

Reverse Logistics

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DEFINITION: Reverse logistics is the handling and disposition of returned goods.

WHY IMPORTANT: Outsourcing your return logistics functions make good business sense for a variety of reasons, to include:

- **E-Commerce.** Reverse logistics needs to be considered in your company's e-commerce strategy if you ship tangible (physical) products from customer orders made online.
- **Competitive Differentiator.** Offers increased process efficiencies and cost savings. Improves your company's value proposition to your customers.
- **Cost Savings.** Returned goods can be put back into inventory, broken down into component parts, sold at liquidation centers, and/or donated to non-profit organizations.
- **Profits.** Refurbished parts often offer higher profit margins than new ones. This translates into increased revenue.
- **Marketing Data.** Way to gathering valuable data on why products are being returned.
- **Forecasting.** Provides a basis to get customer demand data based on actual usage and returns.
- **Loyalty.** Quick and accurate returns can improve customer loyalty and generate repeat business.
- **Environmental.** Having a third party handle reverse logistics can mean less exposure to environmental considerations when disposing of returned items.

Logistics costs can have a big impact on your company's bottom line. Any inefficiencies can quickly become loss leaders. Returns are an especially challenging area since most logistics systems are design to move products from a manufacturer to a consumer, and not the other way.

For companies who sell over the Internet, reverse logistics can be particularly crucial. INFORMATION WEEK magazine notes that for online sales the rate of returns can be staggeringly high--up to 50%. The implications are that managing reverse logistics for online sales can be a make-or-break proposition.

SUCCESS STORIES. The following are examples of how effectively managing reverse logistics has resulted in significant cost savings and service improvements.

- **Estée Lauder.** The company used to dump about \$60 million worth of its products into landfills each year, destroying more than a third of the name-brand cosmetics returned by retailers. To fix this, they built a reverse-logistics system of scanners, business-intelligence tools, and a data warehouse--and recovered their investment in the first year through reduced staffing and costs. Estée Lauder's retailers indicate reasons for returns on printed labels included with returned merchandise. If an item was returned because it was overstocked or damaged, that could lead to a new marketing, packaging, or production strategy.
- **BMG Direct.** The company used the bar codes used on packages of music CDs shipped to help them identify returned goods. The company then built a new bar-code scanning system and conveyor belt. The results was staffing requirements for returned-goods handling were cut in half to 70 people to handle the same volume of 40,000 returns daily. In addition, three to four days were shaved off the time it takes to update customer accounts, and returned CDs in "pristine" condition are now put back into inventory faster.
- **General Motors.** Reverse logistics was particularly complicated for GM since examination of parts that failed or otherwise had to be replaced depended on cooperation from its many dealerships. Previously, dealerships were expected to return parts under warranty to some 200 locations, which was very confusing. The company outsourced this function and now all returned parts--about 30,000 a month--come to a central facility. GM's corporate parts-return system matches requests for parts to be examined with warranty claims for those parts, sending E-mail notices to the dealerships to send the parts to the central facility. Because all parts are sent to one location and their shipment is tracked by the outsourcing company, GM engineers and suppliers always know when and where the parts they want are available.

- **Sears.** Between 1993 and 1996, Sears reduced their annual logistics costs by \$45 million. Reverse logistics was a significant amount of this savings. Their “Enhanced Home Delivery System” which was designed to speed the delivery of major appliances to customers' homes by using the most efficient delivery routes, also works in reverse to schedule the pick-up of appliances to be returned.
- **3M.** Reverse-logistics outsourcing contracts were awarded to streamline the handling of returns involved with some 50,000 products that 3M makes for retail and industrial customers. The outsourcers made it easier to manage returned goods because of the economies of scale.

The above examples were summarized from an article in INFORMATION WEEK.

SELECTING AN OUTSOURCING COMPANY: Return logistics is easier said than done, requiring special software and process expertise. Other reasons to outsource are lack of personnel, financial considerations, no systems, and legal issues, and need to focus on core competencies. That’s why many companies such as 3M and General Motors have outsourced this function.

However, not all outsourcing companies are created equal. Buyers should ensure reverse logistics companies perform the following services:

- Parts Sorting.
- Equipment and Parts Reconditioning.
- Storage.
- Tracking.
- Return Item Labeling
- Environmental Hazards Management.
- Trend Analysis
- Disposal.

In addition, outsourcers should be able to handle the reverse logistics function for the entire company. A good measure of this is to see how well they perform forward logistics functions.

STRATEGIC CONSIDERATIONS. Logistics is playing an increasingly important role in a company’s competitive position. There are still many untapped opportunities that exist in returned products area. As more and more businesses go online, reverse logistics will play an even more important role. A recent study by the Reverse Logistics Executive Council indicates that reverse-logistics costs may exceed \$35 billion a year for U.S. companies. Improving the reverse logistics process is smart business. This represents a growing marketing for M/WBE firms who are interested in providing reverse logistics services to other organizations.

RESOURCES. For additional information on reverse logistics:

Council of Logistics Management (www.clm1.org)
 Purchasing Magazine (www.purchasing.com)

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