CHAPTER 9: RETURNS MANAGEMENT

This chapter contains the following sections:

- Overview
- Setting up Returns Management
- Managing Returns from Customers
- Managing Returns to Vendors

Overview

Superior customer service is a key strategic objective of companies that strive for a high level of customer loyalty. For many wholesalers and distributors, sales returns are a standard element of their customer service policy, which directly influences the customer's perception of the service level. Timely crediting for returned items, repairing/replacing a damaged item, and replacing a wrong item are among those aspects of handling returns that a customer associates with good service. The more seamless and efficient these return procedures appear to the customer, the more likely it is that the company retains the customer.

From the company's perspective, the internal handling of return-related processes can appear rather extensive. In most cases, companies need to adjust customer (and vendor) balances, account for additional costs, and update inventory quantities and values. Additionally, they may also need to inspect the returned items, send the returned items to the vendor for repair, and so on. The scope of these processes depend on a wide range of factors, such as the customer's request, reason for return, item type and value, causes of damage, and practices common in a specific line of business.

The handling of these processes involves different tasks that are performed by various groups of employees: sales people, warehouse personnel, bookkeepers, purchasers, and inspectors. Although logically related, those different tasks are not necessarily operationally dependent. For example, the replacement for a damaged item can be shipped to a customer before the damaged item has been returned. Similarly, a customer can be credited for a returned item before the company has inspected and approved the return. In such a multi-process environment, the challenge is to ensure that all return-associated processes are completed in a timely manner, and possible errors can be easily recovered.

Due to the complexity and scope of the return-related processes, a company's costs involved in handling these processes can be substantial. To control costs, companies need to optimize their return management processes.

The Sales Return Order Management and the Purchase Return Order Management granules offer an optimal solution to companies that strive to achieve responsive customer service by implementing cost-efficient customer and vendor return policies. Specifically, the application provides a functionality that is characterized by the following key features:

- Rapid response to customers' requests
- Flexibility
- Traceability and overview
- Automation of the return to vendor process

Personnel responsible for the customer interface are now able to register the details of their agreement with the customer regarding the return as well as information relevant to further handling of the return using just one entry point.

The application is flexible enough to allow for several return-related tasks to be performed simultaneously, which allows for priority to be given to the handling of customer-oriented processes over internal processes. (An activity diagram giving an overview of the processes and their relationship is presented at the end of this chapter.) The program's flexibility is also represented in its ability to handle sales return processes found in different business environments.

Furthermore, the program provides full document traceability for an overview of the sales return history. This becomes important for customer inquiries and internal follow-up purposes.

Finally, in situations where companies handle items with warranties provided by vendors (where there is need to couple a sales return with the return to vendor process), the program offers functionality that automates the creation of all relevant documents.

This chapter demonstrates the key features of the return functionality of Microsoft® Business Solutions–Navision®. As the returns functionality is based on the distinction between customer-oriented and vendor-oriented processes, the chapter is divided into two major sections:

- Managing returns from customers
- Managing returns to vendors

The chapter starts with a section describing the setup of the two return granules.

To explain how the program supports companies in managing the tasks involved in return-related processes, comprehensive scenarios and examples are used throughout the chapter. For an overview of typical procedures associated with handling specific return-related tasks, it is recommended that you read the respective topic in online Help.

Setting up Returns Management

The setup of returns management consists of two elements:

- **General granule setup**. The setup of the Sales Return Order Management and the Purchase Return Order Management granules is part of and defined by a number of relevant fields on, respectively, Sales & Receivables Setup and Purchases & Payables Setup.

- **Return Reasons setup**. A company can set up codes that specify the reasons for returning items. These apply to both customer and vendor returns. The user can select a return reason code when registering their agreement regarding a sales/purchase return in most of the sales/purchase documents.

Setting up the Returns Management Granules

The setup of the Sales Return Order Management granule is a part of the general Sales & Receivables setup:

1. From the Sales & Marketing menu, click SETUP→SALES & RECEIVABLES SETUP.

   The following four fields on the **General** tab define the sales return management setup: the **Return Receipt on Credit Memo**, **Copy Cmts Ret. Ord. to Cr. Memo**, **Copy Cmts Ret. Ord. to Ret. Rcpt**, and **Exact Cost Reversing Mandatory** fields.

   A check mark in the **Return Receipt on Credit Memo** field indicates that the program automatically creates return receipt documents when a sales credit memo is posted. This field must not contain a check mark if a company has not purchased the Sales Return Order Management granule and only uses the credit memo functionality.

   The **Exact Cost Reversing Mandatory** field defines whether a company wants to apply an exact cost reversing policy when processing inventory increases represented by the sales returns. (Companies generally implement the exact cost reversing policy by requiring that the sales return is valued at exactly the same cost as the original sale when being put back on inventory. If an additional cost is later added to the original sale, the program updates the value of the sales return respectively.) A check mark in this field indicates that the program does not allow a return transaction to be posted unless the **Appl.-from Item Entry** field on a corresponding order line contains an entry.

The setup of the Purchase Return Order Management granule is part of the general Purchases & Payables setup:

2. From the Purchase menu, click SETUP→PURCHASES & PAYABLES SETUP.

The following four fields on the **General** tab define the purchase return management setup: the **Return Shipment on Credit Memo**, **Copy Cmts Ret. Ord. to Cr. Memo**, **Copy Cmts Ret. Ord. to Ret. Shpt**, and **Exact Cost Reversing Mandatory** fields.

Their descriptions correspond to the equivalent fields on the Sales & Receivables setup and is not explained in detail here.

Setting up the Return Reason Codes

Companies set up return reason codes to distinguish return situations that they typically encounter when dealing with their customers and vendors. As a return reason is copied to the item ledger entries, companies may choose to use it for statistical purposes when evaluating their performance toward a specific customer or assessing their relationship with a specific vendor.

Cronus has set up six return reason codes:

1. From the Sales & Marketing menu, click ORDER PROCESSING→SETUP→RETURN REASONS. The Return Reasons window displays.

   In addition to setting up the return reasons code and its description, companies can also link a default location code to it. This is done to ensure that the items returned due to a specific reason are, by default, always received at and shipped from this location. For example, companies may often want to store items that are meant for repair in a specially dedicated place in a warehouse. This place can be set up as a location in the program to which all items to be repaired will be received and from which they should not be sold. Similarly, special locations can be set up for damaged/defective items.

Cronus has decided to create a new location called Repair and set it up as the default in relation to S-REPAIR return reason code:

2. Create a new location card (location code REPAIR) and select as a default location for S-REPAIR code.

   A check mark in the **Inventory Value Zero** field indicates that the program automatically values inventory increases, such as sales return orders or purchase orders, at zero cost. This is relevant for customer item repairs. Since the item is the customer's property, it must not be included in the inventory value. Therefore, it makes sense to associate the option of valuing inventory at zero with the return reason code of Repair.

3. Place a check mark in the **Inventory Value Zero** field.

*NOTE: If an item's costing method is set up as Standard, which means the inventory increase is valued at a budgeted (standard) cost rather than at an acquisition cost, the program ignores the setting of the **Inventory Value Zero** field.*

Managing Returns from Customers

Compensating a customer who is dissatisfied with an item that a company has sold her is a necessary and important transaction between a company and its customer. The faster and more accurately a company carries out the activities involved in a return process, the more likely the company is to enhance the customer's perception of good customer service.

Typically, the salesperson responsible for the interface with certain customers would also be the contact person to receive complaints from those customers about the items sold. In other cases, a company may have a dedicated person(s) specifically dealing with returns. For example, employees in the customer service department might deal with this.

Managing returns from customers includes carrying out a series of tasks. The number and scope of these tasks depends on a company's general return policy and the business practices characteristic for different industries. Irrespective of that, the typical customer-oriented return handling process may include the following tasks:

- Registering a compensation agreement with the customer
- Shipping a replacement item(s) to the customer (if replacement is part of the compensation agreement)
- Crediting the customer (either by means of a credit for physically returned items or a sales allowance where the customer is not required to physically return the items)
- Shipping a repaired item(s) to the customer (if repair is a part of a compensation agreement)
- Follow-up on the return status (in case of customer inquiries)

Related to the customer-oriented process, there are a number of internal handling tasks:

- Receiving returned items and inspecting them (if relevant)
- Applying restock charges
- Shipping returned items to the vendor for repair
- Ensuring the accurate inventory value of the returned items

The Sales Return Order Management granule in Microsoft Navision allows companies to manage all these tasks in an efficient and accurate manner.

This section explains and illustrates handling of the above processes in Microsoft Navision, using Cronus as an example.

Registering a Compensation Agreement with the Customer

There are various ways to compensate a customer who is dissatisfied with the order delivery. The terms of a compensation agreement reached between the company and the customer often depend on the stated reason for return and the company-customer relationship. For instance, the parties may agree that in case of a wrongly ordered item, the customer returns the item to the company against a credit, receives a replacement item, and accepts that the company charges a certain restock fee. In other situations, for example, where an item arrives at the customer slightly damaged, the customer may agree to receive a price deduction against the original sales order price. Meanwhile, where the sold item has a warranty, the company may offer the customer to take the malfunctioned/broken item in for repair.

In Microsoft Navision, the sales return order is the central document that allows the user to register a compensation agreement settled with a customer. From here, the user can access other sales-related documents and enter and maintain the return-related information concerning the customer, the method of compensation, and the items in question.

To register different aspects of a compensation agreement in the same return order, the user can create return lines of different types. Principally, in return situations:

- Item type line represents a transaction where the item is to be physically returned to the company before the customer can be given a credit.

- Charge (Item) and Account (G/L) type lines represent a financial transaction where a customer receives a credit (in the form of a sales allowance) for the item(s) that they are not satisfied with, without physically returning it to the company. The same type lines can be used for registering any charges and fees that may be associated with a specific return.

NOTE: Apart from the sales return order, to register details about a compensation agreement, the user can use other standard documents (or combinations of them) in Microsoft Navision. These documents are: sales credit memos, sales orders, and sales invoices.

In the return order/credit memo, a return transaction is expressed as a line with a positive quantity, while in the sales order/invoice, a return is represented by a line with negative quantity. See the example illustrating this principle in the topic called "Sales Return Order" in online Help.

When deciding on which document to use as a preferred entry point for a compensation agreement, the user must be aware that, in contrast to a credit memo/invoice (where posting updates both quantity and value at the same time), the return/sales order offers the possibility of separating the quantity and value parts of the transaction. Therefore, companies where this flexibility is essential may prefer using a return order rather than a credit memo.

In the sales return order, the user also has the possibility to create other return-related documents. These include a replacement sales order and, where return to vendor is required, a purchase return order and a replacement purchase order.

Two scenarios included in this section illustrate the handling of: 1) a situation involving a sales return and a sales allowance, and 2) a situation where an item must be repaired at the vendor.

Consider the following scenario:

Scenario 1

A representative from customer 10000 calls a salesperson at Cronus and says that he received five units of item 70011 instead of item 70010 and that two units of item 1964-W were delivered damaged. The customer explains that the wrong delivery of item 70010 was his own fault, while item 1964-W appeared to have been damaged during shipment.

The salesperson and the customer agree that item 70011 must be returned to Cronus and a replacement of the same quantity of item 70010 will be shipped to the customer. Regarding this replacement, Cronus will charge the customer a restock fee of 5% of the original order amount.

Meanwhile, item 1964-W should not be returned, and the parties agree to settle the case by Cronus providing the customer with a sales allowance of 15% off the price of the item.

The salesperson must register the compensation agreement that has been reached with the customer and process the return.

In addition, the sales person must ensure that the returned items, when put back on stock, are valued at the same unit cost as originally sold (according to Cronus internal policy concerning the inventory valuation).

The salesperson must first register the compensation agreement settled with customer 10000 regarding the return of a wrongly ordered item.

Create a sales return order for five units of item 70011 from customer 10000:

1. From the Sales & Marketing menu, click ORDER PROCESSING→RETURN ORDER. Press F3 to create a new order, and enter the customer information in the return header.

2. Enter the item information and quantity on the line.

As mentioned in the previous section, for each return line, the user can specify the reason for returning the item(s). They can do this by filling in the **Return Reason** field:

3. In the **Return Reason** field, click the **AssistButton**. The Return Reasons window appears.

4. Select WRONG as the return reason code and click **OK**.

5. In the **External Document No.** field, enter SR024. This is the number that the customer has given the salesperson as a reference to his own return document.

   Entering an external document number is important where a company wants to have an overview of the return status. External document numbers can be used to navigate to the sales documents that have been created in relation to a specific customer return.

   The completed sales return order for the return of wrongly ordered item 70011 now looks like this:

NOTE: To fill in the return lines, users can utilize the Copy Document function, which allows them to copy all the relevant information about the customer and the item from other documents. In the case of a sales return, the relevant documents can be either posted shipments or posted invoice documents.

*If the **Exact Cost Reversing Mandatory** field on the sales & receivables setup contains a check mark, then when the user copies information from a posted shipment, the program automatically fills in the **Appl.-from Item Entry** field on the return line with the corresponding entry.*

When entering a sales return line, the salesperson must ensure that upon invoicing the order, the returned item is revalued at the unit cost of the original sales (rather than at the unit cost suggested by the program as based on either average or standard unit cost).

To do this, the salesperson must assign exact cost reversing to this return line:

6. In the **Appl.-from Item Entry** field, click the **AssistButton**. The Item Ledger Entries window appears.

   The window contains a list of records of all the negative entries made for the item in question.

7. In the Item Ledger Entries window, select the line. This is the entry representing the sales order that customer 10000 refers to as the one with the wrongly ordered items. Click **OK**.

   This completes registration of the first part of the compensation agreement regarding the return of a wrongly ordered item.

According to scenario 1, the customer also requested a replacement of item 70011 with item 70010. A salesperson can register this requirement in the sales return order by entering a line for the replacement item with a negative quantity:

8. Enter a line for item 70010 with a quantity of -5.

   The advantage of doing this in the sales return order window is that the salesperson can register the customer's requests to receive a replacement in one window, rather than opening a new sales order window.

NOTE: To avoid confusion, remember that the sales return lines (of the item type) with positive quantities represent items that are being returned, while lines with negative quantities represent items that are to be replaced.

Next, according to the compensation agreement, the salesperson would apply a 5% restock fee to cover the physical handling of returning the item. The salesperson can do this in the same sales return order by creating a charge (item) line for sales restock charge:

9. In the **Type** field, select Charge (Item) and in the **No. field**, select S-RESTOCK.

10. In the **Quantity** field, enter 5. In the **Unit Price Excl. VAT** field, enter -3.615. This is 5% of 72.30 LCY, which is the original unit price. (You can also enter a formula 72.30*5/100 to calculate the amount.) The program calculates the total restock fee amount equal to 18.08 LCY (5*3.615). Remember that the quantity of the restock charge must be positive, but the unit price has to be negative in order for the customer to pay the restock charge:

Now, to ensure accurate sales statistics, the salesperson must assign the restock charge to the return entry:

11. Select the sales restock line, and click LINE→ITEM CHARGE ASSIGNMENT.

Assign the restock charge in question to the entry that is being returned:

12. In the Item Charge Assignment (Sales) window, on the first line in the **Qty. to Assign** field, enter 5.

13. Close the window.

NOTE: As an alternative to creating a charge (item) line, the salesperson can create an account (G/L) line for the amount of the restock fee and post the entry directly to the G/L account. However, the advantage of using an item charge is that item statistics are updated correctly.

This completes registration of the compensation agreement to receive and replace the wrongly ordered item from customer 10000.

Finally, the salesperson must record the agreement with the customer regarding the provision of a sales allowance of 15% for two units of the damaged item 1964-W. Again, the sales return order can be used as an entry point for the details of this agreement. (An alternative entry point for a sales allowance is a sales credit memo.) To do this, the salesperson must create a charge (item) line and assign the corresponding charge amount to the original sale of item 1964-W:

14. Create a charge (item) line. Select sales allowance as the item charge number. (You can add extra information about this allowance in the **Description** field.)

15. In the **Quantity** field, enter 2. This is the number of items that arrived damaged at the customer and for which the salesperson provides an allowance.

16. Click LINE→ITEM CHARGE ASSIGNMENT.

Now, select the original sales entry to which you want to apply the allowance. This is represented by the posted shipment documents.

17. In the Item Charge Assignment (Sales) window, click FUNCTIONS→GET SHIPMENT LINES. The program lists all posted shipment lines related to the customer in question.

18. Select the shipment line for item 1964-W and click **OK**.

19. In the Item Charge Assignment window, in the **Qty. to Assign** field for the shipment line, enter 2. Close the window.

20. In the Sales Return Order window, in the **Unit Price Excl. VAT** field, enter 43.80. This is 15% of 292.00 LCY, which was the original unit price at which the item was sold to the customer. (You can also enter a formula 292*15/100 to calculate the amount.)

At this point, the salesperson completes registration of the compensation agreement settled with the customer due to his dissatisfaction with the ordered items and can proceed to the actual processing of the return.

Processing the Sales Return

After the salesperson has registered the details of the compensation agreement in the program (in our example, in the sales return order), the next task is to actually carry out the agreement. In the situation presented in scenario 1, this means that Cronus must ship the customer a replacement item, credit the customer for the returned items upon their receipt at the company (with deduction for the restock charge), and provide a sales allowance for the items that the customer is not required to return to Cronus.

Unless the total order amount is negative, all these procedures can be carried out at one and the same time, when the user posts the sales return order. However, if for example the replacement order should be shipped right away without waiting until the returned items are received, then the replacement line(s) (lines with negative quantities) can be moved to a regular sales order.

When a replacement is posted from the return order, the program does not create a separate posted shipment document for this shipment.

NOTE: Remember that the program does not generally permit posting of any orders with a negative total amount. Moreover, according to the general conventions in the program, the warehouse management functionality does not handle negative lines. This is because for the warehouse, it does not make sense to pick a negative quantity. Consequently, this means that when using warehousing, the user has to move negative lines to documents where they appear positive.

Suppose that in scenario 1 the salesperson decides to move the negative line (representing a demand for a replacement) to a separate sales order. The Move Negative Lines function allows you to do that in a convenient way:

1. In the Sales Return Order window, click FUNCTIONS→MOVE NEGATIVE LINES. The following window appears:
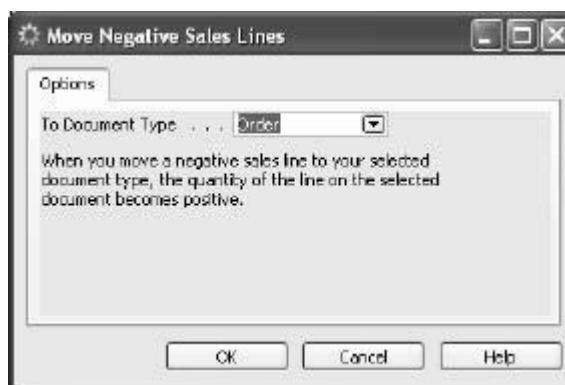
In the **To Document Type** field, the user can select which document type she wants to move the negatives lines to. To learn about different options, read the topic "Move Negative Sales Lines Batch Job" in online Help.

2. In the **To Document Type** field, select Order and click **OK**.

    The program deletes the return line with the negative quantity and creates a new sales order. A message providing the new sales order number appears.

3. Click **Yes** to view the document.

    Now, the order can be processed in the usual manner.

4. Post the sales order.

    Upon receipt of the returned item, the salesperson can post the sales return order, thus crediting the customer's account for: a) the value of returned item 70011, with a deduction of the restock charge; and b) the amount of the sales allowance provided for two damaged units of item 1964-W.

5. Post the sales return order.

    The program creates a posted return receipt and a posted credit memo. This completes the customer-oriented return process according to scenario 1.

    To have an overview of the status of a specific sales return, the salesperson can use the navigate function to find and access the sales documents that have been created in relation to the return in question. The external document number, which is usually provided by the customer as a reference to his own return document can be used as a search parameter for this purpose.

View the status of the sales return initiated in scenario 1:

6. From the Sales & Marketing menu, click HISTORY→NAVIGATE. Click the **External** tab.

7. In the **Business Contact Type** field, select Customer, and in the **Business Contact No.** field select 10000. In the **Document No.** field, enter SR024. Click **Find**.

The program lists all the sales documents that have been created to process the sales return initiated by customer 10000. These would be the posted sales shipment and invoice for the replacement sales order and the posted return receipt and credit memo for the sales return order.

The next scenario illustrates a situation where the customer returns an item to Cronus that is to be repaired at the company's vendor.

Consider the following scenario:

Scenario 2

A representative from customer 20000 calls a salesperson at Cronus stating that she wants to return two units of item 80102-T that she ordered some time ago. The customer claims that item 80102-T seems to have a manufacturing defect and requests that the item be repaired.

The salesperson and the customer agree that the items must be returned to Cronus, and Cronus will send the item to the manufacturer for repair.

The salesperson must register the compensation agreement that has been reached with the customer and process the return.

To perform this scenario, you must first create a purchase order of 40 units of item 80102-T from vendor 50000 and then create a sales order of eight units for customer 20000. At Cronus, this item is set up to be tracked by serial numbers. Serial numbers provided by the manufacturer are used. (S/N-852CA1 .. S/N-852CA40 when purchased, S/N-852CA10 .. S/N-852CA17 when sold). The detailed procedures for how to handle items with serial numbers are described in the *Inventory Management* training manual.

Create a sales return order for two units of item 80102-T for customer 20000:

1. Fill in the sales return header and lines with the customer and item information respectively.

   As the item is meant for repair at the vendor (manufacturer), the customer retains the ownership of the item during the repair process. In this case, Cronus must exclude the item value from its own inventory value. To do this, all the transactions with this item, such as receiving it at the company, shipping it to the manufacturer, and receiving it back and shipping it back to the customer, must be performed with zero unit cost and unit price.

   Instead of entering a zero amount in the **Unit Cost (LCY)** and **Unit Price Excl. VAT** fields manually on the sales return lines, the salesperson may decide to use the functionality available in the program to automate the process.

   As described in the previous section, at Cronus, the option of valuating inventory at zero when handling returns for repair is linked to the return reason S-REPAIR. By selecting this return reason, the salesperson accepts the option.

2. In the **Return Reason** field, select the S-REPAIR code.

   The program automatically fills in the **Location Code** field with REPAIR, which is a default location for this return reason code.

3. In the **External Document No**. field, enter R0015.

The completed sales return order for return of item 80102-T for repair now looks like this:

Notice that the **Unit Price Excl. VAT** field does not contain an amount.

To continue with this return, a number of documents related to returning this item to the manufacturer and shipping it back to the customer upon repair must be created. These documents are: a purchase return order, a purchase order, and a sales order.

Schematically, the handling of the sales return for repair in terms of associated documents looks as follows:
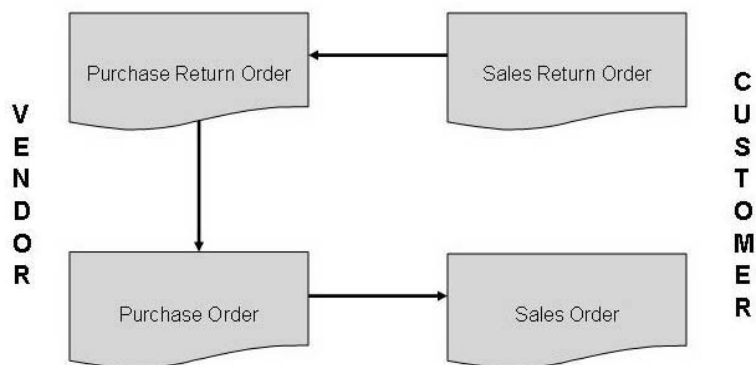
The function Create Return-Related Documents allows the salesperson to create all these documents automatically:

4. In the Sales Return Order window, click FUNCTIONS→CREATE RETURN-RELATED DOCUMENTS. The following window appears:

In this window, users can select which documents they want the program to create in order to further handle the return in question. The user has the option of creating a purchase return order and a purchase order if the items should be respectively returned to and received from the vendor. Or the user can also create a replacement sales order. To create vendor-related documents, the user must specify the vendor number.

5. In the **Vendor No.** field, select vendor 50000. Click **OK**.

The program creates the specified documents and lists them in the Returns-Related Documents window.

Purchase return orders and purchase orders with status Open are the indication for the purchaser to initiate the return to vendor/purchase replacement process.

The handling of purchase returns is explained in the next section.

In the meantime, the items arrive at Cronus, and a salesperson/warehouse person must enter the serial numbers (S/N-852CA15 and S/N852CA16).

Register the serial numbers for the arrived items in the Item Tracking Lines window, and post the receipt of the return order.

Test Your Skills – Processing the Customer Return

Scenario: A representative from customer 10000 calls a salesperson at Cronus and says that the entire delivery of 50 units (boxes) of item 80100 that he ordered some days ago appears to be defective.

The salesperson and the customer agree that the entire quantity of item 80100 must be returned to Cronus, and a replacement of the same quantity of the same item will be shipped to the customer right away. The customer gives the salesperson a reference number to his own return document, which is R-0113.

To perform this scenario, first create and post a sales order of 50 units (boxes) of item 80100 to customer 10000. Use location code Green, and remember to fill in the quantity to ship.

All Levels

Your tasks are as follows:

1. Register the compensation agreement that has been reached with the customer, using a sales order as an entry point, and

2. Process the return, in terms of:

   – receiving (possibly, use a specially dedicated location for defective items) and crediting the customer for the returned items.
   – ensuring that the returned items when received from the customer are valued at the same unit cost as originally sold (rather than at the average cost suggested by the program).
   – shipping the replacement sales order to the customer.
   – creating a return-related document, which is a purchase return order, to indicate to the purchaser that a return to vendor process must be initiated.

Managing Returns to Vendors

Receiving compensation from your vendor for a purchased item that you are dissatisfied with is important for reasons of recovering costs and measuring satisfactory vendor relationships. Streamlining the return to vendor process by carrying out the activities involved in the return process faster and more accurately can help companies to substantially reduce the costs usually associated with returns.

Typically, a purchaser responsible for the interface with certain vendors would also be the one to make contact with those vendors in case of dissatisfaction with the purchased items.

Managing returns to vendors includes carrying out a series of tasks. The number and scope of those tasks generally depend on who initiates the return: the company itself (when, for example, dissatisfied with the quality of purchased items or in case of wrong delivery) or a company's own customer. Irrespective of that, a typical vendor-oriented return process may include the following tasks:

- Registering the compensation agreement with the vendor.
- Debiting the vendor, either by means of receiving a credit for physically returned items or of a purchase allowance (in a case where the company is not required to physically return the items).
- Creating a replacement purchase order(s) if replacement is part of a compensation agreement.

Related to the vendor-oriented process, there are a number of internal handling tasks:

- Shipping items to the vendor if the purchase return, including repair, is part of a compensation agreement.
- Receiving replaced/repaired items.
- Ensuring the accurate inventory value of the items to be returned to the vendor.
- Combining several return shipments to the same vendor into one credit memo document.

The Purchase Return Order Management granule in Microsoft Navision allows companies to manage all these tasks in an efficient and accurate manner.

This section explains and illustrates the handling of the above processes in Microsoft Navision, using Cronus as an example.

Registering Compensation Agreement with the Vendor

There are various ways that a company can expect its vendors to compensate it in case it is dissatisfied with the received order or dissatisfied on behalf of its own customers. The terms of a compensation agreement reached between the company and the vendor often depends on the reason for the return and the company-vendor relationship. For instance, the parties may agree that in case of wrongly ordered/delivered item(s) the company returns the item to the vendor against receiving a credit and receives a replacement item instead. In other situations, for example, where an item arrives at the company damaged, the company may require a price deduction against the original purchase order price. The same may be applied when a company provided a sales allowance for its own customers and now wants to recover costs by requesting a purchase allowance from its vendor. Meanwhile, where the purchased item has a warranty, the company may ask the vendor to repair the malfunctioned/broken item.

In Microsoft Navision, the purchase return order is the central document that allows the user to register a compensation agreement settled with the vendor. From here, the user can access other purchase-related documents and enter and maintain the return-related information concerning the vendor, the method of compensation, and the items in question.

NOTE: In Microsoft Navision, apart from the purchase return order, to register details about a compensation agreement with the vendor, the user can use other standard documents (or combinations of them). These documents are: purchase credit memos, purchase orders, and purchase invoices.

The concepts of creating different return line types and representing return transactions with lines of positive/negative quantities to register a compensation agreement with a vendor are the same as in the sales returns situations (as explained in the previous section).

The principles for creating (and the arguments for using) one or another type of purchase document to register a compensation agreement are explained in detail in the topics "Purchase Return Order" and "Posting a Purchase Return Order" in online Help.

The two scenarios included in this section illustrate the handling of: 1) a situation where an item must be returned to vendor for repair, and 2) a situation involving a purchase allowance. Both return situations have been initiated by the customer and are thus the logical continuation of the scenarios presented in the previous section. As the same purchase return handling procedures apply, irrespective of whether a company initiates a return itself or it has been initiated by the customer, the first case is not given a separate explanation in this section.

First, consider a situation where a company needs to send an item returned from a customer to be repaired at the vendor:

Scenario 3 (continuation of scenario 2)

In connection with the return of two units of item 80102-T initiated by customer 20000, Cronus now needs to ship the units back to the vendor for repair.

At the time of registering a compensation agreement with this customer, the salesperson ran the Create Return-Related Documents function and, as a result, the program created the following documents: a purchase return order, a purchase order, and a sales order.

The purchaser contacts the vendor's representative (vendor 50000), and the parties agree on Cronus sending the item for repair. The purchaser must now handle the return process.

To perform this scenario, first create and post a purchase order of five units of item 80100 from vendor 50000, and then create a purchase return order of one unit of the same item for the same vendor, using location code Blue and return reason Defective. Post the purchase return order as shipped.

Next, process the purchase return order for two units of item 80102-T for vendor 50000:

1. From the Purchase menu, click ORDER PROCESSING→RETURN ORDERS. Browse to the return order for two units of item 80102-T that the program created for vendor 50000.

   Notice that the **Direct Unit Cost Excl. VAT** field does not contain an amount.

NOTE: To ensure the accurate inventory value (that is, at zero unit cost) of repair items that do not have serial numbers, the salesperson must apply a purchase return entry in question to the sales return entry that initiated it.

Complete filling in the purchase return order:

2. In the **Vendor Authorization No.** field, enter RO155. This is the number that the purchaser receives from the vendor authorizing the return.

3. In the **Expected Receipt Date** field on the **Shipping** tab, enter 01/27/01. This is the shipment date for the return order.

4. Click **Yes** to update the lines.

5. Enter the serial numbers (S/N-852CA15 and S/N852CA16) in the Item Tracking Lines window for the two items to be shipped to the vendor.

6. Post the purchase return order as shipped. The program now updates the available inventory and creates a posted return shipment.

Companies often establish a practice whereby it is more cost-efficient to combine several return orders in one shipment, rather than shipping them individually. By posting a purchase return order as shipped, the user takes out the items to be returned to the vendor from the available inventory but does not actually ship (transport) the order. When there are several orders (to be returned to the same vendor or be bundled in the same shipment, for example), the user can combine them in one shipment and transport it to the vendor. The combined shipment can then be jointly invoiced as one purchase credit memo.

NOTE: Individual posted return shipment documents, when sent to the vendor, can be used as an indication for the vendor to instantly send a replacement item(s) instead of the one to be returned at some later point.

Now suppose that there are more items to be returned to the same vendor, apart from the two units of item 80102-T, that are to be sent for repair. The two return orders will at some point actually be shipped in the same shipment. Upon receiving a credit memo from the vendor for this combined shipment, the two individual shipments that made it up can be paid (invoiced):

6. Create a new purchase credit memo for vendor 50000. Click FUNCTIONS→GET RETURN SHIPMENT LINES:

The Get Return Shipment Lines window contains a list of all the shipment lines that have not been invoiced.

7. Select the two lines from the list and click **OK**. The program copies the lines to the purchase credit memo.

8. In the **Vendor Cr. Memo No.** field, enter CM1305, and invoice the credit memo.

    When the vendor has repaired the items and delivered them to Cronus, the purchaser posts the corresponding purchase order (created as a result of running the Create Return-Related Documents function at the point of registering the sales return from the customer). In the same manner, a sales order for the same items can then be shipped back to the customer.

    Situations may occur where there is a need to trace the purchase return to the sales return that originated it. For example, when a vendor that is to repair a returned item needs additional information from the customer about item exploitation. In such cases, the user can simply view the specific item's transaction history recorded in the item tracking entries from where they can navigate to the relevant document(s).

Open the item tracking entries for item 80102-T:

9. Open the item card for item 80102-T. Click ITEM→ENTRIES→ITEM TRACKING ENTRIES.

    The last two lines specify the inventory increase by two units of item 80102-T with serial numbers S/N-852CA15 and S/N-852CA16. (Note that the **Positive** field contains a check mark.) From those lines, the user can navigate to the associated document, which is represented by a sales return order, and to the entries.

NOTE: To ensure the full traceability of an item with a serial number, the user must remember to assign this item an item tracking code that requires the entry of serial numbers at the point of inbound sale (sales return) and outbound purchase (purchase return). Read more about setting up item tracking codes in the Inventory Management training manual.

Now, consider a situation where a company wants to receive compensation from their vendor (carrier) because of items being damaged during shipment:

Scenario 4 (continuation of scenario 1)

The salesperson was told by customer 10000 that two units of item 1964-W were damaged in shipment. Instead of returning the items, the customer was given a 15% sales allowance.

As it is a carrier who is responsible for the damage, Cronus would like to recover the costs associated with this damage. The logistics person contacts the carrier's representative (the carrier (vendor) number is 49989898), and the parties agree on Cronus making a freight claim toward the carrier. The amount of the claim is equal to the amount of the sales allowance offered to the customer (87.60 LCY).

Suppose that the logistics person decides to issue a freight claim toward vendor 49989898 from a purchase credit memo (alternatively, the purchase return order could be used):

1. Create a new purchase credit memo, and fill in the header with the vendor information.

2. In the **Vendor Authorization No**. field, enter R123. This is the number that the logistics person receives from the carrier (vendor) authorizing the claim (return).

3. In the **Vendor Cr. Memo No.** field, enter CM478.

   Now, create a credit line.

4. In the **Type** field, select G/L Account, and in the **No.** field, select account 6810.

5. In the **Quantity** field, enter 1 and in the **Direct Unit Cost Excl. VAT** field, enter 87.60.

6. Post the purchase credit memo.

This completes the vendor-oriented return process according to scenario 4.

Test Your Skills

All Levels

Scenario: (continuation of Test Your Skills – Processing the Customer Return)

In connection with the return of 50 units (boxes) of item 80100 initiated by customer 10000, Cronus now would like to return the defective items to the vendor from which they were originally bought and receive a replacement of the same quantity of the same item.

At the time of registering a compensation agreement with this customer, the salesperson created a purchase return order, which now serves as an indication to the purchaser that the items must be returned to the vendor.

The purchaser contacts the vendor's representative (vendor 45858585), and the parties agree that Cronus will send the item back for replacement. The vendor gives the purchaser a return authorization number, which is PR0558.

To perform this scenario, first browse to the existing purchase order No. 6001 and post it as invoiced.

Your task is to handle the return to vendor process in terms of:

- Shipping the defective items to the vendor and receiving the credit for them.
- Ensuring that the items to be returned to the vendor are valued at the same unit cost as originally purchased rather than at the average cost suggested by the program (refer to the purchase order No. 6001).
- Receive a replacement from the vendor.

Activity Diagram for Returns Management
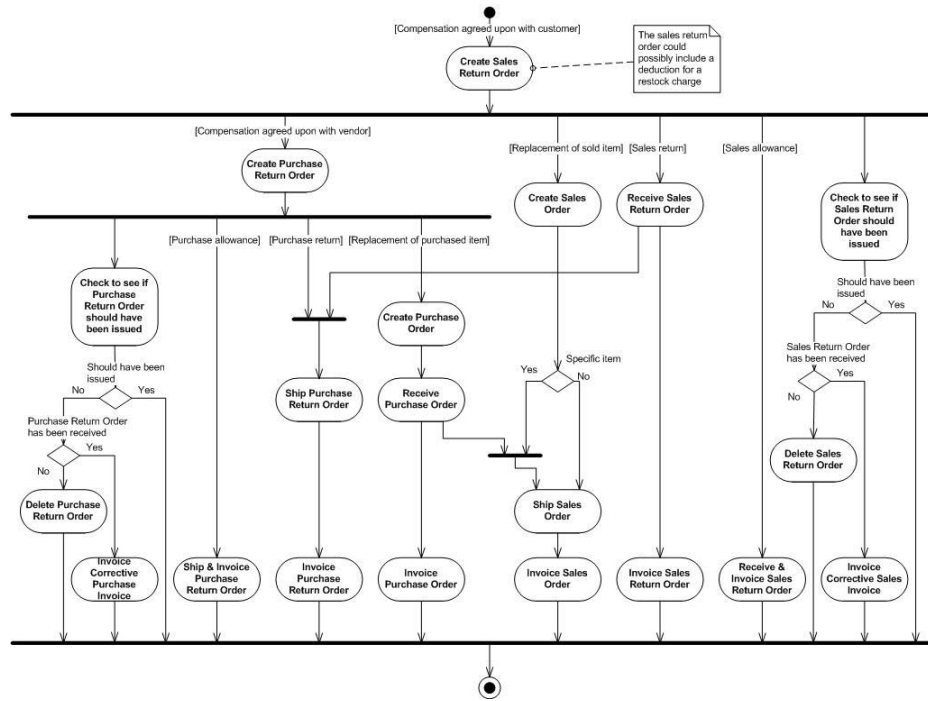
Quick Interaction: Lessons Learned

Take a moment to write down three Key Points you have learned from this chapter:

1.

2.

3.