REVERSE LOGISTICS IS NOT THE REVERSE OF LOGISTICS

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Managing returns is one of the hardest parts of forging a service supply chain. A maximum return on your investment requires appropriate corporate attention and organizational excellence.

"Reverse logistics" has been interpreted many different ways by industry players. Some use the term literally, treating it as logistics activity in the reverse direction. Others may have a broader understanding.

The definition of reverse logistics has been discussed for some time, but without a formal conclusion. To fix this, we should take a simple approach. Let�s consider reverse logistics in a service supply chain, which starts the moment a product is sold to a consumer and lasts right up until the end of its useful life and beyond.

Through the years, only a few organizations have put consistent emphasis on improving their service supply chain. Now the current economic environment has created additional challenges for companies to invest the resources and capital needed for long-term process improvement. The Tompkins Supply Chain Consortium�s survey on The Growing Challenge of After-Sales Supply Chain Management provides a good indication of the poor state of service supply chain practices in companies today.

The following facts highlight some of the opportunities in a service supply chain:

� Average rate of returns across all industries: 9.1% (12.1 % during holiday season)
� Returns as a percentage of revenue: 6-14%
� Cost to process returns: 2.7 times greater than outbound shipments
� Average asset recovery cycle time: 55 days

Add to these the lack of visibility due to non-integrated processes with outsource service providers and the lack of aligned incentives across supply chain partners, and it is surprising that many companies do not view the service supply chain as a differentiator. Nor do many turn reverse logistics into a source of high-margin revenue. Based on our experience and research, the top drivers for service supply chain excellence are as follows:

Executive Sponsorship

Even the most well-performing organizations may have very limited or even no executive focus on their service supply chain. The Tompkins Supply Chain Consortium�s survey found that less than 40% of the companies surveyed have dedicated departments or organization to their service supply chain, and close to only 38% of them are led by executives with the title VP or above.

Considering the opportunities present in service supply chains and their long-term impact on sustainable profitability, customer retention, and customer delight, the topic certainly deserves greater attention at the senior executive level.

Senior executives need not only to learn about their current service supply chain performance and benchmark them but also to make it a part of their strategic growth planning process. Executives may come across many tough decisions e.g. whether or not to develop the capabilities in-house or out-source, how to go about selecting the right partner, how to align incentives to ensure long-term sustainable relationships with strategic partners, etc.

However, due to resource limitations, many organizations do not have the luxury of taking up these tasks and are pursuing the wait-and-watch approach. From what we�ve seen, it is clear that companies with executive sponsorship and focus will greatly enhance their chances of differentiating themselves in the marketplace and setting themselves up as future leaders.

Organizational Alignment

Organizational alignment is critical to meeting organizations� performance expectations while optimizing resource utilization. In many companies, service supply chain functions are spread across multiple departments, which have unaligned objectives and incentives. This causes overlap and redundancies of roles and responsibilities and produces undesirable results.

A great example of this would be demand planning forecasting and procurement. Techniques used for these functions are very different for service parts compared to manufacturing parts. Despite this, many organizations attempt to combine these functions with manufacturing organizations. They then experience poor performance for service parts availability and customer satisfaction.

To perform as a best-in-class service supply chain, companies need to make careful decisions about their service supply chain organization and resources, with a clear understanding of roles and responsibilities. The exact structure of that organization may vary by company, depending on their activities, level of outsourcing, and financial contribution towards corporate bottom-line.

Identify and Reduce Costs

An average return rate of 9.1% (12.1% during the holiday season) and returns as a percentage of revenue of 6-14% should definitely get the attention of finance executives. Product returns are a bitter pill to swallow for both retailers and original equipment manufacturers (OEMs), as they can be an enormous drain on revenue. Money has to be refunded to customers and there are costs for repackaging, restocking, and reselling the returned items.
