Reverse Logistics: Backwards Practices that Matter

GENCO DISTRIBUTION SYSTEM, INC.

CASE STUDY

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Site Visit Location: Pittsburg, Pennsylvania

Site Visit Hosts:

- John Coffield; vice president, sales; reverse logistics
- Colleen Donoghue, director of corporate marketing; reverse logistics
- Lauren Conner, inside sales manager; reverse logistics
I. GENERAL OVERVIEW

GENCO, a private third-party logistics provider, has several business units, including contract warehousing and distribution, reverse logistics, pharmaceutical returns, transportation management, supply chain analysis, damage research (a team that helps customers locate and minimize damages in their supply chains), parcel management, government logistics, and GENCO Marketplace (a wholly owned subsidiary that manages product liquidation). It is a financially stable company with ever-increasing revenues ($377 million in 2002, $409 million in 2003, $459 million in 2004, $514 million in 2005, $571 million in 2006), and it is on pace to generate $1 billion in revenues by 2010.

Because GENCO is privately owned, it is not required to report its financial statement to the public. However, the company has a philosophy of openness; it shares its revenue, profit, and pricing information. GENCO partners with its customers, and its honesty and forthrightness makes the partnerships more fruitful.

GENCO manages 28,646,553 square feet of warehouse space for its 173 customers. It has 122 operations in the United States and Canada, and 5,536 combined full- and part-time employees. Currently, it operates chiefly as a North American corporation, but is changing rapidly to develop a global reach.

In 2006, GENCO was ranked as a top-10 supply chain services provider for the fifth consecutive year, and is ranked No. 1 in best customer experience in the Consumer Goods Technology Annual Logistics Survey.

GENCO was founded in 1898 by Hyman Shear, who delivered goods using a horse and cart. In the 1950s, the company expanded into warehousing. Current president and CEO Herb Shear joined the company in 1971.

In 1996, GENCO added Canadian operations and began increasing its capacity through acquisitions. In 1997, it acquired A&O, a warehouse management system provider. In 1999, it acquired Cumberland Distribution, a regional third-party logistics (3PL) company. It increased its fulfillment capacity by acquiring MTL/JV in 1999 and its transportation and supply chain management capacity by acquiring IOgistics in 2003.

In 2005, to manage unsaleables, it acquired Damage Research Incorporated, and to manage pharmaceutical returns, it purchased Capital Returns Incorporated. In 2005, GENCO formed an LLC with BDP, a Philadelphia–based global freight forwarder, to form BDP GENCO LLC, providing end-to-end capability for customers throughout the world.

GENCO’s mission is to provide value to its customers and teammates (employees) and to make money. It is committed to provide the best non-asset-based supply chain solution experience for its customers and to be the productivity, data management, and innovation leader for its industry. As Figure 1 illustrates, GENCO places its customers at the top of its organizational chart.

Its teammate values are to:

- continually strive for better practices in all business processes;
- make and keep commitments to customers, teammates, business partners, and shareholders;
- behave in a legal, fair, and ethical manner; and
- show respect for self, other teammates, and customers by being prepared, open, and honest, and by resolving conflict.
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GENCO Organizational Chart

GENCO Supply Chain Solutions

Figure 1

Figure 2
Figure 2 illustrates how the companies’ processes are integrated with one another. GENCO’s execution is based on its technology. The company has forward, reverse, and transportation solutions. Its reverse solutions include return center operations; value inspections; and asset recovery, which is executed through its wholly owned liquidation subsidiary GENCO Marketplace. GENCO’s transportation solution is growing rapidly, especially internationally. It offers increased dedicated capacity opportunities through its Shipper Alliance program. The analysis solution examines the entire supply chain network.

GENCO works with a variety of customers in a wide range of industries and provides a specialized set of services to each. (Appendix A contains a partial customer list.) The customer list includes original equipment manufacturers (OEMs) and original device manufacturers (ODMs), which turn to GENCO to meet the challenges of dealing with numerous parts, some of which are components of other manufactured goods.

GENCO currently has its own warehouse management system (WMS) as well as Manhattan’s complete integrated logistics suite and its own returns management system (RMS), and a transportation management system (TMS) powered by Sterling. The WMS is available for companies to purchase and adapt to their operations; however, GENCO’s RMS, R-Log, is recognized as the industry’s leading reverse logistics management system. R-Log is also available as a stand-alone system.

**Reverse Logistics Overview**

Reverse logistics is the process of moving returned, overstocked, and seasonal goods back through the supply chain for disposition to capture value otherwise unavailable, or for the proper disposal. GENCO’s reverse logistics services include:

- processing returned merchandise for reasons such as damage, seasonality, restocking, salvaging, recall, or excess inventory;
- recycling packaging materials and reusing containers;
- reconditioning, remanufacturing, and refurbishing products;
- disposing of obsolete equipment;
- managing hazardous material;
- recovering assets; and
- reporting and providing decision support information.

In 1988, GENCO’s reverse logistics service, then known as *returns*, became a department. The early focus of reverse logistics was satisfying the unique needs of customers in the grocery industry.

During the early 1990s, U.S. companies relaxed their return policies, and returns increased dramatically. In 1993, with the addition of Target to its customer base, GENCO’s reverse logistics expanded to a national business unit. The business unit helped Target set up return policies, collected the returns from the stores, and brought them to one return center in Indianapolis. GENCO’s reverse logistics team then provided four regional centers for K-Mart, thus introducing the regional-return-center concept.

GENCO has 31 reverse logistics customers across North America, and revenue from managing return centers accounts for approximately 40 percent of total revenue. See Appendix B for a partial list of reverse customers.

Figure 3 is the organizational chart for the reverse business, which includes both sales and operations and currently manages and operates 36 return centers (a total of 4 million square feet). Each center uses R-Log as its RMS. Because R-Log can save money and reduce costs for both customers and GENCO, the company discourages the use of customers’ RMS.
For retail customers, GENCO provides the advantage of speed. Companies cannot afford to have their products sitting in a warehouse for months; they need a proper disposition strategy executed rapidly so that they can receive credits and improve cash flow to invest in other areas.

The return process has various sub-processes, which are listed in Figure 4. As products move through the sub-processes, GENCO serves as a gatekeeper, verifying whether they should have been returned, the reasons for return, the parties responsible for paying for transportation, and the best means of product disposition (in terms of both economy and ecology).
The “Green Movement” has caused many companies to rethink product design and logistics to minimize their impact on the environment. In many cases, this may extend to disposing of products at the end of their life cycles. Logistics managers must plan the reverse flow of products from the consumer with the same care as the distribution flow. GENCO explores all environmentally sound options with its customers.

Figure 5 breaks down the costs of a product return. Components of cost include credit processing, customer service, repackaging, and disposal. Each company’s costs will vary based on the market and type of product. As a cost-saving measure, GENCO also helps customers manage vendor return material authorizations (RMAs).
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Cost Breakdown of a Returned Product

<table>
<thead>
<tr>
<th>Returns Process</th>
<th>Cost per item</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer service time to authorize</td>
<td>$2.10</td>
<td>RMA (return merchandise authorization)</td>
</tr>
<tr>
<td>Inbound Shipping</td>
<td>$4.00</td>
<td>return process time</td>
</tr>
<tr>
<td>Inbound Receiving</td>
<td>$0.49</td>
<td>Parcel / LTL Shipping</td>
</tr>
<tr>
<td>Putaway to return area</td>
<td>$0.31</td>
<td>Dock Labor</td>
</tr>
<tr>
<td>Storage space for returns</td>
<td>$0.43</td>
<td>Stock Labor</td>
</tr>
<tr>
<td>Returns processing</td>
<td>$2.21</td>
<td>Cost while in warehouse processing</td>
</tr>
<tr>
<td>Credit processing</td>
<td>$0.78</td>
<td>Labor, systems, paperwork</td>
</tr>
<tr>
<td>Customer service</td>
<td>$15.00</td>
<td>Entry labor, paperwork</td>
</tr>
<tr>
<td>Pre-disposition putaway</td>
<td>$12.00</td>
<td>Receive customer inquiries</td>
</tr>
<tr>
<td>Repackaging/Refurbishment</td>
<td>$3.38</td>
<td>Labor and temporary storage and storage</td>
</tr>
<tr>
<td>Disposition / Disposal / Return to vendor</td>
<td>$1.68</td>
<td>Packaging, labor, labels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Palletizing cost, shipping</td>
</tr>
</tbody>
</table>

Total cost of processing returns $16.27
Source: Tompkins Associates

Figure 5

Figure 6 shows the average percentage of returns by industry. Comparing rates of return gives companies incentive to find areas for improvement. For example, preventing damage in the forward logistics process—changing pallet packaging or stacking methods, improving packaging, or changing shipping loads—is a way to reduce return rates.

Percentage Return by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage of Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magazine Publishing</td>
<td>50%</td>
</tr>
<tr>
<td>Catalog Retailers</td>
<td>18-35%</td>
</tr>
<tr>
<td>Greeting Cards</td>
<td>20-30%</td>
</tr>
<tr>
<td>CD-ROMs</td>
<td>18-25%</td>
</tr>
<tr>
<td>Computer Manufacturers</td>
<td>10-20%</td>
</tr>
<tr>
<td>Mass Merchandisers</td>
<td>4-15%</td>
</tr>
<tr>
<td>Electronic Distributors</td>
<td>10-12%</td>
</tr>
<tr>
<td>Printers</td>
<td>4.8%</td>
</tr>
<tr>
<td>Auto Industry (parts)</td>
<td>4.6%</td>
</tr>
<tr>
<td>Consumer Electronics</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Source: Tompkins Associates

Figure 6
Reverse Logistics Partnerships

GENCO reverse logistics works with the following partners:

- RLEC (Reverse Logistics Executive Council);
- RLA (Reverse Logistics Association);
- Wincanton, a European partner using R-Log for all return center operations;
- Foxconn, which provides the product configuration for distribution and repair of returned product;
- Telamon, which is helpful in the Asia market and provides kitting/CTO/BTO and depot repair services; and
- BDP GENCO LLC, which provides international logistics solutions.

II. Reverse Logistics Strategy Design

Figure 7 demonstrates the difference between reverse logistics and forward logistics. According to John Coffield, GENCO’s vice president, sales, Reverse Logistics Solutions, forward logistics is a process ruled by monotony—every product is the same, disposition processes are the same, process costs are the same, etc. With reverse logistics, however, each product is unique and requires specific thought and problem solving.

<table>
<thead>
<tr>
<th>Forward Logistics versus Reverse Logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forward</strong></td>
</tr>
<tr>
<td>Product quality uniform</td>
</tr>
<tr>
<td>Disposition options clear</td>
</tr>
<tr>
<td>Routing of product unambiguous</td>
</tr>
<tr>
<td>Forward distribution costs more easily understandable</td>
</tr>
<tr>
<td>Pricing of product uniform</td>
</tr>
<tr>
<td>Inventory management consistent</td>
</tr>
<tr>
<td>Product life cycle manageable</td>
</tr>
<tr>
<td>Financial Management issues clearer</td>
</tr>
<tr>
<td>Negotiation between parties more straightforward</td>
</tr>
<tr>
<td>Type of customer easy to identify and market to</td>
</tr>
<tr>
<td>Visibility of process more transparent</td>
</tr>
</tbody>
</table>

Source: RLEC

Coffield lists traditional stumbling blocks to a successful reverse logistics strategy:

- **No executive overseer or champion takes responsibility to drive reverse logistics.** Coffield says, “We are beginning to see changes in the level of the person responsible for reverse logistics. In the past, a buyer, supply chain employee, or engineer handled returns. Today, a vice president or a president of reverse logistics is
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responsible. Before, we would have to find a person in the company who would champion or drive the management of returns.”

- **Reverse logistics is seen as “just a cost.”** GENCO helps companies recognize customer satisfaction and service differentiation opportunities.

- **Companies are unable to quantify the cost of returns.** Reverse logistics involves soft costs, so without quantified data and cross-functional involvement, activity-based costing can be difficult to implement. GENCO helps quantify returns management and address various soft costs. For example, some companies manage returns in their distribution centers, but do not account for the space that the returns occupy or the shared resources that they consume.

- **Some companies lack systems and information visibility.** If an activity is not seen as a core business function, it receives low priority on the internal-programming and budget expenditure priority list. Coffield finds that companies, such as IT and communications corporations, have grown so rapidly and expanded so globally that the systems have not caught up. Coffield says, “A rapidly expanding company is likely to adopt the various systems of its regional partners, creating a disjointed operation where there is no knowledge of its inventory through the world. Product is being shipped from one location to the other with no visibility. Inventory, disposition, and customer information is lost.” Coffield says that GENCO’s RMS is so strong that it can be adapted to harness reverse logistics across the entire company, increasing information visibility.

- **Some companies have a silo rather than a cross-functional mentality.** Communication among departments is limited. No one in the company knows who handles returns or how they are handled. Returns and manufacturing are not communicating, so manufacturing does not understand why its products are failing. Using RMS, GENCO can provide visibility across the company to enable communication for collaborative improvement initiatives.

- **Some companies have poor (or poorly defined) manual processes.** Companies cannot build a good reverse logistics program on a soft foundation. Coffield says, “No matter how often a scenario happens or does not happen, it should be proscribed in the system. It should not be a company’s ‘tribal knowledge.'”

**Reasons for Managing Reverse Logistics**

The catalyst for each of GENCO’s customers to begin managing reverse logistics varies widely. One of its customers, a major computer OEM, began to do business with GENCO to do the following:

- improve the customer experience through credit accuracy and timeliness;
- lower operating costs through improved processes (e.g., implementing item rather than vendor sorts);
- force “tribal knowledge” into system features and functionality to document appropriate employee actions;
- reduce inventory levels;
- decrease cycle times;
- increase the visibility of returns; and
- increase focus.
III. Establishing a Physical Reverse Channel

GENCO’s reverse logistics solution includes an optimized, centralized return facility network in which GENCO manages the freight. GENCO has a proven returned products design and process, comprehensive disposition management, and a coordinated asset recovery program.

End-user practices are changing because of the global economy. GENCO is able to track the customer who buys a laptop in the United States and returns it for another one in China. Because the laptop has U.S. software on it, the vendor partner in China knows to ship it back to the U.S. The system tracks the computer at every touch point, and GENCO handles the documentation required to move it from one country to another. As Coffield says, “Everything is virtual. We may never touch the computer in transit, but the system touches it.”

For buyers and vendors, GENCO has established education, communication, and negotiation programs, including setting return policies, for buyers and vendors. Many OEM suppliers, especially high-volume electronics manufacturers, place limits on returns, accepting, for example, only a small percentage of total purchases. GENCO helps buyers negotiate better deals with suppliers, then helps them liquidate products they are not allowed to return under the newly negotiated agreement.

Engineering, Designing, and Implementing a Solution

GENCO is non-asset-based. It does not own warehouses, trucks, or planes. Because it has no assets, it is flexible. Customers are not forced to use GENCO-managed facilities and transportation. Coffield says, “We set the system up so that it makes sense. It optimizes networks to achieve the cost savings that it needs.”

GENCO works with its customers to conduct in-depth strategy sessions that optimize the networks of return centers. Before it selects a site or a number of sites, it uses a modeling system that incorporates inputs such as “to” and “from” shipping data, customer locations, and product quantity. Return site selection is based on real estate costs, transportation costs, customer locations, and area labor costs and availability.

The experienced returns center design team tailors a proven process flow and layout for specific product handling characteristics. It concentrates on scalability, flexibility, and efficient flows.

A joint team comprising executive leadership and operational-level representation is responsible for implementation, which includes establishing connectivity and installing systems, phone lines, servers, and software. When a customer team is located in the center, the GENCO team needs to build its offices. The team integrates the site with transportation operations and carriers, defines current process and refinements, refines implementation plans and timelines, develops statements of expectations, and reviews proposed scopes in light of newly identified needs.

Implementation methodology includes defining the project scope, identifying its objectives and assumptions, defining project constraints, preparing a scope management plan, defining implementation phases and creating task lists, estimating task duration, setting dependencies, allocating resources, and conducting risk assessment.

Customer service vice presidents are responsible for tracking implementation progress, updating original estimates, reporting status to customers, identifying issues, taking corrective action and overseeing resolution, managing resources, reviewing planned and actual variances, and managing costs.
Responding to Requests for Proposal

When GENCO responds to an RFP, it uses its engineering, design, and implementation methodologies to respond effectively. Each area involved estimates the price of its component based on the tested methodology. The company’s proposal is detailed and open, and its pricing is divided between fixed and variable costs.

GENCO has expertise in freight management. It is directly linked with FedEx, UPS, and DHL and helps customers locate discrepancies in bills. It can establish dedicated lanes for products; for example, a company may need to establish a scheduled weekly truckload from New York to a return center in Indianapolis. Various carriers bid with GENCO to move the returns, so it can negotiate to avoid LTL (less-than-truckload) and premium freight costs.

GENCO’s Project with a Major Computer OEM

In April 2005, GENCO opened a return center for a major computer OEM in LaVergne, Tenn., marking a shift from the OEM’s previous, multi-site management model. By consolidating operations at a single site, the OEM is able to receive real-time notification on inventory status—that is, when inventory levels rise above or fall below a desirable range—and take prompt corrective action when necessary. The return center, which handles peripherals, printers, and other non-computer devices, uses a vendor-mall model in which suppliers receive, test, and repair their parts in a dedicated section of the site. The vendor mall has reduced transportation and labor costs by 7 percent.

This success with consumer returns, product refurbishment, and fulfillment convinced the OEM to trust GENCO with its Warranty Service Center. After some analysis, GENCO chose to locate the center in Columbus, Ohio due to its proximity to the OEM’s existing fulfillment operation, the availability of technical labor, and its proximity to the headquarters of DHL—the OEM’s primary carrier for parts fulfillment.

GENCO uses R-Log to manage all aspects of the OEM’s returns, including the enabling of credit to the OEM’s customers, tracking and disposition of each returned item, and management of all parts sent to both internal and external testing and screening vendors. R-Log has significantly improved knowledge transfer. In the past, no rules controlled the receiving of some small parts. Employees threw the parts into a bin and eventually recycled them.

Many times, Coffield says, parts are “lost” when they are not inside the four walls of a company. With GENCO’s Web-based systems, the OEM can now track parts along the entire supply chain, and departments across the enterprise can view returns status, inventory, analysis, and metrics.

The OEM has experienced a considerable improvement in its net recovery on returned parts. Scrap was reduced and fulfillment improved; the company is better able to manage its inventory. Coffield says, “For a company’s employees to be able to view ad hoc how they are doing in return logistics is a huge benefit for them.”

Repair and Refurbishment

Past repair and refurbishment practices involved taking products in, adding them to inventory, and shipping them to be repaired. Companies lost visibility of the product during the repair process, not knowing whether the product was received or how soon it would be repaired. To mitigate these uncertainties, GENCO attempts to minimize the shipping of products for repair, instead repairing what it can and exploring options for co-location with supplier repair facilities. In some cases, shipping products for repair is GENCO’s most cost-effective option. To trim other expenses associated with these products, it examines other
cost-saving options, such as having the repair provider ship product to its final destination rather than back to the GENCO facility.

GENCO uses two models of working with customers to repair and refurbish products. For some, it turns the tasks over to customer-selected repair companies; for others, it selects and manages the repair companies. In both models, it sets quality standards for the repair work.

GENCO tests returned products to confirm the malfunction. When the test results in "no fault found," it investigates the root cause of the problem. For example, one of GENCO’s customers suffered a 50 percent rate of return with a particular product, but GENCO could find no fault. After some investigation, GENCO discovered that end users did not understand the installation directions.

The Value Inspection Process

The Value Inspection Process (VIP) is a collaborative program through which manufacturers and retailers validate the return eligibility of products while it is still in the retail return center. GENCO’s role in VIP is to check serial numbers to ensure that the products are valid returns.

The VIP system provides employees step-by-step preparation instructions to ensure that liquidated products function properly. These instructions include basic, but sometimes overlooked, steps such as “ensure the power cords are present.” Employees then enter the product SKU numbers into the system to retrieve a checklist of all components necessary for delivery of complete products (cables, batteries, etc.). Employees handle the products based on preset rules. For example, a customer may request that the first 20 returns of a specific product be shipped to its location, while the remainder should be liquidated. Products marked for liquidation proceed to GENCO Marketplace, where GENCO sells them through its B2B Internet liquidation site.

The process benefits both retailers and manufacturers: It reduces operational volume, increases asset recovery, ensures freight savings by reducing total volumes shipped, frees up valuable storage space, and meets compliance reporting requirements.

Damage Research

GENCO helps its customers identify points in the supply chain where damage occurs. Damage research pinpoints problems with pallets and packaging, distribution centers reporting the most damage, and stores reporting the most damage. GENCO helps customers develop policies based on the findings, oversees implementation of these policies, and facilitates supply chain compliance.

Liquidation

Figure 8 is a chart of the U.S. salvage market in 2006—a total of $83.8 billion in product. For its own part, rather than lose the value of returned product, GENCO created a business unit dedicated to asset recovery. GENCO Marketplace manages the sale of products into secondary markets, such as retailers, manufacturers, carriers, and insurance.

GENCO optimizes asset recovery through channels, such as bulk liquidation, value-added liquidation, refurbish liquidation, closed auctions, B2B “buy it now,” B2B auctions, and B2C “buy it now.” GENCO defaults electronic and computer products, removing end-user-installed items, such as songs and movies; repackages the products; and provides fulfillment for re-utilization.

Some customers do not allow their products to be re-sold in certain countries, such as the U.S., but allow liquidation of products in other regions of the world. To ensure buyers abide
by the manufacturer’s wishes, GENCO pre-approves its bulk buyers. If a buyer violates its agreement, it is denied future purchases.

GENCO can add value, such as management, shipping, warranty, and returns, to liquidation purchases. Refurbishing and certification services are important to computer manufacturers because they have a brand to protect and do not want sub-par merchandise sold to even secondary markets.

GENCO sells products through its own site, gencommarketplacedirect.com and through eBay. For bulk buyers, it mixes and matches classes of products. The buyer receives, for example, everything on one pallet for a single price.

Successful liquidation companies explain their policies and systems to prospective buyers so that buyers know what they are receiving and do not feel cheated. Buyers wire their payments before products are shipped, and GENCO receives a commission of approximately 10 percent.

GENCO customers are receiving cash quickly for products that it stored previously. The liquidation market and asset recovery function is growing by as much as 40 percent annually.

### IV. ENABLING PROCESSES AND OPERATING SYSTEMS

*When we talk about returns with prospective customers, we lead with technology. GENCO’s R-Log is repeatable, stable, and trusted. Customers can add their rules and make it their own. Some customers use GENCO only for its technology.*

—John Coffield, vice president, sales, Reverse Logistics Solutions

Steps in the returns process include gathering data, creating RMAs, transporting products, and notifying return centers, which are prepared in advance and staffed properly to receive them. In 1988, reverse logistics concentrated on the warehouse—centralizing returns and managing labor. “Today, the focus is technology—managing the reverse technology process with systems, and managing the volume in different ways,” according to Coffield.
As GENCO was developing its technology systems, the companies’ leaders became concerned about the creation of technology silos and, therefore, mandated that all proprietary systems be integrated with one another. As a result, data can now be shared across all GENCO systems. Today, GENCO provides its customers with access to more than 120 reports, which are incorporated into proprietary integrated reverse technology suites. The suites support transportation, returns processing, inventory and disposition management, and asset recovery. GENCO also has proven systems analysis, implementation, and integration methodology.

GENCO’s fully integrated technology also provides innovative Web-based visibility management support and analysis tools. Customers are able to view robust information, such as the identity of the person who bought a product and the reason for its return. A team of IT professionals located at GENCO’s corporate headquarters is dedicated entirely to developing systems and ensuring customers have better product disposition.

To streamline its processes, GENCO employs leading-edge technology. For example, an employee selecting a part wears a headset through which a voice tells him where the parts are located and which bins to access. GENCO leverages technology such as Radio Frequency Identification (RFID), voice-directed processing, and robotics.

R-Log is GENCO’s primary returns management software and drives all of GENCO’s returns center locations. It is an industry-standard database developed with an Oracle relational database an integrated into customers’ systems, enabling them to view information in a familiar format. It has serial number tracking capable of tracking a single video game or cell phone.

R-Log is a proprietary, proven software that operates a four-walls-type system for warehouse operations. It holds all of the policies and business rules for returns management, tracks products and serial numbers, maintains policies, and creates rules. The extended offering in R-Log Plus provides visibility to customers by integrating with their systems. R-Log Plus is scalable, Web-based, and accessible throughout the world. Even small companies that receive only a few returns each year can manage them through R-Log Plus.

R-Log can integrate with customers’ suppliers’ and vendors’ systems, and with the customers’ call centers, providing RMA management and customer trade-in and claims management as well as managing customers’ authorized service networks. This imbues the returns process with both visibility and speed. For example, a service provider can see, through the Web-based application, that the customer will allow work to be performed under warranty; the application also manages the payment to the service provider. Credit reconciliation is accomplished quickly and accurately. Customers rely on the system’s ability to direct product disposition based on the rules that they have set and incorporated.

R-Log is also a warehouse management system with returns processing functionality. If a return is unopened and available for re-stocking, the system tells inventory managers immediately so that they do not buy additional products.

R-Log provides activity-based billing detail and reporting. Many outsource providers charge customers a flat fee, no matter what actions they take in disposition. R-Log enables GENCO to detail the actions it takes on behalf of the customer and pay according to work performed.

GENCO’s customer service vice presidents help customers to interpret their data. They discuss trending and tracking information and suggest proactive changes and improvements to prevent problems from becoming too serious. GENCO also uses data to identify other areas where it can help customers improve their cost and service performance.

GENCO is a leader in managing RFID, and R-Log integrates with handling equipment and automatic identification technology (RF, RFID, bar-codes, etc.). GENCO is working with
leading retailers and manufacturers to optimize the capability, and has a R&D lab in its corporate headquarters dedicated to the use of the technology. GENCO believes RFID technology has the potential to reduce forward and reverse logistics costs dramatically.

In most companies, every product is touched during the scanning process. With RFID, products can be scanned as they are conveyed. GENCO uses both active and passive tags. Passive tags are useful on individual products and are less costly because they have no battery to maintain. However, active tags have higher processing speeds and can support higher data rates, an attribute that is useful on entire pallets or containers because they can identify the contents of the packaging and its destination for the truck or forklift driver.

A key to the success of GENCO is its ability to integrate its systems with its customers’ and vendors’ systems. GENCO systems and applications are based on Oracle, but are able to interface with SAP and other systems.

V. MEASUREMENT, RESULTS, AND CONTINUOUS IMPROVEMENT

With its 13 Six Sigma Black Belts, GENCO has made a major commitment to Six Sigma methodology. Every person in the company works on at least one project, and all are on track to become Black Belts. Teammate training is continuous at all levels.

Teammates are held accountable. Cost cutting is pushed down to the supervisor level. If teammates are scanning in products, they can suggest improvements. The incentive program rewards streamlining and cost cutting from the executive level down to the front line. The executive program is tied to cost cutting.

GENCO conducts core excellence auditing, which involves inspecting facilities for cleanliness and safety. It also reviews the processes and key metrics of its departments and divisions.

Managing reverse logistics results in corporate overhead savings, reduced processing costs, the ability to convert unproductive assets into cash, buying agreement compliance, reduced landfill costs, increased credit for product, and improved inventory turns.

GENCO’s handling cost reduced an additional 5 percent in 2006, and it passed the savings on to the OEM. The OEM has seen significant improvement in key metrics since the transition to GENCO. One of its executives stated, “GENCO’s process takes eight days out of warranty parts cycle time which we estimate to be worth $2.5 million to $3 million per day.”

Customer Satisfaction

GENCO surveys all of its customers, quarterly. The executive staff divides the accounts and calls to walk each customer through the survey. The survey captures issues and problems, and asks about future needs and how the GENCO can be helpful in addressing them. Coffield says that the methodology keeps the communication open between GENCO and its customers.
VI. LESSONS LEARNED AND LOOKING FORWARD

Reverse logistics represents one of the largest and most overlooked opportunities for savings and improvement. At most companies, returns are primarily managed through a series of disconnected and paper-intensive processes through multiple channels taking enormous time before products can be returned to the selling floor thus creating the fear of becoming obsolete. Equally problematic is that companies and customers have limited visibility into the returns process. However, as the desire to improve customer service intensifies, reverse logistics has assumed ever greater importance.

—John Coffield, vice president, sales, Reverse Logistics Solutions

The greatest benefit of managing reverse logistics is cost avoidance. Companies that pay freight for forward and reverse logistics benefit from a third party that optimizes freight reductions; companies that pay for handling benefit from a third party that can minimize and redirect handling. Companies that pay for disposal can benefit from a third party that uses alternative disposition methods, and companies that pay holding costs can benefit from moving product out of a warehouse to a third-party location.

GENCO’s Competitive Advantage

GENCO’s continued profitability is enhanced by the following competitive advantages:

- R-Log brings visibility and accountability into the reverse logistics process. R-Log is a commercialized system that can be part of a complete solution or sold to a company for integration with their systems using their resources. The application is Web-based, which boosts the visibility of data throughout the company and helps people in various departments and units make their case for improvement. Improvements include reducing inventory and receiving credits more quickly.

- GENCO has substantial expertise as a logistics provider. Its team knows the pains and the advantages of capturing data and what information will add to the customer’s bottom line. Coffield says, “We do not just throw reports at people, we ask why they want the report. We want the other departments to challenge us to produce the information they need.” Although some of its customers choose to use R-Log as stand-alone software, GENCO encourages its customers to use the expertise in combination with the software for best results.

- A robust customer and reference list. Happy customers with good things to say add up to more customers.

- Customized solutions. Coffield says, “We are not a one-size-fits-all company.” GENCO is non-asset-based and designs its solution to fit customers’ needs to optimize their supply chain and add money to their bottom line.
Appendix A: Partial List of GENCO Customers
Appendix B: Partial List of Reverse Business Customers