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Creating value through returns management: Exploring the marketing–operations interface

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ABSTRACT

Managing the return flow of product is increasingly recognized as a strategically important activity that involves decisions and actions within and across firms. We focus specifically on returns management at the marketing–operations interface, by utilizing the conceptualization of customer value and its related drivers. In order to explore the phenomenon of returns management across a multi-disciplinary, managerial spectrum, a qualitative research methodology relying on individual managers' perceptions was chosen to generate depth of understanding given the limited current understanding of the research topic under consideration. Our results suggest that functional integration at the marketing–operations interface can lead to better alignment of corporate resources and thus create higher levels of customer value. We also found the external business environment to impact how and why a firm creates customer value through the returns management process. Overall, our results suggest that when returns management is recognized as a matter of a firm's competitiveness, the joint role of operations and marketing is imperative to success.

1. Introduction

Consider this scenario, in which a marketing manager has just authorized a significant return of product from a major retail customer:

Operations Manager: So now we've got to arrange the transport, receive the product, inspect and re-palletize the product; repackage and re-label that which we can still sell, figure out what to do with the rest, and oh yeah, now we've got to integrate the inventory back into the system and figure out how to value it.
Marketing Manager: Yeah, so?
Operations Manager: Let me show you how much that will cost. . .. Our profitability will be reduced by [cites a large figure].
Marketing Manager: I had no idea. . ..

This scenario represents a paraphrased but very real dialogue that occurred recently in a large, global consumer appliance manufacturer (that became the focus of this research). On the positive side, the marketing and operations managers were conversing about a return situation, recognizing that both functions are involved in handling this customer-generated product issue. On the negative side, this dialogue represents lost opportunity for the firm in question, which is now dealing with reduced profitability. Equally important is the opportunity the company may have foregone with respect to managing the customer relationship.

Product returns can present a significant challenge for manufacturing firms whose primary objective is usually geared towards producing and selling products to customers. The impact of returns is ignored, or at minimum, not well-understood in many firms. In others, returns are often considered just a necessary cost-of-doing business (Blackburn et al., 2004). With such a perspective, firms focus on cost minimization at an operational level, missing opportunities to recapture value for themselves and their customers, and build customer loyalty (Mollenkopf et al., 2007a). Managing costs *as well as* customer relationships highlights the strategic role that both marketing and operations functions can perform in returns management. In today's highly competitive environment, proactive firms seek ways to differentiate themselves in the eyes of their customers. Understanding what their customers value enables firms to move away from price competition alone and differentiate themselves from competitors in other ways (Ulaga, 2003). Although

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customer value is often considered a marketing concept, Flint and Mentzer (2000) demonstrate the important role that operations plays in creating customer value.

Research interest in returns management and the reverse flow of product across the supply chain has been gaining attention with scholars. Reverse logistics, product recovery, remanufacturing, and closed-loop supply chain issues are being increasingly addressed (Guide and van Wassenhove, 2006; Kocabasoglu et al., 2007; Rogers et al., 2002). However, the majority of research tends to focus only on a single disciplinary approach, or remains focused on *tactical and operational* aspects such as production planning, inventory management or reverse logistics. Notably, Rubio et al. (2008) call for research that focuses more *strategically* in order to develop a framework for future research.

In this paper, we highlight returns management issues within a single global appliance manufacturer as it deals with its retail customers, focusing on two subsidiaries so as to capture variation in operating environments that may influence the way in which returns from retail customers are managed. We do not make a distinction between product characterized as consumer-originated returns (which could include defective product and/or buyer's remorse) or store-originated returns (unsold product being returned from the retail customer to the appliance firm). Both types of returns move from the retailer to the appliance manufacturer. Our focus is on the coordination of cross-functional decisions and activities that take place between the appliance firm's marketing and the operations managers in these return situations. Thus, the purpose of this paper is twofold. First, with regard to the returns management process, we investigate the potential relationship between cross-functional integration at the marketing–operations interface (M-OI) and customer value. Second, we investigate how external factors affect, if at all, the returns management process and value creation.

Our research contributes to the literature in several respects. Specifically, we extend previous work addressing the impact of M-OI on the creation of customer value (Sawhney and Piper, 2002) through our extension on returns management. Our focus represents a previously unexplored perspective of the M-OI, and highlights the importance of aligning cross-functional returns management activities and the related impact on both firm performance and competitive positioning. Finally, we expand the understanding of a diverse set of challenges and related solution within a firm's returns management process.

The following section provides the theoretical background and foundation of our research, leading to our research propositions. A discussion of our methodology then precedes our research findings and discussion. Finally, we address limitations and future research suggestions.

2. Background

This section positions returns management as a cross-functional process that spans both the marketing and the operations activities within a firm. Discussions of functional alignment and customer value are provided as theoretical grounding to a conceptual framework and research propositions.

2.1. Cross-functional integration at the marketing–operations interface

Functional integration across the two domains refers to how operations and marketing communicate and coordinate their activities in order to align them towards common goals (Bharadwaj et al., 2007). Scholars have long-addressed the need for marketing and operations to do more than 'co-exist,' (Abernathy, 1976; Shapiro, 1977), and emphasize the need for cross-functional integration for enhanced business performance. Although the importance of managing the interface between these two functions is widely acknowledged, coordination remains problematic due to their differing roles, orientations and reward systems within the organization (Malhotra and Sharma, 2002). Most 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.

Cross-functional integration at the M-OI has been addressed in the operations management literature by many authors. In fact, the *Journal of Operations Management* (*JOM*) has dedicated two special issues to the topic (Berry et al., 1991; Malhotra and Sharma, 2002). While marketing–operations integration is usually advocated for its positive impact on firm performance, integration is not easy (Swink and Song, 2007); poor execution can exacerbate the "great divide" between functions (Drucker, 1973). Sawhney and Piper (2002) recently moved the discussion from purely a focus on supplier firm performance, to incorporate the role of functional integration at the M-OI as a means to create customer value.

2.2. Returns management as a cross-functional process

Malhotra and Sharma (2002) developed a marketing–operations integration framework in which they identified processes that span the marketing and operations functions that contribute to organizational performance. The processes are also presented along a continuum from strategic to tactical. This is a valuable contribution to framing research in the area of the M-OI. However, the framework addresses only *forward* supply chain flows; missing from this framework is any reference to the *reverse* flows that companies must deal with when products are returned from customers.

Rogers et al. (2002) argue that returns management is an important supply chain management process spanning functional and firm boundaries across the supply chain. Within an organization, activities related to returns management include return authorization; reverse logistics; gatekeeping; avoidance; product recovery, disposition and processing; and crediting. These activities exemplify the many facets of the M-OI within the returns management process.

With regard to return authorization and subsequent reverse logistics flows, sales or marketing personnel are often charged with authorizing a return. Yet, the decision to accept product returns from a customer has implications for operations personnel, who manage the reverse logistics activities of physically transporting the product back to the company (Mollenkopf and Closs, 2005). The volume and quality of products authorized for return will impact staffing needs at the company's distribution centers or factories (Guide and van Wassenhove, 2001).

Gatekeeping refers to the ability to limit the amount or types of returns (Rogers et al., 2002). For example, some products may be more costly to return and process than they are worth. In such cases, customers might be encouraged to keep the product (while still receiving credit) or destroy-in-field so as to avoid operational costs for the supplier. Gatekeeping may also involve contractual specifications, especially with regard to promotional inventories. In such cases, marketing may pre-arrange with customers the amount or conditions within which promotional products may be returned. Such forethought can have positive impact on operational costs for the supplying firm. Effective gatekeeping requires an understanding of operational costs, so that marketing and operations can jointly determine which products should (not) enter the reverse flow.

Returns avoidance (Rogers et al., 2002) refers to opportunities to prevent returns from occurring. Operations plays a role in avoiding returns, through efforts to improve product quality (i.e., eliminating defective product design and/or packaging); conformance to legislative mandates; more responsive production and delivery systems to improve inventory balance and placement in the market; or aligned deliveries to meet the timing of demand (i.e., replenishment orders received at the end of a selling season do the retailer little good, and invariably will end up as returns to the supplier).

Disposition and processing refers to the inspection activities, decisions to resell, refurbish/remanufacture, disassemble for parts or to scrap items that are returned from customers. Product recovery becomes an important goal for operations managers charged with recapturing product that can be refurbished or remanufactured, or recapturing parts that can be used for spares in the service support function (Guide and van Wassenhove, 2001). These activities are often labor-intensive, and require high levels of product knowledge and expertise, as well as joint cross-functional decision-making. Disposition may be constrained by factors such as geographic separation of production and sales; wide geographic dispersion of markets; policy conflicts between production and sales; or an inability to distinguish between the cause(s) of returns (Rogers et al., 2002). Additionally, the ability and speed of issuing credit to a customer is important to marketing/sales personnel, but often controlled by the operations personnel and their ability to process returns in a timely and accurate manner.

Mollenkopf et al. (2007b) provide evidence of the cross-functional nature of returns management across strategic and operational levels within a firm. At the strategic level, an organization must develop policies, processes and structures to handle the reverse flow of product, information and finances. At the operational level, the returns management process involves the physical flow of product, information and finances (Rogers et al., 2002).

2.3. Alignment

Many businesses fail to achieve their strategic business objectives, due in part to the inability of functions such as marketing and manufacturing to jointly develop consistent strategies; this failure is called a lack of alignment (Berry et al., 1999). Other authors have referred to alignment as cross-functional harmony (Calantone et al., 2002) or interface harmony (Hausman et al., 2002).

Malhotra and Sharma (2002) identified a number of future research objectives regarding the exploration and impact of the M-OI; their first suggestion addressed the need to align the goals and objectives of marketing and manufacturing functions, with specific attention to be paid to how firms actually align the objectives of these two functions to maximize overall firm profits. Such investigation and discussion need not be restricted to only products, but could well encompass service provision or a combination of product and service provision. Contemporary discussion of demand–supply integration (Esper et al., 2010) re-states an earlier contention that "marketing strategy embodies the management of demand, i.e., identifying, understanding, and creating need-satisfying products and services, and operations strategy concerns the management of supply, i.e., production and delivery of products and services" (Roth and van der Velde, 1991, p. 304).

As such, when correctly aligned, the firm's operational capabilities can proactively meet marketing's objectives to generate demand and retain existing customers. Operational capacity and resources also need to be allocated to handling return products and necessary refurbishment, recognizing that productivity and efficiencies are often lower for returns processing due to erratic volume flows and increased handling. When properly conceived and executed, returns management can become part of a successful customer relationship management program, since it is dependent upon operational capabilities to support the marketing function. Prior research suggests that firms with higher levels of functional integration are more adaptive and proactive in managing returns effectively (Mollenkopf et al., 2007b). While focused on reverse flows rather than forward flows, the objective remains to generate value for the firm and its customers.

2.4. Customer value through returns management

The importance of customer value is particularly relevant when firms find that product innovation and quality management alone no longer provide sufficient competitive advantage (Sharman, 1984; Woodruff, 1997). Firms that shift to a customer value focus complemented by appropriate resources and capabilities will be best positioned for achieving superior performance and competitive advantage (Hunt and Morgan, 1995; Jüttner et al., 2007; Sawhney and Piper, 2002; Slater, 1997). The notion of customer value originated in the marketing literature (Slater, 1997; Ulaga, 2003; Woodruff, 1997); however, other authors are shifting the dialogue to include operations as a key player in the creation of customer value (Flint and Mentzer, 2000; Sawhney and Piper, 2002).

The returns management literature has not been explicit in addressing issues of customer value; however, Rogers et al. (2002) and Mollenkopf et al. (2007b) implicitly suggest aspects of value creation through the returns management process. Attempting to build on their prior work, as well as that of Flint and Mentzer (2000) and Ulaga (2003), we define six categories of customer value in the returns management process as shown in Table 1. The following paragraphs overview each of the six categories.

The *returns management policy in place* at a firm can affect customer value in the way it guides marketers and operations personnel to facilitate the return flow of product from customers. Returns avoidance, gatekeeping, disposition and asset recovery have been previously discussed, and represent means for managing the customer relationship. Additionally, removing outdated product from retail shelves helps the retailer keep "fresh" product, which is typically higher margin product, on the shelves (Mollenkopf and Closs, 2005). Yet doing so requires active inventory management and reverse flows of product on the part of the supplier firm.

Effective *returns processing* can contribute to a customer's perception of value in dealing with a supplier firm. Much of the value created through these activities relates to the physical flow of returned product, and the timeliness and accuracy of the operations group in processing such products. Linked to the operational processing is the ability of the accounting group to reconcile physical flows with financial and information flows in order to issue credit in a timely and accurate manner (Stock and Mulki, 2009).

Product quality can affect a customer's sense of value in multiple ways. Ultimately, consumers or end users will evaluate the value they receive from the use of a product, and will evaluate the cost/benefits associated with the price paid (Bowman and Ambrosini, 2000; Gronroos, 2008). Yet, in a B2B context, retailers are also affected by a supplier firm's product quality. Poor quality products will create excessive return situations for retailers, creating operational and profitability concerns for them. Similarly, poor packaging quality can induce transit damage or product degradation when in storage or on the retail shelf. These quality problems make selling the product difficult for the retailer (i.e., loss of consumer purchases and/or store loyalty), and risk shrinking retailer sales and/or margins. Thus, retailers may perceive customer value through supplier efforts to certify product quality and to ensure compliance with industry or regulatory standards.

Service support provides a process perspective to the quality discussion. Retailers discern value from suppliers' efforts to keep them

Table 1
Returns management customer value drivers.

1. Returns management policy in place
   - Returns avoidance
   - Gatekeeping
   - Disposition
   - Pull out-dated product from retail shelves
   - Asset recovery
2. Returns processing
   - Accounts receivable
     - Returns authorization
     - Reconciliation in accounts receivable
     - Problem solving
     - Timely integration (internal)
   - Operations
     - Incoming order handing
     - Accurate receipt, inspection & put away
     - Transportation delivery window and communication
     - Returns network design, routing frequency
3. Product Quality
   - Product performance, reliability, consistency
   - Supplier certification
   - Improve existing products
   - Compliance
4. Service Support
   - Information is shared
   - Outsourced/3pl to improve efficiency, reduce cost
   - Process clarity
   - Problem solving
5. Personal interaction
   - Communication
   - Problem solving
   - Mutual goals
   - Attitude
6. Supplier know how
   - Knowledge of supply market
   - Knowledge of customer mart, customer business, customer's customer
   - Products, services, ideas
   - Cost can also be non-monetary (not just price)
   - Pricing program options
   - What is the cost of a return?
   - Performance measurement, reporting, application

Value drivers adapted from Flint and Mentzer (2000), Rogers et al. (2002), Ulaga (2003) and Mollenkopf et al. (2007b).

informed as to order and delivery status, timeliness and accuracy of deliveries in the forward flow of products. They may also perceive value in information sharing relating to the returns flow and the timing and status of return 'orders'; 3rd party logistics providers which supply efficient and cost-effective service; clarity and consistency in how the return process is exercised; and the provision of problem solving capabilities with respect to the aforementioned issues (Moller and Torronen, 2003).

Personal interactions between supplier and customer firms is important in creating customer value (Flint and Mentzer, 2000; Ulaga, 2003). This is particularly true in return situations, which can be fraught with complications and problems; lack of trust and frustration can frequently arise. Retailers often don't want to spend time on returns because such activities take away from their selling objectives. Thus, strong communication and problem-solving approaches on the part of the supplier, along with helpful attitudes, can help transform a non-value-adding activity into a more neutral activity. Problem solving approaches that help minimize the need for returns could go even farther in creating relationship value for a supplier's customers.

Supplier "know-how" is another means to create customer value when dealing with returns. Knowledge of both the supply market and the customer's market can help the supplier provide appropriate levels of inventory in the marketplace; an understanding of the customer's business and the end consumer can help the supplier tailor returns policies that help the customer achieve its own commercial goals. Value can be created by innovative ideas (beyond products and services) such as a variety of terms of sale, and/or pricing program options that both inform and clarify the impact of customer behaviors. Relatedly, suppliers that recognize "cost" as more than just the retailer's purchase price can assist retailers to more effectively manage their operating costs. Suppliers can also educate retailers with respect to the true cost of returns, which is a comprehensive formulation that goes far beyond the lost revenue of a returned product (Tibben-Lembke, 1998). Finally, a supplier's ability to measure its performance can benefit the customer by reducing the cost of processing a return, as well as the opportunity costs related to lost selling time and/or loss of customer goodwill.

2.5. Customer value framework

In this section we present a conceptual framework to guide our research on returns management. Similar to Browning and Heath (2009), the purpose of the framework is not meant to be "proven" in the sense of hypothesis testing, but rather to provide a "focusing proposition" as we began our fieldwork (Stuart et al., 2002; Yin, 2003). Because our approach is designed primarily to extend previous work by Sawhney and Piper (2002), and to gain understanding, we provide an explicit, up front statement of our intentions. Relatedly, as per Stuart et al. (2002), our statement utilizes research propositions to guide the research process.

Sawhney and Piper (2002) found support for a direct relationship between M-OI effectiveness and customer value within the short-term capacity management process. We explore the relationship between M-OI and customer value within the returns context (see Fig. 1). Additionally, rather than proposing a direct relationship between M-OI and customer value, we include the intervening role of functional alignment as the bridge (i.e., the "how") between cross-functional integration at the M-OI and customer value. This logic is based on the need to align functional goals to maximize firm performance (Malhotra and Sharma, 2002; Roth and van der Velde, 1991). Thus, we propose:

RP1 The stronger the functional integration at the marketing–operations interface, the better the alignment of corporate resources with respect to the returns management process.

RP2 The stronger the alignment of resources with respect to returns management, the higher the level of customer value created.

Another extension we make to the M-OI — customer value framework is the inclusion of the firm's external environment. This inclusion is based on the accepted logic of "fit" between an organization's strategy, structure and environment (Venkatraman and Camillus, 1984). O'Leary-Kelly and Flores (2002) emphasize that the relationship between functional integration and organizational performance is moderated by a firm's strategy and its environment. Successful organizations can be viewed as those that most efficiently interact with their environments; of particular importance is the need to understand the ways in which organizations adapt to, or otherwise interact with, their environment (Day and Wensley, 1983; McDaniel and Kolari, 1987). Strategically matching or aligning organizational resources with the organization's context, and especially to environmental opportunities and threats, is a major task for decision makers (Miles and Snow, 1978). As such, the role of the "context" or "environment" in which firms operate has received a great deal of attention both in strategic management research and in organizational theory (Wagner and Bode, 2008). Considerations of the external environment, relative to the returns management process and particularly the M-OI, are particularly evident with respect to the marketplace structure and the customer base. Also important is the regulatory and legal structure of supply chain laws and policies (i.e., product traceability and/or compliance, recycling

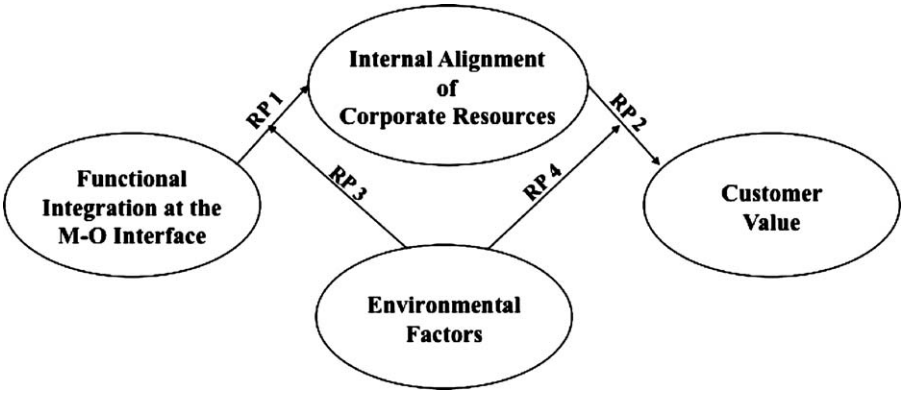

Fig. 1. Customer value framework.

and waste removal) (Mollenkopf et al., 2007b). Thus, we suggest the following propositions:

RP3 External environmental factors will moderate the impact of functional integration on the alignment of corporate resources with respect to the returns management process.

RP4 External environmental factors will moderate the impact of the internal alignment of corporate resources on the level of customer value created.

3. Methodology

The nature of the current research was both exploratory and confirmatory, similar to other case study research logic (Ellram et al., 2008). From a confirmatory perspective, our intent was to assess a customer value framework within a returns management context. Second, we wanted to go beyond Sawhney and Piper's (2002) customer value approach, to understand the role of other factors such as internal alignment and environmental business factors as they relate to a firm's ability to create value for its customers.

Exploring returns management across a multi-disciplinary spectrum and from a managerial perspective, our case study approach is in line with Malhotra and Sharma's (2002) call for in-depth case analysis and detailed interviews with marketing and operations managers when researching complex phenomena across the M-OI. Because operations and supply chain management are dynamic fields, with new practices continually developing, case-based research provides an appropriate methodology for studying emergent practices (Boyer and Swink, 2008; Meredith, 1998). Like its quantitative cousins, case-based methodology must be guided by the same overall principles of rigor, and follow well-defined rules of evidence and proof, as do the more traditional rationalist methods so commonly employed in operations management research (Closs et al., 2008; McCutcheon and Meredith, 1993; Wu and Choi, 2005; Yin, 2003).

Thus, in seeking to better understand cross-functional management of returns, we adopted an in-depth case-study approach of a single firm that we call "Action Appliance." The single-firm design is rationalized as the organization studied provides revelatory evidence of the phenomenon under study (Yin, 2003), meaning the phenomenon has been previously inaccessible to scientific investigation. Action Appliance represents a global organization managing in an extended supply chain. While the parent corporation oversees many operations and supply chain activities, each subsidiary operates autonomously within its own local environment. Returns management is a process that occurs primarily at local levels, rather than being managed at the global scale. To our knowledge, localized returns management is typical of global organizations. Thus, this single firm also presents representative evidence of the returns management process (Yin, 2003).

Furthermore, the current research uses an embedded design (Yin, 2003), in which there are multiple units of analysis employed within the single-case approach. We focus on two subsidiaries of the overall firm: an Italian subsidiary serving Western Europe and an American subsidiary serving the United States. The benefit of studying one firm in this instance is that while single-firm case studies are often downplayed as being unrepresentative and/or anecdotal war-stories (McCutcheon and Meredith, 1993), in this situation the one firm operating in a global supply chain is confronted by multiple operating environments in its different markets.

Consistent with approaches advocated by Eisenhardt (1991), our study of two subsidiaries enables an in-depth examination of the returns management process in two different business settings, thus overcoming at least partially the limits of a single-case approach. At the same time, choosing two subsidiaries from the same global organization provides for some level of control that is not usually available in the naturalistic settings for which case studies are valued (Eisenhardt and Graebner, 2007; Graebner and Eisenhardt, 2004). The nature of the product and the overall firm strategy, structure and culture are consistent across both SBUs. However, the dramatic difference between them is evidenced in the business environment each faces within its local market. Both SBUs must contend with the global firm's recent changes in supply chain strategy and structure, but these changes manifest themselves differently in the way in which each SBU responds to the challenges presented within its own business environment.

Although the returns management process is an organizational and even a supply chain phenomenon, we chose to focus on individual managers' perceptions to better understand the social process of the business world (Boyer and Swink, 2008). We utilized multiple sources of evidence for evaluation, including in-depth interviews, site visits to each subsidiary, printed materials provided by the firm and obtained from secondary sources. This approach allowed us to trade-off a level of generalizability in exchange for the richness obtained through interviews across levels and functional areas within the organization (Adler and Clark, 1991; McGrath, 1981).

At Action Appliance, seven managers comprise the breadth of the organization's marketing–operations management team across the two SBUs. This includes one senior manager at the corporate level whose responsibility spans the two SBUs in a supply chain role. The other six managers (three in each subsidiary) cover the marketing, operations and spare-parts functions within their respective organization. Interviews were held individually with each participating manager, and each interview lasted 60–180 min. The depth interviews were open ended and discovery oriented, following an interview guide (see Fig. 2) that broadly identified topics of interest which were drawn from previous research in returns

Opening
- Introductions of interviewer and interview participant
- Overview of purpose of the study
- Confidentially assurance/permission to record

Demographic Data
- Title/responsibilities of interview participant
- Organizational structure
- Background on organization, industry

Prompts:
- Could you describe the returns management process at your firm?
- How do you get involved with returns?
- What drives the returns process at your company?
- How do you interact with your marketing/operations counterparts with regards to returns?
- How does your (their) involvement affect the returns management process?
- What else affects your firm's ability to effectively manage returns?

Floating Prompts:
- Can you give me an example of a time when….
- Tell me more about….
- Will you explain that in more detail?

Fig. 2. Interview guide.

management (Carter and Ellram, 1998; Rogers et al., 2002). All interviews were digitally recorded and transcribed verbatim. All interviews were conducted in English. Table 2 provides a profile of the managers that were interviewed as part of this research.

To ensure rigor in the data collection and analysis, we employed two sets of trustworthiness criteria appropriate for qualitative methodology (see Table 3). Tests of construct validity, internal validity, external validity, and reliability were used to assess the quality of the research design (Flint et al., 2002; Yin, 2003). Additionally, we applied criteria related to credibility, transferability, dependability, confirmability and integrity (Hirschman, 1986).

3.1. Research context

Action Appliance manufactures and distributes commercial and consumer appliances across a wide spectrum of product categories: heating; air conditioning and air treatment; food preparation and cooking; and cleaning and ironing products. Approximately three fourths of its worldwide revenue is derived from its consumer products division, and one fourth of worldwide revenue is generated through the commercial division. Global competition is very intense.

Action Appliance has traditionally adopted localized/regionalized marketing strategies. Its decentralized philosophy has been challenged by a recent decision to move a significant level of production to Asia to reduce labor and raw material costs, which matches many competitors' offshored production strategies. The decision to offshore created, at minimum, two significant challenges. First, the delocalization to Asia required the firm to deal with the complexity of a longer supply chain, i.e., balancing the trade-off between reduced labor and production costs relative to higher transportation costs, longer transit time and reduced service levels. Second, during the firm's delocalization to Asia, the level of returns suddenly began to rise in Europe and the United States. Product and packaging quality were quickly identified as reasons for the unexpected increase of returns.

4. Results and discussion

The following discussion is thematically grouped by research proposition. We first address the two propositions relating to functional integration and customer value, before moving on to the impact of environmental factors.

Table 2
Profile of management respondents.

Participant pseudonym	Location	Description
Antonio	Italy (corporate)	Global Supply Chain Director, male, age 45, 10 years with firm; responsible for global supply chain
Fabio	Italy (European operation)	Export Service Manager, male, age 37, 6 years with firm, previous experience as product manager; responsible for returns management, product liability
Giuseppe	Italy (European operation)	Regional Marketing Director Europe, male, age 40, 12 years with firm in two different periods; export sales manager prior to current position
Simone	Italy (European operation)	Operations Manager, male, age 35, 8 years with firm; directly involved in firm's operations, production and logistics activities
Andrew	U.S.A.	Director of Operations in U.S., male, age 42, 8 months with firm; responsible for operations, inventory management, transportation, distribution and some aspects of finance
Robert (Bob)[a]	U.S.A.	Manager of Technical Services in U.S., male, age 37, 5 years with firm; responsible for returns management, product liability, customer service
Charles[a]	U.S.A.	Managing Director in U.S., male, age 44, 8 years with firm, 7 months in U.S., responsible for marketing and sales in North America; now leading the U.S. firm

[a] Italian nationals working in the U.S. subsidiary. Note that Andrew is the only native speaker of English. This makes some of the quotations employed somewhat awkward. The authors have attempted to preserve the intent of each speaker, while adjusting for clarity in the English language.

Table 3
Trustworthiness of the study and findings.

Test	Definition	Tactic from case study literature	Implementation during this research
Construct validity	Tests whether the research measures what it is supposed to measure	• Use multiple sources of evidence	• Multiple interviews in each organizational unit, observation of returns facilities and processes, organizational documents reviewed
		• Establish a chain of evidence	• Key informants reviewed the case write up and manuscript prior to submission
		• Key informants review draft of case study report	
Internal validity	Focuses on the extent that conclusions can be drawn for causal effects and establishes a causal relationship	• Pattern matching	• Investigated patterns regarding returns factors such as demand issues, supply issues and the returns orientation of each sub-unit
		• Explanation building	• Looked for logical consistency across sub-units and the parent firm
		• Rival explanations	
		• Logic models	
External validity	Looks at whether the research results can be applied to the populations and the settings of interest, establishes a domain in which the study's findings can be generalized	• Use replication logic in multiple case studies	• Not conducted in this research, since it is a single-firm case study
Reliability	Demonstrates repeatability	• Use case study protocol	• Refined and implemented case study protocol with each unit of analysis
		• Develop case study data base	• Created a case study database
Trustworthiness	Extent to which the results appear to be acceptable representations of the data	• Key informants review draft of the case study reports	• Sought feedback from participating managers across all levels and units of the firm
Credibility	Extent to which the findings are unique to time and place, stability or consistency of explanations	• Concepts were represented by data from all participants	• Evidence from multiple respondents used to support concepts
Dependability	Interpretations are the result of the participation and are not biased by misinformation or bias of the researcher	• Participants reflected on many experiences	• Cross case analysis was used to record the responses for each participant at each organization
Confirmability		• Non-threatening and anonymous interviews	• Open-ended questions allowed the respondents to reflect on experiences
Integrity			• Participants responded and did not avoid the issues being discussed

4.1. Research proposition 1: functional integration and functional alignment

There is evidence across both subsidiaries that efforts to increase integration across the M-OI are creating functional alignment with respect to managing retailer-to-supplier returns. Participating managers most often referred to functional alignment as efforts to improve cost and cost-avoidance decisions. There are, however, differences in how functional integration and alignment are being developed within the two subsidiaries.

In Europe, cross-functional integration has not been a major focus historically. However, as the company evolves, it is becoming an increasingly important aspect of how the company is managed, and is due in large part to the recent delocalization of production. Antonio is charged with making sure that all parts of the supply chain are better connected. He is working to make sure the marketing and operations groups are more aligned, by focusing on mutual goals for the two groups. For example, he says the firm must

> . . . change the way people are thinking in terms of targets. . ..[We are linking] the targets of the different people closely together and linking them to the same topics.

One way that alignment is being developed is through better analysis of return codes. By classifying whether returns are due to commercial returns, quality problems or operations problems, the marketing/sales teams and the operations teams can jointly develop resolution or return avoidance solutions. For example, commercial returns occur when retailers want to return slow-moving stock, or end-of-season stock. Giuseppe acknowledges that his job is to work with the retailers to manage sales, but at the same time to try to avoid a return that would incur operations costs and subject the product to damage in transit. Instead, his group is working to provide more promotional support to customers or to adjust margins, which encourages retailers to keep the product. In this way, he is helping the operations group avoid the costs of returning and processing the stock.

Additional case evidence of cross-functional alignment comes from Antonio when talking about better cost information shared across the marketing and operations groups:

> [When marketing has] the 'push politics' to sell the products, then unfortunately the products end up back [in the warehouse]. So I think the answer is to let . . . sales people be aware of what the operations costs are related to, and try to understand what is the real cost of their products, so maybe, I would guess they are capable of managing in a different way their policies [with] the customers.

Sharing cost information across the marketing and operations groups does seem to be impacting how marketing manages their customers. Giuseppe provides evidence of improved functional alignment because he recognizes the implications of pushing sales without regard to cost and profitability implications. He says:

> The other thing which we do, which is ridiculous on one side thinking about it. . ..is not to fulfill the orders 100%...we can try to supply 60% to start with and then wait until they [retail customer] start knocking on the door for more product.

By controlling the order fulfillment rate, marketing and operations are working together to minimize the volume of potential returns. Such avoidance of unnecessary costs helps both functional areas contribute jointly to the firm's profitability. However, the European subsidiary is still in the early stages of developing internal

cross-functional integration related to returns management processes. Simone acknowledges that the operations group now has a very good ability to analyze returns at the customer and even the order level. He states that the operations group uses this information to manage the return process, but that they could do a better job of sharing this information with the sales group. This could help them make better cost decisions regarding returns.

In the U.S. subsidiary, functional alignment is more pronounced than in Europe. The subsidiary has made a significant effort to understand all costs related to actual returns, as well as cost-avoidance opportunities when restructuring sales terms with customers. The fact that a total cost analysis is now part of the decision framework means that all functions (including marketing and operations) are working towards the same goal of corporate profitability. Decisions regarding sales and returns are now based on net margins because the sales team is much more knowledgeable about the underlying cost implications of the various sale terms being negotiated with customers.

Charles explains that the company has completely revamped the way it operates with respect to marketing/sales and operations. Profit margins were being eroded due to high return rates and a more profitable approach was needed. Returns issues are a major concern in the U.S. subsidiary:

> . . .I think the better we manage returns, the more effective we can be and it seems like just an accounting issue. But it's really a matter of competitiveness for us.

It is for this reason that he is making sure that both sales and operations people are involved in negotiations with customers. Negotiations include pricing and quantity terms, with delivery and replenishment options tailored to different price points. The different price points offered by sales personnel affect the cost and network structure for the operations group, as well as order fulfillment costs and timing of deliveries to customers. Returns options are also tailored into the terms of sale. In this way, the company is presenting a single, unified face to the customer, in a way that minimizes returns to Action Appliance as well as increasing firm profitability and ensuring value to customers.

The competitiveness issue is paramount when considering that the U.S. customer base is made up of a few very concentrated retailers across two very distinct channels: one for low-end commodity products and the other for high-end luxury goods. Especially in the commodity channel, price points have eroded significantly over the years, squeezing margins for suppliers such as Action Appliance. The few powerful retailers mean that suppliers have very little leverage. Thus, the functionally aligned approach to working with these customers has become critically important to ensuring ongoing and profitable relationships. Gatekeeping decisions (refusing to accept low-cost, low-margin products back from retailers) decreases margins at an early stage, but it is a policy that the sales force enforces to avoid more significant costs that would be incurred if such product returns were allowed.

Evidence from the interviews suggests that the more marketing and operations groups share information regarding customer orders, pricing, delivery options and the underlying operational costs of various sale terms, the better aligned the two groups will be in terms of managing corporate resources. There is growing recognition that avoiding and gatekeeping returns require cross-functional planning and decision-making that go far beyond the traditional understanding of marketing as the authorizer of returns and operations as the processor of returns.

Contextualizing the evidence relating to proposition 1, and recognizing that marketing–operations integration and functional alignment is an internal firm issue related to a firm's ability to create customer value, we attempt to link the case evidence to the value drivers presented in Table 1. Specifically, we see evidence of returns management policy in place in both subsidiaries, especially with respect to returns avoidance. The U.S. subsidiary also exhibits evidence of gatekeeping activity. Service support in the form of information sharing and personal interaction in the form of setting mutual goals is also exhibited in both subsidiaries. The European subsidiary also included problem-solving activity within the scope of personal interaction. The most visible, strongest driver concerned supplier know-how. Both subsidiaries discussed performance management, reporting and related applications, particularly in the U.S. subsidiary. Both subsidiaries also utilized extensive knowledge of their customers' business to assist in managing forward product movement (to minimize potential returns). A number of differences were also evident. The U.S. subsidiary was much more strategic in several respects. For example, its understanding and utilization of pricing program options as well as the actual cost of a return allowed it to create very proactive policy. Relatedly, the U.S. subsidiary's operational returns processing included considerations of network design, routing and frequency.

4.2. Research proposition 2: functional alignment and customer value

Linking functional alignment to customer value is in its infancy in Europe. The organization is still addressing how to develop cross-functional integration for improved internal efficiency. However, there is some recognition that the benefits of improved integration and alignment will lead to increased customer value. Giuseppe, in talking about his retail customers, acknowledges that when retailers have no risk related to returns, they will order to their maximum potential, in which case Action Appliance bears the risk of the high return rates. However, as a marketer, he understands that Action Appliance often has better information about the inventory positioning of the stock purchased by retailers, or sales trends across regions. He notes that they could be using their returns policies and inventory information to help retailers make better decisions about how much stock is needed, or where inventory can be repositioned within the retailer's own network. To do this, the operations group needs to be more involved with marketing in monitoring costs and inventory flows across countries and retailers so that customers will benefit more fully from the inherent knowledge of Action Appliance.

Further evidence from the interviews suggests another aspect of customer value that the organization is beginning to recognize. Due to challenges in securing spare parts in a cost efficient and timely manner now that the company has delocalized its production facilities, the spare parts group and the demand-planning group increasingly work together to ensure high levels of customer service. For example, Simone says that not doing so

> . . .means for Action Appliance, very bad service to our customers in terms of support, and my point of view it's not possible. . .. We need to have availability 99% of our [components] immediately and have the possibility to deliver in 24-48 hours. . .it's for me the key of success to have a good service level to our customers, absolutely.

In the U.S., the cross-functional, aligned approach to managing retailer relationships and returns management issues has clearly led the company to consider how to improve customer relationships through its value propositions. For example, the aligned approach leads the organization towards the goal of returns avoidance. Not only does this avoid costs for Action Appliance, but it also can benefit the retail customer. The U.S. approach to jointly managing sales terms, return provisions and delivery support is designed to ensure good margins for the retailers and eliminate their need to organize end-of-season returns. Its approach to provide a range of different terms of sale serves as an education tool for the firm that

also helps retailers choose the best terms and delivery options to meet their own needs. As Andrew explains:

> Instead of giving them more, give them right. And by giving them right, take out the return provision and take out the allowance provision and basically give it to them at a lower cost . . .. Because the goal is you don't want [returns] unless it's truly damaged/defective. You don't need to do the end of the season returns if you're really managing inventory together. You know, if I'm really selling you [customer] what you need.

For products that come back from the retailer after having been sold to a consumer, the U.S. subsidiary is also doing a better job of gatekeeping because they have a more complete cost picture for all products that can enter the returns channel. The company is now better able to manage allowance terms and return authorizations for products that retailers have received back from their consumers. In this way they are enabling retailers to manage their margins by receiving credit for products received from consumers, but they don't incur the costs of transporting or processing those products that cannot be refurbished. Relationship value is enhanced, without compromising the cost structure for Action Appliance.

Summarizing the value drivers (Table 1) related to this proposition, both subsidiaries exhibit evidence of implementing returns management policies. The U.S. subsidiary's policy (in the form of returns avoidance, gatekeeping, disposition and refurbishment) is somewhat broader than the European subsidiary's policy (related to returns avoidance). Accounts receivable returns processing, in the form of returns authorizations and related timely credit to customer accounts is also exhibited in the U.S. subsidiary. The European subsidiary realizes service support by considerable information sharing and problem solving; the U.S. subsidiary focused on achieving and conveying process clarity. Both subsidiaries exhibit evidence of personal interaction. We see broader evidence in the U.S. subsidiary (communication, problem solving, mutual goals and attitude) compared to the European subsidiary (communication). With respect to supplier know-how, the European subsidiary utilized its considerable knowledge of customer markets and business. In contrast, the U.S. subsidiary's customer offering included products, services and ideas — based on a foundation of understanding the cost of a return.

4.3. Research proposition 3: environmental factors impact the cross-functional integration/functional alignment relationship

Three themes emerged with respect to the organization's ability to create alignment through cross-functional integration: the impact of regulation, changes in the retail market, and the impact of offshored production. The regulatory impact was evident primarily in the European organization. Action Appliance is feeling the effects of recently enforced EU restrictions on manufacturers and importers of electrical and electronic products. Directives such as WEEE (Waste Electrical and Electronic Equipment) and RoHS (Restriction of Hazardous Substances) create additional strategic and operational compliance costs for the firm, thus increasing the challenge of aligning functional activities related to returns. The European subsidiary is currently poorly organized for managing waste, but the regulations bring increased awareness to the managers with respect to the benefit of enhancing cross-functional integration to better achieve alignment within the organization. For example, Antonio says:

> It's very early days. . .we start to understand the way to reprocess our products and also to wasting out the products that are not saleable anymore. For example, we understand now what are the costs, what are the channels. . .

Many products have had to be redesigned in order to comply with the new mandates, providing opportunity for improved cross-functional integration. Redesign can provide important competitive benefits concerning quality, customer (and consumer) satisfaction, as well as innovative products to improve the firm's market positioning. Antonio says:

> We [supply chain group] just started a project to reduce the number of sku's, it's mandatory. [The sales group] feels it's the right time to do that . . .because they understand that it's not possible to stay in the old fashioned way to manage the products. The product design group is also involved . . . we're changing the mentality in terms of new product development as well. We are re-writing everything.

Ultimately, new product designs and fewer sku's will enable the organization to more effectively manage returns, and optimize the resources dedicated to doing so. For example, fewer sku's reduce inventory commitment due to unreliable sales forecasts; this could ultimately reduce the volume of returns. Redesigned products in compliance with regulatory standards will be easier to process and dispose, with potential for reducing operating costs.

With regard to changes in the retail market, an interesting market factor related to cross-functional integration and the need for alignment is the growth of cross-national retailers in Europe. When retailers operated within national boundaries there was little need for a corporate-wide return policy or processes for managing returns. However, as several large European retailers have expanded across multiple countries, their returns behavior is spurring the need for a corporate-wide strategy to better address the return practices and behaviors of these retail giants. This power shift in the marketplace is awakening a need within Action Appliance to become more functionally integrated and aligned to strategically cope with the changing marketplace.

In the U.S., two market factors impact how the company operates. As previously mentioned, the retailers in both of its market channels are very concentrated and powerful. Action Appliance has historically been a very small supplier to these retailers, with little control over the relationships or sales terms. The squeeze on margins has made the company rethink its approach, and has driven the need for the newer cross-functional approach, so as to more effectively control costs and achieve profitability goals. The other market factor in the U.S. is the cultural propensity for consumers to return products. Unfettered returns can be disastrous for Action Appliance from an operations cost perspective. While the company recognizes it must operate in this high-return market given the cultural business norms, this recognition is one of the drivers of the firm's adoption of the cross-functional, aligned approach. Lacking the sales volume in the U.S. of its much larger competitors, Action Appliance has recognized the importance of cost control and related margin protection.

Finally, the recently offshored production facilities of the firm are impacting cross-functional integration and functional alignment in both subsidiaries. The decision to offshore production was an internal corporate decision, but the result is that production now occurs in a location far from the distribution and sales hubs. Product quality issues that are harder to monitor when production occurs at a distance have exacerbated the volume of returns. Increased volume can negatively affect the retailer's perceptions of the supplier, and cause friction when negotiating sales terms and related return propositions. This is particularly relevant because sales terms become very complicated due to offshore production and the related pricing options being offered in the U.S. market. As Charles explains:

> The problem we face with returns is the agreements, the terms that we have with our customers on the direct import side

> because when you sell something domestic it's very easy to do the math of what you take back and what price you take it back at. . ..[but] when you sell the product [priced from Asia] and then take the unit back in North Carolina, for example, there is this big issue of what's the price you paid for it? That is not easy [to work out with the retailer].

Thus, the distance and quality of the Asian supply base is not only causing returns to increase, but also highlighting the need for more aligned policies and processes to avoid, and manage returns more cost effectively. The U.S. subsidiary has taken more steps to address the challenges presented by off-shore supply lines, which was one of the major drivers to the development of the cross-functional, aligned model of sales and operations. Charles provides evidence of this shift:

> . . .what we call the Asian revolution. . .was a big impact in market pricing in small appliances. So the average price of most products went down dramatically and the profitability of the company . . . was reduced in a very significant way. . .. So we had to find new and more efficient ways to do our business, and one of the big parts of this reorganization was on the operations side. . .and how we sold products.

In sum, M-OI and the ability to create functional alignment are both challenged and enhanced by external factors. Challenges of offshore production, the nature of the customer market, and regulatory changes make it more difficult for marketing and operations to function in an integrated manner. Yet there is evidence from both subsidiaries that these external factors are also encouraging the firm to more proactively seek solutions that foster cross-functional integration and functional alignment.

Linking the evidence to the customer value drivers (Table 1) in regard to the third proposition, we see a number of differences between subsidiaries. With regard to returns management policy, the European subsidiary is concerned with returns avoidance and with disposition. The concern is strongly intertwined with product quality issues driven by EU compliance directives and related product redesign. To a lesser extent, supplier know-how drivers are evident, given the European subsidiary's knowledge of customer markets and their businesses.

Given the U.S. subsidiary's previously described attention to policy, its drivers are heavily focused on returns processing, and specifically with respect to all aspects of the operations component. Product quality concerns are related only to the offshore production issue, as EU-style compliance directives have not yet reached the U.S. Supplier know-how is broader than evidenced in the European subsidiary, as knowledge and concern of customer markets and their business is extended to include end-consumer behavior, given its powerful impact on returns management in the U.S.

4.4. Research proposition 4: environmental factors impact the functional alignment/customer value relationship

Several factors are shifting the playing field in Europe. Regulatory changes such as the consumer protection law and increasing retailer power have effectively changed retailers' approach to returns. European retailers, exercising their growing channel power, are using returns policies to enhance their competitiveness (i.e., attractiveness with consumers). This accommodation to the consumer puts increased pressure on Action Appliance as a supplier. Giuseppe provides evidence of the challenges the company faces:

> . . .the guarantee has been translated from what was producer guarantee to a retailer guarantee. . .. And the retailer has to win the war against other retailers. . .every retailer basically has the right written or unwritten. . .they take the right [to return product], which is obviously an enormous problem and an enormous strain on the company. And it's one of the biggest problems for the supply chain.

As discussed with proposition 2, the European subsidiary is still in the early stages of recognizing the link between improved functional alignment and customer value. Its current struggle is more about value balance between the firm and its retail customers. Many European retailers are using return privileges to create value for themselves. Some of the stronger retailers have recognized the cost of handling returns, and now make an invoice deduction for every return they send back to Action Appliance. Action Appliance has been able to work with these retailers to determine appropriate terms and levels for return deductions, thus preserving some monetary value for the firm while ensuring value for the retailers. However, the European subsidiary's organizational response has been fairly reactionary in this situation.

In the U.S., the approach to strong retailer power is necessarily different. Action Appliance has always been the less powerful party in its relationships with retailers, yet the new approach to doing business is driving the firm to approach customers differently, with a variety of value propositions that help customers achieve the arrangements most appropriate for them. The new approach not only includes sales terms, but also includes returns options. For example, Andrew explains how a salesperson might now approach the customer when discussing different sales terms such as POE (Port of Entry) or DDP (Delivered Duty Paid).

> One of the things that these guys [sales person] like to do at times is they'll say 'We'll guarantee your sales and we'll give you an end of season return.' Because they're paying more, because it's prepaid, domestic prepaid. However, if they were to look at the other version and say, 'You're going to actually save money because it's a POE purchase, however you've got to eat the return. You're going to own the inventory, customer. And in the spirit of partnership, and I'm giving it to you at a lesser cost because you're buying it this way, therefore the expectation for us, is there's no surprises.' Those options were never in front of them [before].

Thus, by restructuring the sales terms for customers, Action Appliance enables each retail customer to determine its own best value proposition. Sales terms not only include price, but also operational elements such as order size, delivery timing, replenishment options, as well as returns options. Andrew provides evidence that the more functionally aligned the U.S. subsidiary, the more it can tailor value propositions for customers.

Offshore production's lengthy supply lines have negatively affected value creation for both the European and U.S. subsidiary. Specifically, long lead times for replacement parts not only makes timely retail customer service provision (i.e., repair) problematic, but also limits the firm's ability to support a secondary market with refurbished product to capture some percentage of value for Action Appliance. The recognition of potential value recapture is limited to high-margin sku's. However, this determination requires thorough understanding of the cost of a return. As noted previously, the U.S. subsidiary's awareness and understanding allows for such policy and operational returns processing to occur; the European subsidiary somewhat lags its U.S. partner in this regard.

Linking the evidence to the value drivers (Table 1), both subsidiaries are driven by service support considerations, with respect to their problem-solving efforts concerned with offshore production supply issues. Both subsidiaries also similarly evidence supplier know-how with respect to knowledge of the customer market; customer business and their customers' customer (i.e., the end consumer) as they struggle to create and manage returns

management value propositions. The U.S. subsidiary also exhibits behavior incentivized by its creation of pricing program options and the related offers of products, services and ideas. Lastly, the U.S. subsidiary is driven by personal interaction evidenced by communications, mutual goals and a "can-do" attitude regarding sales terms and salesperson opportunities to create shared benefit.

5. Key findings and implications, limitations and future research

In this section we overview several key findings and related implications based upon our preceding results. Then we note limitations to our research and conclude with several suggestions for future research.

5.1. Key findings

The in-depth analysis of Action Appliance sheds light on how managers perceive and address the management of returns within a single firm that operates in multiple geographic locations. Our framework and propositions suggested that functional integration at the M-OI would lead to better alignment of corporate resources and thus create higher levels of customer value (research propositions 1 and 2). Additionally, the propositions suggested that the external business environment would impact the relationships between cross-functional integration, alignment and customer value (research propositions 3 and 4).

We found evidence to support the first two propositions across both organizations, but found that the U.S. subsidiary has been more proactive than its sister subsidiary in developing a cross-functional approach that ultimately enhances customer value. The "sell right, not more" approach, utilizing a more functionally integrated organizational approach, enables the firm to better meet customer orders and returns requirements. Internal alignment of goals and resources is in turn helping the company create more value for itself as well as for its customers. This is especially interesting in light of the fact that Action Appliance is a supplier to multiple large, very powerful retailers in the U.S. Its approach to returns management is one way the firm attempts to leverage very imbalanced relationships.

The European subsidiary seems to be in an earlier stage of cross-functional integration, with only a nascent emphasis on customer value. The variety and changing nature of retailer-initiated returns policies are hindering its ability to create customer value. Weaker levels of functional integration could also be due to the fact that the organization is transitioning from a multi-market management approach to a more centrally organized European approach. This historical differentiation of markets — each with its own business traditions, cultures, currencies and retailers — rendered functional integration across country markets nearly impossible.

We also found evidence to support propositions three and four, although the impacts of the external business environment seem to vary by location. This is not surprising, given the differences between the two subsidiaries, and the very different operating environments in which they compete. Interestingly, the external factors seem to have mixed impact on the relationship between cross-functional integration and functional alignment (research proposition 3). On the one hand, external factors such as regulations, changing market conditions and offshore production are creating additional operating challenges for both subsidiaries. On the other hand, these changes in the external landscape seem to be spurring recognition and development of increased cross-functional initiatives to achieve greater levels of alignment. The longer-term effect, therefore, seems to be a positive moderating effect on the cross-functional integration/alignment relationship.

By contrast, the external factors seem to have a more negative impact on alignment/customer value (research proposition 4). Although the European subsidiary's customer value focus is nascent, evidence from both subsidiaries suggests that external market changes, regulatory changes and offshore production are making it harder for firms to create customer value.

A number of *managerial implications* can be gleaned from this case. While the importance of managing the M-OI is widely recognized, the reality is that it is often difficult to integrate these two functions, particularly in the area of returns. Yet, Action Appliance provides evidence that it can be accomplished when returns are recognized as a matter of competitive importance, and when costs are identified, communicated and shared across the functional areas. The following suggestions of where managerial attention should be directed with respect to improved returns management stem from our results and the drivers initially presented in Table 1.

First, managers are encouraged to develop a better understanding of the total costs of returns. This could be done through a process-mapping exercise to understand the physical and financial flows related to current return practices. Mapping and then costing returns will provide a foundation for appropriate returns management policy development. Policies related to returns avoidance and gatekeeping in particular must be developed jointly across the M-OI to ensure corporate resources are aligned appropriately.

Second, cross-functional teams should be developed to interact with customers. This is not to say that operations personnel need to take over the sales function. Suppliers often create account management teams that include marketing, operations, manufacturing and product design experts to more fully address the multiple dimension of what customer organizations seek from their suppliers (Flint and Mentzer, 2006). Thus, it is not uncommon for operations and marketing managers to collaborate on the customer front. Ultimately, operations must support the promises that marketers make to customers. Being part of the promise-making activity ensures that both marketing and operations are aligned to create product and service value for the customer. In doing so, operations managers can learn more about how their actions impact customers' perception of value from the firm. Operations managers also need to understand the customers' business and expectations so that they can appropriately allocate corporate resources to tailor fulfillment and delivery services to customers needs. This is as important for forward fulfillment as it is for returns processing. As we learned with Action Appliance, the operations role in helping the marketing team provide value propositions to customers in the form of sales terms and delivery options that included provisions for returns, can help reduce operational costs in both forward and reverse supply chain situations, and may actually help reduce the volume of returns a supplying firm will encounter.

Third, a focus on product quality has long been the domain of operations. The importance placed on product and service quality is not just about value for consumers, but should also be considered for managing relationships with intermediary customers such as retailers. Product and delivery quality can go a long way towards preventing unnecessary returns. Return service quality can also have an important impact on a customer's perception of value received from a supplying firm.

Fourth, managers are encouraged to measure performance in a cross-functional manner and develop feedback mechanisms for improvement related to the value drivers within the firm. Sharing returns performance with customers would also provide further opportunity to reduce future returns. For example, when retailers and their suppliers jointly review returns issues and performance, better understanding can be achieved regarding true quality issues and/or gatekeeping challenges, in particular, leading to better decision-making to reduce the need or returns.

A final managerial implication is derived from the contrast between the two subsidiaries. The challenge for managers is to continually adapt to the changing business environment in ways that value can be offered, evaluated and captured for both a firm and its customers. The offerings in question may (or may not) be the same across geographic business models within a global firm. For example, Action Appliance has always employed a market-specific approach to doing business, and does not try to standardize the business model across the many locations in which it operates. Indeed, the U.S. managers were quick to point out that the specific policies and actions taken in the U.S. could not translate directly to the European subsidiary's attempts to redress the returns problem. While standardization of returns processes may indeed be impossible to achieve across the operating environments due to different market constraints, organizational infrastructures and differing legal frameworks, what can be standardized is the strategic, integrative cross-functional approach to returns management. In other words, the details of the process may be less important than the underlying philosophy of the process.

There are also several *theoretical implications* that can be discerned from this research. First, consistent with the work of Sawhney and Piper (2002), we (re)verify a cross-functional conceptualization with customer value creation. Second, we extend their notion of customer value creation to include the reverse supply chain. This contribution is particularly important because returns are often thought of solely in cost terms (a cost of doing business; a cost to be minimized), but rarely thought of as a means to enhance customer value and/or as a means to increase the supplying firm's competitiveness. Third, we also extend the work of Sawhney and Piper (2002) by exploring the role of functional alignment as a bridge between cross-functional integration and customer value. This is not to suggest that alignment is the sole mediator between cross-functional integration and customer value, but rather to suggest, as a starting point, how firms may employ integration and alignment to enhance the value proposition offered to customers. Fourth, the focus on customer value re-emphasizes the importance of operations *and* marketing playing a joint role in creating more satisfied customers over the long term. Customer's value perceptions will change over time (Flint and Mentzer, 2000; Flint et al., 2002), so suppliers need to understand how such changes necessitate appropriate responses. For example, as customers (and consumers) around the world become increasingly focused on environmental sustainability, the scope of what the returns management process involves may grow dramatically. This expected change in customer value suggests that research regarding returns management and reverse supply chain flows will be increasingly relevant. A final theoretical implication relates to the alignment of value perceptions within a supply chain. Returns avoidance strategies can be understood as a means to create value by the manufacturer for the retailer, consumer and for the manufacturer itself. Gatekeeping policies, on the other hand, are beneficial to the manufacturer, but not necessarily to the retailer or consumer. Retailers prefer not to gatekeep — as a means of keeping their consumers satisfied they take back all kinds of product, and then pass the returns to the manufacturer, whether they're authorized returns (i.e., defective) or not (i.e., buyer's remorse). Thus, it would be beneficial to address the drivers of value perception, and related value creation, across different channel members.

5.2. Limitations and future research

Several limitations to the research should be noted. An in-depth case study cannot claim to be representative of a broader population. Additionally, the role of functional alignment as a mediating factor between cross-functional integration and customer value needs to be further explored. Furthermore, the inclusion of alignment as a mediating factor suggests that organizational-level and individual-level performance metrics and related reward systems also should be considered to more fully understand the role of alignment in creating customer value. There may be other factors that mediate the proposed relationship; as well, the direct relationship between cross-functional integration and customer value also should be explored. Quantitative research methods could better address the nature and strength of mediating and direct effects now that our qualitative approach has provided preliminary evidence of such relationships.

Our focus on customer value through returns management has been based on the conceptual value drivers identified from the literature. These drivers represent a way of understanding and conceptualizing the importance of returns management as a firm-level and supply chain process. Future research needs to substantiate the role and impact of these drivers, which were given preliminary credence in this research. The relationship of these drivers to each other and their role in customer value creation need to be more formally validated. As well, there may be additional drivers not yet elucidated by the current research.

Our focus has been on customer value, but future research also needs to more fully address value that accrues to the *supplying* firm. Our purpose in this paper was to highlight one aspect of value — customer value — that can accrue from M-OI of the returns management process. While we noted multiple instances where value accrued to the supplier (i.e., Action Appliance), we did so without comprehensively addressing such value creation. Relatedly, the role of "knowledge transfer" and/or organizational learning's ability to provide assistance in creating supplier firm value across subsidiaries went unexplored in this research. Future research needs to address a broader spectrum of value opportunities that accrue across supply chain members.

In this research, the role of the external business environment was an important element in understanding how the two subsidiaries manage returns. Future research needs to extend the scope and nature of the external business environment to capture additional permutations of how the local operating environment impacts managers' decisions and strategy development. Future research needs to extend beyond a single firm, and also to additional geographic locations to gain a broader understanding of returns management processes and how they are influenced by other external factors.

Finally, the intent of this research was to develop a deep and rich understanding of how managers manage the process of dealing with return goods, particularly as they must interact with each other across functional boundaries to manage returns effectively. These results serve to frame future research on this topic, which may also build on the strength of other methodologies to develop additional insights and generalizable corroboration of the initial results discussed in this paper.

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