# Overcoming the 5 Threats to a Successful Reverse Logistics Program

**by Paul Rupnow, Director, Reverse Logistics Systems, Andlor Logistics Systems, Inc.**

**Reverse Logistics Magazine, Edition 47**

An essential element of success for your Reverse Logistics program hinges on the way you plan, prepare and handle your products in the secondary markets. "The inability to manage and control your secondary markets can create significant risk to your brand and to your ability to generate cash on disposition" says Paul Baum, CEO of PlanITROI, specialists in IT & CE asset disposition, as he shared his experiences from working with Consumer Electronics OEM manufacturers and retailers. In his experiences with OEMs and retailers there are 5 recurring threats that companies constantly face:

**Exposure of Consumer Data**

A topic everyone is well are of, yet ongoing care, procedures and diligence are still required, as breaches of consumer privacy result in legal action, and very negative consumer experiences and publicity. Ultimately a data security breach will have a very negative effect on your brand. This becomes a greater concern when you do not control your consumer's data prior to sending it off on a device to be sold in the secondary markets. It is important to require your service partners to provide hard drive erasure reports verifying that data was erased and using a DOD level wiping tool. "Establishing and maintaining rigorous data erasure and device tracking procedures and reporting," says Paul Baum, CEO PlanITROI, "Is the only way to be assured third parties will not put your brand at risk by reselling your branded products without proper data wiping."

**Your Brand in Landfills**

With today's environmental pressure to be green, no OEMs wants to learn its products were found in landfills. Without having strict recycling practices and certified R2 or E-stewards services providers, you could be open to environmental issues. Confirm environmental processing and hazardous materials handling procedures are in place to prevent your Brand from traveling to the landfills of other countries. Many companies and retailers are creating programs and building awareness for their trade-in, take-back or recycling programs to avoid the negative effect on their brand image when their products are found in landfills. But again, without control of the secondary markets this is a challenging task.

"Be sure to validate any vendor's downstream processing so you are confident no hazardous e-waste is moved to incinerators or shipped to developing nations around the world," noted Paul Baum.

Interestingly, it may be an opportune time to re-think your "destroy in the field" or disposition methods with retailers. One manufacturer recently changed its "destroy in the field" program with retailers to a "take-back" program. They discovered that the open box, lower valued inventory items they previously believed had no value, are now, in fact, in great demand as refurbished products. This has resulted in a significant revenue stream far exceeding the returns logistics and refurbishment processing costs. Goodbye landfill fees, hello cash flow!

**Inefficient Trade-up (that also Undermines Loyalty)**

Many OEMs and retailers now offer Trade-in/trade-up programs, partly as an effort to be green, but more purposefully to drive sales of new products. Many of these programs are undermining loyalty rather than creating goodwill. Often the trade-in programs are disappointing consumers because they are not receiving the value promised or "hoped for" due to reductions at inspection. Also programs often take upwards of 30 days to send the credit or cash to the consumer. These disappointments can hurt the brand and undermine loyalty, whether it is the OEM or the retailer brand that is offering the program. Baum noted, "Smart retailers are succeeding with higher traffic because they offer higher trade-in values and credits at POS as a way to drive new sales, just like an instant rebate, but in this case it is a 'Green 4 Green' rebate." For many retailers this means offering a store credit rather than cash, which will result in future sales of retail goods.

**Reactive Financial Planning for Returns**

Lack of financial planning for returns creates numerous problems for both retailers and OEMs. Problems often arise due to seasonality and allowances. Retailers may have negotiated insufficient allowances for some products. Additionally they may have returned items or products that were not eligible for allowance. A common mistake then arises when this excess inventory does not have a proper disposition and value recovery plan or financial plan. These unplanned items often end up sitting on a warehouse shelf for 6 months while much of their potential sales value in the secondary market is lost due to age. For the OEM, the use of the allowance method may not be a good financial decision, because it results in the retailer having control of the open box returns. While the allowance method seems like a financially easier decision, you have now lost control of your products in the secondary market. “The retailer may disposition product through various channels and vendors that do not have the same certifications the OEM requires, and the downstream impact may negatively impact your brand. This could also create downward pressure on your primary market brand pricing,” Baum noted

**Lack of Spending Controls around Repairs**

A lack of spending controls relating to the costs incurred for repair and/or refurbishment often results in unnecessary expenditures. “PlanITROI builds a proactive financial & operational plan with our Client and their Vendors to create a match in the marketplace for the returned assets prior to getting the return back! Our proprietary methods assure that time and resources are only invested if there is a proper return on that investment for our Client,” explained Baum. “PlanITROI’s systems integrate all the data from Vendors Allowances & RTV Return To Vendor eligibility to today’s industry sale price comparatives (Open & Closed Markets), future industry trends, potential value-add and original asset costs into the decision making process for each of a Clients’ assets for a recommended solution!”

This lack of spending controls often relates to the costs and effort spent to refurbish goods that may not have the value to be able to recapture the cost incurred. For example, items get repaired and refurbished but then sit on a warehouse shelf since there is little demand for the product. Again, a lack of detailed spending controls can result in excess cash expenditures. Additionally, the brand pricing strategy may be pressured if the excess inventory is sold at low prices.

**Overcoming the Threats**

Not so long ago, OEMs and retailers were very happy just to recover some cash for excess, obsolete and returned inventory. Now however, the Reverse Logistics industry has become much more capable and many great opportunities exist to achieve higher recovery values from the secondary markets while protecting and controlling your brand. Maybe now as most OEMs & Retailers are selling refurbished products, it is time to look for your opportunity for the highest recovery. The timing is right to re-visit your secondary market partners and strategies and make sure they are aligned. Baum concluded, “Once you have thoroughly explored your Reverse Logistics options for an efficient and tailored value recovery program, you will find a much brighter financial picture at the end of the day.”

**RLA Consumer Electronics Committee Survey on Threats to Your Brand**

The RLA CE committee has just released a survey to explore and gather further data on this topic. Please help us all by spending a few minutes to complete the survey. You can find the survey on the RLA.org website at Threats to Your Brand from the Return of Consumer Electronics

Take the Survey at: http://rla.org/surveys-W77FMHB.php