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Reverse Logistics

magazine

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Customer Experience
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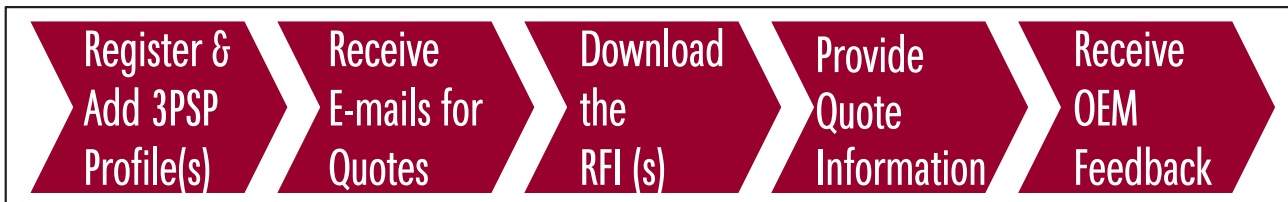
SPRING/SUMMER 2006

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by James Goldstein, PhD, IMSM
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Cover Story



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by Brooks Hoffman, Lifespan Technologies Recycling
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Reverse Logistics Magazine welcomes unsolicited articles and abstracts. Please send to editor@RLmagazine.com.

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To Our Readers



A Letter from the Editor

April 1, 2006 marked my one year anniversary with the Reverse Logistics Association. In the course of one year, I've discovered that when a product is no longer wanted or needed by a consumer or company, a variety of options are available—the least of which is to toss in the trash destined for landfill. Whether clothing purchased from a local retailer or an LCD monitor that no longer works, there is a place and a process for all goods. I've learned that it's not only good for our environment but can help companies recover billions of dollars.

During my year, I've toured repair depots and recycling facilities. I've seen warehousing of excess products, harvesting of parts, separation of precious metals, repair and refurbishment and ultimately shredding. My thanks to all those who have helped me along this path to RL enlightenment.

As Editor of the Reverse Logistics Association publications, I am in a position to pass along what I've learned as well as information received or discovered through investigation. I appreciate all the news contributions sent my way and encourage all our readers to use the Daily Clippings, Newsletter and Reverse Logistics Magazine (online and hardcopy) as vehicles to disseminate your company information and gain visibility for your products and services. White papers, case studies and research documents also provide valuable information to our users and demonstrate your knowledge and expertise in reverse logistics. Your continued contributions assure the success of RLA publications.

I look forward to future collaboration with RLA contributors.

Best regards,
Christine Morrow
Editor, Reverse Logistics Magazine

Reverse Logistics Association Mission

Our mission is to educate and inform Reverse Logistics professionals around the world. We do this by producing tradeshows, seminars and workshops around the world where support services can be presented to 3PSPs, OEMs, ODMs, Branded and Retail companies. RLA has been dubbed as a 'high tech' association, but our focus is to serve all industries in the reverse logistics process. No matter what industry, High Tech, Automotive, Medical/Pharmaceutical, Publishing, Garment, or Consumer, 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. We have been and will continue to provide our services at a moderate price to our members.

Managing the latest information in 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 with our membership services. We serve manufacturers and retailers in a variety of settings while offering

ongoing updates on market trends, mergers and acquisitions and potential outsourcing opportunities to 3PSPs. We have gained the attention of 3PL's like FedEx, DHL, NYK & UPS. 3PSPs like Teleplan, Ozark, Solectron, Jabil along with small service providers have found that the RLA resources help advertise their services. OEMs like Microsoft, HP, Palm along with Retailers like Wal-Mart and Best Buy all participate at our events. Our online RLMagazine and weekly NewsClipping help OEM, Branded & Retail companies find service partners that were unknown to them.



Message from President and Founder of RLA

Wow, what an introductory response to the RL Magazine! There has been more traction to this periodical than expected by our staff. New users and members, not previously part of our association, have found our support services. I have had a feeling at times that RL Mag has sprouted feet and is out introducing itself to industry professionals looking for RL solutions.

One of the advantages of publishing a magazine is you can see progress between each edition. Each prior edition locks in time and events that were happening at the time of publication. Here are a few of the advancements made recently at the Reverse Logistics Association:

- RLTS Las Vegas was held at the Flamingo Hotel in early February where more than 50 exhibitors shared their solutions with more than 800 individuals from around the world
- NASA presented RLA with a VIP tour of their Kennedy Space Center to view one of the largest reverse logistics processes in the world, the Space Shuttle Program
- RLA co-presented at the NCOF conference "What is New in Reverse Logistics?" with USPS

The NASA invitation to RLA for a tour of the Space Shuttle operations began back in 2003. One of the Space Shuttle staff, Jay Gurecki (who at the time was the Obsolescence Manager, Space Shuttle Program) contacted RLA about presenting

an overview of NASA philosophy on managing their reverse logistics. At the time, NASA was reeling from mission failures that had taken the lives of several of the astronauts. NASA was trying to reassure the public of their capabilities for future missions and RLTS Conference & Expo, which was scheduled for February 2004, seemed to be a good platform to show the level of certification that is done after each Space Shuttle mission. During Jay's presentation at our first RLTS Conference & Expo in Las Vegas, I learned that all operations of the Space Shuttle program were part of a major reverse logistics process. See pictures and learn



more about my Kennedy Space Center trip in the article entitled "World's Most Critical RL Operation."

RL Professionals should take a serious look at operations such as NASA along with other companies that have best practices in RL. I hear of professionals that visit processes outside of their own and exchange their best practices. But over all, most RL departments are rarely given a budget to view and hear first hand how new practices, if implemented, could account for millions of dollars in savings to the company's bottom line. I encourage senior management to look at the training your RL department receives through OJT and budget for some supplemental training with best practice exchanges at other companies.

Gailen Vick
President

www.ReverseLogisticsAssociation.org
www.RLTShows.com

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:



Jose Garcia— Microsoft Corporation

Jose Garcia is Director - Repair and Refurbishing at Microsoft Corporation.

Jose joined Microsoft 4 years ago to establish World Wide repair of X-box console from the ground up. Building a world class team he integrated systems, processes and partnerships with expert service partners.



Michael R. Blumberg — D.F. Blumberg Associates.

Michael R. Blumberg is a Certified Management Consultant (CMC) and

President & CEO of D.F. Blumberg Associates, Inc. His firm focuses on providing strategic and tactical assistance to client organization for improving the overall profitability and quality of aftermarket service operations. Mr. Blumberg has established himself as an expert and industry authority on Reverse Logistics and Closed Loop Supply Chain Management.



Chuck Johnston — WAL-MART Stores, Inc.

Chuck Johnston is General Manager at the Bentonville Return Center, WAL-

MART Stores, Inc. Chuck has been with Wal-Mart for the past 13 years and his responsibilities include Returns, Imports, Exports, Tires and Printing and Mailing Distribution.



Jim Hunt — Jabil Global Services

Jim Hunt is Vice President of Business Development at Jabil Global Services

Jim has been with Jabil Global Services since October 2002 but has been in the contract manufacturing and contract post-sales business for the last ten years. He has held various positions including business

unit director, global account director, and his current position of vice-president of global business development and account management.



Joe Beck— UPS Supply Chain Solutions

Joe is Director of Business Development in the High Tech and Telecom sector for UPS Supply

Chain Solutions. UPS is the world's largest package delivery company and a global leader in supply chain services, offering an extensive range of options for synchronizing the movement of goods, information and funds. Its business unit, UPS Supply Chain Solutions, offers transportation and freight, logistics and distribution, technical repair and international trade services.



John Benardino — Hewlett-Packard, Inc.

John Benardino is currently a Director of Reverse Logistics for HP's Imaging and Printing Group. In

his position, John is responsible for credit issuance, engineering, remanufacturing, and all return related costs. His product responsibilities cover printing, digital imaging, supplies, scanners, and shared printing.



Howard Rosenberg — eBay, Inc.

Howard has been with eBay for over 4 years and runs the Company's Trading Platforms

business serving companies interested in maximizing their recovery rates on excess and refurbished inventory through the Reseller Marketplace or through their own, private-label auction marketplaces. He has 14 years of experience in various capacities, including operating, advising and investing in, companies in the consumer product, consumer services and

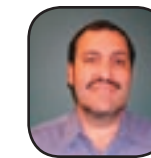
business services sectors.



Dan Gilbert— Cisco Systems

Dan Gilbert is Vice President of Worldwide Reverse Logistics at Cisco Systems, Inc. His

charter when joining Cisco in 2005 was to define and create a world-class reverse logistics organization. Dan's global team is responsible for driving excellence in product recovery, receiving, inventory, and recycling operations, and for transforming returned product into value for Cisco shareholders.



Tony Sciarrotta — Philips Consumer Electronics

Tony is Director of Returns Management at Philips Consumer Electronics

North America. In this position, Tony leads returns reduction and entitlement initiatives for mainstream consumer electronics, and is also currently concerned with further driving the implementation of electronic registration for Philips products at leading retailers. Working with Philips Sales, Service, Marketing, and the Philips Business Excellence Group, Tony is helping drive several teams to improve the consumer experience and subsequently reduce the high rates of products returned with no defect found.

Complete biographies of Advisory Board Members are available from the RLA site at http://www.reverselogisticstrends.com/company_advisory.php.

RLTS Amsterdam

Europe's Premiere Reverse Logistics Event
 At the Dorint Sofitel Amsterdam Airport Hotel
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Around 300 RL Professional Attendees and 30 Exhibitors



Reverse Logistics Association is offering three full days of RL immersion starting with pre-conference workshops followed by two days of conference sessions and exhibition.

Workshops are offered on Monday, June 26 on a variety of topics including Successful Outsourcing—RFQs, Contracts and SOW and Marketing & Selling Service Logistics. For more information on workshops, visit: http://www.rltshows.com/a06_pre_event.php

The RLTS conference kicks off on Tuesday with a Keynote Address by Dan Kraft, Service Support Executive at IBM, followed by sessions presented by RL professionals, leading academics and also includes panel discussions. A highlight of this Conference will be on the subject of "green and regulatory laws," particularly on WEEE & RoHS.

Session topics include field service, RMA, support and help desk/call centers. A wide range of Reverse Logistics companies are in attendance from repair/refurbishing to recycling/e-waste and transportation logistics.

Be sure to visit the Exhibition Hall where ODMs and OEMs will be looking for Third Party Service Providers (3PSPs) that can manage Reverse Logistics in Europe, along with identifying solutions for Asia 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.

If you are a Reverse Logistics professional – don't miss this event!

For more information and complete details, visit www.RLTShows.com. Attendees may register online for workshops, conference and even book flights and hotel. Exhibitors can purchase exhibit space as well.

Reverse Logistics—Doing the Supply Chain Dance



just as easily be mentioned. However, regardless of who is ultimately cited, one thing is for certain, as expounded so succinctly in former U.S.

Ambassador to Switzerland, Faith Whittlesey's now famous quotation: "Remember,

Ginger Rogers did everything Fred Astaire did, but she did it backwards and in high heels!" The analogy with respect to reverse logistics could not be any more painfully obvious.



by William K. Pollock

When asked "Who was the greatest American male dancer of all time?" most people would respond "Fred Astaire" without hesitation. In numerous stage shows and movies from the 1930s through the 1950s, he was, in fact, the greatest American dancer. However, the response to "Who was the greatest American female dancer of all time?" is typically much more wide open, as any one of the many fine women who have graced our stages and screens over the years—including many who had danced as a duo with Astaire—could be cited as the greatest.

The nod usually goes to Ginger Rogers; although, Cyd Charisse or any of Astaire's other former partners could

Just as in accounting, where you have to deal with both debits and credits; in logistics, if you ship things out, some of them are going to need to be shipped back. However, in accounting, at the end of the day, your assets and liabilities will always balance out to equal one another; but in logistics, there are no such absolute "laws" that assist shippers in determining, in advance, how many of their out-shipments may ultimately be returned—and, if so, in what shape, and for what reasons, etc. This problem only intensifies when you have to address what to do with the returns once they are received.

It is bad enough when a customer's shipment arrives late, damaged, or with the wrong content. Compounding the situation is the fact that once a shipment goes wrong (or the parameters change, such as the customer no longer needs the part, etc.), it only gets worse, because now the customer has to call the shipper to arrange for another shipment, re-pack the original item, and ship it back for credit. If all goes smoothly, an incorrect shipment is little more than a "nuisance" to most customers. However, if things go bad (i.e., shipped the wrong part, successive damaged shipments, etc.), these situations go really bad, really fast—and that bad feeling lasts in the mind of the customer for a long time.

For example, if the customer has ordered a critical part from you to

"Remember, Ginger Rogers did everything Fred Astaire did, but she did it backwards and in high heels!" The analogy with respect to reverse logistics could not be any more painfully obvious.

resolve a critical system failure, and you deliver it late, damaged, or otherwise unusable, you can bet that your customer satisfaction rating with that customer is going to take a significant hit. That "hit" is further compounded by the fact that your customer then has to (in their own mind) "fix" some of

your mistakes themselves by calling you up, re-packing the part, and shipping it back to you—plus, they have to wait another day or more to finally get the right part shipped out. This has all of the makings of a bad situation staying bad for at least another 24 hours or more before the customer can ultimately “forget about it.”

However, if during that waiting period, the customer’s business system (and hence, its production capability) has also shut down or, as a result, they have to send their late shift home early, then you are likely to find yourself dealing with the dreaded combination of (An Already Dissatisfied Customer) + (Unanticipated Lost Productivity) + (Unexpected Dollar Expense) = An Extremely Dissatisfied Customer. All this, plus the belief that they now “have to do your job” by shipping the part back, simply makes the matter worse.

The problem that reverse logistics providers have always suffered from is essentially based on the typical human misperception that “shipments coming to me are ‘good,’ but shipments I have to return are ‘bad’.” However, there are some things that can be done to make the return shipment process as painless as possible (Figure 1). For example:

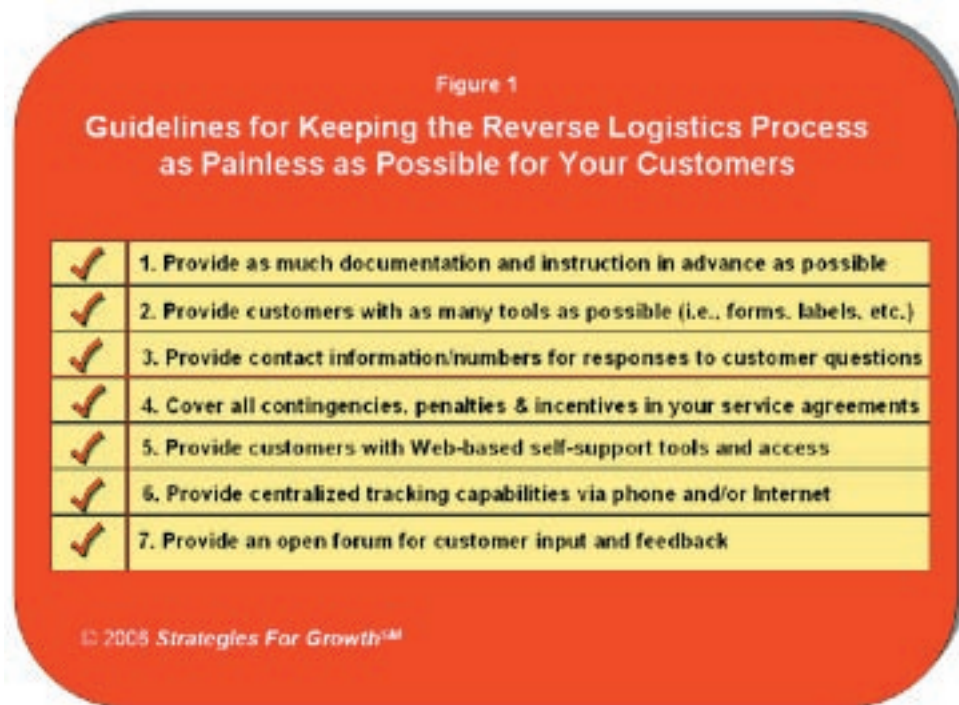
- Provide as much documentation and instruction as possible, in advance, to assist your customers in handling their end of the reverse logistics transaction. Provide it in written/electronic form; make it accessible via e-mail and the Internet; present it in easy-to-understand numbered steps; etc.
- Provide the customer with as many tools as possible to get their part of the

process done quickly and accurately. Provide them with easily re-packable shipping containers, instructions, pre-printed forms, adhesive mailing labels, etc.

- Provide direct customer support contact information should your customers have any questions or concerns about return shipments not already covered in your documentation. Make sure they

have access to company telephone numbers and/or e-mail addresses, and make sure that these contacts are physically there for them when they make the call or send the e-mail.

- Provide centralized tracking capabilities via either telephone and/or the Internet. More and more of your



customers have become accustomed to tracking their shipments—to and from their vendors—over the Internet. (You can learn a great deal from companies like Amazon.com!)

- Make sure that all situations involving late, damaged or lost shipments are adequately covered in your service agreements with respect to contingencies, penalties and/or incentives. Resolve any open issues as quickly as possible; admit mistakes when they occur, and make good on them.

- Provide customers with as many Web-based self-support tools as possible. Some customers believe that anything they have to do is an unwar-

anted demand on their part or, at the very least, an inconvenience; however, other customers believe that anything they can do over the Internet that will shorten the time it will take for the overall process to be completed, will be glad to do so.

- Provide an open forum for customer input and feedback. Everything involving logistics is important to the customer, and they will have a lot to say about the way in which they think you are performing.

In short, make it as easy and non-invasive as possible for your customers to work with you in handling their portion of the reverse logistics process. If you attempt to do everything yourself, then everything that goes wrong will

be your fault—and your fault alone. However, if you work with your customers, provide them with the tools and direction they need, and make things as painless for them as possible, then you will have the best chance to improve your customer satisfaction ratings in the long term—or at the very least prevent customer dissatisfaction from tainting an otherwise good customer relationship. RLM

William K. Pollock is president of Strategies For GrowthSM (SFGSM), the Westtown, Pennsylvania-based services consulting firm specializing in strategic

business planning, services marketing, CRM consulting, market/survey research, and customer satisfaction measurement and tracking programs. During the past 25 years, Bill has conducted more than 200 strategic planning, customer survey and market research studies for clients all over the world. He is a frequent speaker at trade conferences, and has published more than 100 articles covering a wide range of services-related topics. The SFGSM website is accessible at www.s4growth.com.

Read the Press

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RoHS: Is the Supply Chain Ready?

One the most important questions customers are asking distributors and that distributors are asking suppliers is, “how ready is the supply chain for the introduction of the RoHS directive in July?”

Are Extended Warranties Worth It?

When I buy something, I want it to last. But if it fails prematurely, I want the company I bought it from to replace or fix it. Unfortunately, that’s not always the way things work.

Teleplan Enters European Market Place with Videocom Services

Having achieved a leading position in the US, Teleplan is now targeting the European market place. Teleplan

Videocom Services’ portfolio covers a multitude of Services offered to the Home Entertainment OEMs and Operators on a wide range of products like Set-top Boxes (Cable-Satellite-Terrestrial, Triple Play, IP-TV), Modems, Personal Video Recorders (PVRs) etc.

Complexity Causes 50% of Product Returns

Half of all malfunctioning products returned to stores by consumers are in full working order, but customers can’t figure out how to operate the devices, a scientist said on Monday.

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Can Your Supply Chain Work in Reverse?

What You May Not Know (But Should) About Reverse Logistics

By: John Reece



Reverse Logistics—the science of taking something back into “forward-available” inventory in a

documented, orderly fashion—can be broken down into general categories, one that companies are generally prepared for and one that they are not. The first category is warranty returns. Companies with warranty programs are set up for returns, because they learned early on to think in reverse. Though quantities vary, they are fairly predictable, because they’re based on products’ historical service lives. As items are repaired, they are repurposed in forward logistics mode, because for warranty items there is a natural drive

to be “forward-focused.” That’s what logistics officers do: Move goods out of the warehouse and into the demand chain, as companies historically make money selling things, not taking them back into warehouses.

The reverse logistics second category accounts for \$50 billion each year, fully half of the value of goods in the reverse logistics system...

The reverse logistics second category accounts for \$50 billion each year,

fully half of the value of goods in the reverse logistics system, which overall is .5% of GDP. These goods have never been used, are not in need of repair, and are available for immediate resale; these items can be readily restocked and resold, e.g. dozen of pallets of hard drives returned by a computer maker who over-ordered for seasonal manufacturer. Or overstocked products returned because the distributor didn’t want to keep them in inventory: 150,000 feet of coax, 15,000 empty containers. These items at no penalty to the end-user are often shipped back and arrive, sometimes unexpected, on a “forward-facing” loading dock. Workers are often baffled by what to do with returned perfectly good items, often in mixed lots.

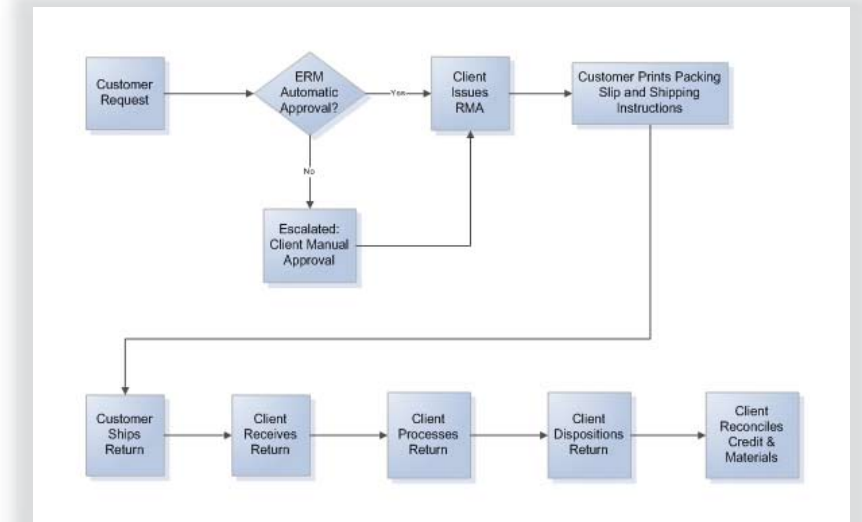
What’s so difficult about just putting items away? Well, today’s ERPs,

CRMs, and WMS-RMAs are not set up to take back new products. As simple as it seems, inbound products through reverse logistics is a data management challenge. Items come back as fractional pallets, or mixed lots. Though the outbound shipment process may have had a rigorous system for allocating and organizing SKUs and printing compliant labels, the end-user you shipped the product to may not recognize your system. Mixing of batches, mixing lots, and mixing categories of products is common. Pallets can come back with just 10% of their inventory used, yet the SKU initially assigned to that pallet does not allow for a quantity adjustment. So, for lack of the flexibility required to deduct an item from a gross amount and issue a new SKU, a nearly full pallet of goods sits “unavailable” on the warehouse floor. Someone has to take on the relatively tedious process of breaking that pallet down, separating out the mismatched items, generating the proper labels and repositioning that pallet, or fractional pallet, so it can be resold.

According to AMR, it takes twelve steps to process inventory inbound through reverse logistics management

for every one step required in forward logistics. And the impact on even small companies can be dramatic.

products can have a dramatic impact on a company’s bottom line. Though that fact may have been lost on (or



For “industrial equipment” the return rate is over 8% and the total revenue impacted by returns is \$105.6 billion in 2005, in just the U.S. alone. For computers and network equipment, the return rate reaches as high as 20%, for a 2005 total of \$65.8 billion, up from \$61.4 billion in 2004.

So, the opportunity is large, and recovering returned good-as-new

hopefully overlooked) by supply chain managers, it has not been lost on the CFOs and CEOs. They see reverse logistics as one of the last frontiers where waste can be squeezed out to make the overall numbers look as positive as possible. What supply chain managers view as an annoyance, C-level officers see as a fantastic profit center, if they were just handled right.

Summary Facts About Reverse Logistics

- 1) Percent of total U.S. logistics costs consumed by reverse logistics management: 10%
- 2) Percent of goods sold returned to computer manufacturers: 10-20%
- 3) Percent of goods sold returned to catalog retailers: 18-35%
- 4) Number of steps required in reverse logistics management for every one step required in forward logistics: 12
- 5) Percent increase in costs for processing a return as compared to a forward sale: 200-300%
- 6) Percent that net profits are reduced by improperly handled returns: 35%
- 7) Savings that an automated, online return template can save over “live call center” costs: 50-75%
- 8) Savings that web-based returns merchandise authorization (RMA) can save over pre-printed return labels: 50-80%
- 9)
 - Industrial equipment return rate: 4-8%
 - Total revenue impacted by returns \$105.6 billion
 - Computers and network equipment return rate 8-20%
 - Total revenue impacted by returns: \$63.8 billion
- 10) The overall average returns rate is 8.46%, but high tech returns can be as high as 20%.

According to the Reverse Logistics Executive Council, the percent increase in costs for processing a return, as compared to a forward sale, is an astounding 200-300%. It costs three times as much to process the reverse logistics of new items as it did to process the forward logistics to sell it. According to Gartner, the percent that net profits are reduced by improperly handled returns is 35%, so it pays to get reverse logistics right.

Automating the Reverse Logistics Process

Many insightful companies have been highly disciplined about returns authorization in the form of an RMA label. But this practice seems to be contained to companies that do nothing but reverse logistics. The logistics manager is already “thinking in reverse,” and it is rare—though less and less rare—to have this level of automation at the industrial level for the return of a new large quantity of otherwise saleable products.

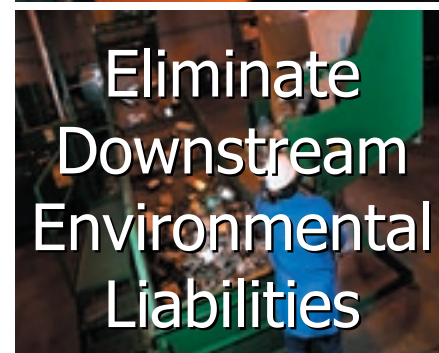
A few approaches to reverse logistics have already been tried and shown to be inefficient. Pre-printed return labels: This guarantees only that returned inventory will be shipped to the proper address. But these labels don’t declare quantities nor lots. Other companies have tried call centers. But human invention in a returns process is costly. However, if you were to automate your reverse logistics with a web interface that demanded an RMA and compliant label before any return—it would save 50-70% over a live call center, according to Gartner. If you were to set up an entirely web-based RMA system that linked directly to your ERP, your company can save 50-80% over pre-printed return labels, again according to Gartner. So, that is clearly the path insightful companies should take. Indeed, the C-level officers are eager for it and the return-on-investment for

an “enterprise returns management” (ERM) system can be achieved in a remarkably short time, given the margins at risk. Set up a web-based RMA system, link it to your ERP, and train your customers to respect and adhere to your rigorous returns process, as enforced by web services. This need not alienate your customers, nor be perceived as inflexible. Indeed, returns can be made remarkably easy, given the flexibility built into powerful ERPs for manipulating highly granular data, the wide availability of “distance printing” of customized “returns compliant” labels, and the availability of sophisticated web services that can access and distribute data from a central ERP...and update that ERP with awareness of inventory that is heading back to the warehouse, and better yet, what to do with it once it arrives. RLM

About the Author: John Reece is president of ClearOrbit, which provides real-time supply chain execution (SCE) software solutions. ClearOrbit was founded in 1994 and currently serves more than 250 leading manufacturing and distribution companies including Cisco Systems, and Texas Instruments. www.ClearOrbit.com.

Sources:

1 Dr. James R. Stock, *Product Returns/Reverse Logistics in Warehousing, 2004*; 2 & 3 Dr. Dale S. Rogers and Dr. Ronald S. Tibben-Lembke, *Going Backward: Reverse Logistics Trends and Practices, 2000*; 4 AMR, 4/12/04; 5 Reverse Logistics Executive Council, 6 Gartner; 7 Gartner 2001; 8 Gartner 2001; 9 *Going Backward: Reverse Logistics Trends and Practices*, Dr. Dale S. Rogers and Dr. Ronald S. Tibben-Lembke; 10 *According to Consumer Electronics Industry.*



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RLTS Amsterdam – June 26 through June 28, 2006

Join us for Europe’s Premiere Reverse Logistics Event! Companies from throughout Europe as well as many other international delegates will be in attendance. ODMs and OEMs will be looking for 3PSPs that can manage Reverse Logistics in Europe, along with identifying solutions for Asia and the Americas.

Third Party Service Providers (3PSPs) will be exhibiting their Reverse Logistics services and solutions at the Dorint Sofitel Airport Hotel in Amsterdam. The focus of 3PSPs will be to help European OEMs and Branded companies become aware of RL support on a global basis. This is a rich opportunity for companies to identify future service partners. There has never been an opportunity like this for 3PSPs to sit down face-to-face with the key outsourcing decision makers from the major OEMs and Branded Companies. A highlight of this Conference will be on the subject of “green laws,” particularly on WEEE & RoHS.

Session topics range from field service, RMA, help desk/call center to mergers & acquisitions. See the conference schedule for a full listing of session topics. A wide range of Reverse Logistics companies will be in attendance from recycling/e-waste to repair and transportation logistics.

Don’t miss the RLTS Keynote Sessions featuring Dan Kraft of IBM and Tony Sciarrotta of Philips.

Keynote Speakers



Dan Kraft, Service Parts Operations Executive, Americas, IBM Corporation

Highlighting the Successes, Challenges and Long Term Outlook of IBM’s Reverse Logistics Strategies

Dan Kraft, Service Parts Operations Executive, Americas IBM, has over 27 years experience in delivering service to IBM customers. He has held various Management positions including Product Planning Manager, Field Service Delivery Branch and District Manager, Area Service Support Manager and I.T. Project Executive. In his current role as Service Parts Operations Executive, Americas, he is responsible for IBM service parts supply chain in the United States, Canada, and Latin America.



PHILIPS

Tony Sciarrotta - Director of Returns Management - Philips Consumer Electronics

Entitlements: Managing Costs on Returns and Warranties

Tony leads returns reduction and entitlement initiatives for mainstream consumer electronics, and is also currently concerned with further driving the implementation of electronic registration for Philips products at leading retailers. Working with Philips Sales, Service, Marketing, and the Philips Business Excellence Group, Tony is helping drive several teams to improve the consumer experience and subsequently reduce the high rates of products returned with no defect found. Working with national retailers, he developed a first time survey of consumers who returned consumer electronics to understand root causes of the no defect found products

Tony is responsible for returns management results from start to finish including the disposition of products and returns disposal, and asset recovery. It’s a wide-ranging role that interacts with sales, manufacturing, service, logistics, and credit—virtually every department in the Philips national and global organization.

Register for the conference today at www.RLTShows.com.

Dorint Sofitel Amsterdam Airport Hotel



MONDAY - JUNE 26, 2006		
9:00AM - 4:00PM	PRE-CONFERENCE WORKSHOPS	
TUESDAY - JUNE 27, 2006		
8:30AM	EXHIBIT HALL OPENS	
10:00AM	RLTS Amsterdam 2006 Welcome Gailen Vick - President, Reverse Logistics Trends, Inc. Industry Overview Size and Forecast	
10:30AM	Industry Keynote Speaker Dan Kraft, Service Parts Operations Executive, Americas, IBM Corporation Highlighting the Successes, Challenges and Long Term Outlook of IBM's Reverse Logistics Strategies	
11:30AM	Tony Sciarrotta, Director of Returns Management Philips Consumer Electronics Entitlements - Managing Costs on Returns and Warranties	
12:30PM	BUFFET LUNCH - EXHIBIT HALL	
1:30PM	TRACK A	TRACK B
	Pros and Cons of Outsourcing	Partnering for RL Solutions
1:30PM	TRACK A PANEL	TRACK B PANEL
	New Ways to Streamline Operations, Drive Profits, and Delight Customers Moderator: Paul Rupnow, Director of RL Andlor Logistics Systems	Reverse Logistics IT Standardization
3:30PM	Revenue Opportunities within the Reverse Logistics Process	IT Asset Disposition: A Unique Reverse Logistics Challenge
4:30PM	TRACK A PANEL	TRACK B PANEL
	WEEE & RoHS Impact on OEMs & 3PSPs Moderator: Michael Blumberg, President D.F. Blumberg Associates	Global Warranty Support
5:30PM	ROUNDTABLE DISCUSSIONS (Hosted by Speakers) - Hors D'oeuvres/Refreshments	
WEDNESDAY - JUNE 28, 2006		
8:30AM	EXHIBIT HALL OPENS	
9:00AM	TRACK A	TRACK B
	Methods of Outsourcing	Channel Returns & Asset Management
10:00AM	INTERMISSION - REFRESHMENTS - EXHIBIT HALL	
11:00AM	TRACK A PANEL	TRACK B PANEL
	Retail Reverse Logistics Issues	Wireless Carriers, OEMs & 3PSPs - Working Together for Customer Support
12:00PM	BUFFET LUNCH - EXHIBIT HALL	
1:30PM	TRACK A	TRACK B
	Industry Analysis on the Wireless RL Market Size	Future Reverse Logistics Models - Repair & Refurbishment
2:30PM	TRACK A PANEL	TRACK B PANEL
	Online Auctions - Changing the Way We Do Business	Reverse Logistics Issues in the Storage Industry
3:30PM	Closing Remarks Ahmad Zubiar Sahar, Sr Vice President, Customer Relations Reverse Logistics Association	
4:00PM	LUCKY DRAWING for DVD RW, Portable DVD Players and Ipods (you must be present during the drawing to win)	

RL Road Show Series of Seminars & Workshops



by RLM Staff Contributor

The RL Road Show Series of Seminars kicked off its second year in the transportation and distribution capital of the world, Memphis, Tennessee! During the third week in April, senior level reverse logistics thought leaders from Iomega, Hewlett-Packard, Cardone Industries, Genco, Patton Consultants, just to name a few, gathered in Memphis to benchmark and discuss the most pressing RL issues.

“The Memphis RL Seminar was an eye opener for me,” said Valisa Newell of Hewlett-Packard. “I am glad to know that there is a support system of reverse logistics professionals that attend these seminars and it provided me with excellent networking opportunities as well as a chance to get up to speed on the most critical reverse logistics issues.”

During the thought provoking and interactive seminar presentations and panel discussion, attendees discussed the role of transportation and distribution on reverse logistics strategies, successful outsourcing strategies and the hidden costs of reverse logistics.

“It was a pleasure to participate in the Memphis RL Seminar. The collaborative process was unique such that it



“All of the speakers were incredibly informative and given the informative setting, fostered a very open dialogue.” Andrew Cooper, President TyRex Group, Ltd.

presented the opportunity for multiple wins on numerous levels. The attention to detail ensuring that all parties’

needs were being addressed was a lesson in customer service. All of the speakers were incredibly informative and given the informative setting, fostered a very open dialogue.” Andrew Cooper, President TyRex Group, Ltd. At the end of a constructive day, attendees were given a rare glimpse into one of the most efficient distribution hubs in the world—the Fed Ex Memphis Hub. Attendees were able to get a first hand glimpse into the 300 acre long facility which has a 7.5 mile perimeter. The tour allowed attendees to see the 8,000 employees in action sorting 160,000 packages and 325,000 letters an hour!

“FedEx runs an extremely impressive operation and seeing it first hand at the peak of activity late in the evening was the perfect ending to a productive seminar session,” said Tom Ward, Director of Sales for Teleplan International.

Reverse Logistics Association Road Show Series of Seminars will continue to provide attendees across the U.S. the chance to engage in high quality discussions with their reverse logistics colleagues. For the complete schedule and more information, please visit, www.rltshows.com.



Industry Events

Reverse Logistics Association Personnel take advantage of every opportunity to evangelize the reverse logistics message thus raising awareness of the process and increasing visibility for our association and its members.

Left, Gailen Vick, President of RLA presents at the National Conference on Operations & Fulfillment in Orlando,

Florida in April 2006. If you would like to have RLA present at an event or if you have an event you would like to publicize in RL Magazine, please send an email to editor@RLmagazine.com.

Upcoming Events

Global Logistics & Supply Chain Management Summit
June 14-16, 2006
Shanghai, PR China
www.globalscsummit.com

RL Workshop – Amsterdam
June 26, 2006
Dorint Sofitel Airport Hotel
Amsterdam, The Netherlands
www.rltshows.com/a06_pre_event.php

RLTS Amsterdam Conference and Expo
June 27-28, 2006
Dorint Sofitel Airport Hotel
Amsterdam, The Netherlands
www.rltshows.com/amsterdam.php

RL Seminar – Chicago
July 20, 2006
www.rltshows.com/chi06_event.php

RL Seminar – Boston
August 15, 2006
www.rltshows.com/bos06_event.php

E-SCRAP 2006
October 18-19, 2006
Austin Hilton, Austin, Texas
www.e-scrapnews.com

RLTS Shanghai
October 24-26, 2007
Marriott Hotel
www.rltshows.com/shanghai.php

Vehicle Service Contract Administrator’s Conference
November 8, 2006
The Mandalay Bay Resort
Las Vegas, Nevada
www.warrantyriskservices.com/VS-CAC_2006_home_page.html

2007 International CES
January 8-11, 2007
Las Vegas Convention Center, Sands, Hilton & Renaissance Hotels
Las Vegas, Nevada
cesweb.org/about_ces

Storage Vision
January 6-7, 2007
Flamingo Hotel, Las Vegas, Nevada
www.storagevisions.com

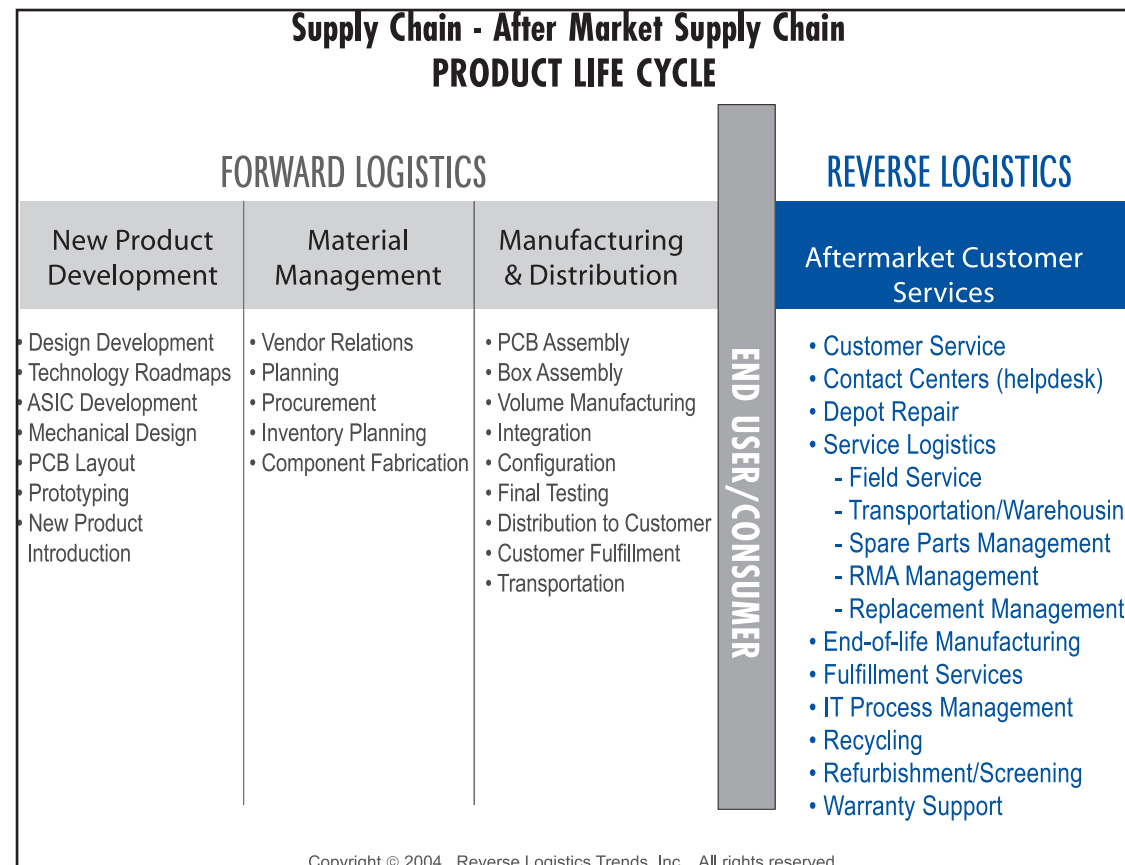
What is Reverse Logistics?

Many organizations and individuals have tried to define Reverse Logistics. Since the term is fairly new we refer to the term “reverse logistics” as all activity associated with a product/service *after* the point of sale, the ultimate goal to optimize or make more efficient aftermarket activity, thus saving money. The chart above shows how ReverseLogistics™ comes into play in the Supply Chain.

Other terms synonymous to ReverseLogistics™ (RL) are Aftermarket Logistics, Retrologistics, or Aftermarket Supply Chain. The reverse supply chain is also a term used in the industry. RL is not to be confused with forward logistics or getting the product to market commonly known as the forward supply chain. Types of activity common with reverse logistics includes: logistics, warehousing, repair, refurbishment, recycling, e-

waste, after market call center support, reverse fulfillment, field service and many others.

“In other words, anytime money is taken from a company’s Warranty Reserve or Service Logistics budget, that is a Reverse Logistics operation”
- Gailen Vick, President RLA RLM



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Knowing the Difference between SCM and RLM

Article Reprint

by Gailen Vick, President and CEO, Reverse Logistics Association

As the president of an industry trade association in the Reverse Logistics Industry, I’m always amused by articles and research that try to lump Supply Chain Management (SCM) with Reverse Logistics Management (RLM) in the same bucket.

SCM has been in development for several years with meaningful application software that can piece together the different steps needed to deliver products and services to the customer. Whereas Reverse Logistics Management applications are still on the leading edge of implementation by most OEMs and still lack the ability to talk to multiple platforms.

Until senior management can recognize the subtle but significant difference between supply chain and aftermarket supply chain, an abyss as deep as the ocean will prevail when it comes to focusing on these different disciplines.

In the last five years most OEMs have been focusing on improving SCM, due to market pressures. Little focus has been given to the astronomical cost of RLM. Our estimates at RLT, Inc. show

that between 3 to 6 percent of bottom line is spent on RLM!

Why are OEMs ignoring this issue? Most OEM’s SCM applications don’t

In the last five years most OEMs have been focusing on improving SCM, due to market pressures. Little focus has been given to the astronomical cost of RLM. Our estimates at RLT, Inc. show that between 3 to 6 percent of bottom line is spent on RLM!

highlight any red flags on the cost of RLM. There are just too many departments (Field Service, Operations,

Finance & Customer Service) managing RLM.

A scenario very similar to the confusion in RLM is demonstrated by the multiple security branches that were managing the United States government security prior to 9/11. Today we have one department (Homeland Security) managing all functions of security today.

I highly recommend that OEM management teams create a Vice President of Reverse Logistics (on equal footing with the VP of Logistics) that will bring all RLM functions (from the different departments) under one focused individual. Major cost savings can be realized in just one year, not to mention the improved customer satisfaction and streamlined product improvement feedback. RLM

Gailen Vick is president and founder of the Reverse Logistics Association. With 30 years experience in aftermarket supply chain, engineering, manufacturing, sales and marketing, Gailen’s RL knowledge is a resource to companies across all industries.

Five Things You Need to Know to Maximize the Service Supply Chain



by Dr. Morris Cohen

Companies are increasingly looking to their service businesses for greater profits, improved customer satisfaction, and competitive advantage—and for good reason.

According to Aberdeen Group, aftermarket spare parts and services account for 8 percent of the annual gross domestic product in the United States, with U.S. consumers and businesses spending more than \$700 billion annually on spare parts and services for previously purchased assets such as automobiles, aircraft, and industrial machinery.

Maximizing the value of the service supply chain requires management of forward product flows as well as reverse logistics flows of product from the field. Advanced service supply chain systems that effectively manage parts and products moving in both directions in the aftermarket can deliver immense ROI:

- Inventory reductions of 15 to 50 percent
- Service level improvements of 5 to 20 percent
- Total supply chain costs reductions that exceed 5 percent
- Dramatically increased service revenues and corporate profit

The aftermarket is quickly becoming a goldmine for companies across many industries, including high-tech, aerospace and defense and telecom. Here

are five important things executives need to know to drive bottom-line performance.

1. Service and Production Supply Chains Are Very Different

Service supply chains are much more complex than traditional production supply chains in four major ways:

Varied service offerings: Aftermarket service must support warranty commitments, contract extensions (which may include same-day or next-day service), direct parts sales and distributor-driven sales intended to maximize the value of the end customer. Customers, moreover, demand highly differentiated levels of responsiveness in service support.

Reverse logistics: Service organizations must manage both forward movement of inventory and reverse logistics flows for the return of damaged items. To reduce new purchases and decrease inventory costs, companies need to quickly move returns back into usable stock.

Geographic / channel complexity: To meet same-day service requirements for products with low demand rates within stringent time standards, inventory must be positioned in a large number of near-to-customer

geographic locations. Cisco Systems, for example, maintains inventory in more than 800 locations, including field locations, distribution centers and repair centers.

Product complexity: As product lifecycles are decreasing, the service function must support a widening variety of new products as well as a large number of out-of-production products with low demand and long manufacturing lead times.

These service-related challenges result in inventory turns that can be as low as one to two turns a year, requiring a very different supply chain planning approach.

2. Service Needs to Link Back to Product Development and Innovation

Forward-looking executives understand the importance of linking product development and service. Cisco Systems, a leader in this area, reviews failure data from the service business to continually enhance existing products and create new products that improve the customer experience.

Here are some examples:

Design for service-ability. Involve service engineers in product development, ensuring that products are built



for reliability and efficient diagnosis and repair if problems occur.

Account for reverse logistics. Carefully manage the flow of parts and products through the repair process, to ensure optimal asset usage at the lowest possible cost.

Synch service planning with engineering changes. When engineering changes are made, the impact on inventory levels and reserves must be factored into decisions about updating and upgrading products.

Involve service engineers in product development, ensuring that products are built for reliability and efficient diagnosis and repair if problems occur.

Link field service to product development. Some of the most valuable data to drive product design comes from the field.

3. Your ERP System Cannot Manage Reverse Logistics

ERP systems have provided a strong transactional backbone to enable better management of reverse logistics and overall service, but getting the most value requires a system designed specifically to manage the challenges of the service supply chain.

While there have been large investments in ERP, and increasing pressure to extend its use across all business processes, a “best-of-breed” service solution reduces risk and meets the

demanding nature of the service business.

4. Hosted Service Solutions Bring Rapid ROI at Lower IT Cost

A recent IDC survey of 512 North American-based I.T. professionals shows that nearly 79 percent have purchased or are reviewing software-as-a-service offerings. (http://www.cio-today.com/news/Microsoft-Live-Short-on-Business-Apps/story.xhtml?story_id=111007AKZNB6)

Software as a Service (SaaS), a vendor-managed hosted solution, allows the end user to access the application via the Internet. This provides flexibility in product deployment and support, minimizing administration and hardware costs.

Hosted implementations can be deployed in weeks, not months, with minimal disruption to the IT department, and leveraging previous IT investments.

Industry influencers are also urging the shift:

“Users are saying I would be nutty not to at least give [software-as-a-service] strong consideration going forward,” says Bill Gannon, vice president of consulting for AMR. “Whether they do it is another item, but upwards of 60 percent of customers are saying to get on my short list, software-as-a-service is one of the key criteria I am looking for. What they are saying is they recognize all the promised benefits of decreased cycle time, faster time to value, lower cost per user, lower [total cost of ownership], not to mention the change in the economic model from a capitalized expenditure to a manageable [monthly] expense.”

(<http://www.networkworld.com/news/2005/121205-saas.html?ts>)

5. Service Leaders are Driving Customer Centricity

Leading service organizations are focusing on the needs of their customers to generate value through the use of mission-critical products by implementing these capabilities:

- Service agreements that focus on key metrics critical to the end customer, including equipment availability and up-time
 - Incorporating knowledge of service contracts and entitlements in determining optimal stocking levels
 - Incorporating “performance-based logistics” (PBL) contracts in which suppliers are contractually rewarded for improving customer-specific metrics thereby aligning incentives of both customers and service providers
 - Implementing differentiated service contracts that provide higher levels of service response to those customers to whom it is most important
- Reverse Logistics Takes Center Stage
As customers continue to demand higher levels of reverse logistics at a lower cost, companies have to figure out how to create an effective service supply chain to drive stronger customer relationships, increased revenue generation and more dynamic product lifecycles. RLM

Dr. Morris Cohen is the co-founder and chairman of MCA Solutions and the Panasonic professor of manufacturing and logistics at the Wharton School of the University of Pennsylvania. With 25 years of experience in the supply chain space, he has planned and designed many advanced value chain systems. Dr. Cohen has published extensively on the theory and practice of optimized service value chain design, planning and management, including his book, Manufacturing Automation. He can be reached at Morris.Cohen@mcasolutions.com.

Integrated Reverse Logistics: New Ways to Streamline Operations, Drive Profits, and Delight Customers



by Ray Martin

What is old is new again. A quick search on Amazon.com pulls up over one thousand business books with the term “integrated” in the title. This word, which is defined as “to make a whole by bringing all parts together” has been applied to logistics and supply chain concepts for decades.

The intent of this article is not to stake claim that integration is critical to reverse logistics success—this is a given. Integration in the context of reverse logistics, or any business area, is a means to an end, not the end itself. As technology, business practices and globalization continue to evolve; enterprises will continue to expand the boundaries integration to drive business value.

The purpose of this article is twofold. First barriers to integration unique to reverse logistics environments will be

highlighted. Second, success drivers that industry leaders are leveraging to push beyond those barriers will be identified and discussed in the context of the business value integrated reverse logistics delivers.

Barriers to Integrating Reverse Logistics Activities

Typical reverse supply chains have little automation, and are characterized by blind spots and poorly managed assets that sit in warehouses and repair centers where

losses are accepted or absorbed. The consequences are dramatic—according to the Reverse Logistics Executive Council inefficient reverse supply chain processes could reduce an organizations profit by approximately 30%. While the upside potential seems clear cut, today’s enterprises are faced with multiple barriers to achieving the benefits of integrated reverse logistics.

Bringing reverse logistics from the backroom to the boardroom

As David Wyld discusses in an article from the winter/spring 2006 edition of the Reverse Logistics Magazine, the lack of recognition for the strategic importance of reverse logistics can impede an enterprise’s ability to capture the benefits of effective reverse logistics practices. Due to the cross-functional nature of reverse logistics processes that can span multiple organizations within an enterprise, executive leadership is imperative to clear the logjams—people, process, technology and financial—that hinder the path to integration.

Reverse logistics isn’t your forward supply chain going backwards

The same rules do not apply. Reverse logistics material flow characteristics, supply and demand dynamics, and technology considerations are fundamentally different than its forward logistics counterparts must address.

• **Irregular material flow**—Returns processing is highly dynamic and non-deterministic, driven by variations in product and product condition, processing requirements that vary by client and contract, and disposition outcomes that dictate the workflow steps a given return goes through. Unlike the forward supply chain, in which delayed differentiation is often used in postponement strategies to drive



inventory benefits, product entering the reverse supply chain is already differentiated, but the differentiation is not always known.

• **Multi-condition inventory**—Traditional ERP and supply chain management systems are not designed to manage inventory that exists in multiple condition states, such as new, repaired, remanufactured, etc. These condition states are critical in driving dynamic reverse logistics processes, effectively forecasting and planning inventory across the reverse supply chain, and accurately managing the financial aspects of the inventory, such as valuation.

• **Complex order flows**—One customer return can cause multiple returns, work (i.e. repairs) and fulfillment orders that are linked together when it comes to satisfying the customer. Since the genealogy of these linked orders can span multiple systems, facilities, and even trading partners, visibility and control over these order flows is critical to ensure

customer service levels are met in the most cost and time-effective manner.

The 21st century reverse supply chain

The pursuit of profit and competitive advantage has resulted in rapidly evolving reverse logistics models. Many companies are shifting their reverse

logistics operations to business models that require the coordination of multiple tiers with out-sourced business partners, such as 3PLs and contract repair centers.

While the promise of such change is compelling, closing the gap between opportunity and results can feel like changing the tires on a moving car. If an enterprise lacks an integrated reverse logistics environment before outsourcing, a shift to an extended enterprise business model can add complexity to an already challenging environment.

Closing the Gap between Opportunity and Results

According to a March 17, 2005 AMR Research article, “Reverse Logistics and WEEE: You Have To Keep Them Separated,” “Dealing with returns drains 5% to 9% of total supply chain costs, and is set to rise with the implementation of the Waste Electrical and Electronic Equipment (WEEE) and End of Life Vehicle (ELV) directives as well as the increase in e-commerce.” An opportunity with this order of magnitude has instigated many companies to push the boundaries of

CONTROL RETURNS MANAGEMENT COSTS THROUGH PROCESS OPTIMIZATION

ClearOrbit recently added the **Enterprise Returns Management Solution** from **eBoomerang** to its advanced suite of application software.

Enterprise Returns Management allows companies to dramatically reduce returns management costs, by automating processes and enforcing policy and relationship business rules. Optimizing reverse logistics drives immediate **SG&A reductions and improved profitability:**

- Control of warranty and scrap costs
- Fast inventory and asset recovery and reuse
- Optimized transportation routing that reduces cost
- Rapid credit processing and reconciliation
- Significant reduction in invalid returns
- Lower administrative costs

ClearOrbit™
real-time supply chain execution

For more information, visit www.clearorbit.com/ReturnsMgmt.php or contact us at **800.324.5143**



integrated reverse logistics practices to find new ways to streamline operations, drive profits, and delight customers. On top of that, some forward thinking companies have created new lines of revenue through their expertise in providing integrated reverse logistics services that cut through the barriers referenced above.

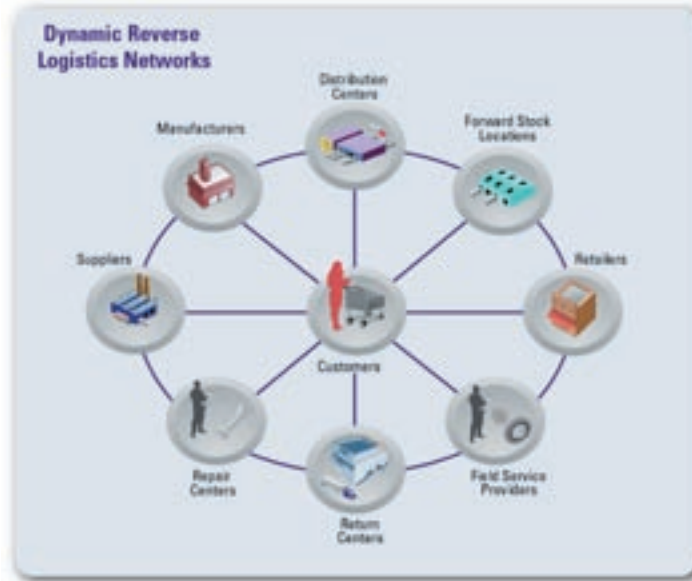
But what does integrated reverse logistics really mean? Reverse logistics is defined as the process of planning, executing, and controlling the cost-effective and efficient flow of material and finished goods inventory from typical final destinations back to the origin in order to capture value, satisfy customers, and/or properly dispose.

The key to integrated reverse logistics is intelligent, dynamic decision making. In order to optimize performance, reverse logistics functions must operate in an integrated manner across both tactical and operational decision horizons. The tactical level plans and schedules the reverse supply chain to meet anticipated supply and demand conditions. The operational level executes plans in the context of dynamic and changing business environments. Tactical and operational level decision making functions are by nature distributed across the reverse supply chains, and must be optimized both locally (i.e. within a return or repair center) and across the extended enterprise.

Below are some common success drivers that are characteristic of companies achieving success through integrated reverse logistics.

Execute flawlessly at each point in the process

The ability to execute well across the reverse logistics lifecycle is the foundation for achieving the integrated reverse logistics vision. While many have the strategic intent to act



on reverse supply chain strategies that lower costs, increase efficiency and enhance customer service, many fall short.

Those that are successful realize that the dynamics of the 21st century reverse logistics requires a new approach to execution—one designed to address both the enterprise and network complexities of today's supply chain environments.

As an example, a large direct-to-consumer retailer has developed integrated systems and processes to effectively manage their consumer returns environment from return inception to final disposition. They provide a customer friendly returns process that simplifies the task of processing and shipping a product for exchange or credit. This process is integrated with the return

center and warehouse so that returned product is efficiently processed. With all the necessary order, credit processing, product disposition and distribution touch points seamlessly integrated, the company is able to minimize handling cost, maximize customer service, and shrink the time it takes to re-capture value associated with the returned product.

Extend reverse logistics processes beyond the enterprise

Many companies are shifting their reverse logistics operations to business models that require the coordination of multiple tiers with outsourced business partners, such as 3PLs and contract repair centers. For original equipment manufacturers (OEMs) and brand owners

maintaining visibility and control over an outsourced reverse supply chain is critical to maintaining customer service levels without compromising profitability.

For example, a wireless telecommunications carrier might provide a customer with an advanced exchange service that requires a cell phone be replaced in advance within 24 hours of the request. In this case the carrier may source the replacement from a third party logistics hub managed by the OEM. The return is routed directly to a contract repair provider for disposition processing. Integrated reverse logistics in this context enables the virtual management of the reverse supply chain, as the Carrier and OEM never physically touch the replacement or return product. The result: lower cost per return and shorter cycle times from return inception to value re-capture.

Create dynamic reverse logistics networks

In order to optimize performance, reverse logistics functions must operate in an integrated manner across both tactical and operational decision horizons. Due to the variability in supply and demand patterns, close linkages between planning and execution will result in a dynamic decision support framework that optimizes inventory positions and reverse supply chain processes based on real-time conditions. The ability to push the disposition decision as close to the inception of the return as possible, and the flexibility to coordinate extended reverse logistics processes allows industry leaders to move from static to dynamic reverse logistics networks.

For example, a large contract repair and reverse logistics service provider has linked return forecasting and planning with dynamic decision making to optimize the disposition and routing of product returns. Forecasting return and repair conditions provide better insight into the long-term capacity requirements needed to process returns. Integrating decision support at the operational level allows the service provider to optimize the return flow based on real time conditions such as service levels, repair capacity, inventory positions, and demand patterns across the network. The result: competitive advantage by providing reverse logistics services that are better, faster, and cheaper than the competition.

As the famous economist Joseph Schumpeter once stated, "Profit is the payment you get when you take advantage of change." While barriers to integrated reverse logistics exist, leading companies are finding innovative ways through the use of technology and process improvements to continuously expand the boundary of integration. Whether you are a brand owner, OEM

or reverse logistics service provider, integrated reverse logistics provides new ways to streamline operations, drive profits, and delight customers.^{RLM}

Raymond Martin, a Strategic Consultant for Click Commerce, Inc., has more than 12 years of experience assisting Fortune 1000 companies in the redesign of their supply chain processes for dramatic improvements in productivity, cost and customer services. Mr. Martin's areas of expertise include reverse logistics, warehouse and transportation management, order fulfillment, inventory management, and supplier collaboration. RLM

Click Commerce, Inc., (Nasdaq: CKCM), a leading provider of on-demand supply chain management solutions, enables millions of users in 70 countries to collaborate, in real time, with business partners across the extended enterprise. Click Commerce solutions support the unique business processes of multiple industry segments such as manufacturing, aerospace and defense, and high-tech. More information can be found at www.clickcommerce.com.

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On RLTS Amsterdam ...

Kiala, the European leader in Collection Points for (among others) carry-in & swap services, was very pleased with the results of our participation at RLTS Amsterdam in 2005. We have made a commitment to exhibit in Amsterdam for the next three years." Joris Oudenhuijzen, Country Manager, Kiala

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Increase Profits using the Reverse Logistics Cost Equation



by Paul Rupnow

The challenge of every Reverse Logistics Professional is to increase your corporate profits by improving the handling of your returns. Returns processing is made up of many people, processes and costs, so it can be a considerable challenge to assess where to focus your energies to ensure you can achieve the biggest return for time or money invested.

One way to tackle this challenge is to view your reverse logistics from a financial perspective. It is also helpful to arrange your returns processing into a framework to perform ongoing analysis, prioritize your decisions and benchmark your performance.

An excellent tool to help you perform this analysis and identify your profit opportunities is the Reverse Logistics Cost Equation.

The Reverse Logistics Cost Equation

The Reverse Logistics Cost Equa-

tion 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:

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.

The Reverse Logistics Cost Equation:

Processing Costs
+ Logistics Costs
+ Credits/Replacements Cost
+ Asset Depreciation
Total Reverse Logistics Costs

Reverse Logistics 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.

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.

Impact of a reduction in the Reverse Logistics Cost Equation Components

As mentioned earlier, a reduction in any one of these Reverse Logistics Cost Equation components goes straight to your corporate bottom line profit. So what happens to your corporate profits when you make small improvements to each of these cost components?

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, 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

Cost Component	Potential Savings Range
	\$ (very small) to \$\$\$\$\$\$ (very large)
Processing Costs	\$ - \$\$
Logistics Costs	\$ - \$\$\$
Credits/Replacements Cost	\$\$\$ - \$\$\$\$\$
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.

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

a unit is certainly much greater than the \$3/unit you achieved above with the small improvement in per unit processing cost.

Similarly, large opportunities are often available in the area of asset depreciation. 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

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.



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Technology Spotlight

Full articles available from: RLA News Center

RFID Tags Embedded in Workers' Arms

Tiny silicon chips were embedded into two workers who volunteered to help test the tagging technology at a surveillance equipment company, an official said Monday. The Mexico attorney general's office implanted the so-called RFIDs -- for radio frequency identification chips -- in some employees in 2004 to restrict access to secure areas. Implanting them in the workers at CityWatcher.com is believed to be the first use of the technology in living humans in the United States.

Brain Cells Fused with Computer Chips

The line between living organisms and machines has just become a whole lot blurrier. European researchers have developed "neuro-chips" in which living brain cells and silicon circuits are coupled together. The achievement could one day enable the creation of sophisticated neural prostheses to treat neurological disorders, or the development of organic computers that crunch numbers using living neurons.

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.

Processing Costs \$ CAN DRIVE -> Logistics Costs \$\$\$

Credits/Replacements Cost \$\$\$\$\$
Asset Depreciation \$\$\$\$\$

Inter-Relationship between the Reverse Logistics Cost Equation Components

When performing your analysis of potential profit improvements in each area of the Reverse Logistics Cost Equation, you must also keep in mind the inter-relationship or effect that one equation component can have on the others. The best example of this is processing costs.

A small change in one part of the equation, such as processing, can drive very large changes in the other parts of the equation. For example, an improved verification process when returned goods are received may involve an investment in technology or software and training. This change in processing costs may drive a large reduction in the number of unauthorized credits you have been issuing customers for goods that may have never actually been returned properly. So a small investment in processing technology drove a large change in bottom line profits since fewer credits are now issued.

A small change in processing costs can also often achieve a significant increase in profits through a reduction in Asset Depreciation. By speeding the turn around time of a rapidly de-

preciating product line, there is often an opportunity to significantly increase the profit recovered by selling the "newer" goods for a higher price to the secondary markets.

This rapid turn around time can be achieved through a small change in processing costs, such as an investment in better IT systems that enable visibility and alerts to ensure the goods are flowing through the system at a much faster pace.

The Reverse Logistics Cost Equation can be a powerful tool for you to analyze your operations and determine where to spend your limited time and financial resources.

Good luck! RLM

Paul Rupnow is dedicated to providing Reverse Logistics solutions. As a partner of Andlor Logistics Systems, Paul works daily with manufacturers, distributors and 3rd party service providers to solve Product Returns issues and Reverse Logistics operations problems. Paul works with companies to analyze, design or implement Returns processes and systems. He is also the lead business architect of BacTracs, Andlor's Reverse Logistics Management System, (<http://www.andlor.com/bactracs>).



by RLM Staff Contributor

The 3rd Annual RLTS Las Vegas Conference and Expo were held February 7-8, 2008. Pre-conference activities "kicked off" with many attending the Super Bowl party on Sunday at the Flamingo Hotel. Monday included workshops and a charity golf tournament benefiting "America Responds with Love."

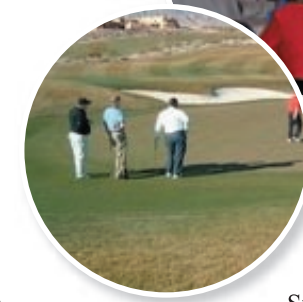
(Lance Rinehart of Jabil won award for Closest to the Pin) (Lucien Carignan of Service Electronics won award for Longest Drive).

With over 900 registered attendees and 430 companies represented, RLTS Las Vegas 2006 was the largest worldwide event focused on reverse logistics. New this year, was a fourth track dedicated to wireless communications. With so

many participants we've outgrown the Flamingo and our venue will be even larger next year.



On Tuesday, the conference began with a Welcome Address by RLA President and CEO, Gailen Vick. Gailen reported on the progress of the trade association and announced the publication of the new Reverse Logistics Magazine.



Next up was keynote speaker, Dan Gilbert, VP of Worldwide Reverse Logistics at Cisco Systems, Inc. Dan's presentation focused on the Business Drivers of Reverse Logistics and the Strategic Value from Reverse Logistics including Social Responsibility, Customer Satisfaction, Brand Protec-

tion and Bottom Line Contributions. His presentation is available on line at www.RLTinc.com

Following the Keynote Address, sessions broke into four tracks providing a wide variety of industry-specific topics for attendees— including Returns and Warranties, Outsourcing, Online Marketplace Solutions, RFID and Aftermarket Sales & Service Strategy. In addition to session presentations, panel discussions covered topics such as RL Issues and on the Wireless Track, Shared Costs Between Carriers and Manufacturers. Companies presenting sessions and participating on panels included Cisco, Microsoft, Wal-Mart, Apple, Intel, Touchtone Wireless, NYK Logistics, FedEx, USPS and UPS—just to name a few. "In today's rapidly growing marketplace, anyone with an interest in the reverse logistics industry can't afford to miss any RLTS event" —Jim Hunt, VP



Business Development, Jabil Global Services.

Another new development for 2006 was the inclusion of the Ease of Use Roundtable sessions. This sub committee which is chaired by Intel, meets on a quarterly basis to come up with



easier ways for people to use products.

Running concurrently with the speaker sessions was the Exhibition Hall where attendees had the opportunity to meet with over 75 Exhibitors and Sponsors. "Our booth was well attended and generated 18+ qualified leads" said C. Sam Smith, Director-Strategic Projects, Sales and eCommerce/Information Technology, Support Services Group. "We truly believe that the Reverse Logistics Trade Show generated interest in our company and has assisted us in increasing our brand recognition."

After a full day of learning and networking, the fun began—starting with a reception hosted by ClearOrbit where President John Reece, announced the recent acquisition of eBoomerang and their plans going forward. After feasting on hors d'oeuvres and beverages, attendees were treated to an evening of

amazing musical virtuosity by Mr. Las Vegas himself, Mr. Wayne Newton.

Wednesday morning saw the sessions resume and the continuation of the Exhibit Hall. Throughout the day, contacts were made, acquaintances renewed and best practices exchanged.

At the end of the day, Gailen presented the conference wrap up which included awards for the "Best Use of the VIP Voucher System." According to Ed Barry, the CEO of OnProcess Technology, a leader in providing world-class inventory recovery and RL services to Fortune 500 companies, "The VIP Voucher Program was of great value to OnProcess. We took advantage of the personalized mailings provided by RLTS and, as a result, many of our current and potential customers attended the show. We believe that this program helped us to enhance current relations and to establish relationships with future customers."

The Lucky Draw raffle saw many delighted attendees walk away with great donated items such as optical drives, digital cameras and portable DVD Players. Thank you to all companies who donated items including Toshiba, Microsoft, Western Digital, Seagate and Tech for Less, plus many more.

Make plans now to join us for RLTS Las Vegas 2007 on February 5-7, 2007. For more information about speaker opportunities or to exhibit, visit www.RLTShows.com. Also available from the RLTS site is a complete list of companies which participated, as well as the Las Vegas 2006 Photo Gallery. Check it out!

Topics

- HP Reverse Logistics Program in Latin America
- Outsourcing Field Returns - Philips Medical Systems
- Outsourcing Recovery Programs to Increase Profits
- RL Operational Strategies for New Product Launches
- WEEE & RoHS Impact on OEMs & 3PSPs
- Entitlements - Managing Costs on Returns and Warranties
- Reverse Logistics - Pros & Cons of Outsourcing
- RL Shared Costs Between Carriers and Manufacturers
- New Ways to Streamline Operations, Drive Profits, and Delight Customers
- Methods of Outsourcing
- Reverse Logistics 2010
- Partnering for RL Solutions
- Reverse Logistics Issues in the Storage Industry
- Global Warranty Support
- Pioneering Customized Support Strategies to Meet Dynamic Customer Requirements
- Predictive Analytics in Support of
- Improved Quality Thinking Like a General Manager - How Reverse Logistics Can Drive Value on your Top Line, Bottom Line, and Beyond



Andrew Lange, Vice President Business Development, GENCO



Heather Steer, Reverse Logistics Consultant



Jose Garcia - Director - Repair and Refurbishing - Microsoft



Art Teshima - Vice President, Business Development, Sales & Marketing, Bell Tech. logix



Irv Grossman, Managing Officer Supply Chain Strategy Practice, Ad-joined Consulting



L. Bryant Underwood, Senior Manager - Analytics, Solectron



Len B. Blackwell, President & CEO - Service Electronics, Inc.



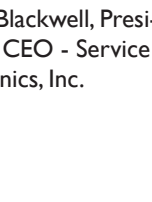
Bob Sullivan, CEO, The Wireless Source



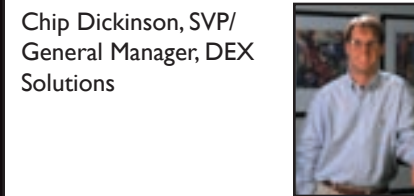
Jerry Adamski, WW Depot Operations Manager, Eastman Kodak Company



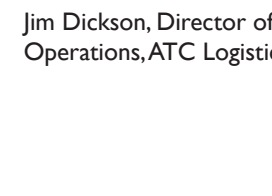
Leonard Schneeman, Chief Technology Officer, DEX (Data Exchange Corporation)



Levy Antal, Vice President Business Development, Image Microsystems



Chip Dickinson, SVP/ General Manager, DEX Solutions



Jim Dickson, Director of Operations, ATC Logistics



Joe Beck, Director of Business Development, UPS Supply Chain Solutions



Marc Flood, Vice President Service Delivery, Bell Industries



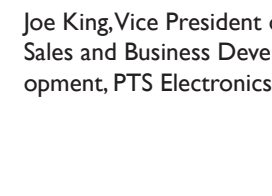
Chuck Johnston, General Manager, Bentonville Return Center, Wal-Mart Stores Inc.



Daniel Barrett, Manager of Business Planning, United States Postal Service



Dave Eagleson, SVP Sales & Marketing, RFID Global Solution



John Coffield, VP Sales Reverse Logistics Solutions, GENCO



Marlene Breakey, Senior Director of IT, Ryder Systems



Martin Reibold, General Manager, Decision One



Seth Kekessie, Senior Manager Wireless Solutions Marketing, Sprint Nextel



Van Bullock, Process Improvement Manager, Vtech Innovations

Michael Lesshafft, Manager of Customer Satisfaction, Lexmark International, Inc.



Sharon Daniel, Manager of Ground and Return Packages, United States Postal Service



Walter F. Manley, III - Vice President, Technology Products Group, Bell Industries, Inc.



Peter Racine, Vice President of Supply Chain Services, Click Commerce



Steve Cole, SVP Product Management & Strategy, Click Commerce



Warren Sumner, Vice President Professional Services, ClearOrbit

Ram Aikat, Vice President Commercial Accounts, Liquidity Services Inc.



Thomas Welsh, President, Pro Mobile Inc.



Gailen Vick President - Reverse Logistics Trends, Inc.,



Ron Tibben-Lembke, Ph.D., Associate Professor of Supply Chain Management, University of Nevada



Tom Reed, Senior Project Manager, Apple Computer Inc.



Les Bury Corporate Logistics Director, United Recycling

Scott Greer, Global Account Director, Jabil Global Services



RLTS Conference Presentations Available



Speaker Presentations from RLTS Las Vegas 2006 and prior conferences are available from the RLA website at www.RLTinc.com.

Mark Tipton CFO, New Age Electronics



Scott Lofgren, Manager WW Ease of Use Enabling, Intel Corporation



Dan Gilbert Vice President of Reverse Logistics



Col. Joseph Walden Director, Supply Chain Research Institute



Tom Coughlin President - Coughlin Associates



Steve Maglor Director Worldwide Repair Operations, Quantum Corporation

Stuart Miller Executive VP, Transport-Gistics



Emily Rodriguez Senior Consultant, The Results Group



Don Collier Global Account Manager, Solectron Global Services



Amanda Hale Marketing Director, United Recycling



Ed Inal Sr Director Customer Service & Support, Western Digital



Gary Gear Director Supply Chain Management, Toshiba

Dean Schiavone Director WW Reverse Logistics



Paul Gettings VP Business Development, UPS Supply Chain Solutions



Andrew Katcher CEO - Rapid Result



Tony Sciarrotta Director of Returns Management



Lennie Myers Chief Marketing Officer, Image MicroSystems, Inc.



Gustavo Rojas VP Sales, New Business Development, Radio Shack

Curtis Greve EVP Reverse Logistics, GENCO



Rogelio Macias, Reverse Logistics Manager, Hewlett-Packard Mexico



Tim Neale Regional Operations Manager, Wal-Mart



Jim Magnanini VP of Sales, Channel Advisor



Wafa Dahel Senior Manager Customer Service, Customer Service Organization



Pam Rapp Distribution/Return Center Support Manager, Wal-Mart



Rob Swanson
Vice President Wireless
Sales, Solectron Global
Services



Pam Arrigo
Global Business Devel-
opment, Motorola

Richard A McDonough
President & CEO America Responds
With Love, Inc.
Not Shown

Peter Junger
President-SiRAS.com Inc



John Aanenson
Senior Production Man-
ager, Philips



Topics

- Maximizing Revenue Opportu-
nities in Reverse Logistics Through
Integrated and Outsourced Online
Marketplace Solutions
- Global challenges in IT Asset
Recovery and Electronic
End-of-Life
- Real-Time Decisions, Taking
Time Out of Reverse Logistics
- Using Technology To Lock In
Customers to Your Aftermarket
Sales & Service Strategy
- Retail Reverse Logistics Issues
- Revenue Opportunities within the
Reverse Logistics Process
- Donating Excess Inventory is
Good for the Bottomline
- Wireless Carriers, OEMs &
3PSPs - Working Together for
Customer Support
- Customer Returns - A Delicate
Business - Will RFID Help?
- IT Asset Disposition: A Unique
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- Overview - Ease of Use
Roundtable
- Industry Analysis on the Wireless
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- Online Auctions - Changing the
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- Developing an ERP with a strong
RL Component
- Ease of Use Roundtable -
Industry Returns, Support Cost
Issues, Call Center
- Channel Returns & Asset
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Bill Reams
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Paul Sorenson
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tors Engineer, Intel



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Michael Blumberg
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Joey Hlavenka
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ment Manager, Dell Inc.



Bill Frischling
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Ian Scott, Director of
Customer Service, Sony
Ericsson Mobile Commu-
nications (USA)

Howard Rosenberg
Director - Private Market-
places, eBay



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Shining a Bright Light on Returns Inventory

Increasing Recovery through Proactive Disposition of Returns Inventory



by Anne Patterson

The consumer electronics industry is a shining star in the US economy with robust growth and record-breaking productivity, according to the March

ment. This article will explore new trends in inventory asset management, leveraging the now ubiquitous internet auction paradigm and the insatiable global market for technology products, including all conditions of returns inventory.

Let's first take a brief look at the costs of carrying returns inventory. Costs

sion factor, inventory loses a startling half its value in slightly less than six months, at which point the cumulative loss begins to exceed the residual value of the inventory. Returns inventory may have lost a good deal of its value prior to entering the reverse supply chain, but the price curve does continue to drop albeit at a flatter rate. Moving quickly to remarket ensures



2006 report of the Consumer Electronics Association (CEA). The consumer electronics industry employs almost two million US workers across both retail and manufacturing sectors. Over the ten-year period from 1994 to 2004, CE-related retail productivity increased 309 percent, versus 52 percent in general retail. Unfortunately that shining star has a dark side: a returns rate in consumer electronics hovering at an astonishing twenty percent. Improving the inventory asset management of the volume of inventory in the reverse supply chain is the next major area of productivity improve-

come from two primary sources, declining market value and carrying costs. Most inventory practitioners are well familiar with the latter but will have had little exposure to the concept of price erosion.

The Price Erosion Graph illustrates the value of \$1 million in inventory after six months. The price erosion factor of 15% per month is typical of high-turnover products such as compact flash memory. Disk drive price erosion can be as high as 8% per month, and personal peripherals up to 4% per month. With a 15% monthly price ero-

increased recovery dollars.

The Period Costs Chart shows the costs associated with carrying that same amount of inventory over the same timeframe. Period costs include warehousing costs (in this example, an amount of \$17,875 per month), cost of capital at 10% annualized, reserve taken against excess and obsolete inventory (E&O Reserve), and standard revision costs of 2.5% per quarter. In a period of six months time the cumulative period costs is over \$300,000—almost one-third of the value of the inventory itself—at its starting point! In the case of returns

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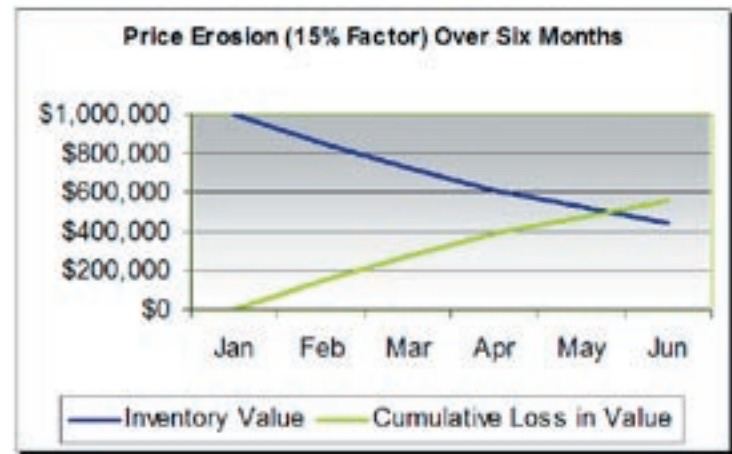
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inventory, the inventory may be being carried at zero cost, reducing the impact of some of the period costs, but others, especially warehousing costs, continue to accumulate. The point is clear: time is money. On

Incorporate the product lifecycle in your inventory policy and you start to build actionable thresholds, a prescription for inventory health. With respect to returns inventory it is critical to have aggressive inventory policy, as illustrated in Step 2.



2. Build a progressive disposition process. With inventory policy driven by the product lifecycle,

a basis of \$20M in excess inventory, the cost of holding on to that inventory for another month rather than proactively moving to disposition it would approach \$1M with both factors considered. What operations team wouldn't like to bring that kind of improvement to its company's bottom line?

Get It Moving

The fact that the inventory needs to be sold is clear—the challenge is to whom, at what price point, and with what resources? Finding the time to address these challenges is what prevents most organizations from developing processes that will turn their inventory assets into cash. Here's an effective four-step approach to progressive management of at-risk inventory with a special focus on returns inventory.

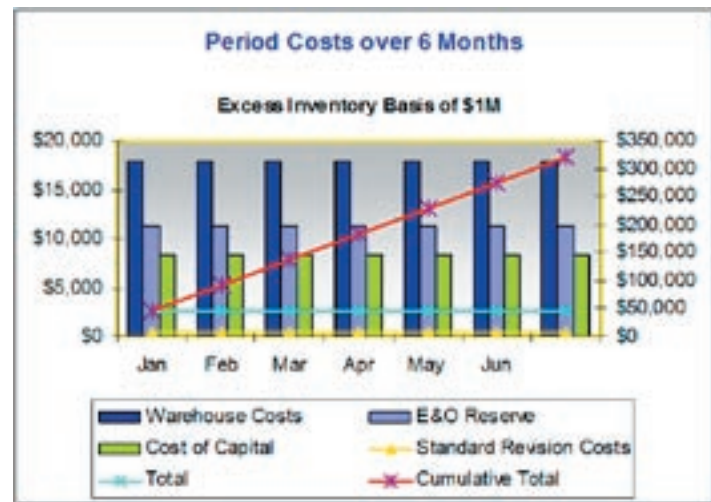
1. Tune up your inventory policy.

Our finance organizations typically set our inventory policy, and policy is based on the setting of reserves that represent the value of inventory according to accounting principles. But the setting of fiscally-prudent reserves seldom moves anyone to take action.

a disposition process can be developed that is straightforward and easy to integrate with your Sales and Operations Planning (S&OP) process. As shown in the table below, inventory thresholds are clearly dictated for active, end-of-life, and returns inventory. Returns inventory should be reviewed proactively on a weekly basis due to the amount of downstream processes that are required to make the inventory salable, ranging from re-packaging to testing and even refurbishing. Active inventory needs to be repositioned in the forward supply chain immediately. Ensure that quantity of returned active inventory is netted in the planning process.

3. Go to market. As you build your

strategy for taking inactive product to market, the key is to recognize that there is a different disposition process for each stage of product lifecycle: excess active inventory moves through the normal sales channel while obsolete, returned, and refurbished product can be dispositioned through e-wholesalers, consignment brokers, or direct to consumers. There are many solutions for inventory disposition ranging from broker consignment to building and operating your own e-commerce intranet or extranet. Or you may turn for help to the emerging category of logistics services providers who specialize in inventory asset management—companies that provide a range of services from market intelligence and pricing, hosted private auctions, and logistics, credit, settlement administration. The decision you must make is the size of investment you can afford for the development and ongoing support of your inventory disposition platforms. With respect to returns, be miserly about adding internal overhead costs to the repair, refurbish, and remarketing process. And be aggressive on turnaround time—get returns inventory remarketed as quickly as



possible.

4. Keep score. What can be measured can be improved. The challenge with inventory disposition historically is that it is an informal process, and as

a result metrics are difficult to define and track. As a start, as you define your product lifecycle-driven inventory policy, take a snapshot of current inventory levels as compared to your policy thresholds and measure progress on a monthly basis. As you formalize your inventory disposition processes additional metrics will come to mind. For example, the disposition of excess active inventory to the channel via an intranet auction will suggest measures such as inventory movement by region. Clearing returned and refurbished inventory through the use of a private broker auction suggests measures such as broker bid activity and actual recovery vs. target recovery.

The most significant obstacle to establishing proactive inventory management processes is for most companies that of inertia. Companies in the consumer electronics business know that they have excessive returns inventory but they often lack the awareness of its financial and operational cost, they lack the headcount to focus on its disposition as a priority, and they lack efficient processes and technology appropriate to the problem. Shining a bright light on the cost of inaction—price erosion and period costs—may well be the catalyst for tuning up your returns inventory disposition process. RLM

Anne Patterson is VP of Client Delivery at Freeflow (www.Freeflow.com), a company that helps its customers improve product lifecycle profitability with proactive inventory asset management processes, including web-based private auction platforms for remarketing of all classes of inventory.

Product Lifecycle Status	Finished Goods		Returns		
	Active	End-of-Life	Active	Package Defect	Defective
Inventory Threshold	8 weeks	4 weeks	1 week	1 week	1 week
Review Cycle	Monthly	Monthly	Weekly	Weekly	Weekly
Process Owner	Sales	Supply Chain	Supply Chain	Supply Chain	Supply Chain
Disposition Process	Channel Intranet	Broker Auction	Channel Sales	Broker Auction	Test / Repair / Liquidate

On the Move in Reverse Logistics

Tina Norkus,

former Retail Practice Leader for Newgistics, Inc. has recently joined Caterpillar Logistics Services as Sales Executive for the Retail/Consumer Market in the Americas Region. Already one of the five largest global 3PLs, CAT Logistics has embarked on an aggressive expansion program into the Retail/Consumer and High Tech markets. Tina will be responsible for delivering complete circular supply chain solutions including strategy, design and execution to retailers and their vendors.

Mike O'Donnell,

formerly of GENCO, has joined Data Exchange Corporation (DEX®) as Senior Vice President of Business Development and Marketing. Mike has 25 years of experience in third party supply chain services in operations, solutions design, strategy, and marketing and sales. DEX® is a leading global supply chain management solutions provider specializing in Reverse Logistics solutions in the computer, telecom, consumer electronics and medical industries. At DEX®, Mike will be responsible for worldwide growth, marketing and strategic initiatives.

Ahmad Zubair Sahar

recently joined Reverse Logistics Association as Senior Vice President, Customer Relations and Chief Reverse Logistics Evangelist. Ahmad will be responsible for committing executives to share their experience at RLA Workshops, Seminars and Trade Shows as presenters, panelists, keynote speakers and also through the Reverse Logistics Magazine. Responsibility will also include management of RL Quote, a free online service for Retailers and OEMs. Prior to RLA, Ahmad was Senior Producer at Worldwide Business Research and has held positions with the World Research Group and the International Quality and Productivity Center.

Ben Gräve,

former Director of Global Service Logistics at IBM, has joined the Aftersales Services and Logistics consultancy Barkawi. Barkawi is an international management consulting company with proven expertise in After Sales Services and Logistics. Barkawi supports global aftermarket organizations in developing service strategies and achieving operational excellence. With his broad experience and international background, Ben will strengthen the Global Service Operations Practice of Barkawi.

World's Most Critical RL Operation

Gailen Vick, President of Reverse Logistics Association was recently asked to present "What's New in Reverse Logistics?" along with Jim Cochrane and Sharon Daniel of the United States Postal Service at the National Conference on *Operations & Fulfillment*.

During the trip to Florida, Gailen had the opportunity to visit Kennedy Space Center with RLTS past presenter Jay Gurecki, Space Shuttle Program Obsolescence Manager at NASA. NASA is undoubtedly the most professional reverse logistics organization in the world—they have to be—people's lives depend on it!

April 12 of this year marked the 25th anniversary of the first Space Shuttle mission by Columbia. Twenty-five years later, and with over 121 missions completed these vintage craft continue to meet their mission due to the painstaking detail of over 50,000 RL professionals at NASA.

All the processes of RL are alive and well in the Space Shuttle Program.



The orbiters are inspected and tested each ground processing flow to assure components are still performing as expected. In addition to the standard processing tasks, the orbiters are modified as required based on design center requirements. NASA has been sustaining the orbiters since original manufacturing—Discovery and Atlan-

tis (late 70s early 80s) and Endeavour (late 80s early 90s).

The External Tank is the only part of the Space Shuttle that is expendable—NASA is currently in the process of modifying the foam on tanks that were built prior to Columbia. In the near future, all ETs required to support the

Space Shuttle Program manifest will be manufactured. The Solid Rocket Boosters get refurbished each flight.

After a launch ships recover the SRBs. The motor portion is disassembled and sent back to Utah where the solid fuel is reapplied. The nose and aft segments are inspected, retested, and

prepared for flight—like the orbiters. The Space Shuttle Main Engines are extremely complicated, and ground testing in Mississippi takes place to check these components prior to installation for flight. The SSMEs have been upgraded several times over the years, and the current configuration is much more robust than the original units that flew on STS-1, April 12th 1981.

All of the Space Shuttle elements, Orbiter, ET, SRB, SSME are supported by a large network of OEMs and suppliers. When components fail, this network and the element design centers are required to engage to understand the problem root cause and to develop and implement corrective action.

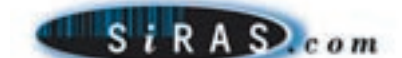
At all levels, RL is alive and well in the Space Shuttle Program. RLM

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Jay Gurecki, NASA and Gailen Vick, RLA at the AFT Fuselage of the Shuttle Discovery



Mike Wallace, Kurt Giacomelli and Ron Delaney of United Space Alliance: pilot's area of the shuttle Atlantis



Open payload door as seen from the crew quarters



Gailen and Stella Vick at Discovery



Close-up of payload area





Unique Reverse Logistics Challenges of IT Asset Disposition

by Cindy Brannon

Reverse logistics, at its core, was formed to address the issues of products returned to manufacturers by customers. To date, the industry's focus has been handling the return of large items in very small quantities or small items in relatively larger quantities. Examples include a dead-on-arrival printer returned to an OEM or a box of 1,000 unsold lipsticks.

Information technology asset disposition, the management of the retirement of used high-tech assets from an organization, presents unique challenges for the reverse logistics. The challenges result from picking up and transporting large quantities of heavy high-tech assets from client locations to asset disposition providers. Many of these assets possess hard drives that store important company and consumer data that is subject to state and federal privacy laws. In addition, a myriad of state and local regulations

govern the recycling of old information technology.

Reverse logistics companies that demonstrate expertise in the area of IT asset disposition will find an enormous opportunity for growth in the next five years as they help clients mitigate the privacy risks associated with the transportation of high-tech assets.

U.S. businesses are expected to retire hundreds of millions of high-tech assets—computers, servers, monitors, printers, networking equipment, etc.—each year for the foreseeable future. The following are the primary challenges in providing reverse logistics for retired high-tech assets:

- Hard drives in transit often possess private consumer and client data.
- Lost or stolen items represent potential liability due to privacy and environmental laws.
- High-tech assets are heavy and retired in large quantities.

- High-tech assets must be packaged and palletized by reverse logistics suppliers.
- Many of the items are portable and/or of high value.
- High-tech assets can also be retired in extremely small quantities from multiple locations.
- Onsite serial number capture by reverse logistics firms is cumbersome and costly.

This article outlines each of these unique challenges and provides guidelines for use in the formulation of an effective reverse logistics strategy for IT asset disposition.

Data and Environmental Risk

Last year, hundreds of computers from the City of Houston, Texas, were discovered in a landfill in Lagos, Nigeria. The resulting media coverage created an immediate firestorm for Houston.

Similar stories happen dozens of times a year and are driving governments and environmental groups to put enormous pressure on large corporations to take greater responsibility for the ultimate disposition of their used information technology.

Unlike new or recently purchased products that are returned to a manufacturer, retired high-tech assets have been used for three

to four years. During that time, hard drives have stored vital company and consumer information subject to state and federal privacy laws, such as HIPAA, medical record privacy legislation, and the Gramm-Leach-Bliley Act which provides for protection of consumer financial information. Hard drives can potentially have other customer information as well as confidential corporate information that companies want to protect. Therefore, corporations are taking increasing responsibility for the permanent removal of all information from retired hard drives by partnering with IT asset disposition solution providers.

Numerous state and local laws govern the environmental policies for the recycling and disposal of high-tech assets. More than 60 pieces of legislation are pending in 40 states that deal with e-waste. Corporations are subject to fines and bad press if their retired high-tech assets are not disposed of properly, case in point the City of Houston.

The confidential data issues, coupled

The confidential data issues, coupled with environmental risks, make the chain of custody for retired assets one of the most important aspects of the reverse logistics process.

with environmental risks, make the chain of custody for retired assets one of the most important aspects of the reverse logistics process. It is critical that reverse logistics organizations be able to provide serial number capture for each asset at the time of pick-up. This ensures that assets that may be stolen or lost in transit can be accurately identified in order to indemnify clients from the potential liability

associated with the improper disposal of these stolen or lost assets. Additionally, we recommend that clients perform hard drive encryption prior to pick-up and transport. Hard drive encryption eliminates the potential privacy risk associated with data on the hard drive of a server, laptop, personal com-

puter or mass storage device lost or stolen in transit.

Large Shipments/Small Shipments

Companies most often retire high-tech assets as part of an overall refresh strategy, resulting in hundreds or thousands of computers being removed from a specific location at one time. Instead of a single computer or printer being returned in the original box, the reverse logistics process may have to account for 55 laptops, 62 desktops, 10 printers and 54 monitors that are not packaged.

Reverse logistics organizations are not accustomed to handling large quantities of heavy, unpackaged items and

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conducting serial number capture at the time of pick-up. This results in the potential loss or theft of items in the transportation process. Repackaging at the reverse logistics firm's hub can increase shrinkage – the disappearance of assets through negligence or criminal activity – and breaches of data security, particularly if there is not serial number capture at the outset.

Clients expect their reverse logistics supplier to demonstrate the proper security for high-tech assets in transit and a chain of custody at every step in the shipping process.

Conversely, there are also issues around a cost effective solution for the pick-up of small quantities of assets. Many companies have multiple office locations with only two or three high-tech assets. Most of these companies would prefer the reverse logistics organization handle all packaging. This is often not very cost effective; in fact, it can be prohibitively expensive.

There is a significant opportunity for reverse logistics companies that can capitalize on the unique challenges presented by the large quantity and small quantity shipments of used high-tech assets.

uniform packaging and serial number capture at the time of pick-up.

Why not use the boxes from new computers? The short answer is that the boxes rarely match because the old assets are generally larger than the items being installed. So, for shipment, the retired assets are too big to fit in the new asset boxes.

The ideal packaging standard for retired high-tech assets will show signs of tampering by simple visual inspection. This packaging standard should be combined with the onsite serial number capture of each retired asset. This combination not only helps reduce shrinkage, it helps mitigate the potential risks associated data security breaches and problems with improper disposal.

High-Value Items



Absence of Packaging

Unlike returns, retired high-tech assets rarely have proper packaging for shipping. This creates several problems for reverse logistics organizations. There are no uniform packaging standards for retired high-tech assets. Most reverse logistics companies simply shrink wrap groups of monitors, personal computers or servers. Shrinkage of items, like laptops, is prevalent in the industry because of the lack of

Retired high-tech assets, like laptops and servers, can have significant resale value. Some companies redeploy retired assets from one location to another. Others sell retired high-tech assets in the secondary market, where used computers, depending upon configuration, can command up to \$800 per asset.

The physical condition of the computer is an important part of its overall value. Any cosmetic damage will

significantly reduce the resale value and the financial return to the client. Therefore, it is critical that the reverse logistics firm properly package assets for successful delivery to the IT asset disposition solution provider.

IT Asset Disposition

Many large corporations are recognizing the value of IT asset disposition (ITAD) because of the regulatory compliance risks associated with the retirement of information technology.

While ITAD has been around for nearly 10 years, many companies are hiring firms to manage the risks associated with ITAD like permanently deleting information from hard drives, remarketing assets into the secondary market, managing charitable donations and recycling assets with no reuse or remarketing value.

Large corporations look to reverse logistics companies as the link between the deinstallation of information technology and the ITAD process.

Recommended Policies

Unique challenges presented by retired high-tech assets demand new policies and approaches to reverse logistics. Of course, each reverse logistics company will have to tailor its procedures to fit

its business model. As a founder of the IT asset disposition industry, I have found the following guidelines important in establishing effective policies for removal of used high-tech assets from client organizations:

- Make sure all reverse logistics employees understand the value and risk associated with each individual retired high-tech asset
- Build an effective chain of custody for each serialized asset that can be shared with the client and the ITAD company
- Build an effective packaging solution that mitigates shrinkage
- Develop a cost effective solution for small pick-ups
- Ensure that clients have an effective hard drive encryption solution prior to asset pick-up

The Opportunity

The IT asset disposition industry is growing at an exponential pace and shows no signs of slowing.

Understanding the unique challenges – data and environmental risks, large scale shipments, small scale shipments, high-value products and lack of packing standards – will help reverse logistics companies take advantage of the incredible IT asset disposition opportunity. RLM

About the Author
Cindy Brannon is chief operating officer for Intechra and a pioneer in the ITAD industry. Before joining Intechra, Brannon was general manager for HP/Compaq's \$350 million reverse logistics, remanufacturing, and remarketing division. She can be reached at cindy.brannon@intechra.com.



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Improving the Customer Experience through Effective Reverse Logistics

by RLM Staff Contributor

The estimated annual value of returned goods in the United States is at \$60 billion and managing these returns costs an additional \$40 billion. The fact that product returns cost U.S. companies over \$100 billion annually bothered Reinier Jens, when he took over as President of Philips Consumer Products North America in 2004. Philips is a Netherlands based firm that makes everything from plasma televisions to DVD and MP3 players. “I wanted to change the DNA of the entire organization when it came to returns,” Jens said in an exclusive interview with Reverse Logistics Magazine.

Reinier, a plain spoken Dutchman was ready to turn things around and was ready to make improving Philips’ reverse logistics policies a major part of his overall initiatives. “In order to effectively reduce returns and improve our reverse logistics processes we needed to have a three-pronged approach,” Jens stated. “The first being ease of product use, or as the company has coined it, “Sense and Simplicity.”

Ease of use of Philips products is something that is critical to Jens. Considering that the vast majority of product returns are related to consumer use, consumer hook up and product connectivity to other parts of the consumer’s home systems, getting Philips management to touch and feel the products is an effective method to ensure products ease of use. This

out of box screening enables Philips executives to understand the rate of no technical fault found returns. “We take products to the management team before launch and ask them to sign off before introducing it into the market.” Jens stated. “Sometimes I will have a product which I’ve taken home, looked at, but cannot get to work. If I can’t get it to work, it doesn’t land in the hands of a customer,” Jens stated.

Philips is working towards more efficient methods of providing customers the capability to upgrade or update their products. For example, their flat screen televisions come with a USB port on the side of the unit that will enable consumers to receive updates directly through this port. The same applies for the Philips MP3 players which can receive updates automatically through the internet. “We want to make the experience as painless as possible for customers, so that we can avoid the pain of costly no fault returns,” Jens stated.

Tony Sciarrotta, Director of Returns Management at Philips and a Reverse Logistics Association Advisory Board Member, emphasized the company’s commitment to reducing what he called the “no fault found syndrome.” “There is a classic story of a woman who returned 3 to 4 irons in a row to the store

before someone finally asked what was wrong with them. She said that the irons kept shutting off. The customer didn’t realize that the iron had an auto shut off feature. We want to avoid that scenario at Philips as much as possible,” said Sciarrotta.

The second part of Philips’ reverse logistics strategy is accountability. “For many years, Philips was not profitable. We had to look at every area where we were not doing well to identify weak spots. One area was returns and we knew in order to fix this problem we had to drive accountability across the board. What good is a returns policy if there is no accountability?” Jens stated. “We wanted to ensure that everyone in the entire chain was held

“We wanted our teams to understand that reducing returns can immediately impact their bottom lines—and they listened. If 10 percent of your bonus is dependent on returns, you are going to pay much more attention to it then before,” Jens stated.

accountable for their performance when it came to returns.”

Philips instituted a unique bonus structure for its sales and marketing employees and some senior level executives by linking aspects of their bonuses with returns reductions. “We

“Sometimes I will have a product which I’ve taken home, looked at, but cannot get to work. If I can’t get it to work, it doesn’t land in the hands of a customer.”

Reinier Jens at the Philips Arena in Atlanta, Georgia.

wanted our teams to understand that reducing returns can immediately impact their bottom lines—and they listened. If 10 percent of your bonus is dependent on returns, you are going to pay much more attention to it than before,” Jens stated.

Another critical aspect of the accountability factor in returns for Philips is ensuring that they push all the way back upstream to the very factories that manufacture the product. Whether it be increased call center calls, increased shipping expenses or extended warranties, the factories are charged each time Philips incurs extra costs due to products with high return rates. “By pushing accountability all the way upstream, we are ensuring that our partners’ performance is constantly graded,” said Jens.

be able to take immediate steps with them to ensure we get things right,” said Jens. Finally, the last part of the Philips’ reverse logistics strategy is effective gate keeping. The returns policy has become part of every vendor agreement. “Every time we generate an RMA (Return Merchandise Authorization), we always make sure to include



L-R: Reinier Jens (Philips), Ahmad Sahar (RLA) and Tony Sciarrotta (Philips)

Philips monitors the performance of its partners is by having regular meetings with their major accounts to review individual results—a report card of sorts. These report cards are sent to dealers, sales directors on specific accounts and even to product managers abroad to ensure visibility throughout the organization. “If our partners are not meeting their forecasts, we want to

our returns policy right along with it. This way there are no surprises to either party and we gain more respect from our partners,” Jens said. Even the Philips RMA Engine co-developed with IBM, only allows entry of models authorized for return. Further, in the event of an exceptions, Philips documents everything and bills back the

dealers through the sales groups.

“For the long term, the out of box experience is key for Philips. Reducing returns helps strengthen our reverse logistics strategy, it will drive our costs down and make the out of box experience better for the consumer—they love your products, they love you, they recommend you and they keep going back to the dealer to shop rather than to return something that didn’t work,” Sciarrotta stated. “We’re very lucky that the company has focused on that. This is what ‘Sense and Simplicity’ embodies. That’s where we’ll focus going forward.”

“We want to improve year-after-year in our reverse logistics strategies and never forget how critical it is to our bottom line. We also will strive to be innovative while thinking of the customer first.” Jens said. “At Philips, we believe that our products should be simple and this ‘Sense and Simplicity’ concept is in our DNA. We want to ensure that there are no stones left unturned, this industry does not leave room for mistakes.” RLM

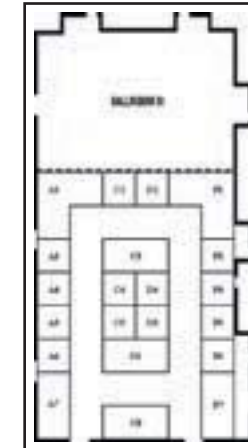


Three times a year, the Reverse Logistics Association hosts the RLTS Conference & Expo to showcase the Third-Party Service Providers (3PSPs) of IT, Retail, Telecom, Medical, Consumer, Automotive and Pharmaceutical industries who service logistics, repair, help desk, recycling, warranty and returns processing and fulfillment services – and bring them together with the OEMs, ODMs, Branded Companies and Retailers who use their services.

The Reverse Logistics Trade Shows are currently held in the United States in February, Europe in June and Asia in October. RLTS ... coming to a location near you!

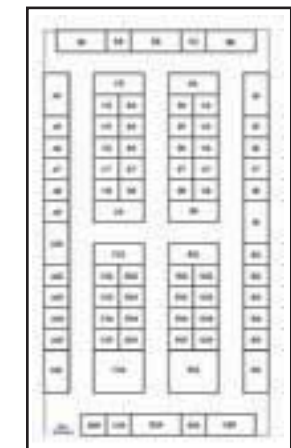
TRAVEL CHECKLIST

Location: Shanghai, China
Date: 10/24/06-10/26/06
Pre-Conference Workshops – October 24
Conference & Expo – October 25-26
Airline: American Airlines



TRAVEL CHECKLIST

Location: Las Vegas, USA
Date: 02/05/07-02/07/07
Pre-Conference Workshops – February 5
Conference & Expo – February 6-7
Airline: American Airlines



Reverse Logistics Seminars



The RL Seminars are highly attended one-day events held around the world. These events are offered in key industry locations creating easy access for everyone interested in the aftermarket business segment. A typical event covers topics that are pertinent to Branded Companies, OEMs, ODMs, Retailers and Third Party Service Providers.

The format delivers a C level (CEO, CFO, COO) interest in the afternoon on subjects such as WEEE & RoHS regulations and Sarbanes-Oxley compliance programs with a featured presentation by an OEM/ODM/ Retailer/Branded Company keynote speaker. The morning delivers hands-

on participation in a workshop on best practices and utilizing the RFQ, Contract and SOW.

Take a look at the schedule to find a RL Seminar near you!

2006 Schedule

- Princeton, NJ - Jun 7
- Chicago, IL - Jul 20
- Boston, MA - Aug 15
- Denver, CO - Sep 19
- Detroit, MI - Oct 4
- Miami, FL - Nov 15
- Phoenix, AZ - Dec 6



Using Online Auction Marketplaces to Maximize Revenue in the Reverse Supply Chain



by Ram Aikat

Supply chain executives know the importance of a streamlined and efficient forward supply chain. Organizations of all

types and sizes have heavily invested in technology and have developed enhanced operational processes that quickly, efficiently and cost-effectively bring finished goods to the end-user. However, the most accurate planning and inventory management cannot overcome the inevitable flow of goods that are returned through the reverse supply chain. The introduction of new products, liberal return policies, supply chain inefficiencies, and even regulatory policies are contributing to the growth of the reverse logistics market, predicted to reach \$63.1 billion by 2008, according to recent research by D.F. Blumberg Associates.

While organizations have started to realize the importance of an effective asset recovery solution, the negative impact of surplus on the overall bottom-line is putting even more pressure on supply chain executives to reduce the loss associated with surplus inventory. AMR Research found in early 2006 that reverse logistics account for more than 4.5% of the total logistics costs for most organizations—a figure large enough to cause devastating impact on a company's

profitability margin. In order to prevent a negative impact, organizations must now make the leap from merely managing returns more effectively to revamping the reverse logistics process as a greater priority in the supply chain strategy.

Maximizing the Secondary Market Opportunity

The management of reverse logistics is a distraction for organizations that are focused on tier one business and sales

the opposite direction. Physical space constraints, different package sizes and even condition categories create enormous complexity.

Organizations have traditionally turned to manual liquidation sales channels that have demonstrated low recovery value and insufficient liquidity for the sale of large quantities of goods. Until recently, organizations were without a scalable way to organize surplus assets and attract the right buyers to create competition in the sale of these goods. The debut of online auctions in the

Are All Online Marketplaces the Answer?	Full Solution Marketplaces	Hands-off Marketplaces
Competitive Pricing	●	●
Aligned Incentives	●	◐
Market Liquidity (Deep SKU)	●	◐
Real Time Reporting	●	◐
Integrated Payment/Finance, Transaction and Logistics	●	○
Logistic and Warehousing	●	○
Customized Solution	●	○
Compliance Assurance	●	○

channels. In addition to draining time and resources, processes and facilities set up for forward logistics are not well suited to manage goods flowing in

consumer industry about ten years ago revealed the power of the Internet to attract a large audience of buyers that are willing to compete for the right to

purchase goods. In more recent years, online auction marketplaces have proven to be a successful, efficient and cost-effective way to target buyer audiences for surplus and salvage assets moving through the reverse supply chain.

Online auction marketplaces provide professional buyers around the globe with visibility to a continuous flow of merchandise from the reverse supply chain, such as customer returns, shelf pulls, damaged items, deep SKUs, and even surplus and scrap property from government agencies. This universal access is extremely important to organizations that need to dispose of large quantities of surplus goods—the more bidders that compete in an auction, the higher the rate of return.

However, when selecting an online auction marketplace to sell goods in

“Online auction marketplaces provide professional buyers around the globe with visibility to a continuous flow of merchandise from the reverse supply chain.”

the reverse supply chain, supply chain executives must consider several factors beyond just the size of buyer audience. Some marketplaces, such as eBay, provide a “hands-off” solution for its sellers in which they provide the venue to list goods for sale, reputa-

tion among buyers, and real-time bid reporting. For most organizations with large quantities of merchandise in the reverse supply chain, this “do-it-yourself” model does not solve the pain points of reverse logistics or produce a maximized rate of recovery.

Marketplaces that provide full-service solutions are better positioned to generate positive bottom-line results. These marketplaces provide full-service solutions that can manage every step of the disposition process including sales planning and execution, marketing intelligence and merchandising services, customer and transaction settlement, and turn-key logistics and transportation services. The right online auction marketplace will combine the right set of services, the right expertise, and the right buyer audience in a single offering.

Specifically, full-service marketplaces provide expertise in selling surplus merchandise and, based on marketing intelligence, can advise on the proper auction types, duration, lot size, and appropriate information to include in auction listings. These services are critical in providing buyers with the right information to ensure informed buying decisions and will help drive a higher winning bid amount, and thus, the seller's rate of return.

Turn-key logistics services, such as warehousing and shipping services, are critical to removing the friction of reverse supply chain product flows within an organization. By outsourcing this portion of the reverse process, supply chain managers will save time, resources and valuable warehouse space that can be used for new goods in the tier one sales channel.

Organizations should also look for a full-service provider that provides extensive customer service support. These services should include buyer qualification, collection and clearing



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of buyer funds, and enforcement of unique terms and conditions of sale, such as export controls, to ensure a safe trading environment. Other services include de-labeling services to protect channel relationships as well as a single point of contact to resolve any buyer or seller questions related to open and completed transactions.

Benefits of Online Auction Marketplaces

The bottom-line for supply chain executives in selecting an asset disposition solution is that it must deliver significant return on investment (ROI) while addressing all of the organization's pain points.

Online auction marketplaces generate higher rates of return over traditional disposition methods by providing access to a broad qualified buyer base that competes for merchandise, and thus drive the maximum pricing for the goods.

These types of marketplaces also provide superior sell-through rates of a large volume of goods by finding buyers that are interested in large lots of goods ranging from one pallet to a full truckload of merchandise. Moving goods in large quantities removes the physical logistics constraints of goods flowing in the reverse supply chain, which allows for a faster and more efficient process.

Channel protection is of increasing importance to manufacturers, distributors and retailers. Online auction marketplaces provide seller anonymity while also ensuring that the buyer segment does not interfere with the sellers established sales channels.

Transparency is also a virtue of online marketplaces. This not only provides a central online channel to view the

status of auctions, but also ensures that sellers have better management of information related to the sales process and status. In addition, transparency guarantees the integrity of the disposition process through real-time reporting from pre- to post-sales transaction information. Supply chain managers can also be ensured that the pricing model of the marketplace is aligned with their interests.

Overall, supply chain managers and executives should focus on full-service online auction solution providers that excel in three main areas: capturing and handling the flow of information, managing the physical flow of goods, and securing funds to settle transactions. The right service provider will prove that the rewards of optimizing the handling and sale of goods in the reverse supply chain are well worth the effort for managers and shareholders alike. RLM

Mr. Aikat is a Vice President of Liquidity Services Inc., which has approximately 415,000 registered business users. LSI was founded in 1999 in response to the growing need of corporations to find more effective methods for surplus and returns management and disposition. In his current role as the head of the Commercial Accounts business unit, Mr. Aikat is routinely asked by leading manufacturers, distributors and retailers to consult and advise regarding excess inventory and returns solutions.

The RFID Value Proposition for Reverse Logistics

RFID—The Next Generation of Identification



by David C. Wyld

To better understand the power of RFID (radio frequency identification), it is first useful to compare and contrast

RFID with bar code technology. The bar code has become a part of every product we buy, having become the ubiquitous standard for identifying and tracking products. While the bar code was intended to improve efficiencies in the grocery industry, it has become ubiquitous in the identification of everything, having been institutionalized across most industries and around the globe. In fact, the Uniform Code Council (UCC) estimates that there are five billion bar code scans each day around the world. Still, while the bar code and the UPC (Universal Product Code) have become omnipresent and

enabled a host of applications and efficiencies, they only identify a "thing" as belonging to a particular class, category, or type.

A bar code can not uniquely identify the specific object before you; it can identify only the product and its manufacturer. For instance, while the bar code on a box of cereal can tell you the type, size, and producer of that box of corn flakes, it can not tell you:

- Where the cereal was boxed?
- When the cereal was produced?

- The lot and/or production run during which the cereal was made?
- Where the cereal box had traveled in its journey to the shelf?
- When will the product expire?



Conceptually, bar codes and RFID are indeed quite similar, as both



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Bar Code	RFID
• Bar Codes require line of sight to be read	• RFID tags can be read or updated without line of sight
• Bar Codes can only be read individually	• Multiple RFID tags can be read simultaneously
• Bar Codes cannot be read if they become dirty or damaged	• RFID tags are able to cope with harsh and dirty environments
• Bar Codes must be visible to be logged	• RFID tags are ultra thin and can be printed on a label, and they can be read even when concealed within an item
• Bar Codes can only identify the type of item	• RFID tags can identify a specific item
• Bar Code information cannot be updated	• Electronic information can be overwritten repeatedly on RFID tags
• Bar Codes must be manually tracked for item identification, making human error an issue	• RFID tags can be automatically tracked, eliminating human error

auto-ID technologies which are intended to provide rapid and reliable item identification and tracking capabilities. The primary difference between the two technologies is the way in which they “read” objects. With bar coding, the reading device scans a printed label with optical laser or imaging technology. However, with RFID, the reading device scans, or interrogates, a tag using radio frequency signals. Thus, referring to RFID as “radio bar codes”—as many do—is a disservice to the technology, confusing the basics of the technology.

The specific differences between bar code technology and RFID are summarized in Table 1. In summary however, there are five primary advantages that RFID has over bar codes. These are:

1. Each RFID tag can have a unique code that ultimately allows every tagged item to be individually accounted for,
2. RFID allows for information to be read by radio waves from a tag, without requiring line of sight scanning or human intervention,
3. RFID allows for virtually simultaneous and instantaneous reading of multiple tags,
4. RFID tags can hold far greater amounts of information, which can be updated, and
5. RFID tags are far more durable.

It is also important to bear in mind the fundamental temporal differences between bar codes and RFID. With bar code technology, information on the item is obtained only when someone takes the action of scanning the bar code label with a reader—and only that particular reader. In contrast, an item tagged with RFID is always “turned on” and available to be read—and perhaps by multiple readers at the same time. Thus, while a bar code labeled item can only be read discretely, an RFID-tagged item can be read or monitored continuously. In practical terms, a bar code can only tell you where an item of a particular class was when it was last scanned, while RFID can tell you precisely where a particular item is presently.

RFID and Reverse Logistics

RFID has the potential to dramatically change and reinvent the handling of retail returns. Presently, with bar code based product identification, retailers and manufacturers alike have little information on precisely what is being returned. Once RFID tagging of individual items becomes commonplace, this will allow all parties in the returns handling process to have far greater visibility and create order—and value—from the process. In fact, in the estimation of Dale Rogers, Chairman of the Reverse Logistics Executive

Council and Professor of Supply Chain Management at the University of Nevada, Reno, “RFID will completely change the deal.”

With RFID tagged goods being returned, retailers will be able to gain far greater insights into their overall returns processes. Retailers will be better able to track returns by:

- Product line
- Manufacturer
- Store
- Dates of sale
- Consumer

By sharing this data with consumer goods makers, both parties will be able to better monitor returns processes and gain insights into patterns that may emerge through modeling the data across regions and retailers. While the final area may be troubling from a privacy standpoint, several leading American retailers have already compiled and act upon lists of customers on so-called “do not return” lists—which prohibit shoppers who habitually make inordinate numbers of returns from bringing goods back for credit. Such lists include individuals who may have obtained goods through fraudulent means or shoplifting and then later attempted to return the goods for cash or credit.

In the end however, RFID tagging of items—whether tagged at the time of manufacture or by the retailer at the time of sale—must be presented as not only creating a value proposition for the consumer products company and the retail seller, but for the consumer as well. While overall customer satisfaction can be improved through lowered costs and improved products on the shelf, these are abstract in value. However, one of the main ways consumers will benefit from RFID tagging of purchased items is through warranty work.

According to a 2003 study published in *Warranty Week*, fully 90% of all consumers do not fill-out and return the warranty registration cards commonly included with consumer electronics. Thus, at present, manufacturers have no idea who exactly owns what units they have produced. Likewise, when consumers present items for repair—either in an initial or extended warranty situation—a great deal of time and effort must be devoted to documenting the shopper’s valid purchase and gaining information from the consumer to expedite the necessary repair and shipment of the item involved. However, RFID-tagging and data interchange between the retailer’s point-of-purchase and the manufacturer’s data systems will allow consumer products companies to know precisely when and where particular units of a production run were sold and who bought them. As a consequence, when units come back for warranty work, the manufacturer will be able to decipher heretofore invisible trends in returns.

For instance, a maker of portable electronic gear could ascertain if problem units came from a particular factory, production run, even down to a particular worker or units’ work processes. The granularity of this information will give manufacturers far greater information on the in-field performance of their products, as well as providing consumers the benefit of enhanced warranty service work through automatic identification of their units. Likewise, retailers can expedite the handling of RFID-tagged items in the extended warranty process, cutting costs and improving efficiencies in these operations which *Business Week* recently chronicled as being critical to their overall profitability. For this reason, leading U.S. retailer Best Buy is not waiting for the day when consumer electronics will commonly bear individual RFID tags. The “big box” retailer has recently introduced a

Money Talks

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Soletron Announces Second Quarter Financial Results

Soletron Corporation, a leading provider of electronics manufacturing and integrated supply chain services, today reported sales of \$2.50 billion in the second quarter of fiscal 2006, an increase of 1.8 percent over first quarter revenues of \$2.46 billion. Revenues in the second quarter of fiscal 2005 were \$2.76 billion.

Cisco to Buy Video Surveillance Firm

Communications equipment maker Cisco Systems Inc. on Tuesday said it will buy privately held video surveillance company SyPixx Networks Inc. for \$51 million in cash and stock options.

The Waterbury, Connecticut-based company makes technology that allows companies to connect their older security video systems to Internet-based networks without having to replace them, a Cisco executive said.

Liquidity Services, Inc. (LQDT) CEO to Ring The NASDAQ Stock Market Opening Bell

William Angrick, Co-founder, Chairman of the Board of Directors and CEO of Liquidity Services, Inc. [LQDT] will preside over the opening bell to celebrate the company’s initial public offering (IPO) in the first quarter of 2006.

RFID-based program to improve the company's handling of returns right now. According to John Jordan, Best Buy's Director of Logistics, the retailer has recently started applying smart labels to all items returned to its stores. By putting RFID tags on items at the point of return, Best Buy can better track the returned items while they are under their control.

Conclusion—The Importance of “Live” Tags

In the end, RFID tagging of goods may be the critical factor in making the handling of returns more intelligent and far more efficient in coming years. Reverse logistics operations may also

be one of the principal reasons that retailers and manufacturers alike should work to keep item tags “live” after the sale. If tags are “killed” at sale—whether to comply with consumer wishes or even legal mandates—a great deal of the information—value proposition for RFID tagging of individual items may be lessened if such tags are only readable in the forward-facing supply chain. Thus, consumer products companies and retailers will need to endeavor—both in the realm of educating consumers and lobbying government regulators and policy-makers—to keep item-level tags viable post-sale to better handle returns, speed warranty work, and improve product reliability for shoppers. RLM

David C. Wyld (dwyld@selu.edu) is the Maurin Professor of Management and Director of the Strategic e-Commerce/e-Government Initiative at Southeastern Louisiana University in Hammond, Louisiana. He is the author of the recently released research report, “RFID: The Right Frequency for Government,” to be issued by the IBM Center for the Business of Government.

ISO 9001: “Say what you do. Do what you say. Prove that you have done it!”



by James Goldstein, PhD

ISO 9001 is the most important quality management system in use today. A company that

holds ISO 9001 is telling its customers and the world that it has a top quality management system and is totally committed to quality products and services. Companies that go through the process find that profits increase thanks to opening up market opportunities. Also costs reduce due to improving efficiency.

Reverse Logistics is an ideal candidate for a quality management system. Your business of controlling the flow of materials and information from the retailer back to the warehouse is a process driven, supply chain operation with customer focus that is well suited to ISO 9001's attention to improving process and delivering quality service to customers.

ISO 9001 is a standard that is respected worldwide and many prospective customers now require their suppliers (and their suppliers' suppliers) to have ISO 9001 certification. You are therefore more likely to win additional business as an ISO 9001 certified company. Cost reductions result because once the company has been through the ISO 9001 certification process you will be running a tighter ship.

A recent survey commissioned by

IMSM revealed that over 80% of the main problems facing businesses were in areas where certified management systems can help. These included poor quality control, staffing problems, purchasing policy problems, process management and cost control.

The ISO 9001 process addresses these problems because it requires the business to take an objective look at its systems and processes. It streamlines and documents them. It identifies where efficiencies can be made to drive up profits and lower operating costs. There's a training and motivational benefit too as staff will better understand how the organization works.

ISO 9001 quality system standards identify the features which help you meet your customers' requirements consistently and then evaluate how and why things are done the way they are. Think of ISO 9001 as a two-step process. First, examine and refine your existing processes to reach the ISO 9001 standard. Second, once you have ISO 9001 certification, include it in your marketing to show your customers your dedication to quality management.

The first step is a benefit in itself as it requires you to take a hard look at quality management within your organization. It involves assessing your current procedures to audit where you are meeting the standard and where

not. The new procedures can then be documented, implemented and a Quality Procedure Manual produced. After the trail run of an internal audit and review to ensure you are ready, the final step is an external audit of your manual and systems by a recognized ISO 9001 body. If you are successful, the result is ISO 9001 certification. You can then move to step 2 and start marketing your new ISO 9001 certification.

Key Electronics of San Diego provides contract electronics manufacturing worldwide. General Manager, Prashant Upadhyay said, “The process helped us formalize our internal procedures and improve the ways we do things.”

If you thought that ISO 9001 means excessive red tape and paperwork you would be wrong. Your company probably already has a system for doing business that is already effective, but is perhaps informal and undocumented. The ISO 9001 process starts from your existing systems, is flexible and grows with your business. Changes and additions need only be made if required to meet the standard. It is advisable to work with an ISO 9001 specialist company who can guide you through the process in a way that is both time and cost efficient. Look for one that offers a fixed fee and fixed timescale plus



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Quality management systems help Reverse Logistics companies by:

- opening doors to tenders restricted to certified suppliers
- increasing customer confidence because fewer mistakes lead to fewer lost orders
- reducing costs because quality systems mean less waste
- being already in place when the company expands
- increasing employee morale as a by product of high confidence in the company.

In any organization, ISO 9001 controls quality and brings clear financial benefits. It also gives customers a high degree of confidence and assists in keeping the organization ahead of its competitors. RLM

James Goldstein, PhD, IMSM Business Manager. James is a resident New Yorker

Slide Products make high quality industrial products for automotive suppliers. Sales Manager, Michael Muth, explains: "The ISO program gave Slide a reason and a means to change our methods. It has also opened sales doors. Cost savings from increased efficiencies, reduced scrap, and reduced rework volume have helped to offset the commodity price increases we have experienced."

managing a team in the metropolitan New York area for IMSM, the quality systems specialists. He focuses on medium-sized businesses that supply major corporates helping them acquire ISO standards for Quality, Environment, OHSAS, Occupational Health and Safety and IT Security.

Privacy at Risk: Protecting Your Outgoing Data



by Brooks Hoffman

With security software spending estimated at \$50 billion globally in 2005, many organizations are clearly taking the

problems of data privacy and identify theft seriously. However, while most companies have focused on preventing perpetrators from breaking into their organizations, there has been comparatively little attention on protecting information that leaves the company on retired information technology assets. In the reverse logistics process, managers who dispose of these assets in an uncontrolled manner place their organizations at risk of inadvertently disclosing sensitive information and/or violating a number of federal privacy laws.

Many IT departments have implemented policies requiring sensitive data to be removed from technology assets that are designated for retirement. However, there is rarely sufficient time or controls to consistently implement this process due to competing priorities such as deploying new equipment or software platforms. These competing priorities, along with a lack of understanding of the data security and legal risks involved, may cause organizations to seek "easy" or "quick" solutions to their asset retirement needs. This may ultimately put the company at great risk if they rely on consignment organizations with no expertise in data security or sham recyclers disguised as used equipment brokers who offer "free" recycling.

The most obvious ramification of releasing proprietary corporate information is that it could assist competitors and other outside parties to identify potential customers, future products, and sensitive client correspondence. According to Special Agent David Mahon of the FBI's Denver Cyber Crimes Division:

"People just don't seem to realize what a significant risk that is posed by the potential compromise of information security. I recently observed some IT equipment being removed from a Denver office building. When I asked the staff what they planned to do with the hard drives, they indicated that they would probably just send them to a landfill. Not only is this against the law in Colorado, the information on those drives could easily wind up in the wrong hands. The FBI has recovered data that has been linked to criminal activity by both organized crime and groups that threaten homeland security."

The inadvertent disclosure of sensitive data may also violate a number of recently enacted federal laws that are intended to protect information privacy. These laws include: The Health Insurance Portability and Accountability Act ("HIPAA"), The Fair and Accurate Credit Transactions Act ("FACTA"), and the Gramm-Leach-Bliley Act ("GLB"). Violation of these laws can result in substantial criminal and civil penalties as well as significant negative publicity. In January of this year, the Federal Trade Commission announced a consent judgment against consumer data broker ChoicePoint, Inc., which admitted that the personal

financial records of more than 163,000 consumers in its database had been compromised. Under the terms of the agreement, the company agreed to pay \$10 million in civil penalties and \$5 million in consumer redress to settle charges that its security and record-handling procedures violated consumers' privacy rights and federal laws. The settlement also requires

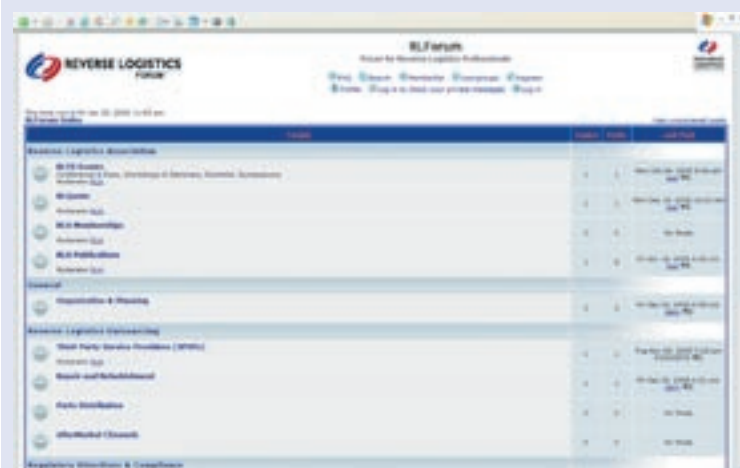
The FBI has recovered data that has been linked to criminal activity by both organized crime and groups that threaten homeland security.

Choice-Point to establish and maintain a comprehensive information security program and to obtain biannual third-party audits by an independent security professional for the next twenty years. Data privacy controls for expired IT assets should be subject to a thorough cost-benefit analysis. Here are some initial questions to consider:

RL Forum

RLForum is a service where RL professionals can discuss best practices or ask questions in a bulletin board environment.

We've provided starter topics, but we are looking to participants to create additional categories and topics. Start a discussion today – ask your question and let the whole RL world respond at RLForum.



www.RLforum.net

1. Do internal or outsourced service providers have the necessary procedures and controls to check the efficacy of the data destruction process from transportation to actual destruction? Is the process being audited by a third party? What kind of a chain of custody procedures does the organization maintain? What type of photographic evidence is provided?

2. What is the value of resale material vs. the potential costs of a breach of data security? Reselling the equipment may not outweigh the value of ensuring privacy - hence some organizations prefer to recycle all of their end-of-life assets regardless of residual value.

3. Should you perform all of your data destruction activities in-house? If so, you should either physically destroy the drives or use disk over-write software. Commercially available programs such as Kroll-Ontrack's "Data Eraser" or LSoft's "Active Kill Disk"

fill the drives with "0's." Physical hard drive destruction equipment is commercially available from companies such as Shred-Tech or SEM.

4. Could an outside organization provide an additional level of security for your internal data destruction process? If so, what physical destruction capabilities does the vendor have? In addition to software based destruction, can they physically shred all media containing data? Does the outsourced vendor have your best interest in mind - i.e. are they motivated to provide the appropriate services to your firm or are they simply looking to profit from the resale of equipment? Lastly, is the vendor protected by errors and omissions insurance in the event that data is accidentally compromised? Managing data security risk does not have to be difficult or expensive. It requires companies to:

1) educate their organizations on the

importance of maintaining information privacy,
 2) develop and implement programs that mitigate risk, and
 3) continually monitor the on-going compliance with and effectiveness of these programs. RLM

About the Author: Brooks Hoffman is V.P. - Finance & Operations for LifeSpan Technology Recycling. LifeSpan provides customized IT asset disposal programs that ensure data security and environmental compliance to clients nationwide. Contact information: (888) 720-0900, info@lifespantech.com, www.lifespantech.com.

Reverse Logistics Association Publications



News - The Reverse Logistics Association mission is to "educate, inform and produce tradeshows and workshops around the world." One education medium is RLA news publications. With the January 2006 launch of Reverse Logistics Magazine, we now have a hardcopy quarterly publication, as well as monthly online magazine and weekly news clipping service to keep our users up-to-date on the latest industry news, trends and events. We welcome noteworthy reverse logistics related submissions.

Reverse Logistics Magazine provides the latest information regarding the various areas of reverse logistics including customer service, repair, fulfillment, recycling, refurbishment, regulatory and warranty management. It features case studies and highlights research documents available from our association.

Online Reverse Logistics Magazine is a monthly publication which provides industry insight as well as highlights of recent news.

Reverse Logistics Weekly News Clippings is a weekly push of the latest news collected from around the world related to OEM, ODM, Retail and Branded companies, third party service providers and other organizations.

Research Documents, White Papers, Case Studies - Reverse Logistics Association offers an extensive collection of information from high level overview to in-depth studies of a wide variety of subjects. White papers and case studies cover topics such as warranty management, repair services, online auctions, asset disposition, customer service and WEEE and RoHS. Research documents provide results of significant research, conducted by academics and leading consulting firms. Visit the RLA Publications page and peruse the many titles available from our site.



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RL Job Center



If you are a job seeker or a hiring manager looking to staff positions with a Reverse Logistics focus, the Reverse Logistics Association Job Center is the place for you. Posting positions on the site is a member* benefit. Let us help you find the staff you seek – posting is quick and easy. Position posting is generally approved and posted within 24 business hours. Check out the positions currently posted at the RLA Job Center. For more information, contact RLA at info@RLTinc.com.

*Job posting is a benefit of Professional Members and above.

Reverse Logistics Association Focus Committees

Focus Sub-Committees were 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 RLTS Conferences. Focus Sub-Committees educate the industry on reverse logistics:

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

Industries we currently monitor are:

• High Technology

• Wireless/Telecommunications

Chairperson - Larry Maye, Motorola

Committee Members:

- Art Teshima, Bell Tech.Logix
- John Coffield, GENCO
- Bob Sullivan, The Wireless Source

• Notebook/PC

Chairperson - Len Blackwell, Service Electronics

• Data Storage

Chairperson - Ed Inal, Western Digital

• Consumer Electronics

- Displays
- Imaging
- Printers
- Set-top

- Automotive
- Medical/Pharmaceutical
- Publishing
- Garment

More information regarding the RLA Focus Committees is available at: www.reverselogisticsassociation.org.

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