
APPLIANCES

The importance of streamlining the back end of the supply chain

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INTRODUCTION

Anyone who's ever manufactured or sold appliances – big or small, high- or low-value – will know that it is a business which can be just as frustrating as it is financially rewarding. When everything goes according to plan, neatly stacked pallets of fully-functioning and highly-desirable product arrive at retail outlets on schedule, and are snapped up by happy customers before they've come close to gathering dust.

But what about the other side of the coin?

What happens when a product isn't sold? Or worse still, when it's returned by a grumbling customer or retailer.

It goes back into the supply chain. But not all supply chains are created equal...

Moving damaged product backwards through the supply chain presents new and unique challenges and is best handled by a third-party provider that specialises in reverse logistics, repairs and repackaging.



THE SUPPLY
CHAIN IS
JUST THAT:
A CIRCULAR
CHAIN WHICH
MOVES BOTH
FORWARDS
AND
BACKWARDS

FIRST: **A DEFINITION**

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.

– Rogers and Tibben-Lembke (1998)

That's all very well, but how does it really work?

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NOW: TWO PRACTICAL EXAMPLES

LET'S FORGET ABOUT THE THEORY AND LOOK AT TWO PRACTICAL EXAMPLES. RETAIL IS A HANDS-ON, PRACTICAL ENDEAVOUR, AND SO TOO IS REVERSE LOGISTICS.

WHAT IT LOOKS LIKE NOW

1. A defective appliance is returned to the store by a customer who, to make things worse, has to deal with disinterested returns staff.
2. The item languishes in a dusty, cluttered returns room for a few days before being sent to a third-party repairs agent.
3. After a week the customer phones the store to track the repair but is asked to 'Call back tomorrow when we've spoken to the repairs agent.'
4. Eventually, three weeks later, the customer gets her repaired appliance back.
5. She tells all her friends about this harrowing experience and vows never to shop at the store again.

WHAT IT SHOULD LOOK LIKE

1. A customer returns a defective appliance sympathetic and efficient returns clerk who immediately enters the appliance onto a trackable database.
 2. The appliance sits in a small, neat returns room overnight, before being collected by a reverse logistics 3PL and taken straight to a repairs centre.
 3. The 3PL either deals directly with the repairs centre to ensure it is fixed timeously, or – better still – carries out the repair themselves.
 4. The customer receives regular SMS updates about the status of his repair, before getting the item back only 4 days after returning it.
 5. The customer tells all his friends about the excellent service, and buys a fridge from the same store the following weekend.
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FOUR TYPES OF RETURNS:

MERE MENTION OF THE WORD 'RETURNS' STRIKES FEAR INTO THE HEARTS OF BOTH RETAILERS AND OEMS, NOT LEAST BECAUSE RETURNS FALL INTO FOUR MAJOR CATEGORIES – EACH OF WHICH REQUIRES DIFFERENT AND UNIQUE TREATMENT.

1.

The vast majority of returned appliances can be repaired. This is done either by a third-party repair agent or, better still, by a reverse logistics provider which does in-house repair and repackaging of damaged product.

2.

Badly-damaged appliances are returned to the OEM. The third-party reverse logistics provider handles this process in its entirety, and their tracking system enables them to see if any particular product might have a recurring fault.

3.

Certain appliances cannot be resold as new, but some value can be recaptured by their refurbishment and discounted resale. In this case most reverse logistics providers will buy the damaged product from the client in order to salvage what value they can – at their own expense.

4.

Most truly valueless appliances can be taken to the regular dump, but certain harmful components (such as batteries) have to be disposed of in accordance with strict government regulations. Whatever the case may be, a professional reverse logistics provider will ensure that all waste is disposed of legally and affordably.

BENEFITS OF RETURNS MANAGEMENT: PART 1

RETAILERS AND MANUFACTURERS WHO EMPLOY THE SERVICES OF A REVERSE LOGISTICS SPECIALIST SEE THEIR PROFITS SOAR.

1. Cut down on transportation costs

Most reverse logistics providers allow clients to choose between paying a fixed monthly fee or a per-item rate. Either way it'll be more affordable than doing it on a piecemeal basis using couriers or companies that specialise in forward logistics. It's a simple matter of economies of scale. Buy bulk and save.

2. Reduce refunds and replacements

If an appliance that is sent for repair is not returned to the customer within the time period stipulated on the returns policy, the retailer is left with little choice. They must either give a full refund or replace the product with a new one. Both of these options cost money, and will probably mean that the customer is lost to a competitor. Using a reverse logistics supplier reduces the chances of overshooting the time period.

3. Salvage value by repackaging or replacing damaged product

There's nothing worse than having shop-soiled product on your inventory. Most leading reverse logistics 3PLs are able to repair or repackage these items: either at their own risk or as a value-added service to the retailer or OEM.



USING A REVERSE LOGISTICS SUPPLIER REDUCES THE CHANCES OF OVERSHOOTING THE TIME PERIOD.

BENEFITS OF RETURNS MANAGEMENT: PART 2

MOST CUSTOMERS ARE SURPRISED BY THE SUDDEN AND IMMEDIATE CHANGES THEY SEE ON THE SHOP FLOOR.

4. Free up retail space

This is one of the biggest advantages of keeping the back end of the supply chain as neat and tidy as the front end. Instead of having cavernous dusty, cluttered returns rooms which take up valuable space, a retailer can have a small, neat returns room which houses a handful of items at any given time.

Not only does this mean that fewer staff members are required to manage the returns rooms, but the now-empty space can be transformed into additional retail space.

5. Clamp down on store and warehouse theft

A disorganised returns room is an open invitation to would-be thieves. Implementing an effective returns management system will remove all temptation and will mean that only the most brazen or foolish employees would ever consider thieving. Everyone who comes in or out of the returns room will know that order prevails; that each item is being waited for by someone; that stealing something would never go unnoticed or unpunished.

In an effective returns management system, returned appliances are immediately traceable on a database. And a third party logistics provider is on hand to make sure that these items do indeed make their way through the back end of the supply chain: whatever this may entail.



IN AN EFFECTIVE RETURNS MANAGEMENT SYSTEM, RETURNED APPLIANCES ARE IMMEDIATELY TRACEABLE ON A DATABASE.

BENEFITS OF RETURNS MANAGEMENT: PART 3

BUT THE BIGGEST IMPACT COMES IN WAYS THAT ARE QUITE UNEXPECTED, AND TAKE A LITTLE LONGER TO TRICKLE DOWN TO THE BOTTOM LINE.

6 Improve customer satisfaction

One of the biggest contributors to customer dissatisfaction is the hassle of returning a product, where any number of things can go wrong:

- A rude employee could doubt the legitimacy of the return
- Repairs to the product may take far longer than expected
- Lack of information on the status of a return can compound customer frustration

Employing the services of a company that specialises in reverse logistics ensures that repairs happen a lot more quickly. And in the unlikely event that they don't, it will at least be possible to give customers up-to-the-minute information on the whereabouts of their product.

7 Find the weakest link in your supply chain

The reports generated by reverse logistics providers are as important (if not more important) to their customers than the transportation services they provide. The data gathered is so thorough that it allows retailers to make customised reports on any aspect of their business. These reports help them get rid of dead wood and streamline future operations, thereby maximising profit.

Gerard Sartori, pioneer of the industry in the US and president of Chicago-based reverse logistics provider Qualanex, sums it up adroitly: "Providing access to a suite of dashboard management reports containing key trend and timeline comparisons can provide the retailer and their trading partners with valuable historical and current snapshots of product that is being returned."



REVERSE LOGISTICS BY THE NUMBERS

THE OVERWHELMING EVIDENCE IN FAVOUR OF THIRD-PARTY REVERSE LOGISTICS PROVIDERS IS NOT MERELY CIRCUMSTANTIAL. A PLETHORA OF COLD, HARD FACTS BACK ITS CASE UP.

PROFITS

32% of respondents viewed reverse logistics as profit centre, while a further **42%** of those surveyed saw it as a strategic line of business. Only **26%** of businesses considered it to be a cost centre.

Blumberg Survey, USA, 2013

Companies with best-in-class reverse logistics capabilities have, on average, a **12%** advantage in customer satisfaction and returns cost manufacturers **9 TO 14%** of total sales. What other investment can potentially improve customer satisfaction by **12%**, and improve profits by up to **5%** of total sales?

Curtis Greve, Reverse Logistics and Sustainability Council, 2012

CUSTOMER SATISFACTION

86% of consumers will pay more for a better customer experience.

Poor customer experiences result in an estimated **\$83 BILLION** loss by US enterprises each year.

24% of consumers who had unsatisfactory service interactions shared their experiences through social networks in 2010, a **50%** increase from 2009.

RightNow Customer Experience Impact Report, USA, 2011

RETURNS

The average retail store has about a **6%** return rate. In the consumer electronics industry the rate may be as high as **8.5%**.

Greve-Davis Market Survey, USA, 2011



CONCLUSIONS

AN EFFECTIVE RETURNS MANAGEMENT SYSTEM MAXIMISES PROFITS FOR ALL RETAILERS AND OEMS, BUT ESPECIALLY FOR THOSE DEALING IN MEDIUM- OR HIGH-VALUE APPLIANCES AND WHITE GOODS WHICH ARE OFTEN RETURNED WITH MINOR OR NON-EXISTENT DEFECTS. IT DOES THIS IN A NUMBER OF WAYS, MOST NOTABLY BY:



Maximising profits



Increasing customer satisfaction, and in the process creating return customers



Providing invaluable data which can inform a retailer or OEM's current and future operations



Reducing transport and storage costs



Eliminating shrinkage



Recouping value by repairing or repackaging shop-soiled goods

■ A company that specialises in reverse logistics is best-equipped to deal with the myriad unique challenges posed by the back end of the supply chain.
