



HOW CAN YOU BETTER MANAGE YOUR REVERSE SUPPLY CHAIN?

Today's third-party logistics providers are helping retailers establish effective returns operations.

Overview:

- Returns are becoming an increasingly important part of the supply chain.
- Some retailers see the reverse supply chain as a cost center that ultimately must be managed, more as a necessary evil rather than an opportunity. Others see the potential upside associated with this side of the supply chain.
- Many retailers, not equipped to manage their returns process, are turning to third-party logistics (3PLs) providers to help them establish effective reverse logistics operations.
- 3PLs who have had years of experience improving their clients' forward supply chains can help even further by doing the same on the reverse end.
- By accurately accessing the true cost of returns and finding new methods to effectively manage the reverse logistics process, retailers can improve their profitability and enhance customer relationships.

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Are you equipped to manage your returns?

Today's retail supply chain is more complex than ever and returns are becoming an increasingly important part of the process. Retailers are trying to recoup as much value as possible from returned, damaged, out-of-date and recalled goods because of the significant impact on their bottom line. In addition, they look to process these goods in an environmentally friendly and responsible way.

Retailers, however, are often not equipped to manage their returns process. Many are turning to third-party logistics (3PL) providers to help them establish effective reverse logistics operations. It makes sense to utilize a 3PL for reverse logistics for a few important reasons.

First, 3PLs offer a company the flexibility to modify returns flows without making significant investments in infrastructure and equipment. As product sourcing patterns change, i.e. selection of new suppliers, new locations, channel options, etc., to feed the forward supply chain, so must the reverse supply chain change to accommodate these shifts. If a company relies only on its internal network and associated resources, it limits itself to what it can do alone and how quickly it can react to these changes.

Second, while some people might consider the reverse process to be relatively static, nothing could be further from the truth. There are opportunities today to accommodate asset recovery that simply didn't exist five to 10 years ago. Access to trends and ideas comes from partnering with 3PL companies who have this experience, understand the industry and can help a company look for new ways

Third-party logistics providers are helping retailers establish effective returns operations

OMNICHANNEL

A Multitude of Channels Complicate Returns Process

Omnichannel has and will continue to be a driving force for the reverse logistics industry. How companies deal with volume shifting from traditional bricks and mortar sales to e-commerce is a phenomenon that is of course not unique to the reverse space. The forward supply chain for many retail companies is in a transition phase whereby speed to market is critical and sometime comes at the expense of higher transportation and inventory carrying costs.



At the same time, the reverse supply chain must now grapple with increased volumes, increased speed and whether an infrastructure that is largely designed to accommodate bricks and mortar sales/returns is sufficient to handle an e-commerce solution.

As volume and diversity of SKUs sold online outpace those sold in stores, the challenge on the reverse supply chain is to determine a way to accommodate the myriad of products coming through on the back end. The question many retailers must answer is how many of these products can be immediately put back into circulation and how many need to proceed down

another disposition route (i.e. recycling, refurbishment, bulk liquidation, on-line auction, end of life, etc.).

Retailers would prefer to reintroduce returned goods (without defects) sold online into existing inventory, however, in some cases they are unable to do so due to regulatory compliance, electronics is one product category that comes to mind.

As a greater number and variety of high technology products are sold online, the greater the challenge to handle through the reverse network and the greater the importance placed on refurbishing and liquidation solutions. At the same time, while more challenging to handle, there can be significant value for the retailer who can effectively refurbish and auction electronics and other high value merchandise themselves on the secondary market rather than selling in bulk to a liquidator. Using secondary market e-commerce auction platforms is an ideal way to accomplish this goal.

to approach the reverse supply chain.

Third, warehouse capacity and industrial real estate in general is commanding a premium in most markets across the country. As companies look for opportunities to test new ideas related to their reverse supply chain, implement pilot programs to increase asset recovery and accommodate potential recall volume, etc., the ability to do so without committing long term to warehouse space can be a real benefit.

Finding a 3PL partner who has immediately available capacity, is flexible and can quickly react to opportunities that arise reduces the risk for those companies and enables them to respond timely to changes in the industry.

3PLs offer flexible, customized solutions

Satisfaction and retention are ultimately impacted by how well and holistically a retailer's needs can be achieved and ideally exceeded by the 3PL partner. Being able to offer a full portfolio of services and solutions (from forward to reverse), and doing so with quality, attention to detail and care should generate positive feedback and a high degree of satisfaction.

Within the reverse space specifically, some retailers see the reverse supply chain as a cost center that ultimately must be managed, more as a necessary evil rather than an opportunity. Others, however, see the potential upside associated with this side of the supply chain, taking advantage of disposition strategies and finding creative ways to maximize revenue associated with goods that are often times seen as having little to no value at all.

The ability of a 3PL to be not only reliable, flexible and quality minded but also help find solutions that maximize revenue for a client is a key differentiator. It's not enough for 3PLs to simply help their clients "manage the reverse process," they must also be forward thinking and help both reduce expenses while (perhaps more importantly) generate revenue.

Third-party logistics providers who have had years of experience improving their clients' forward supply chains can help them even further by doing the same on the reverse end. Continuously adding value and offering strategic ideas is highly valuable to clients; 3PLs who are able to combine strong execution with thought leadership will ultimately see the highest levels of customer satisfaction and retention.

Leverage best practices to reduce costs, minimize loss

Retailers can put processes in place to reduce costs and minimize loss. Here are some reverse logistics practices that are being employed in today's retail supply chains:

- **Product evaluation:** Retailers can reduce costs by limiting the volume sent back through their DC network. This can be done by carefully distinguishing between products that are truly defective and ones that can be reintroduced to the store's inventory. While this may place a slightly greater burden on the store itself, the savings in transportation

RETURNS BY THE NUMBERS

- The average manufacturer spends 9% to 14% of total annual revenue on returns¹
- Improving reverse logistics can increase revenue up to 5% of total sales²
- 84.6% of U.S. firms utilize the secondary market in some way³
- 70% of firms view the secondary market as a "competitive advantage"³

Sources: ¹Abderdeen Group; ²Greve-Davis Consulting; ³Reverse Logistics and Sustainability Council

CASE STUDY

Global Retailer Improves the Flow

THE CHALLENGE

The customer, a leading big box retailer with stores across the U.S., needed to increase the efficiency of its returns process and reduce transportation costs.

The retailer has six returns centers (RCs) located throughout the country. It was shipping return freight from its RCs back to the manufacturer's distribution centers, which are located coast to coast. The returned goods were palletized at the RCs and then shipped back to the manufacturer via LTL or sub-optimized trailers. The retailer had limited capacity available to accumulate product for full trailer utilization, which, in turn, led to poor trailer utilization and LTL freight which drove high transportation costs.

THE SOLUTION

Yusen Logistics established warehouse space with close proximity to the retailer's return centers. From the retailer's RC, freight is shuttled to Yusen Logistics' warehouse, relieving pressure on the retailer's RC. Product is sorted by manufacturer and TL quantities are created. Yusen Logistics stages product and arranges appointments for delivery to the manufacturer's locations.

THE BENEFITS

Yusen Logistics' consolidation service eliminates costly inbound and outbound LTL, reducing transportation expense and risk related to cargo damage and pilferage. Our solution enabled the retailer to improve RC volume flow and handle more product with the same facility footprint. This improved delivery timeliness and coordination between retailer and manufacturer.

DELIVERING RESULTS

By establishing a warehouse closer to the customer and providing consolidation services, Yusen Logistics enabled the retailer to improve DC volume flow.



and handling to the overall organization may outweigh these local costs. Recent surveys have found that 72% of returns were “No Fault Found,” up from 50% a few years ago and this has enabled retailers to take a more proactive approach to returns inventory positioning.

- **E-commerce auctions:** Retailers are shifting away from traditional disposition options (return to vendor, bulk liquidation, recycling/disposal) to direct selling of liquidation product on e-commerce auction platforms. Selling all liquidation in bulk may no longer be the preferred method; retailers are quickly realizing they can generate better returns by eliminating the “middle man” in the process by going direct to the ultimate buyers of these goods.
- **Off-shore solutions:** Due to saturation of returned and obsolete product in the secondary U.S. market, some retailers are considering off-shore solutions (Latin America, Africa, Indian subcontinent, etc.) despite certain challenges associated with exporting returned product. The large volume of returns has driven down secondary market pricing in the U.S. and therefore exporting to developing economies opens up new opportunities to sell these items. Many of these countries have seen an increased demand for “status electronics,” such as smart phones, tablets, etc... and as such, these products offer the most upside for retailers who are considering an export model.
- **Consolidation:** Consolidating Return to Vendor (RTV) returns through centralized or regional locations can be an effective way to minimize transportation cost and reduce risk associated with LTL handling. Retailers can also set up refurbishing locations on a regional basis to drive down transportation costs as a whole.
- **Take possession of OEM returns:** Retailers can look to gain more and more control of the original equipment manufacturers’ returns as a way to leverage transportation and handling costs and generate revenue from secondary market sales. This is particularly true for products that have a high secondary market value such as electronics, appliances, and apparel. As fewer products are returned to manufacturers, both the retailer and the OEM can benefit from the cost savings. The OEM no longer pays for returned goods handling and transportation, and the retailer can refurbish and re-sell the product through various liquidation channels.

By accurately accessing the true cost of returns and finding new methods to effectively manage the reverse logistics process, retailers can improve their profitability and enhance customer relationships.

Summary

By partnering with a 3PL, retailers benefit from greater controls over the entire supply chain resulting in improved inventory management, increased visibility, reduced costs and enhanced risk management.

—Matt Ennis, Vice President, Business Development and Client Solutions,
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WHY WORK WITH A 3PL?

By partnering with a 3PL, retailers can access their true cost of returns and find better ways to manage their reverse logistics process while improving profitability.

Yusen Logistics is a global logistics and transportation provider that delivers custom supply chain solutions through one of the largest air, ocean and land transportation networks. We have over 500 offices in 42 countries and regions, with more than 20,000 employees at your service. Combining our services gives you greater control over your supply chain.

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