

The Competency Strategy Through Reverse Logistics Process



Management

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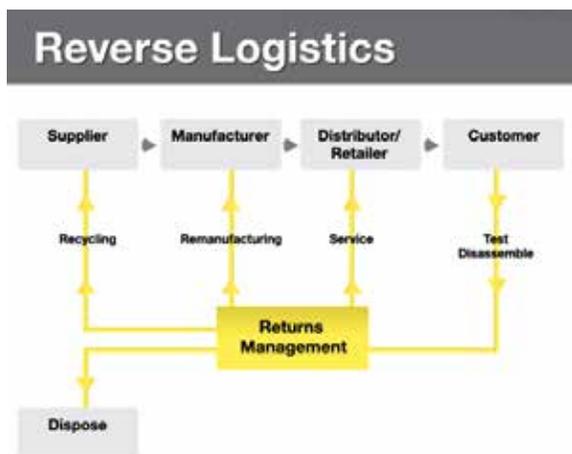
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ABSTRACT

This paper review about the concept of Reverse Logistics, how much it is important for organization, advantages of implementing Reverse logistics by taking example of few industrial segments especially software industry and retail industry. Reverse logistics refers to all procedures associated to product returns, repairs, maintenance, recycling and dismantling for products and materials. Overall it incorporates running products in reverse through the supply chain to gain maximum value. Organizations that implement reverse logistics are able to improve customer service and response times; reduce environmental impact by reducing waste and improve overall corporate citizenship.

Introduction

Reverse logistics is the process of planning, implementing, and controlling the efficient, cost effective flow of raw materials, in-process inventory, finished goods and related information from the point of consumption to the point of origin for the purpose of recapturing value or proper disposal. More precisely, reverse logistics is the process of moving goods from their typical final destination for the purpose of capturing value, or proper disposal. Remanufacturing and refurbishing activities also may be included in the definition of reverse logistics. Reverse logistics is more than reusing containers and recycling packaging materials. Redesigning packaging to use less material, or reducing the energy and pollution from transportation are important activities, but they might be secondary to the real importance of overall reverse logistics.



For example; a manufacturer produces product A which moves through the supply chain network reaching the distributor or customer. Any process or management after the sale of product A involves Reverse Logistics. If product A happened to be defective the customer would return the product. The manufacturing firm would then have to organize shipping of the defective product, testing the product, dismantling, repairing, recycling or disposing the product. Product A will travel in reverse through the supply chain network in order to retain any use from the defective product. This is what reverse logistics is about. However, this doesn't have to be the case; for example, Cisco systems make a profit from their reverse logistics strategies such as screening all returns for embedded value and reusing parts. These strategies have contributed to financial, environmental and social benefits for the organization.

Reasons why organizations overlook the importance of reverse logistics:

1. Reverse logistics is only seen as an expense to an organization. But it can be profitable; reusing and recycling can often reduce costs.
2. Reverse costs are less clearly visible and therefore not looked upon as a priority; often organizations avoid difficult problems.
3. It is difficult to forecast for reverse flow of the product and to know exactly what and how much merchandise will be returned by the customer, therefore return flow needs to be recorded and planned so it can be estimated and managed effectively.
4. Organizations only look at faulty customer returns, not the total volume of returned products such as end-of-life strategies for products that are perfectly functional but replaced with newer versions of the product. Therefore these organizations miss the total volume of reverse flow which if managed properly can lead to large gains.
5. Many organizations do not have the expertise, manpower or infrastructure for processing returns and expanding to start up a new operating system of returns. These organizations should consider outsourcing to a qualified third party logistics organization (3PL).
6. Reverse logistics is often seen as more complicated and less structured than the normal supply chains due to variation in product quality, defect rates and maximum life span. This doesn't mean organizations shouldn't try and tackle the challenge. By creating structured flow path ways for different product scenarios most of these problems can be handled.

Importance of Reverse Logistics

If no goods or materials are being sent "backward", the activity probably is not a reverse logistics activity. Reverse logistics also includes processing returned merchandise due to damage, seasonal inventory, restock, salvage, recalls, and excess inventory. It also includes recycling programs, hazardous material programs, obsolete equipment disposition, and asset recovery.

Software Industry

In the software industry, distributors are attempting to cut down retailer returns by implementing just-in-time delivery. However, retailers generally overestimate demand because there is not much incentive for them to forecast carefully. Software manufacturers want the product on the retailer shelves, and often agree to stuff the channel. The cost of a box of software is low compared to the price. In one extreme example, a software manufacturer contracted with a third party to destroy 50 million copies of one software product. While this particular manufacturer would have preferred to not produce an excess of 50 million, the company believes that it is

better to guess higher than lower. Because of these kinds of practices, return rates in the software industry recently hovered around 20 percent.

Additionally, releasing more software titles forces returns, because the product life cycles of those titles are contracting. Because their risk is low, some retailers will accept software purchased elsewhere. Other retailers, such as Sears, are trying to reduce returns and improve inventory turnover by reexamining channel relationships. Some of these retailers have begun setting up 30-day return policies.

Retail Industry

The retail industry, under great competitive pressure, has used return policies as a competitive weapon. The greater the pressure, the more innovative the solutions. Within the retail industry, it appears that necessity, indeed, is the mother of invention.

Grocery retailers were the first to begin to focus serious attention on the problem of returns and to develop reverse logistics innovations. Their profit margins are so slim that good return management is critical. Grocery retailers first developed innovations such as reclamation centers. Reclamation centers, in turn, led to the establishment of centralized return centers. Centralizing returns has led to significant benefits for most firms that have implemented them.

Over the last several years, retailers have consolidated. Now more than ever, large retail chains are the rule. These large retailers have more power in the supply chain than retailers did a few years ago. In general, the large retailers are much more powerful than the manufacturers. Few manufacturers can dictate policy to large retailers such as Wal-Mart or Kmart. If a manufacturer will not accept returns, it is unlikely that the large retailer will accept those terms easily. In some exceptional cases, retailers will make allowances for a manufacturer's products that they believe are not replaceable with similar products.

Returns reduce the profitability of retailers marginally more than manufacturers. Returns reduce the profitability of retailers by 4.3 percent. The average amount that returns reduce the profitability among manufacturers is slightly less, at 3.80 percent. Survey respondents were asked how they disposition returns. On average, retailers use a centralized return facility to handle returns much more frequently than manufacturers. Retailers are also found to be more likely to sell returns to a broker or similar entity. They were less likely to remanufacture or refurbish than manufacturers which would seem logical given that manufacturers are better at manufacturing than retailers.

Manufacturers are significantly more likely to recycle or land-fill returned material than retailers. It appears that retailers are further advanced than manufacturers when it comes to asset recovery programs. For other disposition options, such as resold as is, repackaging, or donation; retailer's responses were quite similar to manufacturers. In the table below, a comparison of disposition options between retailers and manufacturers is presented.

Disposition Options between Retailers and Manufacturers

Disposition	Retailers	Manufacturers
Sent to central processing facility	29.2%	17.7%
Resold as is	21.4%	23.5%
Repackaged and sold as new	20.5%	20.0%

Remanufactured/Refurbished	19.9%	26.7%
Sold to broker	16.8%	10.1%
Sold at outlet Store	14.5%	12.8%
Recycled	14.1%	22.3%
Land Fill	13.6%	23.8%
Donated	10.6%	11.8%

Source: Going Backwards: Reverse Logistics Trends and Practices, University of Nevada, Reno Center for Logistics Management. Rogers and Tibben-Lembke

Technology

It is clear that retailers have made larger investments in technology to improve their reverse logistics systems. In fact, manufacturers lag behind retailers in almost every technology category. This difference between manufacturers and retailers does not appear to exist in all facets of an operation. Nearly twice as many retailers as manufacturers included in the research implemented automated material handling equipment. Retailers are also more likely to use bar codes, computerized return tracking, computerized returns entry, electronic data interchange (EDI), and radio frequency (RF) technology to enhance their reverse logistics management. A comparison of reverse logistics technology adoption is presented below:

Comparison of Technologies Utilized to Assist Reverse Logistics Processing by Retail and Manufacturing Segments

Technology Utilized	Retail	Manufacturing
Automated material handling Equipment	31.1%	16.1%
Bar codes	63.3%	48.7%
Computerized return tracking	60.0%	40.2%
Computerized returns entry at most downstream point in supply chain	32.2%	19.1%
Electronic data interchange (EDI)	31.1%	29.2%
Radio frequency (RF)	36.7%	24.6%

Source: Going Backwards: Reverse Logistics Trends and Practices, University of Nevada, Reno Center for Logistics Management. Rogers and Tibben-Lembke

Conclusions

Reverse logistics practices vary based on industry and channel position. Industries where returns are a larger portion of operational cost tend to have better reverse logistics systems and processes in place. In the book industry, where great change in the industry structure has occurred in the last few years, returns are a major determinant of profitability. In the computer industry where life cycles are nearly as short as grocery life cycles, the speedy handling and disposition of returns is now recognized as a critical strategic variable.

Successful retailers understand that managing reverse logistics effectively will have a positive impact on their bottom line. Industries that have not had to spend much time and energy addressing return issues are now trying to make major improvements. Now, more than ever, reverse logistics is seen as being important.

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