

# REVERSE LOGISTICS magazine®

Serving the Automotive, Health Sciences, Retail, and High Tech Industries



Edition 68



OFFICIAL MAGAZINE OF THE  
REVERSE LOGISTICS  
ASSOCIATION®



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The management of the flows of products that have been used and discarded by the customer or end user, and which were developed for the various forms of products and materials used in industrial production processes. This situation affects the entire product life cycle, since being used and discarded quickly, may have caused shortages of some raw materials, not having rapid provisioning and can also produce concentrated in time of waste generated increases.

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## Message from the Editor

### SLOW COOKER PROBLEMS – CONTINUED...

Last month I reported about an issue a friend of mine had with her slow cooker. Well good news – Customer Service at CrockPot reacted quickly to her inquiries, and as we speak she is using her new crock pot. She got a call from Customer Service, who apologized for her troubles, and told her they would be sending her a new crock-pot with a label to return the faulty crock-pot.



She got the new crock-pot within a few days, and was able to return the old one right away with the convenient label they provided. Even though she had to go through some time of frustration, her final impression of the company was a good one with how they took care of the problem and now she is happy with a working CrockPot.

This is another great example of customer service. Even though customers may go through a period of frustration or even dislike towards a company while they struggle with a faulty product, most often when the outcome gives the customer what they wanted and paid for, it makes them happy, and they will continue to be happy with the product and stay a loyal customer. Case Closed.

### RLA Committees and Webinars

If you aren't familiar with the Reverse Logistics Association's committees, then you are missing out on some great informational and networking opportunities. With our Industry Committees (page 8), Focus Committees (page 5), and Regional Committees (page 11) you can meet with other RLA members who are struggling and succeeding with some issues or questions you may have in Reverse Logistics through a monthly phone/video call. It's a great forum for you to gain knowledge and help when needed to apply to your Reverse Logistics decisions and best practices.

In addition, we have monthly webinars that take place from many of the committees. Here is a list of some of our upcoming webinars, be sure to not miss out. Just go to our RLA Webinars page to get registered: <http://www.rla.org/webinars.php>

### UPCOMING WEBINARS

#### October 15, 2014 Wednesday

[Supporting the Use of Recycled and Repurposed Materials](#) by Amy Augustine from U.S. Cellular Hosted by [Consumer Products Committee](#)

#### October 22, 2014 Wednesday

[How Intel Developed Their RL Systems to Drive Post Sales Value Upstream](#) by Paul Slaven from Intel Hosted by [Europe Committee](#)

#### October 22, 2014 Wednesday

[U.S. Exports of Used Electronic Products: Recent Trends, Factors and Approaches to Examining Exports](#) by Michael Anderson from US International Trade Commission Hosted by [Sustainability and Environmental Management Committee](#)

#### November 13, 2014 Thursday

[The Importance and Financial Benefits of Reverse Logistics in the South African Economy](#) by Craig Plowden from Revlogs (Pty) Ltd Hosted by [Africa Committee](#)

Thank you,  
Felecia Przybyla  
[editor@rla.org](mailto:editor@rla.org)



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- Kenneth Turner, Hewlett-Packard







## Message from the Publisher

### COMMITTEES AND SHOWS

As always this edition of the Reverse Logistics Magazine is stuffed full of interesting stories worth reading. You will also want to monitor the progress that our [Reverse Logistics Certification Committee](#) has made in the area of education.

In addition, look at the initiative that the [Reverse Logistics Standards Committee](#) has been working on for the QR Code with expanded criteria for reverse logistics.



Please also, look up the upcoming events that we have scheduled around the world ([www.rlashows.org](http://www.rlashows.org)). We are partnering with Reed Expos for the majority of our events so that we can concentrate on our reverse logistics content while maximizing on attendee traffic for our exhibitors. In addition, we have partnered with other organizations and their events to inform more on Reverse Logistics and our Association. Check out these “RLA@” events at [www.rlashows.org](http://www.rlashows.org) where Members of RLA can also join us at the RLA

Exhibit Booth to educate others on the Reverse Logistics process and on the solutions RLA member companies offer. And remember, now's the time to start getting ready for the largest reverse logistics event of the world, [RLA Conference & Expo in February 2015 in Las Vegas](#).

Best Regards,  
Gailen Vick, Founder & Publisher  
[www.RLA.org](http://www.RLA.org)

Upcoming Events	
Oct 19	RLA@ APICS 2014
Dec 10	Conf & Expo: Mumbai
Jan 06	RLA@ CES
Jan 08	Workshops: CES
Feb 09	Conf & Expo: Las Vegas
Mar 31	Conf & Expo: Paris
Jul 01	Conf & Expo: New Delhi

## OUR MISSION

Our mission is to educate and inform Reverse Logistics professionals around the world. RLA focuses on the reverse logistics processes across all industries. No matter the industry — High Tech, Consumer Electronics, Automotive, Medical/Pharmaceutical, Food and Beverage, Apparel, or other — our goal is to provide RL process knowledge to all industries. We want to educate everyone about the Reverse Logistics processes that are common to all industries and

to be a catalyst for innovation in developing and implementing new RL processes. We have been and will continue to provide our services to the industry at a moderate price.

Managing the latest information in services such as repair, customer service, parts management, end-of-life manufacturing, service logistics, field service, returns processing and order fulfillment (just to name a few) can be a little intimidating, to say the least. Yet that is exactly

what the Reverse Logistics Association provides through our membership services. We serve manufacturers and retailers in a variety of settings while offering ongoing updates on market trends, research, mergers and acquisitions and potential outsourcing opportunities to 3PSPs. We have gained the attention of 3PLs like FedEx, DHL, USPS and UPS. 3PSPs like Teleplan, Foxconn, Flextronics, Canon, Sony and Jabil, along with small- and medium-sized service providers have found that

RLA resources help advertise their services to a regional and global audience. OEMs like Microsoft, HP, RIM, and Sony, along with Retailers like Wal-Mart, Canadian Tire, Tesco and Best Buy all participate at our events. Through RLA Events, RLA Connect services and our publications — RL Magazine and the Weekly News Clippings email — we help OEMs, ODMs, Branded and Retail companies find service partners and solutions providers that were previously unknown to them.

## Board of Advisors

A Board of Advisors comprised of industry experts has been set up to monitor and assist the Reverse Logistics Association management team in making informed decisions. Advisors include:



**Dr. Mark Ferguson – University of South Carolina**, Dr. Mark Ferguson serves as the Director of the Sustainable Enterprise and Development Initiative. Dr. Ferguson has worked in the reverse logistics area for over ten years; teaching classes on reverse logistics topics, consulting with companies and providing thought leadership of the area through his research.



**James H. Hunt IV – GENCO Technology Services**, Jim is the Senior Vice President, Business Development for GENCO Technology Services. He has responsibility for account management, new business sales and solutions development. He joined GENCO in July 2012.



**Charles Johnston – Home Depot**, Charles Johnston is Director of Repair and Returns at The Home Depot. Chuck was with WAL-MART for the past 14 years and his responsibilities include Returns, Imports, Exports, Tires and Printing and Mailing Distribution.



**Troy Kubat - Walmart**, Troy is now the Director of Logistics Engineering-Grocery at Walmart having worked his way up from Director, Logistics Operations, Industrial Engineering Manager at Walmart - International Division and Japan Expatriate - Logistics Operations Lead at Walmart - International Division



**Thomas Maher - Dell**, Tom Maher joined Dell in 1997 and is the Executive Director for Global Service Parts. Mr. Maher is responsible for service parts life cycle support in over 100 countries. Mr. Maher's global service parts responsibilities include: planning, procurement, distribution, returns, repair, inventory management, supplier



management and parts disposal. These operations support 100% of Dell's warranty customers across all Business Units and all Product Lines.

**David Moloney, Google**, David Moloney, as Senior Manager of Reverse Logistics & Business Systems, is an operational leader with technical focus, a technical leader with operational focus: "I flip between both roles as circumstances require. I build operations for consumer electronics startups: business model, process, legal framework, international expansion, NPI, PLM, sourcing talent, forward logistics, contact centers, reverse logistics, wireless certification, online and backend systems, knowledge management, sleeve rolling-up."



**Ian Rusher - Cisco Systems**, 20 Years within Supply Chain Operations, of which the last 15 Years have been spent in reverse Logistics. Previous experience running 3Com EMEA Warranty/Service Repair Operations, Responsible for both Internal and 3rd party repair operational performance and Engineering support.



**Ian Towell – Tesco**, Responsible for end to end accountability for the non food returns business within UK Tesco, focussing on improving quality, policy application, asset recovery and logistical flow.



**Susan Wackerman – Hewlett-Packard Company**, Susan Wackerman is currently a Sr. Operations Manager in the Americas Supply Chain for HP's Imaging and Printing Group. In her position, Susan is responsible for the Recycling Operations for HP Americas and the Returns Operations / Remarketing for HP Americas Imaging and Printing Group.





# Reverse Logistics Association Industry Committees



Industry Committees are set up to provide a standing forum for Reverse Logistics Professionals to meet on a regional and global basis and discuss common Reverse Logistics issues at the RLA Conferences & Expos. Industry Committees educate the industry on reverse logistics:

- “Best Practices”
- Consumer Satisfaction Issues
- Regulations on a Worldwide & Regional Basis Processes that can Reduce Costs

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## The Amazon Effect: Why We Must Pay Attention to Our Customers

By Lisa Anderson, President of LMA Consulting Group, Inc.

Two thirds of manufacturers and distributors have customer service gaps when compared to Amazon and mega-distributors like Amazon, according to a research study performed by LMA Consulting Group Inc. Amazon has created not only a buzz with their innovative service options but they have also raised the bar for service permanently. If manufacturers and distributors want to maintain their customers, they must pay attention immediately.

For example, a large manufacturer in the aerospace industry receives feedback on a daily basis that service must dramatically improve and lead times need to be slashed. These concepts used to provide a strategic advantage; however, they are no longer enough. Now, companies must be on the leading edge and proactively creating relationships with key customers to thrive. In another example, a middle market manufacturing company in the consumer products industry finds that lead times must be reduced by 25-50% to maintain an edge.

According to the research study which surveyed manufacturers and distributors to better understand service expectations, websites are gaining in criticality.

Although many companies display products and services on-line, there is an increasing gap when compared to the additional services mega-distributors like Amazon offer. Having a website just gets manufacturers and distributors in the game. Instead, to thrive, it is important to leverage the website as a portal for key customers, to allow for tracking of order status, payment of invoices and returns. The bottom line is that 24/7 accessibility is the expected norm.

A majority of survey respondents feel that customers have become apt to do price shopping and negotiate price. Certainly if manufacturers and distributors go down this rabbit hole, outcomes are bleak. Thus, differentiating the company with value-add products and services is incredibly important to business success. Whereas quality used to be important, it must be an assumption. Instead, customers are looking for reduced lead times and dramatically improved service including options. Offering options and product and service customization is expected.

In response to the elevated customer service expectations, in addition to focusing on lead times, manufacturers and distributors are redesigning websites, providing more data and information to customers and extending hours.



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- Tony Sciarrotta, Reverse It Sales & Consulting



CUSTOMER





More and more companies are finding ways to capture data from customers to leverage to improve service and profit. Thus, although spreadsheets remain the top tool, business intelligence and big data are gaining in popularity in order to utilize the information in a way to make better decisions.

Manufacturers and distributors have not lost touch with the critical importance of leveraging technology in addressing these requirements as it's a great way to improve service while managing costs and cash flow. There has been a steady stream of interest in ERP (enterprise resource planning) systems upgrades and in utilizing tools such as e-commerce and CRM (customer relationship management) systems. The key is determining which technology will provide the best return on investment, given each company's unique set of customer requirements and capabilities. Implementing too many systems at once can be devastating vs. significant success with implementing the "right" system at the "right" time.

The greatest challenge that emerged from the survey is balancing what customers want with the resources and costs to implement the required changes. This can be a tall order for manufacturers and distributors. The never-ending battle to find the optimal mix of service, inventory and margin will be prevalent for years to come. A few strategies to successfully navigate the Amazon effect include the following: 1) Start with your people. 2) Involve your supply chain. 3) Provide tools & support.

1. **Start with your people:** Undoubtedly, the most often overlooked, untapped resource is employees. Have you ever seen a company with unhappy employees with happy customers? It does not exist! Beginning

with a focus on creating a culture of engagement and empowerment is a good place to start. Find ways to explain value and involve cross-functional teams in creating customer loyalty while managing resources and cost.

2. **Involve your supply chain:** In today's global interconnected world, a singular company focus, no matter how effective, will result in a deterioration of profitability over the long term. Manufacturers and distributors must look for strategic partners throughout their supply chain and find ways to collaborate to accelerate cash flow, improve margins and delight customers.

3. **Provide tools and support:** Last but not least, the best strategies fail in execution; thus, the key to being one of the 20% who succeed is to focus on blocking and tackling. Provide training, coaching and mentoring for star performers. Explain the value and provide methods and tools for creating internal best practice processes. Encourage further utilization of systems and support investment in the best technologies for creating a customer service edge.

In today's new normal business environment, the only constant is volatility. Getting a clear picture of customer needs and priorities is an essential starting point. Creating a value-add customer experience is a must. In order to stand out above the noise, manufacturers and distributors need to involve employees, supply chain partners and provide tools and support to create a customer service edge.



Lisa Anderson, President of LMA Consulting Group, Inc. is known as The Manufacturing Connector (SM) and is a leading expert in bridging the gap between supply chain strategy and execution to dramatically improve service levels, accelerate cash flow and maximize profits. Lisa has spoken at several industry conferences such as the Global Supply Chain & Logistics Summit and has been quoted in the media including The Wall Street Journal, ABC News and Industry Week. She is Board approved in Supply Chain strategy by SAC, was recognized as the 16th most influential in supply chain management by SAP and was the 2011 recipient of the APICS Southwest District's Milt Cook Award.

# DAVOS? THE ILLUMINATI? BILLIONAIRE SUMMITS? THEY'VE GOT NOTHING ON THE POWER OF THIS PLACE.

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# Defining the Field of Reverse Logistics

By Dr. Robert Gordon, faculty member at American Public University

Reverse logistics has gone by many different names over the years, but the field has now come into its own. In the past, some have stated that reverse logistics is a sub-set of supply chain management, while others have proposed that it is limited to returns or recycling.

Some associations have made their own definition of reverse logistics, yet no institution has created a research-based, consistent and logical definition.

To this end, research is being conducted at American Public University to create a Reverse Logistics Body of Knowledge (RLBOK), with the goal is to define the official standard of operational practices and theoretical concepts for the field.

The RLBOK examines the following eight recognized domains of reverse logistics applications and theory:

## Domain 1 – Market Research

Reverse logistics is a market-driven process and must evolve dynamically through continuous improvement. Reverse logistics is dedicated to embracing new technology and systems in order to meet the growing needs of the marketplace.

## Domain 2 – Strategic Planning

A strategic plan for reverse logistics operations provides direction and guidance for how activities should be organized and coordinated. Understanding critical business issues and success factors allows an organization to develop tactical initiatives and decision models that can be used on an ongoing basis to achieve reverse logistics goals.

## Domain 3 – Innovation

Successful logistical organizations cannot maintain long-term success without a process improvement cycle that boosts innovation. This domain creates a process framework that supports long-term success through innovation.

## Domain 4 – Project and Process

Returns, recycling, recalls, and repackaging are all project-based activities that need to be connected with a common message and service. Reverse logistics offers a common project platform that allows each of these reverse logistics issues to be addressed in a similar manner.



## TURNING GREEN INTO GOLD



Paying attention to the environment is not just good for nature, it's also good for the **bottom line.**"

Our Association doesn't save trees. Our Association educates others on how to eliminate the need to destroy them.





# WHAT IS THE REVERSE LOGISTICS ASSOCIATION?



To view this video without iTunes:  
<http://www.youtube.com/watch?v=lmqPO4r5XF4>

## Domain 5 – Cost and Benefits

This domain defines how to build a cost/ benefit process that not only finds the direct costs, but also quantifies the indirect costs and savings that are realized by a successful reverse logistics organization.

## Domain 6 – Communication

A reverse logistics organization exists to serve customers. Internal communication should mirror external communication. In addition, the data and information associated with communication to the customer must be defined.

## Domain 7 – Leadership

Effective leadership is essential for reverse logistics management. Leadership research has shown that transformational leadership is effective during times of change; hence, reverse logistics management will focus on transformational leadership.

## Domain 8 – Research Data

Data management is essential as material needs to be

tracked full- circle. Data protection measures that keep information private must be an essential aspect the process.

When completed, RLBOK will become the official standard for reverse logistics operations in the same manner as the Project Management Body of Knowledge (PMBOK) is the standard for project management.



Dr. Robert Lee Gordon is currently an associate professor with American Public University System in Reverse Logistics Management program. He has four published books, three regarding project management and one regarding reverse logistics in addition to dozens of articles. Dr. Gordon curates a Reverse Logistics topic at <http://www.scoop.it/t/reverse-logistics-by-robert-gordon2>.

At this year's RLA Conference & Expo in Las Vegas you may have noticed a television crew roaming around. The crew was there to capture response to the conference and make a video that displayed the essence of the Reverse Logistics Association. They were also filming segments for a new video series in RL Digital magazine called RLA Rewound. As you view it, you may see some familiar faces. A big thank you to everyone who took time out from their busy conference schedule to stop and talk with our reporter. We hope you will share the video with friends and colleagues as you introduce them to the association and explain what we do and how we can support them. Stay tuned, because we may be talking to you for the next series of videos for RLA Rewound.



## Top 3 Benefits of a Reverse Logistics Management Program

by Adam Robinson, Cerasis

### Reverse Logistics Management Program Benefits

As shippers strive to [wring every cent out of their logistics costs](#), they're increasingly taking a hard look at their reverse logistics management practices. And no wonder, they may find a motherlode waiting to be mined.

Companies can no longer afford to treat reverse logistics management as an afterthought. It needs to be a core capability within the supply chain organization. For years, most shippers paid little attention to returns.

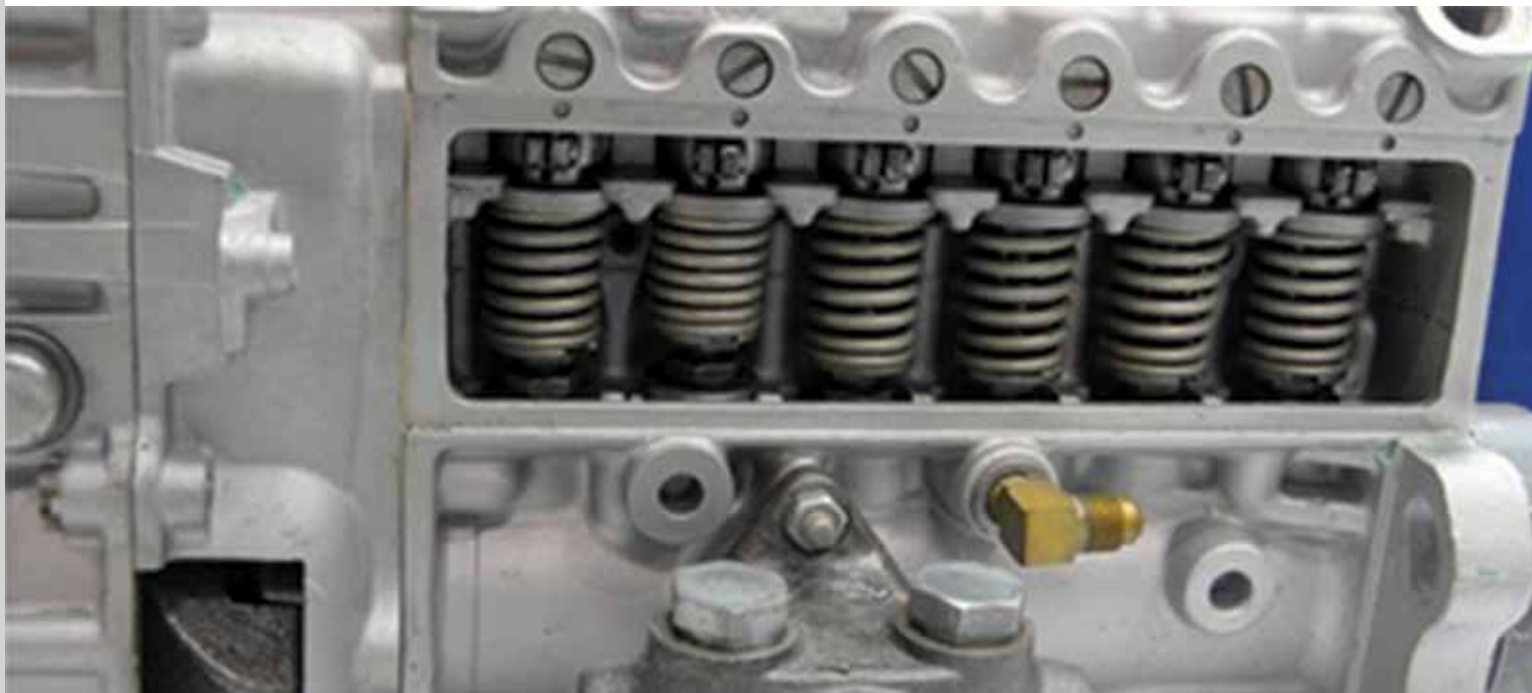
That has changed as companies increasingly realize that understanding and properly managing their reverse logistics programs can not only reduce costs, but also increase revenues. It can also make a huge difference in retaining consumer loyalty and protecting the brand, as we explain more fully below.

Just how big is the opportunity? According to the [Reverse Logistics Association](#), the volume of returns annually is estimated at between \$150 and \$200 billion at cost.

This represents approximately 0.7 percent of GNP and 6 percent of the Census Bureau's figure of \$3.5 trillion total U.S. annual retail sales. It has been estimated that supply chain costs associated with reverse logistics average between 7 percent to 10 percent of cost of goods.

### #1: Reverse Logistics Management Gives Increased Customer Satisfaction

Customer satisfaction occurs when an organization's products or services meet or exceed customer expectations. In fact, all things being equal, customers typically care more about having their product, service and support requirements met, and much less about how their vendors do it. What [customers really want is to have their voices heard](#), and then, have their suppliers actually do something about it (i.e., they want to see results). Many shippers, or shippers who have employed a third party logistics provider, use their logistics and reverse logistics management capabilities as market differentiators. The intent is to keep customers so satisfied with their products and services, before, during, and following the original delivery, that they remain loyal to their suppliers, repurchasing their products and/or services again, and again, and again.



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However, customer satisfaction may be viewed in two very different ways: either as event-specific, or cumulative. In the former, the emphasis is on the customer's evaluation of a specific product/service event (i.e., product sale, service call, part order, return merchandise, etc.). However, in the latter, the evaluation is based on the customer's total pre- and post-purchase experience with the company's products, services and support over time (i.e., the "total customer experience"). Firms that integrate new technologies, such as RFIDs, etc., into their logistics services are generally more likely to establish and maintain strong customer relationships over the long haul as a result of their technology-enhanced capabilities.

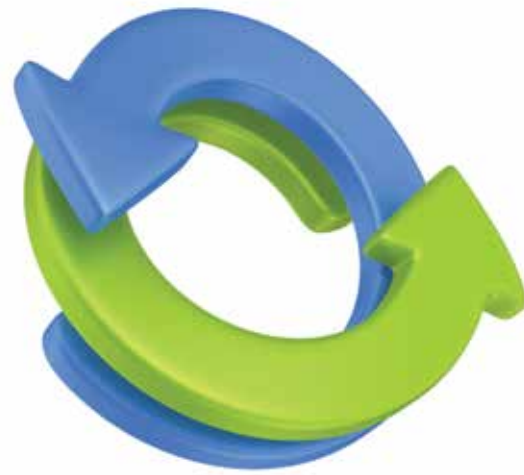
The main characteristics that ultimately differentiate one logistics organization (and its reverse logistics management processes) from another may be categorized essentially as follows:

- **Agile Adaptability**, or how well (and how quickly) the organization can respond to changes in its customer/market demands and, as a result, develop the new logistics processes, products and services required to meet (and exceed) them;
- **Inventory Management**, or the ability to manage both the cost and the availability of inventories effectively;



- **Cycle Times**, or the time it takes the organization to routinely fill customer orders and related activities—

both on the inbound logistics management and reverse logistics management sides;



- **Key Performance Indicators (KPIs)**, or the use of the most appropriate, timely and accurate metrics for measuring performance (and customer satisfaction) on an ongoing basis; and
- **Market Position and Presence**, or the ability of the organization to establish, maintain and promote its logistics capabilities and strengths both to its existing customers, as well as to the marketplace as a whole.

According to the Aberdeen Group, "very few companies are more than marginally satisfied with their current reverse logistics approach, with nearly 60% reporting that they are somewhat or not satisfied." This does not suggest a satisfied marketplace.

Market research has shown that customers believe the following attributes to be of the greatest importance for both forward and reverse logistics management:

- Elimination of slow or lost shipments
- Elimination of shipment discrepancies
- Improved profit margins through the use of optimization tools
- Reduction of inventory carrying costs for the customer
- Support for its customers' efforts to reduce inventory investments
- Significantly reduced product/part returns
- Improved customer service and satisfaction through:
- Improved delivery reliability

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- Improved efficiencies in customers' shipping/receiving operations
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However, for there to truly be a "bond," or "partnership," between the reverse logistics management services provider and its customers, there must also be the following shared attributes:

- Mutually high expectations for the success of the partnership
- Mutual loyalty
- Framework/capability for technical data/information exchange (e.g., EDI)
- Willingness to share risks/provide assistance in critical situations
- Willingness to negotiate/mediate differences of opinion/interpretation
- Use of joint provider/user task forces/teams
- Two-way, frequent communications and feedback channels
- Joint performance monitoring and tracking (i.e., against pre-set goals)

Overall, regardless of market segment or size of the organization, the most widely acknowledged benefits derived from the use of reverse logistics services may generally be categorized in the following areas:

- Increased product/service revenues and profitability
- Enhanced product/service uptime or availability
- Reduced inventory/parts acquisition costs
- Improved efficiency, time-sensitivity, and ability to troubleshoot problems
- Improved customer satisfaction and retention

These are the primary factors used by the marketplace to evaluate the benefits of the reverse logistics management services, and providers, they use to manage this portion

of their respective businesses.

### #2 Reduce Overall Total Costs with a Reverse Logistics Management Program

Reverse logistics are a higher priority in some industries than in others, particularly those where returned product can be recycled or remanufactured. For example, 70 to 90 percent of the goods sold in the motor vehicle aftermarket have been remanufactured, reports the [Remanufacturing Industrial Council International](#).

And, the market for remanufactured parts is \$43 billion as of 2011, according to the [Auto Parts Remanufacturers Association](#). Getting parts from a dealer or repair shop back to the manufacturer, or on to a remanufacturer so that the parts can be rebuilt and resold, requires sound reverse logistics management processes.

A great example comes from a diesel engine manufacturer. This aftermarket group works with 31 regional distributorships to support engines once they're out in the field. Distributors are given a financial incentive to collect and send back broken or damaged parts to the aftermarket group for

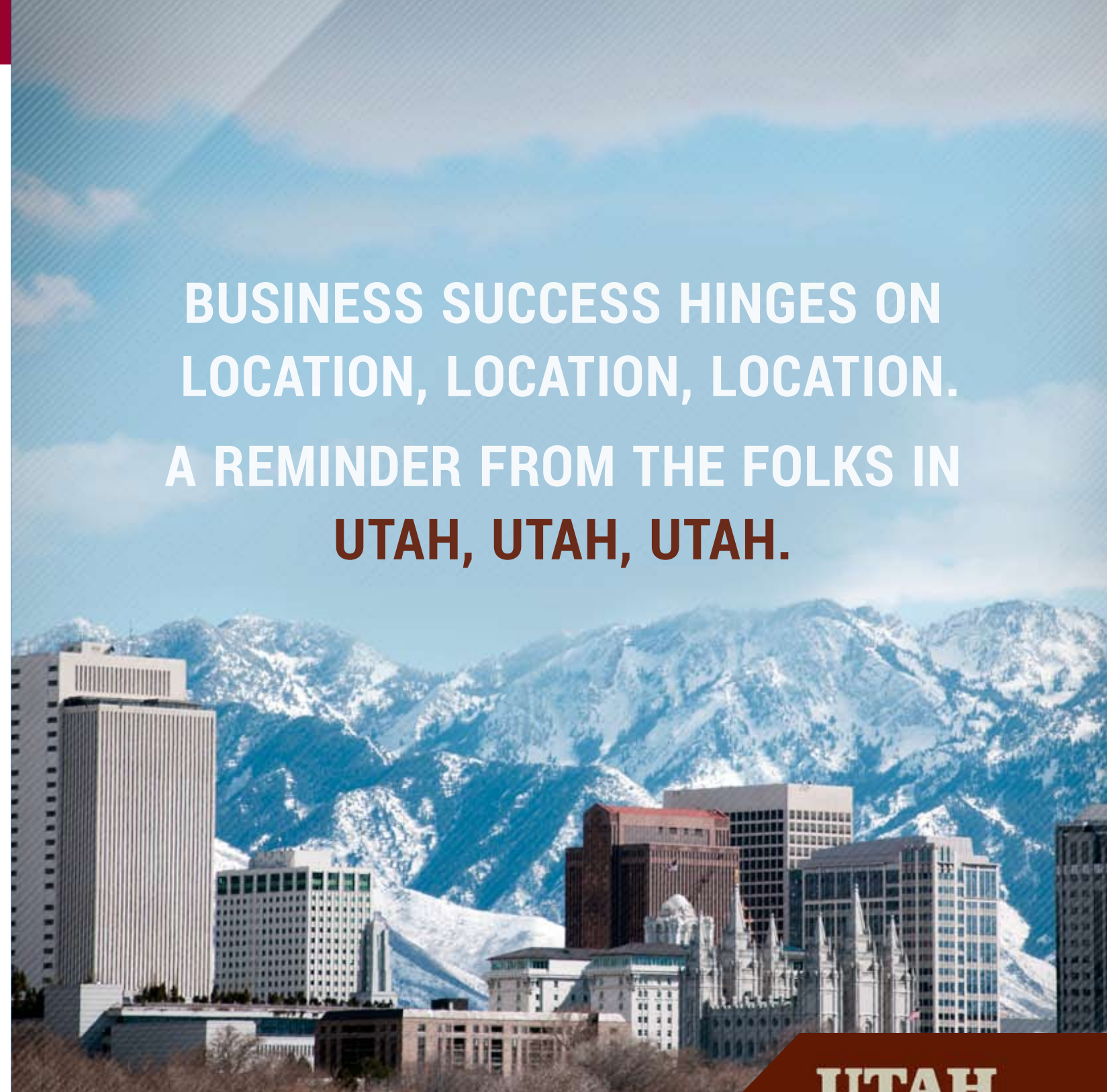


remanufacturing.

When the core products, parts coming back to be remanufactured, are ready to be returned, the distributor electronically sends an order to the aftermarket group. Core products are returned via a dedicated freight desk of customer service reps who are ready to schedule pickups using a set of preferred carriers.

The returns are part of a continuous loop within the reverse logistics management practices. The preferred carriers deliver stock orders of new and remanufactured parts to these distributors weekly, and picks up core

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### The Reverse Logistics Cost Equation:

$$\begin{aligned} & \text{Processing Costs} \\ & + \text{Logistics Costs} \\ & + \text{Credits/Replacements Cost} \\ & + \text{Asset Depreciation} \\ & = \text{Total Reverse Logistics Costs} \end{aligned}$$

It is very important to note that a reduction in any one of these Reverse Logistics Cost Equation components goes straight to your corporate bottom line profit.

### Reverse Logistics Management Cost Components

A closer look at each component is as follows:

- **Processing Costs:** are all costs incurred to process and handle your returns. For example, your returns process may start with the authorization of the return by a call center representative, followed by the receipt of the returned item at your warehouse and then the repair or refurbishment of the returned item.
- **Logistics Costs:** are all costs related to moving and handling the returning units as well as the cost related to the shipping of any replacement units. This may include freight costs for pickup and for shipping. It may also include warehouse handling and storage costs not already captured as a processing cost above.



- **Credits/Replacement Costs:** most products that are returned require the issuance of a credit or the exchange with the same or a similar replacement product.

products to be returned to the group's distribution center in Memphis. In addition, the group utilizes a plastic reusable container for outbound shipments.

The core product is shipped back to the group in those containers. It's a continual loop of product, packaging, and transportation, which helps maintain lower costs.

At the Memphis distribution center, warehouse associates then use a dedicated part of the receiving area to sort incoming parts. They process 400 trailers a month, sorting perhaps 180,000 core parts. After inspecting the returns, associates confirm receipt of the part so that the distributor can receive timely credit for the return.

This is a crucial step in the process. The third party logistics company does all the coordinating, scheduling, communicating, freight payment, and auditing, while the manufacturer provides the routing guides and can then have full visibility over the process.

### Use the Reverse Logistics Cost Equation to Understand How to Make Cost Reductions Impact your Bottom Line

For real cost reduction, you need to understand your reverse logistics management metrics. The Reverse Logistics Cost Equation is an assembly of the key cost components or categories related to the creation, handling, processing and final disposition of a return item. The equation is as follows:

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- **Asset Depreciation:** most returned products have some value, whether it can be re-stocked, refurbished or even sold as scrap. Often these items have a higher recovery value than you may think. It is very important to consider the financial value that may be lost over time if these returned products are held too long and not dispositioned quickly.

but the immediate impact to profit can not be overlooked. Nor can the immediate gain you could achieve by somehow reducing the credits issued to the retailer by one unit. In this case, the impact of issuing an \$80 credit for a unit is certainly much greater than the \$3/unit you achieved above with the small improvement in per unit processing cost.

### Impact of a reduction in the Reverse Logistics Cost Equation Components

Cost Component	Potential Savings Range
	\$ (very small) to \$\$\$\$ (very large)
Processing Costs	\$ – \$\$
Logistics Costs	\$ – \$\$\$
Credits/Replacement Costs	\$\$\$ – \$\$\$\$\$
Asset Depreciation	\$\$ – \$\$\$\$\$

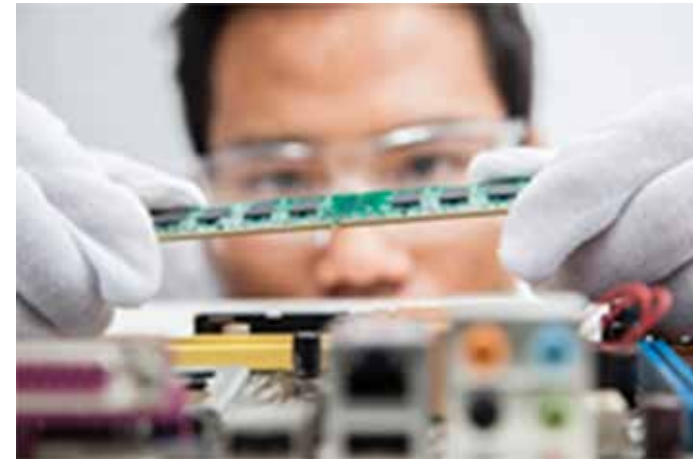
Small improvements to processing often result in some financial savings that increases corporate profits. For instance, it may cost you \$30/unit to process a warranty return. If you are able to improve the process and save 10% of your processing costs, you will send \$3/unit to your corporate bottom line profitability.

### #3: Maximize Return on Assets with an Effective Reverse Logistics Management Program

Small improvements in the area of credits/replacement or the area of asset depreciation can often result in much larger profit impact. The reason for this is often driven from the impact of your cost per unit. If we look at the example of one of your retailers returning one of your electronics items due to a product defect. The cost to issue a credit to the retailer is equal to the amount you sold that unit to the retailer for; let's say \$80 as an example.



The impact of this return is an immediate reduction in your corporate profit of the full \$80 for this unit. Hopefully, you will be able to recover some value from this returned unit,



Similarly, large opportunities are often available in the area of asset depreciation from a reverse logistics management program. The number of channels to dispose of returned goods (in any condition) has grown significantly over the past few years. The profit impact of this opportunity can be very significant. For instance an electronic manufacturer recently learned that they could dispose of returned items collecting dust in their warehouse at 80% of retail value. The per unit selling price was above their original manufactured cost, but since these were returned units their book value was already written off to zero, so the gross profit margin was 100%. The profit impact of returned asset depreciation is essential to monitor, because time can rapidly reduce the value of idle returned goods and their potential positive impact of corporate profits.



Adam Robinson oversees the overall marketing strategy for Cerasis including website development, social media and content marketing, trade show marketing, email campaigns, and webinar marketing. Mr. Robinson works with the business development department to create messaging that attracts the right decision makers, gaining inbound leads and increasing brand awareness all while shortening sales cycles, the time it takes to gain sales appointments and set proper sales and execution expectations.

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# Business Benefits by Return Channels in Reverse Logistics Strategy

by José Antonio Valles R., PhD

## Abstract

Products purchased by the customer, after being used and discarded, can be used as raw material in the manufacture of other products through reverse logistics strategies.

Returns may exist in the use of purchased products, generating the client return these to your supplier for repair or to be replaced by another. Such situations create a distribution chain from customer to supplier and manufacturer it generates benefits to the company.

**Keywords:** business benefits, return channels, reverse logistics strategy

## Introduction

The management of the flows of products that have been used and discarded by the customer or end user, and which were developed for the various forms of products and materials used in industrial production processes. This situation affects the entire product life cycle, since being used and discarded quickly, may have caused shortages of some raw materials, not having

rapid provisioning and can also produce concentrated in time of waste generated increases.

Reverse logistics is a form of logistics, where the flow of materials from the customer to the producer, is defined as the process of planning, implementation and control, efficiently, at optimal cost, is the flow of products from the point consumption to the point of origin, ie the manufacturer uses this process in order to recover the value of the materials or ensure proper disposal.

Reverse logistics considers the collection and transportation of used product from the end user to the producer, including the processing of products returned in new usable products. Manufacturer seeks the following objectives:

Collect used products in order to incorporate them into a new value chain.

Separate the components or materials of returned products.

Sort and / or mixing of components or materials to integrate a large volume and be able to carry an economic cost.

Carrying components or materials into intermediate treatment processes or retreat.

Give intermediate treatment, for example, washing, granulating, and filtration, to prepare materials for reprocessing processes.

Process to return the material for reuse, either repair, recycling or reconditioning. In the reverse logistics may involve various stakeholders, developing different functions that can be linked to direct flow.



## Development strategy

Return Channel has a function in reverse logistics, this is known as a return channel and is determined by products, the products are introduced to reverse logistics flow, and you can see the following string types return:

Quality products that the seller has removed from the catalogs.

Goods out of use where the producer puts its products in occupied spaces competitor's products, this helps the seller since incurs no costs for changing supplier, for example, a clothing supplier clothing acquires its competitor and agreement with the seller who offers its product only.

Seasonal merchandise products that have reached their final sales period. Here the retailer can sell products at a discount or retrieve its value using the reverse logistics process.

Products with excess stock market returns, That is, there are quality products that the company has in excess but continues selling and moving products to other retailers or in stores in shelters sold.

Products with defects. The defects can be discovered by the vendor or the customer, a notice to the producer and according to agreements entered is compensated retailer or end consumer with a new product or refunds your money.

Falsely defective products. This situation happens when the client does not read the operation manual therefore considered that the product is defective to become

inappropriate due not handle it properly.

Damaged or used products. They cannot be sold as new as they lost value.

Products under warranty. These should be replaced with well-functioning or repaired.

Products returned by the end user as they have consummated their use, in order to destroy them or give them a treat not to damage the environment.

Goods returned by the customer and that have been opened and / or used by it. They cannot be sold as top quality.



Packing and packaging. They are items that accompany the material for use and can be reused or discarded.

The main objective of reverse logistics is to determine how the company can benefit from products and packaging, from where you ended your life to where they can be processed, reused and recovered. In this sense, the ultimate destinations for company products are recovered and once the product has returned to decide, seek to maximize their value.

Reverse logistics allows the returned products part of various processes such as reusing, repairing, selling second hand, recycled or if renewal of defective parts. For each process, the manufacturer must consider efficient alternatives when designing products or processes these alternatives are:

1. Repair / Renovation. The repair is intended to return a product to function when it has been used by the customer, the business is the repair and







replacement only if the damaged parts. This activity requires disassembling and reassembling the parts of the product, also considers the replacement of damaged parts replaced. The damaged parts are repaired as quickly as possible and become part of the inventory of parts. Instead, the renewal is intended to give a specific quality products used in this activity, all parts of a product are inspected and repaired or replaced; also combined with the renewal date to replace old modules and other parts technologically current technologies. Such is the case of household appliances, automobiles and equipment manufacturing.

2. Recycling / Reprocessing. They represent a set of activities designed to add value to the products during the transformation process so that they can be products that can be recycled or re manufacturing. Product recycling recovered materials contained in products returned by the disassembly of parts, classified and transformed into raw materials, which means new production processes. While reprocessing involves the disassembly of parts, classification, restoration and reassembly, these products manage quality standards as if they were new products, so the products used are completely disassembled and all parts are rigorously inspected. For example paper, glass, metals, some plastics, textiles and automotive oils.
3. Cannibalism. This is called the process to recover a small portion of the product that can be reused. Its purpose is to recover a small group of parts of products or components that can be reused. These

activities involve the selective disassembly of used goods and inspect the parts that can be reused. As such parts that can be retrieved from a computer: fan, chips, monitors and keyboards.

4. Reuse. In this process the products returned can be reused after cleaning and inspect it may require less preparation, without being introduced into the manufacturing process. For example, elements of packaging products for shipment boxes, pallets, platforms or bottles. Benefits after-sales service.

The customer service refers to service that is provided to the customer for purchasing the product, the process begins when the client requests the seller receive attention: product defects, not knowing how to use it, or no longer require it. This situation generates an expense to provide the flow of customer product back to the manufacturer.

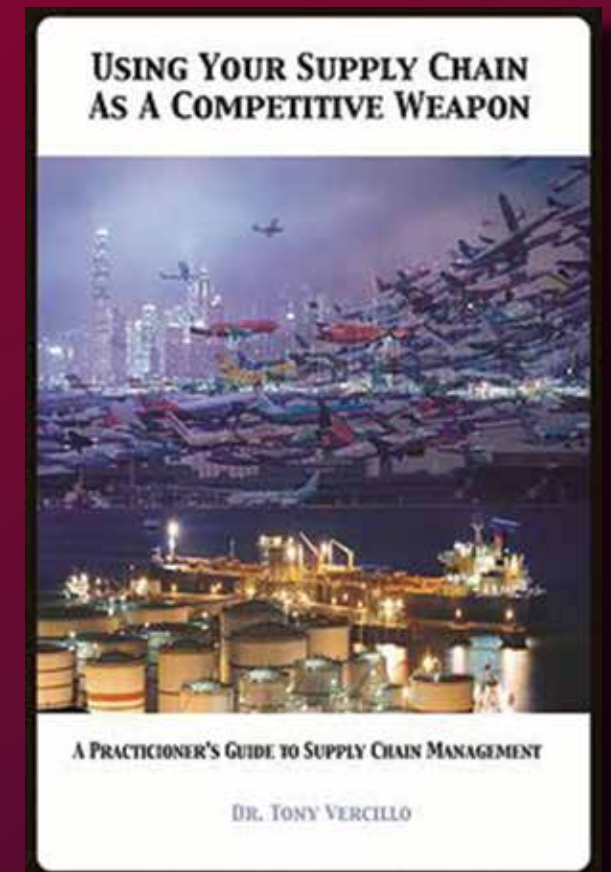
The costs and savings sales service considered the difference between the objectives of the manufacturer and seller. If a seller wants to return a product, the manufacturer and seller might disagree on the condition of the product, its value and the response time. The important thing is that both sides need to realize that they must maintain a mutually beneficial relationship, so it is appropriate that work together to reduce the number of returns and the speed of processing. In this sense the reverse logistics integrates the interests of the parties conducting activities, which are divided according to



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whether a product, packaging, and once a material has been returned to the company can choose one of several options that minimize processing costs and are described below: If the case of an intermediate company in the distribution channel, the product can be returned to your supplier for a full refund. If the product has not been used, it can be resold to another customer or if it can be sold through an outlet store stocks.

The returned product does not have the original quality to be sold, it can be supplied to a charity or exported to a less demanding foreign market. If the product cannot be sold in accordance with the above, then the company can increase the selling price significantly through refurbishment, renovation or reprocessing. If the manufacturer cannot accomplish the above, can contract a third party to whom or the material can be sold to a specialist for refurbishment, renovation or reprocessing company and then sell it for a second time as a rerun. If the item is in poor condition and cannot be reprocessed, the company disposes of the product at the lowest cost, which can be recovered and the rest is sent to a landfill. For packaging, the activities undertaken are similar to those of the product, considering the analysis of options to use, if not appropriate, evaluate alternatives renewal of packaging. If this is not possible, look for materials recovery and recycling.

Another option to sell the products, which for various reasons have not been sold through direct distribution and recover the costs of the supply chain, is the use of secondary markets. This situation involves the transfer of the product directly from the manufacturer to the secondary market company. The use of the secondary market occurs for any of the following reasons:

Changes in product packaging, generated by new designs



or changes in the size of the product. An example of this is the food: drinks, processed foods, etc.. For product design, when it introduces a new product generates an inventory problem, as this may be followed by selling on the secondary market. Example is mobile phone accessories, such as chargers, and so on.

Order cancellation, this situation generates excess inventory as the manufacturer is interested in recovering the cost of investment, sold to the secondary market at a lower price. For example apparel: school uniforms, sportswear and so on.

Low volume sales, caused by mismatches in forecasting product sales, this is preferable to sell the product in the secondary market to keep unsold. Examples are seasonal products: coats, food, drinks, etc.



### Strategy proposal

There are ways to generate savings and increase benefit s by implementing reverse logistics strategy, which are listed below: Curbing returned or defective merchandise not guaranteed. This implies the risk of absorbing material which may be defective, damaged or unwanted, to attract customers and increase sales at the same time pressuring vendors and thus have satisfied customers for servicing.

1. Reduced cycle time. This is achieved by implementing the CEDI a process to assess whether a product is defective returns may be reused or renewed or sent to landfill required.
2. Having information systems adapted to the requirements of the production company and links to sellers or retailers.
3. Having centralized return centers, these places has dedicated processing facilities for the rapid and efficient handling of returned products. In a

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If you are working in the reverse logistics field with three or more years of experience, then you are ready to take the Reverse Logistics Association's preparation course for the Reverse Logistics Professional Certification Examination. The course is 8 hours of training in the foundational principles of reverse logistics and the business practices that lead to world-class performance. The course is highly interactive in an experiential-learning format that maximizes your training so that you can immediately apply what you have learned on the job. After passing the examination, you will be qualified to put "RLP" after your name distinguishing you are a highly-trained professional in reverse logistics.



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If you are a manager of reverse logistics processes with five or more years of experience, then now is the time to take the next step in your career by taking the Reverse Logistics Association's preparation course for the Reverse Logistics Manager Certification Examination. The course provides 16 hours of intense instruction in the latest trends in reverse logistics and the best practices that will set you and your organization apart in your industry. You will receive in depth training in the strategic and tactical aspects of reverse logistics. And, the course also covers the tried-and-true techniques that can help a manager lead his or her staff you achieve the greatest potential value-recapture for their organization. "RLM" after your name says that you have demonstrated a high-level of competence to lead and direct reverse logistics processes.

### REVERSE LOGISTICS TRAINER (RLT)

If you qualify as a Reverse Logistics Manager and you have training experience, by taking the Reverse Logistics Association's preparation course for the Reverse Logistics Trainer Certification Examination, you can become qualified to train RLPs and RLMs. The course is 24 hours long to strengthen your mastery of reverse logistics concepts and techniques as well as give you the skills to effective teach them to others. As an RLT you will be a registered education provider and you will be qualified to work collaboratively with RLA to help organizations around the world to prepare their personnel to achieve high-level performance in reverse logistics.



**RL Certification program is organized by the RL Certification Committee**





centralized system returned products are taken to a central facility where they are sorted, processed and then transported to your next destination. It has the advantage of forming large volumes of processed products, in addition to having trained for the classification of staff returned products, the advantages of these facilities are simplifying sales processes, improvements in supplier relationships, better control on inventory of returned products, reduced administrative costs, reduced storage costs and reducing costs sent to landfills. Returns zero. In this strategy program the producer and the distributor do not allow product return by the supply chain. The producer announced to its customers that no refunds once the order is placed and, as a sales strategy, gives discounts when ordering. In other cases, the returns generated will be destroyed or disposed by other means.

4. Negotiation. In this activity, the price of traded goods returned without any reference of the real costs and benefits granted by the reverse flow of material. Sometimes the negotiations conducted specialized third parties to transfer the material returned to its original source.



5. Financial management. Companies are required to have internal accounting processes that integrate reverse logistics operations. The main concern is to identify the financial structure of reverse logistics system, and the manner in which the product is introduced to return the accounting operations of the company. Sometimes the costs of product returns are charged to the sales department and the sales staff is penalized for returns, it will try to quickly introduce the product without seeking the most appropriate way to retrieve its value.
6. Outsourcing. It consists of the outsourcing companies to do the reverse product flow, are characterized by external providers and specialists in handling and reprocessing renewal.



The benefits considered by the difference between the objectives of the manufacturer and seller. If a seller wants to return a product, the manufacturer and seller must agree on the condition of the product, its value and the response time.

### Conclusion

The important thing is that sides, client and company need to realize a mutually benefit relationship and considered the difference between the objectives of the manufacturer and seller. If a seller wants to return a product, the manufacturer and seller must agree on the condition of the product, its value and the response time by a correct strategy.

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# PRODUCT LIFE CYCLE

## Supply Chain

## AfterMarket Supply Chain

### FORWARD LOGISTICS

### REVERSE LOGISTICS

#### New Product Development

- Design Development
- Technology Roadmaps
- ASIC Development
- Mechanical Design
- PCB Layout
- Prototyping
- New Product Introduction

#### Material Management

- Vendor Relations
- Planning
- Procurement
- Inventory Planning
- Component Fabrication

#### Manufacturing & Distribution

- PCB Assembly
- Box Assembly
- Volume Manufacturing
- Integration
- Configuration
- Final Testing
- Distribution to Customer
- Customer Fulfilment
- Transportation

END USER • RETAILERS • RESSELLERS

#### AfterMarket Customer Service

- Customer Service (helpdesk)
- Depot Repair/ReMan
- Service Logistics (Field Service)
  - Transportation/Warehousing
  - Spare Parts Management
  - RMA Management
  - Replacement Management
- Refurbishment
- Screening/Count Auditing
- End-of-life Manufacturing
- Remanufacturing
- Fulfillment Services
- IT Process Management
- Recycling
- Scrap/Waste Management
- Gray/B Channel Management
- Warranty Management
- Asset Management/ITad - IT Asset Disposition
- Sustainability/EPR - Extended Producer Responsibility
- Environmental Resources





## Supplier Recovery Efforts:

**Are the automotive OEMs paying a growing or shrinking percentage of the warranty costs of their industry? Are the warranty costs of their suppliers rising or falling as a result of their efforts to make them split the bill?**

*by Eric Arnum, editor, of Warranty Week*

When it comes to the supplier recovery efforts of the automotive OEMs, their best days may now be behind them. The OEMs are seeing their warranty expenses soar while their suppliers are seeing their own expenses fall. It certainly seems to be a reversal of the trend seen just a few years ago.



Five years ago we noticed that the automotive OEMs were paying a smaller and smaller share of the overall automotive industry's warranty claims, suggesting they were successfully shifting more and more of their costs onto their parts suppliers. But that trend seems to have stopped in 2012, and to have switched direction in 2013 and the first half of 2014.

We think it's partially because of some big-headline warranty calamities, specifically Navistar's problems with dirty diesel engines and General Motors' recent safety recalls. But it also could be due to the OEMs letting loose a bit on the grip they once had on their suppliers, and letting some recoverable expenses go unretrieved. Or it could be a little of both.

Let's start with a chart that should be familiar to steady readers of Warranty Week. Figure 1 tracks the claims

payments of 49 U.S.-based automotive OEMs and 119 of their U.S.-based suppliers over the past 11-1/2 years. But rather than track those payments in terms of dollars, we're assigning them a percentage market share.

If, in a given year, the automotive industry pays out \$10 billion in warranty claims, and the OEMs pay \$9 billion while their suppliers pay \$1 billion, then their respective market shares would be 90% and 10%. But since we're measuring the claims payments quarterly in Figure 1, they'd be paying 90% of \$2.5 billion (\$2.25 billion) and 10% of \$2.5 billion (\$250 million) four times per year, respectively.

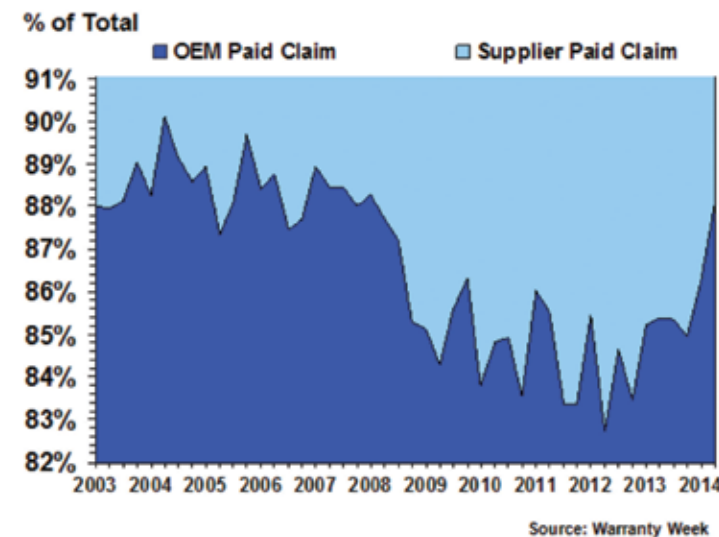
### Supplier Recovery from 2003 to 2014

The dollar amounts aren't that important. What we're looking for is the change in market shares over time. As can be seen in Figure 1, back in 2003 to 2005 the OEMs' share was indeed close to 90% of the total. In fact, from 2003 to 2007 their share remained primarily within a range of 87% to 90%.

That means their suppliers were paying roughly 10% of the total bill. Well, to be precise, their share ranged from 10% to 13% from 2003 to 2007. The annual bill for the industry as a whole grew from \$11 billion in 2003 to \$12.9 billion in 2007. And since all the companies are reporting their net expenses (payments minus reimbursements) we know this is more or less the total for the U.S. automotive industry (though it does not include imports).

Then something changed. The OEMs began shifting more and more of their warranty expenses onto their suppliers. In 2009, the OEMs' share fell below 85%, and touched a new low of 82.7% in the middle of 2012. That's an enormous shift of responsibility from the OEMs to their suppliers. For those poor suppliers, going from 10% responsibility to 17% responsibility implies a 70% increase in their share of the bill!

**Figure 1**  
**Automotive Product Warranties**  
**Claims Paid by U.S.-based Companies**  
**(as a percent of the total, 2003-2014)**



But then notice what happened after that new low was struck in the middle of 2012. In 2013, the OEMs went back up to 85%. And by the midpoint of 2014 their responsibility was back up to 88%. So in essence, we're right back to where we were seven years ago, as if the tightening had never happened.

Most automotive OEMs, when they talk about it, suggest that in an ideal world they could shift 30% or even 40% of their total warranty expenses back onto their suppliers.

So far, the best they have ever done was 17.3% in the middle of 2012. And the worst they've ever done was the 10% mark set in the middle of 2004.

We don't know what the true figure might be. Perhaps it's 20%. Maybe it's 30%. But it's probably not 40%. The suppliers account for 35% of the revenue. It's hard to imagine they'd account for a higher share of the expenses. It's much easier to believe it's lower than 35%.

### Guessing 25%

Let's pick 25% as a round number estimate. Let's assume that in a perfect world, the OEMs would be able to shift 25% of their warranty claims payments back onto their suppliers. So what we've done in Figure 1A is to take the same data from Figure 1, and to add a new line at 75%.

Everything below that line is and forever shall be the responsibility of the OEMs. They'll never be able to get their share down below 75%, nor can they get their suppliers' share above 25%. That's the maximum.

And then everything above 75% is up for grabs. As mentioned, the shares are now back up to 12% and 88%, where they were for most of 2003 to 2007. But they've been as low as 17.3% and 82.7% in 2012.

In Figure 1A, the light blue section represents the successful supplier recoveries. The dark blue section above 75% represents the lost opportunities -- the supplier recoveries that were theoretically possible but that didn't happen for one reason or another.

## Industry Events

**RLA@APICS 2014**  
October 19, 2014

**Conf & Expo: Mumbai**  
December 10, 2014

**2015 International CES**  
January 6-9, 2015

**Reverse Logistics Workshops: 2015 International CES**  
January 8, 2015

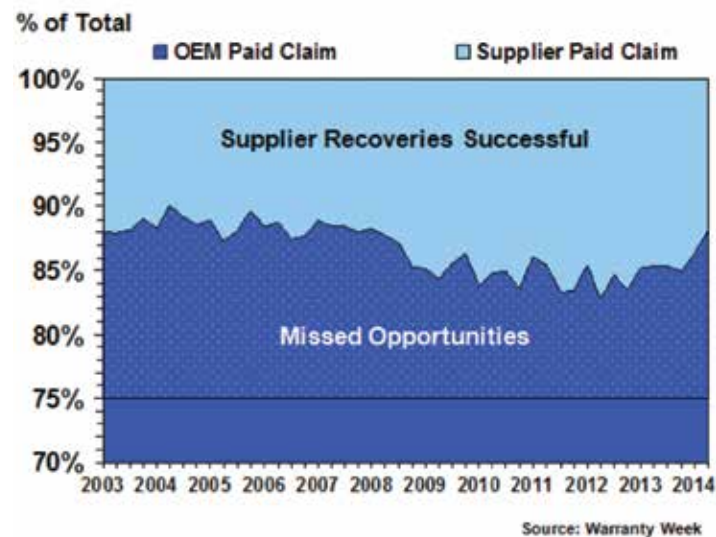
**RLA Conference & Expo: Las Vegas 2015**  
February 2, 2015

**RLA Conference & Expo: Paris 2015**  
March 31, 2015



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**Figure 1A**  
**Automotive Product Warranties**  
**Claims Paid by U.S.-based Companies**  
**(as a percent of the total, 2003-2014)**



Again, the data is the same in Figures 1 and 1A. It's the vertical scale that's different. And, the addition of the line at 75% is new. Readers who sincerely believe that 30% or even 40% supplier recoveries are possible can move that line down. We just don't think it's possible, given how dealers charge the OEMs for labor as well as parts, and given how many "No Trouble Found" claims they make each year.

For the OEMs, there's good news and there's bad news in Figure 1A. The good news is that they're still shifting about half of what's possible to their suppliers. If 25% is the theoretical maximum, then at 12% to 17% they're successfully shifting at least one-half and sometimes five-eighths of the maximum to their suppliers.

The bad news is they're still leaving billions on the table. Last year, the OEMs shifted 15% of the \$10.13 billion industry total onto their suppliers. But that means they left more than a billion dollars on the table (the difference between 15% and 25%). So far this year, they've shifted only 13% of \$5.55 billion onto their suppliers. And that means they're losing ground.

### Gap Between Expense Rates

In Figure 2, we've measured the claims rate and accrual rate of the 49 automotive OEMs and 119 of their suppliers over the past 46 quarters. It's a simple weighted average,

calculated by adding together all their claims paid and accruals made, and dividing those totals by their product sales revenue figures.

As can be seen in the chart below, the OEMs have generally been reducing their claims and accrual rates over the past 11-1/2 years, except for the recessionary chaos of 2009, and the peculiar upturn this year. Their suppliers, meanwhile, have generally remained flat in a range of 0.5% to 0.7%, again except for the recessionary chaos of 2009.

**Figure 2**  
**U.S.-based Automotive Companies**  
**Average Warranty Claims & Accrual Rates**  
**(as a % of product sales, 2003-2014)**



Another way of looking at Figure 2 is as a measure of the gap between the typical warranty expense rates of the OEMs and their suppliers. From 2003 through 2008, the gap was generally around 1.9%. From 2010 to 2013, the gap averaged 1.4% for claims and 1.3% for accruals.

But then in the first half of 2014 the chaos returned. As the OEMs' average claims and accrual rates spiked, the gap widened to 1.6% for claims and 2.5% for accruals. As we mentioned, we think that has lots to do with the misfortunes of two large OEMs: [General Motors Co.](#) and [Navistar International Corp.](#)

### Warranty Accruals

In Figure 3, we're looking at the industry data from the other direction: warranty accruals. From this perspective,



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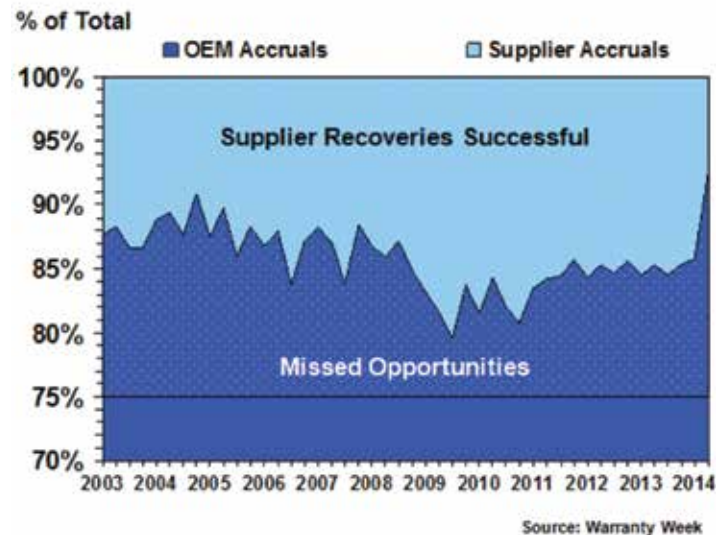


the story is only slightly different -- the schedule is merely time-shifted forward by a year or two.

From 2003 to 2005, the OEMs made between 86% and 91% of the industry's total accruals. In 2006 and 2007, their share briefly dipped below 84%. But then in 2009, the OEMs' share bottomed out under 80%. And their share remained low in 2010 and 2011.

The ratio remained close to 85% in 2012 and 2013. But then in the first half of 2014 it skyrocketed, hitting a new high of 93% in the spring of this year.

**Figure 3**  
**Automotive Product Warranties**  
**Accruals Made by U.S.-based Companies**  
**(as a percent of the total, 2003-2014)**



The reason for this tremendous recent reversal may be the misfortunes of two large OEMs: General Motors Co. and Navistar International Corp. GM is of course the largest passenger car manufacturer, and Navistar is a top manufacturer of trucks, buses, and their diesel engines.

In Figure 4, we've charted the warranty expense rates of General Motors Corp. from 2003 to 2009, and General Motors Co. from 2009 to June 2014. Legally, they're separate entities, but we'll treat them here as one.

The source of the chaos seen in Figure 2 for the year 2009 is easy to spot in Figure 4. GM is sufficiently large -- accounting for 40% to even 50% of the OEM totals in any given quarter -- that it can easily move the averages up or down. And from 2003 to 2008, and again from

2010 to 2013, the direction was down. But in 2009, and again in 2014, the direction was up.

**Figure 4**  
**General Motors Co.**  
**Average Warranty Claims & Accrual Rates**  
**(as a % of product sales, 2003-2014)**

That is not a math error in 2014. GM's accrual rate really is 5.1% for the first half of 2014. It set aside nearly \$3.8



billion in accruals against \$74.8 billion in product sales revenue. That was up from \$1.7 billion in accruals against \$74.6 billion in sales during the same period a year ago.

**Recall Expenses**

GM explained in its most recent [quarterly financial statement](#) that almost \$2.5 billion of that \$3.8 billion went towards recall campaigns and courtesy transportation expenses, while \$1.3 billion was for traditional product warranty expenses. It never before separated out the recall expenses from the warranty expenses. But it said that a year ago, during the first half of 2013, only a fifth of its total accruals went towards recall expenses. This year, during the same period, recalls accounted for almost two-thirds of the accruals.

The other recent warranty misfortune is Navistar. We spotlighted the company's misfortune earlier this year in Figure 2 of the [March 27 newsletter](#), explaining how the company was seeing its "regular" accrual rate rise rapidly while its "pre-existing warranty adjustments" rose even faster. In fact, we drew in an additional line to show both the old and the new accrual rates.

**Figure 5**  
**Navistar International Corp.**  
**Warranty Claims & Accrual Rates**  
**With and Without Changes of Estimate**  
**(as a % of product sales, 2003-2014)**

Well, there's great news to report about Navistar. The company's accruals -- both the regular kind and the adjustments, are once again falling back to what could be called a normal range. Regular accruals were back down to 3.1% in the first half of fiscal 2014, while the accrual rate including adjustments was down to 5.7%.



**Reverse Logistics Terminology**

Industry Definition		R E V E R S E  L O G I S T I C S  = E Q U A L S =	Life Cycle Management	
INDUSTRY	TERMINOLOGY		After Purchase Life Cycle	
Apparel	Merchandise Returns		• Customer Service (helpdesk) • Depot Repair/ReMan • Service Logistics (Field Service) – Transportation/Warehousing – Spare Parts Management – RMA Management – Replacement Management • Refurbishment • End-of-life Manufacturing • Remanufacturing • Fulfillment Services • IT Process Management • Recycling • Scrap/Waste Management • Gray/B Channel Management • Warranty Management • Asset Management/ITad - IT Asset Disposition • Sustainability/EPR - Extended Producer Responsibility • Environmental Resources	
Automotive & HD	Remanufacturing			
Consumer Products	After Market Supply Chain			
Furniture	Rebuilders/Refurb			
Hospitality	Reader Board Shopping			
Military	Retrograde			
Retail Grocery	Unsaleables			
Space & Aviation	Obsolescence			
White Goods	Takebacks			





Navistar ends its fiscal year on October 31. So its first quarter of fiscal 2014 covers the months of November 2013 to January 2014, and its second quarter is February through April. And in those two quarters, the company has clearly turned a corner, reducing its warranty expense rates from the heights they hit in 2012 and 2013.

However, its claims rate is still high at 5.6%. But remember, there's a significant time lag between when accruals are made and when claims are paid. Think of the accrual rate as a leading indicator of where the claims rate is headed in the future. So in Navistar's case, if the accruals being made now truly reflect expectations of future trends, then the claims rate is headed back to four or five percent next year or perhaps even later this year.



#### Industry Totals

On a combined basis, however, what Navistar and GM have done is to drive up the industry total for claims and accruals, as well as the OEMs' share of those totals. As mentioned, the industry total for claims paid during the first half of 2014

was \$5.55 billion. That was up from just under \$5 billion in the first half of 2013.

The growth in accruals is even more dramatic, thanks to GM. During the first half of 2013, our 49 OEMs and

119 suppliers set aside \$5 billion in warranty accruals. So far this year, that total is up to \$7.4 billion. And the GM recalls are ongoing, though their financial cost has probably peaked.



Bottom line, because of the GM recalls in 2014, and Navistar's engine trouble in 2012 and 2013, we can't tell whether the recent trends in the warranty expense rates of the OEMs and their suppliers represent the reversal of a long-term trend, or like 2009, a temporary detour caused by unprecedented one-time factors. However, the data is clear in the sense that there's been a change in the trend. What we don't yet know is whether or not it's a permanent change.



Eric Arnum is the editor of Warranty Week, an emailed newsletter and website aimed at warranty and service contract professionals. It currently reaches over 8000 people through a weekly email broadcast and downloads of 12,000 to 15,000 additional web pages per week.

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# Returning Thoughts

## Why You Should Get Your 3PL to Process Your Reverse Logistics

by Paul Rupnow

Most forward logistics 3PL Third Party Warehouses do not realize that they have a distinct competitive advantage in Reverse Logistics and returns processing for their clients. A 3PL can add significant value to existing manufacturing/OEM storage clients by handling inventory product returns, resulting in considerable financial savings and higher re-capture values on the resale of the returned assets. A lot has changed in the Returns and Reverse Logistics landscape in the past several years. The large majority of returns for Consumer Products companies are no longer just shipping damaged or warranty repair. A large portion of Consumer Product returns are now Open Box items from Retailer partners

with a very high percentage of NTF No Trouble Found. A 3PL is ideally suited to process these types of returns.

### Why Use Your 3PL

Retail Returns have been increasing over the last several years as a result of consumer preferences and the retail industry's desire to accommodate consumer returns to ensure high customer satisfaction. As a result many of the returns are "open box" with a very high percentage of NTF No Trouble Found (often 60 to 85%). Typically, these open box items are still "like new" and can capture a very high resale value in secondary markets once they are repackaged for resale.



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RLA's APAC Committee and Reed Exhibitions Cold Chain Show 2014 unite to present three days of Cold Chain & Unsaleables/Reverse Logistics. Starting on Wednesday, December 10, through Friday, December 12 with workshops, sessions and exhibition.

A wide range of leading regional and global Cold Chain and Reverse Logistics companies are in attendance including unsaleables management to transportation logistics.

Be sure to visit the Exhibition Hall where Manufacturers and Retailers will be looking for Third Party Service Providers (3PSPs) that can manage Reverse Logistics in the APAC region, along with identifying solutions for Europe and the Americas. There will be many exhibitors showcasing their Reverse Logistics services and solutions. This is a rich opportunity for OEMs and Branded companies to identify future service partners.







Many manufacturers/OEM/brands now desire to get their returned products back, since: 1. the recovery resale value opportunity is high and 2. To protect their brand by controlling unauthorized parties from dumping their products for very low prices on eBay, auction sites or secondary markets.

This is where the 3PL has the competitive advantage!!

Your forward logistics 3PL partner is your ideal returns processing partner because:

1. The 3PL is already processing your forward logistics and is very familiar with your product, inventory levels, needs and handling requirements.
2. The 3PL can save you significant transportation costs, since there is no need to ship the returns to an external location for processing. No need to ship the refurbished returns to a finished goods warehouse.
3. For exchanges, the 3PL will have refurbished or new Finished Goods inventory to draw from, resulting in better customer service and better refurbishment production planning to meet refurbished inventory needs.

4. Speed – a single 3PL and returns processing partner means much less movement and transportation time. This means faster decisions, faster refurbishment and faster cash value recovery.
5. Software Tools and Rules – there are very good Reverse Logistics management software systems available for 3PLs that streamline the receiving, inspection, triage processing and rules management, as well as integrate with their WMS and provide real time visibility and collaboration tools for the Manufacturer.

All these factors should save you processing costs, transportation costs and result in a much higher cash recapture value and much less cash tied up in returned inventory.

Talk to your 3PL today. It could turn out to be a very profitable conversation.



Paul Rupnow - Director, Reverse Logistics Systems, Andlor Logistics Systems Inc.

Editor - Reverse Logistics Professional Report Business Insights and Strategies for Managing Product Returns



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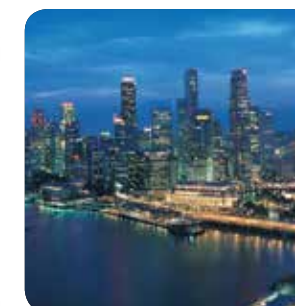
## THERE IS GREAT CONTENT AVAILABLE IN RLA WORKSHOPS THIS YEAR.

You're in town for the RLA Conference & Expo, why not take advantage of your Monday and learn more about RL in an interactive classroom setting.

Beginning at 9:00AM on the day prior to the conference, a registration fee of \$999.99 allows you to attend any three workshops.

### Some Past Workshops

- Successful Outsourcing - RFQs, Contracts and SOW presented by Gailen Vick, RLA
- Customer Experience by Kok Huan Tan, Senior Service Program Manager, DELL
- Leverage RL to Drive Sustainability & Reduce Expenses by Jesse LaRose, ESE Solutions



Register now [www.RLAshows.org](http://www.RLAshows.org)



# RLA CONFERENCE & EXPOS: PARIS 2015

PARIS PORTE DE VERSAILLES PAVILION 7.2

TUESDAY, MARCH 31, 2015 - THURSDAY, APRIL 02, 2015

OVER 400 RL PROFESSIONALS AND 200 COMPANIES WILL BE IN ATTENDANCE



The Reverse Logistics Association Conference & Expo kicks off on Tuesday and continues through Thursday with workshops, committee meetings, several sessions presented by RL professionals, leading academics and interactive panel discussions. Be sure to visit the Exhibition Hall where OEMs, ODMs and Retailers will be looking for Third Party Service Providers that can manage Reverse Logistics in Europe and around the world. This is a rich opportunity for OEMs, ODMs, Retailers, and Branded companies to identify future service partners among the many exhibitors showcasing their Reverse Logistics solutions.

**RLA WORKSHOPS: TUESDAY, MAR 31, 2015**

<http://rltshows.com/paris.php>



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