

# Future Possibilities and Challenges for Returns in an Omnichannel Distribution Network

- A case study at IKEA



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This master thesis was conducted during the spring of 2018 as the final part of our Master of Science degree in Mechanical Engineering within the field of Supply Chain Management. The research was performed for the Division of Engineering Logistics which belongs to the Faculty of Engineering at Lund University. Besides the theoretical influence from the division, the master thesis was conducted at IKEA of Sweden from which the company and retailing insights were provided.

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Finally, we hope that this thesis could help IKEA to continue to create a better everyday life for the many people!

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# Abstract

**Title:** Future Possibilities and Challenges for Returns in an Omnichannel Distribution Network

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**Problem description:** With a lot of bulky goods returned, IKEA risks ending up with too much of the wrong products in the wrong place if the return rate continues to increase. IKEA have therefore seen the need to investigate how their future return flow will look like and what impact omnichannel retailing will have on the distribution network. They also want to know the possibilities and challenges when managing the return flow in an omnichannel distribution network.

**Purpose:** Investigate IKEA's return flow and evaluate possibilities and challenges to manage future returns in an omnichannel distribution network.

**Research questions:** What future possibilities and challenges can be found for IKEA to manage returns in an omnichannel distribution network?

**Methodology:** An exploratory single case design has been used in this thesis. The data has been collected through interviews and archival records and furthermore have a market study including a questionnaire been performed. Finally, all data have been analysed in order to answer the research question and find future possibilities and challenges for IKEA in an omnichannel distribution network.

**Conclusion:** In the strive to become an omnichannel retailer IKEA probably have greater possibilities than any other competitor at the same market thanks to their resources. However, IKEA do also have some unique challenges that need to be addressed. In total the following four possibilities: provide a holistic customer experience, improve return forecasts by looking at sales data and customer reviews, return policy and omnichannel partners; and the following five challenges channel integration, the integration of e-commerce, decide how to handle uncertainties, returns forecasting and speed of transformation; have been found, which also mirrors IKEA's omnichannel transformation as of today. There are still more challenges to conquer than possibilities to take advantage of. However, if IKEA can find their way as an omnichannel retailer the possibilities are endless.

**Keywords:** Omnichannel, Reverse Logistics, Returns, Distribution Network, E-commerce, Management of Returns, Return Handling

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# Abbreviations

3PL - Third-Party Logistics

AT - Austria

AU - Australia

BE - Belgium

CA - Canada

CDC - Customer Distribution Centre

CH - Switzerland

CN - China

CPU - Central Parcel Units

CSC - Customer Service Centre

CZ - Czech Republic

DC - Distribution Centre

DCG - Distribution Centre Group

DE - Germany

DD- Direct delivery

DK - Denmark

ES - Spain

FI - Finland

FR - France

GB - United Kingdom

HFB - Home Furnishing Business

HR - Croatia

HU - Hungary

IE - Ireland

IT - Italy

JP - Japan

KPI - Key Performance Indicator

KR - South Korea

LSC - Local Service Centre

NL - Netherlands

NO - Norway

PL - Poland

PMA - Primary Market Area

PT - Portugal

RO - Romania

RU - Russia

SE - Sweden

SK – Slovakia

US - United States

# 1 Introduction

*The first chapter introduces the study, its background and motivates why it is relevant. The collaboration company IKEA is presented as well as the problem, the purpose and the research question. Finally, to make the study feasible, delimitations are presented and motivated.*

## 1.1 Background

During the 21st century the e-commerce has increased significantly (Hübner et al., 2016c). The increase depends on several factors. The customers are becoming more confident with utilizing electronic devices, in the same time as unlimited opening hours and a wider range of products has opened up for new possibilities (Bernon et al., 2016). This has also resulted in a change of the retail landscape, with companies using multiple distribution channels (Hübner et al., 2016b). However, customers still expect the same price, quality and service regardless of which channel they use (Kaczorowska-Spychalska, 2017). This kind of cross-channel retailing is by literature described as omnichannel and can be defined as:

*“The assembly of various channels into a single distribution system promoting interchangeability and the transfer of customers between channels” (Vanheem, 2009).*

IKEA is one of many retailers experiencing this change and Conversion (2017) argues that an implementation of omnichannel strategy is a question of survival rather than a question of customers' convenience. The implementation however, comes with some challenges. Connected to the increased growth in e-commerce there are a change in the way customers make purchasing decisions (Bernon et al., 2016). Being able to try a product before making a final decision is one of the reasons for which e-commerce has led to an increase of product volumes being returned (Bernon, 2011; Mukhopadhyay & Setaputra, 2004; Rowley, 2000).

Bernon et al. (2011) argues that many companies do not connect the increase of returns with the importance of reverse logistics. However, product returns in combination with a strive for a seamless omnichannel approach presents new challenges for retailers moving towards integrated distribution networks, processes, information systems, inventories and Key Performance Indicator (KPI) systems (Bernon et al., 2016). If handled properly this can lead to a competitive advantage (Wang, 2015).

To the knowledge of the researchers the research on what effects omnichannel has on returns in a distribution network is still limited. Several authors have identified a gap in the empirical research in the area of returns (De Leeuw et al., 2016; Vachon & Klassen, 2010). De Leeuw et al. (2016) is also emphasising that further research needs to be extended beyond the apparel area. In this thesis, we sought to extend this knowledge with an exploratory case study of the return flow at IKEA. Returns data and distribution network design has been investigated to find possibilities and challenges when handling returns as an omnichannel retailer.

## 1.2 IKEA

The IKEA business was founded by Ingvar Kamprad in 1943 as a mail-order business selling general products. The business has since then primarily been focused on selling through one channel, the IKEA Store, which still today is the main sales tool for the IKEA products. The ambition is that the products offered in the store should be available the same day, so the customer can bring them home immediately (Inter IKEA Systems B.V., 2016b). To make this possible have IKEA successfully created an efficient distribution network with well-functioning logistics and transportation systems, distributing millions of cubic meters of raw materials, components and products all around the world (Inter IKEA Systems B.V., 2016a).

A part of the success has also been the strive to always have large volumes and low costs, because low prices are impossible without low costs and IKEA do their best to discover and eliminate unnecessary costs (Inter IKEA Systems B.V., 2016b). This was also argued by Ingvar Kamprad himself saying “Waste of resources is one of the greatest diseases of mankind”. IKEA have today evolved into a one of a kind concept developing and retailing home furnishing products operated by a large number of companies, all under the IKEA trademark (Inter IKEA Systems B.V., 2012-2016; Inter IKEA Systems B.V., 2016a).

Inter IKEA Group is a group of companies headed by Inter IKEA Holding B.V. with the purpose to secure the continuous improvement, development, expansion and long life of the IKEA Concept. The structure of the Inter IKEA Group can be seen in Figure 1 and its core businesses are Franchise, Range & Supply and Industry, each handled by independent companies. The two companies responsible for developing and supplying the global IKEA product range throughout the distribution network are IKEA of Sweden AB and IKEA Supply AG. Each IKEA Store has approximately 9500 products whereof some have been with the company for decades and some are replaced after one selling period. Considering that all countries are not selling the same items, the number of products in the IKEA range is a lot higher (Inter IKEA Systems B.V., 2018a).

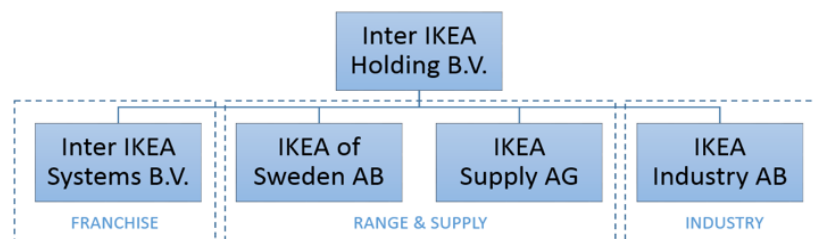


Figure 1: Company structure of Inter IKEA Holding B.V. (Inter IKEA Systems B.V., 2018a).

Customer behaviours are however changing and to continue “To create a better everyday life for the many people”, IKEA must find a new business model. They need to offer a wide range of well-designed, functional home furnishing products at low prices that the many people can afford not only in separate channels but several aligned channels (Frostberg, 2018; Inter IKEA Systems B.V., 2016b). IKEA have for this reason an ongoing project with the purpose to become an omnichannel retailer. Primarily by being closer to where the customers are and by developing a new competitive e-commerce solution (Inter IKEA Systems B.V., 2017b), a channel where IKEA today are lagging behind competitors all around the globe (Lindstedt & Capuder, 2018).



As can be seen in Figure 2 IKEA had, when closing the financial year (FY) 2017, a total of 403 IKEA Stores in 49 countries all around the world. Since then 13 IKEA Stores have been added and even more stores are planned to open during FY 2018 (Inter IKEA Systems B.V., 2018b). The expansion is however, now seen as a multi-dimensional operation trying to find new ways to meet and interact with customers both physical and digital (Inter IKEA Systems B.V., 2017a). Adding to the challenge is also the fact that eleven different groups of companies today own the IKEA Stores under franchise agreements with Inter IKEA Systems B.V.. The main part of the stores, namely 355 of them, are however run by the INGKA Group and like all other franchise groups they are paying a franchise fee. The fee gives the franchisees the right to operate under the IKEA brand and to use IKEA systems and concepts for the stores. In the end this makes the franchisees the ones meeting the customer and also the ones with the final say (INGKA Holding B.V., 2017).

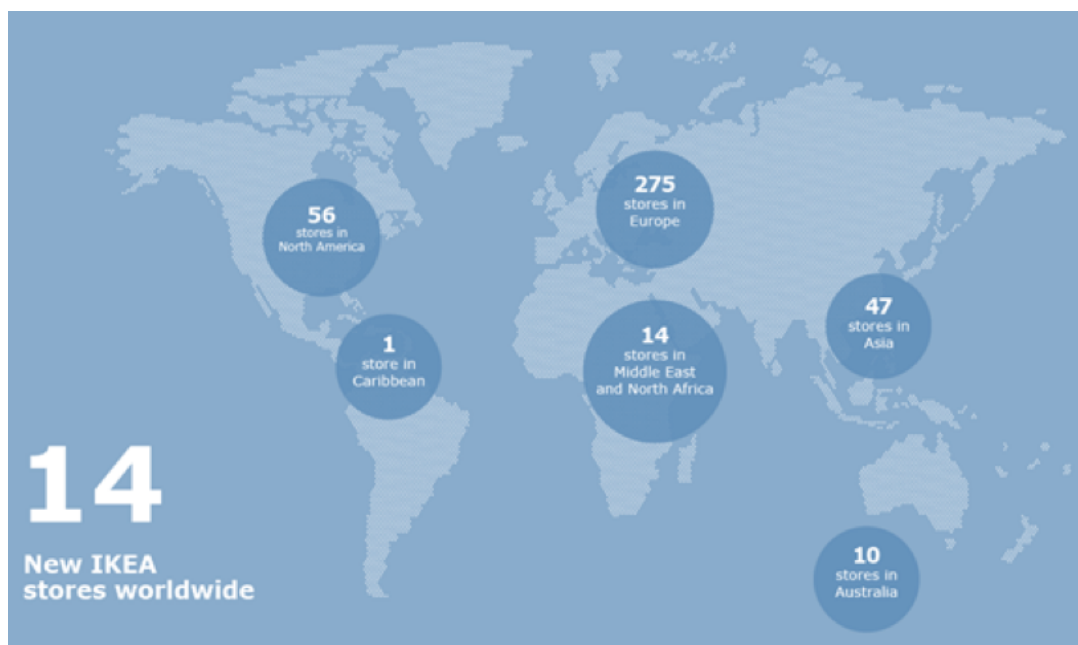


Figure 2: The 403 IKEA stores available in FY 2017 (Inter IKEA Systems B.V., 2017a).

### 1.3 Problem Formulation

IKEA are offering a wide range of products, some small and some larger. However, they always strive for the lowest total cost and a big part of the IKEA range is therefore offered as flat pack solutions. The customers are therefore performing the final assembly at their home. This approach comes with some challenges if the product is returned, since IKEA have very lenient return policies and accept returns of assembled furniture. When a piece of furniture is assembled, it becomes more fragile and bulky and therefore takes up more space. In the same time it gets harder to sell the product for full price.

So far this has not been a problem for IKEA since their return rate has been stable on a low level for quite some time. However, when introducing e-commerce in a greater extent IKEA have noticed an increase of returns. This is most likely because the online store has contributed with new customers and behaviours, customers wanting to try a product before buying it as well as ordering more than they need to see which product looks the best when received. In the same time is IKEA now moving towards becoming an omnichannel retailer, offering their customers a seamless experience. The customers should have the possibility to purchase a product in a physical store, order it in a

showroom store or place an order online. In addition, omnichannel insist of the possibility to return the product in the channel the customer see fit, regardless of where the purchase has been made.

With a lot of bulky goods returned IKEA risks ending up with too much of the wrong products in the wrong place if the return rate continues to increase. IKEA have therefore seen the need to investigate how their future return flow will look like and what impact omnichannel retailing will have on the distribution network. They also want to know the possibilities and challenges when handling the return flow in an omnichannel distribution network.

#### 1.4 Purpose

*Investigate IKEA's return flow and evaluate possibilities and challenges to manage future returns in an omnichannel distribution network.*

#### 1.5 Research Question

The purpose has resulted in one overall research question that will be answered during this study.

*What future possibilities and challenges can be found for IKEA to manage returns in an omnichannel distribution network?*

#### 1.6 Delimitations

A master thesis has a timeframe of 20 weeks and therefore some limitations of the scope have been required. To start with, only external returns, meaning returns to IKEA that happens after the customer has come in possession of the goods, will be studied. Internal returns within the organisation of IKEA will not be studied. Furthermore, only business within the INGKA Group has been included.

The thesis has also been limited to only include impact on the omnichannel distribution network inside of the dashed blue box in Figure 3. This means that it is limited to include the processes from return until a decision has been taken regarding the products destiny. This also means that the handling of products returned due to product recalls or guarantee issues will not be included since this process usually involves the supplier. The final result will be limited to recommend future possibilities and challenges. Furthermore, in figures where the y-axis is not shown it is done due to confidentiality and the purpose is primarily to show trends found in the data.

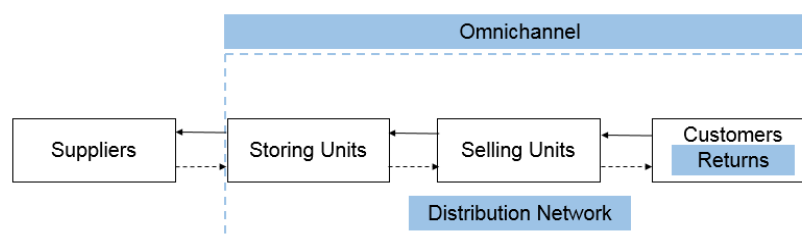


Figure 3: The studied network showed inside of the dashed blue box.

## 2 Theoretical Framework

With the focus on returns in an omnichannel distribution network a thorough literature review has been conducted. The search has been exploratory and any literature within the three main areas Returns, Distribution Networks and Omnichannel Retailing has been considered, regardless of the type of products. Connections between these areas have been made in order to investigate future possibilities and challenges. The theory has then been summarised in a framework that will be used as a base for the analysis. The connections can be seen in Figure 4.

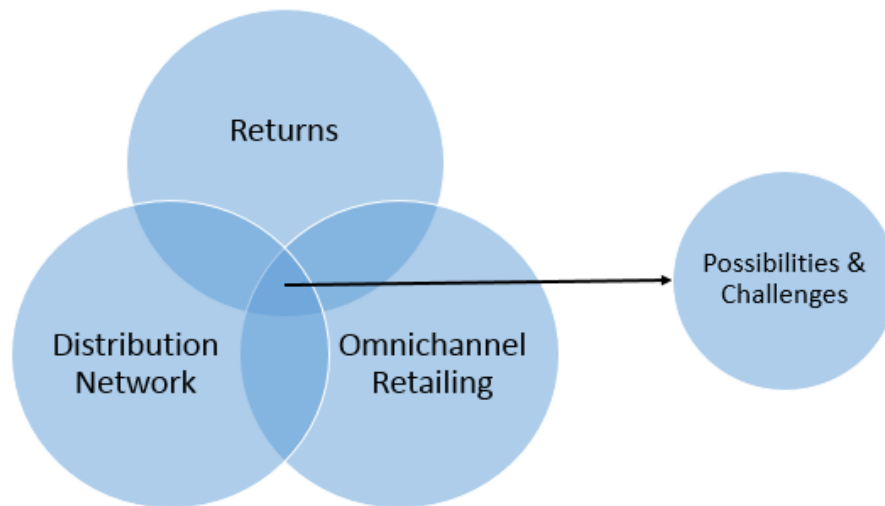


Figure 4: The connection of the different areas covered in the theoretical framework.

### 2.1 Returns

Returns have by Rogers et al. (2002) been divided into five categories. The categories and their return reasons are all described in Table 1. Each category has its own challenges that need to be considered when designing appropriate procedures. The most common returns within retail are customer returns, meaning that the customer wants to return a defect product or have had a change of mind (Rogers et al., 2002). Customer returns are primarily made during the immediate post purchase time (Oliver, 1997) and Tibben-Lembke & Rogers (2002) argues that customer returned products are more difficult to handle in a distribution network than new products. One reason is because new products often are uniformly packaged and easy to stack, while returned products are not (Tibben-Lembke & Rogers, 2002).

Table 1: Categories and return reasons adopted from Rogers et al. (2002).

Categories	Return Reasons
Customer return	Defect or buyers' remorse
Marketing return	Slow sales or a need to reposition inventory
Asset return	To recapture or repositioning an asset
Product recall	Safety or quality issues arising after customer purchase
Environmental returns	To dispose hazard materials or to follow environmental regulations

#### 2.1.1 Management of Returns

Product returns can be very costly for a retailer and it is important to carefully consider how different strategies for handling these can affect the organisation (Bower & Maxham, 2012). The service operation, including the process of handling returned goods from customers to satisfying their

needs, is called management of returns. In order to not risk future business it is of highest relevance to make sure that this process is not too complex, slow or inconvenient (Griffis et al., 2012). Instead the return process can be a strategic source of competitive differentiation and advantage if being efficient and customer focused (Petersen & Kumar, 2009).

As can be seen in Figure 5 the activities for handling returns typically starts at the customer with a collection of the returned products. It is then followed by an inspection and sorting of the products, where the organisation decides what to do with the product (Badenhorst, 2013; Bernon et al., 2016). For this decision there are several options listed in Figure 5, the most profitable for the retailer is to sell the product as new (Tibben-Lembke & Rogers, 2002). However, the usability of a returned product often depends on the time lag between its sale and return (Krapp et al., 2013a). The importance of process time is also highlighted by Bernon et al. (2016) arguing that 48 hours from receiving to put back in stock is considered a good performance.

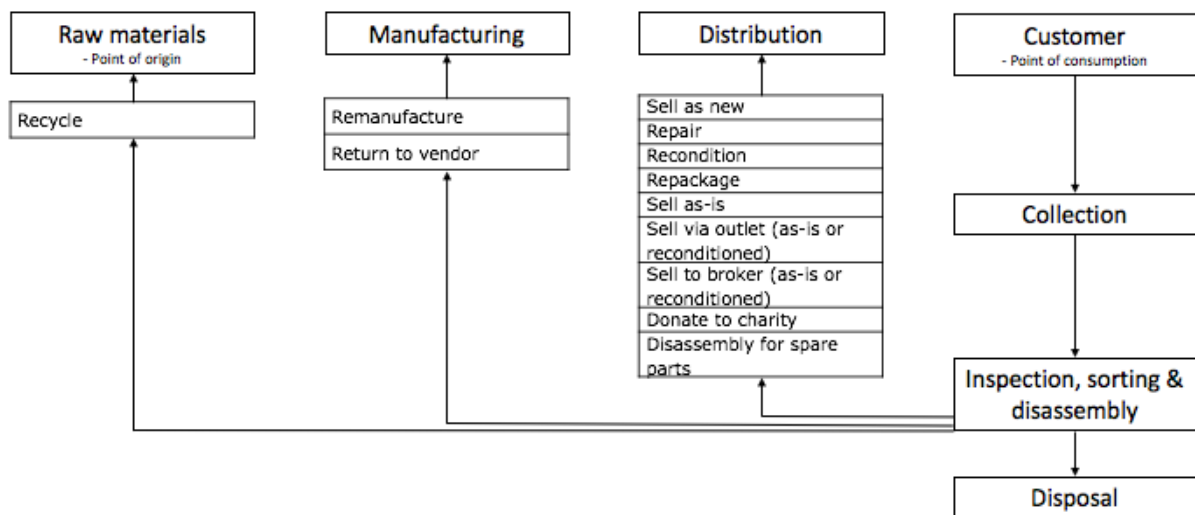


Figure 5: The management of return process and options for handling returns (Badenhorst, 2013; Dowlatshahi, 2012; Tibben-Lembke & Rogers, 2002).

### 2.1.2 Retailers Impact on Returns

In the literature two ways a retailer impacts the return flow have been found, through sales and through return policies.

#### Sales

Sales is seen as a factor that can impact returns and it is not unusual that the return flow follow sales trends with some lag. If sales increases due to holidays or promotions it can also be seen that returns will increase in the close time after (Tibben-Lembke & Rogers, 2002). Furthermore, different types of retailers will experience different challenges when it comes to returns, what products that are sold is of highest relevance. For the three retailer types home, electrical and clothing Bernon et al. (2016) have found that return rates differ between the retailers as well as between sales channels. Home retailers have products where the purchase often is considered or distressed and the return rates are low to medium. Return rates for all retailers found in the study can be seen in Table 2, showing that the online returns were on average double those for physical stores for clothing and home products. Electrical products had the same return levels more or less. Although clothing suffered from significantly higher returns, when all return activities were considered damages and logistical costs can be less punitive than for home and electrical products (Bernon et al., 2016).

Table 2: Return rates in percentage of sales value by category and channel adapted from Bernon et al. (2016).

Sales format	Category of retailing	Average	Highest	Lowest
Retail store	Home	5,5	11,0	1,5
	Electrical	8,7	13,3	5,9
	Clothing	10,9	19,0	4,9
Online	Home	8,5	12,7	5,0
	Electrical	8,0	10,3	6,4
	Clothing	20,0	38,2	8,1

### Return policies

Return policies can be used both pre-purchase to signal a good quality (Bonifield et al., 2010; Mukhopadhyay & Setaputra, 2007) and post-purchase to change a customer's evaluation of the product and get a second chance to satisfy them (Cassill, 2013; Kim & Wansink, 2012). The degree of lenient in the return policies can vary, the dimensions that are used are: money, time, scope, effort and exchange. Restrictions can for example include original proof of purchase, time limits for returns, no change of mind returns, only accepts products with no sign of use and return in original packaging (Yalabik et al., 2005). The effects of these policies are not fully investigated in any research (Janakiraman et al., 2015). However, indications that return policies used for short-term gain might have negative consequences in the long-run have been found (Bower & Maxham, 2012).

It is not unusual that retailers use beneficial and lenient return policies in order to increase sales with the belief that the returns will not increase as much (Janakiraman et al., 2015). The aim with lenient return policies is often to attract and create loyal customers and hence increase sales. It has been proven that liberal policies will increase sales, at least for online customers (Bower & Maxham, 2012; Mukhopadhyay & Setaputra, 2007; Petersen & Kumar, 2010). However, as of today there is no correlation between increasing sales and maximising profitability (Yan, 2009).

Bower and Maxham (2012) argues that it is important that the customers feel fairly treated and for this reason though return policies might be short sighted. Customers that paid for their own returns decreased their post return spending with 75%-100% at that retailer within two years and those who got the return for free increased their post return spending with 158%-457% (Bower & Maxham, 2012). Fairness perceptions are associated with positive effects on post returns customer reactions such as loyalty, satisfaction, commitment, word of mouth, trust and repurchase intentions (Maxham & Netemeyer, 2003; McColl-Kennedy & Sparks, 2003).

### 2.1.3 Customers Impact on Returns

In order to not give the customer a reason to return a product an organisation should strive for return avoidance by "developing and selling the product in a manner such that the return requests are minimized" (Rogers et al., 2002). It is however not always possible to avoid a return. From a customer perspective Powers and Jack (2015) identified cognitive dissonance as the key motivation for dissatisfaction and possible returns. Cognitive dissonance can be seen as a psychologically uncomfortable state of mind that motivates a person to do something about it (Sweeney et al., 2000). It often develops from a comparison with an unfavourable outcome between the purchased product and other possible alternatives (Gbadamosi, 2009). If this results in an emotionally uncomfortable state it can increase the dissonance even further (Walchli & Landman, 2003).

Cognitive dissonance can have two different dimensions, a product related and an emotional related (Sweeney et al., 2000). Emotional dissonance was found to be significantly greater than product dissonance but there was no significant difference between the two return reasons (Powers & Jack, 2015). Other researchers within the area have found that occasional returners experienced more problems with product size, while unfulfilled expectations was a more important return reason for more regular returners. The study also shows that “Failure of the order company”, i.e. the retailer, was a major reason for returns (Foscht et al. 2013). All customer reasons for returns that have been found in literature have been compiled in Table 3.

Table 3: Customer reasons for returns adapted from Foscht et al. (2013) and Powers & Jack (2015).

Product related reasons	Emotional related reasons
Better price or product	Did not meet expectations
Damaged product	Differ from advertisement
Wrong product delivered	Did not correspond in quality
Wrong colour delivered	Higher expectations because of the price
Flaw in the material	Article differed from catalogue
Too large or small	
Delivery too late	

## 2.2 Distribution Network

During the last 20-30 years, there has been a radical transformation within retail distribution (Ferne et al., 2010). Before, most goods were supplied directly from the supplier to the store. Nowadays retailers instead are sending most of the goods via a network of distribution centres (DCs) (Kuhn & Steinbeck, 2013). The locations of the DCs are depending on the characteristics of the products, storing the goods as physically close to the stores as possible is not always seen as the most favourable solution. Instead some products can be better distributed via a DC that supply a larger number of retail stores. Retailers are because of this operating networks of different DCs: central, regional and local (Holzapfel et al., 2016).

At the DC the goods are stored until they are ordered, picked and loaded to a transporter for either shipping direct or via a consolidation point. Traditionally the goods are then delivered to the store and stacked on to the shelves (Holzapfel et al., 2016). However, if considering e-commerce the goods are instead provided directly to the end customer. This is often referred to as last mile distribution (Yu et al., 2016). To include all entities from suppliers to customers in the forward distribution flow is aligned with Govindan et al. (2015) defining forward logistics as:

*“a combination of processes to fulfil customers’ requests”.*

### 2.2.1 Reverse Logistics Distribution Network

Reverse logistics can be seen as the opposite to forward logistics and has by Tibben-Lembke & Rogers (1998) been defined as:

*“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”.*

However, de Brito & Dekker (2002) argue that this definition is limiting, since many products are not returned to their origin but to a point of recovery. The number of definitions that can be found in the literature have in the last years increased and a more recent definition is:

*“all activity associated with a product/service after the point of sale, the ultimate goal to optimize or make more efficient aftermarket activity, thus saving money and environmental resources”* (The Reverse Logistics Association, 2018).

Reverse logistics is normally not initiated as a result of planning and decision making, instead it can be seen as a response to actions taken by customers (Rogers et al., 2002). A typical product and information process in reverse logistics starts when a customer returns a product and includes a number of different operational processes. To be successful, costs and time should be reduced (Bernon et al., 2011; de Leeuw et al., 2016; Griffis et al., 2012; Tibben-Lembke & Rogers, 2002).

It is possible to have different set-ups for reverse logistics. One set-up that can be used is to reduce uncertainties by centralising the return flow. The handling of the returns is then done in one DC and it gives the retailer a possibility to determining the exact moment of each pick-up of certain types and amounts of returns. It can for example be decided that a certain type of return is only picked up one day at a week, and in that way, the returns are being consolidated. It has been found that it is most efficient to pick up the returns with the same truck that delivers products from the DC if the retailer is supplying a sufficient number of stores. This solution saves both transportation costs and precious space for the stores. Important to consider is to keep the routing in-house even if transportation is done by a third-party to most efficiently plan the return pick-up (de Koster et al., 2002).

According to Bernon et. al. (2016) it is important to have a great number of return points available, minimizing travel time and making it easy for the customer to manage. This is aligned with Nuss et al. (2015) discussing that further interfaces between customers and the organisation for receiving returns have to be implemented. They present two general types of collection modes, bring-in systems and pick-up systems. The most commonly discussed bring-in systems are drop-off sites, take-back at the retailer and sent-in via parcel service. For pick-up systems the organisation can choose between pick-up at customers either by a third-party logistics provider or an own logistics operator (Nuss et al., 2015).

### ***Aspects Impacting the Design of a Reverse Logistics Distribution Network***

An effective reverse logistics distribution network with optimised transportation can help reduce inventory, order processing time and warehousing costs related to returns (Amini et al., 2005). Therefore, when an organisation designs their reverse logistics distribution network they need to consider the impact on customer services as well as how it can contribute to improve profits. This implicates that all three aspects: strategic, tactical and operational need to be included (Fleischmann et al., 1997; Nuss, 2015; Rogers et al., 2002). The purpose of the strategic, tactical and operational aspects as well as what decisions to consider and what possible processes to include in the design have all been summarised in Table 4.

#### **Strategic Aspects**

Within the strategic aspects of reverse logistics organisations need to make decisions regarding the distribution network (Fleischmann et al., 1997; Nuss et al., 2015). The objective is to create a

structured network through which the operational process can be executed (Rogers et al., 2002). At this level decisions are made to determine return policies, whether to have activities in-house or contracted to a third-party and what capabilities and activities that need to be established. The network design should also, according to Blackburn et al. (2004), be evaluated from a time value of the products perspective. Meaning that the life cycle of the product is a key factor in designing the reverse network, seasonal products will have to be resold within the season while timeless products can be resold at any time.

Possible activities identified by literature that can help an organisation create a cost efficient reverse logistics process are gatekeeping, centralisation, policies, data collection and information sharing (Badenhorst, 2013). A gatekeeper is often a customer service department at the beginning of the process. Its main tasks are to identify returns, verify receipts, inspect the product and make decisions about the return (Hoffman, 2006). A robust gatekeeping function will make the entire reverse flow more manageable and profitable (Patrican & Kirk, 2009; Tibben-Lembke & Rogers, 1998). Centralisation refers to the number of locations at which similar activities are carried out (Fleischmann et al., 2000). Centralising processes in the reverse logistics flow can result in cost savings as well as improvements of the process quality and information flow (Tibben-Lembke & Rogers, 1998).

It is important for organisations to have clear, uniform and formalised policies as well as an effective data collection process which can help organisations to uncover and remove causes for returns (Mollenkopf & Closs 2005; Monaham et al., 2004; Patrican & Kirk 2009). Finally, by sharing information along the distribution network can organisations minimise costs, prepare for incoming goods and thereby shorten turnaround times and increase speed of the return process (Badenhorst, 2013). The shared information can later be used when measuring performance in the organisation, which is an important strategic aspect. The nature of the KPIs will have an impact on the behaviour of the people involved and it is therefore important to select the right KPIs, enabling the implementation of a successful reverse logistics process (Lambert et al., 2011). The KPIs should for this reason be evaluating both the performance of return handling and cost associated (Bernon & Cullen, 2007). The importance of reducing costs is also highlighted by Badenhorst (2013) arguing that it can cost up to three times more to process the reverse logistics than to process the forward logistics of the same product. It could however, because of the many processes involved, be quite complicated to determine the costs associated with reverse logistics (Lee et al., 2002).

#### Tactical Aspects

The tactical aspects of reverse logistics primary concern the relationships with partners (Fleischmann et al., 1997). This enables connections between the strategic aspects and the operational. A typical tactical planning problem and a great challenge is returns forecasting, since uncertainties concerning the quantity, quality and timing of the product flow can be inherent (Nuss et al., 2015). To have the right product at the right place and price and in the same time maintain the right stock can be seen as the main goal with forecasting and the value of it depends on its accuracy (Graves et al., 1998).

When forecasting returns with an irregular demand, statistical methods are often ineffective and new forecasting methods need to be constructed (Chern et al., 2014). Important to consider when developing a forecasting model is that it should be robust and accurate for a long time horizon, in



this way retailers will have confidence to use it repeatedly (Chu & Zhang, 2003). However, there is no forecasting model that is best for all situations and under all circumstances (Makridakis et al., 1982).

A factor that will complicate the forecasting of returns is that the return rates differs a lot between products (Tibben-Lembke & Rogers, 2002). Another factor is the quality of the returned product, a warranty return with a defect product cannot be sold again while a change of mind return can. Important to remember when forecasting returns at the end of a period is that it is dependent of the sales made prior to this period. When developing a forecasting model, returns should therefore be a function of the sales (Krapp et al., 2013a). However, in some cases the sales data is not available when the return forecasts are needed, then the estimation of sales can be used as a first step. This also implicates that forecasting systems should be adaptive, since information becomes available incrementally. Accurate return forecasts can especially be used to improve inventory management, remanufacturing planning and to support managerial accounting purpose (Krapp et al., 2013b).

A possibility for e-commerce platforms is to improve return forecasts by looking at sales data and customer reviews. If a product has received a lot of bad reviews it can be assumed that the return rate will be higher than one with only good reviews. Although, it should be noted that some reviews have greater influence on customer behaviour than others. Reviews about poor quality have more influence than reviews from customers that have changed their minds (Chern et al., 2014). Reverse logistics has also been found to benefit from information about sales and promotions if wanting to understand and adjust plans according to the return flow (Tibben-Lembke & Rogers, 2002).

#### Operational Aspects

The operational aspects of reverse logistics are the planning and controlling of the distribution network, managing the short term activities and inventories included in the day to day decisions (Fleischmann et al., 1997; Nuss et al., 2015). These decisions are primarily connected to how returns should be handled and linked to the processes of collection, inspection and sorting returned products. The overall goal is to reinforce the products into the forward logistics flow (Badenhorst, 2013; Bernon et al., 2016).

*Table 4: Aspects that are impacting the design of a reverse logistics distribution network.*

	<b>Strategic</b>	<b>Tactical</b>	<b>Operational</b>
<b>Purpose</b>	Structure the distribution network	Develop relationships with partners to connect strategic aspects with operational	Plan and control the distribution network on a day to day basis
<b>Decisions to consider</b>	What return policies to use	What partners to use	What activities needs to be perform today
	What processes and capabilities are needed	What channels and network nodes to use	How should stock levels be managed today
	To in-house or contract third-party	What are the return flow trends	
	Centralisation or decentralisation		
	KPIs for return handling processes and costs		
<b>Possible processes</b>	Gatekeeping	Forecasting of returns	Collection of returns
	Data collection	Distribution of returns	Inspection of returns
	Information sharing		Sorting of returns

### **2.2.2 Forward and Reverse Logistic Nodes**

The need for reverse logistics has not only increased with e-commerce, it has added more alternatives to the distribution network for both the manufacturer and the customer (Mukhopadhyay & Setoputro, 2004; Wang, 2015). To design and configure a distribution network an assembly of various logistics nodes are needed. Hence, it is important for the retailer to make decisions regarding what nodes to use, their purpose, the integration of the nodes and the need of third-party logistics (3PL) providers (Melacini & Tappia, 2018; Nuss et al., 2015). However, according to Guide Jr & van Wassenhoven (2002), is there no best design for reverse logistics. Instead each network and the nodes included needs to be designed to fit the products involved and the economics of their reuse.

In forward logistics the picking units often differ between physical stores and e-commerce and the retailer could therefore choose to use the same warehouse or to have the warehouse activities performed at separate locations (Melacini & Tappia, 2018). Furthermore, the retailer can have order picking performed at one central warehouse or several decentralised warehouses. However, order fulfilment does no longer necessarily have to be performed at a warehouse, retailers have started to pick e-commerce orders in the physical stores as well. The delivery of the orders also differs between physical stores and e-commerce and for customers to be able to collect the orders at their convenience retailers have added new delivery setups. These setups are primarily connected to e-commerce, giving the customers the possibility to order online and pick-up in store, at a pick-up point or to have it home delivered (Hübner et al., 2016b). Jayaraman et al. (2003) argue that backflow of products via the forward distribution nodes is often possible. However, these nodes are often not designed to deal with backflow and may therefore not be optimal (Chung & Wee, 2008). To handle the reverse logistics flow the nodes need to include capabilities for management of returns (Dowlatshahi, 2012).

A further challenge when trying to configure a distribution network can be the organisational structure between the nodes. It is not unusual that there are different views and expectations on the network design in organisations with a franchisees structure (Grace et al., 2013). Franchise organisational networks are often built to encourage network efficiency as well as operational consistency and rely heavily on existing processes and procedures. This can make it challenging with unleashing innovative efforts for customers (Shaikh, 2016; Solis-Rodriguez & Gonzalez-Diaz, 2012). In order for the franchisee to promote and embrace change it is therefore important to have a favourably-perceived organisational justice climate (Davies et al., 2011; Shockley & Turner, 2016).

### **2.2.3 Differences Between Forward and Reverse Logistics**

Bernon et al. (2011) argue that logistics research has to a great extent been focused on maximising the effectiveness and efficiency of forward logistics. However, the most successful reverse networks are those that are closely coordinate with the forward network according to Guide Jr and van Wassenhoven (2002). Despite this do Fleischmann et al. (1997) argue that reverse logistics does not need to be a reflection of forward logistics. In fact there are several differences between forward and reverse logistics presented by Tibben-Lembke & Rogers (2002,) which can be divided into the areas of transportation, planning and sales. All differences are presented in Table 5.

Table 5: Differences between forward and reverse logistics adapted from Tibben-Lembke & Rogers (2002).

	Forward logistics	Reverse logistics
<b>Transportation</b>	One to many	Many to one
	Destination/routing clear	Destination/routing unclear
	Standardised channel	Exception driven
	Forward distribution costs closely monitored	Reverse logistics costs less directly visible
<b>Planning</b>	Forecasting relatively straightforward	Forecasting more difficult
	Disposition options clear	Disposition options unclear
	Real-time information available to track product	Visibility of process less transparent
	Inventory management consistent	Inventory management not consistent
<b>Sales</b>	Pricing relatively uniform	Pricing dependent on many factors
	Product quality uniform	Product quality not uniform
	Importance of speed recognised	Speed is not often considered a priority
	Marketing methods well-known	Marketing complicated by several factors

In forward logistics the strive is to make handling easy, primarily by having one transportation for many products, uniform products and standardised channels (Tibben-Lembke & Rogers, 2002). In reverse logistics on the other hand the network is typically many transportations of one product, in the same time as the condition of the products and packages not are uniform (Fleischmann et al., 1997; Nuss et al., 2015; Tibben-Lembke & Rogers, 2002). Furthermore, the collection of channels in reverse logistics is often based on the existing forward distribution channels. Reverse logistics activities can therefore be limited by the forward logistics activities and may not be optimised for their purpose (Chung & Wee, 2008).

One big challenge retailers are facing is whether to separate or combine forward and reverse logistics flows. The exploitation of existing resources needs to be compared with the increase of complexity since forward and reverse logistics do require different process capabilities. A forward warehouse is designed to ship and handle goods that are already organised on pallets or in racks while a centre for reverse logistics will receive a wide range of products in any type of package (Badenhorst, 2013). Returned products require more space than outbound products in general and if both should be handled at the same warehouse, it must have capabilities for picking and shipping of new products as well as receiving, handling and putting back returned products. For this reason factors such as storage space, labour, equipment and operational methods have to be taken into consideration from both perspectives to enhance effective warehouse processes (Dowlatshahi, 2012).

Another challenge for retailers particularly with reverse logistics is to decide how to handle uncertainties. The uncertainties involved in reverse logistics makes planning more difficult than for forward distribution (Flapper, 1995; Guide Jr & van Wassenhoven, 2002; Tibben-Lembke & Rogers, 2002). The main reason for this is that it is individual customers that initiate the reverse logistics by returning a product and thereby contributing to more uncertainties (de Koster et al., 2002; Tibben-Lembke & Rogers, 2002). Uncertainty regarding the returned products quality, is it even sellable and does it in that case need recovery or not. Uncertainty when it comes to returned quantity, how many copies of a product will be returned by the customer and in addition to that, uncertainty about the time, when will the return take place. Finally, the uncertainty regarding product diversity, how many different products will be returned at each occasion. These factors and the different combinations will have effects on the return handling. It will for instance be easier to more efficiently handle larger

volumes of similar type of products than several types of products with divergent characters (de Koster et al., 2002; Krapp et al., 2013a).

### 2.3 Omnichannel Retailing

To sell through one channel, as for example a physical or an online store, is defined as a single channel retailing. Having several sales channels without integration is defined as multichannel retailing and when direct-to-customer shipments and store supply is unified it is defined as omnichannel retailing (Hübner et al., 2016c). All three definitions are illustrated in Figure 6.

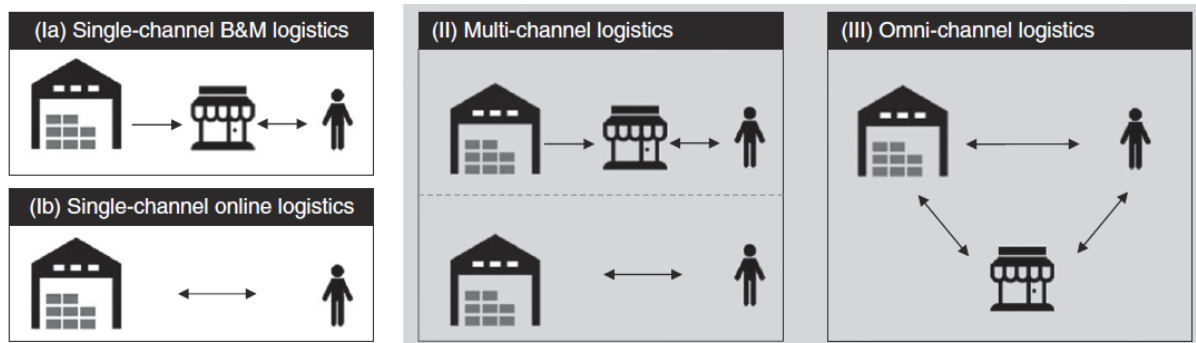


Figure 6: Illustration of single-, multi- and omnichannel defined by Hübner et al. (2016b).

This is aligned with Retail Process Engineering (2007) saying that the integrated strategy called omnichannel is the solution to silo-operated multi channels. Furthermore, omnichannel is defined by Vanheems (2009) as:

*“The assembly of various channels into a single distribution system promoting interchangeability and the transfer of customers between channels”.*

Explaining that the retailer for this reason needs to use *“a set of integrated processes and decisions that support an unified view of a brand from the perspective of product purchase, return, and exchange, irrespective of the channel (in-store, online, mobile, call centre, or social)”* (Cao, 2014).

A challenge with omnichannel retailing is the channel integration of sales and services in different channels. Neither the customer nor the retailer separate between the channels anymore (Beck & Rygl, 2015; Bell et al., 2014; Verhoef et al., 2015). There is only one logistics setup towards customers and orders placed in store can be delivered to the customer’s home as well as online orders can be processed through the stores (Beck & Rygl, 2015). A key element within this context is the capability to offer a seamless and unified management of returns process towards the customers (Bernon et al., 2016). So regardless of purchase channel, the customer should be able to return the product in all return channels (Beck & Rygl, 2015; Bernon et al., 2011).

Omnichannel requires the courage to take strategic risks. According to the study by von Briel (2018) *“The senior managers of traditional retailers are ill equipped, experienced, and not willing to take major risks for the investments required. This will make it difficult when adjusting the organisational mindset and developing human omnichannel skills, which is necessary to do. It will also complicate the integration of organisational functions through collaboration across channels (von Briel, 2018). When being a franchise organisation, it also needs to be decided who owns the product when. If it*

differs between the channels a favourably-perceived decision regarding ownership of returns needs to be taken (Davies et al., 2011; Shockley & Turner, 2016).

### **2.3.1 Driving Forces to Become an Omnichannel Retailer**

During the 20th century the internet revolutionised the way customers make a purchase (Kaczorowska-Spychalska, 2017). Although selling through multiple channels has been practiced over more than 100 years (Retail Process Engineering, 2007) the importance of new sales channels has increased (Kwon & Lennon, 2009; Schramm-Klein & Morschett, 2005). Adding a new channel will result in both advantages and disadvantages for a retailer. Advantages in form of a possibility to increase the overall revenues when introducing new touchpoints with customers and hence a possibility of reaching out to new customers and widening the customer base. In addition, adding a new channel often increases the customers' familiarity and trust towards the brand. In a combination different channels can satisfy the customers' needs and generate purchases both online and offline at the same retailer, referred to as complementary shopping behaviour effects (Avery et al., 2012; Kwon & Lennon, 2009).

One disadvantage identified concerns a migration effect, that customers switch channels rather than using them as complementary (Ansari et al., 2008; Falk et al., 2007). This is a result of the fact that the different channels often have been separated with the aim to target different segments and not cannibalise one another (Schramm-Klein & Morschett, 2005). However, the risk of cannibalisation has been largely overstated (Biyalogorsky & Naik, 2003; Kauffman et al., 2009) and it is particular in the initial phase of the implementation of multiple channels that this migration phase has been seen. Furthermore, this separation of channels, so called multichannel strategy, has created a "silo effect" that leads to poor customer satisfaction, loss of sales and duplications of investment due to lack of communication. Customer, pricing and inventory data are some examples of data that cannot be shared between the different channels and prevent an integration. It is thereby not possible to know if purchases in one channel results in returns in another (Beck & Rygl, 2015).

Different channels can be preferred in different situations depending on the intention of the purchase. This means that with a longer perspective migration effects will transform to synergy effects if the channels interact with and reinforce each other as customer touchpoints in an omnichannel environment (Verhoef et al., 2015). An overview of the data from all channels can also contribute to create a complete picture of buying patterns, customer behaviour and trends that later can be used to offer a better service to the customers (Cao, 2014). Hence, in an evolutionary perspective omnichannel can be seen as the logical and natural evolution from multichannel (Gibson et al., 2015).

### **2.3.2 Transformation to Omnichannel Retailing**

A study by von Briel's (2018) shows that over the next ten years omnichannel will become the new normal and *"the line between [channels] will blur to the point where no distinction is made"*. Hence, a retailer's competitiveness will be distinguished by the ability to provide a holistic customer experience rather than offering the right products. A key trend in omnichannel retailing is to offer personalised experiences to the customers, understand that it is not either/or, but the holistic experience created by all channels. This can be achieved by using digital mobile devices like wearables and smartphones to get access to customer data (von Briel, 2018).

The integration of channels will require information to be consolidated and distributed across the organisation. It will also break down organisational silos and make the integration tighter, enabling organisations to treat inventory as shared assets and thereby reduce the inefficiencies of traditional channel-based management. For the associates in the stores this will mean that they will become primary customer touchpoints and should be empowered to sell the company instead of the individual store. If the store for example only is used as a return touchpoint, the customer should still get the same service as if the purchase was made there as well. The stores will also need to have access to real time information such as the omnichannel inventory. Meaning that both the forward logistics flow and reverse logistics flow of goods should be updated continuously in the systems for all channels (von Briel, 2018).

Implementing omnichannel is by numerous studies recognized as a significant revision of a company at a strategic and organisational level (Cao, 2014; Neslin, 2009; Zhang et al., 2010). Thus, implementing omnichannel can be seen as implementing a new business model (Cao, 2014). With omnichannel the customer should get the same experience in all channels. For instance it should be possible to return a product regardless of where it has been purchased (Beck & Rygl, 2015). This integration of customer experience is the most critical success factor for the logistics when having an omnichannel strategy and involves everything from flow of goods to information, cash and services at different levels and across channels (Bell et al., 2015; Cao, 2014). It is through the logistics order fulfilment and product deliveries can be flexible and customers be offered personalised service (Hübner et al., 2016c; Verhoef et al., 2015). Hence, the logistics is the backbone of any omnichannel strategy (Bhattacharjya et al., 2016).

The logistics will therefore has to change when transforming into omnichannel. If adding on new sales channels one might have to add new return channels as well. It must also be decided how the network should look like, if the returns should be shipped to a return centre or handled in a store and added to the in-store inventory. The solution a company chose as their return process, in store or return centre, depends on characteristics such as sector, product, company size and outlet density (Hübner et al., 2016c). If using stores as logistical nodes in the reverse logistics network the transportation can be minimised, then the goods do not first have to be transported to a DC in order to lately be distributed to the stores again. The goods will thus already be in the right location and ready to be sold to a new customer, both in store and as fulfilment of online orders. By using this decentralised solution when handling returns, transportation and order processing cost related to returns can be optimised (Amini et al., 2005; Wollenburg, 2018).

Customers that use the channels as complementary usually are more loyal than single channel shoppers (Fornari et al., 2016). Which channel that is preferred depends on the intention of the shopping, when it is a planned or goal-directed purchase, the online store is preferred (Bridges & Florsheim, 2008) and when it is recreational or experiential the physical store is preferred (Dholakia, 1999). A majority of the omnichannel customers also expect a possibility to view the in-store inventory online (Hansen & Sia, 2015). Therefore, it is important to focus on customer touchpoints instead of sales channels and make it possible for customers to move freely between the channels in a single transaction process (Rosenblum & Kilcourse, 2013).

In opposite to many beliefs, physical stores will continue to have an important role, the challenge will be to balance the integration of e-commerce. Physical stores will be the key destination when the

customer want a unique shopping experience and have an immediate purchasing gratification (von Briel, 2018). In addition, it has been found that stores can be used as logistical nodes (Kembro & Norrman, 2018). If using stores as a logistical node in the forward logistics network, it means that transportations are shipped from many decentralised locations. The trade-off lays in smaller distance to customers and no investments costs compared to higher picking cost per unit, lower bundling effects and lower utilization of delivery vehicles. One solution to this can be to use pick-up places, however, these contributes with higher inventory costs (Wollenburg, 2018).

## 2.4 Summary of Theoretical Framework

In order to facilitate the connection between the theoretical and empirical findings a framework for analysis has been created. The first part will focus on returns and answer questions regarding what is impacting the management of returns, what conclusions can be drawn from the data and what trends that can be found. The second part will focus on the distribution network and connections between forward and reverse logistics. Finally, the third part will focus on omnichannel retailing, how far IKEA have come in the transformation and how it is affecting the returns and distribution network. The framework is presented in Figure 7.

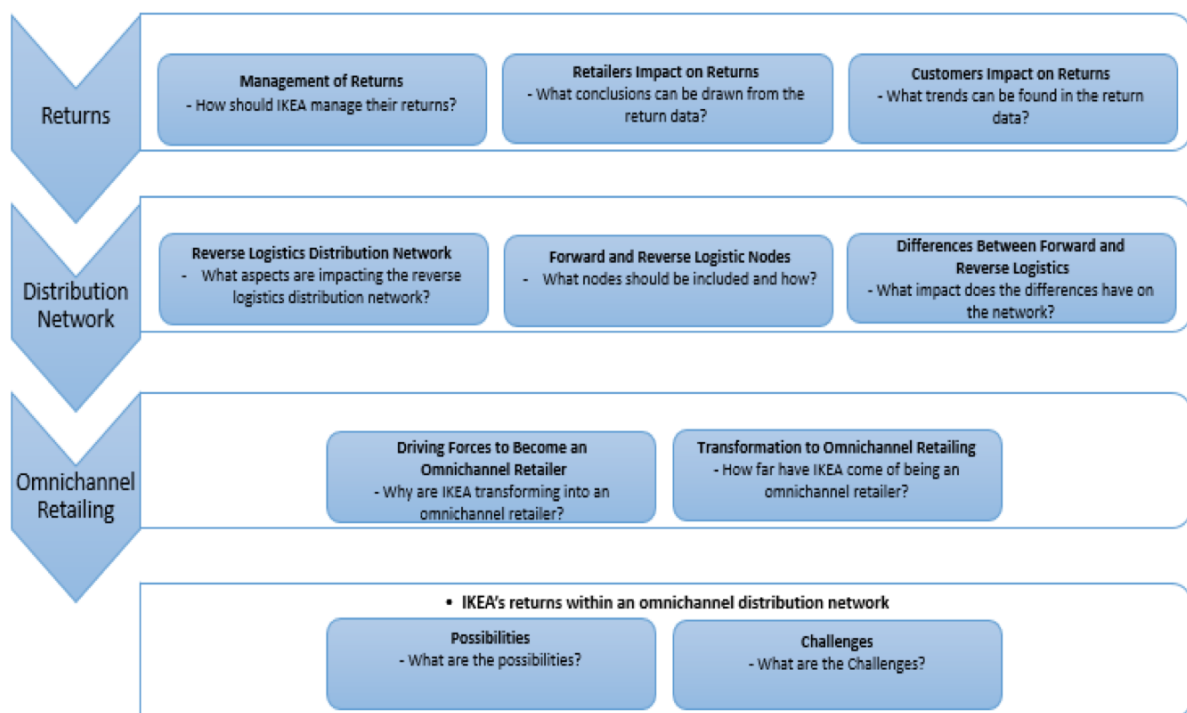


Figure 7: The theoretical framework for analysis with connections to the research questions.

## 3 Methodology

There are different ways of conducting research, the methodology chosen will be the foundation of the study and set the standards. What methodology to use depends on the overall goal and character of the study (Höst et al., 2006). The right methodology will contribute to ensure the quality of the research (Robson, 2011). In this chapter the methodology choice will be presented and motivated. Starting with research strategy and approach, followed by data collection, data analysis and finally research quality.

### **3.1 Research Strategy**

When deciding what method to use there are, according to Yin (2014), three conditions to consider. These are the type of research questions, the extent of control a researcher has over actual behavioural events and the degree of focus on contemporary as opposed to historical events. When the research question include “why” in the same time as no control over behaviour events is required and the focus lays on contemporary event like in this research, the suggested method is a case study (Yin, 2014).

A case study has the aim to in depth describe a phenomenon by using both quantitative and qualitative data (Höst et al., 2006). In fact any relevant stream of information describing the phenomenon is a potential datum (Leonard-Barton, 1990). It is therefore not only seen as a suitable method to study the returns at IKEA, it is also proven to be powerful when developing new theories, explaining “best practices” and understanding gathered data (Voss et al., 2002). The case study will moreover be of an exploratory kind (Höst et al., 2006) given the fact that the studied area, returns within omnichannel retailing, is a rather unexplored research area and therefore this will be a way to evaluate future possibilities.

One can choose between a single case or multiple cases when conducting a study. Often the results from a multiple case study are more compelling and therefore seen as more robust (Yin, 2014). However, with a single case study there is an opportunity to observe the phenomenon more deeply, contributing to a greater knowledge and theory building (Voss et al., 2002). Furthermore, when conducting a single case study the design is flexible (Höst et al., 2006), meaning that the constructs can be modified and the research questions evolve over time. This can be seen as a strength considering knowledge developed during the process can be included and contribute with valuable insights (Voss et al., 2002). Within this single case study a market study will also be conducted. The main goal with this is to be able to analyse the results in a wider perspective and give the study a greater reliability.

### **3.2 Research Approach**

The execution of empirical research requires a plan of the research approach. For this reason, Yin (2014) argues that compiling a case study should be a linear but iterative process, including processes for collection and analysis of data. This case study research has followed the structure of a single case study and as a case study typically should, several methods for data collection have been used (Robson, 2011).

The research approach and its sub activities is described in Figure 8. The process began with understanding the problem and by that define the purpose, formulate the research question and set the delimitations. A suitable methodology was chosen and a literature review was conducted in order to set a theoretical framework. The case and market study was then performed simultaneously and the collected data was analysed. In the analysis the different findings in the empirics were discussed and compared to findings from the theory and the market study. Thereafter, the possibilities and challenges found in theory was put in an IKEA perspective and conclusions were drawn from the analysis whether this was an actual possibility or challenge for IKEA. The possibilities found were: provide a holistic customer experience, reduce uncertainties by centralising the return flow and improve return forecasts by looking at sales data and customer reviews; and the challenges found were: channel integration, separate or combine forward and reverse logistics flows, the integration of e-commerce, decide how to handle uncertainties and returns forecasting. In addition, new possibilities and challenges for IKEA and their management of return process in an omnichannel distribution network was found when making conclusions from the analysis. The possibilities were return policy and



omnichannel partners and the challenge was the speed of the transformation. The research approach has also been used as a protocol for the case study describing in what order each activity should be performed.

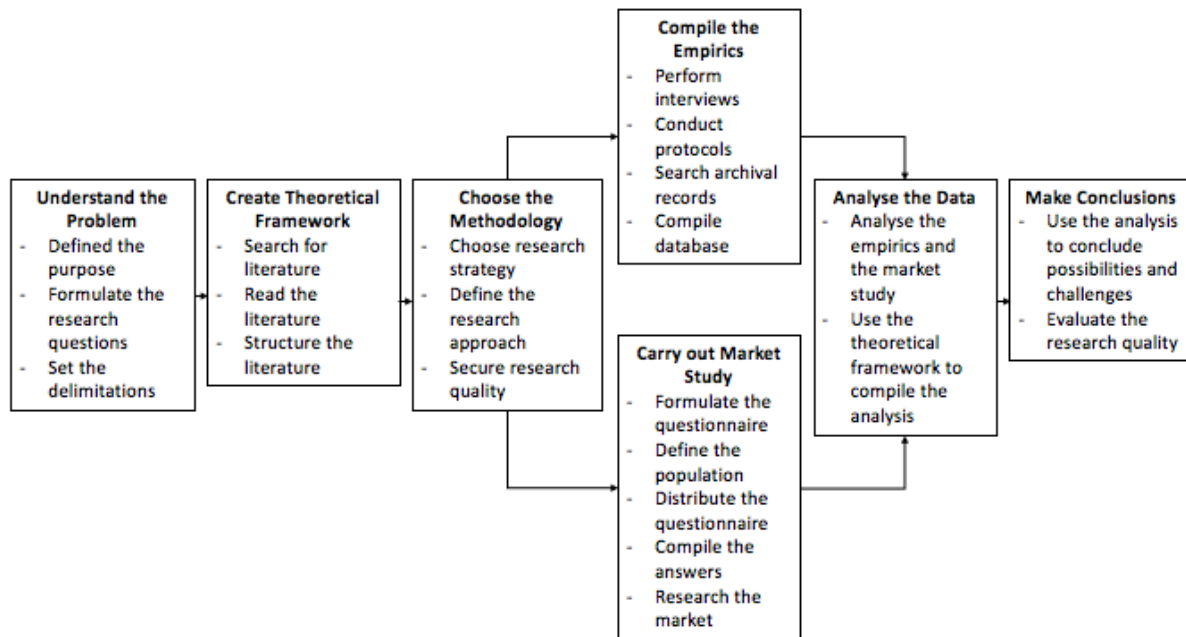


Figure 8: Overview of the research approach and its sub activities.

### 3.3 Literature Review

A case study mainly focuses on extending research within an area and it is therefore important to start the study with a thorough literature review (Voss et al., 2002). The literature will also be helpful to get an understanding of the research area and analyse the findings (Rowley & Slack, 2004). When conducting the literature review databases like Web of Science, EBSCO Host and LUB Search have been used. The search has been exploratory in order to investigate future possibilities and challenges and the keywords that have been searched for have for example been “returns”, “distribution network” and “omnichannel”.

### 3.4 Data Collection

Preparing the collection of data is critical for the case study, if not done properly all work can be in vain (Yin, 2014). In order to strengthen the reliability and quality of the collected data a combination of different methods, a triangulation, can be used (Voss et al., 2002). In the same way as it is important to cover all aspects of the phenomenon by using different methods it is also important to cover several aspects with the same method (Höst et al., 2006). Typical methods used for data collection are archival records, documentation, interviews, observations and questionnaires (Höst et al., 2006; Voss et al., 2002; Yin, 2014). The ones that were used in this study were archival records and interviews.

#### 3.4.1 Archival Records

Archival records consist of data gathered for another purpose than for this case study, most often in the form of computer files and records. It is important to take into consideration the initial purpose as well as how it has been produced to decide its accuracy (Höst et al., 2006; Yin, 2014). The archival records data gathered for this thesis have primarily been found through internal documentation at IKEA of Sweden in form of articles and PowerPoint presentations, but data have also been collected from different IKEA databases and QlikView

apps in order to create a database for the case study. Example of data that have been collected from this source is return statistics. The archival records data have only been possible to collect directly from IKEA, but are despite the limited reference considered to have high credibility.

### 3.4.2 Interviews

Interviews are one of the most important sources for data collection in case studies (Yin, 2014). They can be more or less structured, however they should always be focused on the area of interest (Höst et al., 2006). For research with a flexible design, semi-structured interviews are most commonly used (Robson, 2011). Semi-structured interviews consist of a couple of questions as a base for the interview, but the order and formulations can be changed depending on how the interview develops. The intention with interviews should be to collect explorative and descriptive information (Höst et al., 2006).

To explore how IKEA are working today, several semi-structured interviews have been conducted. The stakeholders that have been interviewed have in some way a connection to IKEA's work with subjects of the theoretical framework. Their positions and what organisation within IKEA that they are working for, as well as the purpose of the interviews, are all presented in Table 6. During the interviews notes have been taken and immediately afterwards a summary of the answers has been compiled into interview protocols.

*Table 6: List of the compiled interviews and its stakeholders.*

Position	IKEA Organisation	Purpose of the interview	Date
Process Developer, Need & Capacity	IKEA of Sweden	IKEA Process and Balance Sales and Supply overview.	2018-02-05 2018-03-05
Process Developer Manager, Sales & Demand	IKEA of Sweden	Overview of the IKEA of Sweden structure and their way of working.	2018-01-18 2018-01-19
Process Developer, Need & Capacity	IKEA of Sweden	IKEA Logistic distribution network overview	2018-02-12
Stream Manager	IKEA Retail Services	The impact of the Multichannel Transformation Program on returns	2018-02-09
SAMS Country Superuser	IKEA Svenska Försäljnings	Handling of returns in the IKEA store	2018-02-26
Customer Relations Team Leader	IKEA Svenska Försäljnings	Handling of returns in the IKEA store	2018-03-15
After Sales Leader	IKEA Svenska Försäljnings	Understand the strategic and operational processes of returns in the Swedish IKEA Stores	2018-03-01
Country Recovery & Quality Manager	IKEA Svenska Försäljnings	Understand how IKEA are trying to reduce the profit impacts of returns	2018-03-01
Process Developer, Need & Capacity	IKEA of Sweden	Understand how IKEA are working with their QlikView	2018-04-05
Logistics Specialist	IKEA Services	IKEA distribution network from a store perspective	2018-04-10
Country Web & Digital Manager	IKEA Iberica S.A.	Understanding about IKEA Pop-up Store Madrid, Spain	2018-04-17
Supply Manager	IKEA of Sweden	IKEA's future plans	2018-04-18

### 3.5 Market Study

To ensure the actuality of the study and fill the gap between literature and the market today a market study was performed. The data for the market study has been collected through both a questionnaire and a literature review.

### **3.5.1 Questionnaire**

Questionnaires are used to collect opinions and perceptions from a population and consist of both closed and open-ended questions (Höst et al., 2006). The process of formulating the questions is critical and should be done to achieve the goal of the research and more specifically answer the research questions. A challenge can therefore be to make sure that the respondents understand the question and wants to answer it, in the same time as the question remains faithful to the goal of the research (Robson, 2011).

The questionnaire used in this study can be found in Appendix A and for a company to be included they had to fulfil three of the following criteria:

- The company offer low-price products
- The company handle large volumes of goods
- The company handle bulky goods
- It is a global company
- The company have e-commerce

The criteria were chosen because they reflect the business of IKEA. IKEA handle primarily low-price products and every necessary cost to make these products sellable again will highly affect their profit margin. Therefore, return processes are, to some extent, considered to depend on this. Furthermore, if the sales volumes as for IKEA are huge, even a few percentages in returns will result in large volumes. When that is the case good processes for return handling gets more important. The same goes for handling increasing volumes of bulky goods, since the repackaging process can be a bit more complicated than for other products. The work needed to make the product sellable again will increase and therefore this is considered as an important factor. IKEA are also a global company, meaning that they are selling products in countries all around the globe. This often leads to an increase of complexity within the distribution network that can impact the return flow.

The questionnaire was distributed by e-mail to 20 companies and out of these eighth responded to the questionnaire. The response rate was therefore 40 per cent, which can be assumed to be low (Fowler, 1993; Mangione, 1995). However, the purpose with the questionnaire was to get an overview of the market and be a complement to the case study. The low response rate has therefore been accepted and no statistical conclusions have been drawn.

### **3.5.2 Market Study Literature review**

For the literature review in the market study the actuality of the sources have been considered important, since the market is constantly changing. Only sources from between the years of 2015-2018 have therefore been used. The purpose has been to explore available solutions suggested by other organisations. For example have survey reports from both Postnord and UPS been reviewed.

### **3.6 Data Analysis**

The collected data needs to be analysed in order to understand what it shows. This is the most important part when building theory, but also the most difficult one (Eisenhardt, 1989). A comparison between the theoretical framework and the findings from the case study has been conducted and the market study has been used as a complement. Depending on the type of data,

different methods should be used (Höst et al., 2006). The first step is often to look for patterns, insights or promising concepts. This can be done through creating a visual display from which conclusions can be drawn, categorise the data in matrices, tabulating the frequency of different events, making predictions that can be tested or perform statistical calculations (Höst et al., 2006; Voss et al., 2002; Yin, 2014).

The analysis has been made with the theoretical framework in Figure 7 as a base, starting by understanding how IKEA's return flow looks today. In order to do that all factors that impacts the return flow needed to be understood. Thereafter an estimate of the future return flow was made in order to understand the importance of returns in IKEA's business.

Next step in the analysis was to understand how IKEA's distribution network looks like today. As the management of distribution networks are becoming more complicated Gardner & Cooper (2003) suggest that there is a need for mapping. This will make it easier to transfer and exchange knowledge within an organisation. A distribution network map can enhance the strategic planning process, ease distribution of key information, facilitate distribution network redesign or modification, clarify channel dynamics, provide a common perspective, enhance communications, enable monitoring of distribution network strategy and provide a basis for analysis (Gardner & Cooper, 2003). Therefore, a map of both the forward and reverse logistic flow were created.

The third step in the analysis was understanding the impact of transforming into an omnichannel retailer. Important factors that were affected were listed, both concerning the distribution network and the return flow. Finally, conclusions regarding possibilities and challenges for IKEA were drawn.

### **3.7 Research Quality**

A study's credibility can be determined both by its reliability and its validity (Höst et al., 2006; Voss et al., 2002; Yin, 2014). The aim is therefore to be precise with the studied phenomenon, have well-founded conclusions and present generalizable results (Höst et al., 2006). The generalizability highly depends on the sampling, including several cases in the sampling it will improve the generalizability. A single case study is for this reason not considered to be generalizable (Höst et al., 2006; Robson, 2011).

To judge the quality of the research design in a case study Yin (2014) have presented four different test that should be performed. The tests are reliability, construct validity, external validity and internal validity. Reliability are tested by the extent to which a study can be repeated with the same results (Höst et al., 2006; Robson 2011; Yin, 2014). In order to have high reliability a thorough data collection and analysis are required together with a well explained structure (Höst et al., 2006; Yin, 2014). For this reason an extensive data collection has been carried out exploring all possibilities within the purpose and the delimitations of the report. Furthermore, the aim of the report structure has been to give the reader a clear understanding of how the collected data and compiled assumptions are connected to the analysis and conclusions. To guarantee a high reliability case study protocols are recommended to be used and case study databases developed (Yin, 2014). Therefore, the study followed the order of the research approach and protocols from all interviews have been constructed and saved. A database with IKEA's return data for FY 2012 to 2017 has also been established. The database consists of data like returned quantity, volume and value for each country and business area.

Validity is to what extent the studied phenomenon is connected to what is measured and can be divided into construct validity, internal validity and external validity (Höst et al., 2006; Voss, 2002; Yin, 2014). Construct validity has the aim to identify correct operational measures for the concepts being studied. In the end, ensuring that no subjective judgement is used. To achieve this the recommended tactics is to use multiple sources of evidence, establish a chain of evidence from the initial research questions to the conclusions and to have key informants review the report. Internal validity is only used for explanatory studies and will not concern this study. Finally, external validity is to which extent the results can be generalised. In single case studies theory can be used to increase the external validity (Yin, 2014), which it has been in this case study.

To increase both the validity and the reliability of a study, triangulation can be applied. The same object is then studied from different directions (Höst et al., 2006, Yin, 2014). In this report a theory triangulation has been made through a comprehensive literature review, data source triangulation has been accomplished through interviews with different actors, data collection from archival records and a market analysis connecting the case study with the environment. Lastly, investigator triangulation has been used with two investigators conducting this study and several investigators in previous studies used in the theoretical framework. All methods employed to ensure the quality of the research have been summarised in Table 7.

*Table 7: A summary of methods used to ensure the research quality.*

	<b>Methods</b>
<b>Reliability</b>	Case study protocol
	Case study database
<b>Construct validity</b>	Multiple sources of evidence
	Establish a chain of evidence
	Key informants review the report
<b>External validity</b>	Use of theoretical framework
<b>General Approach</b>	Theory triangulation
	Data source triangulation
	Investigator triangulation

## 4 Empirics

*The empirics presents the findings from the interviews and archival records. The chapter is structured in the same way as the theoretical framework managing the areas of Returns, Distribution Network and Omnichannel Retailing in an IKEA context. Explaining and exploring how IKEA are working with returns as of today.*

### 4.1 Returns

IKEA divide the returns into two different categories, internal returns, which is cancellations when the goods have not yet reached the customer, and external returns, which is all returns that happens after the customer has come in possession of the goods. To be able to track the customer reasons for external returns, IKEA have developed a global reason code setup. Included in this setup are five specific reason codes, which are connected to sub-reasons. The reasons and sub-reasons are all presented in Table 8. The condition of the returned product is also assessed by IKEA. Products that are in good condition and can be put back in store or storage are given the code TT320, while products where either the product or package is damaged and recovery is needed are given the code TT325.

Table 8: Reason and sub-reason codes at IKEA.

Reason code	Change of mind	Service process	Product quality	Sales process	Customer assistance
Reason	Articles the customer does not want anymore	Problems during the service process	Articles with production errors (not caused by handling)	Problems during the sales process	Other customer relations issues
Sub-reason	Style or size does not fit	Packaging and/or product are damaged	Parts missing or wrong	Incorrect or misleading information	Order of articles/parts
	Bought more than needed	Late delivery or service	Product has defects	Ordered wrong product	Refund VAT
	Found better product elsewhere	Delivery differs from offer	Product does not function as expected	Picking error	Forgotten IKEA items
	Found better price elsewhere	Not satisfied with service	Unsafe or recalled product	Handling damage	Customer incident
				Payment issues or over sales	

#### 4.1.1 IKEA’s Management of Returns

IKEA have found it to be most cost efficient to manage the returns at the closest IKEA Store. The reason for this is that all IKEA Stores have both personnel and space available. In addition, all IKEA Stores have a dedicated bargain corner where products can be sold as-is. With this solution there will be few handling points, which means that the final actions will be done as fast as possible in the same time as transportation is minimised. The process for management of returns at IKEA can be seen in Figure 9, starting in the top right corner.

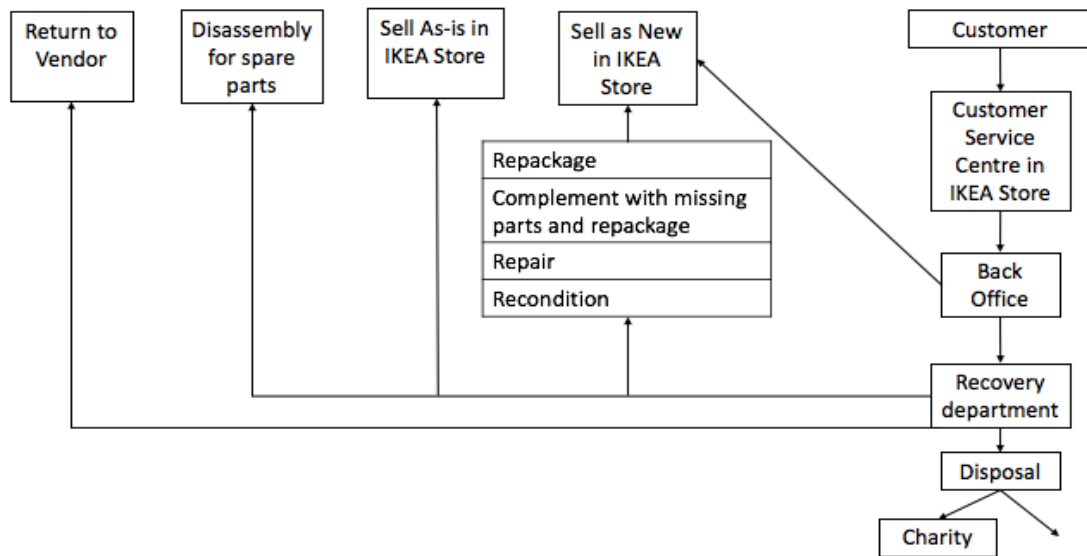


Figure 9: Process map of IKEA’s management of returns.

Regardless of what return option the customer chooses or where the purchase has taken place the return will always be handled by the Customer Service Centre (CSC) at an IKEA Store. Here the process starts by IKEA registering the return in one of IKEA’s information systems. Included in the registration are the return reason given by the customer, the condition of the product and sometimes an extra comment if the reason and sub-reason code is not describing the return reason well enough. When the registration is done, the product is sent back office, where the next step depends on the condition of the product. TT320 products are sorted according to Home Furnishing

Business (HFB) areas in shopping carts and sent back out to the right department in the store or put back in the self-service area and TT325 products are sent to the recovery department.

A recovery department is included in all IKEA Stores and consists of 5-30 employees, depending on the size of the store. At the department it is up to the responsible employee to decide whether to recover the product or not. If recovery is too advanced or takes too much time it might not be worth it. Additionally, the space for handling returns is limited and some products are therefore discarded or donated to charity. On the other hand, if the products can be recovered the recovery department have access to a machine that can make new packages for flat packs. They also have access to a spare part library with the spare parts that are most often needed and it is possible to order new spare parts and components, but this is not that commonly used. Instead the actions that the recovery department primarily perform are to repackage, complement with missing parts and then repackage, repair, recondition, price and sell as-is or disassembly to use as spare parts. Finally, when actions have been taken and the product is ready to be sold again the product is put in a shopping cart with the TT320 returns or placed in the bargain corner. This is done regardless of how the product has been purchased from the beginning and IKEA does not register where the purchase has been made when receiving the return.

#### **4.1.2 IKEA's Impact on Returns**

To understand IKEA's impact on the return flow data of IKEA's sales and returns will be presented. The data comes from FY 2012 to 2017 and has been compiled at a global level as well as country and HFB level. To get a further perception of the HFB areas examples of products are presented in Appendix B. The dimensions that will be used to evaluate both sales and returns are quantity, volume and value. The reason for this is that differences have been found between the different dimensions and a large volume does not necessarily imply a large quantity or value and vice versa. Noted should be that IKEA did not have any stores and thereby no returns in Croatia during FY 2012 and 2013, in the middle of FY 2014 they opened their first store. When it comes to South Korea IKEA opened their first store during the end of December FY 2014, the data is therefore gathered from FY 2015 and onwards.

IKEA's turnover has in total increased from 27,6 billion euro in FY 2012 to 36,3 billion euro in FY 2017. During this period of time both new stores and new markets have been added and the IKEA products are still today primarily being sold at the IKEA stores. In Figure 10 the trend of the sales value per week for IKEA during FY 2017 has been plotted together with the trend of the returns in value on two separate axes. It can be seen that the trend curves follow each other quite well, when the sales go down the returns follows. It can also be seen that when sales had a peak and then dropped the returns also decreased, but with some lag.

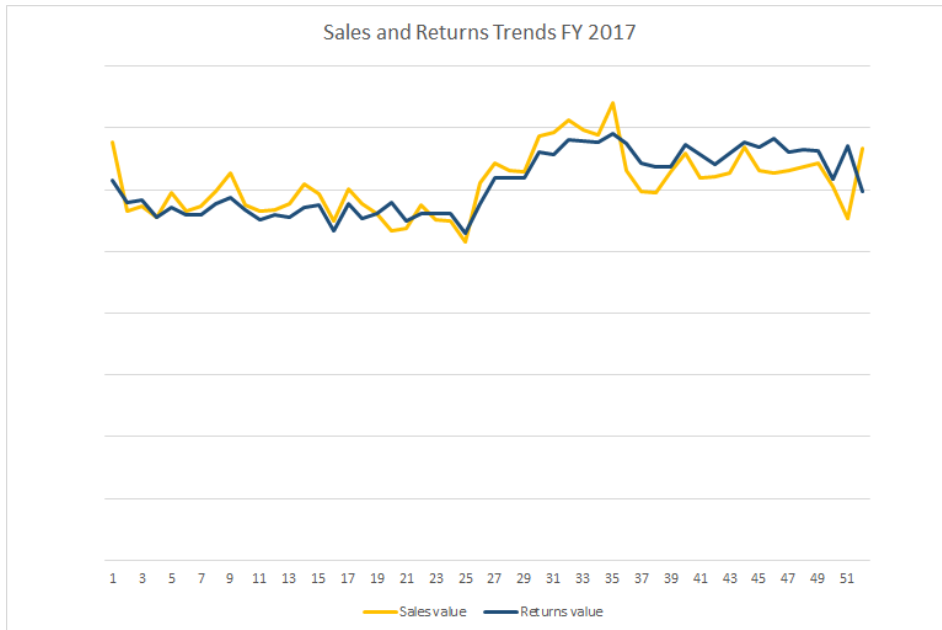


Figure 10: Trends for IKEA's total sales and returns per week FY 2017, plotted with the value on different y-axes.

In Figure 11 it can be seen that IKEA's largest market FY 2017, if looking at sales in value, is United States and the smallest is Croatia. In all markets there have been an increase from FY 2012 to 2017. However, the values have been relatively stable for all countries from FY 2016 to 2017. The country that has increased the most is China and the country that has decreased the most is Russia. When looking at sales in quantity and volume instead almost the same trends can be found. The biggest difference is that Germany has the largest sold quantity and volume.

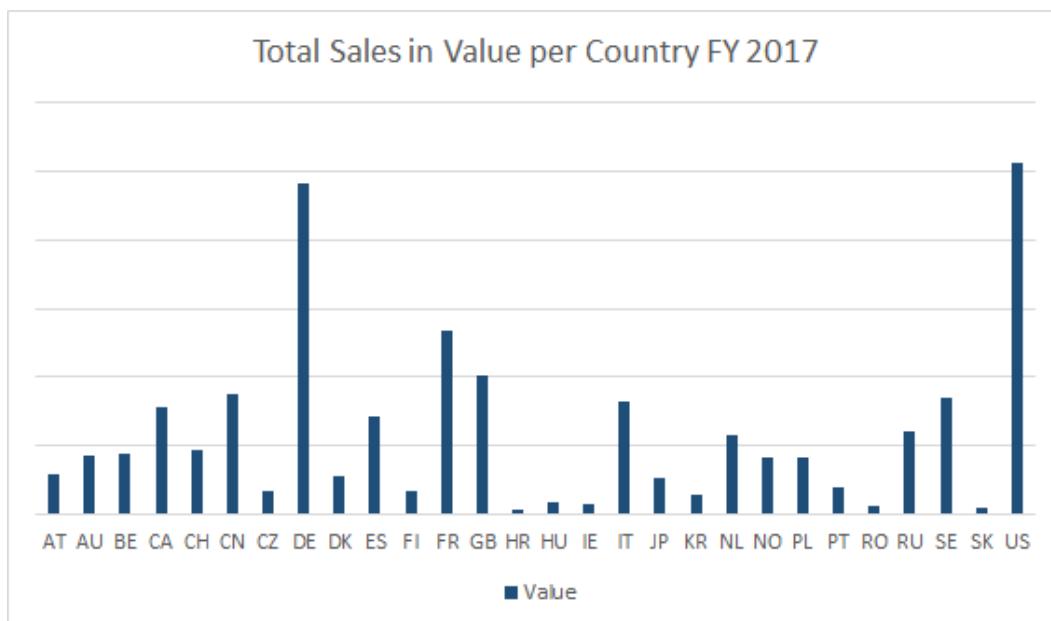


Figure 11: Total sales per country FY 2017 with the value on the y-axis.

Shown in Figure 12 is IKEA's total sales in value per HFB, here it should be known that the total sales compared to FY 2016 is increasing for all HFB areas despite the following seven, "Children's IKEA", "Family", "Lightning and Home Smart", "Other Business Opportunities", "Outdoor", "Rugs" and "Store and Organise Furniture". "Kitchen" and "Bedroom Furniture" have the highest value while "Other Business Opportunities" have the lowest. If instead looking at sales in quantity per HFB for FY



2017 “Eating” and “Decoration” are the two HFB areas that sell the most while “Other Business Opportunities” and “Outdoor” are the two that sell the least. When it comes to sales in volume “Living Room Seating”, “Bedroom Furniture” and “Beds & Mattresses” are the ones with the greatest volumes, while the ones with the smallest volumes are “Other Business Opportunities” and “Family”.

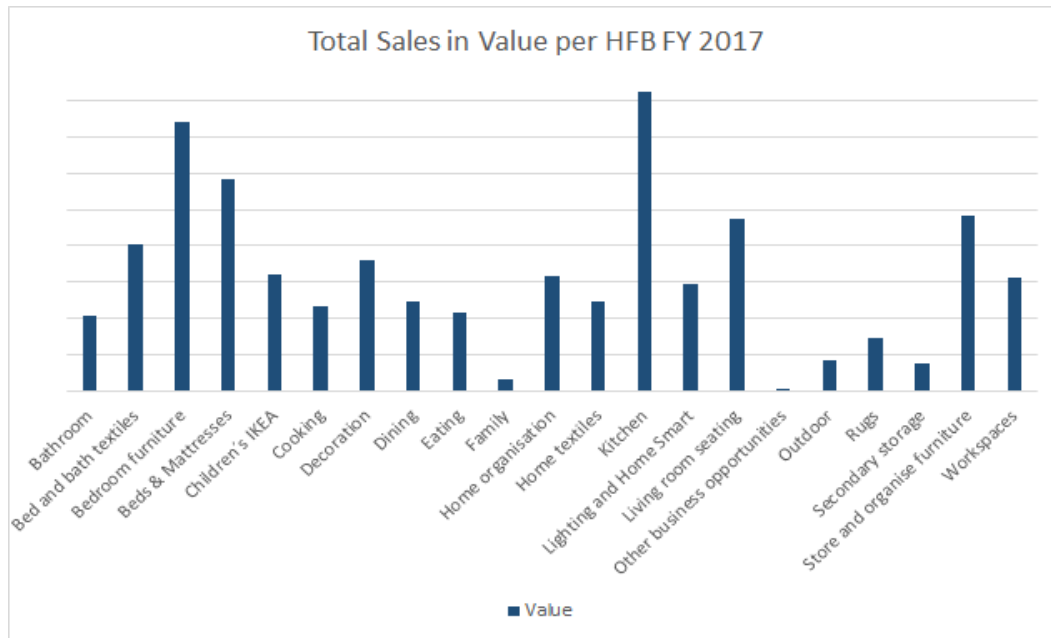


Figure 12: Total sales per HFB FY 2017 with the value on the y-axis.

**Returns Compared to Total Sales**

In the same time as IKEA for the last six years have sold more in terms of quantity, volume and value has IKEA’s return flow increased from 1,7% to 1,9% of sold quantity, from 3,1% to 3,5% of sold volume and from 3,8% to 4,2% of sold value. Figure 13 presents the percentage of returns in relation to actual sold quantity, volume and value during the years FY 2012 to 2017.

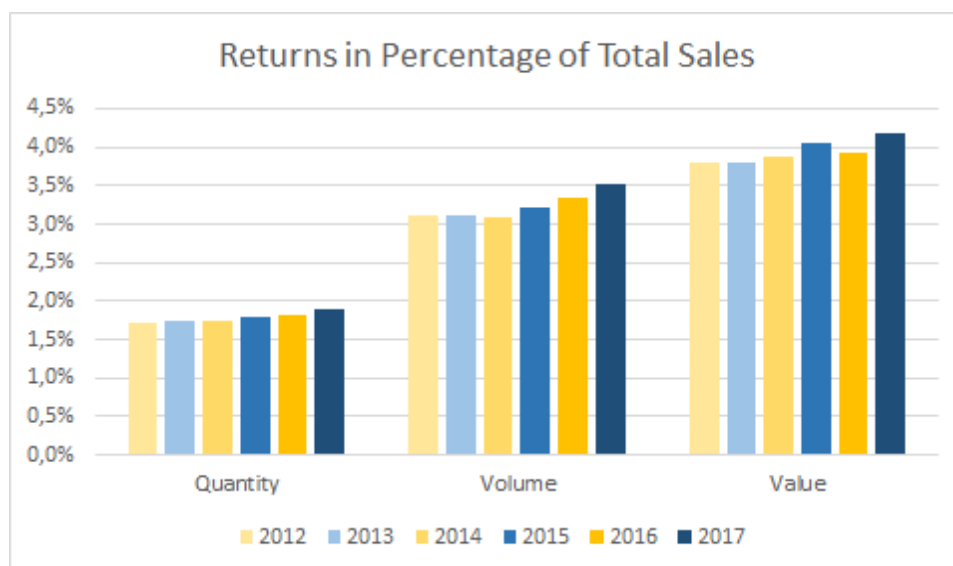


Figure 13: The percentage of returns in relation to sales quantity, volume and value FY 2012- 2017.

If looking at returns in quantity per country, two countries have a significantly higher level of returns than the rest. These are Canada and United States. Overall it can however be stated that the percentage of total sales that is returned is low. For most countries the returns in quantity has been

relatively stable between FY 2012 and 2017. The countries that stands out are Canada that has had a larger increase than the rest and South Korea where there has been a decrease since the start in FY 2015.

When looking at the percentage of total sales returned in volume in FY 2017, the same result can be seen regarding which countries that have the highest level, Canada and United States. Once again the levels are quite stable during the period. The countries with the lowest level of returns in percentage of volume are Switzerland, Finland, Italy and Russia. In percentage of sales value Canada have the highest numbers once again and Italy and Russia the lowest. The highest and lowest percentage of returns for the countries in FY 2017 can be found in Table 9.

When segmenting returns by HFB it can be seen that “Other Business Opportunities” from FY 2012 to 2017 has had the highest percentage of returns in quantity. Second highest percentage did “Kitchen” had, while “Cooking” had the lowest percentage of returns. A smaller increase can be seen as a general trend for all of the HFBs areas. The highest percentage of returns in volume did “Other Business Opportunities” had FY 2017, and the lowest percentage of volume did “Eating” had. The only HFB with a decrease in percentage of volume between FY 2016 and 2017 is “Rugs”. When it comes to percentage of returns in value “Other Business Opportunities” once again had the highest value FY 2017, and “Family” had the second highest. “Living Room Seating”, “Store and Organise Furniture” and “Workspaces” was the ones with the lowest. The highest and lowest percentage of returns for the HFBs in FY 2017 can be found in Table 9.

*Table 9: The highest and lowest percentage of returns FY 2017.*

	<b>IKEA Total</b>	<b>Highest, Country</b>	<b>Lowest, Country</b>	<b>Highest, HFB</b>	<b>Lowest, HFB</b>
<b>Quantity of returns</b>	1,9%	Canada, 4,5%	Japan, 0,6%	Other Business Opportunities, 6,5%	Cooking, 0,4%
<b>Volume of returns</b>	3,5%	Canada & United States, 6%	Switzerland, Finland, Italy & Russia, 2%	Other Business Opportunities, 6,2%	Eating, 0,7%
<b>Value of returns</b>	4,2%	Canada, 7,2%	Italy & Russia, 2,1%	Other Business Opportunities, 54,2%	Store and Organise Furniture, 0,07%

### **Returns Segmented by Condition**

The returns have also been segmented by condition, TT320 or TT325, and here it can be found that the percentage of TT325 is increasing for all three dimensions, quantity, volume and value. It can also be seen that the TT325 returns last year stood for 26% of the quantity (Figure 14), 55% of the volume (Figure 15) and 47% of the value (Figure 16) and that TT325 returns have picked up in speed since FY 2014. However, it is only in Figure 15 when looking at volume that the TT325 returns have grown past the TT320 returns.

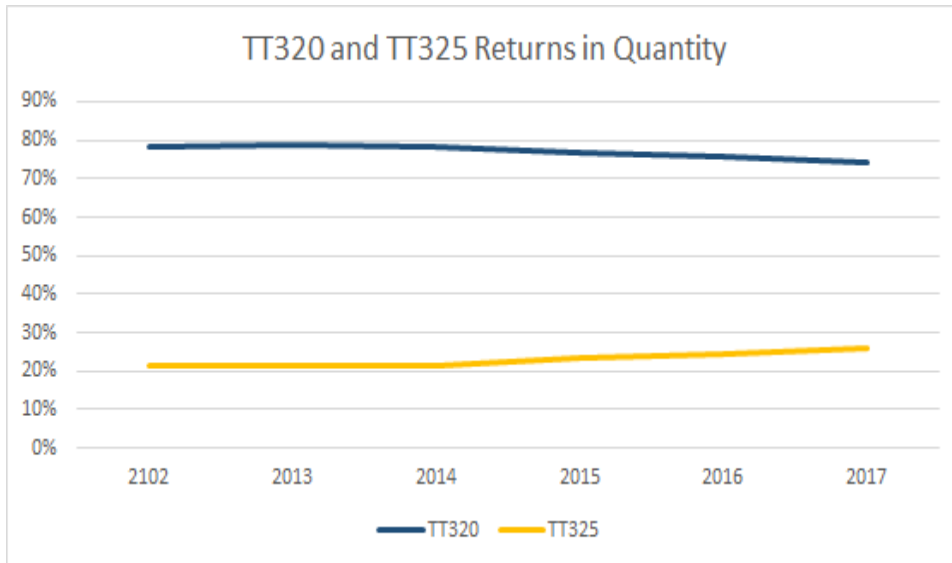


Figure 14: Quantity of TT320 and TT325 of total return quantity FY 2012-2017.

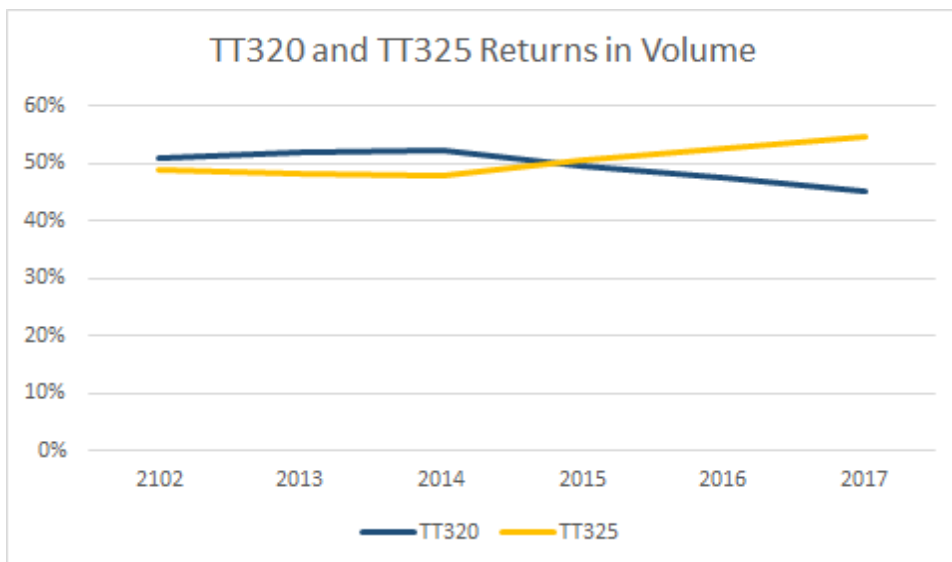


Figure 15: Volume of TT320 and TT325 of total return volume FY 2012-2017.

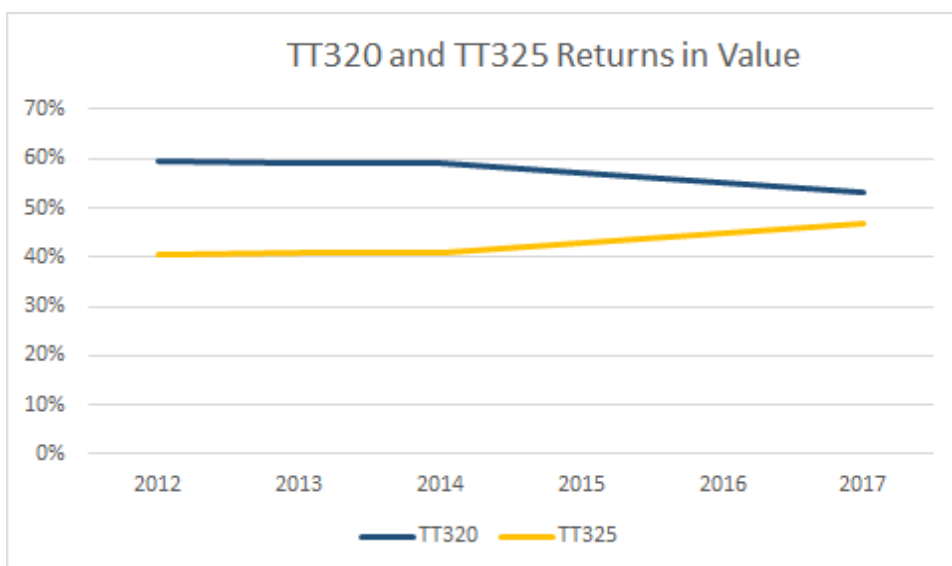


Figure 16: Value of TT320 and TT325 of total return value FY 2012-2017.

Since TT320 returns normally are put back in stock without any recovery only TT325 returns will be evaluated further. To what exact extent the TT325 returns can be recovered cannot be found in any data. However, IKEA argue that approximately 70% of the TT325 returns are sold as-is. From a country perspective Denmark had the lowest percentage of TT325 returns in quantity FY 2017, while Japan had the highest. In Australia and Denmark, the percentage of TT325 returns has decreased during the last years. In China, Croatia, Germany, Ireland, Portugal, Russia, United Kingdom and the United States it instead clearly has increased.

When looking at TT325 returns in volume, Denmark is the country with the lowest level, while Germany followed by Japan had the highest level during FY 2017. In Denmark and Finland, the percentage of TT325 returns is decreasing in percentage of volume and in Germany, Ireland, Poland, Portugal, Romania, Switzerland, United Kingdom and United states it is increasing. The country with the highest percentage of TT325 returns in value was Japan and the lowest percentage is once again found in Denmark. The percentage of TT325 returns from highest and lowest country for all three dimensions in FY 2017 can be found in Table 10.

From a HFB perspective and in terms of quantity “Living Room Seating” and “Beds & Mattresses” are the two HFB areas with the highest percentage of TT325 returns for all years included. “Other Business Opportunities” is the HFB area with the lowest percentage of quantity of TT325 returns for all years. The HFB with the highest percentage in terms of volume of TT325 returns is “Living Room Seating” while “Other Business Opportunities” had the lowest FY 2017. If looking at the value of TT325 returns “Bathroom” and “Children’s IKEA” had the highest percentage, while “Workspace” had the second highest. The lowest percentage overall years did “Store and Organise Furniture” had. The percentage of the TT325 returns from the highest and lowest HFB for all three dimensions in FY 2017 can be found in Table 10.

Table 10: The highest and lowest percentage of TT325 returns FY 2017.

	IKEA Total	Highest, Country	Lowest, Country	Highest, HFB	Lowest, HFB
<b>Quantity of TT325 returns</b>	26%	Japan, 42%	Denmark, 11%	Living Room Seating, 56%	Other Business Opportunities, 9%
<b>Volume of TT325 returns</b>	55%	Germany, 64%	Denmark, 35%	Living Room Seating, 71%	Other Business Opportunities, 10%
<b>Value of TT325 returns</b>	47%	Japan, 56%	Denmark, 25%	Bathroom & Children's IKEA, 66%	Store and Organise Furniture, 13%

### ***IKEA's Return Policy***

IKEA want their customers to be able to shop with confidence and are therefore trying to offer a very generous return policy. This is aligned with IKEA explaining that returns cannot be avoided, instead they strive to have “happy returns”. A “happy return” is a return from a customer that have changed their mind and if rejecting the return it can lead to a lost lifetime customer. The best way to handle these types of returns according to IKEA is by offering good service and a generous solution, which will make the customer leave the store happy. Hopefully this will also increase customer loyalty, since the problem is fixed in a satisfied way and the customer is happy to spread the word recommending IKEA to new possible customers.

All IKEA markets are today free to decide their own return policy based on the conditions in their market. IKEA have however developed a recommended global return policy that is aligned with their strive to have a simple, positive and efficient return experience. The primary reason for IKEA to create this global return policy is that they have seen a change in customer behaviour, primarily from online shoppers. IKEA believes that a great part of online shoppers view the return policy before making a purchase and a global overall lenient return policy is therefore seen as a competitive sales argument that can increase purchases and boost sales by winning the customers confidence.

The global return policy is adapted to the EU legislation for online shopping and the ambition is that all IKEA markets have changed to the global return policy during FY 2018. The purpose of the global return policy is to have a generous and competitive return policy across markets with the same return policy for all customers and all channels, leading to a positive and consistent customer experience. The following four points are included in the global return policy:

- Return all products – no exception
- Return items within a year – 365 days to change your mind
- Return assembled products or products without packaging
- Choose the return option that is most convenient for them

The first point implies that all products can be returned with no exceptions, even custom fitted worktops and plants. This applies for products sold as new and not in the bargain corner. The conditions are different for all markets and the global return policy has been adjusted in some countries. In Sweden for example custom fitted worktops have been excluded since IKEA in general sell more kitchens in this market. The second point implies that products can be returned within a year, giving the customer 365 days to change their mind. However, for full refund of the product a valid receipt is needed. If the customer lack proof of purchase, wants to return after 365 days or the products are used beyond reason to test a refund card is given.

The third point is aligned with EU legislation saying that e-commerce customers have the right to test a product at home. This implies that assembled products or products without packaging can be returned. Products that are sold in the bargain corner can be returned if still in the package but never assembled. Finally, the fourth point implies that the customer can choose the most convenient return option. Free returns are offered at the IKEA Stores while pick-up at home by truck or parcel postal service are considered as services that the customer needs to pay for. This is aligned with the IKEA concept to charge for services.

United Kingdom were the first country to try the new global return policy. Findings from their evaluation shows that the return rate is stable on a slightly higher level than previous year and the number of returns performed within 90 days are 94%. What could be found was an increase of returns due to “change of mind” for TT325 returns. However, the increase was from a very low level. In summary IKEA see no negative impact of a more generous return policy. On the contrary, the feedback from customers and co-workers is very positive. Another step in updating the return policy is that IKEA United Kingdom now is trying out free parcel returns.

### 4.1.3 Customers Impact on IKEA's Returns

There are both country and HFB specific shopping behaviours that IKEA as a global retailer have identified and need to take into consideration. As an example have IKEA seen a difference in customer behaviour with returns being more common in the United States and Japanese requesting the flat pack cartons to be in perfect condition, otherwise no one will buy it. In the same way have IKEA Sweden identified rugs as a product that often is returned due to change of mind.

One way for IKEA to find these kind of trends is by using reason codes. For example, if the return is believed to be a result of misleading by the sales personnel the information is forwarded to the personnel in the store to avoid future returns. On the other hand, if the return is because of a construction problem the store reports this to the country office who then ask if other stores have experienced the same thing. In some cases, other country offices are contacted as well. If others have experienced the same problem the country office or INGKA could bring this up with IKEA of Sweden who are responsible for the range.

Despite that all countries and stores should use the reason codes in the same way, there is a possibility for minor interpretation issues. There have also been some adjustments of the reason codes between FY 2012 and 2017. IKEA used different reason codes before FY 2016, which can explain some of the changes in proportion. Not all reasons are included in the new one and new guidelines for how returns are coded are two factors that have affected the statistics. Furthermore are IKEA not differing on purchases made in store or online.

For IKEA in total, the distribution of TT325 returns for FY 2017 were 70,1% "change of mind", 5,4% "service process", 14,4% "product quality", 9,9% "sales process" and 0,2% "customer assistance". If looking at TT320 returns in all countries the main reason was "change of mind". FY 2017 the percentage for IKEA in total were 95,3% "change of mind", 0,6% "service process", 0% "product quality", 4% "sales process" and 0,1% "customer assistance". The proportion for the different return reasons for TT325 returns the last six years can be seen in Figure 17. Notable is that returns due to "change of mind" and "sales process" have increased, while "service process" and "product quality" have decreased.

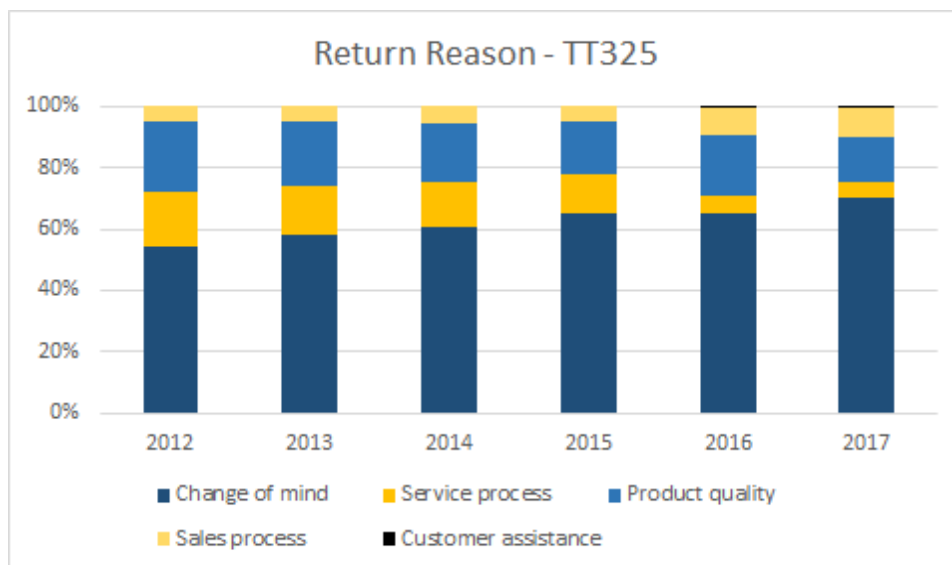


Figure 17: Proportion of the return reasons for TT325 returns FY 2012-2017, looking at returns in quantity.

For TT325 returns the return reason “change of mind” has increased steadily during the last years. Countries where it has increased a lot from FY 2016 to 2017 are Austria, Czech Republic, Denmark, Spain, Hungary, Norway, Russia and Slovakia. It is only in a few countries it has decreased, more particularly in France, Ireland, South Korea and Netherlands. Romania, Spain and Portugal had many returns due to the “service process” earlier, but are down on numbers more close to the other countries since two years ago.

TT325 returns due to “product quality” have decreased in all countries but South Korea from FY 2016 to 2017, meanwhile returns due to return reason “sales process” have increased the last two years. Countries that increased a lot were China, Denmark, France, Ireland, Netherlands, Romania and United Kingdom. In countries like Austria, Belgium, Canada, Czech Republic, Germany, Croatia, Hungary, Italy, Japan, Norway, Slovakia and United States it decreased. Return reason “customer assistance” has been very low during all years for all countries. Percentage for the highest and lowest countries per reason code can be found in Table 11.

Just like presented at country level there are differences in return reasons for TT325 returns between the different HFB areas. The return reason “change of mind” is the largest. “Bedroom Furniture”, “Decoration” and “Eating” have had the highest percentage of TT325 returns with reason code “service process”. However, they have decreased to a percentage closer to the other HFB areas lately. The largest percentage of returns due to “product quality” between FY 2012 and 2015 did “Family” had. However, in FY 2016 it was “Children’s IKEA” and in FY 2017 “Cooking”. When it comes to return reason “sales process” “Bedroom Furniture” had the highest percentage FY 2017 and “Rugs” the lowest. As for the countries, the return reason “customer assistance” have been very low for all HFBs during the entire period. Percentage for the highest and lowest HFB per reason code can be found in Table 11.

Table 11: The highest and lowest percentage of TT325 returns per reason code FY 2017.

	IKEA Total	Highest, Country	Lowest, Country	Highest, HFB	Lowest, HFB
<b>Change of Mind</b>	70%	United States, 82%	Japan, 49%	Rugs, 93%	Bedroom Furniture, 55%
<b>Service Process</b>	5,5%	Italy, 12%	Japan, South Korea & Russia, 1%	Bedroom Furniture, 10%	Rugs, 1%
<b>Product Quality</b>	14,5%	Japan, 42%	Romania, 3%	Cooking, 27%	Rugs, 4%
<b>Sales Process</b>	10%	Ireland & Romania, 25%	Hungary, 2%	Bedroom Furniture, 15%	Rugs, 2%

## 4.2 Distribution Network

IKEA’s forward distribution network covers all nodes from the suppliers to the end customer’s home. This is seen as an enabler of IKEA being the leader of life at home and includes the transportation of goods, a vital key to connect all nodes. An overview of IKEA’s forward distribution network can be seen in Figure 18.

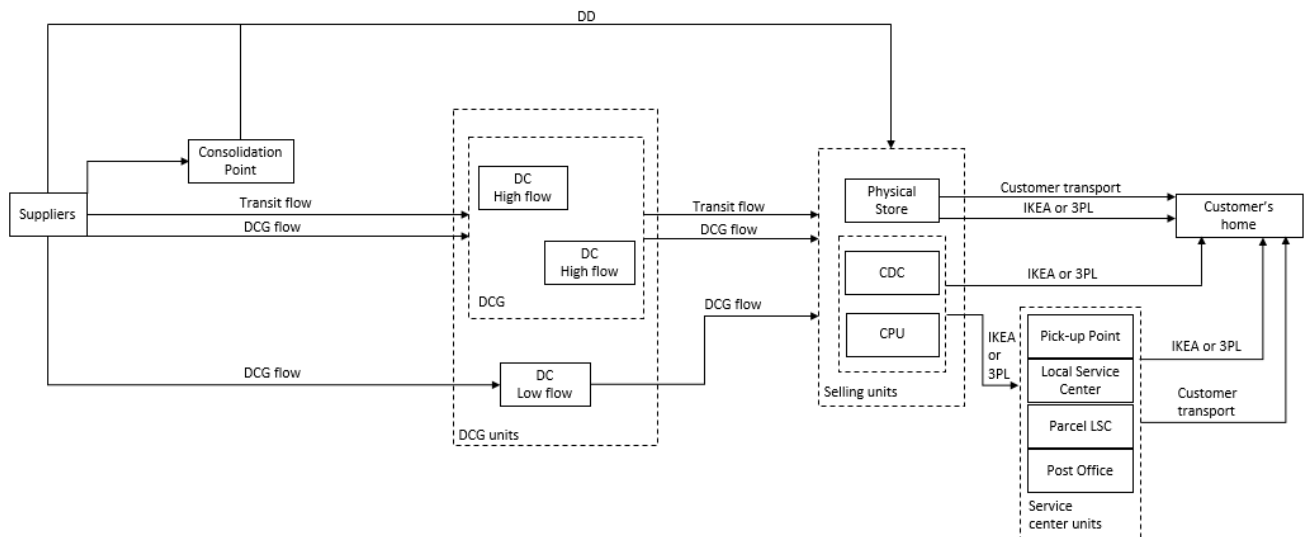


Figure 18: Map of IKEA's forward logistics distribution network.

The flow of goods starts at the supplier and from there IKEA can have the order directly delivered (DD) to the selling units. It can also be sent via a consolidation point and then it is still considered to be a DD. Shipping with DD is cheaper but have higher uncertainty of delivery date and it is only the best option if it is a full truck load. Because of that, the selling unit's and supplier's storage capacity is a limitation on how many DDs that can be sent.

If not sent directly the goods will instead be sent to a Distribution Centre Group (DCG) unit. There are two different flows to and from a DCG unit. It can either be a transit flow, which means that it should be in and out in 24 hours or a DCG flow, placed in stock and delivered to a selling unit when an order is placed.

From the physical stores the products can then be distributed to the customer's home by the customer, IKEA or a 3PL provider contracted by IKEA. In the same way are Customer Distribution Centres (CDC) and Central Parcel Units (CPU) fulfilling orders that are placed online through e-commerce or in a store. These orders are then transported either directly to a customer's home or via a service unit by IKEA or a 3PL transporter contracted by IKEA. However, the customer can also be the one making the final transport from the service unit.

#### 4.2.1 IKEA's Reverse Logistics Distribution Network

Today customers can visit a physical store, the IKEA website or contact a IKEA CSC by e-mail or phone if wanting to return a product. For all channels the customer will then have two options, the first option is to bring the product with them to a store selling IKEA products and the second option is to have the return picked up at their home. IKEA are also working on a third option, parcel postal returns, where customers should be able to return smaller products by mail. An overview of the reverse logistics distribution network can be seen in Figure 19.



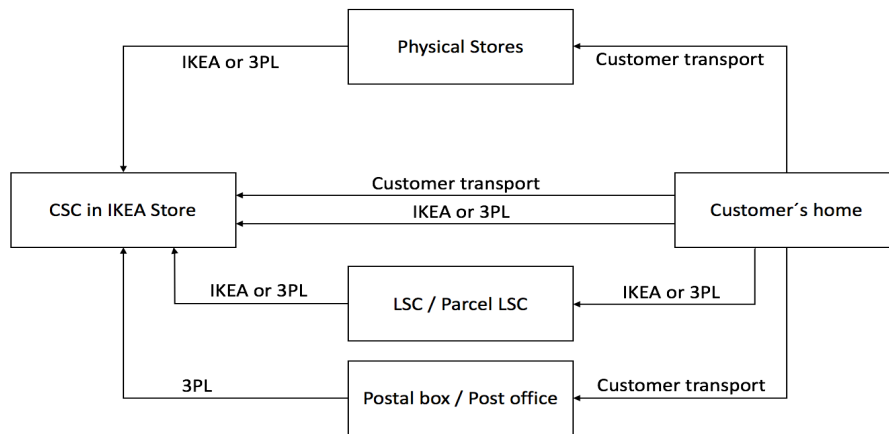


Figure 19: Map of IKEA's reverse logistics distribution network for external returns at IKEA.

For the first option the customer can transport the return directly to the CSC at the IKEA Store. In addition can the customer also transport the return to another physical store and from there IKEA will arrange the transport to the IKEA Store. For the second option the return is picked up by IKEA or a 3PL provider contracted by IKEA, the return is then distributed to the closest IKEA Store directly or via a Local Service Centre (LSC) or Parcel LSC.

In the same way as for returns dropped off at a store and picked up at customer's home the thought is that the parcel postal returns should be sent back by a 3PL provider to an IKEA Store, which one depends on the customer's postcode. A return label will for this reason be included in all online orders and for products purchased in store it will be possible to print a return label online or call a CSC and have one sent to the customer.

### **Aspects Impacting IKEA's Reverse Logistics Distribution Network**

When looking at IKEA's reverse logistics network it can be seen that all three aspects, strategic, tactical and operational are involved. How IKEA are working with the aspects is stated in Table 12.

Table 12: Strategic, tactical and operational aspects of IKEA's reverse logistics network.

Strategic	Literature	IKEA
<b>Purpose</b>	Structure the distribution network	IKEA have found a global structure where all returns are distributed back to the IKEA Stores.
<b>Decisions to consider</b>	What return policies to use	IKEA have stated global return policies that hopefully will be completely implemented during FY 2018.
	What processes and capabilities are needed	To handle the returns at the IKEA Stores, IKEA have developed a recovery unit that recovers the returns as for example by printing and cutting new packages.
	To in-house or contract third-party	IKEA have decided to have the returns process in-house.
	Centralisation or decentralisation	The return process is decentralised to the IKEA Stores.
	KPIs for return handling processes	No, specific KPIs are used for the returns handling process.
	KPIs for costs	A ClickView app is used by IKEA to measure cost of poor quality, including returns, however cost of returns is not measured separately.
<b>Possible processes</b>	Gatekeeping	Gatekeeping is used when customer wants to return products.
	Data collection	IKEA register what product, quantity, quality and return reason.
	Information sharing	Information is shared upwards but not sideways in the organisation.
<b>Tactical</b>		
<b>Purpose</b>	Develop relationships with partners to connect strategic aspects with operational	IKEA have relationships with 3PL and transportation companies.
<b>Decisions to consider</b>	What partners to use	IKEA work with 3PL providers that store and transport goods.
	What channels and network nodes to use	The IKEA network consists of several channels and nodes, divided into storing units, selling units and service centre units. More nodes have however, been added during the last couple of years.
	What are the return flow trends	The primary trend is that the returns are increasing in quantity, volume and value.
<b>Possible processes</b>	Forecasting of returns	IKEA do not forecast their returns.
	Distribution of returns	IKEA distribute the returns according to postcode.
<b>Operational</b>		
<b>Purpose</b>	Plan and control the distribution network on a day to day basis	The plan and control of the distribution network is done at a global, regional, country and store level.
<b>Decisions to consider</b>	What activities needs to be perform today	Returns needs to be collected and brought to the IKEA Stores. Returns also needs to be sorted, inspected and recovered.
	How should stock levels be managed today	Returns are today not taken into consideration when managing stock levels.
<b>Possible processes</b>	Collection of returns	Collection is done both by pick-up at customer's home and brought in to the IKEA Stores by customers.
	Inspection of returns	Inspection is primarily done at the IKEA Stores.
	Sorting of returns	Sorting is primarily done at the IKEA Stores.

#### 4.2.2 IKEA's Forward and Reverse Logistics Nodes

The primary nodes included in both the forward and reverse logistics distribution network from the suppliers to the customers' homes are the DCG units, selling units and service centre units. All nodes have their own purpose and functions that will be presented and explained.

##### **DCG units**

Included in the DCG units are low and high flow DCs. The DCs are then clustered into a DCG, consisting of several DCs. Sometimes the whole range is only covered by a DCG and not one DC and

the planning unit is therefore the DCG. At this point of the distribution network the goods are owned by IKEA Supply AG within the Inter IKEA group.

#### Low Flow Distribution Centre

Low flow DCs are used for products that do not sell so much in terms of volume. As an example, in Europe IKEA only store low flow articles at one Low Flow DC and products are delivered from there to all stores in Europe. The same setup is used in Asia and North America.

#### High Flow Distribution Centre

High Flow DCs are more in numbers and used for the rest of the products that cannot go directly from supplier to the store. These products are usually shipped in full pallets from the High Flow DC to the store and are more in numbers than the Low Flow DCs. In Scandinavia IKEA have two High Flow DCs for example.

#### ***Selling units***

In the same time as the goods are transferred to the selling unit the ownership is transferred to the franchisees. The physical stores can be seen as a selling unit, but the customers can also buy the IKEA range online through CDCs and CPUs or by contacting the IKEA CSC. A quite unique complement to the selling units are the IKEA catalogue that shall stimulate store visits. The catalogue is distributed free of charge to households in each Primary Market Area (PMA).

#### IKEA Store

The large scale blue box IKEA Store should be perceived in the same way regardless of what country it is placed in and ready to serve millions of visitors per year. The IKEA Stores are run by IKEA franchisees who are, with a large portion of freedom, responsible for the sales and operations in their PMA. The IKEA Stores are the main sales tool for the IKEA product range and they are recommended to be located in an independent building, outside the city centre with access to public transportation and preferably close to a regional shopping centre. The IKEA Stores should also offer free parking lots, restaurants, a children's play area and a wide range of services including picking in store. Inside of the IKEA Stores the customers find furniture showrooms, a self-service area with flat packages and a CSC.

The IKEA Stores are also responsible for their marketing and to the knowledge of the researchers have the IKEA Stores started to promote themselves as omnichannel retailers by having offers of new purchase and service solutions. As an example are IKEA United Kingdom offering 50% of truck delivery when spending £300 or more online. Furthermore, IKEA have started to build a new kind of IKEA Store in Gothenburg, Sweden. This store will have several entrances and check-outs so the stressed customer easy can find what they came to shop. The self service area in this store will not only supply the customers in store but also be used to pick e-commerce orders.

#### IKEA Inner-City store

The IKEA Inner-city stores have the common layout and range as an IKEA Store but are adapted for the city location. The objective is to extend the offer with fully functional stores in locations that make IKEA available for the many people and not only in locations as the traditional stores that are primarily accessible by car. More IKEA Inner-city stores are planned to be built during the coming years.

### IKEA Point

The IKEA Points are much smaller than the IKEA Stores and as of FY 2017 IKEA have implemented 46 of them. The points have different names at different markets, ranging from IKEA Order and Collection point to IKEA Order and Pick-up point and IKEA Service and Pick-up point. All points offer the possibility to order and collect the IKEA range in store, online, through mail or by phone, in the same time as a small range of the IKEA products are available for sale. There are however differences in the execution of the IKEA Points and some offer the possibility to drop-off returns, plan a kitchen or a wardrobe solution and to pick up parcel orders from locked boxes outside of the point around the clock.

### IKEA Pop-up store

IKEA have one pop-up store selling the bedroom assortment and everything related to bedrooms. The IKEA Pop-up Store is located in the city centre of Madrid, Spain, and invites the customers to enjoy ideas, inspiration, experiences, activities and special collaborations. The store is divided into a display area, a platform area for decoration and crafts workshops and a small café area. If the customers are interested in products that are not sold in the pop-up store, the employees can place an order and IKEA will deliver it to the customer's home.

### IKEA Showroom

IKEA have one showroom selling kitchens in the city centre of Stockholm, Sweden. In the showroom customers are offered to meet with IKEA kitchen experts for free of charge kitchen planning. There is no stock in the showroom, instead the kitchen is delivered directly to the customer's home, neither can customer return IKEA products to the showroom.

### IKEA Bargain store

The IKEA Bargain store is located in Älmhult, Sweden. The store offers season bound products, IKEA products from other countries, unique model furniture, out sorted products and new possible IKEA products. The furniture can be in flat packs or already assembled and previously used for display and they are always sold to a reduced price.

### Customer Distribution Centre

The CDCs are warehouses handling the storing and picking according to customer orders. The general ambition is that the orders should go from a CDC directly to a customers' home or to a pick-up point. At the CDC there is a possibility to recover damaged goods, however no returns are sent here. In Sweden alone IKEA today have one CDC in Torsvik, one in Stockholm and a new one are planned to be built in Malmö.

### Central Parcel Unit

The CPU is just like the CDC a warehouse, the only difference is that IKEA only store and pick parcels that should be sent according to customer orders. The CPUs are planned to assist the CDCs by handling smaller parcel orders. It is decided that every market should have a CPU, this has however not been finalised yet.

### IKEA E-commerce

The IKEA e-commerce is not its own store, instead all of the stores in a country are part of the e-commerce and the store owner's responsibility therefore has grown into a PMA. Every country is with the help of IKEA responsible for its own e-commerce setup and the adjustments to their market.

What assortment and delivery options that are offered therefore varies between the countries. For the most basic kind of IKEA e-commerce are the orders fulfilled from an IKEA Store and either picked up by the customer in the store, at a service unit or delivered home to the customer. For IKEA's more advanced e-commerce solutions the orders are fulfilled centrally, from a CDC or CPU and then sent to a service centre unit or to the customer's home. The lead time varies between different countries, in Sweden the minimum lead time if not charging for express delivery is four days.

#### IKEA Customer Service Centre

The customers can call or e-mail their orders to the IKEA CSC where sellers help the customers with their purchase. Furthermore, IKEA CSC offer the possibility to help customers with services such as planning and ordering of kitchens and wardrobes as well as booking of delivery and product returns. It should however be noted that it is one country CSC handling the phone and mail orders and not the CSCs in the IKEA Stores.

#### ***Service Centre Units***

The purpose of the service centre units is to come closer to the customers, so that they can pick up orders closer to their homes and to cover a larger market. The service centre units can be run both by IKEA and through a third-party.

#### Pick-up points

Customer orders that have been made online can be picked up by a customer at a pick-up point. The pick-up points are often connected to an IKEA Point but can also be run by an external third-party service provider and are fulfilled by the CDC and the CPU.

#### Local Service Centre

A LSC is owned and operated by an external third-party service provider and is for lead-time and/or economic reasons used to consolidate or deconsolidate orders generated by a customer online or in the stores with home delivery. LSCs are also used to handle and consolidate customer returns within a defined geographical area. If the LSC is placed in an area where a Pick-up point is desired, a Pick-up point can be added to the LSC.

The LSC can also serve with extended logistic functionalities like temporary storage of customer orders, re-pick of customer orders and external pick-up point for customer orders. Only in cases where additional LSC functionalities are required a LSC should be considered. That can be the case for e.g. deliveries into remote areas where IKEA do not achieve sufficient load volume and LSC would improve lead time and reduce costs. The LSCs are primarily used for customer orders fulfilled by the CDCs.

#### Parcel LSC

A Parcel LSC is a LSC but only for parcels. It is owned and operated by an external third-party service provider and is for lead-time and/or economic reasons used to consolidate or deconsolidate orders generated by a customer online or in the stores with home delivery. Parcel LSCs are also used to handle and consolidate customer returns within a defined geographical area. The Parcel LSC can be used for customer orders fulfilled by the CPUs.

Post Office

IKEA also send online parcel orders by mail for customers to pick-up at post offices or pick-up points run by the post. It is at these points that the possibility to drop off parcel returns in a near future will be added.

#### 4.2.3 Differences Between IKEA’s Forward and Reverse Logistics Distribution Network

Summarised in Table 13 are the customers’ options for how to purchase and return IKEA products from the selling units. As can be seen, not all selling units are offering the same customer options for purchasing and delivery. Neither can all selling units handle returns in the same way. However, all markets should be able to offer Click & Collect where customers can order online and pick-up the products at the store, a point or get it home delivered.

Table 13: Customers options for purchase and returns of IKEA products.

	Customer transport	Click & Collect	Pick in store	Pick and deliver	Deliver to Pick-up point	Deliver to home	Accept physical hand-in of returns	Recovers returns
IKEA Store	X	X	X	X	X	X	X	X
IKEA Inner-city store	X	X	X	X	X	X	X	
IKEA Point	X				X	X	(X) varies between points	
IKEA Showroom					X	X		
IKEA Pop-up store	X				X	X	X	
IKEA Bargain store	X					X	(X) only products from this store	
IKEA e-commerce		X			X	X		
IKEA CSC		X			X	X		
CDC					X	X		
CPU					X	X		

Today, IKEA are not planning or forecasting their returns. Neither are the stores taking the return flow in consideration when planning the replenishment. The return flow is today primarily measured through the measurement Cost of Poor Quality. This however, includes more than just the returns and it is therefore impossible to say in what extent the returns are impacting on the measurement.

IKEA are on the other hand planning their forward logistics distribution flow and it is IKEA of Sweden in collaboration with its purchasing unit and regional supply teams that primarily are responsible. Included in the planning process are also the local country service offices and the stores. The planning concept that IKEA use starts with IKEA making long-term demand plans by using forecasts on article per region as a base. These forecasts have range information, sales data, store information and sales start information as input. Moving on, these forecasts are broken down to forecasts on article per selling unit. However, it is possible for the selling units to overwrite these demand forecasts inside the lead time plus one week.

In combination with information regarding stock levels, delivery plans, goods in transit, supplier matrices, supply chain matrices, lot sizes and holidays, the demand forecasts will be used to create need calculations. This will then in combination with purchase agreements, supplier commitments and capacities result in a supplier capacity planning on short- and medium-term. Finally, the plan gives input to store planning, long-term supplier capacity planning, warehouse planning and transport planning.

### 4.3 Omnichannel Retailing

For a couple of years now have IKEA worked with a project with the aim of transforming from a single and multichannel retailer into an omnichannel retailer. For this reason are IKEA not just considering expansion as opening more stores in more markets. They are also trying to find new ways to reach and interact with their customers by coming closer to where they are and offering a new IKEA experience, both physically and digitally. IKEA describes this as a process of moving from a single channel to multiple channels and finally into one omnichannel that should be fully implemented 2020, this process is presented in Figure 20.

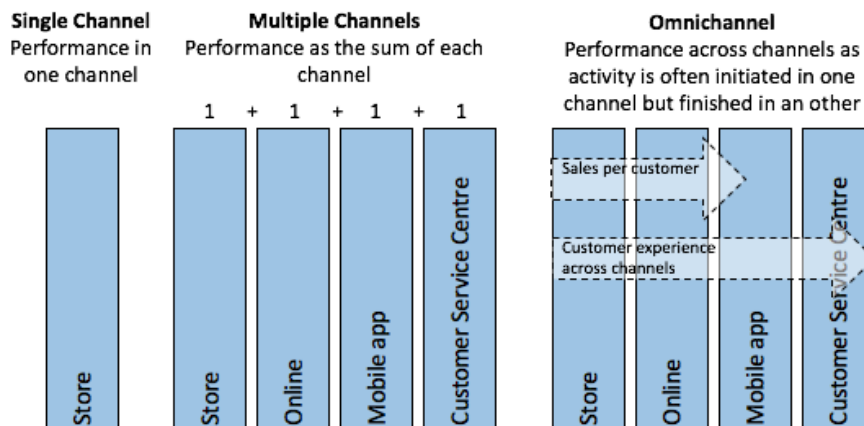


Figure 20: IKEA's process description of single, multi- and omnichannel retailing.

#### 4.3.1 IKEA's Driving Forces to Become an Omnichannel Retailer

The primary driving forces identified by IKEA of becoming an omnichannel retailer are digitalisation, urbanisation and sustainability. By digitalisation they mean the increasing number of wirelessly connected objects, mobile phones and internet access around the globe. IKEA are for this reason working to make online shopping more inspirational and convenient for IKEA customers. This includes to improve the IKEA website, where customers can rate and review IKEA products, as well as offer lenient return policies. IKEA are also exploring the possibility of selling IKEA products via third-party marketplaces, although no specific marketplace has been chosen yet. Furthermore are IKEA trying to help the customers to make it easier to shop the right products for their homes and have launched an app called IKEA Place. The IKEA Place app is using augmented reality to put the IKEA furniture in the customer's home. It is also possible to visualise how a new kitchen will fit before the final purchase.

Urbanisation is the increasing number of people living in cities and the decreasing number of people having a car. IKEA have for this reason started to test more store formats to better reach customers that live in city-centres. They are trying new concepts such as pick-up-and-order points, city-centre stores, showrooms and pop-up stores as well as developing their e-commerce and their services to customers. Regarding the services it has been found that customers have higher expectations than ever before, customers want to be helped when furnituring their home. The services that IKEA offer varies between countries as well as stores but some examples are home delivery, assembly and installation services, disposal and recycling as well as help to pick the products in store.

Many of the people, including them living in cities without cars, are also influenced to live more sustainable. Because of this, have IKEA several ongoing initiatives with everything from changing the entire lighting assortment to energy efficient LED bulbs to purchasing cotton from more sustainable plants. IKEA are also trying to save as many returned products as possible. This started out as a way to save money, but has more and more transformed into a way to work sustainable. Initiatives where customers can return fully functional furniture in exchange for vouchers that can be used to shop new furniture are also under trial. The returned furniture is then put back for sale in the bargain corner.

#### **4.3.2 IKEA's Transformation to Omnichannel Retailing**

IKEA have seen the general shopping behaviour change rapidly with an increased demand of accessibility, convenience, and value for time. Customers shop where they are and not only where they live, expecting to be able to access IKEA whenever, wherever and however they want, both physical and digital, since this is seen as one and the same in the customer's eyes. Speed is getting more and more important and IKEA experience that the customers expect shorter and shorter delivery time. It has therefore become more important for IKEA to be closer to where the customers are and the touchpoints that IKEA use to meet their customers are the stores, catalogue, web, mobile, social media, call, email and service providers.

This allows a truly customer centric approach for sales, where the customers decide where they want to buy and every employee supports them, without barriers. However, being closer to the customer and adding more nodes to the distribution network is also adding on to the complexity of the network, since the storing of IKEA products will be spread out over a larger amount of units. Two types of new nodes are also considered, Multi Functional Logistics Units, including both picking for stores and online orders, and Fulfilment Stores which is a collaboration between CPUs and the IKEA Stores.

IKEA have also created a new KPI dashboard with the purpose to measure, steer and reward behaviour that bring IKEA closer to becoming an omnichannel retailer. It puts the customer at centre and for that reason it has been agreed that information needs to be measured on a total IKEA level rather than on a channel level. Furthermore, it is possible to create reports at a global, country and PMA level. The dashboard shows an overview of the business and it is possible to drill down to more details for each KPI, giving the employees an easy way to follow up the business in different channels and improving the customer experience driving sales. The dashboard was launched during FY 2017 and is available for all levels of the organisation. Despite this it is not that commonly used by IKEA.

A big part of the transformation project has been focusing on establishing one aligned e-commerce on all markets where IKEA are available. IKEA have had different e-commerce setups in different countries and the aim is that all countries should implement a new, more aligned e-commerce solution. To make this possible, IKEA are improving the e-commerce stepwise and the process can be seen in Figure 21.



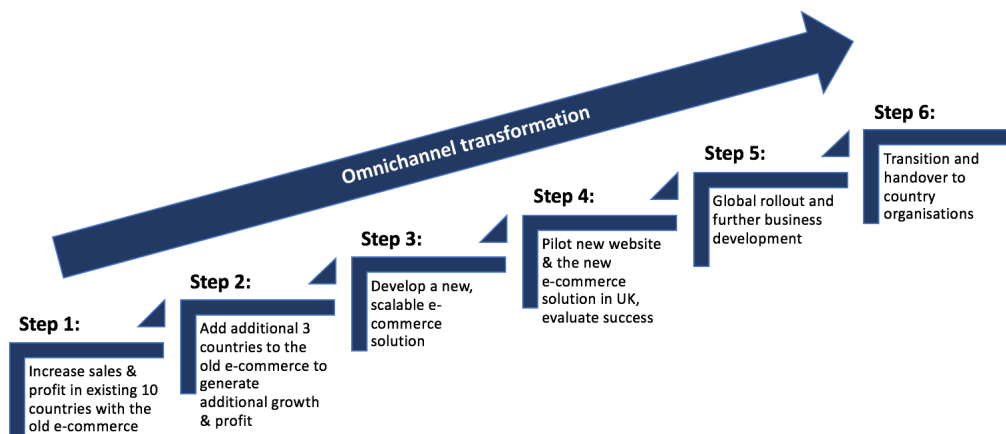


Figure 21: The transformation of IKEA's e-commerce.

### Step 1

The first step IKEA took in aligning the e-commerce was to increase and improve the old e-commerce in ten countries, Austria, Canada, Denmark, Finland, France, Germany, Switzerland, Sweden, United Kingdom and USA which already had some kind of e-commerce. This was done by standardising the organisation and developing the needed competence as well as improving the website and increase the e-commerce range.

### Step 2

The second step was to implement the old e-commerce in three new countries, Italy, Netherlands and Norway, where IKEA have not had any e-commerce before. What could be seen then was that approximately 50 % of the e-commerce sales came from areas that were not covered by physical stores. This was therefore considered to be new business that would not have come without the implementation of e-commerce due to hindrances, barriers and accessibility issues. No evident effects of store cannibalising are seen in the new countries where IKEA have launched e-commerce.

### Step 3

The third step was to develop a new, scalable e-commerce solution that was adjusted to handle the requirements from being an omnichannel retailer and give the customers a seamless shopping experience.

### Step 4

The fourth step was to pilot the new e-commerce solution in the United Kingdom. The key focus was to enable orders to be fulfilled from more than one central unit, e.g. one part of the order is fulfilled from a CDC and one part from a CPU. In this way the lead time was decreased for the customers. In the United Kingdom, the lead time dropped from 16 days to 4-6 days, but IKEA are working on decreasing that even further.

### Step 5 and 6

The fifth step is a global rollout of the new e-commerce and this is where IKEA are today. The learnings so far from the project are listed in Table 14. Before completing the rollout IKEA want to implement a basic e-commerce solution offering Click & Collect in all markets where e-commerce has not been implemented yet. The reason for this is that the timeline of the rollout is not meeting market needs, particularly for countries that are not offering any e-commerce at all. IKEA also try to

avoid that some countries are creating their own local solution, which will involve a higher risk. Finally, the sixth and last step for IKEA will be to transition and handover the operation of the new e-commerce to the country organisations.

Table 14: IKEA's learnings from the omnichannel project so far.

Area	IKEA's learnings so far
Business	Omnichannel approach will significantly contribute to reaching growth ambitions
	Omnichannel development in retail industry is going on at a high speed
	Requires cross-functional and cross-organisational structures
	Impacting the IKEA Concept
Way of Working	A truly interdependent leadership culture will be an important enabler for the transformation
	Chosen setup with streams needs to be part of respective country organisation
	Need for an agile approach
Resources	New competence needed and additional skills required for existing jobs
	Current IT application landscape is slowing down the business development
Customers	Customers expect seamless end-to-end solution

If looking further into the development of IKEA's e-commerce sales from FY 2012 until 2017 it has increased in all of the 13 countries that have or has had the old e-commerce. However, as can be seen in Figure 22 the e-commerce is still only a small part of IKEA's sales in quantity. Important to notice is that IKEA do not include Click & Collect in the e-commerce sales, instead this counts as store sales. The country that has the largest e-commerce when comparing to store sales is the United Kingdom with 5,5% of total sales. Notable is the e-commerce in Norway that was one of the last countries where it was implemented and now has the second largest percentage of e-commerce. The country with the smallest e-commerce compared to total sales is Finland with 1,3%, which also is the only country where the e-commerce has decreased during this period.

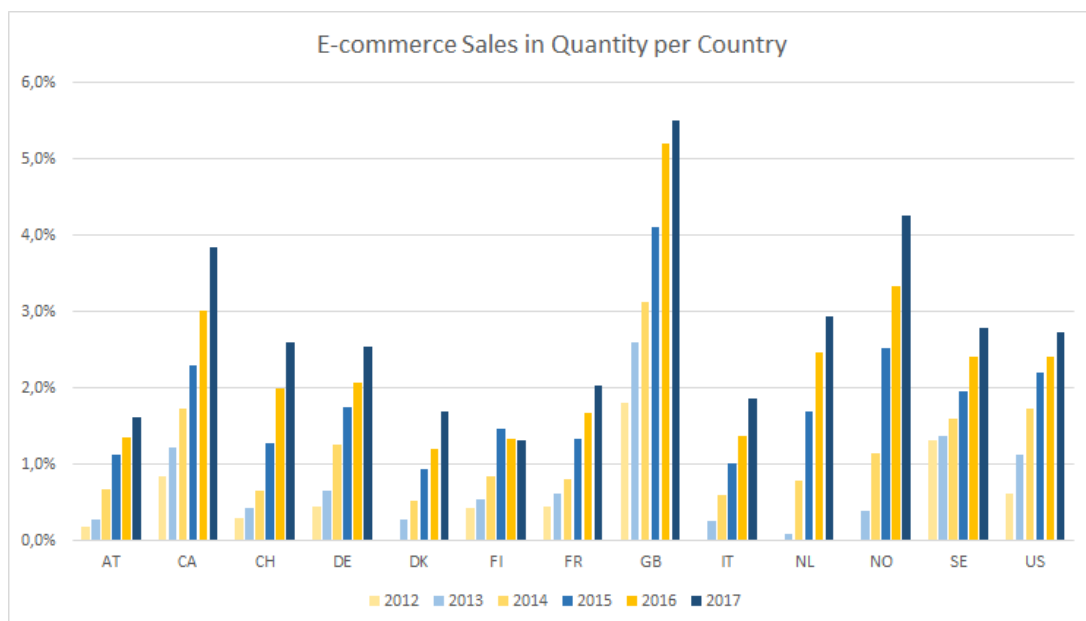


Figure 22: E-commerce sales in percentage of total sales in quantity per country FY 2012-2017.

The trends for the e-commerce sales in percentage of total sales in volume per country looks almost the same as for quantity, besides the fact that the percentage is much higher. United Kingdom, which is selling the largest volume in percentage, sold 16,4% in FY 2017. The smallest volume in percentage was sold in Finland, where only 3,1% of the total sales in volume was through e-commerce. The same trends can be found for e-commerce sales in value. Once again, the country with the highest

percentage of e-commerce sales FY 2017 was United Kingdom that had 14%. The least percentage of e-commerce did Finland have, 3%, that was also the only country where it decreased.

If taking IKEA's HFB areas into consideration, "Beds & Mattresses", 6,4%, followed by "Bedroom Furniture", 6,2%, have the largest percentage of sales in quantity through e-commerce FY 2017. "Family", 0,1%, "Cooking", 0,4%, and "Eating", 0,5%, are the HFB areas with the lowest percentage of sales in quantity through e-commerce. "Workspaces" is the only HFB where the quantity in percentage has decreased between FY 2016 and 2017, otherwise the trend is that the sales quantity per HFB in a slow pace is increasing.

The volume of e-commerce in percentage of total sales per HFB can be seen in Figure 23. "Living Room Seating" stands for the largest percentage of volume in FY 2017 with 9,2% of total sales while "Cooking" with 0,7% stands for the smallest percentage of volume. The HFB areas that are decreasing in FY 2017 are "Bathroom", "Children's IKEA" and "Workspaces". The volumes in general has otherwise increased in the last two years.

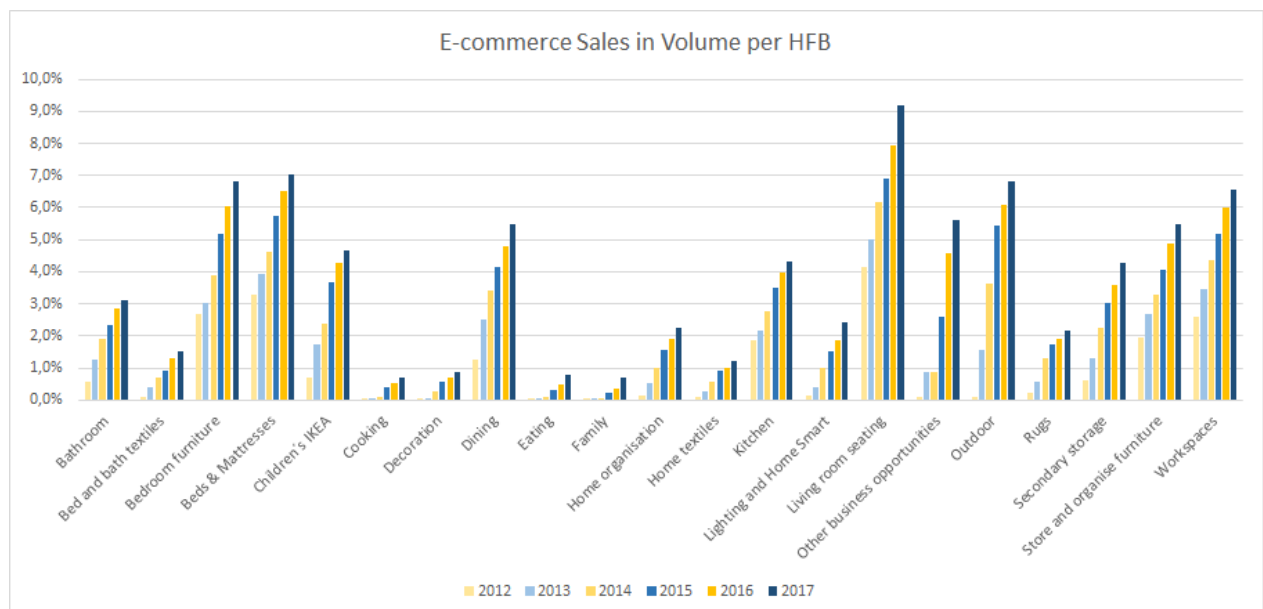


Figure 23: E-commerce sales in percentage of total sales in volume per HFB FY 2012-2017.

For the value of e-commerce in percentage of total sales per HFB it can be found that "Living Room Seating" (10,1%), "Workspaces" (8,3%) and "Outdoor" (7,3%), closely followed by "Bedroom Furniture" (7,0%) and "Beds & Mattresses" (7,0%) have the highest percentage in value of total sales. The e-commerce has between FY 2016 and 2017 been increasing for all HFB areas. However, the increase has been marginal for some, "Family" still in FY 2017 only has 0,3% of their value sold online. Other HFB areas with low levels are "Cooking" (0,7%), "Eating" (0,8%) and "Decoration" (0,9%).

From the data presented it can be seen that the e-commerce as of today represents a very small part of IKEA's total sales. It should however be taken into consideration that approximately 70% of IKEA's customers are shopping in the physical stores while 30% of the customer's make their purchases online. In ten years IKEA expect it to be vice versa. The change has already started and in Stockholm the numbers are 60% customers shopping in store and 40% online.

If looking at the development of e-commerce sales and comparing it to the development of returns the following can be found. During the period FY 2012 to 2017 the quantity of products returned has been larger than the quantity of products sold through e-commerce. However, FY 2017 it was almost the same quantity. Figure 24 shows that e-commerce is increasing more rapidly than returns is and the trends are not following each other.

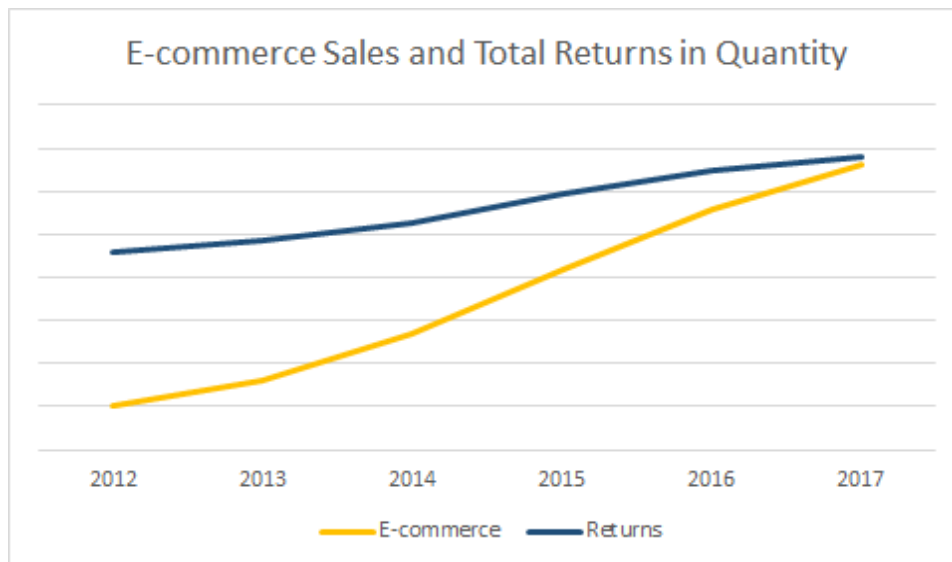


Figure 24: The yellow line is quantity sold through e-commerce and the blue total quantity of returns FY 2012-2017, both are plotted with the same y-axis.

When it comes to the volume sold with e-commerce it can be seen in figure 25 that it is more than the volume returned. As for the e-commerce sales in quantity, the e-commerce sales in volume is increasing much more rapidly than the returns in volume. On a total IKEA level the returned volume has been quite stable during the time period FY 2012 to 2017.

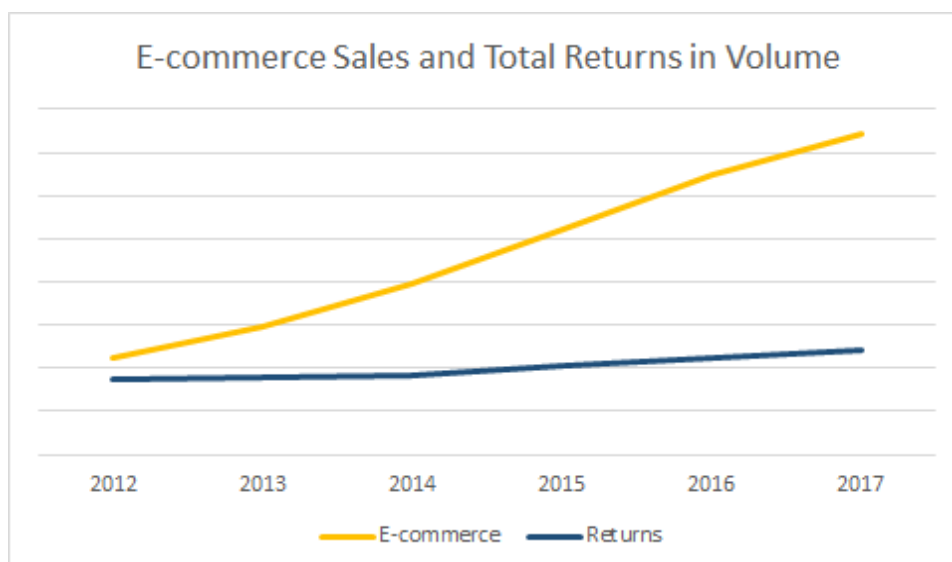


Figure 25: The yellow line is volume sold through e-commerce and the blue total volume of returns FY 2012-2017, both are plotted with the same y-axis.

If comparing the e-commerce and returns in value, as in Figure 26, it can be seen that it was not until FY 2016 the e-commerce value exceeded the returns value. The e-commerce value however, is increasing more rapidly than the returns value, but not as much FY 2017 that during the other years.

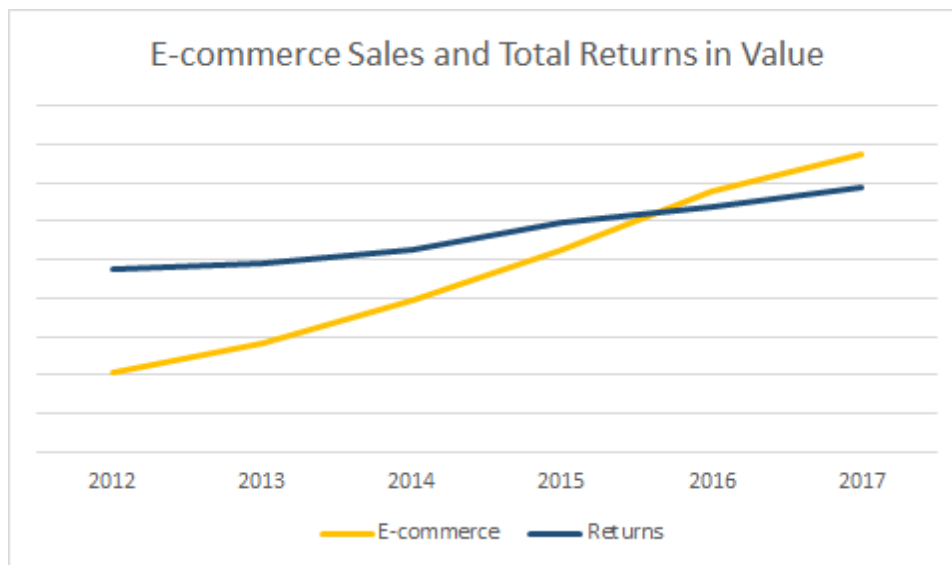


Figure 26: The yellow line is the value sold with e-commerce and the blue total value of returns FY 2012-2017, both are plotted with the same y-axis.

## 5 Market Study

*The market study is an exploratory complement to the case study consisting of a questionnaire and a literature review. It has been used to benchmark IKEA against comparable companies and to find similarities, differences and new ideas for possible solutions of how to manage returns in an omnichannel distribution network. In the end, giving the study a wider perspective and a greater reliability.*

### 5.1 Questionnaire

Eight companies have answered the questionnaire and a summary of their answers can be found in Table 15, that also includes a short description of their businesses. All companies but one have e-commerce that stands for a varying percentage of the sales. Company 1 and 4 only have e-commerce, and for Company 7 it stands for almost all the sales, 91-100%. It has also been found that a majority of the companies offer free returns. Of the ones that require payment the online furniture retailer, Company 4, take the most.

When looking at the time frame for returns the majority have 30 days or less, only one company give the customers 365 days. In order to be able to return a product the companies have different requirements that are necessary and not just preferred. In the questionnaire the companies were asked to assess the following aspects: receipt, unbroken package, unassembled, unused, complete product and within time frame. The most lenient one was Company 7, a marketplace, where nothing was necessary. The ones that required the most were Company 4, the online furniture retailer, where the product needed to be unassembled, unused, complete and returned within time frame and Company 5, the building material retailer, where the product needed to be unused, complete and returned within time frame with receipt as proof of purchase.

Regarding where the returns are being handled it differs a lot, four companies are handling them in store, two at a DC and two at third-party. When it comes to how much that is returned it can be seen that the two clothing companies have the highest return rates, between 31-40%. The electronic and building material retailers both have 6-10% and the rest have between 1-5%. Noted should be that Company 7 have decided to not answer this question. However, they have answered that they have seen an increase in the returns, as have three other companies. The online furniture retailer have in the contrary seen a decrease and Company 2 and 6 have found it to be stable. Company 5 have chosen not to answer this question.

When asked if they are forecasting their returns 50% answered that they did, these are the companies with the highest percentage of e-commerce sales. Out of these four companies three are also taking the return flow into consideration when planning the replenishment flow. In addition, one of the companies that did not forecast however did take it into consideration when planning the replenishment flow.

In the last question the companies were asked what have been the three most important changes they have been forced to do when it comes to the return flow. Three companies said that they have updated the KPIs used for returns, three other companies said that they have changed what channels and network nodes they use and another change three companies as well have said they been forced to do was to implement new return policies.

Table 15: Summary of the answers from the questionnaire.

	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8
Type of retailer	Clothing	Electronic	Marketplace	Furniture	Building material	Consumption, Furniture, DIY, seasons products	Marketplace	Clothing
Channels	E-commerce	Physical store, E-commerce	Physical store, E-commerce	E-commerce	Physical store, E-commerce, Other	Physical store, Other	Physical store, E-commerce, Other	Physical store, E-commerce
E-commerce (%)	100%	41-50%	1-10%	100%	21-30%	0%	91-100%	81-90%
Return freight	Free	6-10 €	0-5 €	More than 10 €	Free	Free	Free	Free
Time frame for returns	30 days	30/90 days	30 days	365 days	14 days	30 days	14-48 days (country regulations)	14 days
Requirements to make a return	Unused, Complete	Within time frame	Unbroken package, Unused, Complete	Unassembled, Unused, Complete, Within time frame	Unused, Receipt, Complete, Within time frame	Everything depends on the situation	Nothing is necessary	Complete
Primarily handling unit	DC	Stores	Stores	Third-party	Stores	Stores	DC	Third-party
Return rate of sales value	31-35%	6-10%	1-5%	1-5%	6-10%	1-5%	N/A	36-40%
Changes in return rate	Increased	Stable	Increased	Decreased	N/A	Stable	Increased	Increased
Forecasting returns	Yes	No	No	Yes	No	No	Yes	Yes
Planning returns	Yes	No	No	No	Yes	No	Yes	Yes
Most important changes	Update KPIs	Update KPIs	New processes for products returned in bad condition	Update KPIs	Change channels and network nodes	Change channels and network nodes	Outsource return handling	Change channels and network nodes
	Change information sharing process	Change return policies		Change return policies	Involve stores more	Change return policies	Centralise return handling	New processes for products returned in bad condition
	Other	Change data collection process		Change inspection process	Other	Change partners	Start to forecast returns	Change gatekeeping processes

## 5.2 Returns

A panel including 40 of Sweden's leading retailers have in a study by Kembro & Norrman (2018) concluded that one of four areas of challenges within future retailing is the handling of customer returns. When customers cannot see, touch or try a product before buying it, the return rates tend to be significantly higher. In the same time when customers cannot just bring the product back to a store but have to send them, the cost of returns is higher (Ylinen, 2015). This is aligned with Postnord (2017) considering returns to be an important factor when looking at e-commerce. In addition, Financial Times (2017) argues that as the percentage of e-commerce sales increases, so will the cost of returns.

In United Kingdom the average returned product passes through seven pairs of hands before being back for resale. In many cases the product is out of season and sold at a discount when finally being back in store. The return process often also costs double or triple what it costed to pick and deliver the order. Despite that, retailers continue to offer lenient return policies, since returns are seen as a necessary evil if wanting to sell online (Financial Times, 2017).

When it comes to companies letting the customers pay for the return freight 44% of the customers in United States see this as a problem, 39% rank it as the top issue. It has also been found that 79% rate free return shipping as important (UPS, 2017c). This is also confirmed by Postnord (2017) arguing that approximately half of the Europeans shopping online consider it important that it is clearly stated how to make a return. Lowering the barriers for returns have been found to create both trust and loyalty with the customers. The satisfaction with online returns is increasing, but store returns are still preferred by the majority of online shoppers. The main reason for this is that customers do not want to pay for the shipping (UPS, 2017c). Other trends found by FedEx (2017b) are that return rates during holiday season tend to grow and that less than 50% of the returns are resold at full price, resulting in a loss in sales of about 10% for retailers.

### 5.2.1 Management of Returns

The increasing importance of managing returns within retailing has been highlighted by FedEx (2017a) concluding the following strategies of how to improve returns management.

#### **1. Foster customer loyalty through returns**

Returns should be seen as an opportunity to enhance the customer experience and create customer loyalty instead of a necessary cost of doing business. For this reason should the return policy from a strategic perspective be appealing for the customer, in the same time as the return process from a tactical perspective should be value-adding by creating customer satisfaction.

#### **2. Speed processes and add value through continuous improvement**

The longer returns are left in the backroom of a store or in a truck the less value can be captured. By continuously improving the reverse logistics processes returned goods can be handled faster and more value can be captured.

#### **3. Boost collaboration between in-store operations and distribution network management**

Collaboration and communication between distribution network management and in-store operations can enable a uniform returns management process. In the end providing the retailer with full visibility of the inventory across stores, DCs and return centres.

#### **4. Optimize your disposition logic**

While speed is vital for processing the returns, actuality and strategy behind the disposition of the returns is equally important. The strive should therefore be to optimise the recovery value of the returns by consistently evaluate the value of the recovered return against the costs to carry and process the recovery.

#### **5. Modify policy leniency to improve profitability**

Return policies with different types of leniency can accomplish different goals. Return policies with greater leniency regarding money and customer effort help increase purchases. In the same time as return policies inhibiting leniency regarding time, exchange and scope can help reduce the returns.

#### **6. Take demand planning one step further**

Just as demand planning is used to plan fulfilment there should be a corresponding reverse-demand planning process to predict peaks in returns. This will make the work with distribution network management easier and reduce return costs.

### **5.3 Distribution Network**

In today's retail environment more and more e-commerce companies are building physical stores while traditional store retailers are moving towards e-commerce. Both trends have the aim to better serve the customers that are expecting to be able to order anywhere, at any time and receive the order through their preferred method of delivery (FedEx, 2017a). Moreover, the Europeans are becoming increasingly mature and secure when shopping online, demanding a lead time of maximum three days and the possibility to impact when and where the order should be delivered (Postnord, 2017). Logistics is all about speed and options, and the customers want both. The best retailers are therefore the ones expanding both service options and delivery capabilities (UPS, 2017c).

The physical stores and the e-commerce give the retailers the possibility to primarily offer two different return options, return to physical store or shipped back to retailer. Here it can be seen that shoppers in Asia and Europe prefer to ship online purchases back to retailers, while shoppers in the United States and Canada prefer to return online orders to a physical store. A middle way that retailers can consider is to open showrooms where customers can feel, try and familiarize themselves with the products. Additionally, by accepting returns in the showroom retailers can save expenses for return shipping fees and handling (PWC, 2017).

Reverse logistics operations can however be shocked by spikes in returns, without any indications in advance. Retailers should therefore work proactively with managing returns, providing the supply chain with valuable information (FedEx, 2017b). For this reason, Ylinen (2015) argues that companies should track data of sales to make it possible to check if there are items, categories or products that have more returns than others. Moreover, if the retailer aims to forecast returns it should be done separated from sales, since this will give a clear overview of the associated costs and requirements that contribute to both operational and financial planning. For a company to be able to forecast their returns Ylinen (2015) therefore recommends that the returns should be calculated in two ways, as separate independent time series and as a percentage of sales. Monitoring the difference between these two can then provide an early indication of the return rates by showing if the independent



forecast clearly starts to exceed the percentage-driven forecast. Meaning that the trend is pointing in the wrong direction and that action should be taken.

#### **5.4 Omnichannel Retailing**

PWC (2017) argues that traditional retailers today have a difficult time trying to adapt to omnichannel retailing and are losing shares to Amazon and other online specialists. Furthermore, traditional retailers must not only fulfil orders from new and old channels but they must also be able to handle returns through the same network. This means accepting returns in physical stores, DCs or third-party locations (FedEx, 2017a). This customer centric distribution network has furthermore made reverse logistics a strategic priority for omnichannel retailers (FedEx, 2017b).

To evaluate e-commerce Postnord have since 2014 completed a yearly report regarding the e-commerce in Europe. In the report from 2017 it was concluded that the top categories of goods that Europeans shop online are clothes and electronics, which also are the two categories where returns are most common. Furniture on the other hand is the third most common category to return but only the only the fifth most common to shop (Postnord, 2017).

When comparing Postnord's e-commerce report from 2016 with the latest from 2017 it can be seen that the e-commerce in Europe has increased from 253 million to 260 million customers (Postnord, 2016; Postnord, 2017). Factors contributing to the increase of people shopping online in Europe are according to Postnord (2017) an increasing digitisation of the society, cheaper technology and an increasing availability. The customers have however estimated a minor decrease in money spent online from 189 billion euros in 2016 to 181 billion euros in 2017, but it should be noted that this is the customers' own estimate of their spending. The countries where customers spend the most money on e-commerce are United Kingdom, Germany and France.

The desires for better prices, specific and unique products or brands as well as increased convenience are also why online shopping on mobile devices in Europe are increasing (Postnord, 2017). UPS (2017a) therefore emphasise the importance of excellent customer experience throughout all channels. In their United States study they have found that heavy shoppers are overrepresented when it comes to online purchases and no significant difference has been found regarding age and place of residence (UPS, 2017a). In Europe Postnord (2017) however have found that younger customers more often shop online. It has also been found that online influences 79% of all purchases and that online-only is the largest channel, while omnichannel slightly has decreased from 2016 to 2017. The most popular combination of channels however is search online, buy in store (UPS, 2017a).

For most companies the e-commerce still only represents a small part of the total sales, but is beginning to put more and more impressions. Countries like United Kingdom, Sweden, Norway, Denmark, Finland, Germany, Netherlands and France are deemed to be located in a digital market shift. This means that the inflow of new e-commerce customers is not that large, since most customers are already using it. However, they are now increasing their spends and purchase frequency (Postnord, 2017).

The possibility to return products have developed to become a key factor in e-commerce and Postnord (2017) have during the recent years seen an increase in the percentage of e-commerce customers conducting returns. What they believe to be the primary reasons for this are the fact that customers have embraced new behaviours, such as shopping shoes or clothes in multiple sizes, then retaining only the most suitable ones, but also in the fact that e-commerce companies made it easier to return goods at a low or no cost at all (Postnord, 2017).

Postnord (2017) have also concluded that the percentage of returns is the highest in those countries where customers have the highest average online consumption per year and in those countries with the highest percentage of e-commerce customers, which are Germany, Sweden, United Kingdom and the Netherlands. Thus, it appears that the number of returns correlates with the maturity of the e-commerce market. Experienced e-commerce companies understand how important the returns are to create long-term customer relations and it is likely that when many people are used to returning an upward spiral with more returns is formed. This is aligned with Hellström et al. (2017) concluding that e-commerce organisations with generous return policies have more people shopping. In the same time are customers returning products in general twice as profitable as customers not returning any products.

Marketplaces are becoming more and more usual, especially in the United States where 97% of online shoppers once have purchased from a marketplace. Example of marketplaces are Amazon, Alibaba and eBay, places where it is possible to buy products from many different brands and companies. This can therefore be seen as a third-party channel for other retailers. The reasons why customers choose to purchase from a marketplace are that prices most often are better, free or discounted shipping and the speed of delivery. If looking at it from the other perspective customers chose to purchase directly from the retailer instead of using marketplaces because they have better sales, know the product quality, have unique products, is the customer's favourite store or because the customer knows their products fit them (UPS, 2017b).

## 6 Analysis

*In the analysis findings from the literature review, empirics and market study will be presented, triangulated and analysed with the help of the theoretical framework. The chapter is structured to handle the subjects in the same order as done throughout the report with the main areas of returns, distribution network and omnichannel retailing. In the end leading up to future possibilities and challenges for IKEA when handling returns in an omnichannel distribution network.*

### 6.1 Returns

Precisely as Rogers et al. (2002) have IKEA divided returns into categories. The external returns, where the product is handed back by a customer, can be equalised with one of the five categories suggested by Rogers et al. (2002), namely customer returns. IKEA have however taken it one step further by categorising their external returns with both reason and sub-reason codes. These codes covers the customer, the physical product as well as their service and sales processes, showing that it is important for IKEA to understand the customers' reason for the return.

### **6.1.1 IKEA's Management of Returns**

Returns can be seen as a source of competitive differentiation and advantage if being efficient and customer focused (Petersen & Kumar, 2009). It is therefore important to carefully consider how different strategies for handling these can affect the organisation. IKEA's management of returns process starts with the same activities as suggested by Badenhorst (2013) and Bernon et al. (2016); collection, inspection and sorting. In IKEA's case this is performed at the CSC in an IKEA Store. The reason for this is the availability of personnel, capabilities, space and a bargain corner for products that cannot be fully recovered. The activities of collection and inspection is performed when the return is handed over to IKEA and sorting is then performed back office at the CSC in the IKEA Store.

The options for a returned product are, as seen in Figure 5, many. Most of IKEA's returned products are distributed in an IKEA Store. Products that are returned in a good condition are sent back to storage in store immediately, making the process very fast, with a good margin below the recommended 48 hours (Bernon et al., 2016). Selling them as new is also the most profitable solution for handling returns (Tibben-Lembke & Rogers 2002). TT325 returns can either be repaired, repackaged or sold as-is in the bargain corner. In some cases, where it is not possible or worth the effort to recover the product, IKEA have the choice to disassemble the product and save spare parts, donate to charity or discard the product. The value of the recovered return should always be compared to the cost to carry and process the recovery (FedEx, 2017a).

The process for TT325 returns can sometimes take longer time than the recommended 48 hours, depending on the preconditions in each specific situation. Krapp et al. (2013a) argues that the usability of a returned product often depends on the time lag between its sale and return, however, in IKEA's case a huge part of the range is sold throughout the year or sometimes during several years or even decades. This means that they do not have the same time pressure when it comes to getting a product sellable again.

When comparing IKEA's return handling process with the recommended process found in the theoretical framework it can be stated that they often follow each other (Badenhorst, 2013; 2005; Dowlatshahi, 2012; Tibben-Lembke & Rogers, 2002). IKEA are highly utilizing the options found for a returned product and make sure, in all situations possible, that the value of the product is recaptured and distributed to a new customer. It is mostly thanks to the recovery department and bargain corner in each store that this is possible. Unlike many companies IKEA therefore have a good starting point for handling returns and making sure that as little money as possible is lost in the management of return process. For the future IKEA should continue to handle their returns with the well established processes that they have developed today. However, the returns processes should be continuously improved in order for the goods to be handled faster and more value be captured.

### **6.1.2 IKEA's Impact on Returns**

Sales is a factor that in a very high degree affects the return flow (Tibben-Lembke & Rogers, 2002). On a weekly basis it has been found that IKEA's return flow follows the sales flow very well, almost perfectly for all weeks. Per theory it could have been expected to be some lag between the two flows (Tibben-Lembke & Rogers, 2002), however most returns are done during the immediate post purchase time (Oliver, 1997) and when looking at weeks instead of days it is possible that the time lag is not as visible. In the last quarter of the year the return flow is not following as good as in the beginning, implicating that a very high peak in the sales results in more out spread returns. It is also

possible that customers change their return behaviour depending on what time of the year it is. Right before Christmas there is a peak in the returns while there is a drop in the sales, which might be a result of people being short on money during this period. It can also be a result of that many are cleaning and organizing at home, to have it nice for the holiday, and therefore want to return products that earlier have been laying around just taking up place or a combination of both. These insights can be used if wanting to plan the return flow, just as demand planning is used to plan fulfilment. According to FedEx (2017a) there should be a corresponding reverse-demand planning process to predict peaks in returns.

IKEA have in general had a steady increase of profit between FY 2012 and 2017. When looking at what markets that are the largest ones for IKEA it is United States and Germany, regarding all three aspects quantity, volume and value. This is important to have in mind when looking at the percentage of returns, since even if the values are close to each other in percentage it is much more in actual quantity, volume and value in these two countries. The same goes for the different HFB areas, here it however is larger difference depending on what parameter that is analysed. In quantity "Eating" and "Decoration" are the biggest, in volume it is "Living Room Seating", "Bedroom Furniture" and "Beds & Mattresses" and finally in value it is "Kitchen" and "Bedroom Furniture".

### **Returns Compared to Total Sales**

What products that are being sold is of highest relevance. For IKEA that sells home furnishing products the returns are expected to be low to medium. One reason for this is that the purchases most often are considered but sometimes distressed (Bernon et al., 2016). The average return rate in value for home products are according to Bernon et al. (2016) 5,5% in store and 8,5% online. If looking at IKEA's returns they are low, 1,9 % of sold quantity, 3,5 % of sold volume and 4,2% of sold value. From the return data it can be concluded that the returns have increased at IKEA, in all aspects, quantity, volume and value. If the trend continues IKEA could expect to have a return flow of approximately 2,1 % of sold quantity, 4,0 % of sold volume and 4,6 % of sold value in five years when taking an average yearly increases of 1,9%, 2,5% respectively 1,9% in consideration. It is however not possible to segment the returns by purchases in physical store and online since the purchase channel is not registered when the customer returns a product.

Home products in general have been found to have lower return rates than for example clothes and electrical products. Clothing companies can have as high as 38,2 % returns (Bernon et al., 2016), which is not believed to be the case for home products and IKEA. The problem they might experience however, compared to clothing companies, are higher damages and logistical costs. IKEA's products are more fragile than a sweater and many products are also both bigger and heavier. At IKEA the furniture might even be assembled and if this number of returns would increase, the profit would be highly affected.

The trend indicates that IKEA's return flow will continue to increase in the future, however it is difficult to say how much. Bernon et al. (2016) have in their study seen home retailers with return rates as high as 11,0% in store and 12,7% online. The responses from the market study shows that many companies have experienced an increase of the return flow, it can therefore be concluded to be a general trend on the market. The level of returns that the companies had differed a lot. There was one company however, selling furniture as IKEA but only online, that despite that had as low return levels as IKEA. Implicating that the channel does not matter. However, it must be taken into

consideration that they recently had changed their return policies to make them tougher and as a result had experienced a decrease of returns. If IKEA want to keep their lenient return policy they might not have as low levels when increasing their online sales. According to Postnord (2017) the returns are in fact increasing for online sales and most likely will IKEA's return flow follow the same trend.

On a country level Canada and United States have most returns. This results in the highest levels in actual quantity, volume and value in United States, given the fact that it is one of the biggest markets. It can therefore be a good idea to keep extra attention to the development of the returns in this country. This finding is in line with the survey UPS (2018) have conducted, saying that customers in the United States are more likely to return a purchase. Other trends that are interesting to look further into is the increase in Canada, the decrease in South Korea and the low levels in Japan, Italy and Russia. What is interesting is that Canada and the United States are geographically close to each other as is Japan and South Korea. If the same customer behaviour can be found in countries close to each other the future segmentation maybe could be other areas than one specific country. It might even be that one country have very different customer behaviours in the south and north or east and west and should be segmented with a part of the country next to it instead. In the future country borders might not be what it is today.

When looking at the different HFB areas "Other Business Opportunities" has the highest percentage of returns. In the same time, this HFB has the least sales in all perspective, making the actual return flow in quantity, volume and value low. However, this area is not a core business area at IKEA and the question is if the gain the products in this HFB contributes with to IKEA will compensate for the higher return flow if it were to increase even further. The HFB area "Kitchen" does also have higher return flows. The reason for this is that if a customer feels that there is something wrong with a product they often decide to return the entire kitchen. In this HFB it is therefore even more important than usual that all parts are whole and that the delivery is complete. "Kitchen" is also one of the HFB areas where it is more common that IKEA pick the order for the customer, which are adding extra pressure on the CDC and CPU units that already are experiencing an increase in workload due to the increase of sales through e-commerce. The HFB areas IKEA should focus on the most if wanting to have low return flows are "Cooking", "Eating" and "Store and Organise Furniture".

### ***Returns Segmented by Condition***

If looking at the development of the condition the products are returned in it can be seen that in quantity the majority of the returns are in good condition. In volume and value it is more close to fifty percent. The trend is also that TT325 returns have been increasing more rapidly since FY 2014 and in volume they have grown passed TT320 returns. This means that even though the returns are low more and more returns need some kind of recovery performed, which results in higher costs and losses in value. If this trend continues at the same time as the returns are increasing the impact of returns on IKEA's financial result will increase. There will also be a need for more space and personnel in the recovery departments in the stores than today. It could also mean that more spare parts will need to be transported, creating yet another transportation flow, or that IKEA will have to increase the bargain corner, which could take away both space and focus from the new products.

In Germany the volume of TT325 returns is the highest, 64%. This is one of IKEA's largest markets, which means that in actual numbers the volume of returned products that needs recovery is much higher than in other countries. If wanting to find the reason for why TT325 returns are increasing Germany can be a good country to look further into. In the same way can Denmark be a good country to look further into when finding a solution, since this is the country with the lowest percentage of TT325 returns. Interesting is that these are two countries that geographically are very close to each other, but in customer behaviour apparently are not.

When comparing the different HFB areas "Living Room Seating" was found to have a large percentage of TT325 returns in quantity and volume. In this HFB products like sofas and armchairs are included and most likely people often takes of the plastic cover when trying it out. This means that it cannot directly be placed in stock when returned to a store. The same argument can be used for the opposite when it comes to the HFB with lowest percentage of TT325 returns in quantity and volume. "Other Business Opportunities" consist of products that do not always have any package, like books, and therefore is more likely to be returned in a good condition.

### ***IKEA's Return Policy***

Return policies can be used pre-purchase to signal good quality (Bonifield et al., 2010; Mukhopadhyay & Setaputra, 2007) and post-purchase to get a second chance to satisfy the customer (Cassill, 2013; Kim & Wansink, 2012). It has also been concluded to be an opportunity to foster customer loyalty and thereby improve profitability (FedEx, 2017a). This is something that IKEA have understood, given the fact how important their lenient return policies are for them and the understanding of the loss of a lifetime customer due to bad experience. At IKEA it is possible to return products that have been tested and therefore even assembled. The customers also have an entire year where they can decide. Theory argues that sometimes lenient return policies used for short-term gain to increase sales might have negative consequences in the long-run (Bower & Maxham, 2012). The difference in IKEA's case however, is that they are not seeing their lenient return policy as short-term gains but instead a requirement for satisfying and keeping the customers in the long-run. This is a behaviour that has been seen to increase customer loyalty and increase repeat sales (Griffis et al., 2012).

With the low return flows that IKEA have today the lenient return policy has not been a problem. Important for IKEA however, is to understand the effect of the policy if having an increase in online sales, especially from a TT325 returns perspective. The market study shows that the return policies available on the market stretches from very lenient with no requirements to more tough with a couple of requirements. Both companies with lenient return policies and tougher have low return flows, it is therefore difficult to draw any conclusions whether it is better to have a lenient or tough return policy. One of the most popular changes companies have performed was to change the return policy, making it both more lenient and tougher.

When it comes to the question of charging or offering free returns it has been found that free returns increase post-return spending (Bower & Maxham, 2012). Today, IKEA are charging their customers for returns that are not returned in store. They are however trying out free parcel returns in United Kingdom, this have however not been evaluated yet. A risk is that for products that can be bought at other retailers at a similar price, the customers would think twice before purchasing it at IKEA if they are charge extra for returns. The same goes for marketplaces, they often have very lenient return

policies and offers free returns, if they were to sell IKEA's products the customers could buy it there instead.

In the market study it has been found that the majority of the companies that responded did offer free returns. However, there was one company that only was available online and still charged for returns. This was a company that sells furniture, which means that the freight more likely is higher than for the other companies. Although, five of the eight companies are not charging for return freight and IKEA need to consider if handling the distribution of customer returns still can be considered a service. Paying for freight has developed to become a reason for customers choosing not to shop at a specific store. This is also confirmed by Postnord (2017) arguing that lowering the barriers for returns have been found to create both trust and loyalty with the customers. The customers will take a lenient return policy for granted and services that earlier were charged for will be expected to be free. According to UPS (2017c) free parcel returns have become standard and is something that IKEA are recommended to implement. However, segmentations can be made and free returns for example does not have to be offered for all types of returns. Maybe an alternative could be to have different offers for different types of returns. For parcel returns freight could be free and for bigger home pick-ups a fee can be charged. Most likely would customers be more willing to see the return of a larger product, a sofa for example, as a service they can pay for.

The global return policy that IKEA are implementing could be adjusted by the countries themselves. This means that there in the end will be no global return policy, but every country having their own more or less alike. Considering the differences in behaviour that have been observed it might not even be optimal to have the same policies in all countries. In Japan for example, where no one would like to buy a package that have the smallest scrap, it might be more profitable to not let customers return a product with a damaged package. In Germany, where TT325 returns are much higher than elsewhere it might be possible to decrease these levels if changing something in the return policy. Even though the impact of returns is very small today it might be different in the future if the returns would increase. Then country specific return policies might be a requirement. However, on the contrary, in the future borders might not be as clear as today and it might not be possible to have any differences between countries.

### **6.1.3 Customers Impact on IKEA's Returns**

A retailer should as far as possible try to avoid returns (Rogers et al., 2002). However, it is not always possible. In the theoretical framework the customers' return reasons have been divided into two categories, product and emotional related (Powers & Jack, 2015). The categories for return reasons that IKEA have cannot be translated exactly to either product or emotional related reasons. However, in general it can be stated that most sub-reasons under "change of mind" and "service process" are product related reasons, meanwhile "sales process" and "product quality" are emotional related. In IKEA's case then the product related return reasons are greater than the emotional related, which contradicts the theory stating the opposite (Powers & Jack, 2015). Return reason "customer assistance" is only used for exceptions and is neither a product or emotional related reason.

IKEA have made changes in the coding of return reasons, making it harder to analyse. However, it can be stated that "change of mind"-returns have been most usual during the period from FY 2012 to 2017 and they are constantly increasing. These returns are not made because there is something

wrong with the product, instead it is completely due to the fact that the customer has experienced cognitive dissonance after some time. This has been identified as the key motivation for returning a product by Powers & Jack (2015). Since the returns have nothing to do with the quality of the product or the process the customer has experienced when purchasing, these returns are the most difficult ones to do something concrete about. However, since it is the most usual return reason and it is increasing for every year it is the most important category of returns to analyse and try to minimise for IKEA.

IKEA have started to work in this direction by developing an app that gives the customers an opportunity to place the product in their own home using augmented reality, the IKEA Place app. This can be seen as a way of trying to minimise returns due to wrong size or style. Another important aspect to consider is what incentives IKEA have towards the customers, if any of them are making the customer order more than wanted and needed just to later return the product. Some companies offer free delivery for orders over a certain value and then have free returns. Then the customer can take advantage of this, which results in more returns than necessary. In this case IKEA do not have a return policy or delivery offers that gives such incentives, the delivery freight is paid by the customer regardless of order value.

A positive conclusion that can be drawn from the data, stating that “change of mind” is the most usual return reason, is that IKEA have a good quality on their products. They are also offering the customers a good purchase experience both when it comes to the sales and service process. However, the reason code “sales process” has increased a lot the last year, which means that incorrect or misleading information, customers ordering the wrong product, picking errors, handling damage, payment issues or over sales is at fault. During the last years IKEA have started to pick more of the customers’ orders, both as a result of increased e-commerce but also when offering services like Click & Collect and picking in store. Therefore, it is not unlikely that this is one reason for the increase. Another reason can be that the information given in store or online is not clearly enough or that there is a gap between the information in the different channels that affects omnichannel customers.

The theory also states that different customers return due to different reasons, occasional returners due to wrong product size and regular returners due to unfulfilled expectations (Foscht et al., 2013). IKEA do not connect the returns to an order and thereby not a customer, making it impossible to analyse if their customers follow this behaviour that has been described. What have been found however are differences in trends between the different countries. In North America, and especially the United States, there is a larger percentage of returns due to “change of mind” than in the other countries. When it comes to countries having problems with the “sales process” European countries are overrepresented.

When looking at the different HFB areas within IKEA it can be found that the most common product category to return due to “change of mind” is “Rugs”. A reason for this can be that rugs are believed to be a product that needs to fit with the rest of the furniture. A possibility here is that with good quality on the photos in the online store the customers can make a better judgement before buying it there, compared to in store. Another reason code that has increased is “sales process”, particular for “Bedroom Furniture”, “Eating”, “Kitchen” and “Other Business Opportunities”. This could be an



indication that these products are more commonly picked at a CDC or CPU and transported to the customer's home by IKEA.

## **6.2 Distribution Network**

IKEA have today successfully created a distribution network that enables them to be a leader of retailing for life at home. The forward logistics distribution network distributes millions of cubic meters of raw materials, components and products all around the world. It covers, as argued by Govindan et al. (2015), all nodes from the supplier to the DCs, retailers and customers' homes. Different kind of transportation solutions are connecting the nodes. The solution that still is considered to be the cheapest and best is direct-to store deliveries. IKEA are however highlighting some difficulties with direct deliveries and have created a network of DCs. The DCG are together, as argued by Holzapfel et al. (2016) supplying and storing the IKEA products centrally, regionally and locally to the selling units. Included in the selling units are physical stores, but to cope with the e-commerce, IKEA have also added CDCs and CPUs where picking of online orders is performed separated from the store fulfilment.

Finally, the customer has for all sales channels the possibility to pick-up their goods or get it delivered to their home. IKEA have for this reason also included service centre units as a way to extend the distribution network, since the service centre units combined with an expanding network of CDCs and CPUs will give a shorter distance to the customer and come closer to actually being the last mile, as referred to by Yu et al. (2016).

### **6.2.1 IKEA's Reverse Logistics Distribution Network**

The definition made by The Reverse Logistics Association (2018) stating reverse logistics as having the ultimate goal to optimize or make returns handling more efficient to save both money and environmental resources fits well with IKEA's way of defining and managing returns. The management of returns process and therefore also their reverse logistics distribution network have been optimised by reducing handling points, shortening transportation distances and in the end saving costs. This is also aligned with Bernon et al. (2011), de Leeuw et al. (2016) and Griffis et al. (2012) arguing that to be successful costs and time should be reduced.

The reverse logistics distribution network starts at the customer's home with a customer wanting to return a product and independent of what sales channel the customer has made their purchase in the customer can then choose from two return options. The product can, just as argued by Nuss et al. (2015), be brought in or picked up. What system that the customers prefer to use differs between continents. According to UPS (2018) it can be seen that shoppers in Asia and Europe prefer to ship online purchases back to retailers, while shoppers in the United States and Canada prefer to return online orders to a physical store.

If looking at bring-in systems are IKEA today offering their customers the opportunity to bring their returns to a physical store. The bring-in is done directly to a CSC at an IKEA Store or via consolidation at another physical store. IKEA are also working at a parcel service solution, this has however only been tried out in United Kingdom so far. If instead looking at pick-up systems the customer can have IKEA pick up the return at their home. The return is then in the same way distributed directly to an IKEA Store or via consolidation at a service centre unit. At IKEA the main business is centred around

the stores. It has been like that for a while and the feeling is that IKEA want to keep it like that in the future as well.

All returns are regardless of where they have been collected distributed to the CSC at closest IKEA Store. This decentralised solution minimizes the transportation and shorten the time it takes for a product to be back in store or storage after being returned, which is of highest importance (Bernon et al., 2016; Griffis et al., 2012). The stores importance as the centre of business might have impacted the decision of choosing this solution. As it is today IKEA's reverse logistics network ends in the store. If the returns where to be transported to a central location instead, time would be lost as well as costs in form of transportation and running costs of return operations in another location. In the same time making the process more complex and inconvenient than it is today, which is the opposite as wanted (Griffis et al., 2012). However, returns picked up at the customer's home or sent in via parcel postal services will be shipped to the closest IKEA Store according to postcode. The amount of returns that the different stores need to manage can therefore vary. It could therefore be an idea for IKEA, if the returns continue to increase, to optimize the distribution of the returns by steering the returns to the IKEA Store that needs it the most or the store with free capacity. This should however only be done if it can be done without increasing the returns management cost or the impact on the environment.

#### ***Aspect Impacting the Design of the Reverse Logistics Distribution Network***

As can be seen in Table 12, strategic, tactical and operational aspects found in the literature are all impacting the design of IKEA's reverse logistics distribution network as of today. To find out what aspects that are most important, the aspects were given to the companies in the market study with the question "During the last 5 years, have you been forced to make any adjustments in your return handling process?". The companies could then select the three that had been the most important, the answers from the companies can be found in Table 15.

#### **Strategic Aspects**

If looking at the strategic aspects there are three adjustments that seem to be more important when designing a reverse distribution network than other. The first adjustment is regarding the overall design of the reverse logistics distribution network. Here, IKEA today have chosen to have a decentralised design. This is aligned with how half of the companies in the market study are managing their returns. However, Tibben-Lembke & Rogers (1998) argues that centralising processes in the reverse logistics flow can result in cost savings and improve the process quality and information flow. This is also aligned with how the two companies with the most returns, between 31 to 40 %, are managing their returns, at a DC or a third-party. Furthermore, Company 7, a marketplace, have chosen both centralising and to use a third party for handling returns as being two of the most important adjustments to the return handling process. IKEA have tried a centralised return solution in the CDCs earlier, but it did not work out very well. They experienced problems when integrating the forward flow with the reverse flow. A reason for this might be that the development of the CDCs has gone quite fast and the processes are not mature enough to handle this more advanced setup. It might be that when the processes in the CDCs have matured it can be possible to handle returns here as well. However, at the High flow DCs the picking units differs between the forward and reverse flow, which makes it unlikely that IKEA would benefit from a centralised return solution involving these.

The second adjustment is concerning the return policy and here IKEA have tried to implement a global return policy as suggested by Mollenkopf & Closs (2005), Monaham et al. (2004) and Patrican & Kirk (2009). It can however be concluded that it is one of the most lenient policies in comparison to the companies in the market study, since only three of the companies have a time frame longer than 30 days. In the same time, are five companies demanding that the product should be complete or either unused, unassembled or in an unbroken package. This is not requested by IKEA, since the products can be tested, assembled and returned with or without its packaging, neither by Company 2, selling electronics, or company 7, a market place. However, IKEA are not offering free returns in all return channels.

The last adjustment is concerning collecting, displaying and sharing data. Changing the data collection process, information sharing process and updating KPIs are all suggested to be important adjustments in the returns handling process by several of the companies in the market study. This is also aligned with Ylinen (2015) arguing that companies should track data of sales to make it possible to check if there are items, categories or products that have more returns than others. Regarding data collection are IKEA today registering the return reason and what product, quantity and quality of the returns which can help to uncover and remove the causes for returns. However, something they are not doing at the moment but could benefit from is to track the origin of the purchase. This would help IKEA understand what impact the sales channel have on returns.

#### Tactical Aspects

Three of the companies in the market study have changed what channels and network nodes they use for the returns handling process. This is aligned with how IKEA have added both selling units and service centre units, primarily with the purpose to be closer to their customers. This enables customers to easier return products. Furthermore, IKEA are right now adding the possibility to send in parcel returns.

A typical tactical planning problem is according to Nuss et al. (2015) forecasting of the returns, since uncertainties concerning the quantity, quality and timing of the product flow can be inherent. IKEA are today not forecasting their return flow. However, in the market study four of the companies are forecasting their return flow, this includes the furniture company and also the companies with the highest percentage of returns. Three of the companies forecasting the returns are furthermore taking the return flow in to consideration when planning the replenishment flow. This is aligned with FedEx (2017b) suggesting that retailers should work proactively with managing returns to prevent shock by spikes without any indications in advance.

By the mapping of the reverse logistics flow it can be understood that an increase of the return flow will primarily increase the stock levels of the stores. However, the stores can overwrite the sales plan which in a bigger picture can impact the DCG units. Here planning is done on a regional or global level and it is a lot harder than in the stores to pick up customer trends. So, how exactly to perform the forecast needs to be further evaluated and the value of the forecasting will depend on its accuracy. If overestimated it will result in overstocks and losses due to related holding costs. On the other hand, if underestimated, the company will not cover the demand and will lose revenues and profits (Chern et al., 2014).

## Operational Aspects

The operational aspects of reverse logistics include, according to Fleischmann et al. (1997) and Nuss et al. (2015) primarily short-term, day to day decisions, connected to how returns should be handled with the overall goal to reinforce the products into the forward logistics flow. Here, three adjustments are pinpointed by the companies in the market study. These adjustments are concerning the gatekeeping process, the product inspection process and the processes of handling products returned in a bad condition, which all are included in IKEA's process of managing returns.

### **6.2.2 IKEA's Forward and Reverse Logistic Nodes**

Guide Jr & van Wassenhoven (2002) argue that there is no best design for reverse logistics, instead each network needs to be designed to fit the products involved and the economics of their reuse. IKEA are today offering a wide range of products, some small and some larger and they always strive for the lowest total cost. A great part of the products are therefore offered as flat packs that the customer can bring home for final assembly. This is a very efficient setup when looking at the forward distribution, since the products is packed in equal stackable boxes and not as fragile as when it is assembled. However, when the products are assembled the transportation within reverse logistics is not as easy anymore. For this reason is, as argued by IKEA, short transportation distances and few handling points for each individual return a criterion that needs to be considered for the reverse logistics distribution network design.

The reverse logistics distribution flow of IKEA is to a great extent separated from the forward flow. As seen in the forward logistics distribution network the primary nodes included are the DCG units, selling units and service centre units. However, in the reverse logistics distribution network only selling units and service centre units are included. This is mainly due to the fact that this is the most cost efficient way of managing the returns today but it is also due to the fact that the ownership of the goods is changing when the goods are leaving the DCG units. Therefore, to be able to return the goods to a DCG unit the purchase must also be credited.

IKEA's reverse logistics distribution network ends in the IKEA Store. This means that no returns are handled in a DC, neither the online sales returns or the physical store sales returns. Given the fact that IKEA do not keep track of which channel the return has been purchased in it is not possible to have different solutions for different sales channels. It might not even be wanted, but it is quite rare that a retailer's reverse logistics distribution network ends in the store. Many retailers handle postal returns in a central location. For IKEA postal returns are a new return option that only have been piloted on one market. When this return option gets available on all markets IKEA might have to re-evaluate the solution of only involving the physical stores and service units in the reverse logistics distribution network.

The stores are furthermore owned and operated by franchisees and the franchises setup can in itself according to Grace et al. (2013) be a challenge when changing the distribution network. This is mainly because of different expectations and it is therefore argued by Shockley & Turner (2016) that for franchisees to promote and embrace change a favourably-perceived organisational justice climate is important. For this reason it is important that the Inter IKEA Group and the INGKA Group are both sharing data and collaborating when designing and developing the distribution network, despite the fact that it is only the INGKA group that are handling the returns.

In Gothenburg have IKEA started to build a new kind of IKEA Store where picking of e-commerce orders should be performed. In the same way have IKEA started to implement other store concepts such as an IKEA Pop-up store, an IKEA Showroom and a range of different IKEA Points. The new store formats have both been initiatives by IKEA and the franchisees themselves to find new ways of giving the customers a seamless shopping experience regardless of how, where and when they want to shop. The different formats can however be confusing for the customers. Only when looking at the IKEA Points three different names and concepts can be found. A global aligned store concept solution has still not been found. IKEA might for this reason consider a middle way by opening more aligned showrooms, where customers can feel, try and familiarize themselves with the products before ordering it online. The showroom concept should also accept returns since this, as argued by PWC (2017), can help save expenses for return shipping fees and handling. This is however not the case with the IKEA Showroom as of today, since they are not managing any returns. The reason for this might be that the IKEA Showroom has a limited storage area.

In the IKEA Stores have IKEA included a bargain corner where TT325 returns can be purchased to a reduced price. However, when considering the fact that the quantity and volume of the TT325 returns are increasing a possible side effect could be that the area of the bargain corner needs to expand. This could take away space from new more profitable products. A concept that can be used for this purpose, that IKEA already have implemented in Älmhult is the IKEA Bargain Store. Which is a concept that maybe should be evaluated for expansion to other places around the globe.

Updating the e-commerce has also been a way to improve the availability and the shopping experience for customers. The IKEA e-commerce is today a channel where IKEA is lagging behind competitors all around the globe. Furthermore, the lead times are today in general longer than the three days that is demanded by the Europeans (Postnord, 2017). To be able to offer a more competitive e-commerce on a global market and shorten the lead times have IKEA started to include more CDCs and CPUs in their distribution network. These units are only used to support the picking of online orders and need to be in place for the new e-commerce to function optimally.

To support the selling units have IKEA chosen to include service centre units to come closer to the customers and to cover a larger market. The service centre units can be owned by IKEA but they are more commonly owned and operated by a 3PL provider. IKEA are today the owner of almost the entire distribution network and to use a 3PL provider that is not only a transporter is not that common. This might however be a great strategic move since handling e-commerce orders is outside of IKEA's core competencies, which still today is to supply the IKEA Stores in an efficient and effective way. In the same time could it also be questioned if IKEA actually need to build more CDCs and CPUs to support the e-commerce or if a third-party with the right knowledge can be used in a greater extent. This could not only make the e-commerce more efficient but it could also speed up the global implementation.

### **6.2.3 Differences Between IKEA's Forward and Reverse Logistics Distribution Network**

IKEA have just as described by Bernon et al. (2011) primarily been focusing on maximising the effectiveness and efficiency of their forward logistics distribution network. Customer behaviour have however started to change and the winning concept with IKEA Stores that have been successful for a very long time is now questioned. IKEA have for this reason started to look for new ways to distribute products and meet orders and in this process it is important to not forget about the reverse logistics

distribution network. So, regardless of where the purchase has been made can the customers choose to return where it fits them the best.

All of IKEA's selling units offer the possibility to purchase and return products. In the same way are almost all physical selling units today accepting customer returns. The only physical store that does not accept returns is the IKEA Showroom, while the IKEA Bargain store only accepts returns purchased in their store. The CSC at the IKEA Stores is the only node in the distribution network to manage the returns but the same equipment that is needed for handling returns is available at the CDCs. However, as argued by Dowlatshahi (2012) it could be more complicated to handle returns there since they also need to develop capabilities for receiving and putting back returns.

There are furthermore several differences detected by Tibben-Lembke & Rogers (2002) that have, as can be seen in Table 5, been divided into the three areas. These are transportation, planning and sales and here IKEA possibly need to think different between the distribution networks. The first area regarding transportation is primarily concerning how and where the goods are transported. In forward logistics it is possible to take advantage of economy of scale and ship full truckloads. This is more difficult in reverse logistics if the returns have to be picked up individually at the customer's home. It can however be possible to coordinate the distribution for the forward and reverse flow, making the trucks both deliver orders and pick-up returns. Furthermore could the selling units and service centre units be included more as consolidation nodes, giving IKEA the possibility to plan the collection of the returns. The transportation could then be more coordinated and aligned, making it possible to choose what products to pick up when. This could in the end make the work at the recovery departments easier, since the products can be more uniform when handled.

The second area is planning of the networks, including the possibilities to plan, overlook and forecast the product flow. IKEA are today forecasting their forward but not their reverse logistics distribution network. The forecasting is done in several steps and on different levels with the help of a well-developed plan. If IKEA in the future were to forecast their returns to better plan for their supply the returns need to be included in the demand planning phase. However, Ylinen (2015) recommends that forecasting of returns should be done separated from sales

The third area of differences between the networks are sales and how this will be impacted by pricing, quality and marketing of the products. Here, KPIs have an important role and IKEA have an array of KPIs concerning the forward logistics distribution network. The measurements should be evaluating both the performance of returns handling and cost associated (Bernon & Cullen, 2007). However, when looking at the reverse network the measurement that can be found is Cost of Poor Quality and includes more than just the returns. It is therefore impossible to say in what extent the returns are impacting the KPI. Information about the returns are furthermore collected when the customer is returning the product, but there are some improvements that can be made. As of today are IKEA not registering when and where the purchase has been made. This makes it impossible for IKEA to measure if returns are following the sales or if one sales channel is causing more returns than the others. How many of the TT325 returns that can be restored are not either followed up separately, making it hard to follow up the exact costs of the returns. Measuring the TT325 could however be a good KPI for the IKEA Stores and maybe more specific the performance of the recovery

department, since as argued by Lambert et al. (2011) the nature of the KPI will have an impact on the behaviour of the people involved.

### **6.3 Omnichannel Retailing**

Some definitions of omnichannel focus on the entire distribution network, from back-end to front-office, while others only focus on front-office towards customers. In this study, the researchers have decided to define it as Vanheems (2009) and look at it as omnichannel affects the front-office processes towards the customers. This includes product purchases and returns and is the same definition as IKEA have for omnichannel.

#### **6.3.1 IKEA's Driving Forces to Become an Omnichannel Retailer**

The driving forces of becoming an omnichannel retailer that have been identified from a market perspective are the need of extending the customer base and the requirements of increasing the touchpoints towards customers. There has also developed a need for complementary shopping, the customers want to shop both online and offline (Avery et al., 2012; Kwon & Lennon, 2009). In addition to this have IKEA identified driving forces like digitalisation, urbanisation and sustainability, that all contributes with new customer behaviours.

The digitalisation is a way of increasing the touchpoints, which IKEA are doing by developing new apps, improving their e-commerce and looking at possibilities of collaborating with third-party marketplaces. The e-commerce has also proven to be a good way of reaching out to new customers and has not cannibalised other channels. The risk of cannibalisation has thereby been overstated, just as argued by Bialogorsky & Naik (2003) and Kauffman et al. (2009). The digitalisation also contributes with a possibility for customers to find better prices, specific and unique products or brand, in the same time as it is convenient, which has been found to be a reason for why online sales is increasing (Postnord, 2017).

The final force identified by IKEA, sustainability, will be the one most affecting the returns. IKEA have intentions of saving as many returns as possible and are also looking further into the life cycle of their products and what responsibility they have. Sustainability has also made people rethink the way they transport themselves, only offering physical stores outside the city-centre and thereby forcing people to visit them is no longer an option. IKEA is one of many retailers experiencing this change and as argued by Conversion (2017), an implementation of omnichannel strategy is a question of survival rather than a question of customer's convenience.

#### **6.3.2 IKEA's Transformation to Omnichannel Retailer**

Precisely as the studies within the field suggest, have IKEA seen an increased demand of shopping wherever and whenever the customers want. In the same time are the customers expecting to get the ordered goods delivered within one or a few days. As a result from this have IKEA started to store goods closer to the customers. This implicates that the goods will be divided into more places and the stock levels be lower than in a centralised solution. The impact of having good forecasts is thereby also increasing.

Implementing omnichannel can be seen as implementing a new business model (Cao, 2014). In IKEA's case most focus has been on developing, implementing and aligning the e-commerce with the rest of the business. This journey started out by increasing sales and profits in the markets that had

the old e-commerce, as well as adding on three new markets. The results were good and new geographical customers were reached. IKEA therefore continued with developing a new e-commerce solution with the purpose of satisfying omnichannel customers and offer a seamless experience, as Beck & Rygl (2015) is emphasising as important when being an omnichannel retailer and has been one of IKEA's learnings so far in the process. Furthermore, IKEA have understood that the omnichannel development is going on at a high speed, which is one factor them as a huge global company have problems keeping up with and they need to have a more agile approach. As the development is fast the customers' expectations changes, meaning that the risk is that if IKEA is too slow in their transformation their solutions might be outdated already when they implement them.

In IKEA's case it has been difficult to analyse what has been the exact effect of implementing the online store and transforming into an omnichannel retailer. What can be concluded however is that the return trend is not following the increase of e-commerce, the e-commerce is increasing much more rapidly in terms of quantity, volume and value. If this will be the case in the future as well or if the return flow will be affected is hard to say since it is still not that well known that IKEA have e-commerce and the impact might get bigger when the e-commerce is increasing.

When comparing the sold volume with sold quantity through e-commerce the percentage is much higher. This means that it is more popular to order larger products through e-commerce. This is also confirmed when looking at sold quantity through e-commerce per HFB. The HFB areas with largest percentage of quantity sold in this channel are "Beds & Mattresses", which as the name reveals includes beds and mattresses, "Bedroom Furniture", which includes wardrobes, clothes dressers, shelves and bedside tables and "Living Room Seating", which includes sofas and armchairs. It is also these HFB areas that have the highest percentage of sold volume through e-commerce, which is not that surprising since most products in these HFBs are relatively large.

If looking at the products that are most popular to shop online it is clothes and electronics (Postnord, 2017). These are not just larger products, but can vary in size. Saying that the products that sells the best at IKEA do so because of their size, is therefore not likely. Instead it can be assumed that these are typical IKEA-products and it is a considered purchase made from the customers. The e-commerce could therefore more be seen as a home delivery service to complement the stores than its own sales channel.

The lowest percentage of both quantity and volume can be found in "Eating", "Family" and "Cooking". "Eating" includes products like napkins, plates, mugs, cutleries and glasses, "Family" includes bags, umbrellas, first-aid kits and toiletries and "Cooking" includes frying pans, pots, lunch boxes and griddles. Many products included in "Eating" are fragile and the risk of something getting damaged during the transport is higher than for other products. This can be one reason why customers do not buy this through e-commerce. Another reason could be that products in these HFBs are products one does not know that one need before seeing it in store and IKEA needs to investigate further how these products can be shown for customers while shopping online. One solution can be to have pop-ups before a customer can continue to the checkout.



With the pilot in the United Kingdom IKEA have come quite far of transforming into an omnichannel retailer on that market. The new e-commerce has been implemented, which has led to a more interactive way of communicating with customers online. A result of the implementation of CDCs and CPUs has also been that the delivery time has decreased from 16 to 4-6 days. That is a notable decrease, however the level IKEA started on was very high compared to most online stores nowadays. Therefore, IKEA still have a long way to go before reaching the preferred delivery time of at least 1-2 days on all markets they are available on.

From the 13 countries with some kind of e-commerce it can be seen that Finland is the country with the lowest percentage of sales in quantity online. In the same time as United Kingdom, which have implemented the new e-commerce, is the country with the highest percentage of sales. It is therefore likely that the e-commerce will increase in the other countries as well when the new solution is implemented. However, since this process have been very time consuming have IKEA implemented a basic e-commerce solution to avoid country specific solutions. What can be seen is that regardless of that, the countries have started to become impatient. It has taken far too long time for IKEA to implement the new e-commerce solution and its new website. In countries, like Sweden for example, IKEA's e-commerce is still lagging behind, there are almost no integration with other channels. However, the distribution network is ready to serve omnichannel customers. Then there are some countries, like Romania where IKEA only recently have implemented Click & Collect as an intermediate to e-commerce. In addition to this, in some countries people have created a new way of purchasing online. In the United States for example most purchases are made through an online marketplace, and not the companies own online stores (UPS, 2017b).

Even though it is only a small percentage of the sales quantity, volume and value that is sold through e-commerce 30% of IKEA's customers shop online. In Stockholm it is even more, 40% of the customers, and IKEA expect it to be 70% in ten years. This gives an indication of how important it is to have e-commerce and for it to be competitive. The competition on the e-commerce market is high and there are many companies that have specified in this particular and sees it as their core business. Therefore, when moving forward, it is important for IKEA to consider the possibility of selling their products via a third-party marketplace. The chance is that they have better offers when it comes to delivery and return policies and are difficult to compete with.

Another question that arises if choosing to work with a third-party marketplace is whether to use this as the only e-commerce channel or offer its own as well. If going with the first alternative the risk is that IKEA lose control over the e-commerce and of course that the margins will be lower. However, if going with the second alternative the risk is that the two channels are competing with each other and then the well-established marketplaces most likely gets the advantage. This is of course also something that will affect the returns. If choosing to work with a marketplace IKEA need to decide if it still should be possible to return the product in an IKEA Store or by any of the other return options that are available or soon will be available. With a lenient return policy where receipt is not needed it can be difficult to separate the marketplace's return flow from the rest of the sales. Furthermore, with the franchise setup, the franchisees might not be that happy about their sales going to another party while they have to handle the returns. If this were to happen, IKEA either have to change their return policy or the IKEA Stores then will have to handle these returns as well. It can also be expected

that this change will be country specific, since the customer behaviours differs a lot between countries, or at least regions according to the market study.

Implementing omnichannel has been acknowledge to contribute with changes at a strategic and organisational level for a company (Cao, 2014; Neslin, 2009; Zhang et al., 2010). From the learnings so far it has been found that aligning the e-commerce with the IKEA business impacts the IKEA Concept in more than one way. For IKEA as a franchiser, this most likely will be even more critical than for other companies to understand. A learning so far in the project has been that they have to work more cross-functional. IKEA have therefore created a KPI Dashboard as an attempt of avoiding silos and facilitating data sharing as Cao (2014) argues is important. However, the dashboard is not that commonly used. This can be seen as a signal that most employees are not aware of the transformation, at least not on how it will affect their work. If not everybody is acknowledging the transformation and its importance it is not surprising that it takes too long time for IKEA to transform.

#### **6.4 Possibilities and Challenges for Returns in an Omnichannel Distribution Network**

From the theoretical framework three possibilities and five challenges have been found. The possibilities are: provide a holistic customer experience, reduce uncertainties by centralising the return flow and improve return forecasts by looking at sales data and customer reviews; and the challenges are: channel integration, separate or combine forward and reverse logistics flows, the integration of e-commerce, decide how to handle uncertainties and returns forecasting. In addition to these have two other possibilities and one challenge been found for IKEA. These are return policy and omnichannel partners respectively speed of transformation.

##### **6.4.1 Possibilities**

###### **Provide a Holistic Customer Experience**

As of today IKEA's e-commerce is limited and there are huge differences between the markets. IKEA can therefore not be considered to be an omnichannel retailer. In addition to this are IKEA trying out different store concepts but do not seem to have found which concepts that suits them the best. In order to attract customers it is important to offer a holistic customer experience throughout all channels. It is therefore important for IKEA to find a way to align their e-commerce with the rest of the business, as well as limit the IKEA Concept to a few concept-stores and not all one can think of. The same return options, meaning in store, pick-up at home and parcel postal service, should also be available on all markets. If IKEA succeeds with this, they have every possibility to offer a holistic experience to the customers.

###### **Reduce Uncertainties by Centralising the Return Flow**

The management of returns process that IKEA use today is decentralised. Theory suggests that a centralisation could reduce uncertainties when it comes to what, when and which quantities that will be returned. This is also the case at the two companies with the highest return rates in the market study. IKEA's return rate is still significantly lower than these two and the future increase is not expected to reach those levels. In the same time is IKEA's management of return process with its recovery possibilities cost efficient and optimised for IKEA's needs today. The franchise organisation that IKEA have does also make it more difficult to centralise the return flow and transfer ownership backwards in the chain. In addition, if a centralisation should be considered the processes in the

CDCs need to be more mature in order to handle the returns. The conclusion is therefore that even though this is a possibility for some retailers it is not believed to be a possibility for IKEA as an omnichannel retailer today.

#### Improve Return Forecasts by Looking at Sales Data and Customer Reviews

As seen in the market study the companies with the highest return rates are also the ones forecasting their returns. Even if it cannot be exactly predicted, forecasts can be used to prepare for the unknown, which returns can be seen as. According to both theory and IKEA's sales and returns data, the returns are following sales quite well. It is therefore not improbable that IKEA could be able to create sufficient and useful return forecasts on a high level. As of today, IKEA do not consider the returns at all when planning the replenishment. Even the smallest effort within this area can therefore be seen as an improvement. It should also be taken into account that the value of the return flow in an IKEA perspective is huge. A start could be to more continuously follow up on KPIs within this area to get an understanding of how it can be used to reduce returns or improve the replenishment plans. IKEA's customer reviews have not been looked into in this study, however due to theory the researchers believe that this could be an interesting area to investigate further.

#### Return Policy

The return policy is a possibility for IKEA to create customer loyalty but also control the return flow, if used right. Today IKEA are trying to have a global return policy but as found in the market study there are regional differences for what customers prefer and appreciate. In the same time is the return frequency different in different countries. In Asia and Europe where postal returns are preferred these could be offered for free, while in United States and Canada where they prefer to return online orders to a physical store postal returns can be charged for. Customers will have different acceptance for different limitations when it comes to returns. A deeper understanding of this could help IKEA to keep the return flow in control in the same time as the customers are happy. An example of how IKEA already are using this is IKEA Sweden, where kitchen worktops has been excluded from the global return policy. The aim is not to make the return policy tougher, the lenient return policy IKEA use today is well functioning and results in low return rates. However, if the returns are increasing it can be more beneficial to segment the return policy than to make it tougher overall.

#### Omnichannel Partners

E-commerce has contributed with a new flow of goods in smaller quantities, something that is completely new for IKEA. They are really good at optimising the large volumes that are distributed to the stores, but handling both many more and smaller customer orders requires other capabilities. A possibility for IKEA if they notice that they cannot keep up with the market is to collaborate with other parties. One possible solution could be to use third-party marketplaces, like Amazon or Alibaba, for the primary sales online. The mentioned marketplaces are both well-established on the market and the question is almost how much longer other companies still will be able to compete. Since IKEA are far behind when it comes to online sales, it might be better to already from the beginning create a partnership with one of those. Then IKEA do not have to build a distribution network of their own that can meet the short delivery times the online customers are demanding. Neither, will IKEA have to see these marketplaces as their competitors but instead partners. A challenge that however first has to be considered when it comes to partnerships with marketplaces is

how the returns will be handled. The franchise stores will not be happy to handle returns from this sales if not being compensated.

### **6.4.2 Challenges**

#### Channel Integration

A big challenge for IKEA today is to become aligned as an omnichannel retailer. IKEA's business has for many years been the IKEA Stores and besides selling home furnishing products, they are also offering their customers an experience including restaurants and "Småland", a play area for the children. This has resulted in customers buying unexpected products or more than they thought they needed. When it comes to the e-commerce IKEA are still selling more of the typical IKEA furniture products such as sofas, wardrobes and beds. The same customer behaviour of letting IKEA decide what is needed have not yet been detected in the e-commerce. HFBs like "Decoration" and "Eating" with products like candle holders and napkins have significantly lower sales online than in store. They do not even sell 1% of the sales value through e-commerce.

It is however not only the e-commerce that needs to be aligned, but the store concepts as well. For IKEA this could be a challenge given the fact that they at the moment are trying out several new store concepts. It is better to be exceeding in few channels and have good integration between them, than to be available in all channels one can think of. Furthermore, as a franchise organisation the IKEA Stores have had a lot of freedom and have almost acted like entrepreneurs. This is something IKEA want to keep, but when transforming into an omnichannel retailer it will be a challenge due to the fact that the entire organisation needs to be more aligned. A result of this will be that the franchisees, will have less impact on how to run their business. Some of the entrepreneurial spirit can be lost in this transformation, which could be a hinder for future growth and development. Furthermore, if the returns were to increase even more than expected the economical aspect of the returns could also get more focus. Are the IKEA Stores willing to pay for the consequences of an increased return flow that might not be bought in their PMA.

#### Separate or Combine Forward and Reverse Logistics Flows

The IKEA Stores are today the main connection point between IKEA's forward and reverse logistics flow, which means that when it comes to location the flows are combined. The handling process however, is separated and performed in different areas within the IKEA Store, facilitating the different requirement that can be found for forward and reverse logistics flow. This is working well for IKEA and the transformation into an omnichannel retailer does not contribute with new requirements that could change this. The conclusion is therefore that IKEA should continue with this setup of both combined and separated logistics flows as long as there not is an unexpected extreme increase of the return flow from today's levels.

#### The Integration of E-commerce

To cope with the e-commerce IKEA are planning to have three CDCs and one CPU in Sweden alone. These could be used to primarily supply Sweden but also Norway, Denmark and Finland. If taking all of these countries e-commerce into consideration it only stands for a small part of IKEA's total sales. A challenge for IKEA will therefore be how to supply all the e-commerce orders that are expected in the future. It is not unlikely that the e-commerce will increase with a factor ten, roughly estimated resulting in a need of 30 CDCs and 10 CPUs in the Nordic countries alone. For IKEA to handle this the

researchers can see two options, either IKEA can outsource the e-commerce to a marketplace or start to use the stores for fulfilment of e-commerce orders. For both options, the role of the store will be affected.

If being used as fulfilment stores the IKEA Store will have to handle even more customer orders, which will set higher requirement on the employees and processes. However, transportation cost and delivery time will be cut. This is not only applicable for IKEA Stores but for all physical stores. If instead deciding to sell through a marketplace the products will no longer be sold and returned within the INGKA stores. In the end, possibly making the stores more of return hubs than stores selling IKEA products.

#### Decide how to Handle Uncertainties

When it comes to returns there are a lot of uncertainties. One that highly affects IKEA is the uncertainty regarding quality of the returns. The quantity, volume and value of products in need for recovery is increasing and the volume of damaged returns have already surpassed returns without need for recovery. Even though the return rate in volume are low in percentage it needs to be put in an IKEA perspective, distributing millions of cubic meters of raw materials, components and products all around the world every year. To be able to better plan the workload at the recovery department, the space utilisation for the bargain corner and the replenishment of new products IKEA should compile data regarding the amount of damaged returns that can be recovered. Furthermore, the data that is already collected today regarding the quantity, volume and value of both TT320 and TT325 should be visualised more throughout the organisation.

It could also be easier for IKEA to understand and plan for the return flow if they would connect the returns to what channel they have been purchased in. Both theory and the market study indicates that e-commerce is contributing to an increased return flow. It has not been possible to prove this trend at IKEA yet. In addition, since the development of a new and improved e-commerce has only just started it is possible that all effects have not been shown yet. Connecting the returns with purchase channel, return channel, return reason and condition of the return, will give IKEA a deeper understanding of the return flow and further decrease uncertainties.

#### Returns Forecasting

A best practice for returns forecasting seems to be a challenge to find both in theory and through the market study. It has been concluded that a possibility can be to utilise the sales data as a base. However, the returns can be seen as products with an irregular demand that are volatile over a short period and statistical methods are then often ineffective. Even though the return trend follows the sales trend quite well at a global level it can be seen that there are periods when it does not. The margin of error will probably also be higher if looking at individual IKEA Stores. If wanting to forecast on a lower level than global, regional customer behaviours like most bought products and return frequency should be taken into account for more precise results. How the forecast should be created needs to be developed further but a start could be to compile the collected data more continuously to create an awareness in the organisation.

#### Speed of Transformation

The vision IKEA have of becoming an omnichannel retailer is the same as the one presented in literature. IKEA have also identified the right measures to take with a new e-commerce and other

physical and digital touchpoints. The challenge for IKEA however lays in the speed of the transformation. In some countries have IKEA only recently implemented the basic e-commerce solution and have a long way to go before being an omnichannel retailer. In the same time, for the new e-commerce it is not only a new website that needs to be in place but a network of CDCs and CPUs to pick and distribute the orders. Not to forget, they need to have well-functioning processes that can keep up with the speed. At IKEA today, returns due to faults in the sales processes, such as picking errors, are increasing. This indicates that the processes in the CDCs and CPUs are not functioning in an optimal way.

## 7 Conclusion

*The conclusion is a summary of the findings in this study. First, the fulfilment of the purpose is discussed and the research questions are answered. Next, recommendations for the future, both for IKEA and academic literature, will be presented. Finally, the theoretical contribution will be described as well as limitations.*

### 7.1 Fulfilment of Purpose and Research Question

The research has been designed to answer the purpose of the study:

*Investigate IKEA's return flow and evaluate possibilities and challenges to manage future returns in an omnichannel distribution network.*

The purpose has been considered to be fulfilled, since IKEA's return flow has been analysed and five possibilities and six challenges have been found for IKEA within an omnichannel distribution network. Some of the possibilities and challenges have been known for IKEA and some are new. They have all been found through exploring theory, IKEA's business and other retailers on the market. The research has been conducted to support and guide IKEA in their management of returns process throughout the organisation, as the retailing market stand before a paradigm shift.

The research question has furthermore been concluded by using the theoretical framework. A short summary of the conclusions can be found in Figure 27.

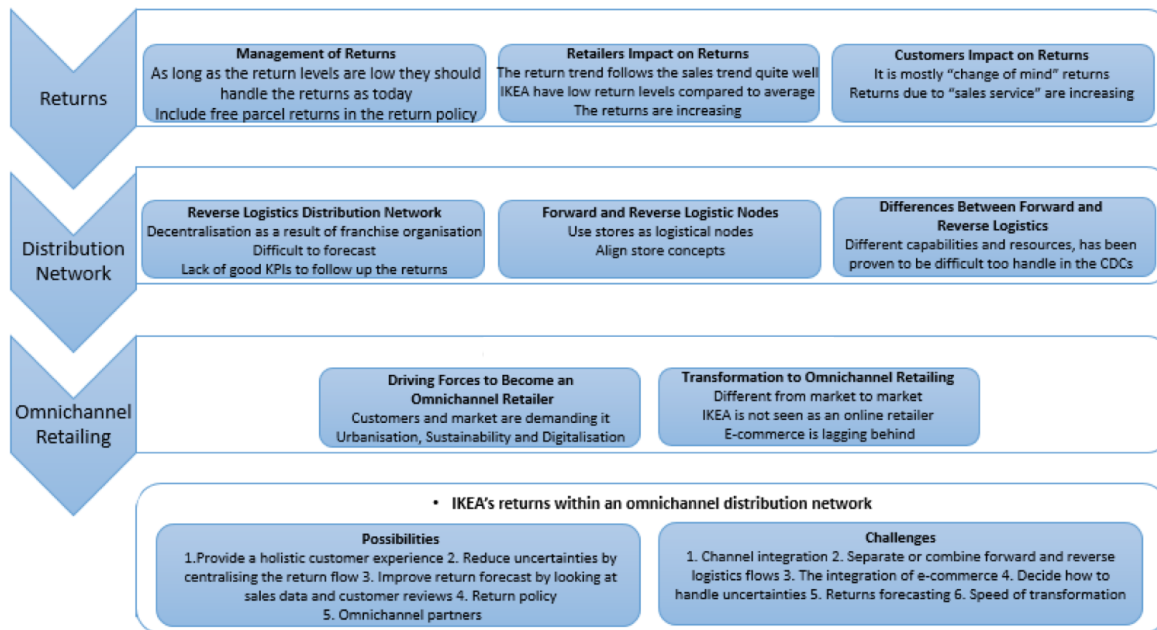


Figure 27: Conclusions of the theoretical framework after analysis with connections to the research questions.

### 7.1.1 RQ: What future possibilities and challenges can be found for IKEA when managing returns in an omnichannel distribution network?

IKEA have found it to be most beneficial to handle returns in the recovery departments at the CSC in the IKEA Stores. The most important reason for this is that this solution is the most beneficial when considering costs. This decentralised solution can also be concluded to be the best setup for the future based on the analysis. Furthermore, IKEA have a well-established process for how to manage their returns today, they even have good opportunities to recovery products and packages that have been damaged. Their low return rates have however picked up in speed during the last years and they need to keep this in mind when preparing for the future. In the same time have the returns that are in need of recovery increased, especially if looking at volume. More personnel and space can therefore be expected to be required in the future. If this is an effect of omnichannel or not is difficult to say, since IKEA are only in the beginning of their transformation.

When it comes to the return policy, IKEA's is very lenient. There is nothing so far indicating that this will increase the returns significantly and the recommendation is therefore to keep it like that until it does. Charging for all returns however, might not be an applicable solution when transforming into an omnichannel retailer with increasing online sales. It is therefore recommended that free parcel returns should be offered on markets where this is the preferred return option.

IKEA are today registering the returned product with a return reason. From this, conclusions regarding customer behaviour can be draw. The most common return reason today is change of mind. However, the return reason sales process is increasing and could be in need of closer monitoring. Furthermore, there are some important KPIs missing that can be useful and more or less necessary when being an omnichannel retailer. To measure what sales channel the purchase has been made in or if IKEA have been able to recover the return, could be helpful if wanting to follow up on the returns more closely. A key finding is also that the returns follow sales quite well and this can

be a great starting point if wanting to forecast the return flow. This can be valuable considering the large quantities, volumes and values that IKEA handle.

Customers are no longer satisfied with only physical stores in the original form. Therefore, other store concepts are now taking form, giving the customers more options. Important to remember when expanding the forward logistics distribution network is the reverse logistics distribution network. With increasing number of sales channels the return options need to be included as well. To become an omnichannel retailer IKEA need to speed up the implementation of parcel postal returns. Furthermore, it has been concluded that the return flow is not increasing in the same pace as the e-commerce. The e-commerce is increasing significantly faster. However, since IKEA's e-commerce still only stands for a small part of the total sales it is difficult to draw conclusions of the effect omnichannel and online sales will have for IKEA's returns.

In the strive to become an omnichannel retailer IKEA probably have greater possibilities than any other competitor at the same market thanks to their resources. However, IKEA do also have some unique challenges that need to be addressed. In total four possibilities and five challenges have been found, which also mirrors IKEA's omnichannel transformation as of today. There are still more challenges to conquer than possibilities to take advantage of. However, if IKEA can find their way as an omnichannel retailer the possibilities are endless.

### **Possibilities**

Out of the found possibilities the following have been concluded to apply for IKEA in the future:

- Provide a holistic customer experience
- Improve return forecasts by looking at sales data and customer reviews
- Return Policy
- Omnichannel partners

### **Challenges**

Out of the found challenges the following have been concluded to apply for IKEA in the future:

- Channel integration
- The integration of e-commerce
- Decide how to handle uncertainties
- Returns forecasting
- Speed of transformation

## **7.2 Recommendations for the Future**

When conducting this study, research which could complement it was thought of for both IKEA the academic literature and as Ingvar Kamprad once said: *"Most things still remain to be done. A glorious future!"*

### **7.2.1 For IKEA**

This study has explored how IKEA should work with management of returns in an omnichannel distribution network. It was limited to recommend future possibilities and challenges and not give a solution for how these should be handled exactly. However, if looking at the conclusions drawn it can be recommended that IKEA further investigates how they could benefit from all the areas that are



discussed in this master thesis when aiming to completely become an omnichannel retailer. For example should they start taking the return flow in to consideration when planning the fulfilment flow by forecasting it.

### **7.2.2 For Academic Literature**

Since literature connecting returns with both distribution networks and omnichannel was found to be scarce, more studies than this needs to be compiled. Furthermore have most of the found literature investigated retailing of clothes. Furniture retailing, which this study concerns, seems to be a bit more unexplored. Other areas where more research can be needed to complement this study are:

- Franchise organisations in an omnichannel perspective
- Best practice of forecasting product returns
- How to align existing retailers with marketplaces

### **7.3 Theoretical Contributions**

This study has been focused on possibilities and challenges for IKEA, a franchise furniture retailer, when handling returns in an omnichannel distribution network. To the knowledge of the researchers there were no research connecting returns, distribution networks and omnichannel looking at possibilities and challenges prior to this study. The main contribution of this study therefore lays in the connections found between these areas as well as the possibilities and challenges detected. However, IKEAs transformation to become an omnichannel retailer could also contribute with inputs for other organisation with a global distribution network and/or by organisations with stores operated by franchisees.

Other studies within omnichannel retailing have mainly been focusing on clothing retail. Since there are several significant differences when it comes to returns between clothing and furniture this study has also contributed with a new perspective for furniture retailers or retailers with large and bulky goods in an omnichannel environment.

### **7.4 Limitations**

In the study some limitations have been made as stated in section 1.6. To start with the study has been limited to the INGKA Group and the countries that are included there. Since this is the majority of the countries where IKEA have business it has been concluded that the results can be generalised for the entire IKEA. The study has also been limited to IKEA and therefore are the findings not applicable for any specific retailer and not either all furniture retailers.

The findings in the study is also limited to the found data and the researchers' perception of the data. Interviewees might not have remembered certain aspects or remembered them wrongly. In order to avoid this, other sources were used in trying to validate and complement the data. However, there is still a risk that certain aspects were not captured by the report. IKEA is a very complex organisation of companies and the researchers have only come in contact with some of them.

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# Appendix

## Appendix A - Questionnaire

1. In what channels are your business available?

*Choose all options that fits*

- Physical store
- E-commerce
- Other

2. How much of your sales is bought through e-commerce?

- 0 %
- 1%-10%
- 11%-20%
- 21%-30%
- 31%-40%
- 41%-50%
- 51%-60%
- 61%-70%
- 71%-80%
- 81%-90%
- 91%-100%

3. Do you charge extra for freight if a product is not returned in store?

- Yes
- No
- Do not know

4. If yes, how much do you charge extra?

- 0-5 €
- 6-10 €
- More than 10 €

5. For how long time can a customer return a product after purchase?

\_\_\_\_ days

6. To what extent must following criteria be fulfilled in order to be able to return a product to your company? (5 - Absolutely necessary, 4 - Necessary, 3- Depends on the situation 2 - Preferred, but not necessary, 1 - Not needed)

- Receipt
- Unbroken package
- Unassembled
- Unused
- Complete product (all components included)
- Within the time frame

7. Where are you primarily handling your returns?

*Choose the option that fits the best. Example: If most of your products are returned in store and also are being handled there, choose store. If they instead are being sent to a distribution centre for handling after being received in a store, choose distribution centre.*

- In store
- At a distribution centre
- At a third part service centre
- Other location

8. How much of your sales is returned in percentage of sales value?

- 0%
- 1%-5%
- 6%-10%
- 11%-15%
- 16%-20%
- 21%-25%
- 26%-30%
- 31%-35%
- 36%-40%
- 41%-45%
- 46%-50%
- 51%-55%
- 56%-60%
- 61%-100%

9. Have you seen any changes in returned products during the last five years?

- Yes, the returns have increased
- Yes, the returns have decreased
- No, there has been a stable flow of returns

10. Are you forecasting your return flow?

- Yes
- No
- Do not know

11. Are you taking the return flow in consideration when planning the fulfilment flow?

- Yes
- No
- Do not know

12. If yes, in what way?

13. During the last 5 years, have you been forced to make any adjustments in your return handling process? *Choose the 3 most important ones (If you haven't done any changes please choose the 3 you think your company will have to do in the future).*

Strategic

- Change return policies
- Outsource the return handling
- Centralise the return handling
- Decentralise the return handling
- Update the KPIs used for returns
- Make changes in the gatekeeping process for returns (*identify returns, verify receipts, inspect the product and make decisions about the return*)
- Make changes in the data collection process for returns
- Make changes in the information sharing process for returns

Tactical

- Change which partners you are working with
- Change what channels and network nodes to use
- Start to forecast the return flow
- Change how the returns are distributed
- Involve stores **more** in the return process
- Involve stores **less** in the return process

Operational

- Change how returns are collected
- Change how returns are inspected
- Change how returns are being sorted
- Introduce new processes for products that are **not** in perfect condition when returned
- Allocate more space to products that are returned

Other

- Other adjustment

14. What do you think are future trends for product returns within retail?

15. Is there anything else you would like to add?

16. What company are you representing?

17. What is your title?

18. If we have any follow up questions, is it okay if we contact you for a short interview?

*Thank you for participating in our survey. Your contribution is important and we are very grateful to you for taking the time!*

## Appendix B - The IKEA HFB areas and example of products

<b>IKEA HFB</b>	<b>Example of products</b>
Bathroom	Washstand, washbasin mixer, towel bar
Bed and bath textiles	Sheets, duvets, pillowcases, towels
Bedroom furniture	wardrobes, clothes dressers, shelves, bedside tables
Beds & Mattresses	Beds, mattresses
Children's IKEA	Crib, toys, brushes, markers
Cooking	Frying pans, pots, griddles
Decoration	Candle holders, artificial flowers, frames
Dining	Chairs, dining table
Eating	Plates, mugs, cutlery, glasses, napkins
Family	Bags, umbrellas, first-aid kits
Home organisation	Storage box, laundry bag, hanger
Home textiles	Curtains, pillows, blankets
Kitchen	Kitchen cabinets, hinge, worktops
Lighting and Home Smart	LED light, pendant, battery
Living room seating	Sofas, armchairs
Other business opportunities	Flooring, books, cat house
Outdoor	outdoor furniture, decking, pads
Rugs	Rugs
Secondary storage	Cabinet, shelves, toolbox
Store and organise furniture	TV bench, bookshelves
Workspaces	Desks, work chair