

Reverse Logistics

From Black Hole to Untapped Revenue Stream





In a recent survey of over 160 companies in the computer, consumer electronics, telecom, aerospace and manufacturing industries, those that used best-in-class reverse logistics processes report an:

- Average customer satisfaction rate of 93 percent (vs. 86 percent industry average)
- 4.4 average days parts return times (vs. 14.5 days industry average)
- 21 percent decrease in cost per return materials authorization over a 12-month period (vs. 6 percent industry average) (1)

Recognizing that reverse logistics can drive real impact to the bottom line, this is an area of high priority for companies looking to reduce costs, add efficiencies, improve the customer experience and build sustainable supply chain practices. As a result, manufacturers are uncovering the hidden value of returned assets and streamlining return, repair and product reallocation processes.

Once a supply chain afterthought, reverse logistics has evolved into a highly complex endeavor. This is especially true in the hitech/electronics sector, where product lifecycles have dramatically shortened, global service networks create more supply chain complexity, products are highly customized to consumer preferences and sustainable practices are increasingly required.

The primary driver of reverse logistics is the staggering cost of returns. In 2009, retail returns in the United States amounted to \$185 billion, equal to about 8 percent of the estimated \$2.3 trillion in retail products sold by members of the National Retail Federation.

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In 2008, the last year for which figures were available, returns and exchanges totaled \$11 billion in the U.S. consumer electronics industry alone. So far in 2010, return rates for all consumer electronics products are averaging about 8 percent overall and 13 percent for video products, driven by the fast-growing popularity of HDTVs. (2)

That adds up to a lot of returned products considering the 325 million televisions, 233 million cell phones, 222 million DVD players, 164 million digital cameras and 128 million desktop computers in U.S. households. Studies have found that one in seven cell phones is returned, with well over half having no fault found. Almost all of these products have value that can be recovered through efficient returns management processes. (2)

By rethinking their approaches to customer returns, companies are discovering "surprisingly large, unrecognized opportunities for manufacturers and retailers across the value chain." (3) At the same time, they're reducing costly customer interactions and administrative burdens, strengthening brand loyalty and enhancing their sustainability drives and environmental scorecards.

From Black Hole to Untapped Revenue Stream

For many companies, the whole reverse logistics/returns management process has been a kind of black hole; a cost center that offers little visibility into which products were in the pipeline, whether they should be repaired, repackaged, restocked, recycled or disposed of in some other way, or whether they belong in the reverse channel at all. Historically, reverse logistics has been a corporate backwater, as demonstrated by the growing number of companies that now regard it as important to their bottom line. (1)

In the Aberdeen survey, 87 percent of respondents said that effective management of the reverse service supply chain was either "extremely" or "very important" to their organization's



operational and financial performance." That's up from 74 percent in 2008 and 61 percent in 2007.

A similar number of companies - 89 percent - said that effective reverse logistics management is either "extremely important" or "very important" to the overall customer experience.

As reverse logistics evolved from a process most companies preferred to avoid into a valuable, untapped revenue stream, new strategies, tools and best practices were developed. As a result, reverse logistics is now widely thought of as Product Lifecycle Management; "a new holistic concept for understanding end-to-end reverse logistics processes." (4)

More than ever, companies are using robust, efficient reverse logistics networks to:

- increase velocity
- reduce transportation and administrative costs
- gain service market share
- improve customer experience and retention
- reduce aftermarket support costs

"As competitive and economic pressures continue to have a significant impact on the service segment, an increasing number of companies have begun to view the reverse logistics chain as a process that may be used to manage costs and drive additional revenues through the management and tracking of the return, repair, refurbishment and remarketing of assets," said Bill Pollock, vice president and principal analyst, of Aberdeen Group.

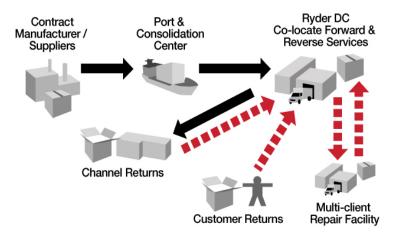
What is Reverse Logistics?

Reverse logistics is the process of planning, implementing and controlling the efficient flow of goods from the point of consumption to the point of origin for purposes of recapturing value or proper disposal.

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Figure 1: Sample of Reverse Logistics Supply Chain



A true reverse logistics process is a complicated cycle involving:

- logistics (authorizing returns, recovering, resorting, retesting, restocking, reshipping and disposition)
- depot repair (repairing, remanufacturing and reconfiguring)
- sales/marketing (remarketing refurbished products and parts for resale through liquidation or other channels)
- finance (validating in-warranty repairs and recovering appropriate costs from suppliers)
- customer service (receiving inbound customer calls and ensuring compliance with service contract commitments)
- channel management (selecting, measuring, monitoring, tracking and evaluating the performance of reverse logistics channel partners). (1)

The reverse logistics process begins with ensuring that returns are authorized and warranty information is accurate. Product data must be gathered to determine the proper disposition of the product, which could include:

- Scrap
- Liquidation
- Refurbish
- On-line Auction
- Repackaging and Return to Stock

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Figure 2: Percent of Product Value Recovered by Disposition (5)



The ultimate goal of reverse logistics is to maximize asset recovery rates and supply chain efficiency to ensure the lowest possible costs. Increasingly, companies and 3PLs are also employing reverse logistics and returns management to meet sustainability goals.

Reverse Logistics and Sustainability

Reverse logistics is intrinsically aligned with environmental sustainability. When companies maximize tons per mile, consolidate shipments, reduce returns and optimize product disposition/asset recovery processes, they are simultaneously reducing harmful emissions and energy usage, while increasing profitability and asset utilization.

In today's markets, the total cost of logistics is increasingly defined in terms of carbon impact. As "going green" becomes a standard business practice, consumers are asking for measurements around climate change impacts, energy consumption and emissions.

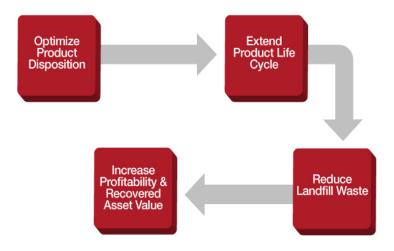
More than ever, companies and their suppliers are required to provide environmental scorecards, quantitative environmental performance data and descriptions of sustainable initiatives. The synergy is obvious; end-to-end reverse logistics/product lifecycle

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management solutions translate into energy savings and waste reduction, provide economic value and savings and strengthen customer relationships.

Figure 3: Reverse Logistics Aligns with Sustainability



The handling and disposition of products, components and packaging is a growing concern for many companies. In the European Union, the WEEE (Waste Electrical & Electronic Equipment) and RoHS (Restriction of Hazardous Substances) restricts the use of hazardous substances in electrical and electronic equipment and provides for their collection, recycling and reuse. Similar laws are under development in the US and other countries.

Instead of carting products to landfills, companies are recovering the value of the assets through a variety of other paths, such as returning to stock, donations, secondary market sales and recycling.

Corporate sustainability extends into alliances with supply chain partners. According to the U.S. Environmental Protection Agency, "Direct interaction with supply chain partners can enable a company to reduce total inventory levels, decrease product obsolescence, lower transaction costs, react more quickly to changes in the market and respond more promptly to customer requests."

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Advantages of Outsourcing Reverse Logistics

Companies that outsource some or all of their logistics services are looking for better control of their supply chains to drive quality, reduce costs, increase visibility and improve inventory management. For reverse logistics, this means increasing the speed and efficiency of recovering, inspecting, testing and dispositioning returned products.

A growing number of companies are turning to 3PLs to meet those goals.

Third-party logistics outsourcing is big business; gross revenues in the U.S. 3PL sector totaled \$107.1 billion in 2009, according to supply chain consultants Armstrong & Associates. In a recent survey of more than 1,000 users, non-users and 3PL service providers, 35 percent of respondents reported outsourcing reverse logistics services.

Reverse logistics is well-suited for outsourcing. Unlike forward logistics, it is characterized by uncertainty of supply; no one can easily predict which products are coming back, when they're coming back or in what condition they'll arrive in. Adding to the complexity is the customized nature of reverse logistics supply chains, which operate under company-specific rules that can vary for thousands of different SKUs.

Effective reverse logistics management requires a broad range of operational, technical and strategic capabilities including:

- scale and flexibility to meet changing business needs
- industry and geographic expertise
- visibility into the full product life cycle
- refurbishment/distribution center management
- web-based technologies and data integration

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Figure 4: Case Study

One company, a major manufacturer of consumer electronics, recently outsourced their reverse logistics services including credit reconciliation, triage and testing, repackaging and restocking, recycling, parts harvesting and disposal. The company, which ships over 7,500 products per day, achieved impressive results including:

- 4 day reduction in stock processing time
- 27 day reduction in Days of Sales Outstanding
- \$800,000 annual operating costs saving
- \$775,000 transportation cost savings
- \$387,000 reduction in repair center costs
- 25 percent reduction in warehouse space

Do they have the ability to shift fixed costs to a transaction-based environment?

If you're considering outsourcing your reverse logistics operation, here are a few questions you'll want to be able to answer about the providers you're considering:

- Do they have measurable performance standards?
- Do they have the ability to shift fixed costs to a transaction-based environment?
- Can they integrate forward and reverse logistics with overall supply chain strategies?
- Do they have leverageable infrastructure and transportation resources and move products into secondary markets, e-waste streams or back into the forward supply chain?

Conclusion

As companies consider these and other questions, they should keep in mind the cost reductions, supply chain efficiencies and improved asset recovery rates that a robust reverse logistics network can provide. In the face of ongoing competitive and economic pressures, companies should carefully weigh the benefits of working with trusted supply chain partners to navigate the complex world of reverse logistics/Product Lifecycle Management. By doing so, they can establish themselves as leaders in sustainable supply chain management, while at the same time, unlocking the hidden value of reverse logistics, one of the supply chain's last untapped revenue streams.



Appendix

- 1. "Reverse Logistics: Driving Improved Returns Directly to the Bottom Line;" Aberdeen Group (February 2010)
- 2. "Stop Product Returns before They Start;" Consumer Electronics Association webinar (June 2010)
- 3. "Big Trouble with 'No Trouble Found' Returns;" Accenture Communications & High Tech Solutions (2008)
- 4. "Reverse Lifecycle Management: The Next Opportunity in Reverse Logistics;" Blumberg Advisory Group (June 2010)
- 5. "Last Things First, Using Reverse Logistics to Boost Asset Recovery," Manhattan Associates (2009)

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