

What is the future of reverse logistics?

Reverse Logistics is fast becoming a critical issue in boardrooms across the retail sector and beyond. Companies are coming round to the issue – but where do the challenges lie in implementing a good returns process? A panel of industry leaders examined the issues at our round table sponsored by Flex.



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Reverse logistics is seen by many as an evil necessity in the retail sector. However in our Omni-channel world where the consumer holds so much power the rise in returns is driven by a consumer expectation and where there is increasing popularity of buying on line multiple items and keeping just one or ‘deshopping’ means that it can no longer be consigned to the darkest part of the warehouse.

“People working on reverse logistics are often known as working on the ‘dark side’ – and not just because of a certain movie coming out,” explained Mike Meades, general manager at supply chain solutions company Flex (formerly Flextronics). “Within Flex we are on a mission to try and show people what value you can get out of managing reverse logistics properly. Over the last two years we’ve noticed that more businesses are coming to us and asking ‘what can you do for us’ from a reverse logistics perspective? My biggest question is, are companies seeing reverse logistics as a far bigger issue

and getting more attention rather than just being an afterthought which is how it may have been treated a few years ago?”

Of course the answer to that question is not a straightforward yes or no, as Mike Bernon – senior lecturer in supply chain management at Cranfield University clarified: “There are a number of high street retailers who now see this issue as core and now have strategies in place and are excellent at managing returns. However there are others in the same market that are just starting on the journey. I think what grabs the attention most often is when companies realise just what the cost is to the P&L and when the figures are put in front of someone like the finance director then it gets traction.”

Lindsay Mitchell, senior consumer engagement leader at Philips Consumer Lifestyle UK&I, agreed. “We are trying to change the culture to really deliver value for the business and understand profit and loss, so returns is really high on the management agenda. I believe the only way it will succeed is when everyone in the business gets behind it and engages with the change, and when it is on the management agenda. It has to change culturally to be important.”

Dave Hughes, logistics project manager at Flex looked at the wider implications for brands and consumer choice. “Looking at some facts and figures behind the recent trend in reverse logistics – in 2013 the clothing returns industry was £1.16bn; some 43 per cent of clothing bought online was returned. In the electronics industry £733m worth of goods were returned. There is evidence to suggest that people actually pick their brand these days based on whether that retailer has a good returns policy.”

Martin Gane, logistics director of Arcadia Group Ltd explained the pressures this type of consumer thinking has on retailers. “As a retailer we are looking at our competitors who are offering these ‘no quibble’ returns policies and it puts a lot of pressure on us and others to

Meet the panelists



Mike Bernon, Senior Lecturer in Supply Chain Management & Executive Development Director, Cranfield University



Martin Gane, Logistics Director, Arcadia Group Ltd



Alistair Sercombe, Head of Customer Returns, Debenhams



Ross Baxter, National Logistics Projects Manager, Alliance Healthcare

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say 'well that's what they're offering why aren't we offering that?' Some of the retailers that don't offer those kinds of services are quite surprised with the response they get from consumers. Competing at the top end and providing a no quibble returns puts huge pressure on you"

Ross Baxter – national logistics project manager Alliance Healthcare, shared similar concerns. "I think that's the basis of the challenge because we've all got practices and policies for reverse logistics – we wouldn't be here if we didn't. But the environment is evolving so quickly all the time so a competitor offers x you have to offer y because if you don't in a very short period of time you are going to be at a big competitive disadvantage. So the challenge of reverse logistics is not to come up with a solution and hardwire it into your system because if you do that in six months time it'll be out of date. You've got to be really fleet of foot to actually constantly adapt. If you don't constantly evolve you are really going to be at a competitive disadvantage to your bottom line profits and also to your customers' loyalty and perception."

Richard O'Mahoney, operations director at Flex, agrees and commented on the adaptability of the solution: "Reverse logistics creates an image in your mind of particular services – prevention and appraisals and all the systems that are in place to try and prevent stock return. But there is another aspect to it, which I think is particularly important and that is about dataflow. The data drives a decision process that may shape the strategy of the business; it may guide businesses to choose the best dispositions for their products and make the right commercial decisions for their business. ". The panel agreed that management information and the end to end visibility of the reverse flow through effective data capture is important.

One issue that struck a cord with many was the concept of reverse logistics itself. Alistair Sercombe, head of customer returns at Debenhams, thought that reverse logistics was a term that didn't fit the complexity of the issue. "Often we talk about reverse logistics, but I don't think it's the right term to call it. It brings to mind the idea of the logistics guy saying 'I've got to get rid of a problem that's blocking my warehouse'... that kind of mentality. It's

now much broader than that. I don't really talk about it as reverse logistics – I call it returns management. It's a much broader topic really it's the whole customer experience... it touches on every part of the business. It includes all the principles of how you sell from the outset through to reverse flow management. We have past the point of saying 'I've got a problem in my warehouse, how do I get rid of it' idea; a lot of retailers are looking much more broadly than that now."

Julian Llewellyn, business improvement director at technology distribution and specialist service providers Exertis, looked at the distributor point of view. "I think as a distributor we are caught in the middle. I see the high levels of 'no fault found' percentages in the buyer reports particularly when we are selling into more generalist retailers. When someone takes a 32 inch LED TV back it just gets written up as a faulty product. Clearly with as many returns as we may have with that vendor of course you can send it back to us but you need to tell us why it's faulty. Then there is an added complication in the IT world because we have the Data Protection Act and virtually every single IT asset that someone owns has some form of personal data on it that has to be wiped before it can be resold. Retail industry has certainly been the key challenge for us. If you went and looked at Exertis three or four years ago it was more of a B2B reseller and since then it has moved more strongly into the retail environment."

Sharing the experience from a supplier point of view, Julie Shepley, head of Logistics at Fujitsu, commented: "We are in the background of the retailer and very much in the back end of their structure. We are seeing more and more products returned from the retail side and their assets, even their tills are coming back and going through that wiping process. There is a form that we call a 'statement of works', which details the state of the asset and recommendations for next steps, for example redeployment, resale or dispose. Before you'd probably have one or two variations, now even with our retail customers we probably have 20 different steps ie grade A stock or grade B stock. Retailers are trying to get from every asset as much as they can from them."

Another area where reverse logistics has a big impact



Meet the panelists



Dave Hughes, Logistics Project Manager, Flextronics



Carl Polack, MP&L Program Manager, Nigeria Project & MEA Support, Ford Motor Company



Lindsay Mitchell, Senior Consumer Engagement Leader, Phillips Consumer Lifestyle UK & I



Julie Shepley, Head of Logistics, Fujitsu



Ed Jackson, Director of Underwriting and Commercial Finance, Domestic & General

is in insurance and warranty. Ed Jackson, director of underwriting and commercial finance UK of Domestic and General, explained: "In the insurance business we need everything that comes back so that we can put it back into our supply chain. We don't just need the newest or latest technology, take for instance in the mobile phone world, I still need iPhone 5's; no one wants them in a retail environment and haven't for the last 2-3 years, but we need them to meet the need of the insurance sector. The big problem that I've got is I have big spreadsheets rather than big warehouses and I am trying to create a virtual circle where I can link two or three reverse logistics solutions together to meet this demand."

One sector that seems to have many of the issues surrounding reverse logistics and relationships between suppliers and retailers organised is automotive. Carl Polack – MEA program manager, Material Planning & Logistics from the Ford Motor Company, shared his experiences. "I think we have understood the need for close relationships with our dealer network pretty quickly and very early, because we have to. If you think of the product failure curve, you want to be able to pick up on that as soon as there are any particular issues. We are very much in a highly visible arena and we have had to get more involved over the last 5-6 months. Car quality performance and specifications are very much in the mind's eye. We have a very capable third party logistics providers that recognises that they have not only to deliver to our vehicle or engine plants but they also have got to provide a service to manage returns and get the supply chain resupplied."

Traceability of components or stock was a key challenge for many around the table. For Polack, it is mission critical: "One of the main challenges that we have is traceability. From a retail point of view for the finished vehicle we have a very well established dealer network who deals with pretty much everything that comes up. But in terms of the component logistics we have quite a challenge to manage any quality issues



Competing at the top end and providing a no quibble returns puts huge pressure on you.

through quite an expensive network and here you've got a supply base which supplies many manufacturers. Other companies have had this issue; for example the recent airbag scandal that has been in the news. One of the challenges I've had on a number of occasions – too frequently unfortunately – is the challenge to get components back to overseas suppliers to either remanufacture or re-qualify what they are producing. Whenever you change product you change components, you change technology - you've always got to be mindful where your steps are and where your gates are and that controls are in place. Once it's out into the supply chain, traceability is absolutely key. You need to know exactly where the inventory is, and at what point bad becomes good."

Meades agreed. "If I could elaborate on the way we see added value, while it may sound very simple, having identification for every defective part is incredibly important. We modified our software to be able to do that and now we can provide customers with access to the software so they can see remotely where all their defective parts are being fixed down to the individual part number around the world."

Shipleigh had a similar story to share: "We did same with a third party – we integrated one system into our ERP system to be able to trace serial assets. We can now bring together all the IT equipment, whether its a router or a new till that's to go out for repair, and trace everything because the goods that come back that go through the recycle loop may pass through three or four data wiping stages; they might go through a purge or they might go through a destruction and at each stage you've got to be able to track it so customers can get that visibility of what stage it is at."

A final big talking point was sustainability and the recycling of goods to save natural resources. Again, the automotive industry seems to be ahead of the curve as Polack explained: "In the car industry we have the end of life directive and that's one of the key things for all of our vehicles, we are now pretty much 98 per cent recyclable. You can take that vehicle and it's material content and it forms the next base. It's phenomenal how the technology has moved on and that sustainability is becoming one of the key design criteria."

Llewellyn concluded with the description of one idea where recycling had taken on a new level: "I've seen a trial in a couple of US stores where there is effectively a vending machine where you can recycle your mobile phone. You put your phone in a drawer; it finds the right connector and you plug the phone in for some diagnostic checks. After a few minutes it will give you a quote for the value of your phone. It doesn't give you a gift voucher or anything, it will literally give you the cash amount for it and that's it the phone is gone. I still don't know to this day how it actually works, but it does, and the feedback so far is that the company has taken back about 3000 units already and they've only been in place a couple of months."



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