



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Master Degree Project in Logistics and Transport Management

Reverse Logistics in the Clothing Industry

A case study based on Nudie Jeans's return for their webshop

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Master Degree Project No. 2016:68
Graduate School

Acknowledgement

We want to start by expressing our gratitude towards Nudie Jeans, and especially Mathias Jonasson and Edwin Hermelin. Without their help the thesis would not be possible to complete. Both Mathias Jonasson and Edwin Hermelin always made sure to take their time to us, with many meetings and responding to emails at a short time frame. A special thanks to Niklas Zandén at the School of Business, Economics & Law, who gave us a great amount of ideas and information about Nudie Jeans to expand on. We also want to show our appreciation to Korallen who was very helpful guiding us around their warehouse and answering questions that arose. Lastly, thanks to Sharon Cullinane at the School of Business, Economics & Law for her help and guidance throughout the thesis.

Patrick Abrahamsson

I want to thank my family and especially my brother for the help throughout the thesis, sharing knowledge and ideas from previous studies he had worked with. Also my football boys showing patience, even though they missed their coach during several practices and games.

Burhan Göker

I want thank my family and friend for their constant support and motivation during this period. You know who you are.

Abstract

Reverse logistics is a popular topic for retailers, especially when it comes to clothing retailers and their webshops. Reverse logistics has been given much attention in recent years due to the cost it brings for companies. There are not many studies made on reverse logistics, especially since it is regarded as a new field of research. The few studies that have been made all have different definitions, which prove the challenge it brings for companies facing the cost problem. However, companies that find a way to operate its reverse logistics activities in an efficient way can gain major competitive advantages, thus the reverse flow is much more complicated than forward logistics. The research is based on a case study of Nudie Jeans and investigates how their reverse logistics activities are structured as well as the return policy. In order to gather relevant data interviews mainly with representatives from Nudie Jeans's headquarter and their warehouse Korallen were carried out. Also, their competitors and the purchasing conditions were investigated in order to make a comparison to see how Nudie Jeans competed in the fierce clothing market. The main result from this study is that Nudie Jeans needs to change the price for returns, so that customers can buy products without feeling any anxiety of choosing the wrong size or colour. By doing so they can compete with other clothing retailers, who offer free returns.

Key words: Nudie Jeans, reverse logistics, returns management, return policy, preprinted return labels, logistics, webshop, retail, Korallen, 3PL.

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1. Introduction

This chapter will introduce the reader to reverse logistics, starting off with background information of the subject and why it is important. Thereafter, a problem description and analysis will follow where more detailed information about product returns and what challenges it brings for companies. The chapter will then finish by describing the purpose of this thesis, what research questions that will be answered and at the end a layout of the upcoming chapters.

1.1 Background description

Over the years, researchers have made several different definitions of reverse logistics and other terms have been used to describe the same subject (Rogers & Tibben-Lembke, 1998; Brockenmann, 1999; Thierry et al., 1995; Harrison et al., 2014). An explanation for the lack of a standardized definition of reverse logistics could be the fast development in this area (Nel & Badenhorst, 2012).

Reverse logistics is a big part of the supply chain and has somewhat of a bad reputation due to the misconception of only being a cost drain, not adding any value to the supply chain. However, in recent years reverse logistics has got more attention due to the competition it has created, along with direct economic motives, marketing motives and environmental concerns (Nel & Badenhorst, 2012). As reverse logistics is one of the fastest growing fields within business logistics it is also important for companies such as Nudie Jeans to be up to date, following expectations the core customers might have (Vogt et al., 2002).

The importance of reverse logistics has grown significantly for companies in recent years, which is due to an increasing flow of returns from customers. As the online shopping has become more popular, so has the uncertainty generated from an expansion of product choices as well as shorter product life cycles. This is why enterprises have realized in recent years the impact an effective and efficient reverse logistics can have on their day-to-day operations (Shaik & Abdul-Kader, 2014). The interest of companies to recover used product has also improved greatly, due to a better understanding of the environmental aspect as well as a higher expectation from customers on the company to dispose manufactured products safely.

With returns growing for each year it also makes it more important for companies to handle in a simple and efficient manner, to keep costs down (Cheng & Lee, 2010).

Nudie Jeans has grown into a well-spoken and popular brand with customers ranging all over the world. Nudie Jeans started in 2001 by former Lee and JC designer Maria Erixon and Joakim Levin a former professional drummer, as a company specializing on jeans, but has expanded into a clothing brand with a large selection of different sweaters, underwear, jackets and shirts. The company does not invest any money in marketing themselves and instead rely heavily on word of mouth experience, which has been a big part of their success. According to Sernovitz (2006) this is a method which can be very successful and cheap, saving the company lots of money. This is because you get people talking about your company with family and friends, giving the company a more trustworthy opinion than if they read information from a billboard.

1.2 Problem description and problem analysis

Returned products come from many different locations and in different conditions which creates a form of uncertainty surrounding the returned products in terms of the quantity, type of product, time and place and quality of the returned product. Since the majority of the returned products are unplanned, it is therefore impossible for the company to predict the future (Nel & Badenhorst, 2012). Returned products automatically give the customer a negative experience as it does not meet the perceived expectations and therefore impact the relationship between the company and customer in a negative way (Riedel, 2004). It is how the company acts after the item is being returned that determines how the relationship will evolve, especially since the customer already is dissatisfied. In this case companies can see the reverse logistics as a cost and negative impact, or actually an opportunity to fix the relationship and win back the customers trust.

Reverse logistics is especially crucial to online retailers compared to other sorts of retailing since consumers often do not have the opportunity to examine the product physically which is an important aspect of product evaluation and assessment (Griffis et al., 2012). The return rates can thus be higher compared to physical stores which also increases the costs since the likelihood of dissatisfied customers' increases (Griffis et al., 2012; Mukhopadhyay & Setoputro, 2004)

Furthermore, a company's return policy can have great impact on the return rates and is also an important factor when it comes to customer satisfaction. There is an evident trade-off for companies between having a strict return policy or a lenient return policy, but it is relatively challenging to find the most optimal one (Mukhopadhyay & Setoputro, 2004; Anderson et al., 2009). According to Hsiao and Chen (2014) the seller always tries to maximize expected profit which affects the company's return policy. Company's usually have to choose what is most important, to make as much profit as possible or to satisfy as many customers as possible. In order to make a profit a company needs customers buying their product and to keep their customers they need to differentiate themselves from their competitors, offering either cheaper price or better quality. Since both parts are important it is difficult to only choose one, as they both go hand in hand. Therefore, many companies try to do a combination, valuing both parts.

Many companies deal with resistance within the organization towards new approaches in regards of the reverse flow, especially since reverse logistics requires a drastic change, in both practice and mindset. This is why many companies and their employees see the reverse logistics as a great amount of burden, mostly due to having to make changes of their everyday work. This means that they need to learn a new method of doing things, and facing a future of harder working days (Ravi & Shankar, 2004).

According to Fritzenschaft (2014) resistance to change is very common within organizations. If the resistance to change is not recognized and overcome, the change is bound to fail and will therefore cost the company a great amount of money. There are several reasons for resistance within change and can be divided into three different levels; organizational level, group level and individual level. Organizational resistance occurs due to the change of routines as well as concerned for losing the existing power within the organization. The group level deals with group cohesiveness, social norms, and group dynamics. Individual level is the most important level and needs to consider emotions, feelings and people's attitudes. Fear is a big part of the individual level as transformation creates different fears, such as fear in shift of power, fear of making mistakes and fear of financial loss. Furthermore, affected employees need to learn new skills and maybe join a new team which leads to more work than before and breaks old habits, which makes the resistance understandable.

1.3 Purpose of the thesis

Reverse logistics costs companies a great amount of money and processing the returned items is not immune from this (Norman, 2007). Retailing is an interesting industry that is one of the fastest growing, but is also in a transformation phase. Therefore companies must adapt to the frequent changes in customer preferences, keep up with global competition as well as shift to e-commerce at the same time as being cost effective and efficient (Mansour & Zocchi, 2012).

Taking the problem discussion into consideration, the purpose of this study is to investigate reverse logistics or more precisely the returns management and the return policy in the clothing industry. To help get a better understanding about the subjects, the clothing retailer Nudie Jeans was used in a case study. This study will go deeper into Nudie Jeans's return policy and compare it with other clothing retailers, in order to find what the requirements are in order to be more competitive on the market. In addition to this, the aim of the thesis is also to contribute to knowledge within the field of returns management and return policy regarding the clothing industry.

1.4 Research Question

Taking what has been discussed above into consideration, the aim of this study is to answer the following two questions:

Research question 1: *How should the returns management of an online clothing retailer be structured.*

Research question 2: *Is free returns a requirement for clothing retailers on the Internet in order to be competitive on the market?*

Research question 1 will be answered by testing a framework from Rogers and Limbke-Tibben (1998) regarding how a reverse logistics network should be structured and see if it is still usable today. This is particularly interesting since e-commerce have grown tremendously since 1998, when the framework was first developed.

Research question 2 relates to the issue with returned products, the impact it has on the customer satisfaction and the trade-off companies have to make, regarding having a liberal or

a strict returns policy, and the impact it has on the company. This question will be answered by comparing a few competitors to Nudie Jeans in regards to their purchasing conditions and returns policy, in order to find out what the requirements are to be competitive on the market.

1.5 Scope and limitations

The scope of the research is to investigate the reverse logistics activity in the clothing industry, more precisely the returns management and the return policy. Since the case company is located in Sweden the study will have a strong focus on the Swedish market. However since Nudie Jeans operates worldwide and e-commerce is not limited to one country, the thesis will have a larger scope and will therefore also cover the European market.

Due to the time constraint and complexity of getting in contact with similar clothing companies, research question 1 will only focus on Nudie Jeans and its reverse logistics activities. However, for research question 2, secondary information will be collected from the competitors' websites and this will enable a comparison of the companies' competitiveness regarding their return policies.

2. Literature Review

This chapter contains the already existing literature on reverse logistics. It will start broadly by defining logistics followed by defining reverse logistics. Then it explains how reverse logistics activities are normally structured followed by its drivers and challenges. The challenges with e-commerce and its effect on product returns will also be presented as well as the return rate, customer loyalty and outsourcing.

2.1 Defining logistics

In the early 90s The Council of Logistics Management defined reverse logistics as (Rogers & Tibben-Lembke, 1998, p.2):

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 origin to the point of consumption for the purpose of conforming to customer requirements.

Rutner and Langley (2000, p.73) claims that logistics can be defined by the “Seven R’s” which states:

“...ensuring the availability of the right product, in the right quantity, at the right condition, at the right place, at the right time, for the right customer, at the right cost.”

Furthermore, Harrison et al. (2014, pp.9) states that:

“Logistics is the task of coordinating material flow and information flow across the supply chain to meet end-customer needs.”

Renko and Ficko (2010) argue that logistics can be considered as a process that creates value by making products available in the right place at the right time. The importance of logistics has never been as big as it is today. The overall aim of logistics is to achieve high customer satisfaction, which means high customer service with low prices (Renko & Ficko, 2010). According to Shapiro and Heskett (1986) without logistics there would be no operations running, products delivered or customers served, which would affect the whole supply chain. Customers’ requirements on the handling of the logistics have increased over the years, and

still keep increasing. This makes the demand for customized high-quality products intense, especially since they need to be delivered in a short period of time (Chankov et al., 2014).

Logistics can be very expensive and is often seen as an area where the company can save money, which is why companies pay so much attention to the logistics and transportation part of the company (Waters, 2003). The main purpose of logistics is to plan and control the purchases and distributions from supplier to store which can have a various product range. For logistics to fulfill its purpose to serve customer and supplier it needs to manage two key flows: *material flow* which through distribution centers moves physical goods for stores and online businesses from suppliers to the end consumer and *information flow* which plans the material flow by gathering demand data from the end consumer and supply data from suppliers (Harrison et al., 2014). The main task for logistics within the supply chain management is to manage the material and information flow, especially since it is a key part of the overall task. The main concern for the supply chain management is to have an overview of the whole chain of process, which includes manufacture, material, supply, packaging and distribution to the end consumer (Harrison et al., 2014).

2.2 Defining reverse logistics

Reverse logistics is usually regarded as a rather new field of research and has received increasing attention during the last two decades. There are particularly two factors behind this growth which includes environmental and economical reasons. Governments have introduced stricter environmental regulations and many companies also use this as a marketing tool, in order to appeal to their customers that they are environmentally friendly, since this is a growing trend among customers (Quesada, 2005; Grabara et al., 2014; Blumberg, 2005). There is also an economical aspect to this subject where companies can recover the value of the returned product, through recovery/reuse/repair processes (Grabara et al., 2014).

However, researchers have written about the subject without explicitly using the name of reverse logistics. For example, Terry (1869), Beckley & Logan (1948) and Giultinian & Nwokoye (1975) points to the concept of returning products without mentioning reverse logistics. When it comes to describing reverse logistics as products that flow from the end customer to the manufacturer in a distribution channel, Murphy and Poist (1989) were one of

the first authors to use this term as such. They use the term reverse distribution and define it as the movement of goods from a consumer towards a producer in a distribution channel.

The Council of Logistics Management's definition of reverse logistics includes all of the activities as in their definition of logistics, but the difference is that the point of direction is reverse (Rogers & Tibben-Lembke, 1998, p.2):

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.

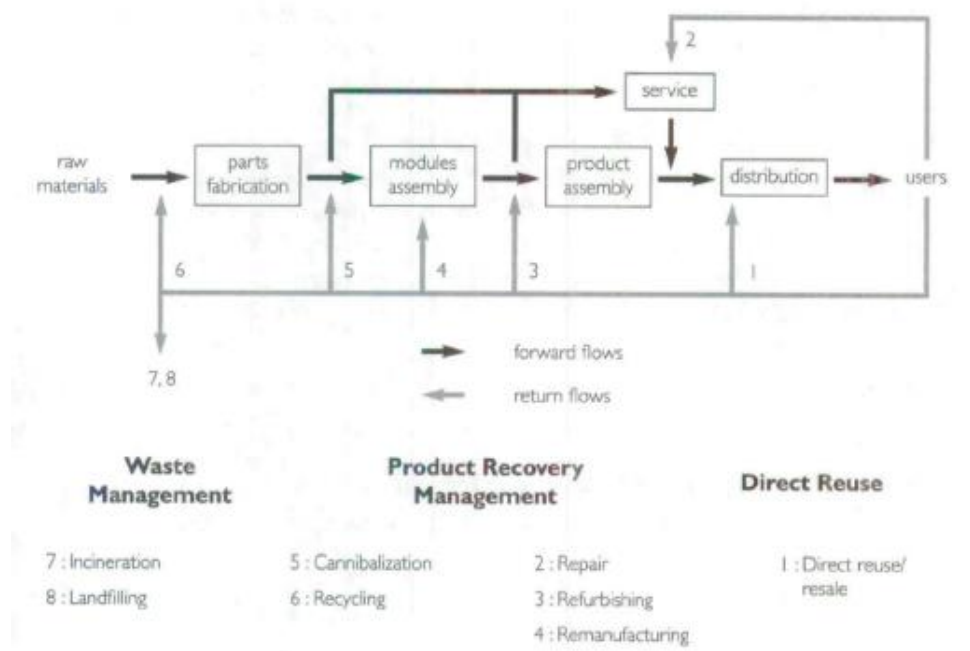
From there on, several different definitions of reverse logistics can be found as no universal framework of the term has been set (Fleischmann et al., 1997; Kivinen, 2002). Another reason could be that reverse logistics is one of the fastest growing fields in business logistics, which results in regular changes in scope and significance (Nel & Badenhorst, 2012).

Thierry et al. (1995, p.144) uses the term product recovery management (PRM) which he describes as:

The management of all used and discarded products, components, and materials that fall under the responsibility of a manufacturing company. The objective of the PRM is to recover as much of the economic and ecological value as possible and thereby reduce the amount of waste.

The authors have divided activities into three categories and are presented in figure 2; direct use, product recovery management and waste management. A returned product can be resold directly, recovered, or disposed. There are five recovery options; repair, refurbishing, remanufacturing, cannibalization and recycling. The waste options consist of incineration and landfilling.

Figure 2. A reverse logistics system (Thierry et al., 1995, p.118).



Since there is a lot of focus on the environment in reverse logistics, some authors such as Carter and Ellram (1998, p.85) focuses on this when defining the term. The authors' state:

Reverse logistics is a process whereby companies can become more environmentally efficient through recycling, reusing, and reducing the amount of materials used. Viewed narrowly, it can be thought of as the reverse distribution of materials among channel members. A more holistic view of reverse logistics includes the reduction of materials in the forward system in such a way that fewer materials flowback, reuse of materials is possible, and recycling is facilitated.

However, Rogers and Tibben-Lembke (1998) argue that reverse logistics do not include working with reducing the material usage in the supply chain and that this process is called green logistics instead. The authors continue on by stating that there is a thin line between the two and that some green logistics activities can be classified as reverse logistics such as to reuse and remanufacture products.

Brockmann (1999, p.38) defines reverse logistics as:

The processes of receiving returned goods, determining product status (i.e., resale, repair, remanufacture, parts, scrap), and crediting customers before either processing the material or taking back the product and its packaging to deliver recyclable or reusable material to the manufacturer.

According to Fleischmann et al. (2001) in reverse logistics the returned products go through a number of activities including collection, sorting, re-processing, and redistribution. As seen from the definitions, Brockmann (1999) and Fleischmann et al. (2001) uses the term reverse logistics while Thierry et al. (1995) do not use this expression as such. However, the authors all have the same view of what direction the products take in the supply chain.

XiaoYan et al. (2012, p.251) has a definition of reverse logistics of e-commerce which “refers to the return, counter-flow of products which is ordered on the Internet from customers to suppliers”.

Harrison et al. (2014, p.162) definition state:

Reverse logistics deals with the flow of goods that go back up the supply chain for a number of reasons, including: product returns, repairs, maintenance and end-of-life returns for recycling or dismantling.

Even though The Council of Logistics Management stated that the return flow had a destination towards the “point of origin”, Rogers and Tibben-Lembke (1998) also mention that some clothing retailers sell their returned products in a secondary markets such as outlet stores which is not the first “point of origin”. It should therefore be rephrased to “the point of recovery” instead (Nel & Badenhorst, 2012).

The authors of this thesis supports the definition mentioned by XiaoYan (2012) since this is the most similar interpretation to how Nudie Jeans work with their product returns and because this thesis is focused on returns of products that was purchased on the Internet.

2.3 Structure of reverse logistics

Several authors including Rogers and Tibben-Lembke (1998), Schwartz (2000), Lambert et al. (2011) and Daaboul et al. (2014) present a reverse logistics network that include four essential activities; gatekeeping, collection, sorting and disposal. The first step is called gatekeeping which refers to a point of entry into the reverse logistics network. In this stage the returned products are examined for defective and unwarranted merchandise at the entry point into the reverse logistics process (Rogers & Tibben-Lembke, 1998). It is worth noting that a customer who was refused through this process may be sending his products back to the retailer anyway and a company must therefore be able to handle these cases as well (Lambert et al. 2011). This step is very critical since it decides if a product can enter the process or not and thus important for the manageability and profitability of the reverse flow (Rogers & Tibben-Lembke, 1998).

The second stage is concerned with collecting the returned products from the end customer (Daaboul et al., 2014). According to Lambert et al. (2011) collection involves two stages; the pick-up of the returned product and its transportation. This can be done by the company, a third-party provider or the customer depending on several factors including complexity of product, reason for return, and territories involved, among others (Lambert et al., 2011). In the sorting stage the fate of the collected product is decided. It is decided where the product is going to be sent which takes us to the last stage called disposal which is the exit of the reverse logistics system. A product can for example be subject to inspections, tests, remanufacturing, recycling, reselling, and landfill, among others (Daaboul et al. 2014; Lambert et al. 2011). This last stage compared to the other stages can actually generate revenues, which is the main goal of this activity (Lambert et al., 2011). Rogers and Tibben-Lembke (1998) has listed some disposal options in table 1.

Table 1. Disposal options (Rogers & Tibben-Lembke (1998, p.10).

Material	Reverse Logistics Activities
Products	Return to Supplier Resell Sell via Outlet Salvage Recondition Refurbish Remanufacture Reclaim Materials Recycle Landfill
Packaging	Reuse Refurbish Reclaim Materials Recycle Salvage

2.4 Drivers of reverse logistics

Lambert et al. (2011) and Rubio and Jiménez-Parra (2014) mention three of the most important reasons for a company when it comes to implementing reverse logistics. These are economic, legal and commercial reasons. The economical aspect consists of both direct and indirect reasons. The direct reasons are comprised of the following; decrease the use of raw materials, reduction of disposal costs and creation of added value for end-of-use products. The indirect reasons include; demonstration of environmentally responsible behavior and improved customer relations (Rubio & Jiménez-Parra, 2014). The second motivation for implementing reverse logistics is legal reasons. In many countries within the European Union (EU) companies are held liable for the recovery or correct disposal of waste that is caused by the products they produce or distribute. The EU has for example a directive called Waste Electrical and Electronic Equipment (WEEE) which enforces manufacturers to be responsible for the entire lifecycle of their products for sustainability purposes (Lambert et al., 2011; Rubio & Jiménez-Parra, 2014). The third motivation for implementing reverse logistics are commercial reasons which means that the business is dictating the terms for returning products due to unsold or defective products and those requiring maintenance (Lambert et al., 2011).

Grabara et al. (2014) states that the commercial reasons include the following; goods in defective condition, returns of excess inventory, returns for clients, obsolete products, season inventories. Carter and Ellram (1998) state that reverse logistics can help companies to deal with government regulations, which in turn can improve the corporate image. There are

several environmental benefits of reverse logistics. By waste prevention, reuse and recycling organizations can reduce the generation of waste. Instead of disposing products in landfills which has a negative impact on the environment, the products can be reused (Nel & Badenhorst, 2012; Grabara et al., 2014). By extending the product life cycle organisations can be more cost-effective and ecologically friendly (Dowlatshahi, 2000). Reverse logistics can help companies save money, reduce energy consumption, emit less pollutants into the air and water, save natural resources, reduce waste and avoid waste storage capacity (Grabara et al., 2014).

Grabara et al. (2014) specifies four benefits of implementing reverse logistics for a company. Firstly, a company can achieve higher revenue from “secondary” sales and emptying magazines of old stock in order to make room for new products. By continually supplying the inventories with new stock, markdowns can be avoided. Secondly, some products or parts of a product can be recycled and thereby the cost of sales and operating expenses can be reduced. The third benefit is improved inventory management. An effective returns management can decrease the cost of maintaining products that generate a profit and reduce the need for storage of products that are not as profitable. Finally, reverse logistics can have a positive impact on the environment which can attract consumers that are sustainable conscious, and customer loyalty could therefore be gained.

It is crucial that the management of the reverse logistics process is efficient in order to increase the revenue and minimize the costs (Bernon et al., 2011). A study of more than 160 manufacturers and service providers conducted in the United States in 2010 showed that 87 percent of the organisations indicated that an efficient reverse supply chain was either “extremely important or “very important” when it comes to operational and financial performance. Studies have also showed that a cost reduction and service level improvement of more than 50 percent can be achieved and the costs of returns can be reduced by as much as 73 percent with optimized reverse logistics. Efficient reverse logistics can therefore help companies send back returned products into the forward supply chain and thereby increase the revenues (Nel & Badenhorst, 2012).

Srivastava (2008) argues that reverse logistics operations and the supply chains they support are far more complex than traditional manufacturing supply chains. An organization that

succeeds in meeting the presented challenges may therefore achieve a significant competitive advantage that is very difficult to replicate by its competitors.

2.5 Challenges with reverse logistics

Compared to forward logistics where organizations sell products to their customers based on forecasts and demand planning, reverse logistics is much more complex. Organizations do not know when, where and how many customers that are going to get dissatisfied with their products and this are therefore a major challenge with reverse logistics (Nel & Badenhorst, 2012). Harrison et al. (2014, p.163) mentions several differences between reverse logistics and forward logistics:

- Forecasting is more difficult in reverse logistics.
- In forward logistics the route is clear compared to reverse logistics.
- The speed of delivery is very important within forward logistics, as it is not a priority in reverse logistics.
- Both product quality and packaging is always the same within forward logistics, as in reverse logistics the quality is not the same and the packaging is more frequently damaged.

According to Harris and Martin (2014) fraudulent returns and costs are important areas when it comes to challenges with reverse logistics. Fraudulent returns are purchases made by a customer without the intent of keeping the product and are very costly for companies. A common occurrence are so called “wardrobing” or “renting” in which a customer makes a purchase, uses the products and then returns it back to the retailer. According to National Retail Federation’s 2012 Return Fraud Survey fraudulent returns can cost companies nine billion dollars annually (Harris & Martin, 2014).

The other major issue in reverse logistics is costs. This is especially an important matter for online retailers since a product have been sold, delivered and registered as a profit, but later that profit is removed and additionally so called reverse logistics costs is added. Product returns cost US manufacturers and retailers 100 billion dollars in lost sales and reverse logistics which in average results in 3.8 percent of lost revenues (Blanchard, 2007). Harris and Martin (2014, p.6) identifies six hidden costs in reverse logistics:

- Labor costs
 - Customer relations labor costs
 - Customer service labor costs
 - Financial reconciliation labor costs
 - Sales labor costs
 - Traffic and shipping labor costs
 - Receiving and warehousing labor costs
- Grey market items: There is a risk that returned products will end up being sold outside normal distribution channels.
- Lack of visibility: Customers want to know the status of the returned product and will call and email until they do, which is time consuming for the personnel and thus costs money. There may also come questions internally in the company from different departments.
- Inability to forecast accurately: Information about returns can be hidden and it will thus make it more difficult to forecast.
- Credit reconciliation: Returns can cause problems in reconciling financials.
- Poor response time and brand toxicity: If it takes too long responding to a return, it can damage the image of the company brand.

According to Rogers and Tibben-Lembke (1998) barriers to implementing reverse logistics can consist of both internal and external factors. These reasons can be the following and are illustrated in table 2; important of reverse logistics relative to other issues, company policies, lack of systems, competitive issues, management inattention, financial resources, personnel resources and legal issues.

Table 2. Barriers to reverse logistics (Rogers & Tibben-Lembke, 1998, p.33).

Barrier	Percentage
Importance of reverse logistics relative to other issues	39.2%
Company policies	35.0%
Lack of systems	34.3%
Competitive issues	33.7%
Management inattention	26.8%
Financial resources	19.0%
Personnel resources	19.0%
Legal issues	14.1%

2.6 E-commerce

PostNord AB which is a postal company owned by the Swedish and Danish state publishes an annual report regarding E-commerce for the Nordic and European markets, which they have been doing for the past eight years. According to the most recent report of the European market from 2015, E-commerce is a growing phenomenon where the consumers are getting more mature in their shopping behavior. The number of consumers that are regularly shopping online is increasing and they are spending more money than ever before. The report includes 12 European countries and the consumers in these countries spent a value of nearly 180 billion Euros in 2014 which is an increase of approximately 10 billion Euros from the previous year. It is worth mentioning that these statistics only applies for physical products purchased over the Internet, thus purchases of services (trips, hotels and tickets) and downloads of music, movies and applications are therefore not included (PostNord, 2015).

The most popular merchandize to buy online for almost all countries included in the report are clothes and shoes. This category tops the list for all countries except for Italy where the consumers prefer to buy home electronic instead. One of the upcoming categories are home groceries and in line with the consumers getting more used to shopping on the Internet this will increase even further. The consumers in Great Britain are currently consuming most groceries online (29 % of the e-shoppers), but Germany (12 %) and France (14 %) are some upcoming markets as well (PostNord, 2015).

An advantage with purchasing on the Internet is the drastic reduction of the searching cost and the convenience of the ability to make a purchase any time during the day (Mukhopadhyay & Setoputro, 2004). Product returns are according to Mollenkopf et al. (2007) one of the most important challenges in Internet retailing due the great volume and cost of handling returns. Product returns in Internet retailing are at a rate of 22 percent on average, but many retailers see it as a cost of doing business since they do not understand what factors that causes the customer to make a return of a product (Rao et al., 2014).

A disadvantage for customers that shop online is the inability to not physically inspect a product before making a purchase. This will therefore increase the likelihood of dissatisfaction and thereby that the product will be returned to the retailer (Mukhopadhyay & Setoputro, 2004). According to Mollenkopf et al. (2007) the reasons for dissatisfaction could

involve company error (e.g., wrong item/size/color was shipped), damage during transportation, and a change of mind from the customer once the item is received and inspected, regarding product preferences such as size and style. Because of this risk that the consumer takes when shopping online, a certain measure of insurance is expected against the uncertainty and liberal return policies is thus expected. It is however important for retailers to view the returns as an opportunity to further build on the customer relationship in order to create customer loyalty (Mollenkopf et al., 2007).

2.7 Return policy

Much of the original literature about return policies focused on the relationship between the manufacturer and the retailer, but this is beginning to shift to the retailer-consumer relationship due to the fast development of Internet retailing within the past two decades (Mollenkopf et al., 2007). A common concern for the customers is the lack of a proper return policy for Internet purchases and the complicated logistics for returning a product (Mukhopadhyay & Setoputro, 2004).

The return policy is an important factor that can influence the products sales and have a great impact on the return rate for companies. In a survey, more than 70 percent of the respondents answered that they are very likely to regard the return policy before making a purchase (Mukhopadhyay & Setoputro, 2004). Another survey shows that 63 percent of the respondents consider that a clear and attractive return policy is an important tool in order to stay competitive (Rogers & Tibben-Lembke, 1998). According to PostNord (2016) approximately 90 percent of the population in the Nordic countries places great importance on clear instructions for the returns before choosing to purchase from an Internet retailer. The study also shows that although a free return policy is appreciated by the majority of the e-shoppers, it is not as important as having clear instructions of the return process (PostNord, 2016).

A liberal return policy will increase the gross demand but at the same time also lead to a higher likelihood of returns and thus increase the cost. A restrictive return policy on the other hand will both reduce the demand and returns (Mukhopadhyay & Setoputro, 2004; Anderson et al, 2009). There is a clear trade-off and the retailers are often aware of it, but it is rather difficult to measure the benefits and costs in order to find the most optimal policy. Many

retailers have not even tried to vary the return policy in order to measure this trade-off (Anderson et al., 2009).

A specific return policy can be the most optimal for company A, but this do not mean that it would be the best option for company B. Petersen and Kumar (2009) made a study of a company that sold high quality products. The company had a lenient return policy and the reasoning behind it was that they believed that their customers would return fewer products because of the high quality of their merchandize. Comparing this to a discount company that focuses on cheap prices and thus have lower quality products, having a lenient return policy could jeopardize the existence of the firm since this may cause the returns to increase to very high levels. A more ideal policy in this situation could for example be to have some obstacle for return products, such as a restocking fee (typically ranging from 10 to 25 percent of the purchasing price (Sarvary et al., 2011)) or a limitation on the number of days after purchase. However, further research needs to be conducted to help determine the optimal return policy in several different companies with varying return policies (Petersen & Kumar, 2009).

Most retailers and manufacturers have liberalized their return policies due to competitive pressure and to increase the customer satisfaction, although this is starting to change (Rogers & Tibben-Lembke, 1998). The authors argue that if a firm have implemented a liberal return policy, it is difficult for other firms in the same industry to do the opposite. However, Anderson et al. (2009) state that the return policies are not set by the market and that there is large variations of the return policy for different retailers, even in the same product market. The return policy in e-business varies depending on the industry and may range from unconditional money back guarantee to store credit only to no refund whatsoever. A company can place restriction that includes; short times limits for returning the product, unused product, returned in original packaging, and special instructions on labeling, among others (Mukhopadhyay & Setoputro, 2004). According to Grabara et al. (2014) a customer's relationship to different products can have a great impact on the return rates. Clothing products can have a return rate of 18 to 35 percent while this number is four to five percent for electronical products which is significantly lower.

2.8 Customer loyalty

As previously mentioned reverse logistics can have a large impact on the customer-company relationship (Grabara et al., 2014; Mollenkopf et al., 2007). It is important for an Internet retailer who wishes to have a loyal customer base to understand how their customers evaluate the return experience. If the return process is confusing and hard to understand or if this process is badly handled by the company the customer's view of the company can worsen. However, a well-functioning return process could on the other hand add to the customers' fondness of the company (Mollenkopf et al., 2007). Petersen and Kumar (2009, p.40) states:

A customer who returns a product satisfactorily will potentially be able to remove some additional uncertainty with future purchases by lowering the perceived risk of future purchases, knowing that products that do not fit can be returned without excess hassle.

This could indeed lead to an increase of customer trust, commitment and attitudinal loyalty which likely would result in increased sales, since the customer is positive of the return process and could return any product if it would not fit the person's expectations (Petersen & Kumar, 2009). The authors continue on by stating that although a liberal return policy could increase the costs in the short run, in the longer perspective a company can use information from the customer's product return behavior in order to build on the relationship with the customer and in the end expose the customer with targeted marketing campaigns.

Another important aspect is the pace of the whole return process. It is very important that the returned product is handled rather quickly and that the customers gets their money back as fast as possible. This can both help Internet retailers to decrease their operating costs and also strengthen the customer loyalty which would have a positive impact on future buying behaviours (Mollenkopf et al., 2007).

2.9 Outsourcing reverse logistics

According to Lambert and Abdul-Kader (2011) most companies use a third party logistics (3PL) provider when outsourcing their reverse logistics, which is very common for companies to do today. Companies that use a 3PL provider can reduce their annual logistics cost by up to ten percent by outsourcing to another company (Cheng & Lee, 2010). The main purpose of outsourcing the reverse logistics is rarely just to achieve a cost reduction, instead to increase

operations efficiency, as well as improve the service leading to a strategic competitive advantage (Ordoobadi, 2009).

Blackburn et al. (2004, p.6) explains how reverse supply chains are designed to carry out five processes:

1. Product acquisition – obtaining the used products from the user.
2. Reverse logistics – transporting the products to a facility for inspection and sorting.
3. Inspection and disposition – assessing the condition of the returns and deciding on the form of reuse.
4. Remanufacturing or refurbishing – returning the product to its original form.
5. Marketing – creating secondary markets for the recovered products.

These five processes are all possible targets of being outsourced to a 3PL provider.

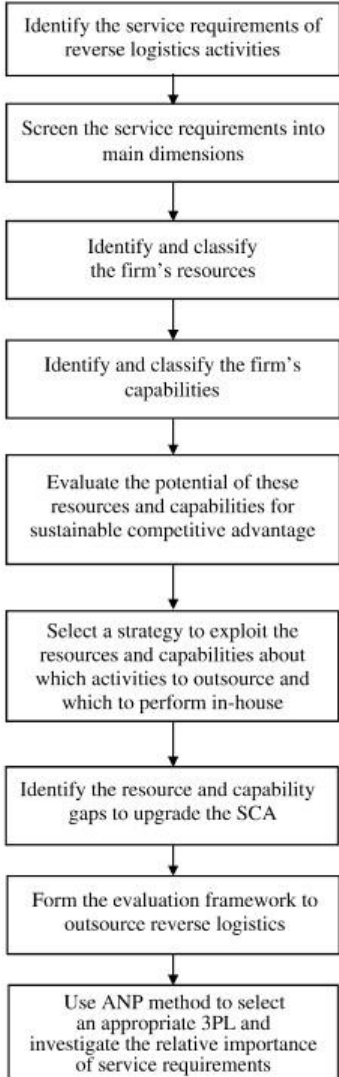
There are several benefits for companies to use a 3PL provider when outsourcing their reverse logistics. First off the company gains access to world-class technology which helps improve their customer service as well as differentiates them from competitors. Secondly, avoiding large investments as well as the need of less staff, and therefore having the opportunity of spending more money on other areas of the company. Thirdly, taking use of 3PL providers competencies in reverse logistics (Ordoobadi, 2009).

As more and more retail stores are set up on the Internet, competition grows. To be able to compete and be efficient companies needs to keep the costs down. One area where the company can save money is in the logistics. To outsource the company's logistics to a third party provider can keep the cost down, especially in the beginning during the startup phase. This also allows the company to focus on their core business and at the same time offer great service to their customers (XiaoYan et al., 2012).

There are also challenges with outsourcing the reverse logistics, such as having a good relationship and a good communication with the 3PL, the quality not meeting the requirements, hidden costs and risking exposing confidential data (Dolgui & Proth, 2013).

The resource-based view (RBV) determines which requirements for the reverse logistics services should be considered, in-house or outsourced after evaluating the company's capabilities and internal resources. The RBV is part of the outsourcing evaluation and investigates the service requirements and helps the company distinguish their core competencies, before selecting the right 3PL provider. The choice of outsourcing must be evaluated based on the RBV theory as well as the service requirements. This evaluation is shown in figure 3, using the analytical network process (ANP) method (Cheng & Lee, 2010).

Figure 3. Evaluation for outsourcing based on the ANP method.



3. Methods and methodology

This chapter will present the methodologies of this study as well as the methods that were used to collect the empirical data. Finishing off with discussions about the validity and reliability of the study.

3.1 Methodology

This section will contain the research purpose,, approach, outcome, logic, philosophy and the methodology.

3.1.1 Research philosophy

There are essentially two main paradigms within research namely positivism and interpretivism. Positivism refers to that there is a single objective reality that cannot be changed independent of who the researcher is and his believes. The results should therefore be scientifically verified meaning that every argument should be presented with reasonable and mathematical evidence through quantitative methods. Interpretivism on the other hand which was developed after criticism of the positivist philosophy and has gained ground over the past 20 years refers to that the social reality is subjective and that a phenomenon under study can result in different conclusions depending on the researcher's beliefs and perceptions (Collis & Hussey, 2014; Myers, 2013). Qualitative methods are used for the latter philosophy and this thesis will thus be conducted according to the interpretivist philosophy (Collis & Hussey, 2014).

3.1.2 Research approach

Since the purpose of this report is to study Nudie Jeans return management and their return policy in particular and comparing it with their competitors we believe that a qualitative study would be the most optimal approach. Qualitative research allows researchers to understand a context where people take action and decisions and the best way to do this is by talking to people. It is practically impossible to explain why someone acted as they did or why an organization changed with only using quantitative data (Myers, 2013). Myers (2013, p.9) is stating that “qualitative research is best if you want to study a particular subject in depth (e.g. in one or a few organizations)” and Merriam (1995, p.52) argue that “qualitative research is ideal for clarifying and understanding phenomena and situations”.

3.1.3 Research purpose

Research can be classified into four different purposes; exploratory, descriptive, analytical and predictive. According to Collis and Hussey (2014, p.4) “exploratory research is conducted into a research problem or issue when there are very few or no earlier studies to which we can refer for information about the issue or problem”. There is limited research on reverse logistics, especially regarding online product returns (Rau et al., 2014). Hence, we believe that an exploratory research is the most suitable option for this thesis. Furthermore, Collis and Hussey (2014) argue that exploratory research is aiming more at developing a hypothesis than actually testing one, thus no hypothesis have been established for testing in this thesis. Descriptive research is more about describing a problem or phenomena and its characteristics. This type of research answers “what” rather than “how” or “why” questions since the goal is to describe something and the collected data is often analysed quantitatively (Nassaji, 2015; Collis & Hussey, 2014). The two other research purposes is an extension of descriptive research. Analytical or explanatory research as it is also called does not only aim at describing a phenomenon but also to analyze why or how it is occurring. Also, predictive research goes even further than giving an explanation for what is happening. It aims at providing a forecast of a likelihood of something happening in current events as well as in the future (Collis & Hussey, 2014).

3.1.4 Research outcome

According to Collis and Hussey (2014) research can be divided into applied and basic research. Applied research is studies that aims at solving a specific problem and often has a timespan of less than six months. For this type of research the theoretical element is not as important as the actual issue or problem. Applied research on the other hand focuses more on making a contribution to knowledge rather than giving a solution for a specific problem and is thus regarded as the most academic form of research (Collis & Hussey, 2014). In this thesis, characteristics from both applied and basic research has been used. Nudie Jeans addressed us with a problem regarding their reverse logistic activities that we aim to solve, but at the same time we have great emphasis on the theoretical part as well where some solutions to the existing problems could be found. This is supported by Collis and Hussey (2014) which states that a researcher should not feel too constrained since a thesis may be described in several different ways. Also, our academic institution has specific requirements on the theoretical part as well which needs to be fulfilled.

3.1.5 Research logic

According to Collis and Hussey (2014) there are two different logics in research; deductive and inductive. In deductive research the starting point is the theoretical concepts which later is applied and tested on the empirical findings. Inductive research is the opposite, where theory is developed based on the empirical findings of the study. In this thesis we used a deductive approach where we first started reviewing existing theories and later on compared it with our collected empirical data. However, Spector et al. (2014) argues that by focusing too narrowly on theory, a researcher could miss out on valuable information since the theories have a tendency to show which directions to take. Thus, the researcher is not encouraged to explore new ways of thinking.

3.1.6 Research methodology

Collis and Hussey (2014, p.68) describes a case study as “a methodology that is used to explore a single phenomenon (the case) in a natural setting using a variety of methods to obtain in-depth knowledge”. A case study can be useful when in the starting-phase of research when little is known about the subject at study (Myers, 2013). Eisenhardt (1989) mention that case studies can involve both a single and multiple cases where archives, interviews questionnaires, and observations are common methods to obtain information. Furthermore, the author argue that either a qualitative or quantitative approach can be used as well as combining the two. In this thesis a case study methodology were used since the aim was to investigate a phenomenon at a company and conduct interviews with employees and analyze internal reports, document and statistics in order to gather relevant data.

3.2 Methods

This section will present the data collection methods that were used followed by a presentation of what sorts of interviews that were conducted. Also, ethical principles and the limitations of the study will be discussed.

3.2.1 Data collection

In this thesis the collection of data generally consist of primary data collected through semi-structured interviews, observations and photographs in order to present the empirical findings. Email conversations also occurred in order to in a relatively short time collect additional information that was not gathered during the interviews. This was complemented with

additional information from secondary data as well, such as company reports, internal documents and statistics.

3.2.2 Interviews

According to Collis and Hussey (2014) an interview question can either be closed or open. Closed questions are those that can be answered relatively fast for example by simply answering “yes” or “no”. Open questions on the other hand normally takes longer to answer where the interviewee really needs to think and reflect in order to give a well-developed answer. In connection to this, there are three different types of interviews; unstructured, semi-structured and structured. In an unstructured interview questions are not prepared prior to the interview, instead these emerge during the interview which takes the form of open question. In a semi-structured interview some main question are prepared prior to the interview and new questions emerge during the conversation. In a structured interview which goes under the positivist paradigm the questions are prepared prior to the interview and asked in the same order (Collis & Hussey, 2014).

In this thesis, the collection of primary data was mainly achieved through face-to-face semi-structured interviews. We believe that this was the best approach to take, where we started the interviews with some general questions and then the interviews developed more into a discussion. We believed that a structured interview would limit the amount of information that could be collected since our knowledge about the company’s logistical activities was limited in the initial phase. Furthermore, we thought that an unstructured interview would increase the risk of missing out on important information.

A total of four face-to-face interviews were conducted where the first two were took place at Nudie Jeans headquarters in Gothenburg, Sweden. The first interview was a group interview where two employees, namely Jonasson and Hermelin, responsible for the webshop at the company participated. At the second interview only Hermelin was interviewed. The third interview was conducted with Zandén who is a lecturer at the School of Business, Economics and Law at the University of Gothenburg and well informed about Nudie Jeans after studying the company for several years. The fourth and final face-to-face interview took place in the city of Borås at Nudie Jeans’s warehouse, Korallen. Firstly, we were guided through the warehouse and were given an overview of the daily operation. We thereon interviewed Hermansson who was responsible for the daily operations at the warehouse.

3.2.3 Email interviews

Sometime after the interviews different questions were asked by Email to the interviewees. These questions arose while writing the thesis to either complete an already answered question or requesting an answer of a topic that was not covered during the interview.

3.2.4 Observation and photographs

In addition to the interviews, as previously mentioned we made an observation of Nudie Jeans warehouse in Borås prior to the interview where photographs were also taken. This provided us with complimentary detailed information that the interviews did not provide and helped us create a better image of the phenomenon at study. According to Buchanan (2001, p.151) photographs can help researchers “develop a richer understanding of organizational processes” as well as “capture data not disclosed in interviews”.

3.2.5 Ethics

According to Collis and Hussey (2014) there are several ethical principles that should be taken into consideration when conducting research. Anonymity and confidentiality are two of those principles and every participant in the research should be offered to be anonymous and private information is confidential. With this in consideration, all participants in the study were asked if their names could be used in the thesis. Furthermore, all interviews were recorded after mutual agreement with each participant. The thesis was also sent to Nudie Jeans prior to publication in order to get an approval that no confidential information was released without their consent.

3.2.6 Transcription

The interviews were recorded with an audio recorder in order for us to transcribe them. The transcription for our interview was done immediately after it was finished. We believed that this would help, since the information was fresh in our minds and would benefit in us remembering the impressions of the interview and thus ease the writing of the analysis later on. The transcription was later sent to the company in order to check that the information was correct and confidential data was not revealed.

3.2.7 Limitations

Due to the fact that our research is focused on reverse logistics for purchases made on the internet, the return management in the physical stores will not be in our consideration. Nonetheless it may be mentioned throughout the report since it can be of relevance in some parts of the analysis. Additionally, Nudie Jeans were clear with stating that some information that is confidential will not be allowed to be published without their consent, thus some information regarding their costs could be absent.

3.3 Validity and Reliability

Both validity and reliability has a function of measuring different data and results, helping the researcher get accurate and precise information about the subject in the study.

3.3.1 Validity

According to Collis & Hussey (2014, p.53) validity refers to “the extent to which a test measures what the researcher wants it to measure and the results reflect the phenomena under study”. There are a few research errors which can undermine validity, such as poor samples, faulty procedures and misleading or inaccurate measurement. For example, a teacher might wonder if a student has paid attention in class and therefore construct a cumulative test. The test questions are written in difficult language with words and phrases being very complicated. This test can unintentionally become a test of reading comprehension, rather than a test examining the student’s knowledge on the course material.

To ensure a good quality of the research, internal and external validity is used. Since the internal validity measures the reality of the research, several strategies were looked at before ensuring the internal validity (Merriam, 1995). To increase the validity of the study a triangulation was used which can be explained as, “a more complete, holistic and contextual portrait of the object under study” (Ghauri, 2004, p.222). Data was collected through interviews, internal documents, observations and face to face interaction with company representatives. External validity, also referred to as generalizability is concerned with having the option of applying research findings to other cases or settings which requires a comprehensive knowledge of behavior and activities being studied (Collis & Hussey, 2014).

3.3.2 Reliability

According to Collis and Hussey (2014, p.52) reliability refers to “the accuracy and precision of the measurement and absence of difference in the results if the research were repeated”. Many researchers see this as a challenge, measuring when humans are involved, and have a behavior varying, making it harder for them. These researchers therefore suggest the dependability to be evaluated by determining if the study’s results and collected data are rational or not (Merriam, 1995). The main goal of reliability within the study is to minimize future errors. Therefore Yin (2014) suggests that researchers should document all procedures they are involved in. Without these documentations it will be hard for the researchers to repeat previous work and also to explain the results. The best way to overcome future error is to be thorough and act like someone is constantly looking over the shoulder, supervising the work and procedures.

4. Empirical background

In this chapter a background of Nudie Jeans and their warehouse Korallen will be presented which will improve the reader's understanding of the empirical findings chapter.

4.1 Nudie Jeans Co

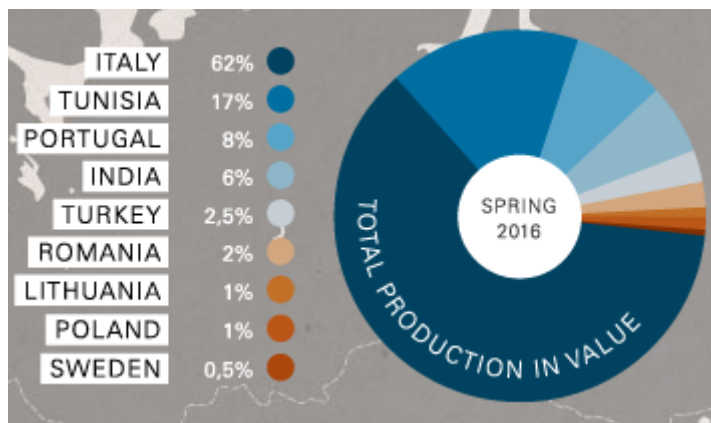
Nudie Jeans is a Swedish clothing brand that was established in 2001 by the married couple Maria Erixon, a former design director at Lee Jeans in Europe and Joakim Levin a former professional drummer. Later, Palle Stenberg also joined in as owner for the company. Erixson and Levin both shared a passion for second hand clothes which is also why they owned a second hand store, before starting Nudie Jeans. Many of their ideas with Nudie Jeans are taken from the second hand store, where you could reuse old clothes. Nudie Jeans mainly design and sells jeans, but shirts, sweaters and jackets, among others are also included in their collection. When the company started in 2001 the goal was to sell 10.000 pairs of jeans each year for the owners to have an enjoyable life. The company outshot their expectations and today they sell approximately 1 million pairs of jeans each year around the world, where USA is the largest buying country (Nicklas Zandén, 2016; Nudie Jeans, 2015). However, the company does not only want to offer clothing products. It is more than just the product as seen from their vision below:

“WE LOVE JEANS, a passion we share with anyone who mourns a worn-out pair like the passing of a close friend. No fabric ages quite as beautifully as denim; the longer you wear your jeans, the more character and attitude they acquire. You shape them with your lifestyle, and they become like a second skin. Jeans share the same soul and attitude found in the rock'n'roll scene — they're both part of the same culture.”

“We'll always stay true to jeans. We're not looking for fly-by-night fads; our inspiration is found far from the world of glamour and catwalks. We don't just offer jeans. We offer a way of thinking, a concept, and an undying passion, fuelled by the traditions of denim and the characteristics of the fabric itself (Nudie Jeans Co, 2016a).”

The production is mainly located in Europe, but Tunisia and India also constitutes a big part of the production. As can be seen in figure 4, Italy and Tunisia comprise of 62 and 17 percent of the total production in value (Nudie Jeans Co, 2016b.)

Figure 4. Total production in sales value (Nudie Jeans Co, 2016b)



Nudie Jeans chose to focus early on the environment aspect of the company as well as sustainability, which gave them a good position from start and will be a future advantage. Since 2012, the production of jeans is made out of 100 percent organic cotton and they are also involved in recycling and lay great effort on reusing jeans. They offer free repair services for all their customers and in 2015, 21.331 pairs of jeans were repaired in a Nudie Jeans repair shop (Nudie Jeans Co, 2016c).

Nudie Jeans headquarter is placed in Gothenburg and also have offices in Stockholm, Amsterdam, Germany, London and USA. What makes the company unique is their repair service which anyone with a product of Nudie Jeans can take part of. Another way Nudie Jeans stand out is their discount policy. They are very restricted with their sales periods as they do not want their customers to get used to waiting for the discounts. Same goes for their marketing, as it is very restricted and differentiates itself compared to other retail companies. You will not see Nudie Jeans on large billboards or on TV-commercials, especially since they rely so heavily on the word of mouth method (Niklas Zandén, 2016).

In the early years the company grew at a fast pace, but the growth later became irregular. Today Nudie Jeans are growing faster than ever, mostly due to their change of focus from wholesale to more retail, which also requires employment of more people. They have always had a strong wholesaling section, but a couple of years ago they also decided to pay more attention to their retailing section, which is more profitable for Nudie Jeans. Historically Nudie Jeans is a company with a high profitability which they still are today, without any loans or debts, which is why it is seen as a company with great potential (Niklas Zandén, 2016). According to Niklas Zandén (2016) one issue with Nudie Jeans which can affect their

growth is their pricing strategy, as they are more of a premium brand and therefore have a limit on how much they can grow. Today Nudie Jeans have a turnover of around 500 million SEK and in a ten year span they are estimated to have a turnover of over 1 billion SEK. They also have a 50 million SEK profit each year which the three owners are in charge of.

Nudie Jeans outsources its logistics activities to a 3PL provider called Korallen which they have done since the beginning. Years of collaboration have established a good relationship which both parties are satisfied with (Nudie Jeans, 2016a).

Nudie Jeans has a clear goal how they see themselves in a few years and pronounce the importance of the way they grow, for example by cutting down their production costs. The company wants to grow into a large Swedish retailer which is well known around the world (Niklas Zandén, 2016).

4.2 Korallen AB

Korallen was founded in 1985 by Tage Andersson and are today operating with 3PL (Third-party logistics) as well as garment staining. It all started after a garment factory went bankrupt where Andersson was responsible for the warehouse and the washing and garment staining operations. The company was successful almost directly and in the course of the first year, investments were made in for example made in new machines, services and additional personnel. In the year of 1989, Andersson studied at the University of Borås while the company kept growing and cooperated with some of the most popular jeans stores in Sweden at that time, such as Solo, Levis stores, Face and Olssons. In 1991 Korallen invested in a new facility which became the start of a new service offering, namely the inventory service. Korallen started to get more offerings of future customers and 2001 the newly established jeans company Nudie Jeans became a customer. It was around this time that the inventory service surpassed the garment staining service and became the main source of income (Korallen Co, 2016).

In line with the growing customer base further investments were made on facilities and in 2010 the company implemented a WMS (Warehouse Management System) called Nyce mainly due to Nudie Jeans rapid growth. Information could now be transferred electronically between Korallen and its customers, but until today, transfer of information is made manually for the majority of the customers. In 2014, Korallen together with Nudie Jeans acquired a new

warehouse in Borås with a size of 11000 cubic sq metres compared to the previous 3000 cubic sq metres. The occupancy date was set on the 13th of May 2016 (Korallen Co, 2016; Korallen, 2016). In 2015 the company had revenue of approximately 19 million SEK where Nudie Jeans accounted for more than 50 percent and the company currently has 35 employees (Företagsfakta, 2016; Korallen, 2016).

5. Empirical findings

This chapter will present the main findings from the interviews which include; order process, return process, return policy, return rate, disposal of complaints, return labels, competition and free shipping campaigns.

5.1 Order process

When a customer makes a purchase on Nudie Jeans webshop the order is registered in their business system called Panagora/Edge which only applies to orders from the webshop. Panagora/Edge thereafter communicates with the company's main business system called M3, which confirms if the product is available in stock, locates it and thereafter reserves the product. The order is henceforth ready for picking in the warehouse called Korallen which is located in the city of Borås, Sweden. Orders from the whole world are processed and distributed from this warehouse and it is therefore a very critical factor for the company's operations. Korallen has its own business system named Nyce which is equivalent to Panagora/Edge and notifies M3 that the order has been shipped, and then sending the customer a shipping confirmation that money has been drawn from the customer's account (Nudie Jeans, 2016a). The order and return flow is illustrated in figure 5.

Nudie Jeans are currently amidst of changing the business system to a system called Silk. The new system was launched 17th February 2016. The difference between the systems is that Silk provides them with a better insight in the order flow and also a greater overview of every customer. The communication with customers can also be handled straight through the Silk system and can separate important information about the customer such as size, product etc. Nudie Jeans want the communication between the Silk system and Nyce system to go hand in hand and eventually help the company to grow (Nudie Jeans, 2016a).

Since Nudie Jeans have customers worldwide the shipping time can vary. Even though the shipping time varies, the average shipping time is between one to five business days. Orders to customers living in Sweden are distributed with PostNord and for international customers Nudie Jeans collaborate with UPS (United Parcel Service) (Nudie Jeans Co, 2016d).

5.2 Return process

If a customer wants to return a product that was purchased on the webshop it is sent directly to Korallen together with a return form where the reason of the return is specified (Nudie Jeans, 2016a). However, if the customer uses a national postal service company the parcel will arrive to the nearest postal office. Employees from Korallen visit the postal office twice a week to collect product returns. When the returns arrive to the warehouse they are sorted according to the day of delivery. For example, a garment that arrived on a Monday will be dealt with before a garment that arrived on a Thursday in order to give the best possible service to the customer. The parcel is later unpacked and the employees check if the required return form is included. In some cases the customer does not use the return form and instead write on a piece of paper which complicates the work. In that case, the personnel have to find the return order and print out the return form in Nyce which can be very time consuming (Korallen, 2016).

The next stage is to inspect the garment and see if it is in original condition. Customers can send back garments with clear indications that they have been used. The labels can be peeled off, the garments can be washed or it can have evident dirt spots. In these cases, the return will be sent back to the customer with PostNord or UPS depending on where the person lives. If the garment is in original condition the return will be accepted and the shelf where it is stored will either be looked up on the computer or by scanning the label. The return form is thereon registered in Nyce, sorted according to if it is a change of a garment or a return and later faxed to Nudie Jeans (Korallen, 2016). The product availability is thereafter updated and the customer will possibly be refunded within two to three business days (Nudie Jeans Co, 2016d). Returns are normally processed within ten business days starting from the day it reaches the warehouse, but variations can occur during public holidays and sale periods. Korallen however has a goal to always process all the returns at the end of the week in order to start the following week with no backlog (Korallen, 2016).

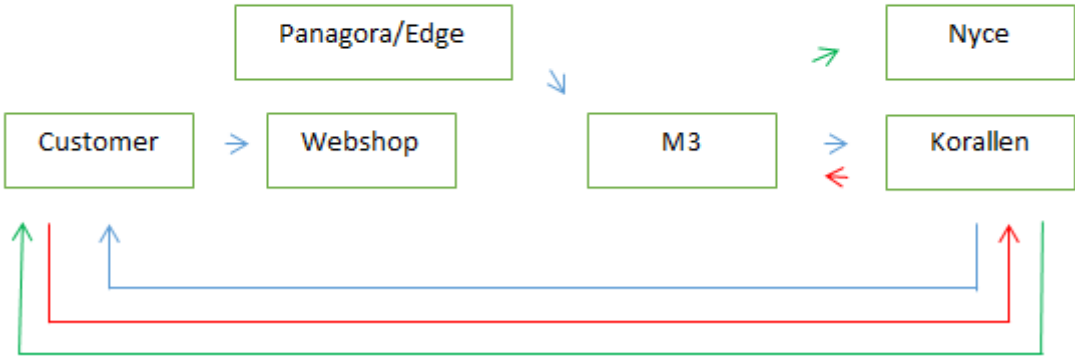
Nudie Jeans has recently made it possible for returns in their retail stores in Sweden. By doing so brings customers into their store, automatically increasing the chances of selling more products than the customer came in for. Also getting a better understanding why the customer doesn't want the product anymore and can easily change the product if the size was wrong. This saves Nudie Jeans money, as they do not need to pay back any money to the customer.

The customer also feels safer when purchasing the product, knowing that there is a possibility meeting someone working for Nudie Jeans face to face, if there would be a problem with the product. Another benefit is also that the company can control the whole logistics flow without any 3PL providers (Nudie Jeans, 2016a).

Nudie Jeans explains how they will have a test period where they measure how the return rate and conversion rate is affected once people can return products in store. They expect this should help them solve the problem not knowing how much returns to expect (Nudie Jeans, 2016a).

Figure 5. The order and return flow.

- Blue are web orders – orders that are made in the webshop.
- Green are manual web orders – often exchanges by HQ.
- Red are web returns via Korallen.



5.3 Return policy

Nudie Jeans’s customers have up to 14 days to return a product as from delivery of the parcel which is a requirement according to Swedish and European law of withdrawal for e-commerce (Nudie Jeans, 2016a; European Union, 2016; Konsumentverket, 2016). The company will however increase this time period to 30 days. Although the Nudie Jeans have a free shipping limit which varies depending on which country the customer resides in, the returns are not free of charge. Since the establishment in 2001 the company has not tested to have a free return policy and do not therefore know exactly how it will impact the company. They have however reviewed reports from external companies regarding e-commerce and

customer buying behavior where returns management and punctuality of deliveries are important factors to take into account. The reports showed that the speed of the delivery was not as important as the actual punctuality. If a parcel arrived after one or two days and the customer were not home, it would not add any value compared to if it arrived after five days when that person was available (Nudie Jeans, 2016a).

During our interview with Jonasson and Hermelin they mentioned that they were quite liberal regarding accepting returns. The reason for this is based on the relative difficulty of returning a product for a customer compared to some of their competitors. An important criterion is though that the garment is returned in original condition including the labels. Some exceptions can be made from time to time depending on if the garment is relatively new in their collection. They gave another example that is not usual but occasionally occurs. If a customer that lives on the other side of the world would contact the company three months after the purchase because a button on a garment came off, Nudie Jeans would have to make a trade-off. They could take the garment back, repair it and send it back to the customer or let the customer keep it and just send a new garment out, which would halve the transportation cost. It is their right as a retailer to repair a product and send it back to the customer, but in this case it would be too problematic and not very customer-friendly. A more suitable solution would be to give the customer a sum of money in order to go to a tailor and repair the garment. This sum is usually higher than the price to get it fixed, but the customer would ultimately get a discounted product. An alternative could also be to ship a replacement good to the customer depending on the distance and product value. Nudie Jeans take both the shipping- and environmental cost in account when taking this decision (Nudie Jeans, 2016a). Nudie Jeans however have several repair shops in countries such as Sweden, Norway, England, Germany, Spain, USA, Japan and Australia where customer can repair their garments for free (Nudie Jeans Co, 2016f).

According to Niklas Zandén (2016) Nudie Jeans will have to face the problem with free returns, as more and more competitors go that route. He explains that if Nudie Jeans want customers to choose their web shop over other competitors they need to adapt to what the customers want. If customers want to buy a pair of Nudie Jeans online and have the option of choosing between Nelly and Nudie Jeans, many customers will chose Nelly due to the fact that they have free returns.

5.4 Return rate

Nudie Jeans return rate on purchases made on the webshop are around 14 to 16 percent. This is a quite low number and a result of the complex and costly return process that the customers have to undergo when returning a garment back to the company. Many multi-brand retailers which Nudie Jeans see as their competitors to a certain extent can have a return rate of approximately 50 percent which can be very costly for a company. There are examples of companies that had a free return policy, but were forced to back down due to increased costs. (Nudie Jeans, 2016a).

The number of returns that Korallen handle per week can vary quite a lot from a few boxes to ten pallets since they sometimes receive returns from both the webshop and the stores. The returns from the stores often occur under the same period since Nudie Jeans's changes its collection at the same time in all the stores and the workload therefore increases under these periods. When we asked how a free returns policy would impact Korallen and if the return rate would hypothetically double and be close to approximately 40 to 50 percent the interviewee Johan who is responsible for the daily operations in the warehouse answered the following:

The workload will certainly increase and the majority of the returns will consist of changes, but it will not be a space issue in the warehouse. Today we have two employees that almost work full time with Nudie Jeans's orders and returns, but if the returns would increase we would probably have to employ another employee (Korallen, 2016).

5.5 Disposal of complaints

During our visit to Korallen we made an interesting finding which mostly had a negative impact on the company. There were plenty of boxes containing garments which the customers sent back due to production errors. These customer claims did not add much value and took up useful warehouse space that could have been used in a better way. Nudie Jeans recycle garments that contain 100 percent cotton into jeans called Post Recycle Dry Jeans. However, these boxes contained garments with stretch material where the fibers do not need to be separated. These are not as interesting, but are from time to time recycled into rugs or chairs among others which are sold to internal customers and also used in the stores or offices.

Clothes with 100 percent cotton are separated from the rest in the stores as well as in the warehouse upon arrival (Korallen, 2016; Nudie Jeans, 2016b).

A general impression that I have is that more clothes are coming into the warehouse than out (Korallen, 2016).

In autumn last year Nudie Jeans donated a couple pairs of Jeans from their outlet store in Freeport to unaccompanied refugee children through an organization named Pay It Forward. However, in general they have been quite restrictive regarding engaging in charity work and there are mixed opinions within the company regarding this topic. The worrying aspect is that donating clothes to the wrong target market could decrease the value of the Nudie Jeans brand which is somewhat a premium brand. But, there are also opinions that the value instead could increase if it is performed in a good way and in orderly conditions. There is also an ongoing project with The Swedish School of Textiles in the city of Borås regarding if they can use these garments. H&M (Hennes and Mauritz) for example uses a recycling service called i:collect but Nudie Jeans do not want to use these kind of services. They believe that the recycled end product obtains a low quality and additionally ecological cotton is mixed with non-ecological cotton which results in a loss of the organic cotton characteristic which is a pity (Nudie Jeans, 2016b).

5.6 Return labels

Starting in April Nudie Jeans will launch their own preprinted return labels through UPS in Sweden and United Kingdom (UK), to make it easier for both the customer and themselves. One of the many reasons for Nudie Jeans's to start with preprinted return labels has to do with Nudie Jeans being able to plan the returns in a more efficient way and not being surprised by the amount coming back. The return will cost customers 50 SEK to send back from Sweden and £10 from the UK and will be deducted from the money they get back. If there was a fault with the product or something missing there will not be an amount deducted (Nudie Jeans, 2016c).

When buying the product from Nudie Jeans you automatically accept their terms of purchase, using their return label when sending back products. According to Nudie Jeans, customers are very thorough when it comes to buying clothes on the Internet. For the customers it is

important to know how the exchange policy works for the clothes before buying them and it is thus important for Nudie Jeans to match the customer's expectations, so they feel safe when purchasing online. There will be many advantages for both the customer and Nudie Jeans with the return label in use (Nudie Jeans, 2016c):

- *Saves the customer money-* by having preprinted return labels makes it cheaper for customers to send back products. Using Nudie Jeans they pay £10 to send it from UK to Korallen AB in Sweden which is a big difference to what they would pay using other transport companies. Using Nudie Jeans preprinted return labels will be both cheaper for the customer and will be premium service with UPS, since they can track their clothes. In table 3 below is the price a normal customer would pay returning a product from London to Borås.

Table 3. Delivery time and price from London to Borås

Company	Delivery time (days)	Shipping cost (£)
UPS	2 to 3	£67
Fedex	3 to 5	£50
Royal Mail	3 to 5	£18
DHL	4 to 8	£18
Parcelforce	5 to 6	£30

- *Saves booth Nudie Jeans and the customer time-* the return will always be sent back with UPS and will come direct to their warehouse, Korallen. There is no longer any need for staff at Korallen to drive to the closest post office twice a week (tuesdays & thursdays) picking up returns which were sent back using local mailing services, such as Royal Mail and eventually Postnord. The handling time is also quicker since the return comes straight to the warehouse, and the 1-2 days transit time is eliminated. Having preprinted return labels will also benefit the customer service at Nudie Jeans. They don't need to respond to as many emails anymore since the customer gets all the instructions for the return in the package they receive when purchasing the product online, especially when it comes to reclamations.

Not only does it save Nudie Jeans and Korallen time, but also the customer. The customer receives a return label with the product and can easily send the product back, without having to travel to the nearest post office. This can be a big relief, especially for those not owning a

car. Since the preprinted return label speeds up the process for the return, the customer can either get their refund or a new pair of jeans quicker.

- *Gives both Nudie Jeans and the customer insight in the transportation-* Since Nudie Jeans return rate is approximately 20% they expect their use of UPS to increase with 20% when using return labels, and therefore give them a better negotiating position with UPS, in regards of price for both export and import. With the return label customers can make sure their product has returned safely and don't have to worry about their package disappearing.

5.7 Competition

Nudie Jeans are as mentioned a clothing company specialized in jeans. They design, produce and sell clothes in their stores as well as on the webshop. A pure competitor are therefore other companies that operate within the same business area and use the same distribution channels. Brands such as Levis, Acne, G-Star, among others could be called pure competitors to Nudie Jeans as they also design, produce and sell clothes in their own stores as well as online (Nudie Jeans, 2016c).

There are also several multi-brand companies that sell Nudie Jeans clothes in stores as well as online. They are customers to Nudie Jeans since they purchase clothes from the company, but at the same time also compete with each other since they can sell clothes to a potential Nudie Jeans customer. It is more profitable for Nudie Jeans to sell their clothes themselves and the sales on the webshop would probably increase if they did not sell clothes to these multi-brand companies. However, these companies can reach other customers that may not be customers to Nudie Jeans at the moment and this could possibly increase the total amount of sales (Nudie Jeans, 2016c). At the moment Nelly, Zalando & Asos together amount to one third of Nudie Jeans total sales in their webshop, which can be seen as a great market for Nudie Jeans to take customers from (Nudie Jeans, 2016d). Nevertheless, Nudie Jeans do not in anyway want to end the collaboration with these companies but they do want to increase their market share for clothes that they sell themselves (Nudie Jeans, 2016c). These companies often compete with having a better return policy or a lower free shipping limit since they have more sales compared Nudie Jeans and thus can negotiate advantageous deals with different transportation companies. Nudie Jeans on the other hand compete with offering a larger

product range in different sizes. The price of the garments should be about equal to that of Nudie Jeans and is agreed upon in the negotiations (Nudie Jeans, 2016c).

Based on this, we chose to investigate and compare some of the factors that affects a customer when choosing to shop online, namely the purchasing conditions. Three pure competitors to Nudie Jeans as well as three multi-brand companies were subject to the investigation. The pure competitors in question were Levis, Acne & G-star while Nelly, Zalando & Asos represented the multi-brand companies. These companies are in different sizes which could generate certain advantages for the larger organizations, but the reality is that Nudie Jeans are in competition with these companies and it is therefore adequate according to us to make a comparison. The terms that will be compared are the following; delivery time, free shipping limit, return cost, and the withdrawal period. Two specific Nudie Jeans garments were also chosen and the costs for these in Nudie Jeans webshop as well as in the three multi-brand webshops were compared.

It is clearly shown in table 4 that what differentiates Nudie Jeans from its competitors is the return cost that the customer has to pay in order to send back a garment. All the companies included in the investigation aside from Nudie Jeans have free returns. Another variation that can be observed is the difference between multi-brand companies and single brand companies. The multi-brand companies offer far more generous buying conditions, which according to Nudie Jeans was a result from more sold articles and thus better agreements with transportation companies. However, when comparing Levi's with these companies a significant difference still exists. Levi's who had revenue of 4.5 billion USD in 2015 are larger than Nelly (1.2 billion SEK), Zalando (3 billion EUR) & Asos (1.151 billion GBP) (Levi Strauss, 2015; Qliro Group, 2015; Zalando, 2015; Asos, 2015). When Nudie Jeans were asked what they thought about Levi's not having better buying conditions they answered:

It is impossible for us to answer since we do not have any insight in our competitors' costs and profitability. There are several factors that can affect a company's shipping prices such as geographic location and contracts with freight forwarders (Nudie Jeans, 2016e).

Table 4. Comparison of the purchasing conditions.

Company	Delivery time (days)	Shipping cost (SEK)	Free shipping limit (SEK)	Return cost (SEK)	Withdrawal period (days)
Nudie Jeans	2 to 3	50	999	100	14
Levi Strauss & Co	1 to 4	57	899	Free	28
G-Star RAW	4 to 5	40	400	Free	14
Acne Studios	2 to 5	60	1500	Free	14
Nelly	3 to 5	45	199	Free	14
Zalando	2 to 5	Free	-	Free	100
Asos	Within 5	30	235	Free	28

The price comparison for two pair of jeans, namely Pipe Led Clean Slate and Brute Knut Blue Reed is shown in table 5 and 6. As can be observed the prices are almost equal which corresponds to the information collected at our interviews with Nudie Jeans. However, Asos have a slightly higher price than the others which we believe is a result of the strong British currency. If a British customer would order the Pipe Led Clean Slate for example the price would be 110 GBP including the shipping cost which equals to approximately 1300 SEK. During our interview with Nudie Jeans, they mentioned that the pricing of Nudie Jeans garments for webshops (especially regarding foreign webshops) should not be lower than what the exact same garments cost in a store in that particular country (Nudie Jeans, 2016c). The higher prices in Asos might therefore be a result of this mentioned reason.

Table 5. Price comparison for Pipe Led Clean Slate.

Company	Product	Price (SEK)
Nudie Jeans	Pipe Led Clean Slate	1099
Nelly	Pipe Led Clean Slate	1095
Zalando	Pipe Led Clean Slate	-
Asos	Pipe Led Clean Slate	1351

Table 6. Price comparison for Brute Knut Blue Reed.

Company	Product	Price (SEK)
Nudie Jeans	Brute Knut Blue Reed	1799
Nelly	Brute Knut Blue Reed	1795
Zalando	Brute Knut Blue Reed	1795
Asos	Brute Knut Blue Reed	2171

5.8 Free shipping campaign

During the interview with Niklas Zandén (2016) we were told that Nudie Jeans from time to time had free shipping campaigns and we came to a conclusion that it would be interesting to investigate how much the sales would be affected during these periods as well as if the returns would increase. Unfortunately we could not get any statistics on the returns since it can take 3 to 45 days for a parcel to be returned depending on when the customers send it back as well as the transportation time. It is therefore not possible to get a reliable result since the company has several other campaigns during a year that could affect the statistics (Nudie Jeans, 2016f).

For example, a free shipping campaign took place on 25th of March from 12:00 to 28th of March 09:00. The campaign was shared on social media and email to subscribers only and the code was used 63 times which equaled 74.292 SEK in additional sales. The sales during a three day period before and after this campaign (18/3-21/3 & 1/4-4/4) resulted in the following amount 532.170 and 551.795 SEK respectively. The results are shown in table 7.

Table 7. Comparison of the sales during a free shipping campaign and ordinary days.

Date	Campaign	Sales (SEK)
18/3 - 21/3	No	532170
25/3 - 28/3	Yes	643783
1/4 - 4/4	No	551795

6. Analysis

In this chapter the theories that were presented in the literature review will be compared and analysed in relation to the empirical findings.

6.1 Defining reverse logistics

As described and presented in the literature review, researchers have made several different definitions of reverse logistics with mostly one common denominator, namely that the flow starts from the customer and ends at the point of origin. From the empirical findings it became clear why there was no existing universal framework of reverse logistics, which is mainly based on a company's possibility to operate within different branches of industries, and at the same time with various challenges. For Nudie Jeans that sell clothes, the main focus within reverse logistics we believe is the returns and how they should be managed. A company that produce and sells electronic products would probably have fewer returns as Grabara et al. (2014) mentioned, which indicates that they will encounter other main challenges within reverse logistics, such as for example recycling. Therefore, we believe researchers depending on what they are studying are affected by it which thus in the end can result in several definitions of the subject.

6.2 Outsourcing

As Lambert and Abdul-Kader (2011) mentioned most companies outsource their reverse logistics activities to 3PL-companies which can reduce the logistics costs by up to ten percent annually (Cheng & Lee, 2010). Nudie Jeans have since its establishment never managed its logistics activities themselves, they have instead outsourced this activity to Korallen thus their core knowledge is to design, produce and sell jeans and clothes. The logistical activities have not been and are still not one of their strengths. However, Korallen have done a pretty good job fulfilling this gap in knowledge which both companies have benefitted from. Nudie Jeans has received an efficient storage and returns management, while Korallen have grown tremendously due to Nudie Jeans's fast development and expansion.

As Ordoobadi (2009) mentioned, outsourcing the reverse logistics activities to a 3PL provider can give advantages such as cost savings by avoiding large investments and the need of less staff as well as taking use of the expertise in the field of reverse logistics. Even though there

are several benefits with outsourcing the reverse logistics, Nudie Jeans decided they wanted more influence than they had. The relationship with Korallen has been successful for both parties and also a result of why they chose to become part-owners, with a new warehouse in place. Being part-owners gives Nudie Jeans more insight in both the forward and reverse logistics, at the same time as it gives Korallen a security for future business.

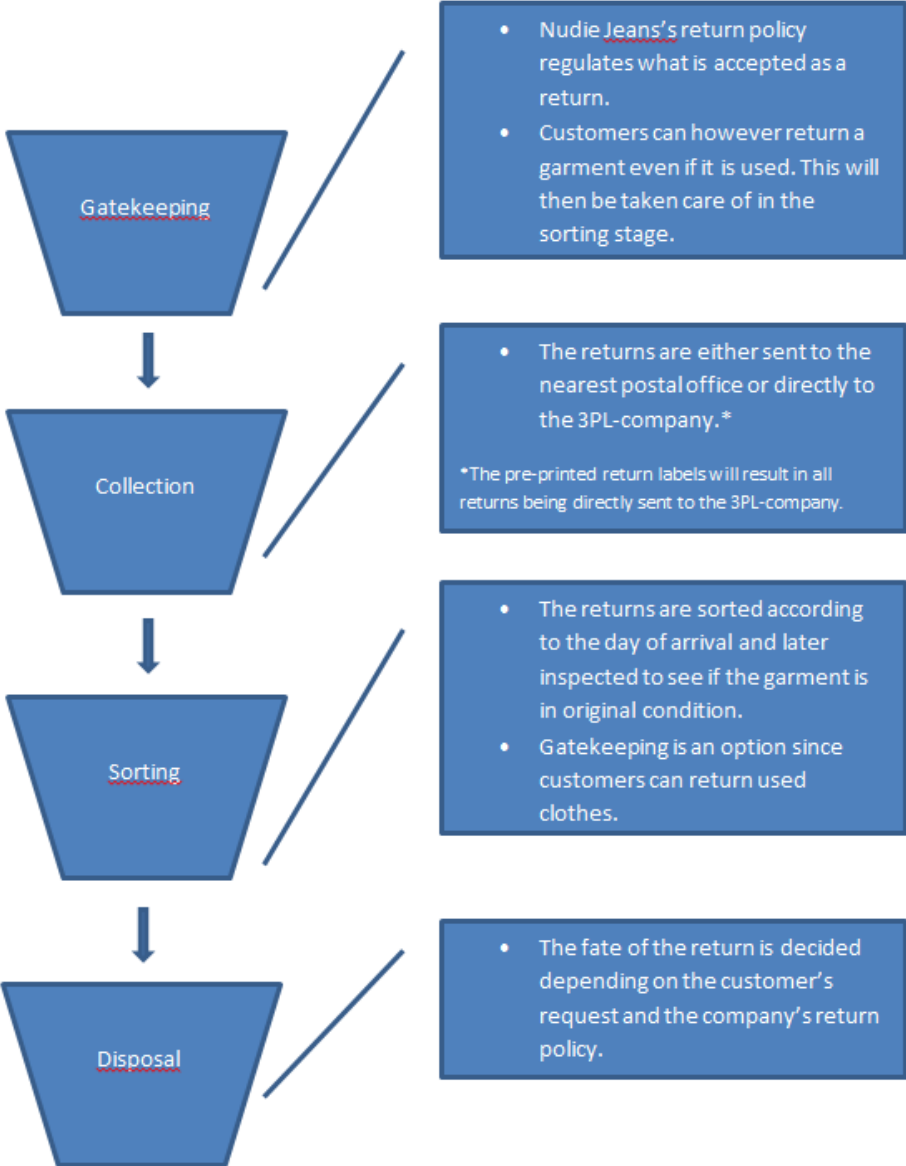
6.3 Structure of reverse logistics

As described in theory reverse logistics can be divided into four fundamental activities, namely gatekeeping, collection, sorting and disposal (Rogers & Tibben-Lembke, 1998; Schwartz, 2000; Daaboul et al., 2014). This corresponds quite well to how Nudie Jeans and its partner Korallen handle the returns management. The first step called gatekeeping basically constitutes the company's return policy that state the rules regarding the condition of an accepted product return. From the empirical findings we learned that the garments should be returned in original condition with all labels attached. Theory states that this stage is the most critical since it in the end decided what enters the reverse logistics process of the company which thus has great influence on the manageability and profitability (Rogers & Tibben-Lembke, 1998). Nudie Jeans are however quite liberal regarding accepting returns especially concerning the time aspect, where they are fairly generous about when the customer returns a garment as long as it is in original condition. This could according to theory affect the profitability, but another aspect to take into consideration are customer loyalty where bad handling of the returns can have a negative effect on the customer-company relationship (Mollenkopf et al., 2007).

Collection which is the second stage does according to the theory involve the pick-up of the returned product and its transportation which can be performed by the company, a third-party or by the customer itself (Lambert et al., 2011). The empirical findings showed that the customers returned garments via a transport company of its choice (usually PostNord for Swedish customers and UPS for international customers). Orders that were sent by a national post company arrived at the nearest post office to Korallen which were picked up twice a week. Returns that were shipped with UPS or similar companies arrived directly to Korallen which saved them time, money and also resulted in a decrease of handing time per processed item. The last two stages are the sorting and disposal stages. The returns are sorted according to the day of arrival in order to follow the first-come, first-served policy and are lastly

individually inspected to find out the reason of the return and thereon take the required action. Theory stated that this last stage could actually generate revenue for the company (Lambert et al., 2011). In Nudie Jeans’s case they could make a profit or in other words prevent a revenue loss, if they did not accept a return. However, as previously mentioned about their liberal view of accepting returns and the negative impact it would have on the customer loyalty, this stage should according to us not be seen as a direct revenue making activity. The whole return process is summarized in figure 5.

Figure 5. A summarized model that compares Nudie Jeans’s return management and Rogers and Tibben-Lembke’s (1998) theory about the structure of reverse logistics.



6.4 Drivers of reverse logistics

There are according to theory three major drivers for companies to implement reverse logistics activities; economic (direct/indirect), legal and commercial (Lambert et al., 2011; Rubio & Jiménez-Parra, 2014). The empirical findings showed that all three of these factors affected Nudie Jeans to pursuit reverse logistics activities in one way or another. When it comes to the economical reasons it is mainly the indirect factors which Rubio and Jiménez-Parra (2014) claim includes demonstration of environmentally responsible behavior and improved customer relations that motivates the company. Nudie Jeans are as mentioned a very environmental conscious company which they demonstrate by for example using 100 percent organic cotton in their jeans and offer their customers free repairs which also is a method to improve the company-customer relationship. But they are also motivated by the direct factors where “creation of added value for end-of-use products” is included among others. This is shown in their outlet store in Freeport where they tend to sell clothes that were not sold in their ordinary stores and in that way create additional value.

The empirical findings also showed that legal reasons were a motivation for Nudie Jeans to pursuit in reverse logistics. Customers have today up to 14 days to return a garment which will be increased to 30 days in the near future. 14 days is a minimum requirement according to Swedish and European law of withdrawal for e-commerce (European Union, 2016; Konsumentverket, 2016). The third and final reason is the commercial factor which according to Lambert et al. (2011) mean that the business is commanding the terms for returning a product due to unsold or defective products and those that require maintenance. This is mostly already covered by the legal and economic reasons.

Grabara et al. (2014) claim that a benefit with implementing reverse logistics can be an improved inventory management. By having an effective return management a company could decrease costs of maintaining profit generating products and reduce the need for storage of non-profitable products. Our findings showed that there were quite a lot of non-profitable products that took up unnecessary storage space in the warehouse. These were from time to time used in different project to for example produce rugs or chairs. As Srivastava (2008) state, reverse logistics operations are far more complex than traditional manufacturing supply chains which could result in major competitive advantages if they are managed in an efficient

way. Nudie Jeans should according to us find an additional way to get rid of these garments preferably in a way that add value to the company.

6.5 Challenges with reverse logistics

Nel and Badenhorst (2012) describe how hard it is to estimate the possible return rate and what might make customers dissatisfied with certain products. Therefore the reverse logistics is a challenge for most companies. Nudie Jeans mention this problem several times, as they see it as a major issue. This is also one of many reasons why they decided to start the preprinted return label, in order to easily estimate what is coming back from customers. Compared to forward logistics where both the route and amount is clear, reverse logistics is often a problem in many companies, not to mention Nudie Jeans. The preprinted return label is the first step to prevent the uncertainty about returns and also the return in Nudie Jeans stores, which was put in effect shortly after.

According to Harrison et al. (2014) the speed of delivery in reverse logistics is not a priority. This is where Nudie Jeans disagree, and also one of many reasons why they have the preprinted return labels. Nudie Jeans wants to speed up the process of sending back the product, as it increases customer satisfaction. Nudie Jeans always want to keep their customers satisfied and if they at the same time can prevent delays for refunds and size exchanges, they will keep elaborating on how. Not only does it increase the satisfaction for customers, but also helps Nudie Jeans and Korallen to solve problems and faulty products at a quicker pace.

Harrison et al. (2014) goes on to explain how packages are more likely to be damaged within reverse logistics compared to forward logistics. This is one of many reasons why Nudie Jeans introduced the preprinted return label, to prevent these damages from happening. UPS will return the product to Nudie Jeans with the same professional service as they would sending out to customers. Damages can still occur, but it is less likely when using the same transportation company as the rest of Nudie Jeans does. If there would be a problem with a delivery, it would be easier to solve with UPS since they are the whole company's transportation provider.

The biggest challenge with reverse logistics is the cost, which Harris and Martin (2014) explain can affect the company in different ways. For example through “wardrobing” or “renting” which refers to customers using the product during a party/gathering and then later returning the product. Nudie Jeans have not had a major problem with this, much due to customers having to pay for the return themselves compared to some of their competitors that have free returns.

6.6 Return policy

The return policy is according to the theory very critical and has a large effect on the decision of making a purchase on the Internet. Several surveys show that the majority of the Internet shoppers appreciated a clear return policy and that it is an important competitive tool for retailers. Shopping on the Internet increases the risk of dissatisfaction due to the inability to not physically examine the product. It is further claimed that customers are concerned of the lack of proper return policies and the complicated logistics for returning a product (Mukhopadhyay & Setoputro, 2004). With clothes and shoes being the most popular product category to shop on the Internet (PostNord, 2016) the return policy should be a main topic for Nudie Jeans considering that clothes compared to eg. electronic products are far more attached to size, preference and look.

The empirical findings showed that Nudie Jeans since its establishment in 2001 have had the same return policy in regards to free returns or not. This corresponds to the theory which states that many retailers have not tried to vary its return policy in order to measure the trade of between a liberal and a strict return policy (Anderson et al., 2009). Nudie Jeans stated that they had quite a liberal view on returns except from the cost factor, which was a result of the complicated return process that their customers had to experience. Theory claims that a liberal return policy will result in increased sales, but simultaneously also increase the possibility of more returns which indeed increases the costs (Mukhopadhyay & Setoputro, 2004).

The investigation on Nudie Jeans’s competitors and their purchasing conditions showed that the main differentiation between the companies was the return cost. All the investigated competitors offered free returns to their customers by using pre-paid return labels. It is therefore not an understatement to claim that Nudie Jeans which just recently implemented preprinted return labels in the Swedish and UK market are rather late in this topic. However,

Petersen and Kumar (2009) state that a certain return policy that may be optimal for a specific company do not have to be as favorable for other companies. In line with this Anderson et al. (2009) state that there are large variations of the return policy even within the same product market and that it is therefore not set by the market. This is nonetheless not acknowledged by Rogers and Tibben-Lembke (1998) which claim that if one company implements a liberal return policy, it is difficult for other companies to not comply. As can be understood, there are disagreements regarding this subject and further research on this topic is therefore needed which is supported by Petersen and Kumar (2009).

7. Conclusion

This chapter presents the answers to the research questions of this study which have developed as a result of the analysis. Also, recommendations for future research will be suggested.

The purpose of this thesis was to investigate the area of returns management and return policy in the clothing industry and to get a better understanding, Nudie Jeans was used in a case study in order to answer the following research questions: *“How should the returns management of an online clothing retailer be structured?”* and *“Is free returns a requirement for clothing retailers on the Internet in order to be competitive on the market?”*. From the qualitative case study of Nudie Jeans we found that the company operates very similar to Roger and Tibben-Lembke’s (1998) theory of how a reverse logistics system should be structured as was shown in figure 5. What is interesting is that this theory is still applicable; even though years have passed and Internet shopping has also reached a certain stage that were not realistic back then. This finding can therefore contribute to knowledge showing that clothing companies that are engaged in e-commerce can have a well-functioning returns management by following the steps of this theory. However, this result would be further strengthened if other companies similar to Nudie Jeans were investigated in order to validate if it could be applicable to other companies as well.

Our findings also showed that the purchasing conditions of Nudie Jeans which a customer agrees upon when making a purchase, is not as attractive as most of their competitors. It is especially the return policy that is standing out in a negative way, since all of the investigated competitors have free returns, while Nudie Jeans do not. This can be seen as a major disadvantage for the company since e-commerce is developing at fast pace and clothing products has grown into a popular merchandise on the Internet. Considering other companies selling Nudie Jeans clothes have more or less the same prices, these companies have to stand out in some way to attract interested customers to the Nudie Jeans brand. The purchasing conditions and the return policy can therefore be a crucial factor, and in the end can decide what company a customer will purchase from.

It is quite astonishing that Nudie Jeans just recently began using preprinted return labels, which according to us could have been implemented earlier, as there was no real obstacle

existing. One explanation for this could be the fear of change in the workplace and the daily routines and also the uncertainty of the financial impact which is supported by Fritzenschaft (2014). The preprinted labels will ease the return process for the customers which is unnecessarily complicated today and also make it less costly. The customers could previously pay up to £67 for returning a garment depending on the transportation company, but this will only cost £10 by using the preprinted return labels. If there is a cost to return a garment, we believe that everything else concerning the return process should be as simple as possible for the customer. This is to improve the customer satisfaction and loyalty. We also conclude that the increase of the withdrawal period (from 14 to 30 days) is a positive decision and a step in the right direction when competing with companies, especially since most have a 14 day period.

As for the returns being free or not and what the most optimal return policy is, there are many mixed feelings among researchers, much due to the complex topic that is not yet sufficiently studied. We also conclude that it depends on the company and agree with part of the research claiming certain return policies does not fit all companies. However, we draw the conclusion that in accordance with Nudie Jeans's goals to grow as a company and increase its market share, having free returns will be inevitable for the upcoming years. Their pure competitors are at the moment more than double the size of Nudie Jeans, also being well known all over the world. In order to compete with them in the future, certain risks have to be taken into account and offering free returns will be one of them. Our findings showed that an increasing return rate will not be a concern from Korallen's perspective, as they have the capacity to handle a larger return volume. Although it will result in a cost increase due to recruiting additional personnel, the added value from increased customer satisfaction and loyalty could possibly outweigh this cost increase but have to be investigated further in future research in order to strengthen the argument. Even though Nudie Jeans are far from their competitors when it comes to free returns, they are moving in the right direction by implementing the preprinted return labels.

The other cost which was not investigated in this thesis is the transportation agreement between Nudie Jeans and a freight forwarding company. This will certainly be the main cost increase if the company chooses to implement free returns. But due to the complexity and the amount of detailed information that would be required to be shared with freight forwarding companies, we chose not to investigate this aspect any further. Nudie Jeans could get this

information relatively easy and are occasionally receiving offers from different transportation companies regarding this matter. Our choice to not investigate this will therefore not weaken the output of the findings and the contribution to Nudie Jeans.

We would like to finish off by expressing that Nudie Jeans after 15 years of its establishment has a revenue of 500 million SEK, which shows that they are certainly doing many things right considering how they have developed organically. No company is flawless and there is always something that could be improved. In order for customers to purchase Nudie Jeans garments in the Nudie Jeans webshop instead of from their competitor (which will increase their profit margin), a change is required. Niklas Zandén (2016) draws the same conclusion on how Nudie Jeans needs to face the free return problem, if they want to compete for a potential market of selling jeans.

7.1 Future research

Since this thesis focused on one single clothing company, an interesting future study could be to compare a couple of clothing companies and see if their processes are similar to each other regarding the management of returns. Furthermore, future research could also be aimed at these companies return policies and the exact factor(s) that might decide if a free return policy is applicable on a company, thus this was not sufficiently investigated in this thesis. In addition, researchers could instead from taking a more process oriented approach investigate in detail the financial impact of implementing free returns.

List of interviews

Face-to-face

Nudie Jeans. (2015), Finn Stenberg (Supply Chain Manager), [Interviewed by Abrahamsson, P. & Göker, B.], Gothenburg, 3rd of December 2015.

Nudie Jeans. (2016a), Mathias Jonasson & Edwin Hermelin (Webshop), [Interviewed by Abrahamsson, P. & Göker, B.], Gothenburg, 3rd of February 2016.

Nudie Jeans. (2016c), Edwin Hermelin (Webshop), [Interviewed by Abrahamsson, P. & Göker, B.], Gothenburg, 6th of April 2016.

Niklas Zandén. (2016), Professor at University of Gothenburg - School of Business, Economics and Law, [Interviewed by Abrahamsson, P. & Göker, B.], Gothenburg, 4th of April 2016.

Korallen. (2016), Johan Hermansson (Floor Manager), [Interviewed by Abrahamsson, P. & Göker, B.], Borås, 7th of April 2016.

Email

Nudie Jeans. (2016b), Mathias Jonasson (Webshop), [Interviewed by Abrahamsson, P. & Göker, B.], 12th of April 2016.

Nudie Jeans. (2016d), Andreas Åhrman (Sales & Marketing director), [Interviewed by Abrahamsson, P. & Göker, B.], 27th of April.

Nudie Jeans. (2016e), Mathias Jonasson (Webshop), [Interviewed by Abrahamsson, P. & Göker, B.], 18th of April 2016.

Nudie Jeans. (2016f), Edwin Hermelin (Webshop), [Interviewed by Abrahamsson, P. & Göker, B.], 13th of April 2016.

Nudie Jeans. (2016g), Edwin Hermelin (Webshop), [Interviewed by Abrahamsson, P. & Göker, B.], 27th of April 2016.

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Appendix

Photos

Nudie Jeans Retail Store



Nudie Jeans Repair Store

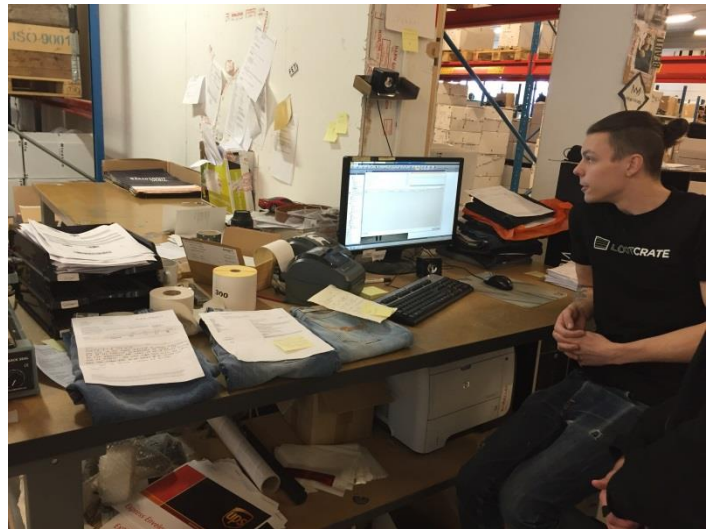
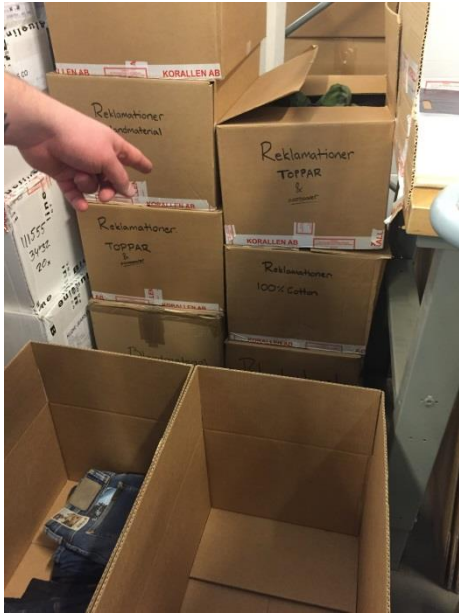


Nudie Jeans Headquarter



Korallen AB





Return label UPS

+44 7860441413 1 KG 1 OF 1
STEPHEN BARKER SHIP# 9F33 Y9MT JXR
CLIMATEC WINDOWS LTD SHP WT: 1.0 KG
UK SS2 5RN SHP DWT: 1.0 KG
UNITED KINGDOM DATE: 23 MAR 2016

SHIP TO:
MATHIAS
+46 31 609390
NUDIE JEANS ONLINE SHOP
SVEN ERIKSSONS VÄG 6
FRITSLAVAGEN 105
**51570 KINNARUMMA
SWEDEN**



UPS STANDARD
TRACKING #: 1Z 9F3 3Y9 91 6757 2360



BILLING: F/C Receiver 9F33Y9 **RS**
DESC: Clothes
RETURN SERVICE - PAYMENT GUARANTEED

Invoice No.: 270623

Return label PostNord

From: LogTrade 2.0, version 2.18.7b
Eva-Maria Lindqvist **postnord**
Västra Hamngatan 6

SE:41117 GÖTEBORG
Phone: 0702135453 Contact: Eva-Maria Lindqvist Date: 2016-03-23

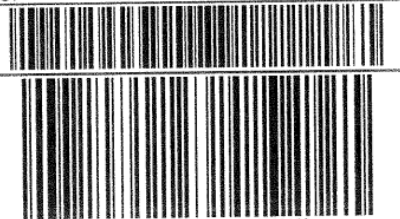
To:
Nudie Jeans
c/o Korallen
Sven Erikssons Väg 6
SE-515 70 RYDBÖHOLM
Phone: Contact: Entry code:

Service **24**
MyPack Return Routing

Additional Service(s):

Reference: Nudie Jeans CO
Shipment-ID: 373400306719029129
Information:

Package Code Parcels Weight (kg) 
CT 1/1 0.66



Parcel-ID: (00)373400306719029129
LogTrade 2.0, version 2.16.1b.32 - Copyright © 2007-2016 LogTrack BarLink AB

Return form

CUSTOMER:
Nina Schinzel
Bochsienstrasse 1B

8634 Hombrechtikon
Switzerland

ORDER NO: ⁵⁰⁰⁷
321135

DELIVERY NO:
01000245979001

Nudie JEANS CO
THE NAKED TRUTH ABOUT DENIM

RETURN FORM

Nudie Jeans offers you to return items and get a refund, or exchange items within 14 days following the delivery of your order. The item must be in the same condition as it was when it was delivered including all labels. We'll process the return within 10 business days from the day it reached our warehouse. The return shipping fee will not be refunded. But exchange items are sent back to you free of charge.

1.
Tick the box if you want to return or exchange any item in the product list.

2.
If you want to exchange any product, specify what item(s) you want to replace it for in the exchange part of the form.

3.
Please send the return to:

Nudie Jeans Co
C/O Korallen AB
Sven Eriksson väg 6
515 70 RYDBOHOLM
SWEDEN

Remember to include the return form in the return package.

PRODUCT		QNTY	PRICE	RETURN	EXCHANGE
111287 Long John Twill Rinsed L32W29	GO	①	79.20	<input type="checkbox"/>	<input type="checkbox"/>

EXCHANGE

If you want to exchange any product, please specify what item you want to replace it with.

PRODUCT	QNTY	SIZE

Brute Knut Blue Reed



Pipe Led Clean Slate

