



U.S. Defective Return Policy Process

SP#: VP-00004US

of Pages: 8

Last Revision: 11/1/2007

Date Revised: 5/17/2018

Scope: Merchandising, Corporate Payables, Product Accounting, Store Operations

- I. Standard Practice:** It is Lowe's Merchandising standard practice that any item stocked in a Lowe's store should have a corresponding Defective Return Policy. It is the responsibility of Merchandising to ensure that all policies are current, accurate, and easily understood, and effortlessly executed by store personnel. Other processes affecting this Standard Practice include the Store RTM processes, Lowe's Customer Return Policies, Corporate Payables RTM Policies, Vendor Application Processes and individual Defective Return Policies.

- II. Process:** Defective Return Policies are entered and maintained in the Vendor application in Lowe's Client Server. Every vendor/item relationship must have an associated Defective Return Policy in the Vendor application.

A. Guidelines for Defective Return Policies

1. Defective Return Policies are negotiated between the Merchandising Director (MD) / Merchandising Manager (MM) and the vendor prior to initial vendor set-up and annually thereafter. The Defective Return Policy page of the VIS is part of the Vendor Information Sheet (VIS) and must be initialed by an Officer of the vendor and Lowe's MD/MM.
2. The Defective Return Policy page of the VIS must be completed or renewed yearly for every active, domestic vendor.
3. All Defective Return Policy information in the Vendor application must be consistent with the Lowe's Defective Return Policy page of the VIS.
4. Defective Return Policies must be clear, concise, and easily understood, and effortlessly executed by store personnel to ensure merchandise is disposed of in the manner agreed upon by the vendor and merchant.
5. Merchandising Specialist (MS) is responsible for ensuring that every existing or new item has an updated, accurate and corresponding Defective Return Policy.
6. MSs are also responsible for entering the Defective Return Policies on the Defective Return Policy tab at the Home Office level of the Vendor Tree in the Lowe's Client Server Vendor application.
7. Policy terms should be communicated in the appropriate fields provided in the Vendor application. For example: Do not put Return Authorization or Return Freight terms in the Special Instructions field.
8. The Defective Return Policy page of the VIS must designate Program Effective Dates and those dates must be entered accordingly into the Vendor application, specifically if the policy changes, the begin date must match the new begin date on the sheet. The generic "12/31/9999" end date may be used as long as the policy is still active.
9. The Defective Return Policy page of the VIS must designate a Merchandise Group Type (item, assortment, product group, or subdivision) and the corresponding number must be listed for the Merchandise Group Type. Vendors may use multiple Defective Return Policy pages to support different policies as necessary in one VIS to cover their entire product offering.

- a. Defective Return Policies should be created at the highest level possible in the product hierarchy, it is not advised that a policy be set at a level higher than the subdivision level, as vendors may have different policies for different Merchandising subdivisions.
 - b. The Merchandising team must ensure that the policies are as consolidated as possible. The RTM clerk will choose the policy that best fits the item. If all items in the subdivision have the same policy, enter a subdivision level policy. If one assortment out of the subdivision has different requirements then only that assortment needs to be set up separately – not all assortments. The same applies for items. Not every item in the assortment needs to be set up at the item level, only the item(s) with the special policy. Keep the number of policies as consolidated as possible.
10. Return Address and contact information must be entered at the 'Buy From' level in the Vendor application. All contact and address information must be current.
- a. The return addresses for Defective Return Policy must be entered in the Returns Contact, under the 'Contact' tab at the 'Buy From' level of the Vendor Tree. This activates the address so that the RTM system provides the RTM clerk with the proper return address.
 - b. The 'Buy From' level chosen is typically the first 'Buy From' under the main 'Remit To' level for the vendor, and the Return Contact at that level must have the correct return address based on the VIS. If the Return Contact is not activated at the 'Buy From' level the RTM clerk will not be able to see (therefore unable to select) that vendor at all, and thus will be unable to process an RTM.
11. The Policy Description field in the Vendor application is entered by the MS (not from the sheet) and should be a specific description of the covered product to help the RTM clerk choose the right policy.
- For example, if the policy is set up at assortment or product group level, use the name of the specific assortment or product group such as Dishwashers, not a broad or generic name that describes a category or the whole subdivision, such as Appliances, also do not use the name of the vendor or any other information.

B. Negotiating and Entering Defective Return Policies – It is critical for proper execution that information from the Defective Return Policy page of the VIS be correctly entered in the appropriate space to be accurately reflected in the Vendor application.

1. Return Method.

- a. **Lowe's preferred Return Method is Destroy.**
- b. If Vendor Pickup is selected, a 5% add-on fee will apply. Hazardous Material is the only exception to the 5% add-on fee, and/or if the add-on fee is already applied for a Call for RA selection.
- c. If Parcel Collect is selected on the VIS, the vendor must indicate FedEx or UPS and provide the account number. This information must be entered in the appropriate space in the Vendor application.
 - If the vendor chooses FedEx or UPS on the VIS, but can not provide an account number, the policy must be *manually* entered into the system by the MS to Parcel Prepaid plus 12% add-on as noted on the Defective Return Policy page of the VIS.

- d. Destroy with Condition is not a recommended policy. This policy should only be used if based on Units or Dollars (retail). Weight, Cube, Cases, Points and Pallets are not acceptable options. These options are not on the Defective Return Policy page of the VIS, even though they are available in the Vendor application.
- e. Common Carrier can be selected; the Lowe's approved carrier which will be used must be added to the Special Instructions.
- f. Common Carrier Prepaid is not a recommended policy. If this method is used, a 12% add-on is required for all returns, both defective and non-defective.
- g. **For any Return Method where the vendor has chosen not to have the product shipped back, Lowe's or a designated third-party service provider may utilize the following options:**
 - **Recycle or salvage**
 - **Disposal through appropriate Hazardous/Regulated Waste process**
 - **Liquidate via secondary market**
 - **Donate to Charity**
 - **Destroy/general waste disposal**
- h. **NOTE:** If any prepaid options are negotiated, it must be the return method for every policy of the vendor in order for Corporate Payables to apply an add-on to recover the freight expense.

2. Collection Method (Allowance Method) (ONLY ONE COLLECTION METHOD ALLOWED PER REMIT VENDOR NUMBER)

- a. **Lowe's preferred Collection Method is Lowe's Debit Memo.** (This is labeled as Vendor Debit in the Vendor application.)
- b. Lowe's Debit Memo should be the Collection Method for all vendors except Seasonal Vendors and Import Vendors.
- c. Defective Allowance may be used by Seasonal Vendors only.
 - If Defective Allowance is selected, the MS must select Defective Allowance under the Allowance Method Section in the Vendor application and enter the agreed upon percentage.
 - Product Accounting is responsible for setting up the allowance in the Vendor Allowance Tracking System (VATS) in order to properly accrue funds, once the MS has given Product Accounting the VIS.
 - RTMs for defective allowance accounts will be charged to merchant's margin weekly. Merchandising has visibility through Actual Cost Reports Database, section RTM Defective ALLOW.
- d. Collection Method must be the same for each Defective Return Policy per Remit Vendor Number. No exceptions.
- e. **Lowe's preferred cost is Actual Cost Layer Inventory (ACLI).** Supplied cost should be avoided and must be approved by MVP. However, if negotiated terms for the required set cost (referred to as 'supplied cost') or a specified add-on fee is approved, the RTM-MER mailbox must be notified. Corporate Payables will add this fee to the Vendor's Clearing Profile in the Mainframe screens for RTMs. Specific item level costing can be applied even if the item does not have its own item level policy.
- f. The RTM group can not debit an Import Vendor Number. If the agreement is to debit an Import Vendor's RTMs to a Domestic Vendor Number the details need to be communicated to the RTM-MER mailbox so that adjustments can be made to transfer the debits to another vendor number and the Defective Return Policy page of the VIS should note the agreement. Do not add collection terms in the Special Instructions of the Vendor application; the RTM clerks have no control over this.

3. Return Authorization (RA)

- a. **Lowe's preferred Return Authorization (RA) is either No Return Authorization Required or Use Blanket Return Authorization.**
- b. Use Blanket Return Authorization terms require an RA number be provided. If a Blanket RA is not provided, the policy will need to be further negotiated. A Blanket RA must be provided to avoid the add-on fee.
 - If a Blanket RA is used it must be reentered each time the policy is updated or it will not be supplied to the stores.
 - Blanket RAs should be no more than 10 characters and in a non-changing format. The Blanket RA field on the store's RTM transaction is auto populated from the RA number provided in the Blanket RA field of the Vendor application. For this reason, RA formats that must be manually populated by the RTM clerk should not be accepted (from the vendor) as a Blanket RA. Store numbers and dates are provided for the vendor on the debit memo composition list and are available for the vendor at Loweslink®. Therefore, having store number and date as the RA format provides no added benefit for the vendor. The store's RTM transaction also has a field for serial numbers. When requested, via Special Instructions, the RTM clerk can populate the serial number field and it will be visible to the vendor on the RTM transaction. The RTM transaction is typically used as the packing slip when the product is returned. So serial numbers should not be requested as an RA either.
- c. Call for Return Authorization is not-preferred and requires the appropriate Merchandising Vice President (MVP) approval in the form of signed initials at the bottom of the Defective Return Policy page of the VIS. This is because this policy should only be used in rare and special circumstances.
 - If Call for RA is selected, the vendor will be subjected to a 5% processing fee for every defective and non-defective RTM processed. Crossing through or whiting out the statement on the Defective Return Policy page of the VIS does not change the agreement; the vendor will still be charged this add-on fee.
 - All policies for the vendor must reflect Call For RA terms in order for Accounting to recover the add-on fees.
- d. Call for Disposition is not an option on the Defective Return Policy page of the VIS and is not acceptable.

4. Special Instructions

- a. Due to store RTM system limitations, MS must ensure the Special Instructions do not exceed 237 characters or the stores will not have visibility to all of the instructions.
- b. Special Instructions are to be used to provide further clarification to the stores to execute the RTM properly. They should not include any corporate clearing instructions such as 'Use Debit Memo'. They should not include any conflicting instructions or any alternative options from what the policy states.
- c. If the terms are complicated and require more space than the 237 characters, the Special Details Manual must be used. (See 'Exceptions' in section C)
- d. This section is not to be used for Call for RA/Disposition/Pickup instructions as a work-around the 5% processing fee.

5. Other

- a. Non-Defective Handling Policy is for product that needs to go back to the vendor, but is not defective. Non-Defective Handling Policies can be for SOS or Display product. To alert the stores what the policy is for, use "SOS" or "Displays" as the first part of the Policy Description. Then you should indicate in the Special Instructions that the policy applies to Non-Defective returns
- b. Restocking Fees can be applied *only* to non-defective SOS product and must

be in line with the charge outlined on the VIS. If Restocking is agreed upon, instructions for the RTM clerk must be added to the Special Instructions indicating what percentage or amount needs to be added to each RTM as the restocking fee. Lowe's should not incur any restocking charges for vendor's defective product. The RTM clerk cannot apply restocking charges to stock items.

- c. Restocking Fees are taken corporately for American Woodmark, Masco, Bosch, HM Wallace, Newell/Levolor, Vista Products, Plumb Source, Springs Window.

C. Exceptions to the standard process

1. Geographic Limitations - Stores in specific geographic locations may be limited in the Return Methods they are able to process. For example, the cost to return merchandise from a Hawaii store may warrant the merchandise be Destroy in Field rather than shipped to a vendor.
2. Exceptions should be documented in an agreement between the merchant and the vendor with the details listed in the Special Instructions section on the Defective Return Policy page of the VIS and communicated to the stores through the Special Instructions field in the Vendor application.
3. **Supplemental Defective Return Policy –“Special Details Manual”**
 - a. Entering RTM information into the Vendor application is the preferred method of communicating Defective Return Policy information to store personnel. If any Defective Policy Information or Warranty Information is too complicated or too detailed to be entered into the Vendor application, a supplemental Defective Return Policy can be published for the RTM clerks to be included in the Special Detail Manual. The Special Details Manual may be found on the LowesNet RTM Resource Site: http://lowesnet.0998.lowes.com/lowesnet_store/content/traindev/rtm_resource/RTM_Index.htm
 - b. Information pertaining to Defective Return policy must not be posted to individual departmental intranet sites on LowesNet. It must be posted to the Special Details Manual and then a link can be supplied from the departmental site to the RTM Resources site or Special Detail Manual. Return policy information on other sites should only instruct the reader to refer to the RTM policy in Genesis and/or the RTM Resource Site and specifically the Special Details Manual. To ensure up to date and consistent information there is a required approval process that must be followed and information must reside in one centralized location.
 - c. The Special Details Manual information must be agreed between the Vendor and MD/MM and the paperwork must be attached to the Vendor Information Sheet.
 - d. The information can be loaded onto LowesNet for store personnel to view once proper approvals have been given by using the process outlined below:
 - MD/MM completes the [Special Details Manual Form](#) found on MARS and ensures the Defective Return Policy page of the VIS outlines the policy correctly and has the following verbiage in the Special Instruction field, “Refer to Vendor Specific Special Details Manual found on the RTM Clerk Resource Site on LowesNet.”
 - MS will enter the Defective Return Policy information in the Vendor application, and in the Special Instruction field add, “Refer to Vendor Specific Special Details Manual found on the RTM Clerk Resource Site on LowesNet.”
 - The Special Details Manual form should be approved by the MD electronically by means of forwarding the form and the Defective Return Policy page of the VIS via e-mail to the RTM-MER mailbox. The Vendor's Remit number must also be included in this email to ensure the policy is set at the right level.

- The RTM-MER group will review the form, the Defective Return Policy page of the VIS and the details of the policy in the Vendor application and, if acceptable, forward the form to the STORES mailbox to request that it be posted.

D. Maintenance of Defective Return Policies

1. If a policy change takes place, it is critical to take note of the start date of the policy and enter the policy change accordingly. Remember, if a blanket RA is being used it must be reentered each time the policy is updated (even if the RA has not changed) or the field will show as blank to the stores.
2. If Lowe's is no longer purchasing product from a vendor, but product remains in the stores, the new vendor should take over responsibility (add vendor to the item number after ensuring they will purchase back the item) or the Merchandising team should continue to negotiate a Defective Return Policy each year with the vendor to cover those items.
3. If a new vendor is assuming responsibility for the product, the old vendor should be removed from the item number to avoid confusion at the store level.
4. Communicate the circumstances and arrangements regarding the discontinued vendor to the RTM-MER mailbox. If the new vendor is assuming the responsibility of the defective material, Corporate Payables will need to make special arrangements to collect funds due to Lowe's.
5. If a vendor is eliminated from a Merchant Program and no other vendor will take over the product, the MS should end date any policies uniquely associated with related vendor/item combinations one year in the future, unless other agreement has been established with the vendor. For example, if on February 1, 2008, Merchandising decides to no longer do business with a vendor, the end date for that Defective Return Policy should be February 1, 2009.
6. If an item is deleted (Discontinued or Removed), the MS must delete any policies uniquely associated with that individual item.

E. 'Bad Policy' Reports from Stores

1. Issues with Defective Return Policies can be communicated to Merchandising through the RTM system in the form entries to the Bad Policy Report. There are two ways a Bad Policy entry can be generated to the report.
 - a. If a policy contains inaccurate information or information is missing from a policy, the 'bad policy' can be reported manually by the RTM clerk by pressing F18 and typing a message regarding the issue they found. The message shows on the Detail Report (see reports below) along with the RTM clerk's name and store number. These are called Store Submitted Bad Policies.
 - b. When an RTM clerk processes an RTM, they must select one of the vendors associated with the item. If they select a vendor that does not have an active policy for that item in the Vendor application, a 'Policy Not Found' submission is automatically generated to the Bad Policy Report showing a store number of 9999. The RTM clerks are not alerted that a submission has been sent and they can not prevent this from happening. It is systematically generated when no policy is available.
2. Merchandising should access the Bad Policy Reports through Document Direct. The Bad Policy reports are VASR420A --Bad Policy Detail Report and VASR410A--Bad Policy Summary Report. The Detail Report is a valuable report because it provides all the details necessary to work the Bad Policies.
 - a. To request these reports contact the 'CSCM Operations' mailbox. If requesting paper copies, please request only the Detail Report - VASR420A.
 - b. For information regarding how to access Document Direct, refer to: <G:\merchnet\Merchandising Support\Training Material\Document Direct.doc>
3. In order to understand why the submission was made, there are steps the MS can take to understand and resolve the issue. Logical, deductive reasoning should be applied to research the issue. The following are the most common steps that

should be taken:

- a. It is vital to understand the vendor/item relationships and the correct policy required.
 - b. MS should always first determine what the item hierarchy (Item, Assortment, Product Group and Sub-Division) is for the item and that the item has a Defective Return Policy that covers the item in the Vendor application.
 - c. MS should determine which vendor(s) are associated with the item by looking up the vendor/item relationship in PCM or IMM1. This is very important because often times there may be additional vendors of which the MS was not aware. MS should ensure each vendor has an active policy that covers the item, or if the vendor is no longer being used to purchase the item, and the Defective Return Policy is not needed, the MS must remove the vendor from the item.
 - d. If neither of these actions will address the issue the MS should then refer to the VIS to ensure that what is in the Vendor application matches what is on the VIS. If the Defective Return Policy in the Vendor Application does not match what is on the Defective Return Policy page of the VIS, the accurate policy should be added to the Vendor application within 24 hours. If this action is taken, no other steps are needed.
4. If none of the above actions will resolve the issue, there are other specific actions an MD can take:
- a. If the Defective Return Policy page of the VIS is missing, not clear, incomplete or contradictory, it must be updated immediately by the vendor, sent back to the MD, all required signatures must be obtained and the policy entered correctly into the Vendor application. The updated Defective Return Policy page of the VIS, along with the other pages of the VIS, are to be sent to Product Accounting, who will send them to Records Management for Imaging.
 - b. If contact information is incorrect, verify the correct contact information with the vendor and have the Defective Return Policy page of the VIS updated and signed accordingly. Enter the appropriate information into the system. The Store RTM system is populated based off of the returns Contact to the active Buy From level of the Vendor Tree.
 - c. If a vendor that Lowe's is no longer doing business with is attached to an item, the vendor either needs to be deleted from the item (in PCM the GTIN must be end-dated) or a new Defective Return Policy page of the VIS must be collected and signed accordingly.
 - d. If a Store Submitted Bad Policy cannot be corrected within 24 hours, the MS should notify the store as to the reason it cannot be corrected in the designated time period and provide an estimated time of correction.
 - e. If, for a Store Submitted Bad Policy, the Defective Return Policy is correct and there are no corrections to be made by Merchandising, the MS should clarify the policy information with the store contact listed on the report.
5. **Bad Policy reports, including 9999 locations, should be checked and issues must be resolved daily by MS.**
6. Reports are generated daily and only available for one week. If an MS is out of the office, a backup should continue to access this report and resolve issues on a weekly basis.

FC Corporate Payable Write offs

1. If a vendor denies a Vendor Defective Return Claim due to a Merchandising error, Corporate Payables will repay the vendor and charge the product group margin.
2. Corporate Payables may communicate repetitive or major Vendor Return Claims to Merchandising in an effort to resolve these issues and prevent write offs.

III. Responsibilities:

Merchandising:

- Negotiate all Defective Return Policies and ensure that an accurate Defective Return Policy page of the VIS is completed and on file for every vendor/item relationship.
- Enter all Defective Return Policy data accurately into the Vendor application.
- Determine any geographic exceptions to Defective Return Policies and put this information in the Special Instructions field of the Vendor application.
- Maintain Defective Return Policies on an annual basis or as needed.
- Resolve the Bad Policy report on a daily basis. If an MS is out of the office, a backup must access the Bad Policy report and resolve reported issues on a weekly basis.
- Utilize the Special Details Manual for any policies that can not be described properly on the Vendor application.
- End date any policies associated with a vendor for one year from the date Lowe's stop purchasing from the vendor, unless other another agreement have been made.
- End date any item specific policies when that item is deleted.

Product Accounting:

- Collect VIS annually (and when any changes occur) and enter Defective Allowances in VATS.
- Forward all VISs to Records Management to be imaged.

Corporate Payables

- Review updates to Vendor Agreements and communicate discrepant item to Merchandising.
- Activate policies in Vendor Agreements to allow visibility of the policy to stores.
- Review and approve Special Details Manual forms prior to publication on the RTM Resource site or any additional web-based resource sites.

IV. Terms:

ACLI – Actual Cost Layer Inventory – The basis of Lowe's valuation method for inventory which includes all costs for placing inventory in a saleable position within Lowe's stores. Includes, but is not limited to, inbound freight charges and distribution or warehousing costs and vendor allowances. RTM pricing should reflect an add-on to offset any reduction in inventory due to vendor funding as well as any applicable fees.