

REVERSE

Logistics

Companies which establish reverse logistics programmes, either through a third party or internally, benefit through realising return customers and improved financial returns and enjoy the spin-offs from environmentally sound choices.

New Zealand companies are late in recognising reverse logistics as inevitable and have little knowledge of the complexities of it. Those which embrace the concept as a vital part of business processes will gain competitive advantage in the next decade.

One of the factors pushing reverse logistics is the number of companies who state "100% satisfaction guaranteed or your money back - no questions asked."

Some retailers will only deal with suppliers who are prepared to do business on this basis - if the check out operator is asked to take a product back he/she does, without question, and the supplier must accept this decision.

The challenge is to find a process which will quickly and efficiently return the product to either inventory, network, disassembly or disposal.

Whilst the objective is to minimise any additional cost US studies show a 12:1 return on any

investment in returned goods. Reverse logistics can be broken down into three separate but interconnected areas.

1. RETURNS MANAGEMENT

Returns management involves dealing with returned product quickly and profitably. There are three categories which require different handling.

- ◆ Closeouts are where top quality goods are discontinued or are seasonal or holiday related merchandise.
- ◆ Surplus is top quality goods which have been overrun, returned or are slow moving merchandise.
- ◆ Salvage involves goods which are damaged, defective or are customer returns.

Returns management can be handled in-house or contracted to a third party, like Stocklink, with specialist expertise in it. For companies with high volume it makes sense to outsource reverse logistics requirements. The third party can offer profitable management and control of salvageable goods throughout the secondary retail network.

Benefits of a third party handling reverse logistics

- ◆ Software is configured specifically for returns management.
- ◆ Customer satisfaction through having a simple single source process.
- ◆ Dedicated software allows customers to get credited for returned products promptly. Usually in-house procedures are ad hoc and unfocussed. Credits are often late, a fact which merchants find frustrating, irritating and time consuming. Clear crediting systems add to customer satisfaction.

- ◆ Reduced administration time and costs.
- ◆ Improved inventory control in that the third party not only manages how and when the goods are returned but also the reasons for the return.
- ◆ Reduced returns after analysis of the reasons for the return?

Returns management can be cost effective in a controlled environment through avoiding disposal costs, transporting and refuse while recovering costs. Besides, as an environmental issue, it looks good for the company.

Options for surplus, salvaged and out-of-season goods

Whether returns are managed in-house or by a third party there are various options which need to be considered for those goods.

- ◆ Return to vendor.
- ◆ Move to another store and sell on.
- ◆ Donate to charity.
- ◆ Refurbish and redistribute, eg Telecom fixing up returned telephone systems and selling them to technology developing countries.
- ◆ Salvage sales is a major untapped source of asset recovery revenue.

There are systems in place in New Zealand which deal in these goods, eg The Goldmine, other deep discounters and weekend markets. Salvagers keep resaleable merchandise in the consumer chain and if handled sensitively this merchandise does not compete with top quality product. The flea market buyer, and those who shop at the deep discounters,

are not the same consumers who buy top quality goods. For companies which are brand sensitive there are debranding issues which can be handled.

- ◆ Product destruction is the least desirable option. There is no revenue attached to it, only cost; from transport, destruction and dumping.

All these options are likely to involve grading, sorting, reuniting, relabelling or brand de-marking depending on the product and what the client company wants done with it.

There are trouble spots in returns management which can and need to be handled with precision and knowledge. If goods are to be salvaged and sold-on the chain of custody must be tightly controlled to avoid the re-returns of goods for full priced refunds. Misrepresentation, where the customer is unaware that the goods are salvage, can create customer dissatisfaction. Specialists in returns management have the skills and contacts to handle these issues.

2. PACKAGING RETURN AND REUSE

In Europe the use of returnable or reusable packaging, often made from steel or plastic, is becoming big business because of the cost of waste disposal. The concept of reusable packaging is based on the idea that companies which manufacture and distribute products should be responsible for cleaning up after themselves. In New Zealand it is catching on in certain areas and, though fraught with complexities, is a concept that companies will be forced to adhere to in the next decade.

Packaging reuse and return is easy if there is a short vertical marketing system with a steady predictable demand but it gets complex when there is a series of people in the chain and where the product is deunitised as it moves along the chain; for example, if a product is repackaged and moved from a bulk container to a smaller one. For packaging return and reuse to be successful all partners must cooperate to maximise container use and relationships must be coordinated and controlled.

There is increasing interest in outsourcing the management and tracking of containers and for the out-sourced party to organise numerous participants and cost

exchange procedures. Third parties can pull together enough participants to give package reuse and return economies of scale which justify a network of depots and drivers.

Studies in Germany show that effective reuse of returnable containers reduces the amount of energy and water consumption and pollution and reduces disposal costs. The downside is that the extra transport involved clogs roads and uses petrol.

3. PRODUCT RECALL

Product recall reverses the usual marketing process. The company involved is trying to get the customers to bring products back instead of taking them away.

Product recall can be an expensive and distressing process. It is the nightmare which companies pray won't happen to them, particularly when it involves problems with consumer goods which could potentially endanger the customer.

It is imperative that product recall is handled quickly, efficiently and generously. When it is done well it can actually improve the brand's image and increase sales long term. For example, Cerebos Greggs handled its glass-in-the-pickle drama so well that within a few months of the recall it increased its market share through attaining the reputation as a company which cared and could be trusted.

The aims of a product recall are to recall the product as quickly as possible to minimise public risk, to get back as many faulty products as possible and

to minimise cost and inconvenience for the consumer and the company.

The procedure is straightforward and logical but it involves coordination of transport, logistics and public relations and needs to happen rapidly. Companies should have an up-to-date recall strategy in place. This strategy could be planned in conjunction with a third party logistics specialist.

The advantages of using third party expertise, such as that offered by Stocklink, are that transport logistics, regardless of volume, can swing into action with minimal notice.

Using a third party allows the client company to continue with core business while the logistics of the recall are being handled quickly and efficiently.

The client will also benefit from more accurate reporting to meet statutory requirements.

The process involves picking up products from point of purchase, bringing them to a depot and ensuring that they are disposed of in such a way that they can't be retrieved from the rubbish. Parts of the product can be removed and recycled, for example glass jars, tin cans, metal or paper. A logistics company, like Stocklink, would dispose of the product, after consultation with the client, in the cheapest and safest way.

Stocklink also has software in place to track product recall by numbers and location which gives the client accurate information of the effectiveness of the recall message.

reverse logistics:

The process of managing the return and subsequent re-use or disposal of distributed inventory and its by-products.

