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BACK OFFICE

REDUCING RETURNS

SIRAS helps stop fraudulent or expired returns.

With the pace at which technology changes and improves today, it's quite possible consumers could replace newly bought electronics by returning them before the warranty expires and upgrading to the newest models, thereby never having to pay the full price again. In fact, many people do.

But that's just one of the problems Tony Sciarrotta, Philips' director of returns management, was grappling with eight years ago. Millions of Philips SKUs that consumers returned to the manufacturer never should have been accepted by the retailer, either because the warranty or return period expired, the item wasn't originally purchased at that store, or the item in the box being returned wasn't the item that was in the box when it was sold.

"This was happening a lot about eight years ago when digital products were changing faster than an egg hatches and consumers were taking advantage of that at retail," Sciarrotta



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— Peter Junger,
SIRAS President

said. "Primarily you had a lot of consumers who were buying product, holding it for a while, bringing it back and getting a new one."

Sciarrotta discovered that return rates at Philips' retailers were more than 10 percent, a number he couldn't

accept. Then he remembered that he had seen a SIRAS product demonstration several years before and decided to give it a shot.

SIRAS is a point-of-sale scanning system that synchronizes with its own national database. When a customer

returns a DVD player, for example, and the clerk scans it in, he will see on his screen when and where the consumer bought the product.

In addition, the clerk is required to scan the UPC code and the serial number of the hardware inside the box. If the two do not match, the system will freeze the register, requiring a manager override to accept the return. "A little message is printed on the receipt explaining why it could not be returned," said SIRAS president Peter Junger, who added that the company will guarantee manufacturers save more than the cost of the product or else it will refund the difference. "That's why the retailers have embraced it and put their product categories on it. The profitability is amazing," he said.

Junger and a colleague invented the SIRAS program when they were both employed by Nintendo in the mid '90s. As Nintendo moved from the original system to the Super NES, Nintendo64 and beyond, it recognized that customers were "returning" their older systems for full price in order to upgrade to the newer version. Retailers either didn't know the hardware was beyond

the return period or were trying to appease their customers. Either way, they were charging the systems back to Nintendo. In 1996, Nintendo debuted its new POS system with Wal-Mart. It was such a success that Nintendo spun out a new company to sell it to other manufacturers.

One of those manufacturers is competitor and PlayStation maker Sony Computer Entertainment. "Before SIRAS, any time a customer came up to the return staff, they would just take it and send it to us and we would take the hit, even if it wasn't a fair return," said Bob Wood, senior manager of sales planning and analysis for Sony Computer Entertainment. "Using the SIRAS technology, we and our retail customers have saved millions of dollars."

Philips has seen similarly good results. That 10 percent return rate is now less than four percent, and three percent in some product categories. "Do the math," Sciarrotta said. "You go from 10 percent to four, that's significant for a company like us." In another example of the savings Philips sees, Wal-Mart reported to the company that LCD televisions in the 15- to 20-

inch range yield an average return rate of 20 percent and above. For Philips, that rate is in the single digits.

Of course, the system is dependent upon the retailers who use it, and manufacturers agree it's not always easy to convince them to do so. But Sciarrotta said it's beneficial for retailers to reduce returns as much as it is for the manufacturer, especially in cases where the returns are fraudulent. In one example, someone may purchase a computer printer and then walk into the store, grab another unit and return it using the original receipt. Because SIRAS prints both the UPC and the serial number on the receipt, the clerk would know immediately whether that was a fraudulent return.

"The gate-keeping needs to be done at the retailer," Sciarrotta said. "They should be able to control what's legitimate, rather than something fraudulent."

SIRAS does not collect personal data about the customer; only the serial number and UPC code, as well as the date and location of the transaction. Also, manufacturers don't have to assign the system to track all of its SKUs. In fact, few do.