



CF The Hidden Costs of Reverse Logistics, Part 1

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Companies ignore reverse logistics at their own peril, because improving the returns process is a relatively easy way to move dollars to the bottom line. An automated reverse logistics operations—one in which both you and your channel partners use enterprise returns management software that offers rules-based, product-specific protocols for how to handle any returned items—can slash costs. Yet too many companies overlook the option—and in fact the reverse logistics process overall. As a result, just about any senior manager who cares to risk a look will see a great deal of money wasted on poorly managed reverse logistics.

This week we'll look at three major categories of hidden costs within the reverse logistics process. Next week we'll view three more, as well as discuss how to go about automating the process.

1) Hidden labor costs

From customer relations all the way to Sarbanes- Oxley compliance, there are layers of costs incurred if your returns process is not automated. Based on information linked to the product's SKU—which can be activated by scanning or radiofrequency guns—returns management software can best determine what return rules and parameters apply if its attributes are drawn from the authoritative inventory, warranty, policy, and accounting information housed in your central enterprise resource planning (ERP) solution, not from a middleware database or a batch-process database. These enterprise returns management systems work best when linked directly to a customer-facing Web interface (more on this below), thereby integrating every link in the returns process to the ERP, allowing visibility across every station in the value chain 24/7. In terms of customer relations, a non-automated process will incur costs as employees manually decipher return policies on a one-off basis, determining a product's eligibility for return, the timing of credits back to the customer, and identifying which warranties (if any) apply. Moreover, you risk the perception that your company is interested only in customers who buy and not those who return. Along similar lines, customer services costs incurred with a non-automated process result from employees having to determine which warranty policies to enforce, which service contracts apply, which credit rules are in place, how a product should be coded when it is replaced with a new one, and whether special needs (such as expedited return shipping) apply.

Furthermore, handling returns-related customer contacts is time-consuming in and of itself. On average, customers call up to four times to inquire about each return. Imagine being able to eliminate 30%-50% of your existing customer service cost basis, or redirecting the capacity to generating additional revenue, by making the returns process quicker.

Speed also plays a part in reducing repair, replacement, liquidation, or recycling costs. If handled on a product-by-product by an undereducated worker, it's a time-consuming, error-prone process. Also, assets and subcomponents devalue rapidly in some markets (2%-5% a month in some cases), and value is lost if disposition isn't timely. Value recovery of a product means appraising its residual market value before it goes to costly repair. A cell phone whose market value is \$5 isn't worth fixing for \$15. But what returns manager can know the difference without physically opening the return shipment?

Financial reconciliation of the return is required, as is issuing credit to customers. So is the inventory reporting for Sarbanes-Oxley (where forward and reverse activity can very possibly be logged across two quarters). Add in the appraisal /write-down process and the charges incurred if a returned product is not covered by warranty but is returned anyway. On the sales side, there is complicated revenue recognition, margin protection, account management, and most important, return rate forecasts (perhaps to debit sales

commissions that were not escrowed against returns and prepaid).

Because you are likely paying the shipping of returned items, it will cost you more in labor to individually assign a shipping method for each returned item. There are carrier-control rates to consider, as well as damage incurred in transit, one-off shipments, any inability to track returned items, and cost-effective aggregation and routing. Without the application of rules, these decisions are made and costs incurred on an ad hoc basis. Certainly, the processes aren't monitored regularly via metric reporting.

2) Gray-market items

Even if a warranty program is controlled by serial numbers or SKUs, manual look-ups are costly, and gray-market contamination is a risk. Controlling both asset history and required disposition systematically at the SKU or product-category level helps to minimize this risk. For example, assets designated as scrap may reappear for warranty service. Manual operations are not able to quickly ascertain this, and costly work is performed against an asset that has been deemed to have no residual value. The key to avoiding this cost is to establish a rigorously enforced returns authorization process that grants you the power to deny any unacceptable return and offers you advanced knowledge of what's coming at you.

3) Lack of visibility

Customers want visibility to the status of their return requests. If they don't have it, they'll call. Or e-mail. Repeatedly. Guess who pays for the time personnel are on the phone? Merchandising would like to know what inventory is on hand, immediately. Do they need to order more of the latest hand-held device, or is a sufficient supply in-transit as a return? Design would like to know if a product line is experiencing high return rates due to a single component failure. Marketing wants information about the instructions on the new phone system that are so confusing that customers think the phones don't work. A well-run returns operation can derive more efficient use of capital by capturing, synthesizing, and publishing intelligence about your returns population to the relevant functional areas in your organization.

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OF The Hidden Costs of Reverse Logistics, Part II

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Last week we looked at three major categories of hidden costs within the reverse logistics process. This week we'll view three more, as well as discuss how to go about automating the process.

Companies ignore reverse logistics at their own peril, because improving the returns process is a relatively easy way to move dollars to the bottom line. An automated reverse logistics operations—one in which both you and your channel partners use enterprise returns management software that offers rules-based, product-specific protocols for how to handle any returned items—can slash costs. Yet too many companies overlook the option—and, in fact, the reverse logistics process overall. As a result, just about any senior manager who cares to risk a look will see a great deal of money wasted on poorly managed reverse logistics. Here are three key problem areas:

Inability to forecast accurately. Detailed historical information about returns may be trapped in local Excel spreadsheets and static databases. Sales staff is often asked to provide forecasts for reserves, but they can see across the various stations and links in the supply chain to make those predictions accurate. Operations are unable to accurately predict whether additional (temporary) resources are needed to process a large influx of returns. They may be paying overtime to ensure internal cycle times are met, or up-staff too far in advance and have to send employees home early, if they have no returns to process.

Credit reconciliation. Large customers often calculate their own credits – and take a debit on next payment, which is a very labor-intensive problem to resolve in the accounting office. And that's not the only reconciliation problem. Here's another in a list that goes on and on: Return requests are approved, but not valued or matched against receipts. This prevents accurate accruals, claims recoupment and effective vendor management. Manually processing this information is a method made obsolete 30 years ago. It can be automated and integrated; the cost eliminated.

Poor response time and brand toxicity. Manual return request processing and validation cause delays in approving or rejecting return requests. This frustrates customers and communicates a lack of concern, which tarnishes your brand and drives up call and email volume. It also ties up customer funds and prevents more sales. So do delays in validation, discrepancies caught in receiving, and many other "simple" problems. Customers expect you to stand by your products during the entire lifecycle. They demand that your reverse logistics processes will work as well as your forward logistics. Do you have this same expectation and a path to implement enterprise reverse logistics to solve it?

Automating the reverse logistics process

Many insightful companies have been highly disciplined about returns authorization. This isn't a new practice, especially in the after-market service and warranty sectors. A product can't be returned until it has a returns management authorization label generated by the person returning the product. But excellence in the returns management process seems limited just with companies that do nothing but reverse logistics. That's because the logistics team is already "thinking in reverse," and it is rare – though less and less rare – to have the process automated at the industrial level for the return of a new sizeable quantity of otherwise saleable products.

A few approaches to reverse logistics have been tested and shown to be inefficient. For some companies, it seemed like a good idea to ship a product with a preprinted return label. This process guarantees just one thing: the returned inventory will be shipped to the proper address, because it is printed on the label. Beyond that, you haven't advanced the data management process much, because these labels declare neither the quantity of goods, or if the return shipment is a mixed lot. Nor do they control the timing of the return of those goods.

Other companies have tried call centers. Fair enough, as you typically get the data right (or nearly right) with an agent, and you can even take time to sort through the various mix-matched SKUs in the shipment. But manual, human invention in a returns process (as with any supply chain task) is costly because it is time consuming. But, if you were to automate your reverse logistics with a Web interface that demanded an RMA and compliant label before any return – it would save 35%-50% over a live call center, research firm Gartner reports. If you were to set up an entirely Web-based RMA system that linked directly to your ERP, your company can save 50%-80% over pre-printed return labels, again according to Gartner.

The return-on-investment for an “enterprise returns management” (ERM) system can be achieved in a remarkably short time, given the margins and the money now left on the table. Set up a Web-based RMA system, link it to your enterprise resource planning (ERP), and train your customers to respect and adhere to your rigorous returns process, as enforced by Web services.