Reverse Logistics

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What is Reverse Logistics?
Logistics could be defined by many as: The process of planning, implementing, and controlling the efficient, cost effective flow of materials, in-process inventory, finished goods and related information from the point of origin to the point of consumption for the purpose of meeting customer requirements. Reverse logistics includes all of the activities mentioned in the definition above. The difference is reverse logistics encompasses all of these activities as they operate in reverse. As a result our definition of reverse logistics would be: 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 customer receipt to the point of origin to recapture value or appropriate disposal. Reverse logistics is the process of moving goods from their typical final destination for resale in another market, refurbishment, and remanufacturing. If no goods or materials are being sent “backward,” the activity probably is not an example of reverse logistics. For most of us in retail, reverse logistics includes processing returned merchandise as a result of damage, seasonal inventory, restock, salvage, recalls, and excess inventory. However, it also includes recycling programs, hazardous material programs and obsolete equipment disposition.

Retail Industry
The retail industry, being under huge competitive pressure, has used return policies as a competitive weapon − the greater the pressure, the more innovative the solutions. Within the retail industry, it appears necessity, indeed, is the mother of invention. Grocery retailers were the first to begin to focus serious attention on the problem of returns and to develop reverse logistics innovations. Their profit margins are so slim that good return management is critical. Grocery retailers first developed innovations such as reclamation centers. Reclamation centers, in turn, led to the establishment of centralized return centers. Centralizing returns has led to significant benefits for most firms that have implemented them. Over the last several years, retailers have consolidated. Now more than ever, large retail chains are the rule. These large retailers have more power in the supply chain than retailers did a few years ago. In general, the large retailers are much more powerful than the manufacturers. Few manufacturers can dictate policy to large retailers such as Wal-Mart or JC Penney. If a manufacturer will not accept returns, it is unlikely the large retailer will accept those terms easily. In some exceptional cases, retailers will make allowances for a manufacturer's products if they believe are not replaceable with similar products. Returns reduce the profitability of retailers marginally

more than manufacturers. Returns reduce the profitability of retailers by 4.3 percent. The average amount returns reduce the profitability among manufacturers is slightly less, at 3.80 percent. In one survey respondents were asked how they disposition returns. On average, retailers use a centralized return facility to handle returns much more frequently than manufacturers. Retailers are also found to be more likely to sell returns to a broker or similar entity. They were less likely to remanufacture or refurbish than manufacturers which is fair since manufacturers are better at manufacturing than retailers. Manufacturers are significantly more likely to recycle or landfill returned material than retailers.

Technology

While it is clear retailers are more advanced than most manufacturers in this area the areas where there is a technological difference is minimal. Consider the common components of an RL system:

Computerized returns entry
EDI (Electronic data Interchange)
Barcode (Return processing labels)
RF technology (More rarely a difference)

Manufacturers are more than able to accomplish this level of sophistication inexpensively. Not all companies have the volume to justify RF technology, etc. or maybe one some of the other components. The process however can be duplicated inexpensively by large or small companies. In comparison to the revenue lost due to returns, a massive amount of revenue could be captured simply by insuring they didn't receive returns belonging to another manufacturer. Consider that many retailers while they are quick to service their clients by accepting returns and sending product through a reverse logistics process do often charge back the wrong manufacturer and as a result send returns from one manufacturer back to another. Consider also that most manufacturers simply point to a pile in their warehouse where returns go and accept the charge back/offset expense without taking the time to investigate the return. Questions have to be answered:

Is it our product?
What is the defect?
Can it be resold?

Here's an off the wall thought: Incent your salespeople to find a place to sell returns. If Maggie and John are responsible for selling that line to Macy's have them also be responsible for selling it to "XX" when Macy's sends it back! In attempting to improve reverse logistics processes, a firm can move along several fronts. Suggested improvements are listed below:

Streamline turn-in procedures
Measure reasons, volume, sources, etc., remediate and repeat
Route items with an eye to what happens to them next
Integrate the forward and reverse pipelines

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Explore the potential of commercial software applications or techniques for improving reverse flow management
Align financial incentives with improvements

Be able to put your warehouse into Reverse
It might be the most ignored aspect of warehouse operations today. But the need for efficient reverse logistics cannot be brushed aside anymore. The return, processing, repair and replacement of products have a huge impact on customer service. And the nerve center of any such operation is the warehouse. One hundred percent of WMS packages are designed to get stuff out the door and onto trucks. They (Software companies) have had to adapt to get stuff back in. The situation has been more critical in Europe, where retailer policies tend to be more lax and returns can account for 30 percent of one's business. But reverse logistics is taking on increased importance in the U.S. as well. The trend has given rise to a number of niche vendors, offering software or services specifically to handle returns, while the larger integrated vendors are scrambling to adjust. Reverse logistics can be the dark corner of your warehouse. The returns process involves huge inefficiencies, but they're manageable with the help of the right technology and processes. Go digging over in the corner – you may find some revenue buried in those boxes.

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