

Reverse Logistics – Turning “Green” to Gold.

by Kevin Steele and Emily Rodriguez

Traditionally Reverse Logistics functions have suffered from benign neglect and have been perceived as too complex to automate or to get fully under control. The reality is that effective processes can be developed, and good solutions have recently become available to automate repetitive activities and provide flexibility to address the many variables involved. However, finding budget dollars and getting top management support for changes, improvements and capabilities continues to be a challenge.

In today’s worldwide competitive marketplace, the launch of a truly new, creative product is quickly followed by competition offering multiple choices with the same look, feel and function. Most companies realize that post-sales service is a critical differentiator and the means for customer retention. This has brought a greater awareness of Reverse Logistics and a greater willingness to enhance the capabilities for managing returned product, including its disposal if it does not go back into normal sales channels.

Regardless of this improvement in perception and support, it is still a fairly reactive approach. Typical objectives for improvement have been focused on response time, which is driven by customer demand, and to reduce cost, which is driven by internal demand. Reverse Logistics, being a service organization, has responded to its customers, both internal and external. “However, rarely has Reverse Logistics had the opportunity to lead the charge for changing how things work and to demonstrate its potential for affecting customer perception and the financial results of the company.

A new opportunity for Reverse Logistics is forming across industries, and it is the reality that companies must be more environmentally conscious, focus on sustainable practices and materials, and become more socially responsible corporations. This is often referred to simply as “Green”. Recent studies show

that consumers are looking for suppliers that are good environmental citizens:

“Sustainability and other environmental issues will increasingly influence shopping behavior: Sustainability aspects that were identified as most important to consumers in their future buying decisions were energy/water usage (named by 87% of respondents), waste reduction/management (85%) and sustainable manufacturing features (84%).” -- Cap Gemini survey June 2008

Wal-Mart has discovered through its own studies that consumers prefer to buy products from “Green” companies, but are not willing to pay much of a premium to do so. As a result, Wal-Mart is demanding that suppliers hold the line on prices while they become “Green”, and has implemented an improvement timeline that will be enforced through quarterly business reviews and regular scorecards. These trends will inevitably lead to the “Green” spotlight being focused on Reverse Logistics.

“Green” may be the best opportunity Reverse Logistics has ever had to support initiatives for product designed for service and the environment, to lead the education of employees, suppliers and customers in “Green” supply chain initiatives, and to bring its immense business value to full visibility inside the company.

Reverse Logistics already works within regulatory and environmental limits for control of toxic chemicals and the disposal of excess or un-repairable materials. Scrap and recycling vendors are common partners, and the asset recovery process is part of daily activity. Some Reverse Logistics teams may see this as fulfilling the requirement to support corporate “Green” initiatives. True visionar-

ies in Reverse Logistics recognize that several areas are opening up for both educating their companies about Reverse Logistics while being on the leading edge of the change inside their companies toward the ultimate goal of becoming “Green.” Five key areas of opportunity are outlined below:

1. Returns Prevention and Warranty/Repair Policies

Most Reverse Logistics professionals would argue that returns prevention and the setting of customer policies belongs to Sales and Customer Service. By the time Reverse Logistics gets involved it’s a done deal. They would also argue that Sales and Customer Service too often ignore or discount the ideas coming from Reverse Logistics about return policies and opportunities to reduce NTF (No Trouble Found) returns. However, as complex products and services continue to increase the likelihood of NTF returns, all recommendations for prevention of returns become more valuable and attacking the problem from a cross-functional viewpoint becomes more essential.

The opportunity here is for Reverse Logistics to highlight options available to improve service and reduce cost in light of supporting “Green” initiatives. Reducing NTFs is possible if there are customer incentives or consequences involved in returns policies. Business customers who are looking for their suppliers to reduce their carbon footprint (total impact of energy use and carbon emissions) will understand the need to eliminate wasteful activity. However, if Sales and Customer Service organizations are to change, they will need to understand the impact these returns have on their own company’s costs and carbon footprint.

Reverse Logistics must work with its partners to determine the full impact

of today’s wasteful or unnecessary activities and calculate the potential benefit of improved efforts. That information must be shared with Senior Management and with the organizations that develop corporate policies. What’s particularly significant here is that any reduction in wasteful activity is also a reduction in cost in the Reverse Logistics organization, and therefore in the company as a whole. Customers who apply more stringent controls will also experience savings through reduced handling, greater product availability and reductions in accounting activity.

2. Logistics

Reverse supply chains will have to be reexamined as the trade-offs between transportation costs and labor costs are changing significantly. This may drive changes in warehouse locations, repair operations locations and must be a factor in evaluating potential outsource partners. If today returns and repairs are supported by one centralized, regional location, with the result that many shipments travel long distances with a negative impact on fuel consumption and carbon emissions, then Reverse Logistics will need to calculate and compare the pros and cons of centralized vs. localized handling and repair, and to show potential savings and positive environmental impacts of being closer to the customer.

Another area of focus is that when customer demand is for immediate response and resolution of a product problem, the most common reaction is to respond by expediting the shipment of the product back to the supplier or to one of its partners. This is seen as the fastest way to get resolution of the problem and trigger credit, warranty replacement or repair. The opportunity here is fairly obvious. If a company can avoid small, expedited shipments there is an opportunity to save cost and to decrease the amount of carbon



emissions from transportation carriers, thereby reducing a company's own carbon footprint.

It does require a change in today's model, and may involve holding more available inventory to allow a replacement, already repaired, to move forward as soon as the returning product starts its trip back. This may also require a change in the process used to receive incoming returns. Warranty validation and condition verification would need to happen immediately upon receipt of the product to ensure that the return conformed to expectations and entitlements. Technology and sophisticated processing are already available and in use by leading edge companies today, but even with manual processes early validation would provide needed protection against a fraudulent return while still reducing cost and improving a company's total carbon footprint.

3. Repair Operations

The goals for repair are typically very simple: reduce turnaround time (TAT) at the lowest cost while maintaining an acceptable quality level. Whether outsourced or done in house, Reverse Logistics should be looking at the total cost of current operations. Repair facilities must look at all their costs including energy consumption, waste generation, and reuse/recycling programs as well as their entire Supplier network. Another example, TAT is often used as the main element in consumer electronics decision making, but what leading edge companies are discovering is that business customers should not be focused entirely on TAT. What really matters to them is not falling short of product for customer replacements. Therefore, the correct metric is "days of on hand inventory" and not TAT. This approach would involve a change in the metrics used, a closer relationship with the customer to pro-

vide visibility to days of on hand inventory, and a means of tracking any stock out situations. Reduced pressure on repair providers would result in better and more accurate handling, reduced cost of freight, reduced emissions from transportation providers and the potential to reduce emissions in repair facilities through a more linear and more efficient flow.

4. Recycling and reuse

Recycling and reuse is very challenging for a majority of companies as forecasting field failures and the corresponding need for parts is still very difficult. Some companies hold on to product for years in the hopes of recovering some residual value by finding a customer who will take the obsolete parts and products. Others have standing policies that after there has been no demand for 90 or 120 days, that goods should be sold off or disposed of. Reverse Logistics teams know that neither of these may be the right answer if these policies are controlled by Finance or Procurement—and based solely on their perspective.

Reverse Logistics has an opportunity here to affect both the awareness and the result of parts planning. A number of very good products exist to assist the planning and forecasting of parts supply, but more importantly, if implemented properly they can provide a more accurate picture of when parts or products should be liquidated. Whether handled by software or addressed manually, as total demand for parts decreases, selling off excess or obsolete product in a timely fashion and not waiting for years can be a significant benefit. Another opportunity is to implement reuse programs for parts that have to be procured and consumed as part of the repair and refurbishment process. When demand has disappeared or there is proprietary

design involved, moving the parts into recycling at the correct point in the process allows reclamation of base metals and other components. Overall lower inventories decrease the impact of warehouse energy use and emissions, and bring back some value through reclamation of usable materials.

If a company plans on owning the disposal responsibilities for packaging, Reverse Logistics will need to develop a plan for how to accomplish this corporate goal with the lowest environmental impact and at the lowest cost.

5. Product Design for Environment and Service

Product will be designed with the environment in mind through use of sustainable materials and improved packaging. However, the need in Reverse Logistics to easily service products and to reduce the amount of material waste will not produce a "design for service" unless Reverse Logistics is able to gain a voice in the design process and factually demonstrate the impact on their operation.

All of these activities have a significant impact on Reverse Logistics cost, and carbon footprint results, yet they are often not exclusively under Reverse Logistics control. Every Reverse Logistics professional has been frustrated when told to reduce costs but also to expedite handling, repair and shipping. Who in this area has not looked at the inventories that were either constantly short or had many more years of supply than needed?

So how does Reverse Logistics pull this together and present a more complete solution that supports a company's "Green" initiatives?

In order to be successful, "Green" initiatives must positively impact

a company's carbon footprint and bring ultimate cost savings. Many companies launch their corporate initiatives by evaluating product design, manufacturing and packaging, but for a company to be truly "Green" it must look to all functions that impact the environment. There is no doubt that Reverse Logistics will soon find themselves in the customer and corporate spotlight. After all, it is Reverse Logistics who manages the use and disposal of parts and products.

If Reverse Logistics is not prepared to present a cohesive plan to meet corporate "Green" initiatives, it will most likely experience what has happened in the past. Customer Service and Sales will want a faster, better response while demanding that Reverse Logistics reduce the energy usage and carbon emissions in their logistics providers, and repair centers, in order to achieve better marks on customer scorecards.

Senior Management will look for support of "Green" initiatives while asking Reverse Logistics to hold or drive down costs. They will be unwilling to change customer policies related to product returns and warranty support without understanding the specifics of current impacts, and the details of potential savings and

opportunities for "Green" Reverse Logistics activities.

The diagram below highlights the areas that Reverse Logistics owns and where it needs to provide visibility of the impacts and available options as companies go "Green" and look for cost savings.

Reverse Logistics staff have had to build expertise and capabilities as business needs have changed, and many have done so successfully. The Reverse Logistics industry has evolved to the point where associations are looking to provide certification capability, and both titles and salaries recognize the amount of skill needed to manage this complex area. The Reverse Logistics operations in many companies have provided improved service at reduced cost. However, Reverse Logistics has often been the recipient of bad financial decisions regarding inventory of parts and products and of unwelcome demands from Sales and Customer Service to support programs that have not considered the impact on Reverse Logistics.

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For possibly the first time, Reverse Logistics has the opportunity to lead the charge in support of new "Green" corporate initiatives and to bring new practices, benefits and cost savings to their companies. Turning Green to Gold will happen only in organizations who have the management sophistication and experience to develop the new vision, and who can find a way to gather the facts and details needed to launch effective initiatives.



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