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**Taking a Proactive
Global Approach to
Product Recall and
Replacement
Page 24**

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November/December 2007

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by William K. Pollock, *Strategies For Growth*SM

Reverse Logistics is crucial to virtually every business—but it is not an end unto itself. The most successful organizations are those that can leverage their reverse logistics capabilities to provide customers with exactly what they want, and expect, while also creating and maintaining a competitive advantage wherever possible. However, this requires a good understanding of how to use both the real and the perceived benefits of reverse logistics to enhance the organization's customer service capabilities, as well as its overall competitive market position. By promoting the most compelling message to the marketplace, your organization can gain additional competitive stature in an otherwise commodity-like market.

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by David Cope, *MGH Consulting*

Consumer protection laws across the globe are tightening. Typically in Europe the consumer can return any defective product to the retailer within 14 days and request a replacement or a credit. With sales through the internet the product doesn't even have to be defective. These returned products then flow back through the retail supply channel back to the manufacturer where they are credited. This return process in itself is very expensive and difficult to manage, but the larger issue for the manufacturer is what to do with the returned material. If the box has been opened the material cannot be resold and so an alternative solution has to be found. The scale of this problem is increasing and we have seen increases of over 100% over the last two years and predict a similar trend for the next two years.



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by Karsten Platz, *TEQPORT Services GmbH*

A Vendor Managed Inventory agreement between a rail vehicle manufacturer and a railroad transportation company can be rewarding for both parties. The vehicle manufacturer manages the replacement parts for his vehicles

himself and guarantees the railroad transportation company a defined level of stock availability, thereby saving the railroad transportation company capital tie-up and obsolescence costs, for example. By being exclusively responsible for supplying replacement parts for his vehicles, the manufacturer opens up another source of revenue in addition to his new build business.



33 Quantifying the Business Cost of Repair and the Impact on Service Quality

by Michael R. Blumberg, *CMC, Blumberg Advisory Group, Inc.*
Aftermarket Service of electronic equipment (e.g., computers, telecommunications, medical electronics, etc.) represents one of the largest operating expenditures for end-user organizations. If one considers that the typical end-user

spends up to 20% of the total system acquisition price annually for maintenance and repair, moves/add/changes, and other support services over the installed lifecycle (estimated at 6 to 8 years on high end technology) of the equipment, it is easy to understand that the total lifecycle service expenditures can be as much as two to three times the initial acquisition cost of the equipment. End-users are thus advised to pay very close attention to the value and quality of services they receive from their Reverse Logistics Providers.

Cover Story



Taking a Proactive Global Approach to Product Recall and Replacement

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by Sunshine Farzan, *Harte-Hanks Inc.*
It can happen to any manufacturing company, national or global, of any size, for any reason, at any time. A product recall, whether voluntary or not, can send costs skyrocketing and revenues plummeting simultaneously—and instantly.

How a company manages a recall, and recovers from it, depends greatly on its ability to execute under fire. Urgency, empathy, safety all must be communicated—and program management needs to be prompt, courteous, respectful, and professional. A product flaw cannot be compounded by flaws in the actual execution of the recall itself.

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

The RLA staff has just returned from a very successful event in Singapore. This was the largest RL-focused event ever held in the Asia Pacific area. Participants and attendees alike had high praise for the show. It takes incredible stamina to pull off such a feat and what many conference attendees may not realize, is that the staff members actually wear multiple hats.

- Michelle, our speaker coordinator, catered to the needs of the Singapore speakers while actively recruiting faculty for upcoming RL Seminars.
- Lisa, our event manager, is also responsible for RLA accounting. So, while assuring that all went well at the conference, she was also ensuring that receivables were managed, and bills were paid.
- Luis is the RLA technical guru. As an internet company, it is critical that our internal and external sites be up and running at all times. Luis managed this in addition to overseeing that all conference audio/

visual equipment was set up and properly functioning.

- The RLA sales force (Jeremy, Dave and Melvin), was busy facilitating introductions between manufacturers and service providers, as well as coordinating exhibitors for future shows.
- Stella manages the Registration and attendees at all of our shows, helping to train many of our "global travelers" in their assignments.
- Gailen does everything, all the time – from host extraordinaire to our attendees, speakers and exhibitors to oversight of all aspects of the entire function.
- And as for me, well my conference role is chief gopher and I lend a hand in all areas as needed – plus, with the help of Luis, I managed to get out the Weekly News Clippings, the Newsletter and prep for this issue of RL Magazine.

In addition to RLA staff, we must acknowledge all the support received from our volunteer staff and interns.



Global Travelers – John and Linda Monte, Hilary Melander and Eileen DeGuzman.

Interns

From Nanyang Technological University - Muhammad Ateeq Khan, Linsien Tan, Chathura Withanage and Isabel Ang.
 From National University of Singapore – Yin Sian Lai, Pan Jie, Yufeng Sun, Wei Chuen Chan
 From Singapore Management University – Kristoffer Chan, Mun Men Yap, Hui Shan Tan, Yao Dai, Xian Shen and Sebastian Liquitay



Lest you think the trip was all work and no play, here are the ladies of RLA (L-R Trainer, Chris, Michelle, Lisa, Hillary) on our getaway to Sentosa Island.

Reverse Logistics Association Mission

Our mission is to educate and inform Reverse Logistics professionals around the world. RLA focuses on all industries in the reverse logistics process. No matter what industry, High Tech, Automotive, Medical/Pharmaceutical, Publishing, Apparel, 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 3PLs like FedEx, DHL, USPS and UPS. 3PSPs like Teleplan, Foxconn, Solectron, Canon, Sony and Jabil, along with small service providers have found that the RLA resources help advertise their services. OEMs like Microsoft, HP, Palm, and Sony, along with Retailers like Wal-Mart, Canadian Tire, Tesco and Best Buy all participate at our events. Our online RL Magazine and Weekly News Clippings help OEM, Branded and Retail companies find service partners that were unknown to them.



Message from President and Founder of RLA

It has almost become commonplace to hear the word recall! In the last two months, we've heard recalls on food (both human and animal), electronic equipment, children's toys and clothing. The word "recall" literally runs shivers down the spine of any grown person that is in business.

Recalls have been occurring since the beginning of time, the only differences today are the impact from a catastrophic failure in your operations supply chain and the time you have to take action. So you ask, "what's the difference between today and in the past— isn't the supply chain the same as is always

been?" So, why do you need to move so fast today?" Today's supply chain has become faster;

the delivery of material can make it from the procurement BOM to consumer doorstep within days. If you stand in place for more than three milliseconds after learning about a production issue, the impact for consumer safety, liability litigation issues and impact to supply chain, can be overwhelming.

We, at the Reverse Logistics Association, project that the number of recalls will actually increase as product lifecycles continue to become shorter and shorter. Never has there been such pressure to ramp-up production lines so rapidly. The chance for error increases as product ramp-up demands are given less and less time to stabilize.



If you think there is hope in the future, you are mistaken. The danger is imminent and you must be prepared. We don't know when the problem will hit us. I don't believe industry is going to slowdown; in fact, operations will continue to reduce the time it takes for parts to be ordered—from the BOM to the delivery of their products to the end user or consumer. It isn't anything that I would vote in favor, but we reverse logistics professionals will have to identify the way to minimize the impact of recalls to the bottom line.

Please take the time to read the cover story in this edition of RL Magazine. It's good food for thought and please don't let your mind persuade you that it will never happen to you or your company. Prevention is always the best case. So take a few moments, at senior levels of your company to develop contingency plans — just in case the unbelievable occurs. I hope that a recall never happens at your company, but if it does, the person who has put a contingency plan in place, will become a real hero.

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:



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.



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.



Dan DeBello—Jabil
Dan DeBello is currently Senior Director of Business Development for Jabil Global Services, Inc. (JGS), a wholly-

owned subsidiary of Jabil Circuit. Jabil Circuit, Inc. is a top-tier global Contract Electronics Manufacturer (CEM).



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.



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.



Steve Jones – Managing Director Supply Chain Services & Reverse Logistics, FedEx Corporation
Steve is a 22-year

veteran of the transportation industry, with extensive experience in sales and sales management of transportation and logistics services to corporate accounts. Steve was selected to lead the Supply Chain Services and Reverse Logistics sales organization with responsibility for new business development, base business growth and supply chain integration across all the FedEx operating companies.



Larry Maye – Palm Global
Larry Maye is currently serving as the Sr. Director of Palm Global Reverse Logistics. In

this capacity he is responsible for the global repair and logistics for Palm to include repair operations,

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customer service fulfillment, vendor management, returns processing and global strategy.



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.



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 www.reverselogisticstrends.com/company_advisory.php.

5th Annual RLA Amsterdam Conference & Expo

At the Dorint Sofitel Amsterdam Airport Hotel

June 16-18, 2008

Over 500 RL Professionals and 40 Exhibitors



Reverse Logistics Association is offering three full days of RL immersion starting with RL Workshops and Focus Committee Discussions followed by two days of sessions and exhibition.

Workshops are offered on Monday, June 16 on a variety of topics including Successful Outsourcing—RFQs, Contracts and SOW and Reverse Logistics Self Assessment and Performance Improvement Toolkit.

The RLA conference kicks off on Tuesday with a Keynote address followed by sessions presented by RL professionals, leading academics and also includes panel discussions.

Session topics include field service, RMA, support and help desk/call centers. A wide range of Reverse Logistics companies will be 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.

For more information, visit: <http://www.rltshows.com>.



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



Reverse Logistics Association Focus & Industry 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”
- Consumer Satisfaction Issues
- Regulations on a Worldwide & Regional Basis
- Processes that can reduce costs

Industries we currently monitor are:

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 - Joseph Tarantino, Sprint Nextel
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- Yu Tian, Ph.D. , Sun Yat-Sen University

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Using Reverse Logistics to Enhance Customer Service and Competitive Performance

by William K. Pollock

Reverse Logistics is crucial to virtually every business—but it is not an end unto itself. The most successful organizations are those that can leverage their reverse logistics capabilities to provide customers with exactly what they want, and expect, while also creating and maintaining a competitive advantage wherever possible. However, this requires a good understanding of how to use both the real and the perceived benefits of reverse logistics to enhance the organization's customer service capabilities, as well as its overall competitive market position. By promoting the most compelling message to the marketplace, your organization can gain additional competitive stature in an otherwise commodity-like market.

The secret to success is basically to position reverse logistics in your organization as a tool for both improving customer satisfaction and competitive advantage by:

- Identifying, measuring and promoting both the real and perceived value of your organization's total logistics capabilities (including reverse logistics) to both its customers and the general marketplace;
- Continually transforming improvements in your logistics capabilities into improved customer service and satisfaction ratings;

- Using logistics improvement as an ongoing marketing and promotional tool; and
- Positioning your organization well ahead of the competition by aggressively promoting the specific value and benefits associated with its logistics (and reverse logistics) capabilities.

Regardless of how your organization defines reverse logistics, two things are for certain: (1) virtually all business organizations use it, and (2) depending on how you perform, it will have an impact on how your customers measure and evaluate your customer service and competitive performance.

What is Reverse Logistics?

The Reverse Logistics Association (RLA) defines 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 and environmental resources”. According to the RLA, terms such as “aftermarket logistics,” “retrologistics, and “aftermarket supply chain,” are all synonymous with reverse logistics.

However, the marketplace defines reverse logistics in any number of ways, ranging from as simple as the “processing of returns” (MultiChannel Merchant magazine); to as complex as “the logistics process of removing new or used products from their initial point in a supply chain, such as returns from consumers, over stocked inventory, or outdated merchandise and redistributing them using disposition management rules that will result in maximized value at the end of the items' original useful life” (Wikipedia).

In its 2006 Benchmark Report, “Revisiting Reverse Logistics in the Customer-Centric Service Chain,” the Aberdeen Group described reverse logistics as “rapidly emerging as a core driver of competitive advantage and financial performance among leading manufacturers” placing annual reverse logistics costs at roughly \$100 billion in the United States alone. However, the report emphasized that merely containing costs was not foremost on the customer's mind—that, in fact, “recognizing the inherent opportunities to improve overall service performance” was the key motivation for most businesses to get their reverse logistics acts together. And, by doing so, they could eventually reap the benefits of “improved customer loyalty and retention, increased revenues, reduced operating costs and improvements in product uptime and quality.”

Figure 1

Key Marketable Benefits of Providing Real-Time Logistics Support

- ✓ 1. Elimination of slow or lost shipments
- ✓ 2. Elimination of shipment discrepancies
- ✓ 3. Improved profit margins through the use of optimization tools
- ✓ 4. Reduction of inventory carrying costs for the customer
- ✓ 5. Support for the customers' efforts to reduce inventory investments
- ✓ 6. Significantly reduced product/part returns.
- ✓ 7. Improved customer service and satisfaction through:
 - Improved delivery reliability
 - Improved efficiencies in customers' shipping/receiving operations
 - One version of the “truth” for dispute resolution

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Ultimately, many of those who actively participate in the industry probably feel that Lambert and Stock got it just right when they described it in 1981 as “going the wrong way on a one-way street because the great majority of product shipments flow in one direction.” However, regardless

of how your organization defines reverse logistics, two things are for certain: (1) virtually all business organizations use it, and (2) depending on how you perform, it will have an impact on how your customers measure and evaluate your customer service and competitive performance.

Using Reverse Logistics as a Tool for Improving Customer Satisfaction

Satisfaction occurs when an organization's products or services meet or exceed customer expectations. In fact, all things being equal, customers typically care more about having their product, service and support requirements met, and much less about how their vendors do it. What customers really want is to have their voices heard - and then, have their suppliers actually do something about it (i.e., they want to see results). Many companies use their logistics and reverse logistics capabilities as market differentiators. The intent is to keep customers so satisfied with their products and services—before, during, and following the original delivery—that they remain loyal to ▶

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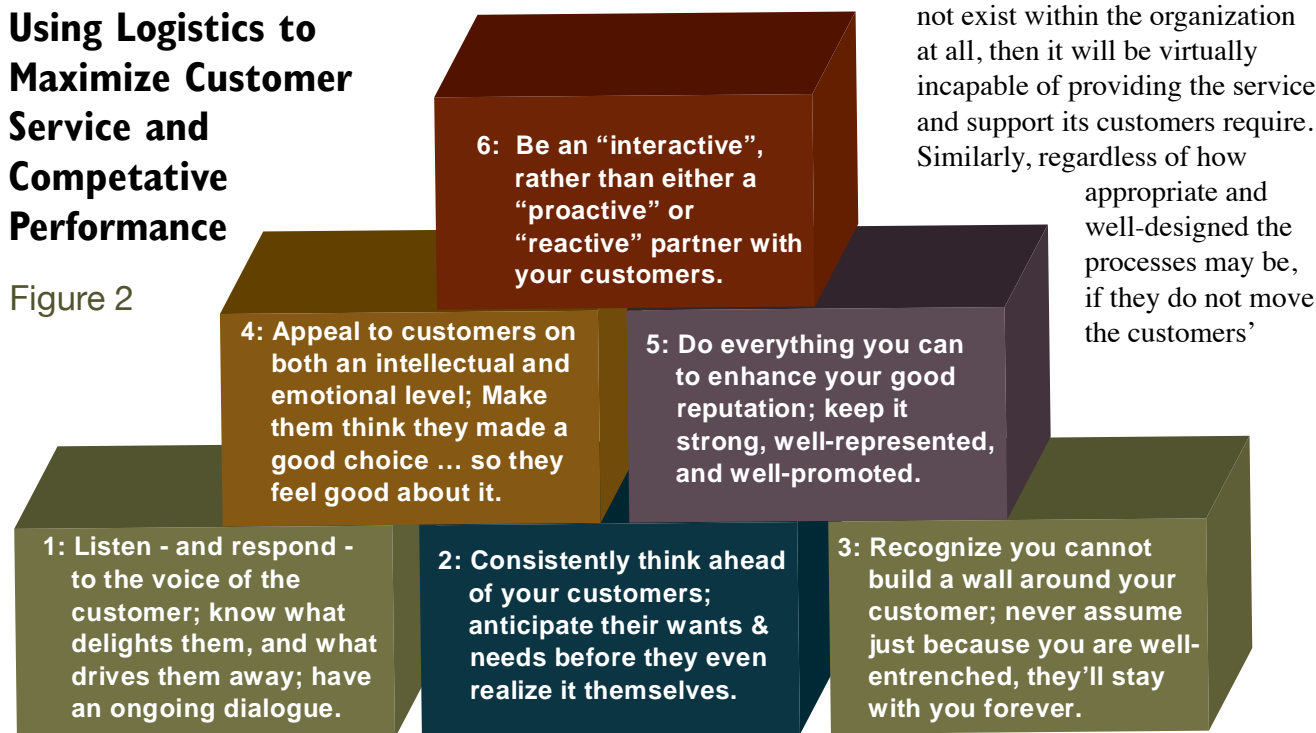
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their suppliers, repurchasing their products and/or services again, and again, and again.

However, customer satisfaction may be viewed in two very different ways: either as event-specific, or cumulative: In the former, the emphasis is on the customer's evaluation of a specific product/service event (i.e., product sale, service call, part order, RMA, etc.). However, in the latter, the evaluation is based on the customer's total pre- and post-purchase experience with the company's products, services and support over time (i.e., the "total customer experience"). Firms that integrate new technologies, such as UPC bar codes, RFIDs, etc., into their logistics services are generally more likely to establish and maintain strong customer relationships over the long haul as a result of their technology-enhanced capabilities.

Using Logistics to Maximize Customer Service and Competitive Performance

Figure 2



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We believe the main characteristics that ultimately differentiate one logistics organization (and its reverse logistics processes) from another may be categorized essentially as follows:

- **Agile Adaptability**, or how well (and how quickly) the organization can respond to changes in its customer/market demands and, as a result, develop the new logistics processes, products and services required to meet (and exceed) them;
- **Inventory Management**, or the ability to manage both the cost and the availability of inventories effectively;
- **Cycle Times**, or the time it takes the organization to routinely fill customer orders and related activities—both on the inbound and reverse logistics sides;
- **Key Performance Indicators (KPIs)**, or the use of the most appropriate, timely and accurate metrics for measuring

performance (and customer satisfaction) on an ongoing basis; and

- **Market Position and Presence**, or the ability of the organization to establish, maintain and promote its logistics capabilities and strengths both to its existing customers, as well as to the marketplace as a whole.

According to the Aberdeen Group, "very few companies are more than marginally satisfied with their current reverse logistics approach, with nearly 60% reporting that they are somewhat or not satisfied." This does not suggest a satisfied marketplace. Our own research has shown that the most commonly cited causes of market dissatisfaction are generally attributed to process-, time- and measurement-related factors.

For example, if the organization does not have the proper reverse logistics processes in place, either because they are not the most effective processes, or they do not exist within the organization at all, then it will be virtually incapable of providing the service and support its customers require. Similarly, regardless of how appropriate and well-designed the processes may be, if they do not move the customers'

According to the Aberdeen Group, "very few companies are more than marginally satisfied with their current reverse logistics approach, with nearly 60% reporting that they are somewhat or not satisfied."

products out and back quickly enough, customer satisfaction will once again rear its ugly head. Finally, if the organization is unable to measure either its own reverse logistics performance—or its customers' evaluations of its performance, then it will never know exactly where it stands in the minds of its customers—or how to improve its performance over time.

The Reverse Logistics/Customer Satisfaction Connection

Market research has shown that customers believe the following attributes to be of the greatest importance for both forward and reverse logistics (Figure 1):

- Elimination of slow or lost shipments
- Elimination of shipment discrepancies
- Improved profit margins through the use of optimization tools
- Reduction of inventory carrying costs for the customer
- Support for its customers' efforts to reduce inventory investments
- Significantly reduced product/part returns
- Improved customer service and satisfaction through:

- Improved delivery reliability
- Improved efficiencies in customers' shipping/receiving operations
- One version of the "truth" for dispute resolution

However, for there to truly be a "bond," or "partnership," between the reverse logistics services provider and its customers, there must also be the

following shared attributes:

- Mutually high expectations for the success of the partnership
- Mutual loyalty
- Framework/capability for technical data/information exchange (e.g., EDI)
- Willingness to share risks/provide assistance in critical situations
- Willingness to negotiate/mediate differences of opinion/interpretation
- Use of joint provider/user task forces/teams
- Two-way, frequent communications and feedback channels
- Joint performance monitoring and tracking (i.e., against pre-set goals)

Overall, regardless of market segment or size of the organization, the most widely acknowledged benefits derived from the use of reverse logistics services may generally be categorized in the following areas:

- Increased product/service revenues and profitability
- Enhanced product/service uptime or availability
- Reduced inventory/parts acquisition costs
- Improved efficiency, time-sensitivity, and ability to troubleshoot problems ▶

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- Improved customer satisfaction and retention

These are the primary factors used by the marketplace to evaluate the benefits of the reverse logistics services, and providers, they use to manage this portion of their respective businesses.

Using Reverse Logistics to Build Competitive Performance

Using your organization's reverse logistics capabilities as leverage for building competitive performance (in addition to improving customer satisfaction and retention) also typically requires that it (Figure 2):

1. Listens, and responds, to the voice of the customer; knowing what delights them, and what may potentially drive them away—all while maintaining a strong, and ongoing, dialogue.
2. Consistently thinks ahead of its customers, anticipating their wants and needs before they even realize it themselves.
3. Recognizes it cannot build a wall around its customers, and never assuming that just because they have been with you for a long time, they will stay with you forever.
4. Appeals to its customers on both an intellectual and emotional level, allowing them to believe they made a good choice in selecting you, and that they still feel good about it.
5. Does everything it can to enhance its good reputation by keeping it strong, well-represented, and well-promoted in the marketplace.
6. Positions itself as an “interactive,” rather than a “proactive” or “reactive” partner with its customers.

While some of the processes that are required to yield these key benefits can typically be developed internally, others may require the strategic use of supply chain partners, as necessary. However, regardless of what is developed internally vs. outsourced, one thing must remain entirely clear—the basic, or “core” reverse logistics functionalities are nothing more than a “gimme” to the marketplace. In other words, if you don't already offer a full complement of basic reverse logistics support services, you're not even in the game! Only the inclusion of the right mix of “value-added” logistics functionalities to your basic offerings can provide your organization with what it will ultimately take to stake out a true competitive advantage.

It is also important to remember that most “bells and whistles” generally never work (or, at least, not for very long); and that if the market believes you are offering something of value—something that your competitors are not, then they will find reason to come to you (and stay with you). As a result, you must strive to be the leader among the value-added reverse logistics providers, because merely being a follower will not help you win over (or “steal”) many new accounts.

Product and price differentiation have always been important to customers—but so is customer service. Accordingly, you cannot sacrifice one side of the equation for the sake of the other. Don't simply offer faster, easier reverse logistics functionality; you will make a much bigger mark by offering logistics solutions that are designed to meet the “total”

needs of the customer. While deficient logistics capabilities can severely impact customer service and satisfaction, superior logistics capabilities will only bear fruit if the customer (and the market) knows what you've got and what you can do for them; but, you are going to have to tell them about it.

Logistics does not work in a vacuum—it is truly a “give and take” between vendors and customers—and you will have to learn how to deal effectively with all of the negotiations, compromises, trade-offs, and settlements that may be involved in the overall process. But, at the end of the day, the more you know about your customers and their needs, requirements, preferences and expectations, the more responsive you can be to their total logistics needs and requirements. Being a true partner with your customers will allow you to be the kind of responsive and interactive logistics provider that they are seeking—and one upon which they feel they can ultimately rely on for “total customer support.” 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-plus years, Bill has conducted more than 250 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 120 articles covering a wide range of services-related topics. He may be reached at 610-399-9717 or via e-mail at wkp@s4growth.com. SFGSM's website is accessible at www.s4growth.com.



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Managing the Retail Return Nightmare

by David Cope

Consumer protection laws across the globe are tightening. Typically in Europe the consumer can return any defective product to the retailer within 14 days and request a replacement or a credit. With sales through the internet the product doesn't even have to be defective. These returned products then flow back through the retail supply channel back to the manufacturer where they are credited. This return process in itself is very expensive and difficult to manage, but the larger issue for the manufacturer is what to do with the returned material. If the box has been opened the material cannot be resold and so an alternative solution has to be found. The scale of this problem is increasing and we have seen increases of over 100% over the last two years and predict a similar trend for the next two years.

Add to this increasing product complexity and interoperability and it becomes very evident that the costs of retail returns cannot be ignored. This cost, whether taken as a straight warranty cost, or credited to sales is growing. With reducing product margins it needs to be managed carefully.

The three major principles for managing retail returns are:

- Control the volume of returns through sensible validation
- Maximise reutilisation of the accepted returns to minimise cost
- Allocating the costs correctly to drive the right behaviour
- Controlling the volume of returns through sensible validation" means assessing several factors including:

- a) Scope of material b) where to validate, c) what to validate.

a) Scope of material. The first decision that needs to be made is whether the value of the material warrants validation. Often with low value consumer electronics there is no business case for validation and the material should be sent straight for reuse or recycling

b) Where to validate. This decision is a balance between transportation costs and centralisation economies of scale. Ideally the validation is done in as few places as possible as this drives consistency and lower costs.

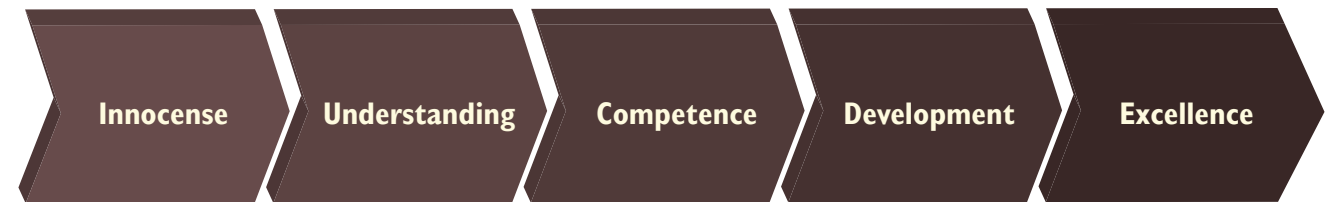
Typically, this means that heavy and bulky goods need to be validated in country. High value consumer goods are often best validated centrally.

c) What to validate. The assessment of what to validate involves a good understanding of the validation process. Typically validating the return dates through Proof of Purchase and validating product completeness and damage are the basics. However, deep technical analysis of the customer problem can prove to be very difficult to come to a conclusive answer.

The maturity chart (Figure 1) should help in identifying where your organization is in it's understanding and management of retail returns.

Case study Situation

A major consumer electronics company had a growing retail return issue. Volumes were growing and were validated at a country level. The validation role was outsourced to a number of local companies and the validation quality was generally poor. The validation rules were locally



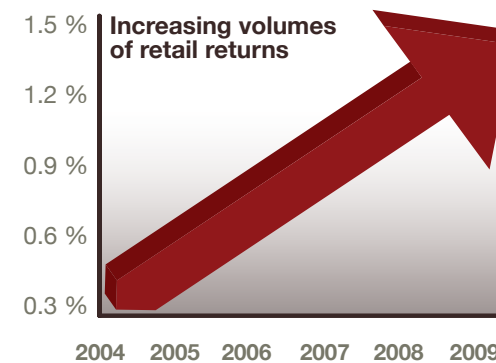
Innocense
No retail return processes. Retailers simply deduct returns costs from invoices.

Understanding
Basic retail return validation process in country. Country managed with no synergies in process or return rules.

Competence
Standardisation of validation and reuse processes. Developing understanding within the organisation of retail return cost control. Starting to drive right behaviour through smart financial processes.

Development
Developing standard rules. Strong validation processes backed up with full reutilisation of material through service and resale processes.

Excellence
World class optimized retail return process. Standard retail return rules across geographies wherever possible. Validation process is optimised to control numbers and satisfy customers. Maximised reutilisation and finance drive right internal behaviour.



negotiated resulting in a bewildering variety of rules. There was some reutilisation of the main unit locally, but almost no reutilisation of the rest of the product accessories. The cost of retail returns was taken directly to warranty and so there was little incentive for the sales force to control retail returns as it had no detrimental financial effect on them.

Solution

After a full review of the current situation and options it was decided that a centralised validation in Eastern Europe would be the most effective solution. All retail returns are now consolidated in country and then sent back to the Retail Return Centre by a single carrier. Validation is completed in two weeks and rejected units

returned directly to the retailer. Accepted units are credited on acceptance. For credited units all of the parts of the sales pack are inspected and fully tested / repaired. They are then returned to service stock for use in repairs and serviced exchanges.

The crediting process has been changed to spread the costs appropriately across warranty, local sales and product division to drive the right behaviour.

Results

Increased customer satisfaction with the process as credit processes are quicker and easier to understand. Pan European and growing global visibility of the costs of retail returns. Maximised reutilisation of all material. Reutilisation across Europe and developing global optimisation. Developing standardisation of retail return rules.

Summary

Consumer laws globally are only moving one way. For all manufacturers of retail goods, the costs will increase. The art is in controlling this increasing costs and ensuring that your processes minimise the net costs of retail returns. RLM



David Cope has over 20 years of experience in after sales service and logistics operations from a number of 'blue chip' service environments including: IT, Medical, Telecommunications and other High Technology sectors.

Prior to establishing MGH in 1996, David was with Coopers & Lybrand as Principal in the After Sales team. He has also worked for IKON as Service Director and with Xerox in various After Sales roles. MGH Consulting specializes in management consultancy and interim management, providing a range of services primarily to the high technology sectors, (IT, Telecommunications, Medical Diagnostics and Printer / Copier). For more information visit: www.mghconsulting.co.uk.



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The 5th Annual RLA Las Vegas Conference and Expo will be held on February 4-6, 2008 at the Planet Hollywood Resort & Casino. Reverse Logistics Association is offering three full days of Reverse Logistics immersion starting with RLA Workshops and Industry Focus Committee meetings followed by two days of sessions and exhibition.

Arrive early to have some fun before the conference starts on Monday. Super Bowl Sunday in Las Vegas – no other city generates as much excitement surrounding this all-American spectacle. Entertain your clients with the parties and celebrations at the Planet Hollywood Resort & Casino.

The RLA conference kicks off on Monday with a number of activities including RL Workshops, RL Industry Focus Committee meetings and the opening of the Exhibit Hall. For those who like one-on-one time with their clients, join us at the RLA Golf Tournament.

Tuesday will start with an industry overview and forecast presented by RLA President, Gailen Vick. The keynote address, this year will be presented by Joe Warren, VP & General Manager, Customer Support Operations of Canon

USA. Afternoon sessions and panel discussions by RL professionals and leading academics will focus on cutting edge reverse logistics practices. Check the schedule available at www.rltshows.com for session topics. The day concludes with roundtable discussions with each of the speakers.

The Wednesday keynote will be presented by Bernie Schaeffer, Corporate Vice President, Global Repair & Reverse Logistics Integrated Supply Chain, Motorola, Inc. More sessions and panels will follow.

“RLA has done an amazing job in creating a focal point for the Reverse Logistics Industry that simply didn't exist before. The trade show has given us entree to companies that we would probably never have reached, and the VIP program has been a tremendous tool for building relationships with prospects and clients.”

Shawn Stockman, Business Development, OnePack

A wide range of leading global Reverse Logistics companies will be in attendance including: Best Buy, Canadian Tire, Western Digital, Cisco, Wal-Mart and Dell.

Be sure to visit the Exhibition Hall where ODMs and OEMs will be looking for 3PSPs that can manage Reverse Logistics in the Americas, along with identifying solutions for Europe and the Far East. 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. For more information and complete details, visit www.RLTShows.com.



Tuesday Keynote Address - “Centralization of Reverse Logistics Services”



Joseph Warren, VP and General Manager,

Customer Support Operations, Canon USA, Inc. will deliver the Tuesday Keynote Address.

Joe has more than 40 years of combined experience in manufacturing, logistics, and customer service. Joe is currently responsible for Canon's nationwide customer service and support network as well as the reverse logistics system and recovery processes associated with Canon's consumer product returns.

Wednesday Keynote Address - “Reverse Logistics as an Asset”

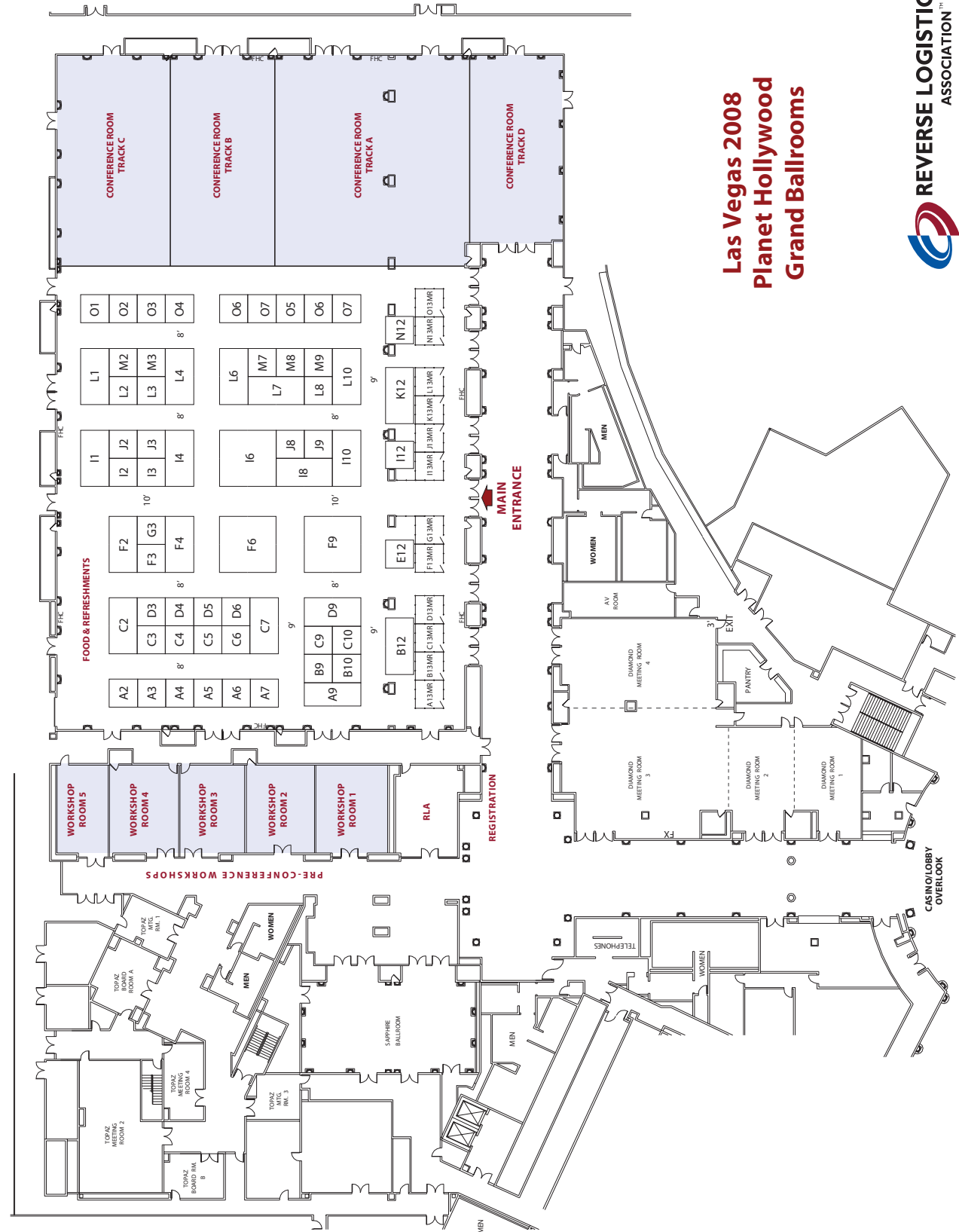


Bernie Schaeffer, Corporate Vice President, Global

Repair & Reverse Logistics Integrated Supply Chain, Motorola, Inc. will deliver the Wednesday Keynote Address.

Bernie's position encompasses the global operations associated with procurement, new product introduction, manufacturing, customer fulfillment and repair. He is responsible for repair and reverse logistics operations across all Motorola businesses worldwide.

Expo Floorplan



**Las Vegas 2008
 Planet Hollywood
 Grand Ballrooms**



CONFERENCE & EXPO

SUNDAY - FEBRUARY 3, 2008				
3:00PM-7:00PM	RLA FOOTBALL PARTY			
MONDAY - FEBRUARY 4, 2008				
8:00AM-1:00PM	RLA ANNUAL GOLF TOURNAMENT (Sponsorships Available)			
8:00AM-5:00PM	Workshops			
1:00PM	EXHIBIT HALL OPENS			
1:00PM-2:00PM	RLA Focus Committees - Open Discussions			
	Track A	Track B	Track C	Track D
	Wireless Communications Focus Committee Discussion	Data Storage Focus Committee Discussion	Standards Focus Committee Discussion	Information Technology Solutions Focus Committee Discussion
2:00PM-3:00PM	Retail Consumer Products Committee Discussion			
6:00-9:00PM	EXHIBITOR, SPONSOR & SPEAKER RECEPTION - EXHIBIT HALL (Sponsorship Available)			
TUESDAY - FEBRUARY 5, 2008				
8:30AM	CONTINENTAL BREAKFAST - EXHIBIT HALL (Sponsorship Available)			
10:00AM	Welcome Address: Industry Overview, Size and Forecast, Gailen Vick - President & CEO, Reverse Logistics Association			
10:30AM	Industry Keynote Address: Centralization of Reverse Logistics Services. Joe Warren, VP & General Manager, Customer Support Operations, Canon USA			
11:30AM-12:30PM	BUFFET LUNCH - EXHIBIT HALL (Sponsorship Available)			
12:30PM	Panel Discussion: Second Time Around - Building Revenue Opportunities	Pretty Good Practices in Retail Reverse Logistics	Technology Providers and 3PSP Outsourcing	Sales Lifecycle Product Tracking - Cradle to Grave Opportunities
1:30PM	Measuring and Driving the Return of Service Parts - Best Practices and Methodologies	Completing the Shipping Circle	Wireless Future Trends	Repeat-Use Packaging For Supply Chain Management and How It Can Reduce Packaging Costs and Landfill Waste
2:30-3:00PM	AFTERNOON BREAK - EXHIBIT HALL (Sponsorship Available)			
3:00PM	Panel Discussion: Online Auctions - Changing The Way We Do Business	Reverse Logistics: Extended Enterprise Perspectives	Environmental Compliance Scene	Maximizing Reverse Logistics and Asset Recovery
4:00PM	Panel Discussion: Reverse Logistics Issues in the Storage Industry	Supply Chain Sustainability - Integration of Forward and Reverse Value Chains	Wireless Carriers, OEMs & 3PSPs - Working Together for Customer Support	Returns Management Maturity Model
5:00-8:00PM	EVENING RECEPTION (Sponsorship Available)			
WEDNESDAY - FEBRUARY 6, 2008				
8:00AM	CONTINENTAL BREAKFAST - EXHIBIT HALL (Sponsorship Available)			
9:00AM	Industry Keynote Address: Reverse Logistics as an Asset Bernie Schaeffer, Corporate Vice President, Global Repair & Reverse Logistics Integrated Supply Chain, Motorola, Inc.			
10:00-10:30AM	INTERMISSION - EXHIBIT HALL			
10:30AM	Panel Discussion: Retail Reverse Logistics Issues	Direct to Consumer Asset Recovery Strategies	Cellular Telephone Reverse Logistics and Repair Market - Market Size, Competition and Forecast	Loss Prevention Strategies and Analysis
11:30AM	Panel Discussion: Reverse Logistics Issues in the Food & Beverage Industry	A New Value Proposition for Reverse Logistics in Europe	Improving End-to-End Reverse Logistics Operations	Integration of Forward and Reverse Value Chains
12:30-1:30PM	BUFFET LUNCH - EXHIBIT HALL (Sponsorship Available)			
1:30PM	Using Reverse Logistics to Enhance Customer Service and Competitive Performance	Cradle to Cradle; Product Re-birth, The True Goal of Recycling	Transportation Management in the Reverse Logistics Model	Using Online Auctions to Maximize ROI of Reverse Logistics
2:30PM	Panel Discussion: Retail Consumer Products - Early Defect Detection	Managing Global Asset Recovery Partnerships in an Ever Increasingly Regulated Landscape	Panel Discussion: RL Shared Costs Between Carriers and Manufacturers	Returns and Asset Protection Strategies: New Applications for Retailers and Suppliers
3:30PM	Closing Remarks: Gailen Vick, President & CEO, Reverse Logistics Association			
4:00PM	LUCKY DRAWING for iPods, DVD RW, Portable DVD Players, External Hard Drives, Digital Cameras (must be present during the drawing to win)			

Money Talks

Full articles available from: RLA News Center

Cycleon Joins Reverse Logistics GmbH

Cycleon recently announced it has joined Reverse Logistics GmbH (RLG), which is majority-owned by Monitor Clipper Partners, a private equity fund based in Boston, London and Zurich. The RLG group already owns CCR Logistics Systems AG and Vfw GmbH, two specialized reverse logistics companies. With the three current group companies, RLG intends to build a leading European Reverse Logistics Group with strong complementary knowledge, network and services.

Avaya Announces Stockholder Approval of Acquisition of the Company

Avaya Inc., a leading global provider of business communications applications, software and services, today announced that, at the company's special meeting of stockholders held Friday, September 28, 2007, in Wilmington, Delaware, the company's stockholders voted to adopt the merger agreement providing for the acquisition of Avaya by affiliates of Silver Lake Partners and TPG, two private equity firms.

Wireless News

Full articles available from: RLA News Center

China Based Manufacturer Has 50% Cellphone Market Share

According to Taiwan's MIC (Market Intelligence Center), shipment volume of the Chinese mobile phone industry is expected to reach 147.1 million units in the third quarter of 2007 and 165.9 million units in the fourth quarter of 2007, representing 21.7% and 23.2% year-on-year growth respectively.

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Nokia Making Moves to Lead in Nav Market

Nokia is serious about putting SatNav applications in all future Nokia phones. Nokia today bought NAVTEQ, a GPS service with ownership of the The Map Network, the largest maps supplier in the US. This means Nokia Maps will become even more detailed and comprehensive, not to mention up-to-date. The price tag for NAVTEQ is \$8.1 billion. Olli-Pekka Kallasvuo, Nokia president and CEO is optimistic: "The acquisition of Navteq is another step toward Nokia becoming a leading player in this space."

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Taking a Proactive Global Approach to Product Recall and Replacement

by Sunshine Farzan

It can happen to any manufacturing company, national or global, of any size, for any reason, at any time. A product recall, whether voluntary or not, can send costs skyrocketing and revenues plummeting simultaneously—and instantly. How a company manages a recall, and recovers from it, depends greatly on its ability to execute under fire. Urgency, empathy, safety all must be communicated—and program management needs to be prompt, courteous, respectful, and professional. A product flaw cannot be compounded by flaws in the actual execution of the recall itself.

The logistical challenges of a recall are huge. Moreover, when product recalls and replacements are global, the challenges companies face are significantly magnified. While meeting the challenges may seem daunting, the downside of failing to meet them can be huge, if not catastrophic.

With product recalls viewed rightly by many businesses as unfortunate but inevitable, it is critical for all to have a comprehensive contingency plan for dealing with a recall when, not if, it occurs. Given this perspective, the best time for developing recall strategies, processes, and procedures is when there is no urgency or crisis at hand. Preparing such a plan also can be seen as important due diligence in the eyes of regulators.

Developing a Global Product Recall and Replacement Solution (GPRRS)

Having a Global Product Recall and Replacement Solution (GPRRS) helps a brand manufacturer manage and master all of the logistical and communication challenges of a product recall worldwide by tapping and utilizing end-to-end global capabilities, from communications and marketing to innovative database management and fulfillment.

1. Identify faulty product and notify customers

When a product that warrants a recall has found its way into the marketplace, a company must identify product units and supply chains affected and direct the first external communications to customers. It must also notify trade partners, trade press, and others including, in some instances, regulatory officials.

Ideally a manufacturer will want to recall and possibly replace 100% of the units known to be affected and 0% of the units known to be unaffected. Sorting through and differentiating affected from unaffected takes diligence and often depends upon the organization of a company's production documentation. For obvious reasons, where uncertainty exists, companies should err on the side of caution and make decisions based on the severity or the harm of the defect. At the same time, a

manufacturer cannot afford to be too conservative – it will want to avoid, for example, having to recall millions of units if it is certain that only 50 units actually have a problem, unless, of course, public safety is in question.

Say 15 plants manufacture the same item. It becomes crucial to know when and where a few defective items originated. This kind of production information often is contained in trackable codes stamped on every single unit manufactured. Once affected units are identified, a GPRRS helps to identify the customers who have those units in their possession. Consider the information sources that should be incorporated into any GPRRS: the warranty registration database; the internal company database; supply chain information; and channel partner databases (agents, retailers, resellers, etc).

Each of these sources may include customer contact information vital to

access for notification. In addition to interacting promptly with these specific gatekeepers of customer data, integrating data from these sources as appropriate to extend a targeted recall communication, a manufacturer also may wish to deliver a more strategic message to the larger universe of existing and potential customers, assuring them that the company is on top of the situation and demonstrating corporate responsibility. At the very least, however, a GPRRS needs to employ these channels to ensure customer awareness: direct mail customer notification letters with detailed instructions; e-mail customer notification messages with detailed instructions; and press releases with references to recall instructions.

2. Stop the supply chain flow of a recalled product

Concurrent with a manufacturer's notification efforts, it must keep any additional flawed units from finding ▶



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their way to end-users' hands. A company should install a framework to remove affected items from distributor inventories as well as a company's own inventory, remove (and return) affected items from retail shelves, and institute quality control measures to verify proper removal of product.

3. Provide detailed instructions to the end user

Providing recall details can affect relations with consumers and business customers negatively or positively. The GPRRS should be designed to help ensure that this critical communication works to a manufacturer's advantage with its customers by reinforcing a commitment to quality and responsibility at a time when the flaw itself might call such commitment to question. Such commitments can

appear hollow if the communication comes across as callous or disingenuous, or in "legalese," or in any tone that diminishes clarity.

Detailed, understandable instructions communicate how to return defective items and manage consumer expectations about next steps. Will the customer receive a refund, a replacement, or a repair? How long will it take to process? What if neither the defective unit nor a receipt is available to the customer? In what ways can customer confusion and inconvenience be minimized? How will the distribution channel be engaged in the recall process from an execution as well as a primary information source?

If retail partners are involved in the recall, a GPRRS helps a brand prepare with recall-related literature and

signage at channel locations, as well as training for appropriate channel location personnel.

Another aspect of customer (and partner) communication is to establish or engage toll-free call and contact centers with highly trained representatives who can anticipate and answer likely questions. Communicating with customers worldwide can be a real challenge. Call centers need to be multilingual whether the recall's geographical footprint is national or global. Even when a recall is local, questions may originate anywhere the brand in question circulates. Contact centers worldwide need to be ready.

Similarly, a manufacturer needs to be ready with a multilingual Web site (or pages within a brand site) with extensive links to a company's information systems to capture important data and to process product recalls and replacements efficiently. Such systems incorporate matching capabilities to cross-reference recalled or replaced products against the company's database using serial numbers or some other identifiable tracking code.

Making the Customer Whole

Whether the recall involves repair or replacement, a comprehensive GPRRS has processes that work together efficiently and seamlessly in the eyes and experience of the customer.

A GPRRS helps maximize efficient operations by ensuring that the right product goes to the right locations. Defective units must be received and stored, and replacements may have to be shipped. Care must be taken in selecting warehouse locations to minimize shipping costs and delivery times. In the case of global recalls, having distribution operations in affected countries helps minimize customs issues as well as shipping costs. Finally, a GPRRS provides manufacturers with an effective fraud

prevention system for protection against consumer and business customer fraud and abuse.

Special Considerations for Global Recalls

Logistical and communication challenges are compounded if the affected product is distributed internationally. Among them:

- **Language:** A GPRRS helps ensure that inbound and outbound communications account for the languages in which customers and partners speak. This applies to outgoing direct mail, e-mail, and press releases as well as interactive communication channels such as call centers and Web sites.
- **Replacement products:** A comprehensive GPRRS ensures that a configured replacement product conforms to international variations in specifications such

as those of electrical and other systems.

• **Inventory management:** Rarely would a larger manufacturer want to distribute a replacement product directly from a single manufacturing point worldwide to end users in foreign markets. Additional shipping and insurance costs as well as the potential complications at customs offices make distribution expensive and problematic. A GPRRS optimizes global replacement logistics by placing distribution functions within the destination countries/geographical regions.

Any product recall has the potential to devastate brand equity and a company's bottom line. By properly preparing a Global Product Recall and Replacement Solution – and putting in place know-how, resources, and expertise to see such an effort through – a manufacturer can take a stressful

situation and manage it well under fire. Recalls are complex and untimely, but they are unfortunately a part of business – and responsible companies plan for these occasions to protect their brands. **RLM**



Sunshine Farzan is Director, International Business for Harte-Hanks. Harte-Hanks, Inc., San Antonio, TX, is a worldwide, direct and targeted marketing company that provides direct marketing services

and shopper advertising opportunities to a wide range of local, regional, national and international consumer and business-to-business marketers. Contact Sunshine Farzan at (212) 520-3219 or via e-mail at sunshine_farzan@harte-hanks.com. Visit the Harte-Hanks Web site at <http://www.harte-hanks.com>.



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RL Quote provides OEMs, ODMs and Retailers a way to connect with 3PSPs. With RL Quote, a manufacturer or retailer can send out RFIs anonymously to our worldwide database of companies that specialize in recalls, screen through the responses and narrow down the prospects.

Product Liability and Recalls

Product liability and recalls create a challenge of crisis management, if not handled properly, the effects can be catastrophic. Public safety is at stake. Corporate reputation and corporate responsibility are at stake. Product liability and recalls can lead directly to massive litigation, from both consumers and the government.

Missteps and poor communication can have a catastrophic impact on the brand, stock price, and reputation. Choosing the ideal 3PSPs for best practices in handling product liability and recalls, can seem to be a near impossible task given the short time allowed by government regulations. The RL Quote program can help find 3PSPs fast. For more information please visit www.rlquote.com



Replacement Parts Supply: Opportunities for Vehicle Manufacturers and Customers



In this first of a 2-part series, we introduce the idea of how a vendor managed inventory (VMI) agreement between a rail vehicle manufacturer and a railroad transportation company can be rewarding for both parties and explain the advantages of the VMI concept from the manufacturer's perspective. Part two, which will be published in the January/February 2008 issue, will describe the circumstances under which the VMI concept could be beneficial for a vehicle operator.

The market situation in the European rail industry is forcing rail vehicle manufacturers to look very closely at their replacement parts business. For the railroad transportation companies, this situation provides the opportunity of working together with the manufacturers to make replacement parts supply more efficient and reduce costs.

New vehicle business is not an adequate basis for long-term growth

In recent years, the rail vehicle market has been characterized by countervailing developments on the supply and demand side. Since Bombardier's takeover of Adtranz in 2000, the European rail vehicle market has been dominated on the supply side by three major manufacturers in virtually every sector.

On the demand side, the opening-up of the European rail network to private rail companies has resulted in a host of startups: in Germany alone there are currently over 400 registered railroad transportation companies (EVUs). Despite this increase in the number of companies requiring rail vehicles, the market has remained essentially oligopolitically structured on the demand side: the (in some cases former) state-owned companies continuing to constitute the most important, highest-volume demander group.

The last few years have also seen growth in the European rail vehicle market as the result of a wave of modernization that has swept through the major railroads. However, because of the usually very long service life of rail vehicles, in the immediate future we are more likely to see a decline than an increase in demand among the major players. Whether Europe's private railroads could compensate for this decline with an increase in

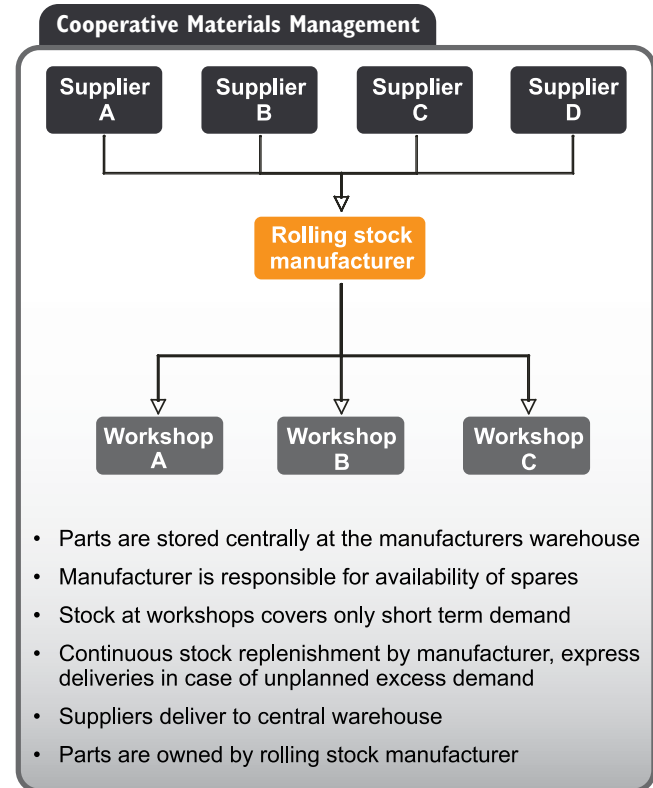
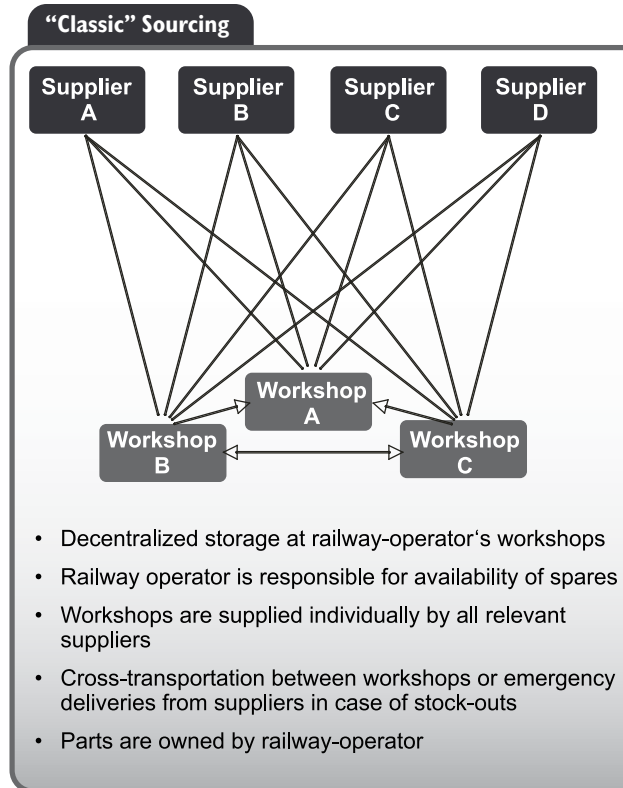
their demand is somewhat doubtful because of the abovementioned differences in fleet sizes. To maintain or even increase present growth the manufacturers must therefore open up another source of revenue. One such source could be their replacement parts business.

Some Vehicle Manufacturers Let Replacement Parts Business Slip Away

As already mentioned, the service life of vehicles in the rail industry is extremely long compared to other industries. In the case of Deutsche Bahn AG, for example, locomotives that were acquired in the 60s are still in use. Obviously, in the course of the up to 40 year lifetime of a rail vehicle, large quantities of replacement and exchange parts are required. Pure consumables are removed if defective or as a preventive measure, disposed of and replaced by new parts. Exchange parts, on the other hand, are replaced, reconditioned and reused at a later date. Only a small percentage of the exchange parts pool needs to be replaced each year by new replacement parts due to long-term wear. **RLM**



Karsten Platz is employed as Manager Business Development at TEQPORT Services GmbH, a Munich based ICT business solution provider. TEQPORT specializes in developing concepts for marketing pre-owned equipment.



Karsten studied business administration at Mannheim and Swansea University and served various internships, predominantly within the rail industry. Prior to joining TEQPORT, Karsten worked as a consultant on various railway-related projects at Barkawi Management Consultants. You can contact Karsten at Karsten.Platz@teqport.com.

¹Bombardier Transportation, Siemens and Alstom dominate the market for high-speed trains, electric locomotives, electric multiple units and diesel multiple units. The main player in the diesel locomotive market is Vossloh, with GM occupying 2nd place. However, neither company has a significant share in the other markets. (Source: "Der Weltmarkt für Bahntechnik", SCI-Verkehr, 2003)
²Example: new procurement of 482 electric and diesel locomotives of the Europrinter / Eurorunner family by the ÖBB, new procurement of 585 electric locomotives of the TRAXX family by DB AG
³Example: E 110 class (old designation E 10, put into service between 1956 and 1969)

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Singapore 2007 Recap

The fourth annual RLA Singapore Conference & Expo was held October 2-4, 2007. Over 300 registered attendees representing 165 companies gathered for Asia's largest reverse logistics conference! RL professionals and leading academics from throughout Asia Pacific met to share best practices and discuss the most pressing reverse logistics challenges. Companies represented included Apple, GE Healthcare, HP, IBM, Network Appliance, RIM, DaimlerChrysler and Seagate, just to name a few.

Representatives from academia included Nanyang University, Singapore, Korea Aerospace University, National University of Singapore and Singapore Management University. For a complete list of attendees, visit the Singapore 2007 page at www.rltshows.com/s07_event.php.

The conference began on Tuesday with RLA President and CEO,

specific issues such as "Supply Chain and Leadership in Today's Reverse Logistics Market," "Creating Value from Returns - The Design of Service Networks" and "Design and Implementation of RFID based Product Lifecycle Tracking."

Attendees also had the opportunity to meet with exhibitors during the 2-day expo. "The RLA event is one of the most important vehicles to promote Cycleon in its growth and in getting attention of OEMs," said Andre Olde Hampsink, Sales Director, Cycleon. The conference concluded with the announcement of award recipients including the "Best Use of VIP Program" presented to DHL with the runner up being Teleplan. Award for "Best Booth" went to Pelican and DEX was runner up.



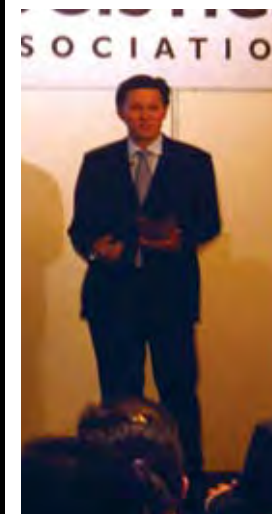
RLA Singapore 2008 promises to be even bigger and better with a larger expo and a third speaker tract. Make plans now to join us October 7-9, 2008! For more information about speaker opportunities or to exhibit, visit www.RLTShows.com.

Gailen Vick providing an update on association activities and an overview on reverse logistics. Kerry Mok of DHL delivered the Keynote Address (see Keynote article) and was followed by conference sessions and panel discussions focused on industry-

Strategy & Service Logistics, Asia Pacific, DHL Exel Supply Chain. "We were also able to share our capabilities & services with delegates visiting the DHL booth during the conference."

"The VIP program which RLA offers enabled DHL to extend this to many of our customers and enhance contacts with potential customers" said Kerry Mok, Senior Vice President, Strategy & Service Logistics, Asia Pacific, DHL Exel Supply Chain.

Keynote Address: Challenges & Opportunities Facing Reverse Logistics



The RLA Singapore 2007 Conference Keynote Address was delivered by Kerry Mok, Senior Vice President, Strategy and Service Logistics, DHL Exel Supply Chain.

Kerry talked about how the growth of reverse logistics from a back-end function supporting the returns management process to its present form can be attributed to three categories of key drivers—Economic / Commercial, Regulatory and Environmental concerns.

As the concept of reverse logistics evolves and matures, companies are faced with new challenges which need to be addressed: such as lack of internal management support—seen as a key barrier to effective and environmentally responsible reverse logistics programs, no clear model in the market to support product returns processes, and a complex regulatory environment surrounding the WEEE and RoHS directives.

Despite these challenges, early adopters and industry thought leaders have recognized that reverse logistics present significant business opportunities, with information gathered through the returns process, providing key insights as to how companies can continue to deliver value.



An effective reverse logistics program can be a key differentiator in the face of intense market competition, as well as providing support for corporate social responsibility efforts towards building an environmentally sustainable business.

As environmental concerns continue to influence the market landscape, we need to rethink the impact on our businesses and be prepared to manage increasingly complex information flows required for compliance reporting purposes.

Even as reverse logistics creates challenges, opportunities arise – collaboration is the key towards sustainability!

Conference presentations are available to all RLA members at: www.rltshows.com/s07_event.php. For a limited time, RLA Singapore 2007 conference attendees may upgrade their \$999 registration fee to an Associate Membership in the Reverse Logistics Association. For just \$200, attendees will gain access to all conference materials. Visit www.reverselogisticstrends.com and choose RLTS presentations from the Publications dropdown.

Topics included:

- Supply Chain and Leadership in Today's Reverse Logistics Market (H. Lagad)
- Design and Implementation of RFID based Product Lifecycle Tracking (Y. S. Chang)
- Challenges in Business and Technical Operations Associated with Global Support (G. Muvedu)
- Thinking Forward in Reverse Logistics (J. Weers)
- Methods of Outsourcing (Panel Discussion)
- Creating Value from Returns - The Design of Service Networks (R. Piplani)
- Unlocking Value in Reverse Logistics (A. Chan)
- Final Disposition of Assets in the Global Reverse Logistics Supply Chain (R. Gallagher)
- Evolve or Become Extinct! A RL Model to Deliver Expanded Shareholder Value (J. Mehrmann)
- New Ways to Streamline Operations, Drive Profits, and Delight Customers (Panel Discussion)
- Navigating Reverse Logistics in Asia - Real Time Solutions for Real Life Results (J. Poh)
- Cradle to Cradle; Product Re-birth, the True Goal of Recycling (G. Bothmann)
- Increasing Customer Loyalty and Managing Environmental Challenges (Panel Discussion)
- How Repeat-Use Packaging Solutions Can Reduce Costs and Enhance RL Practices (S. Ermeti)





Gailen Vick - President & CEO, Reverse Logistics Association
Speaker - "Welcome Address"



Melvin Simpson - Director of RL Quote, Reverse Logistics Association
Panelist - "Methods of Outsourcing"



John Mehrmann - Regional Director, DEX (Data Exchange Corporation)
Speaker - "Evolve or Become Extinct! A RL Model to Deliver Expanded Shareholder Value"

Kerry Mok - SVP, Strategy & Marketing and Service Logistics, Asia Pacific, DHL Exel Supply Chain
Speaker - Keynote Address - "Major Challenges Facing Reverse Logistics"



Dr Rajesh Piplani - Director, Center for Supply Chain Management - NTU
Speaker - "Creating Value from Returns - The Design of Service Networks"



Jason Poh - Senior Manager Business Development, Teckwah Logistics
Speaker - "Reverse Logistics: Extended Enterprise Perspectives"



Harry Lagad - Logistics Director Asia Pacific, NOKIA
Speaker - "Supply Chain and Leadership in Today's Market"



Angela Chan - Reverse Logistics Program Manager - APJ, WW Reverse Logistics, Cisco Systems
Speaker - "Operations - Managing Locally Today Whilst Building Globally For Tomorrow..."



Gary Bothmann - VP Business Development, Electronic Recycling & Trading
Speaker - "Cradle to Cradle; Product Re-birth, The True Goal of Recycling"

Dr. Yoon Seok Chang - Assistant Professor, Korea Aerospace University
Speaker - "Design and Implementation of RFID based Product Lifecycle Tracking (Focused on Claims Tracking and Management)"



Robert Gallagher - Consultant, Li Tong Group
Speaker - "Final Disposition of Assets in the Global Reverse Logistics Supply Chain"



Dave Whitley - Media Marketing Manager, Reverse Logistics Association
Moderator - "Increasing Customer Loyalty and Managing Environmental Challenges"



Gopal Mudivedu - Sr. Manager, Technical Operations, Juniper Networks



Justina Liow - Director, Europhia Consulting
Moderator - "New Ways to Streamline Operations, Drive Profits, and Delight Customers"



Dan DeBello - Senior Director of Business Development, Jabil Global Services
Panelist - "Increasing Customer Loyalty and Managing Environmental Challenges"

Jeroen Weers - Product Manager Reversed Mail Logistics, Spring Global Mail
Speaker - "Thinking Forward in Reverse Logistics"



Kok Huan Tan - Senior Service Program Manager, DELL Global BV
Panelist - "New Ways to Streamline Operations, Drive Profits, and Delight Customers"



Carlos Booker - Sr Director Business Development, Li Tong Group
Panelist - "Increasing Customer Loyalty and Managing Environmental Challenges"



Andrew Katcher - CEO, Rapid Results, Inc.
Moderator - "Methods of Outsourcing"



Annemiek van Weers - Corp Accounts Manager, Spring Global Mail
Panelist - "New Ways to Streamline Operations, Drive Profits, and Delight Customers"



Eddie Evans - CTO, Infinet Service Solutions, Infinet
Panelist - "Increasing Customer Loyalty and Managing Environmental Challenges"

Fan Chiew Chan - Reverse Logistics Manager Asia Pacific, Palm, Inc.
Panelist - "Methods of Outsourcing"



Stephen Barnett - Business Manager, RGL
Panelist - "New Ways to Streamline Operations, Drive Profits, and Delight Customers"



Scott Ermeti - VP International Business, Pelican Products
Speaker - "How Repeat-Use Packaging Solutions Can Reduce Costs and Enhance RL Practices"



Ron Kula - Vice President of Supply Chain Solutions, DEX
Panelist - "Methods of Outsourcing"



Joe Baldino - Global Business Development Manager, Teleplan
Panelist - "New Ways to Streamline Operations, Drive Profits, and Delight Customers"

Dr. Mark Goh - Assistant Professor, National University of Singapore
Panelist - "Methods of Outsourcing"



Quantifying the Business Cost of Repair and the Impact on Service Quality



by Michael R. Blumberg, CMC, Blumberg Advisory Group, Inc.

Strategic Considerations

Aftermarket Service of electronic equipment (e.g., computers, telecommunications, medical electronics, etc.) represents one of the largest operating expenditures for end-user organizations. If one considers that the typical end-user spends up to 20% of the total system acquisition price *annually* for maintenance and repair, moves/add/changes, and other support services over the installed lifecycle (estimated at 6 to 8 years on high end technology) of the equipment, it is easy to understand that the total *lifecycle* service expenditures can be as much as two to three times the initial acquisition cost of the equipment. End-users are thus advised to pay very close attention to the value and quality of services they receive from their Reverse Logistics Providers.

Unfortunately, end-user organizations face serious challenges with respect to understanding the total lifecycle costs associated with operating and maintaining high tech systems.

The basic fact is that the market for Aftermarket and Reverse Logistics services such as depot repair, spare parts, and asset recovery acts independently from the market for products. The supply and demand for these services do not remain constant over time and are subject to change according to the size of the equipment population and the financial performance and capabilities of suppliers. As a result, it is difficult to predict pricing levels and service offerings from suppliers at the point of product purchase.

Another challenge for end-users is the fact that they often do not consider issues regarding the quality and cost of aftermarket service in the initial product selection process. For the most part, end-users do not have visibility to the types of reverse logistics and repair issues they may encounter over the equipment lifecycle, and tend to focus primarily on product features and, to some extent, the support they may need to install and operate the systems they purchase. In essence, reverse logistics issues tend to become an after-thought in the mind of the end-user during the initial purchase period. However, these issues become

increasingly more important in later stages of the product lifecycle as end-users desire to continue to maintain the useful life of the product. Indeed, the longer the product is in use the higher the probability that reverse logistics and repair services will be required.

Critical Issues in Repair Vendor Selection

Given the inability to predict total lifecycle costs, it is important that end-users do not make their purchase decisions for repair and reverse logistics services based solely on the basis of price. It is essential that end-users have a good understanding of their service requirements and have established very specific criteria for selecting qualified vendors to ensure optimal product performance and lowest overall cost for the lifecycle of the equipment. In order to achieve this outcome, it is critical that end-users take a strategic approach to vendor selection as opposed to solely on the basis price. Although a segment of the market is highly price sensitive, the vast majority will make an informed decision between price and quality. Nevertheless, it is important to distinguish between the repair ▶

FIGURE 1
IDENTIFICATION OF LIFECYCLE COST FACTORS - SYMPTOMS OF LOW QUALITY REPAIR

Reduced Network Quality	1. Quality of Service 2. Customer Churn 3. Loss of Airtime 4. Loss of Revenue
Dead on Arrival	5. Increased First Line Maintenance 6. Higher Repair Costs due to Early life Failures and DOA
Early Life Failure	7. Increased Long Term Maintenance and Repair Costs 8. MTBF Degradation
Forward and Reverse Compatability	9. Decreased Function
First Line Maintenance	10. Increased Field Engineering Visits 11. Logistics Costs 12. Spare Part Inventory Costs 13. Higher Scrapping Costs due to Beyond Economic Repair

transaction price and the total lifecycle service costs. Although determination of total lifecycle service costs is difficult, it is not exactly impossible either.

There are essentially three (3) factors which impact total lifecycle service costs. These include the direct costs associated with the 1) *transaction price* and 2) *cost of downtime*, and the

indirect costs associated with 3) *performance and reliability issues*. The transaction price is the easiest concept to understand; it is basically the price paid to perform a specific service task such as a repair. The transaction price is very simple to determine and is often made available, in published format, by the vendor prior to completing the transaction. The remaining two cost components are more difficult to determine which explains why they are often not considered in the selection process at all.

The cost of downtime is basically the lost worker productivity or lost revenue associated with equipment downtime and can be extremely high in some markets. The

cost of downtime is not necessarily difficult to calculate; it is the factors which impact downtime which need to be addressed in order to ensure lowest overall cost. In the repair market, the surrogate for downtime is repair Turnaround Time (TAT) which is defined by the length of time it takes for the repair provider to receive a defective unit from the customer and then return it back to the customer in proper working condition. Sometimes the vendor may provide an advanced exchange or replacement unit; in which case, TAT is measured in terms of delivery time. End-customers will often carry extra inventory in order to prevent the occurrence of a stock-out situation from a long TAT. As such, inventory holding costs should also be considered in the cost of downtime measurement.

...the technical capabilities and resources of the repair vendor will ultimately have a significant impact on actual lifecycle costs.

A second key factor which may cause downtime as a result of outages has to do with performance and reliability issues. In the event that products are not repaired properly the first time, the end-user may experience performance issues. Performance issues due to poor repair quality has the most significant impact on lifecycle costs. In the telecommunications industry, the cost of performance issues are measured in terms of the transaction price to fix the problem, the cost of downtime associated with the performance issue(s), and the lost revenue associated with lost customers due to Quality of Service (QoS) issues. A review of these lifecycle cost factors are identified in Figure 1.

Key Criteria for Optimal Success

With this understanding of lifecycle cost drivers, the case can now be made to support the argument that the technical capabilities and resources of

the repair vendor will ultimately have a significant impact on actual lifecycle costs. Let's first look at the issues associated with the cost of downtime. A repair vendor with limited technical capability will not be able to handle a high volume or high complexity of repairs in a timely manner. This will result in longer TAT times for the customer; as such, the operators' may

stock additional inventory to offset these delays resulting in high inventory holding costs and inventory turns. However, in order to handle high volumes the repair vendor must not only have the capacity to do so, but must also have the capability to

handle repair on a highly efficient and productive basis. This would require the repair vendor to possess in-depth product knowledge, diagnostics, documentation, and spare parts/components to achieve this outcome.

End-User organizations thus place themselves at risk by utilizing repair vendors who lack necessary resources to maintain high quality levels. The resources which are critical to high quality repairs include:

- Genuine certified replacement components (i.e., RoHS compliant and manufactured by OEM)
- Schematic Diagrams
- Diagnostic Software
- Hardware/Software/Firmware (HW/SW/FW) upgrades
- Test Equipment, Jigs & Procedures
- Knowledge of equipment operating standards and certifications

For example in the telecom industry, the service provided by an Independent Repair Vendor (IRV) may seem to cost lower in comparison to the Original Equipment Manufacturer's (OEM) published repair price, but without the proper repair tools and technology,

Reverse Logistics Seminars



RLA Seminars are highly attended one-day events held worldwide 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 highlight of each RLA Seminar is the facility tour showcasing some of the most efficient return, repair and services operations such as Best Buy/GENCO, Appleseed's, Sun StorageTek, FedEx Memphis Hub, AER Worldwide and Image Microsystems.

For more information, visit: <http://rltshows.com/seminars.php>

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

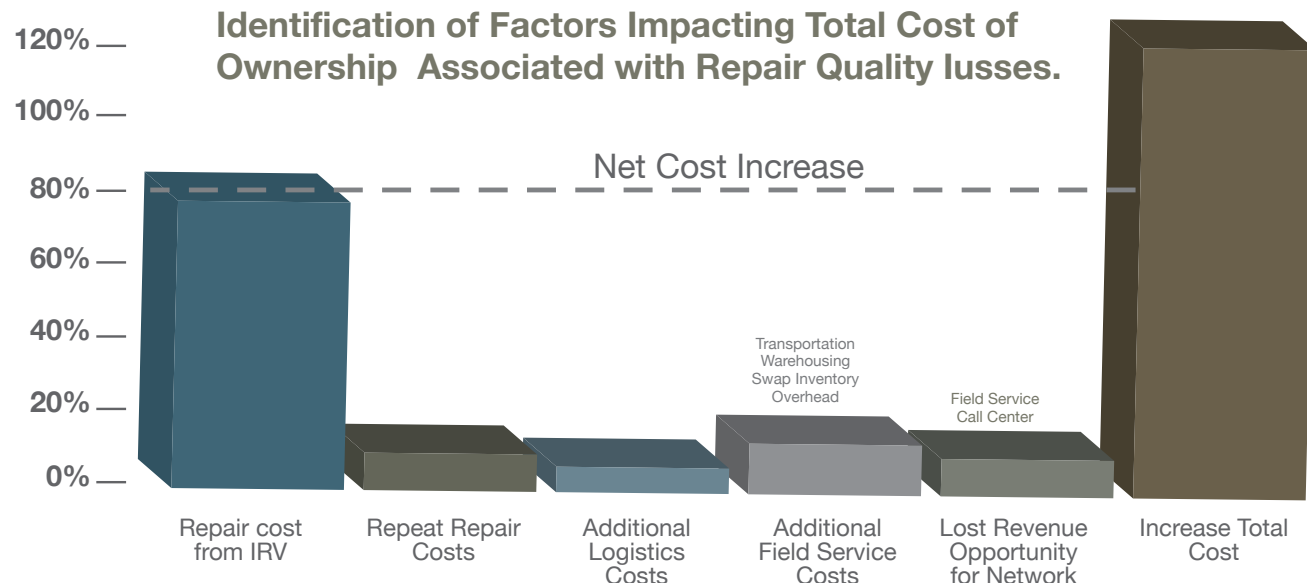
- November 13, 2007 – Columbus, OH
- March 5, 2008 – Los Angeles, CA
- April 16, 2008 – Hong Kong
- May 7, 2008 – Chicago, IL
- July 9, 2008 – Toronto
- August 6, 2008 – Seattle, WA
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their repair processes may expose the end-user to additional costs including but not limited to:

- Lost Revenue Opportunity (e.g., lost customers and loss of airtime) due to telecom network outages
- Increased field engineering visits and costs due to high dead on arrival (DOA) rates
- Higher long term service and support expenditures and repair costs due to early life failures
- Increase in emergency dispatch calls and associated field engineering costs
- Decreased network performance quality due to compatibility issues with respect to quality of repairs, firmware and software improvements and interface with other components and systems

In essence, as the case example in Figure 2 shows, the potential cost savings from an independent can be offset and even result in higher costs due to repair quality issues identified above. Furthermore, the risk associated with independent repair vendor is quite high. Many OEMs have established service policies which negatively impact operators if repair vendor processes are not up to par. Examples of such policies include refusing end-of-line support obligations, voiding network

performance penalties and contractual obligations that ensure product quality and rejecting repair if evidence of third party tampering exists. Summary Evaluation

Recommendations

In summary, end-users are advised to give careful consideration to the follow vendor selection criteria as they could be the difference between success and failure in the aftermarket:

1. Demonstrated knowledge of equipment operating standards and certifications
2. Evidence of substantial investment in Test Equipment & Test procedures
3. Ability to provide a precise and detailed definition of test procedures and work flows
4. Access to genuine certified replacement components (i.e., RoHS compliant and manufactured by OEM)
5. Possession of original Schematic Diagrams
6. Access to up-to-date and accurate Diagnostic Software and Hardware/Software/Firmware (HW/SW/FW) upgrades
7. Capability to provide complete services for all equipment

Careful considerations to these factors will ensure that risks associated with

low quality repairs are minimized and avoided. It will also avoid any unnecessary costs and liabilities further down the road. It is important to realize the price is never the only criteria in the selection of repair vendors, and not all repair vendors are the same. Ultimately, there is always a trade off between price and quality in the aftermarket repair business. **RLM**



About the Author
Michael R. Blumberg is a Certified Management Consultant (CMC) and President & CEO of Blumberg Advisory Group, Inc. His firm focuses on providing strategic and tactical assistance to client

organizations 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.

On the Move in Reverse Logistics

DecisionOne Corporation recently announced that **Kathryn Alexander** has rejoined the technology support services company as Senior Vice President, Sales and Marketing. In this role, Ms. Alexander has responsibility for implementing the company's sales direction focusing on selling and marketing through channel and alliance partners to support commercial and government enterprises.

Ms. Alexander rejoins DecisionOne, where she was employed from 1994 to 1999, after serving in various sales management roles with other leading technology companies.

Michael Connolly, formerly of Centis (Ireland) Limited/Founders Ltd. Kinsealy, has joined Data Exchange Corporation as Vice President, Services Sales for the European marketplace. He is based out of the company's Dublin, Ireland facility and has more than 23 years of experience in the logistics, marketing services, and software sectors. In his position, Connolly will be responsible for working with European customers to develop supply chain solutions that meet their requirements.

Clay Valstad, former Vice President of Reverse Logistics and Specialty Distribution for Sears Holdings Corporation,

has joined GENCO as vice president of Process Improvement and International Business Development. Clay is responsible for working with all of GENCO's reverse logistics facilities to improve productivity through the use of improved processes, systems, equipment and technology. Clay also is working on developing new business opportunities in the global logistics market, including a joint venture, "BDP GENCO India," which will provide innovative services by synergizing BDP International's deep knowledge of India with GENCO's logistics best practices. With 38 years experience at Sears and Sears Holding Corporation, Clay brings a tremendous knowledge of the retail business and logistics that he can utilize in his new role at GENCO.

Bill Hook recently joined UPS as Vice President of Healthcare Logistics. In his new role, Hook will direct a team that ties together for healthcare customers small package and heavy freight transportation services along with 3rd party logistics, distribution and a network of regulatory-compliant and controlled environment facilities.

New RLA Staff Member

Lisa Brinton, Operations Manager, is responsible for Event Management and Finance.



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Technical Trends

L. B. Underwood & Thomas Welsh

Understanding the Complex Nature of RL Job Cost Modeling

How can so many smart people come up with different numbers when deciding what the same service should cost? We've all seen it before; multiple vendors get the same description of the work to be done and they come back with numbers that can vary by up to 40% and none of them match the target price set by the client.

Of course, none of the numbers are wrong, per se – they're just different. Some participants like to use the bids as marketing efforts and don't intend to have those numbers end up in a contract. This activity is not conducive to a relationship founded on trust and honesty and, sometimes, it causes problems more often than resolving them. Some participants are using flawed methods for costing and don't know whether the price they're submitting will produce a normal margin or would mark the beginning of a new, difficult relationship.

That said, job costing is the initial gate that all vendors must pass through before other considerations are discussed and it turns into the heart of how customers and vendors learn to collaborate. It is just that urgency that brings out the "worst" in some people and allows them to choose to veil their true costs to get through the first gate with a potential client and then causes them to persist in this behavior beyond its usefulness.

These challenges extend outward and include not just the 3PSPs but also greatly affect most all areas of RL service offerings and the very clients we are all trying to serve. Let me illustrate this with an all too common scenario.

A client decides the internal repair depot's costs are too high and targets outsourcing to solve the financial pain points. Internal estimates of unit repair costs are based on the operation's status as an internal cost-center within a branded OEM. These costs then become the basis for building a 20% savings benchmark for outsource providers to achieve.

As the RFQ process proceeds, a vendor is selected as the leading candidate. The vendor used a 'shop rate' as the basis of the proposal response. As the negotiations continue the client lobbies to further reduce the pricing because the vendor's current operations are profitable and this would be incremental business. The pricing is adjusted and the business is awarded. However, the size of this business compared to the current operation is significant. Also the terms required by the client are net 60 and parts purchased for repair cannot be returned for stock balancing.

While the terms in the situation described above are obviously skewed

in the client's favor, they are not an unusual starting point for most negotiations.

By now you have guessed the results. The client underestimated the true benchmarked cost. The status as a cost center hid some shared services and fixed costs that were not counted. The vendor was severely exposed to huge cash flow risk. With the net 60 terms, the vendor's business was acting more like a bank than an RL Service Provider. In an effort to salvage profitability, the vendor's performance did not meet the service level requirements. End users became dissatisfied and a potential partnership that could have been mutually beneficial is now exposed to outright failure and termination. The result is a client that may decide that outsourcing does not work and a vendor that may decide that the shop rate 'they have always used' needs another 15% added onto it to make sure this never happens again. Clearly not a good outcome for anyone involved.

Is there a way this could have been avoided? At several points in the process it is obvious that there was ample opportunity to get things corrected. However, what almost always happens is that the desire to please the client and make the "WIN" takes over and begins to drive the whole process forward.

Two ways to avoid these traps are listed below. A basic understanding of two important accounting concepts will help.

1. Activity Based Job Costing
2. Understanding ROIC and the affects of terms and ramp costs on net margin

In this issue we will outline ABC (Activity Based Costing) with some key considerations and elements to include. In the next issue we will give some helpful tips on the use of ROIC (Return On Invested Capital) management & controls. Experience tends to show less than half of the RL companies that respond to RFQs use ABC. Of those that do use ABC, many use a pricing model that overlooks critical cost elements. The remaining vendors typically use some type of 'shop rate' as the basis of the pricing part of the response. Take a look at the questions and answers below that help to outline the ABC benefits and critical process points.

WHAT IS ABC? In its most simple form it is a detailed documentation of all of the direct, variable costs needed to perform work. These costs are summed and expressed in per unit terms. All remaining expenses are summed and divided into budgeted units. This activity is called allocating fixed costs. These costs are often referred to as SG&A (Sales, General & Administrative) costs but may include other costs depending on corporate structure. At the site level, allocations are commonly made on units, revenue or space.

WHY IS IT NOT MORE WIDELY USED? Complexity. There is no getting around the fact that ABC is much more complex than other costing methods. For most companies there are layers of staff that must approve pricing prior to

How can so many smart people come up with different numbers when deciding what the same service should cost?

release to a Client of RFQ response. Not all of the stake-holders in the chain of approval may have the same level of understanding regarding pricing methods. The process of communicating the details as to why a certain proposal price is justified quickly can turn your brain to mush as you are locked in conference call hell. However, by using ABC models that are standardized and better understanding of the process, through staff training these barriers can be overcome.

WHAT ARE THE ISSUES AGAINST USING "SHOP-RATE" PRICING METHODS? Accuracy. For repair service, the cost of test equipment alone can vary greatly depending on support for CDMA vs. GSM vs. Wideband. Add onto the that the labor cost variance for refurbish skills, BGA solder skills or repair diagnostics and you can get a glimpse as to how out of line shop rate pricing can take you. Then there are problems with definitions. A guy I know recently quoted business for level three repair of a PDA for an OEM. Due to time constraints he used a shop-rate based on another PDA quote that was produced using ABC methods. The OEM was impressed with the pricing but did not understand how they could "offer a price that was that low". During the consultative meetings the reasons for the variance became obvious. The OEM expected that the product would not just be repaired but that detailed ▶



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diagnostics and root cause analysis would be performed on each defective component. This was a cost effective step because it was needed so that the OEM could recover the component warranty from their part vendors. If not for the OEM making time for a follow up meeting the information would not have been discovered until it was too late to avoid a poor outcome and poisoned relationship.

WHAT ABOUT ABC MAKES IT THE PREFERRED COSTING PROCESS? Greater participation across process owners. The range of knowledge will usually require an IE (Industrial Engineer) from the Operations Group and a Cost Accountant work together in completing the pricing. Having two professionals working together gives better oversight and a better opportunity of a correct outcome. Another benefit is accuracy and with improved accuracy there comes a tremendous freedom. A vendor with a solid ABC cost model can feel very comfortable with exposing all of the drivers and comprehended elements with the vendor. This openness has several benefits:

- By seeing the vendor's details the Client has the opportunity to second-guess themselves for the right solutions before the contract is awarded based on error-filled assumptions.
- The greater visibility can better manage risk for Client and Vendor.
- Comparisons between vendors becomes much more meaningful.
- Reasons for price quotes that are out of line can be verified.
- Trust is built from the beginning, helping to move the sales process along.
- For most RL Service Businesses with high labor VA (Value Add), the operations are costed using what are essentially two P&L (Profit & Loss) Statements. One P&L tracks costs for materials while the other one controls the VA targets. By using ABC methods each P&L and the total cost presented to the client will be much more in-line with the service level desired.

WHAT ARE THE MOST COMMON MISTAKES IN PROPER USE OF ABC COSTING?

1. Not keeping the Client in the process
2. Not using a team approach with talent from an Industrial Engineer and a Cost Accountant working together.
3. Not comprehending all of the costs.

Examples include:

- PF&D (Personal, Fatigue & Delay) Comprehending the time used for rest rooms, training, smoking breaks, trips to the HR department, waiting for work, etc...
- SLA (Service Level Adjustments) Increased costs for meeting specific service level targets.

Most often these are:

- Batch Size: Work that can be worked as same unit flow can have lower SLA costs than work that must be worked in specified lots of a certain quality as they are received.
- Inbound Delta: Estimates of inbound volume are usually made based on a steady average inbound rate. The problem is that work almost never arrives at X number of units each day. What will happen is that during a standard week the volume will vary between X and Y. As the TAT (Turn-Around-Time) requirements become shorter this becomes much more of an issue with costing.
- Training Costs: The ramp of a new business may have formal training in addition to some level of production inefficiencies as the newly trained staff become proficient.
- Materials Spoilage: No matter what you do there will be spoiled materials. At the beginning this will result from training. On a day-to-day basis this will happen from units that loop through the process as quality failures.
- Others:
 - Vacation Time
 - Overtime for business ramp

- Variance of staffing agency markup vs. direct hire benefits costs

OK I'M CONVINCED, HOW CAN I GET STARTED USING ABC?

- The overall project plan to kick off an ABC initiative would focus on;
- Setting the objectives to be achieved
- Selecting the team of SMEs (Subject Matter Experts) at the very least this will be an IE and a Cost Accountant
- The team conducting modeling and assessment of your current operations
- Adjusting/tuning the model until the cost outcomes predicted from the model matches what your finance team is recording on the LOB's (Line of Business) P&L Statement.

In closing, much of RL business is based on outsource relationships and superior vendor performance. The promotion and growth of these relationships only results as we develop and standardized best practice for essential touch points for measuring performance needs and costs components. Having a well developed and proven ABC cost model is a chief requirement for the successful and sustaining award of RL business.



L. Bryant Underwood is Director, North Americas Service at Foxconn Technology Group. Bryant's past positions include GM, Director and VP level assignments in support of Operations, CRM, Materials and IT.



Thomas Welsh is the President of Pro Mobile, Inc. He has been involved in the telecommunications industry for over 10 years. Thomas started his career in telecom in finance, managing warranty and Known Product Defect financial analysis and planning. It was during this time that he was an integral part of an ERP implementation representing accounting and revenue recognition. His work in the financial and operational management of handset warranty started in 1998.

Industry Events

The Reverse Logistics Association staff takes 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.

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



RLA Conference & Expo Las Vegas
Planet Hollywood Resort & Casino
February 4-6, 2008
www.rltshows.com/vegas.php

CHaINA 2007 - Shanghai, China
November 7-8, 2007
www.supplychain.cn/en/cev/?188

RL Seminar – Columbus, OH
November 13, 2007
www.rltshows.com/col07_event.php

2008 Storage Visions Conference - Las Vegas
January 5-6, 2008
www.storagevisions.com

2008 International CES – Las Vegas, NV
January 7-10, 2008
www.cesweb.org

National Retail Federation (NRF) 97th Annual Convention & EXPO – New York, NY
January 13-16, 2008
events.nrf.com/annual08

RFID Smart Labels USA 2008 - Boston
February 20-21, 2008
rfid.idtechex.com/rfidusa08/en/

Warranty Chain Management Conference – San Diego, CA
March 4-6, 2008
www.algassociates.com/wcm/

RL Seminar - Los Angeles, CA
March 5, 2007
www.rltshows.com/lax08_event.php

RL Seminar – Hong Kong
April 16, 2008
www.rltshows.com/hkg08_event.php

Read the Press

Full articles available from: RLA News Center

DEX Introduces Supply Chain Application Suites

DEX (Data Exchange Corporation), a leading supply chain solutions provider for high tech industries, today introduced unique and robust IT software solutions for companies worldwide through customizable, Oracle-based application suites. These scalable application suites support forward logistics, reverse logistics, repair, procurement, and supply chain integration.

Challenges of Selling Used Equipment in Secondary Market

The recently concluded SEMICON TAIWAN had a very interesting session on “The Challenges of Selling Used Equipment in Global Secondary Market” by Michael Mihin, Global Account Manager, Broadway Engineering Services Teams Inc. (BEST).

According to Mihin, there are about 600 IC fabs worldwide in 2007—47 in Taiwan, 42 in China, 35 in Korea, 19 in Southeast Asia, and 28 in rest of world, 182 in Japan, 89 in Europe and 158 in the USA. As a result, the challenges posed by used equipment exists worldwide.

Earn More From Dispositioned Assets

Supply management executives who implement asset and investment recovery initiatives can significantly boost their companies' profit. Today, with social responsibility and sustainability issues facing industry executives, the disposition of assets is a critical matter. More importantly, it's an opportunity to improve the environment and the enterprise.

Reverse Logistics and the Total Product Life Cycle

by John Walsh

While making significant strides in establishing a more efficient forward logistics pipeline, vendors often fail to place the same emphasis on creating an integrated and seamless reverse logistics process, which means they are winning only half the battle.

To correct this, vendors need to gain a better understanding of the disposition process for returned goods, making it part of the total life cycle of their products, stated Peter M. Rukavina, general manager at Roadway Reverse Logistics, Inc. Speaking at a recent Vendor Compliance Federation Supply Chain Conference, Rukavina said there are some companies who see no end in sight to their efforts in creating a system to manage product returns. Expressions such as “My transportation expense is escalating,” “My warehouse is overcrowded,” “My credits and deductions seldom match,” “My plant scheduler just produced what’s being returned,” and “My receiving records are out of control” are common among companies, he said. “Even if you have a perfect order, you still have to deal with reverse logistics,” Rukavina said. Currently, he said, there are numerous barriers to successful returns programs, including poor processes, no overseer of the reverse logistics pipeline, lack of systems and information visibility, inability to quantify costs of returns, “loose” company return policies, poor internal cross-functional communication, and insufficient resources allocated for reverse logistics. Likening the image of a poor returns process to “having dad watch the child,” Rukavina said the reverse logistics process is not perceived by many companies as a core business

process in need of attention and for most is a necessary evil. Displaying a picture of a child eating out of a dog food bowl with the caption, “Why men shouldn’t baby-sit,” he joked that the lack of reverse logistics oversight at many vendor companies results in returns programs that are equally disturbing and messy.

Value-added services can include proactive calls to arrange pick-up, validation of returns authorization numbers, screening of non-program products, lift gate pick-up tracking, customized information interface options (i.e. EDI), audit and payment of freight bills, one master invoice and specialized return pick-up management.

The solution is to create a multi-pronged strategy aimed at producing an integrated reverse logistics process, he said. To begin with, vendors need to have a vision for managing their product returns and to establish ownership of the process. They need to look at what their competitors are doing, consider outsourcing if they lack the resources to tackle the project, understand how reverse logistics impacts the supply chain and create a communication strategy whereby all affected departments understand what their role is in streamlining the returns process.

This means improving relationships and communication between the retailer, the vendor and the consumer, he noted. Retailers and vendors need to establish up-front written agreements on how returns will be processed (what returns will be accepted back, return authorization procedures, direct returns or through return centers, freight payments, credit disbursement and carrier routing – including who pays for freight). Retailers and vendors must also make sure consumers understand their return policies, he added. Once the returns contracts, or agreements, are in place, he said, trading partners need to execute them by maximizing communication through all control points – the consumer at the point of sale, the retailer through return authorization and the vendor during receipt validation and inspection of product.

Innovations

Rukavina then discussed some of the reverse logistics innovations designed to assist vendors in gaining the maximum value out of returned products:

- Investment Recovery Management – what to do with returned items. There are various disposition possibilities such as refurbish and resell, donate to charity, destroy in-field, etc.
- 3rd Party Logistics – consider utilizing reverse logistics specialists who have warehouse management systems in place and can carry out various product disposition tasks
- Automated Web Pages - all of your business rules can be laid out on your web page. This needs to be

integrated with your systems, he said.

- Special Returns Software – allows for the inspection of returns and facilitates the disposition process. It also enables companies to collect valuable information about why products are coming back and take corrective action (improved quality, packaging, etc.) to reduce future instances of returns.
- Warehouse Management Systems – designed to handle returned goods efficiently.



Rukavina noted that information and systems integration can greatly reduce errors in the reverse logistics pipeline. The key features of this integration, he said, are a returns web application that establishes visibility and a returns warehouse management system. The web application provides real-time information, reduces manual paperwork, provides returns history and reporting functionality, establishes control of shipping frequency and provides data integrity and electronic data transfer, he said.

The returns warehouse management system includes password protected access, RF data capture of shipment detail, customized methods for data extraction for analysis, process

automation, work forecasting and an interface with the enterprise system. This system enables companies to gain better control of how goods are returned, he said, and results in greater productivity, freight cost reduction, reduction of paperwork, better inventory and record accuracy, improved data entry, control of shipments, fast and accurate credit reimbursement and increased speed through electronic data transfer and data integrity.

Value-Added Services

Rukavina said companies looking to improve their returns transportation management (pick-up, routing and administration) should seek a system that provides value-added services.

They should seek a 3rd party provider who “understands your policy and your customers,” has 1-800 numbers for assistance, employ returns specialists well-trained in reverse logistics, can provide comprehensive transportation services with routing via multiple modes, who understands customized bills of lading and invoicing and can provide information visibility reporting, he added.

Value-added services can include proactive calls to arrange pick-up, validation of returns authorization numbers, screening of non-program products, lift gate pick-up tracking, customized information interface options (i.e. EDI), audit and payment of freight bills, one master invoice and specialized return pick-up management.

He said the benefits of an effective returns transportation management system include a single source control that removes hassles, accurate bills of lading, information visibility, routing to proper destination, reduction of transportation and handling costs through screening of non-program products and freed-up cash flow

as well as reduced administration resulting from audits, payments and one master invoice.

Customized Warehouse Management

He said features and capabilities of customized warehouse processing and solutions should include product receipt and validation, unbiased product inspection (which makes 3rd parties valuable), sorting and segregation, consolidation, data collection and administrative reporting, inventory management, pallet configuration, labeling/relabeling, certified disposal, kitting and packaging/repackaging.

The benefits should include the reduction or elimination of unauthorized returns, increased availability of your labor and warehouse space, disposition of returns to proper destination, improved customer satisfaction through reduced credit cycle, elimination of warehousing/transportation cost of unusable products, reduction of transportation cost by consolidating product into volume shipments and a single source of transportation across North America.

Rukavina closed by urging vendors to integrate their various strategies into a “total reverse logistics strategy.” He added that reverse logistics is a “complicated process that should have a closed-loop.” He cited an average example of retail returns at 8% where reverse logistics costs account for 4.5% of its total logistics cost. He said by improving reverse logistics, that company can reduce that cost by at least 10% - 15%, which would mean millions in savings.

The question he posed to those in attendance is, “Who will lead the returns initiative in your company?”

Journal of Trading Partner Practices is a publication of Trading Partners Collaboration, LLC.

ClearOrbit

Gailen Vick, RLA President recently visited with executives at ClearOrbit Inc., a division of TAKE Solutions, Inc. Austin, TX-based ClearOrbit provides real-time supply chain execution and returns management software solutions that improve the speed, visibility, and control of extended manufacturing and distribution supply chains. Since 1994, ClearOrbit has helped more than 275 companies such as Cisco, GE, Motorola and Smith's Medical automate and control process execution within their extended supply networks.

management of today's global supply chain, including several key challenges and opportunities manufacturers face in improving reverse logistics. One promising trend identified was the growing interest in reverse logistics across the



Warren Sumner and Gailen Vick

Dan Kubala, ClearOrbit director of marketing, gave Gailen a tour of the company's facility, along with a demonstration of the company's web-based, end-to-end Enterprise Returns Management™ solution, ERM™. ERM automates returns processes for medical device, high-tech and industrial manufacturers. The solution manages the entire returns lifecycle from return merchandise authorization creation to final product disposition, enabling the recovery of inventory and dollars lost to inefficient returns management operations. With ERM, companies improve bottom-line performance by capitalizing on revenue-generating, cost-reducing opportunities never before realized within their returns operations.

ClearOrbit software developers add new capabilities to the ClearOrbit's Enterprise Returns Management (ERM) software application

After the tour, Vick met with several other ClearOrbit executives including ClearOrbit president John Reece, vice president of marketing and products Warren Sumner, and senior manager for reverse logistics Lee Norman. The team discussed industry developments in the

industry. "We've seen increasing recognition of reverse logistics as a separate discipline within supply chain," said Sumner. "Companies are making the investments in reverse logistics necessary to capture the value currently lost through process inefficiency and limited disposition options. The payoffs from these investments can be tremendous, similar to the type of ROI companies initially gained from investments in automation

of forward logistics ten to fifteen years ago."

"The implementation of an enabling technology such as ClearOrbit's ERM is a key step in realizing this ROI," added Reece. "But to be successful in the long term, companies must also define clear goals for reverse logistics process improvement and executive accountability for meeting those goals."



One of the significant problems in managing reverse logistics is lack of visibility. ClearOrbit's ERM solution features an executive dashboard with real-time reverse logistics metrics.

Vick said an especially informative part of their discussion was that about a study recently commissioned by ClearOrbit identifying returns management as one of the top three issues facing medical device, high-tech and consumer product manufacturers today, and citing customer satisfaction as the primary reason to implement returns management processes.

Vick was impressed with ClearOrbit's commitment to increasing the recognition of reverse logistics as a key strategic supply chain function within the enterprise. He noted, "ClearOrbit recognizes the importance of managing returns effectively, and understands how to enable companies to reduce costs and increase revenues by automating the returns process."

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Xenia Calderon and Jeremy Vick



Sony Customer Satisfaction Center in Nuevo Laredo, Tams. Mexico

Sony Laredo Customer Satisfaction Center

Jeremy Vick, Director of Worldwide Sales at Reverse Logistics Association recently visited the Laredo Customer Satisfaction Center (LCSC) Facility in Nuevo Laredo, Tams. Mexico. Isabel Solorio, Materials General Manager and Xenia Calderon, Business Development Responsible showed Jeremy around the facility which employs a workforce of more than 1,000 highly skilled employees that are fully committed to operational excellence. The Sony Customer Satisfaction Center has been in the service industry since 1994, with operations in Laredo, Texas and Nuevo Laredo, Mexico. This operation provides a high level of customer satisfaction as well as cost effective solution for Sony and its customer base.

Isabel mentioned that LCSC offers two customer solutions; refurbishment of Sony dealer returns as well as end user & dealers repair and exchange programs. The refurbish program produces an average over 100,000 units per month with the highest level of quality to generate “B” grade product stock availability for the Exchange Program, and the “B” class selling channels, including Sony outlet stores located around the country. The process and labor flexibility maintained by LCSC has

allowed the operation to remain lean and achieve consistent strong operational performance.

In June 2007, LCSC Refurbishing Operation added personal computer production to its vast list of product models currently handled by the facility, including: home audio, home video, general audio, digital imaging and Playstation consoles.

The repair program started operations in 2003, with a monthly volume of 500 units, both for retailers and consumers; currently the repair program processes nearly 20,000 units per month with an average Turn-Around-Time (TAT) of 4 days or less. This process is supported by a world class call center integrated with highly-qualified employees, 100% bilingual that provide outstanding customer satisfaction and support to both English and Spanish speaking customers.

The exchange program handles consumer product and PlayStation console returns, processing over 20,000 units a month. The exchanges are processed with an average TAT of 2 days or less.

LCSC, in an effort to improve the quality of products and customer satisfaction, has implemented an

efficient quality feedback system that assures improvement in product performance and design before products reach the final customer.

They have successfully implemented innovative strategies and programs that directly impact and benefit their customers and clients, offering:

- Process and labor flexibility.
- Strong operational performance.
- Lean processes.
- Flexibility for custom made process.
- Market quality failure analysis.
- Product engineering department capable of developing inspection and repair in house.
- Scrap recycling process in house.
- Key performance indicators reporting.
- Capability to manage push and pull processes.
- Capability to ship international.
- Parts recycling capability.
- Direct parts procurement from overseas.
- Component level repairs for High Value Models.
- Complete IT infrastructure, support and application management.
- Cost analysis bases on process requirements.



Refurbishment Operation



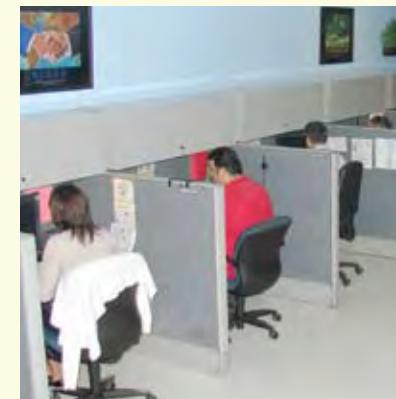
Sony Vaio Computer Refurbishing



Sony Vaio Computer Refurbishing



Sony Vaio Computer Refurbishing



Call Center

- Competitive quoting capabilities for specific requirements for complete processes.
- Direct billing and invoicing.



Parts Warehouse

LCSC is also empowering its employees by giving them key career tools and offering specific training sessions and courses to develop their professional and personal skills. LCSC continuous improvement activities include Six Sigma, 5S, Kaizen, QMS and ISO 9000:2000.

In the past two years LCSC has proactively sought out different business opportunities including a recent business decision to bring a service solution for Mexico and Latin America.

www.RLmagazine.com



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Certified IPC Specialist Phil Stefaniuk monitors component testing to ensure conformance with performance standards.



Lynn Bennett, President & founder greets Jeremy Vick of RLA

Streamline Technical Services

RL Magazine's Jeremy Vick recently dropped in on Lynn Bennett, Founder and President of Streamline Technical Services (STS), and was surprised by the wide-ranging operations in three facilities.

Since 2001, STS has provided reverse logistics, repair and asset recovery solutions to OEMs and distributors. A one-stop shop for these services, as well as logistics, engineering, and planning, the company specializes in printers, storage products, servers, laptops, PCs and peripherals. They pride themselves on the hard-earned reputation of being a first-class rework, repair and refurbishment

provider for out-of-warranty and OEM in-warranty product.

Over the past couple of years, STS has also worked to provide service in South America. A recently established partnership with Pandisc puts STS in an even healthier position to offer solutions in this region.

After six years of dynamic business STS continues with the best group of people, a desire to please every customer every time, a consistent and proven business model, and zero debt.

With a sales team tracking the market daily, STS-Sales provides the optimal return on

excess and obsolete equipment through services in gray market purchasing and certification. STS provides excellent solutions for a diverse group of products.

STS' qualified services are also available through the convenient and affordable Streamline Mobile Rapid Response Team (SMRRT). With this smart solution, urgent needs can be met at any US location.

Find out more at www.sts-us.net



High-volume supplies are co-located with production lines, reducing time required to service each unit.



Dominga Castro thoroughly inspects units for physical damage and missing parts prior to being routed to the appropriate process station.

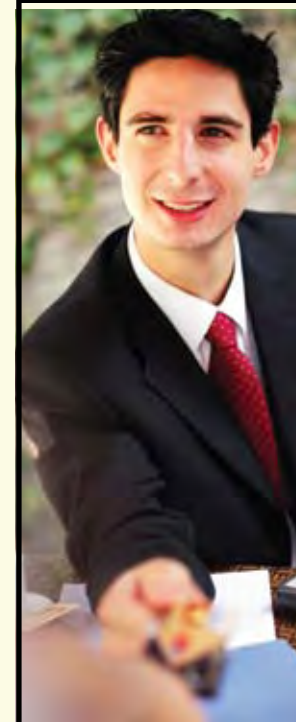


Luis Villagomez ensures a special shipment he has just completed is properly packed prior to shipment.



Finished goods awaiting shipment. STS inventory is minimized through order management.

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.





Returning thoughts...

Tips from the Reverse Logistics Pros in Singapore



Reverse Logistics is evolving rapidly. The Reverse Logistics Association Singapore Conference 2007 featured three days of industry thought leadership in Reverse Logistics.

Below are some tips gathered from the presentations that you can use to get your thoughts flowing and improve your Reverse Logistics operations.

Explore Multiple Value Streams for Returned Product

Cisco has created a brilliant plan to transform their Reverse Logistics from a Cost Center to a Profit Center. This plan is enabling them to find innovative ways to create value from their returns. Angela Chan, Reverse Logistics Program Manager at Cisco Systems outlined in her presentation the value streams they have created:

- two external sources: secondary markets and components

- five internal sources (avoiding “new buys”): spare parts, test labs, infrastructure, philanthropy and customer demos

Each of these value streams has grown significantly each quarter for the last eight quarters to more than 600% of the first quarter.

Reverse Logistics as an opportunity to “Build a Competitive Advantage”

In his key note presentation, Kerry Mok, Senior Vice President, Strategy and Service Logistics at DHL Exel Supply Chain delivered an excellent presentation on the challenges and opportunities facing Reverse Logistics. In one of his many key insights, he outlined three opportunities for to enable Reverse Logistics to help your company build a Competitive Advantage:

- Use the increased number of customer touch points to obtain more data and as an opportunity to build customer loyalty
- Access environmentally-conscious market segments and capture new markets or increase market share
- Ensure regulatory compliance “ahead of the curve” to capture “early-adopter” advantages and strengthen market position and corporate image

Assessing Repair Cost Affordability

Juniper utilizes several methods to assess if a repair is economical amongst the many hi-performance networking equipment product lines they manage. Gopal Mudivedu, Sr. Manager, Technical Operations at Juniper Networks outlined their main methods:

- Repair Cost Cap: a repair cost cap is set based as a percentage of Cost of Goods for a product
- Minimum Value: products below a certain cost of goods are deemed unrepairable or may be flagged to “screen and decide”
- Screen in-country for “No Trouble Found” and “simple repairs /upgrades”

Try these tips in your operations. The full presentations are available from the Publications page of the Reverse Logistics Association website.

Good Luck!

Paul Rupnow writes about Reverse Logistics best practices, insights and strategies at ReverseLogisticsProfessional.com

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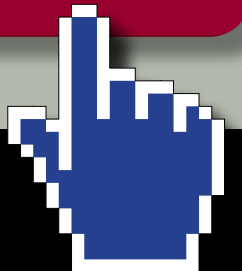
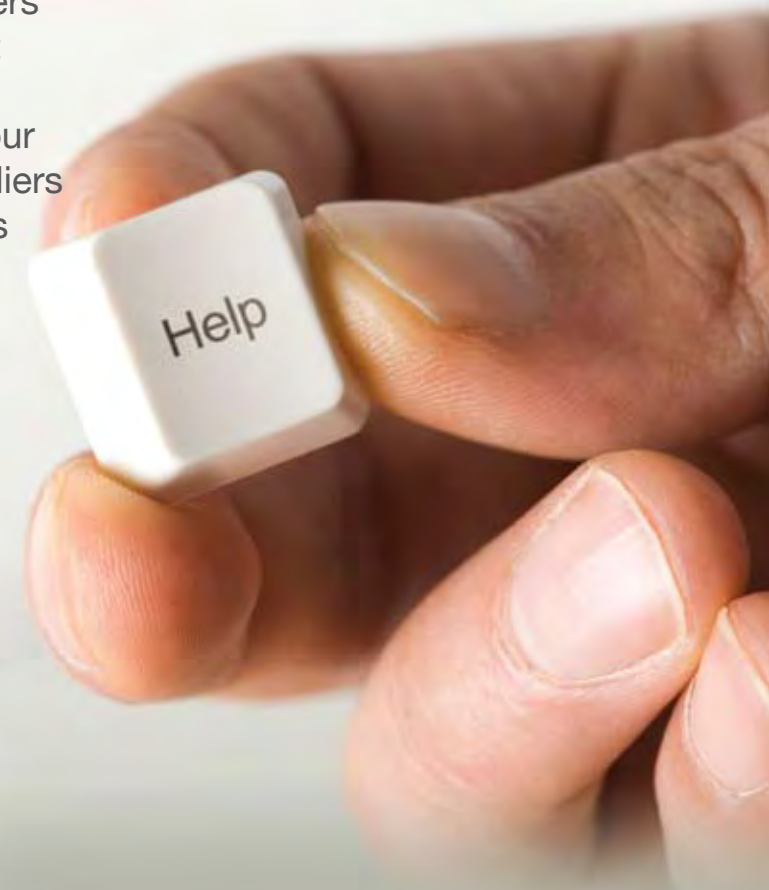
Free Industry Expertise – The RFI responses from RL Quote come from the top executives at 3PSPs who are on the frontlines of the industry everyday.

Anonymity – During the RL Quote process, your company’s identity is kept confidential so you maintain control over who you allow to contact you.

Wider Selection – RL Quote allows you to broaden your search at no cost and is a perfect companion to your usual resources.

New Technologies – The technologies for Reverse Logistics are evolving everyday. The best way to stay ahead of the technology curve is to allow the industry experts to evaluate your objectives and offer alternative solutions.

For more information visit RL Quote at www.rlquote.com



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that improperly handled returns can reduce net profits for your business.

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- Skids are Designed & Engineered for Product Specific Needs
- Take the Hassle Out of International Shipping with ISPM-15 Certified Crates
- Custom Packaging & Crating
- Domestic & International Shipping
- Nationwide Network of Packaging Experts
- Reverse Logistics
- Asset Relocation
- Insurance Available
- Large Network of Locations



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