

The Case for a Reverse Logistics Variable Cost Model

Introduction:

A proven way to control expenses, maintain repair quality for your customers and improve your reputation, is to implement a variable cost model into your supply chain.

Everybody Loves Forward Logistics

So much focus is invested in the forward logistics lifecycle, from the factory to the distributor, the retailer finally to the customer. It has to run like a well oiled machine in order to understand and predict revenues, profits, etc...

There are volumes written about and degrees offered in this type of logistics as its success is essential to a company's life blood as efficient processes in the forward supply chain can be directly associated with profit margin.

Precision is key in forward logistics.

The flip side of that coin is *reverse logistics*, your customer changes their mind (you don't know why), they can't figure out a feature/function, the product doesn't work out of the box, they get buyer's remorse.

Reverse logistics - can't get no respect

At that point your product enters your company's Reverse Logistics Lifecycle and usually that's a whole different ball game.

The reverse lifecycle doesn't get the same degree of focus,

- It's often not considered to be critical to the bottom line
- It's not as visible to senior management

- It's often "somebody else's problem" (like a distributor's)

Reverse Logistics is just not that sexy and often, the process isn't terribly precise.

Why Reverse logistics must be taken seriously

Given the fact that up to 20% of electronics purchased are returned - and that 20% enters the reverse lifecycle, we're talking about a pretty significant chunk of your revenue.

The sad part is that many manufacturers lose track of their returns as they gather dust in a distributor's warehouse rotting on a pallet. Often the distributor will receive compensation from the manufacturer for those returned items but since they never return them to the manufacturer those dollars come right off the manufacturer's bottom line.

1. **Nobody wants a bad rep**

Aside from the money, why would a manufacturer even want to have a finely tuned reverse logistics program in place? One key reason is "reputation".

A million years ago (pre-social media) they used to say that one satisfied customer will tell ten people and one dissatisfied customer will tell 100. Today, as we know all too well, one steamed customer can share his negative opinion with thousands with a single post.

How many people surf through your reviews on Amazon just looking for the one-star stinker causing them to worry what would happen if they had to return their new gadget to you for repair?

Tens of thousands could see that review.

When customers make a purchasing decision often your reputation is a deciding factor. The customer who buys your product expects that you'll have their back should their shiny new product require repair and a few reviews that bemoan 60 day turnarounds or that they had to send their products in for a second or third time is devastating to your good name.

And a consumer who has a poor return or repair experience will likely will avoid buying your brand in the future.

...and nobody wants that

2. Reverse Logistics takes a big bite out of the bottom line

a. To DIY or not DIY, that is the question

The implementation and ongoing management of a fully functional Returns Lifecycle program can be both expensive and labor intensive.

“Do It Yourself” reverse logistics can be a risky venture because it’s not your primary mission. Your main focus is design, manufacturing, marketing & sales.

An in-house repair program requires significant investment in factory space, warehousing, parts inventory, training, management and staff.

Hiring, training and keeping a full time repair staff can be tricky for a couple of reasons but the main reason is... elasticity.

By ‘elasticity’ we mean the ability to quickly add trained staff when demand is high and not permanently lose that same trained staff during the months when demand takes a dip. Bringing new staff in, training them and getting them up to speed to handle a surge in repairs can add weeks to your customer’s turnaround time.

b. Don’t repair, replace

Another model we’ve seen multiple times is to forego repair altogether and just replace the product with new, “A” stock. This model can reduce turnaround to just a few days but essentially selling two products for the price of one has what cost to your bottom line?

What of the returned stock? If never repaired it might be sold at pennies on the dollar or sent to the landfill or a recycling company to protect the brand.

The case for an outsourced variable cost model

In many cases, the best option is to outsource your reverse lifecycle process to an experienced and professional company who is focused on processing returns, handling repairs and seeing that your customers are cared for in a speedy and courteous manner.

Outsourcing your reverse logistics program saves you money, improves your overall customer satisfaction and enables manufacturers to focus on what they do best - Design, Manufacturer, Market and Sell.

A reliable reverse logistics vendor can help alleviate the top three components of your 'Returns Process Headache', Staff, Process & Assets

1. Staff

- a. Cost: A returns partner will allow you to eliminate F/T repair staff (and management) payroll and overhead expenses or enable you to redeploy that staff to other, more essential projects.
- b. Elasticity: The 'right' partner will have cross trained staff at the ready should demand surge and with a variable cost model, should demand plummet for a month or two, you won't be spending on staff with little to do.

2. Process

- a. Training: Your partner will handle all training tasks for new employees and new products
- b. With committed turnaround times for repairs, your customers won't have to endure delays due to a new employee's ramp up window.
- c. The management layer will be greatly simplified working with a qualified partner
- d. Software, management computer systems that allow customers to understand where their product is in the repair cycle, will be the responsibility of the partner

3. Assets

- a. Real Estate
 - Factory
 - Warehouse
 - Parts room
- b. Capital expenses
 - Workstations
 - Racks
 - Test gear
 - Tools
 - Pallet management
 - Forklifts
 - Safety equipment

As costs decrease, customer loyalty increases

With a partner solely focused on your reverse logistics process, customer loyalty and overall reputation has the opportunity to improve:

Defined and committed turnaround times for repairs and a software portal tracking items throughout the repair lifecycle gives your customers a definite expectation for return of their repairs. This also gives the assurance that they made a good purchasing decision and your company will be viewed as a solid company when they look to make new purchases.

Conclusion

An Outsourced, Variable Cost Model reverse logistics program allows you to;

- Hedge your bets against an uncertain business future
- Understand your expense profile for the Reverse Logistics lifecycle

- Avoid capital expenditures
- Gives you the opportunity to improve customer satisfaction

About PanurgyOEM

It's essential to go with a reverse logistics vendor who is an expert in quality repair and turnaround time and who can get your program operational quickly.

PanurgyOEM has been delivering high quality reverse logistics services for electronics manufacturers for nearly 40 years.

Based in northern New Jersey, situated in an ISO 9001-2008 compliant 90,000 square foot facility, PanurgyOEM is located just off Interstate route 80, near 3 major airports and 35 miles from Times Square in NYC.

Equipped with loading docks, flexible warehouse space and repair & refurbishment workstations to accommodate most assignments, PanurgyOEM is able to perform repair, assembly, refurbishment and last mile manufacturing services for our clients with fixed priced agreements and prompt, guaranteed turnaround times.

For more information or to schedule a tour of our facility, please contact us at 973-625-4056 or mark.palumbo@panurgoem.com.