



Reverse Logistics: The Way Forward

(Part II of II)

Although reverse logistics is often overlooked, retailers that master this discipline can gain competitive differentiation and turn the tables on pure-play e-commerce goliaths.

Executive Summary

As detailed in [Part I](#) of our paper, a focus on reverse logistics is becoming increasingly important for retailers, forcing many to rethink their strategies. In this installment, we take an end-to-end view of the reverse logistics space, highlighting the many ways for retailers to enhance their supply chains. We also touch upon key system considerations that, if implemented, can provide considerable opportunities for retailers to improve their bottom lines.

Taking a Holistic View

It is essential in today's retail industry for organizations to take an end-to-end view of their reverse logistics networks and reorient them to drive synergies across previously discrete elements of the supply chain.

The central issue for many retailers is the challenge of transforming reverse logistics from a cost center to a profit-making activity. Figure 1 (next page) illustrates the two major ways of accomplishing this: maximizing value recovered from returned products and minimizing product returns.

Maximize Value Recovery from Returned Products

Most retailers are devoting more attention and resources to reverse logistics than ever before, as

they seek to reap as much value as possible from returned goods. The high variability in returned merchandise creates many disposition options, such as return to vendors, refurbish, re-package, recycle or donate. Retailers are taking stock of every department, class and sub-class to track the value of products that can be recovered. Further, retailers are trying to ensure the following:

- When products are disposed of, suppliers are charged appropriately based on vendor agreement guidelines.
- Minor defects are addressed before the product is sold into the secondary market.
- Bidding mechanisms are in place to ensure that adequate value is recovered.
- If donated, the company receives appropriate tax benefits.

Third-party returns management providers, as well as in-house refurbishing operations, have become the norm, particularly for electronics retailers. In addition, most retailers have recognized their returns centers as an additional node in their supply chains that can function as a stock transfer and gain order fulfillment points for the burgeoning secondary sales market (which has blossomed into a \$400 billion industry).¹

Reverse Logistics Management: A Virtuous Cycle

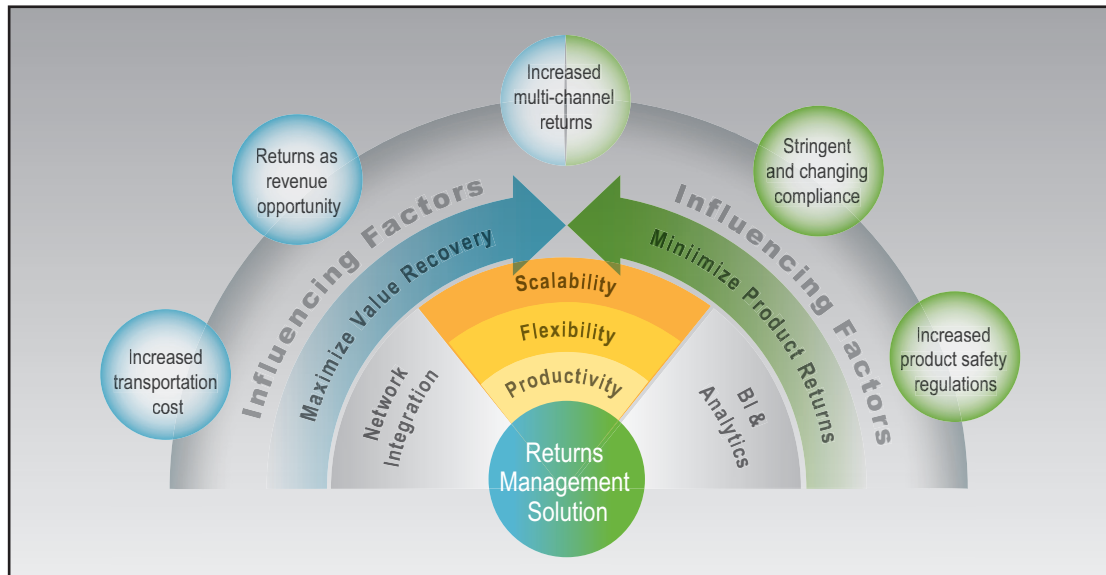


Figure 1

To bridge the gap with the aforementioned objectives, retailers are building capabilities, such as:

- Increased integration across the supply chain, in which data collected at the returns desk and returns consolidation centers is shared across the supply chain, including merchants, vendors and transportation.
- A focus on CRM solutions, BI and analytics to garner meaningful trends from returned merchandise.

Minimize Product Returns

As discussed in Part 1, trends such as omni-channel shopping have resulted in an increasing rate of returns. Retailers are now attempting to reduce the overall volume of returns by using CRM solutions and analytics to understand the major cause of returns. Retailers are also providing information to their supply chain partners, including vendors, manufacturers and transportation providers, for timely action. By predicting and moving returned freight from areas of lower sales to higher sales, retailers are avoiding unnecessary markdowns and subsequent loss of revenue. Vendors and manufacturers are using this data to improve products and reduce returns.

Inherent Issues with Existing Reverse Logistics Solutions

Most available solutions fall short of retailers' reverse logistics needs in one or more of the following areas:

- **Integration shortcomings:** Current solutions focus on individual aspects of the reverse supply chain and tend to optimize these processes.
- **Scalability:** This is a particular issue for large retailers.
- **Repairs and refurbishing:** An additional concern is auction mechanisms for secondary markets.

A Complete Reverse Logistics Management Solution

An effective solution for returns center management will encompass industry-leading capabilities that enable a retailer or manufacturer to drive efficiencies and maximize the value recovered from returns. Figure 2 (next page) depicts the key features and functionalities included in our solution. A complete reverse logistics management solution should contain the following functionalities:

- **Basic warehouse management:** Core WMS functionalities include receiving, inventory control, quality assurance and shipping.
- **Enhanced value recovery:** Modules are required for refurbishment, repairs, tracking of retail supplies (such as used or returned bags, papers, etc.) and end-of-life/defective IT assets, such as servers, computers, price scanners, etc. Functionality is also required to fulfill basic replenishment and order fulfillment needs.

An Optimal Approach to Returns Management

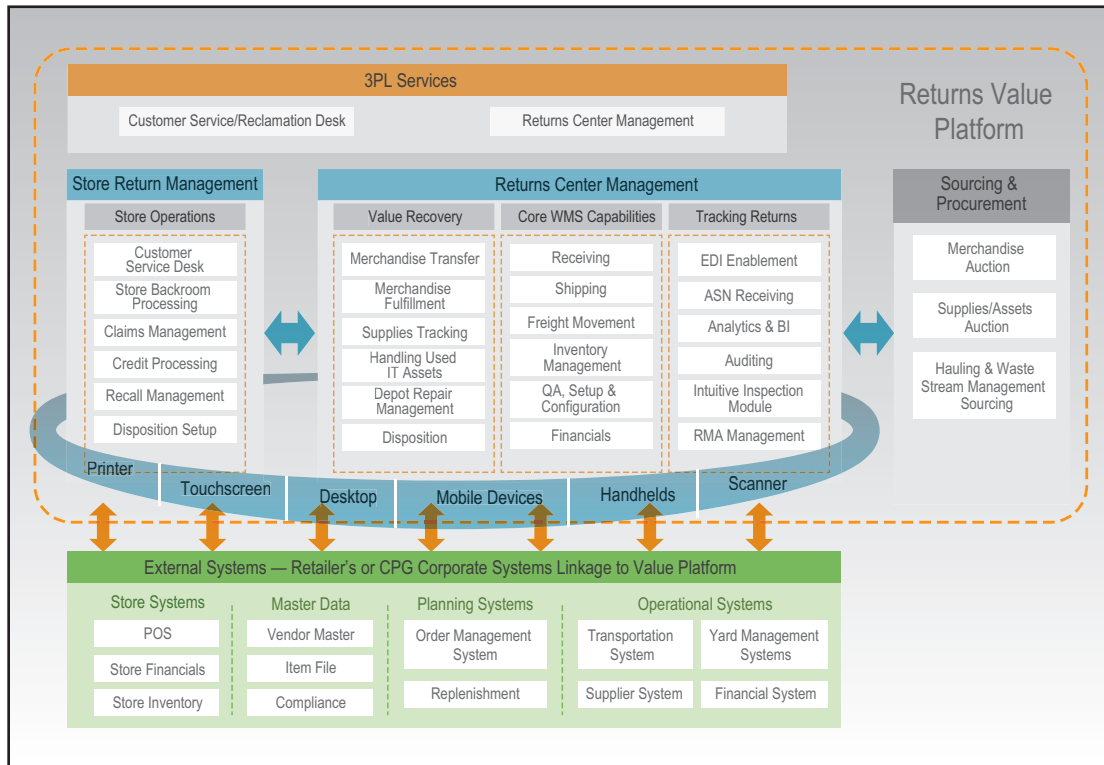


Figure 2

- Tracking and returns:** EDI and ASN capabilities should provide enhanced tracking of returned merchandise. Minimizing returns will be enabled through meaningful mining of returns data, supported by strong BI and analytics capabilities. The solution should also address basic reverse logistics needs, such as warranty and claims management, recall management and an inspection module for repair and maintenance.
- Integration:** The returns management solution should easily integrate with master data from enterprise systems of record, as well as planning and other peripheral systems, such as transportation, finance and CRM solutions for seamless operation.

Further, the solution should be scalable to manage the high volumes of data typical of large retailers. A modular approach for the product will ensure that retailers can customize and use functionalities based on their specific business models. Stretching functionalities across devices, from handheld to desktop-based systems, will only enhance operational efficiency.

Looking Ahead

To improve the reverse logistics process, it is important to first examine the “as-is” state. During this stage, it would be prudent to answer questions such as: How many units are being returned? Are there any spikes or trends in the returned goods? What is the reason for returns? What happens to the product after it is returned? What is the total cost incurred in handling returns? Do I outsource my returns to a third-party provider?

Armed with answers to these questions and more, companies can identify areas of hidden profits and enhancements. By addressing the key points referenced in this series, organizations can refine their reverse logistics process, while minimizing liabilities and yielding tangible benefits in productivity and the bottom line.

With growing e-commerce purchases, retailers face return rates that have increased multifold. Categories such as online apparel are said to experience return rates in excess of 30%. Coupled with increased environmental regulations, organizations must renew their focus on efficiently and effectively managing the returns processes.

Our returns management framework can help retailers define processes to maximize value recovery from returned goods and reduce returns through an effective feedback channel. The framework encompasses processes from

stores' service desks to returns centers, enabling higher value recovery through proper disposition of returned items and leveraging of returned inventory for order fulfillment.

Footnotes

- ¹ Lisa Terry, "Managing Retail Returns: The Good, the Bad, and the Ugly," Inbound Logistics, February 2014, <http://www.inboundlogistics.com/cms/article/managing-retail-returns-the-good-the-bad-and-the-ugly/>.

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