Profit from Managing Returns. Yes, Returns.

What do a typical hospital and a typical retailer have in common? They both have a problem managing returns. Let me explain.

About a year ago, I spent a day with the President's Cabinet of a major medical center. This is one of the most prominent institutions in the country, with a very talented and dedicated management team. During the day, we reviewed and discussed a number of important topics, ranging from prospective healthcare legislation to growth plans.

One comment in particular caught my attention. A senior physician noted that the hospital didn't systematically monitor readmissions - patients who are discharged and soon return to the hospital for additional care.

I thought about a friend who had started a company to oversee the care of patients who had a particularly difficult chronic illness. He had done studies of patient care, and he found that a surprisingly large portion of hospital readmissions occurred because of simple logistical errors. For example, when many patients were discharged, the oxygen or other medical supplies were not delivered to their homes in time. This resulted in very costly readmissions.

A few years ago, I did a number of studies of product returns in retail and distribution companies. I found that virtually all companies viewed returns as a logistical hassle to be managed primarily to minimize the handling cost and maximize residual product value.

My studies showed something very interesting, however. When I compared retailers in the same industry, their rate of product returns varied significantly. Not only that, but even within the same retailer different associates had very different returns rates - even for the same product.

The conclusion: the returns rate was really a measure of the quality of the sales process. The retailers and associates who had low returns rates were very good at diagnosing a customer's real needs, and had a good understanding of what supplemental instructions a customer typically needed. The others did not.

The traditional way of managing returns turned out to be to not manage them at all – just to handle them efficiently. The right way to manage returns is very different: to view them as a quality feedback loop that enables a manager to pinpoint the places where the sales process breaks down, and to formulate sharply targeted measures to improve the process.

In a sense, the hospital readmissions rate is very much like the retail returns rate. Some patients legitimately need additional care, but many simply come back because they experience avoidable errors – most of which are not the hospital's fault. And in most institutions, this critical measure is not systematically analyzed.

Both the hospital and the retailer had the potential to monitor their "returns" not just for handling efficiency, but more importantly to improve the quality and drive down the cost of their core organizational processes.

The big profit leverage that comes from *managing* returns – not just *handling* them efficiently – is that the returns rate offers a very important window into how well the institution or business provides service to its customers.

In both business and not-for-profit management, there are a number of “hidden” quality measures like the returns rate. The insightful manager will seek out these measures, and use them to maximize the overall performance and profitability of his or her organization.