

# Reverse Logistics Management- An Effective Strategy for Revenue Maximization in CPG Industry

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*Over the years, Consumer Packaged Goods (CPG) Companies have been focusing on managing forward logistics processes to reduce operational costs. In a world where quality holds paramount importance, the attitude towards forward logistics has evolved to include enhancement of customer service quality. Meanwhile, ever growing concern for environmental problems, and pressure from the global competitive marketplace toward further improvement of customer service, have been presenting industries with a new challenge; development and management of effective reverse logistics processes. The purpose of this paper is to present an overview and introduction to reverse logistics and to understand on how to manage reverse logistics particularly for the CPG industry in an efficient manner.*





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*Seldom will all logistics principles exert equal influence; usually one or two will dominate in any given situation. Identifying those principles that have priority in a specific situation is essential to establishing effective support.*

*- Joint Pub 4-0, Doctrine for Logistics Support of Joint Operations, Sep 25, 1992*

## Introduction

Once labelled as the “the forgotten child of the Supply Chain,” reverse logistics is gaining increasing importance in the current market scenario. In past, the companies were not as diligent in reverse logistics as they were in conventional areas of logistics. But now increasingly reverse logistics is being seen as an important value add to the growth strategy of the companies. Today for companies it is important not just to deliver the goods but also to ensure the right returns of the same. More and more returns, redistribution, repairs, and reuse of items is being seen to have strong branding implications. With ever increasing consumer awareness and their willingness to return goods, comes the need to rethink the significance of reverse logistics management. In addition, various other attributes such as increased regulatory pressures, high consumer expectations – commercial returns, warranty and service returns; and intrinsic manufacturer benefits of collecting reusable products – cost savings from reuse, positive image through environmental waste disposal, etc. are adding to the complexity of managing an effective reverse logistics strategy.

## About Reverse Logistics

The process of reverse logistics can be explained in two simple steps:

1. Removing new or used products from their initial point in a supply chain. This includes, returns from consumers, over stocked inventory, or outdated merchandise.
2. Redistributing them using disposition management rules that will result in maximized value at the end of the items' original useful life.

Some of the characteristics of a good reverse logistics process are:

- A reverse logistics operation must establish convenient collection points to receive the used goods from the final customer.
- Packaging and storage systems must ensure that the remaining value in the used good is not lost due to careless handling.
- The transportation mode must be compatible with existing forward logistic system.
- Disposition includes returning goods to storage warehouses, returning goods to the original manufacturer, selling goods in secondary markets , recycling, to get maximum value realization.





## Need/Benefits for Reverse Logistics - A CPG Perspective



Traditionally, CPG manufacturers focused more on selling their products to the end consumer, primarily, from a perspective where after the sale or use of the product, no responsibility would rest on the CPG Company to bring back the product. The used products were either discarded or destroyed causing negative effects to the environment.

Today, consumers expect manufacturers to develop environmental friendly products. CPG companies have become more and more responsible for collecting, dismantling and upgrading of used products and packaging materials. With more sophisticated systems and processes, returned goods can be put back into inventory, sold at liquidation centres, or broken down to component parts - steps that can cut costs, increase profits, and improve customer service!



## Wipro's Perspective on Reverse Logistics



### Macro level

Annual logistics cost of the world is about USD 3.5 trillion. For any country, the annual logistics cost varies from 9% to 20% of the GDP, the figure for the US being about 9%. Further, reverse logistics costs in the US are estimated to be approximately 4% of total US logistics costs, or roughly \$40 billion annually.

That number has grown more than \$5 billion in the last three years. Clearly, reverse logistics is an area within most firms that needs attention.

### Micro level

Average of 3% to 15% of all companies expenditures are spent on Reverse Logistics activities (*Source: RLA, 2007*).

Nearly 20% of all goods that are sold are returned (more than \$100b) & 32% of those are under \$200 in value (*Source: Forbes Magazine*).

CPG companies can save 10% from their annual logistics bill by implementing an efficient reverse logistics system.

20% of this amount is saved in labor costs and the remaining 80 percent is saved in lowered freight costs and reduced pipeline inventory (*Source: The increasing necessity of reverse logistics, Scott Hudson*).

Benefits of investing in reverse logistics:

76% - Improved customer satisfaction

64% - Reduced service costs

40% - increased service profitability

30% - Increased service revenues

24% - Improved new part procurement costs  
(*Source: RLA, 2007*)



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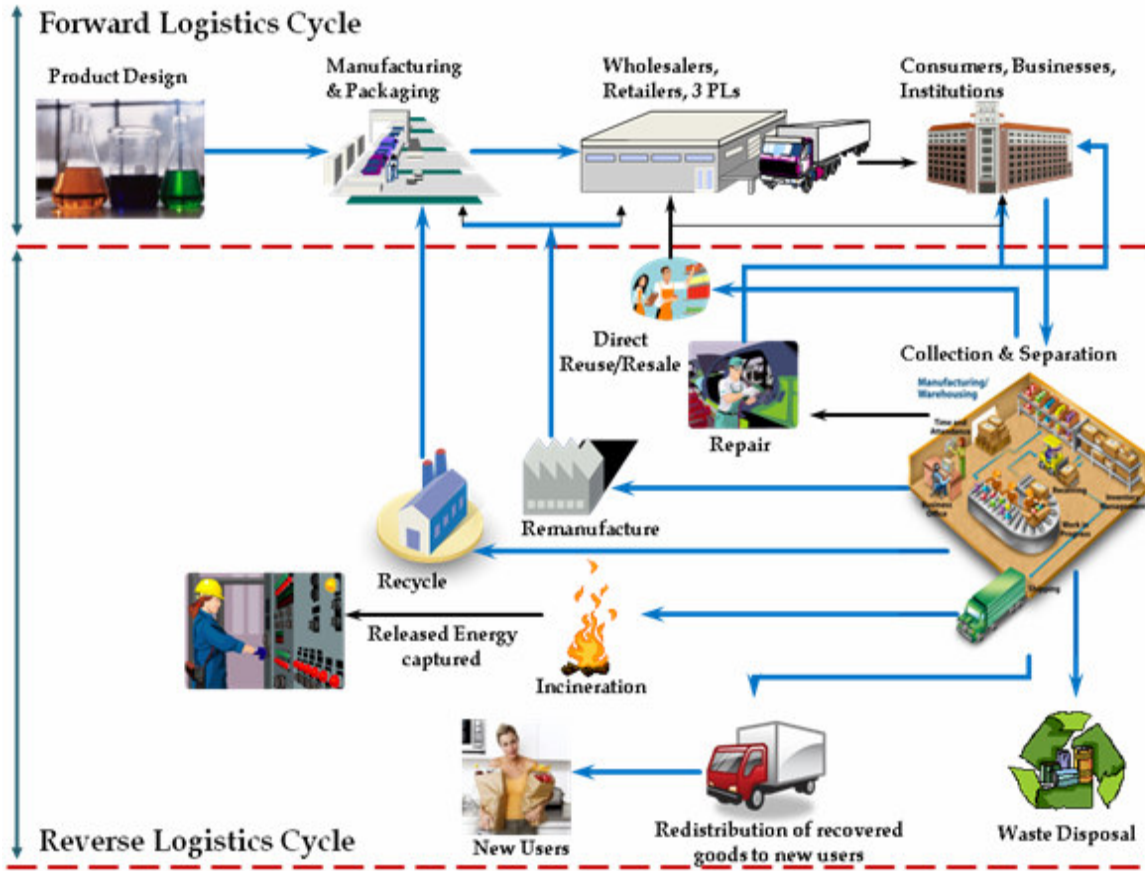


Figure: Reverse Logistics Process Flow

## Activities Involved in Reverse Logistics



## Reasons to Implement Reverse Logistics

### Reuse

- To collect and reuse the waste
- To collect reuse the empty bottles, For Example, Coca cola & Pepsi Glass Bottles

### Salvage & Redistribution of unsold products

- Salvage involves goods which are damaged, defective or are customer returns.



## Reverse Logistics Management- An Effective Strategy for Revenue Maximization in CPG Industry

- To manage Closeouts where top quality goods are discontinued or are seasonal or holiday related merchandise.
- To manage Surplus of top quality goods which have been overrun, returned or is slow moving merchandise.

### Returns Management

- To collect the expired formulations and drugs for environment friendly disposal
- To fulfill the commitments of after sale service and buy back guarantee
- The unwanted goods that are returned to inventory by the retailer/consumer.
- Damages that may or may not be a fault of the supplier.
- Replacement of obsolete product.
- Simply accepting the return of goods that have no apparent problem.



## Wipro's Perspective on Reverse Logistics Management in Developing Economies?

CPG Industry	Other Industries
<ul style="list-style-type: none"> <li>• In developing countries, soft drink companies implement a very effective reverse logistics system, reusing the same bottles again and again.</li> <li>• A waste and packing material recycling system is effectively being enforced and run by CPG manufacturers in European Union countries. This is called the Dealers System Deutschland (DSD) and enables collection and packaging of waste of Fast Moving Consumer Goods (FMCG).</li> <li>• In India, exchange offers on second hand items are very popular. For Example, Big Bazaar's "Kuch Bhi lao Kuch Bhi Pao" (Bring anything, take away anything) exchange offer. The items are normally refurbished in local areas only, like television sets, Used news papers, apparels etc.</li> </ul>	<ul style="list-style-type: none"> <li>• In the US, manufacturers have been enforced by law to be taken back the used batteries.</li> <li>• In India, Maruti True Value dealers helping the customers in resale of their used cars can be considered as part of reverse logistics system.</li> <li>• In India, and in many other developing economies, there is a very efficient reverse logistics system developed by the Petroleum companies, who supply cooking gas to consumers by refilling of the Gas cylinders.</li> <li>• Sony, USA uses its regular dealer network for reverse flow of video and audio systems returned by customers within the warranty period.</li> <li>• According to Japanese Government's, Electric Home appliances Recycling Law (2001), Electronic Goods manufacturers must ensure recollection and recycling of all the units of their brands being disposed off by the customers.</li> </ul>

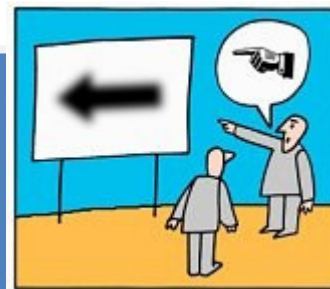
*We can thus see that reverse logistics addresses several issues in supply chain management and overall economic & social responsibilities of businesses. Often a well-managed reverse logistics system can result in increased profitability improved brand image of the companies.*

## Reverse Logistics Management- Key Benefits

Let's look at some of the ways where the impact of reverse logistics is realized:

- *Higher revenue realization from "secondary" sales by offering fresh stock in place of old stock:* Inventories can be managed in such a way that 'markdowns' can be avoided by keeping fresh stocks in place of old stocks at point of sale. Arrangements can be made to take back unsold stock from retailers and replace it with the new season's products to maintain retail prices simultaneously maintaining profit margins.
- *Reduction in Cost by lowering cost of goods sold (COGS) and operating expenses:* For certain category of products their parts can be reclaimed. While the reclamation process may incur additional costs, effective returns management and processing can also reduce the costs of environmental compliance or waste disposal.
- *Improved Inventory management:* In a way returned goods also act as inventory. They need space for storage. Effective returns management can help lower inventory of revenue-generating items and reduce the need to store items that do not generate revenue.
- *The Green Way: Win customer loyalty by acting in an environmentally responsible manner*

Some researchers report that Nike takes back used running shoes and converts them into public basketball courts and running tracks as part of its community action efforts. Likewise, Kenneth Cole accepts used shoes from customers and donates them to those in need. Both of those returns programs are costly to manage, but the companies believe their actions enhance the value of their brands and create loyal customers.



Customers do respond to companies' behavior, and the goodwill developed through reverse logistics. **Reuse, Redistribution** will salvage a lot of products that might have been wasted thus saving on a lot of energy to recreate new goods. Proper disposal of products can create substantial customer loyalty.

## Role of IT in Reverse Logistics

Today, technology plays a pivotal role in simplifying processes. More and more CPG companies are embracing IT to streamline their business processes. In reverse logistics also IT applications can be used to trace and track the goods on their return trip from the end consumer to the initial point of manufacturing. Timely access to accurate information on the status, location, and condition of products moving about in the supply chain is critical for a successful reverse supply chain. IT enables the companies operating in the reverse supply-chain channels collaborate efficiently.

## Technology Enablers for Reverse Logistics

A serious problem that the companies face in execution of a reverse logistics operation is the dearth of good information systems. To work well, a flexible reverse logistics information system is required. Reverse logistics is typically a boundary-spanning process between the companies or business units of the same company, thus developing systems that have to work across boundaries adds additional complexity to the problem. For Example, for a retailer, a system that tracks returns at store level is desirable. The system should create a database at store level so that the retailer can begin tracking returned product and follow it all the way back through the supply chain.



- RFID - To bring predictability, reliability, and visibility.
- Advance WMS Solution in order for the various processes to run smoothly.
- With the advancements in capturing managing data at SKU level using GS1 data bars important information like aging, returns at store level etc. can be captured.



## Conclusion

This whitepaper tries to highlight certain unique characteristics of reverse logistics followed in the CPG industry. It's a practice that's easier said than done!

To implement a successful reverse logistics strategy it's important to understand the challenges and the finer nuances of this task first. This is a critical task and can play a significant role in customer's decision making, i.e., to buy it from you or to shop elsewhere.



## Appendix

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### About the Author

Aviral Gupta serves as a Business Analyst for the Consumer Packaged Goods (CPG) vertical within Wipro Technologies. In this role, he is responsible for bringing thought leadership and innovative solutions for Wipro's global CPG clients. He holds a Masters degree in Business Administration from IIT Madras. Aviral can be contacted at: [aviral.gupta@wipro.com](mailto:aviral.gupta@wipro.com).

Gaurav Tiwari, Consultant within the CPG vertical at Wipro Technologies, has 4 years functional experience as a Sales Manager in two of the most reputed CPG Companies in India, before joining Wipro Technologies. His specific areas of interest are Trade Promotions Management, Supply Chain Management and Analytics. Gaurav can be contacted at: [gaurav.tiwari1@wipro.com](mailto:gaurav.tiwari1@wipro.com).



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Wipro's unique value proposition is further delivered through our pioneering offshore Outsourcing Model and stringent quality processes of SEI and Six Sigma.

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Wipro's CPG Practice established in 2001 has since grown to a team of more than 1000 professionals who understand the key challenges faced by CPG companies in today's dynamic marketplace. With a unique blend of domain knowledge, technology expertise and delivery excellence best practices, Wipro CPG practice provide innovative solutions for a large number of global CPG clients. Our competencies lie in the area of Procurement, Product Lifecycle Management, Supply Chain Planning, Manufacturing Execution systems, Trade Promotion Management, Consumer & Marketing Analytics, Media Planning & Optimization, Mobile Solutions and RFID, to name a few.



### **Wipro Technologies**

**Corporate Office:** *Doddakannelli, Sarjapur Road,  
Bangalore - 560 035*

*Phone: +91 (80) 28440011*

*Fax: +91 (80) 28440256*

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