customers to refuse to accept the shipment if their circumstances changed between the time the order was placed and the time the package arrived. As a result of the ease with which customers could refuse

shipments, LanCo's business was plagued by returned merchandise that now represented, in dollar volume, just over 30 per cent of LanCo's gross sales. Since each increase of one per cent point in returns represented a loss of net profit of about \$400,000, the directors watched the red line on a chart which tracked the percentage of merchandise returned with genuine apprehension.

The importance of returned merchandise had resulted in LanCo studying returns carefully. Returns were divided into two types called "customer returns" and "unclaimed returns". A customer return occurred after a customer had paid for the merchandise but elected to return it as a result of dissatisfaction with size, color, quality, or some other factor. An unclaimed return occurred when a customer refused the package at the time of delivery. Following postal regulations, the undelivered merchandise was returned to the postal outlet for a period of at least two weeks and, if not claimed in this period, was then returned to the shipper. LanCo had to pay for the postage both ways on all returns, and return the item to inventory in the hope of future sale. The unclaimed returns were of considerably larger volume than the customer returns.

On average, a refused item was in the mail for about five weeks, and this imposed additional costs on the company. By the time the item was restocked, it was often out-of-date or out-of-fashion and could only be cleared at discount prices. It was also necessary to overstock items to ensure availability, even though it was known that when refused items came back, there would be excess inventory that had to be cleared.

The mail-order business had the advantage that important data could be easily tracked. Data such as regions, income levels, and buying and credit habits were available and LanCo used such data to limit its exposure to undo risk, for example, by not shipping to individuals or addresses that had high returns experience.

In an effort to, first, understand and second, control, unclaimed returns, Horace Levinson collected the data in Exhibit 1. What could LanCo do to reduce the high percentage of unclaimed returns that was slowly stifling the company? Horace knew that the Board would be keenly interested in his analysis and conclusions.

Exhibit 1

**LANCO CATALOGUE SALES
A RANDOM SAMPLE OF ORDERS**

Order Received	Date Shipped	Returned	Order Size	Order Received	Date Shipped	Returned	Order Size
6-Jan	9-Jan	No	17	29-May	2-Jun	No	72
6-Jan	11-Jan	No	26	9-Jun	12-Jun	No	107
10-Jan	21-Jan	No	66	11-Jun	27-Jun	No	106
12-Jan	28-Jan	Yes	65	16-Jun	21-Jun	No	115
14-Jan	21-Jan	No	55	17-Jun	1-Jul	No	37
18-Jan	20-Jan	No	182	20-Jun	22-Jun	No	170
18-Jan	23-Jan	No	34	20-Jun	26-Jun	No	67
20-Jan	7-Feb	No	81	28-Jun	6-Jul	No	154
22-Jan	29-Jan	Yes	137	1-Jul	18-Jul	No	82
23-Jan	5-Feb	No	98	5-Jul	10-Jul	No	132
27-Jan	30-Jan	No	138	9-Jul	23-Jul	Yes	170
29-Jan	5-Feb	No	98	14-Jul	20-Jul	No	17
4-Feb	7-Feb	No	40	19-Jul	21-Jul	No	131
4-Feb	8-Feb	No	49	22-Jul	27-Jul	No	25
5-Feb	18-Feb	Yes	130	7-Aug	15-Aug	No	34
14-Feb	16-Feb	No	153	13-Aug	20-Aug	Yes	166
17-Feb	24-Feb	No	123	15-Aug	25-Aug	Yes	136
18-Feb	21-Feb	No	82	15-Aug	19-Aug	No	154
19-Feb	6-Mar	Yes	87	19-Aug	1-Sep	No	111
25-Feb	2-Mar	Yes	192	27-Aug	1-Sep	No	53
3-Mar	21-Mar	No	48	12-Sep	25-Sep	No	51
10-Mar	18-Mar	Yes	119	22-Sep	26-Sep	No	42
14-Mar	22-Mar	Yes	198	4-Oct	14-Oct	No	108
22-Mar	26-Mar	No	114	8-Oct	9-Oct	No	150
23-Mar	27-Mar	No	113	12-Oct	14-Oct	No	54
23-Mar	29-Mar	No	117	16-Oct	21-Oct	Yes	195
25-Mar	26-Mar	No	187	16-Oct	26-Oct	No	48
27-Mar	11-Apr	Yes	42	23-Oct	31-Oct	No	89
29-Mar	2-Apr	No	95	3-Nov	4-Nov	Yes	171
8-Apr	12-Apr	No	141	3-Nov	9-Nov	No	45
13-Apr	14-Apr	No	87	6-Nov	9-Nov	No	174
14-Apr	21-Apr	Yes	160	13-Nov	1-Dec	Yes	45
20-Apr	22-Apr	No	134	20-Nov	9-Dec	Yes	45
8-May	22-May	No	91	25-Nov	11-Dec	Yes	135
16-May	21-May	Yes	100	29-Nov	10-Dec	No	54
18-May	29-May	No	30	1-Dec	21-Dec	No	81
25-May	7-Jun	Yes	191	20-Dec	28-Dec	No	145
28-May	30-May	No	51				