

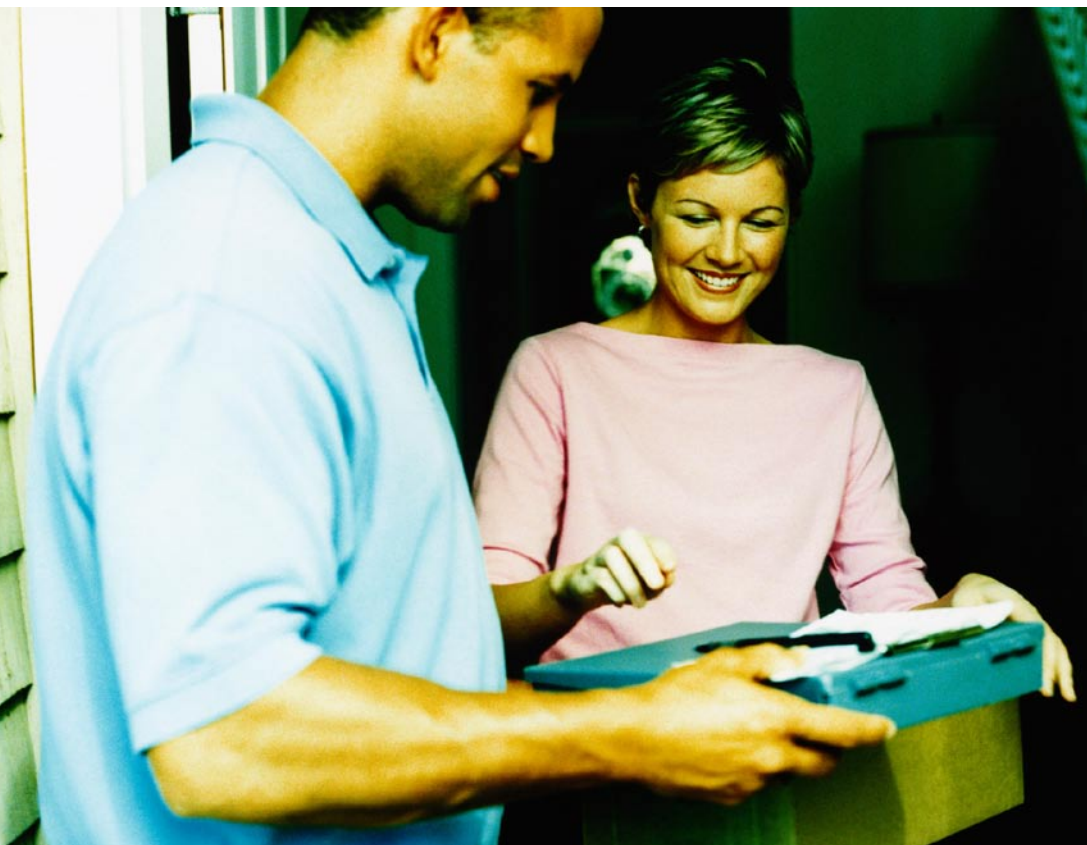
Is a 3PL the Best Way to Handle your Reverse Logistics?

Contents

- 1 Introduction: Reverse Logistics and Your Supply Chain
- 1 The Impact of Reverse Logistics
- 3 Outsourcing your Reverse Logistics Supply Chain
- 3 Conclusion

Introduction: Reverse Logistics and Your Supply Chain

Reverse logistics – the work of handling returned items that are faulty, damaged in shipping, or shipped to the wrong client – represents a growing sector of the logistics economy. The Reverse Logistics Association, the industry’s leading trade group, defines reverse logistics as “all activity associated with a product/service after the point of sale. The ultimate goal is to optimize or make more efficient aftermarket activity, thus saving money and environmental resources.”¹ The *Harvard Business Review* describes reverse logistics as “the series of activities required to retrieve a used product from a customer and either dispose of it or reuse it.”²



The Impact of Reverse Logistics

The numbers alone should earn the attention of any business. According to an article in the respected business publication *Forbes*, US firms spend an estimated \$100 billion annually on returns and that such returns make up nearly 7% of a company's gross sales. They further note that a "...company that currently doesn't monitor its returns can cut between 15% and 30% in credit issuance by correcting this process."³³ The drive to directly improve a company's bottom line provides strong motivation for examining the ways in which reverse logistics can help.

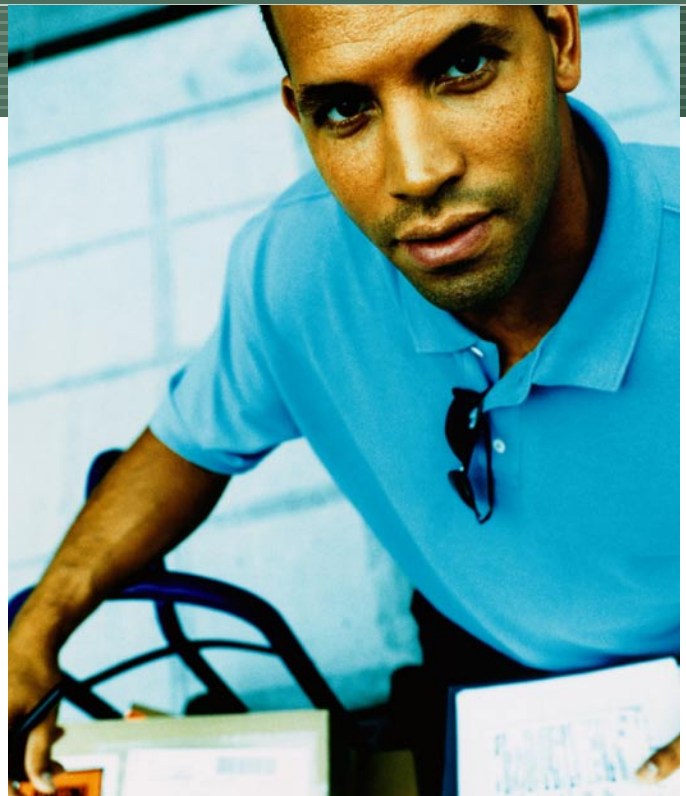
A number of other factors have also driven an increased focus on reverse logistics. A growing concern for the environmental impact of aftermarket waste products, the explosion of internet retailing, and important legislation in both the US and the European Union are three examples.

Companies in every sector have been looking for ways to make their operations 'greener' – more environmentally friendly – as consumers increasingly take a business's environmental record into consideration when making purchasing decisions. Reverse logistics has been found to be an effective way to improve a company's green profile while improving the bottom line through the reuse and reduction of previously used components. Further, companies doing business in Europe now have to comply with the EU environmental laws – such as the European

*According to **Forbes**, US firms spend an estimated \$100 billion annually on returns*

Union's Restriction of Hazardous Substances (RoHS) and Waste Electrical and Electronic Equipment (WEEE) directives – that require companies to plan how they will retake possession of goods at the end of a product's lifecycle.

In the US, Sarbanes-Oxley's increased regulation of accounting, reporting, and corporate governance requires companies to more accurately account for their returns. Under Sarbanes-Oxley,



returns must be treated as inventory on a company's balance sheet, forcing companies to accurately capture the amount of value returned inventory represents.

The rapid growth of internet retailing has also brought attention to the management of reverse supply chains. Many internet retail operations offer generous return policies in order to make consumers more comfortable buying online. Popular clothing retailer Land's End provides one example. As part of their effort to make "early adapters" (a person who embraces new technology or practices before most other people do) more comfortable buying over the internet, Land's End chose to offer a life-long unconditional return policy to their customers. Similarly, Home Depot (the number one e-retail website serving the home and garden market) and Scandinavian furniture maker Ikea offer generous return policies for online customers who return merchandise in unused and like-new condition.

Because of the nature of their products, the manufacturing sector can reap significant rewards from reverse logistics. High-tech manufacturers can see immediate impact by improving their reverse logistics supply chains. Parts of durable goods and computers can still retain value in spite of flaws in a finished product; therefore, end-of-life planning for durable and high-tech goods can capture value that would be otherwise



lost by users discarding the products. For example, recyclable components, including batteries and packaging, can be a source of considerable savings for companies willing to invest the time and effort to manage their reverse logistics effectively. By reusing these components, some companies have cut costs and reduced the amount of solid waste they produce.

Manufacturing firms can also realize value by successfully managing their reverse logistics supply chain. For example, an effective reverse supply chain can allow a manufacturer to retrieve a valuable (and re-sellable) commodity from their products at the end of the product's life. Computer chips contain silicon, a product increasingly in demand by a number of industries, including those engaged in manufacturing solar panels. By stripping intellectual property from these chips and harvesting silicon, the manufacturer earns money in the resale of these products, which ultimately improves their bottom line.

Manufacturing and retail businesses of all kinds can save by effectively managing their reverse logistics supply chain. Manufacturers can capture value from returned durable goods and from components at the end of a product's life-cycle, while

retailers can often recoup discontinued or imperfect products by selling them through outlet stores or discount retail stores.

Outsourcing your Reverse Logistics Supply Chain

As a result of the growing importance of reverse logistics, many companies are putting their returns in the hands of experts; third-party logistics providers.

Third-party logistics providers (3PLs) bring the expertise gained from managing supply chains of all shapes and sizes to the task of reverse logistics. By working with a company to build a successful reverse logistics supply chain, a 3PL can analyze a company's returns operation and immediately identify easily-realized cost savings and efficiencies. A 3PL can bring new perspective to this aspect of a company's operation that often does not receive the attention it requires.

There are a number of places where a 3PL might find cost savings for a reverse logistics client. For example, the experience that a 3PL has negotiating contracts with trucking companies can give their clients an edge in cutting trucking costs for both long-haul and less-than-truckload (LTL) transportation.

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Further, warehousing costs are often higher than necessary. A 3PL will often begin improving a supply chain by reorganizing warehousing and distribution center (DC) operations. Warehouse locations could be moved, new warehouses and

DCs sited, and new approaches to internal warehouse and DC management implemented. A 3PL could realign shipping scheduling and personnel to better manage season fluctuations in demand like those caused by the Christmas holiday season. A 3PL could also put in place management changes like cross-docking within DCs to improve flexibility and to minimize storage costs.

Outsourcing a supply chain could also create an opportunity to make necessary (and sometimes aggressive) staff changes. By changing operational locations, hiring new staff, and putting in place changes like performance-based incentives, a 3PL can make significant changes in workplace culture to derive improved efficiencies. In many cases, manufacturing firms could find these personnel changes difficult (if not impossible) to make within their own facility. Methods like these can allow 3PLs to realize savings and increase efficiencies that even the most successful business may find difficult to achieve.

Conclusion

As businesses grow increasingly aware of the importance of effective returns and reverse logistics operations, many are turning to third-party logistics providers (3PLs) to help implement efficient supply chains that fulfill their reverse logistics needs. With their experience and specialized skills, 3PLs can frequently find savings, increased efficiencies, and improve services that a manufacturing firm would not necessarily identify on their own. These improvements can allow firms



to maximize their profits and levels of service while seeing all the advantages of a well-managed stream of returned goods and packaging materials.

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- 1 Reverse Logistics Association. *What Is Reverse Logistics?* (emphasis in the original) <http://www.reverselogisticstrends.com/reverse-logistics.php?PHPSESSID=53fddc6a2>.
 - 2 Guide Jr., V. Daniel R and Van Wassenhove, Luk N. "The Reverse Supply Chain," *Harvard Business Review* February 2002.
 - 3 Malone, Robert, "Reverse side of logistics: The Business of Returns," *Forbes* 05 Nov 2005.

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