Reverse Logistics
“Backwards” Practices That Matter

A Consortium Benchmarking Study
Knowledge Transfer Session
March 7, 2007
Webcast
Agenda

Welcoming Comments
Introductions
The APQC Consortium Model
The Importance of Reverse Logistics
Overview of the Study Findings
Who Is Here Today?

Subject Matter Experts:

> Dr. James R. Stock  
  Professor, Department of Marketing, University of South Florida

> Cheryl Harrity  
  APQC Supply Chain Practice Lead

> Sponsor and Partner Organization Representatives
Consortium Sponsors

> Warehousing Education and Research Council
> IBM
Study Best-practice Partners

> Carolina Logistics Services (CLS)
> GENCO
> McKesson Corporation
> Raytheon Aircraft Corporation
The APQC Consortium Model and the Importance of Reverse Logistics

Cheryl Harrity, Supply Chain Practice Lead
APQC
APQC’s Mission

To work with organizations worldwide to improve productivity and quality by:

• **Discovering** effective methods of improvement
• Broadly **disseminate** findings
• **Connect** individuals and the knowledge they need to improve
Unique 30 Year Vantage Point

> Solid leadership and vision
  • Malcolm Baldrige National Quality Award
  • International Benchmarking Clearinghouse
  • Process Classification Framework (PCF)
  • Knowledge Base (KB)
  • Open Standards Benchmarking Collaborative Research

> Heritage in knowledge
  • Membership of over 500 serving over 25M users
  • Trained over 16,000 in 36 countries
  • Conducted over 6,000 benchmarking studies
  • Conducted over 250 consortium and best practice studies
APQC Benchmarking Methodology Overview

Planning

Conduct Research to ID Potential Partners
Contact Potential Partners & invite them to join study
Kick-off Meeting Select partners and review site visit guide and detailed questionnaire
Finalize Data Collection Tools
Detailed Data Collection Sponsors and partners complete questionnaire

Collecting

Site Visits Write Case Studies

Analyzing

Analyze
- Key Findings
- Critical Success Factors & Enablers
- Successful Practices

Reporting

Knowledge Transfer Session
- Final Report
- Presentations
- Q&A

We are here!
What is Reverse Logistics?

> The Scope of Reverse Logistics can include[^1]:

- Reverse physical activities (transportation and warehouse handling, receipt processing and storage)
- Repair and refurbishment and remanufacturing activities for asset recovery
- Processing, recording and executing the disposition of returns

What is Reverse Logistics?

Distribution of Reasons for Return
(n = 38)

- Disposal requirements: 14.5%
- Field service/corrective action: 16.4%
- Reclamation of leased product: 13.5%
- Reusable packaging: 11.5%
- Stock balancing: 9.2%
- Transit damage: 5.4%
- Warranty/end of life: 4.9%
- Marketing: 3.1%
- Other: 1.5%

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What is Reverse Logistics?

Distribution of Disposition Methods
(n = 40)

- Donate: 13.5%
- Land fill: 20.1%
- Other: 6.5%
- Recycled (materials reclaimed, leased): 14.7%
- Remanufactured and resold through secondary channel: 14.6%
- Repackaged and resold through secondary channel: 15.1%
- Resold as-is through secondary channel: 12.0%
- Sold as scrap: 3.6%

Possible Disposition of Returns:
- Return to stock (recording and/or invoicing or applying restocking fees if applicable)
- Returns to suppliers (recording/transfers and supplier return authorization paperwork)
- Donate (recording/transfers and removing identities, recording for tax purposes)
- Land fill (recording/transfers and compliant supplier/govt. regulations administration and physical processing)
- Recycled (recording/transfers to recycle and determined resale channels for reclaimed materials or end-of-lease returns)
- Remanufactured and resold through secondary channel (recording/transfers to determined resale channels)
- Repackaged and resold through secondary channel (recording/transfers to determined resale channels)
- Resold as-is through secondary channel (recording/transfers to determined resale channels)
- Sold as scrap (recording/transfers to scrap and removing identities)
Costs are staggering and should therefore make the reverse channel more visible, but return issues continue to be ignored in many environments.

Why Is It So Important?

Cross-industry Performance

Percent of Logistics Costs Associated with Managing Returns

Mean Value is 7%
Why Is It So Important?

> **Cost (continued)**

- Transportation for returns is less efficient and less likely to be cost effective given less-than truckload or small package/parcel movements.
- Warehouse processing and handling of returns is less efficient and less likely to be cost effective due to the physical condition in which returns are received and the often questionable information and product identification that accompanies the returns.
- Additional processing activities which are in all cases dependant upon product condition and accompanying information are disposition determinations, execution and associated transfer record administration and reporting.
Why Is It So Important?

> Information is critical
  • Avoiding future returns
  • Product Improvement
  • Educating customers in the use of the product

> Opportunities for strategic or innovative customer retention
  • Return programs that hold customers

> Keeping inventory fresh and up-to-date

> Messy, inefficient warehousing causing problems in forward logistics

> Ultimately dissatisfied and lost customers
Why Isn’t Reverse Logistics Easy??????

> Lack of perceived importance of reverse activities versus other forward logistics issues or other processes
> Difficult to get the full cost picture
> Tracking and visibility of returns in the reverse channel
> Minimal to no systems solutions to manage the process or collect data.
> Physical receiving and classifying returns for disposition
Project Scope Overview

> **Scope Area 1:** Designing a service-oriented reverse logistics and return disposition strategy that minimizes cost and liability but maximizes reverse velocity, improves profitability and asset value recovery and ultimately results in innovative practices that maximize customer loyalty.

> **Scope Area 2:** Establishing a physical reverse channel and information flow to support the strategy, including standardized processes and associated procedures that effectively manage information to minimize reasons for returns and execute an efficient physical flow of planned returns from customer to final disposition.

> **Scope Area 3:** Assessing information and operations systems solutions to enable the reverse logistics strategy.

> **Scope Area 4:** Measuring the success of the reverse logistics strategy and providing for its continuous improvement.
An Overview of Study Findings

Dr. James R. Stock, Professor
Department of Marketing
University of South Florida
Topics to be Covered

■ Reverse Logistics Strategy Design
■ Establishing a Physical Reverse Channel and Information Flow
■ Enabling Processes and Operating Systems
■ Measurement, Results and Continuous Improvement
Awareness of the importance of reverse logistics must be raised to a high level in the organization.
Raising Awareness

> Best-practice partners have overcome the misperception that reverse logistics and returns management are little more than perfunctory, costly processes.

> Best-practice partners found that a well-planned and executed reverse logistics strategy can substantially contribute to organizational goals to cut costs, satisfy customers, and comply with environmental regulations.

> Best-practice partner organization leadership realized that Reverse Logistics enables innovative practices in product improvement, return reduction, and asset value recovery.
A reverse logistics effort must be championed by senior management and supported by cross-functional teams.
Cross-Functional Support

> Best-practice partners revealed that success is dependent upon cross-functional alliances between the reverse logistics team and their cross-functional partners.

> These alliances involve integrating other departments in the reverse logistics strategy by showing them the positive effects of reverse logistics on their functions.
Reason codes should be used to identify and solve problems that cause returns.
Capitalizing on Reason Codes

> Best-practice partners found that capturing and analyzing return information was instrumental in return avoidance and efficient disposition of product for optimal asset recovery.

> Information from returns is invaluable when effectively communicated:

  • Order entry or forward logistics errors and mishandling can be traced and corrected.
  • Product feature issues can be identified and resolved
  • New products can be developed
  • Customers ignorant of policies can be educated.
A disposition strategy should be an integral part of the reverse logistics strategy.
Strategic Disposition Avenues

> Best-practice partners found that working with customers and suppliers to predetermine disposition business rules will minimize handling and improve asset recovery.

> Innovative disposition avenues should be sought to not only remain compliant with environmental regulation or minimize risk but also to recover the most value from returned product.
Understanding cost and process flow is the primary prerequisite to effectively assessing a reverse channel.
Understanding Cost and Process Flow

> By identifying where costs lie and the effect current processes have on reverse logistics results, best-practice organizations can effectively assess the best physical network solution.

> Effective Physical reverse networks execute an efficient, cost-effective flow of returns from customer to final disposition.

> Best-practice third-party logistics partners stress that becoming familiar with returns processes (as actually performed, rather than as planned) as part of the ramp-up of operations is absolutely critical.
Someone must have ultimate accountability for returns and returns policy.
Accountability for Policy

> Best-practice partners found that organizational structure must support the business rules established by a reverse network.

> Best-practice organizations make someone accountable for the reverse logistics process and responsible for enforcing returns policy.

> Without a visible owner with the authority to enforce policy, there is no way to control returns, and therefore, the reverse channel will remain a traditional cost center, and all opportunity for its contribution to key organizational goals will be lost.
Establishing a Physical Reverse Channel and Information Flow

Education and collaborative practices between supply chain partners work.
Partner Relationships

> Best-practice partners collaborate with supply chain partners to help avoid returns, solve problems, and maximize asset recovery, ultimately improving profitability.
Enabling Processes and Operating Systems

Returns information should be visible and traceable throughout the reverse channel.
Information Visibility and Traceability

> Best-practice partners found that return information needs to be visible for effective planning and operations.
> Return status should be traceable for effective planning and customer service.
> Reason codes must be visible to enable efficient disposition and improve products and operational practices.
Supply chain partners integrate reverse logistics systems and processes to support collaborative returns management initiatives.
Partner Systems Integration

> A common practice among Best-practice partners is the integration of technology between supply chain partners.

> Information needs to be shared to be effective.

> Integrated technology enables visibility and traceability of returns information as well as collaborative practices.
A focus on process versus silo activities ensures the best execution of desired reverse practices.
Process versus Silo

> Best-practice partners believe that cross-functional processes need to be integrated.

> Aligning departmental goals with company-wide desired results helps to keep everyone process-focused.
Rigorous, targeted and visible key performance indicators allow for optimized reverse logistics performance.
Rigorous KPI’s for Optimized Performance

> Best-practice partners select rigorous KPI’s for an effective focus on targeted performance.

> Best-practice partners monitor KPI’s regularly for their effectiveness in meeting organizational goals.

> When highly visible, KPI’s are more prone to improve performance to meet organizational goals.
The reverse logistics effort must strive for continuous, sustainable improvement.
Continuous Sustainable Improvement

> Best-practice partners’ effective methodology in training, feedback and incentive programs play key roles in ensuring continuous, sustainable improvement in reverse logistics.