

# Finance and Reverse Logistics: Bridging the Gap



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*As the New Year begins, it is traditional for the majority of us to make resolutions that pertain to improving our day to day personal lives and/or professional business relationships. Having spent the majority of my professional career in the Consumer Electronics Aftermarket Services and Reverse Logistics sector, I have gained a new appreciation for the importance of good communications between the financial operations and the Reverse Logistics (RL) organizations at all levels of AMS and RL sectors. Financial groups tend to deal with black and white numbers whereas the value-added processes involved in the RL operations can often be difficult to precisely measure in a quantitative manner. Most Consumer Electronics OEM's, Manufacturers, and Retailers gravely underestimate just how much the simple spirit of collaboration between these two business groups can reduce their costs and improve their bottom line profitability. Hence, one of my top new year's resolutions (and hopefully yours) will be to enhance communications between corporate financial and reverse logistics organizations.*

*The **Reverse Logistics and Finance teams at Cisco** have clearly showed the benefits of how great internal communications can contribute a whopping \$147 million to the net income in 2009 simply by reducing returns and their associated costs!*

*Here are a few practices that I have found to be useful in bringing key players from the Finance and RL Groups together to work towards a common goal of cost reduction in the Aftermarket Service and Reverse Logistics Space:*



**Using the right tools:** *Doing this can not only help you to achieve better results, but save you company time and effort. One tool you should consider using is the Return Savings Calculator 'RL\$ Savings', (downloadable from [www.reverselogisticstrends.com](http://www.reverselogisticstrends.com)) – a simple yet detailed Excel tool formulated by one of the RLA Consumer Electronics sub-committees of which I was a co-author. This tool is designed to be usable by both Finance and Returns managers simultaneously, to reduce the number of discrepancies in areas of the reverse logistics business often neglected by finance. You will be amazed at how speaking the same language can improve communications that result in cost savings improvements in your business.*

**Insisting on common terminology:** This simple step will drive successful communication and ensure the alignment between operations and finance objectives establishing how standard financial metrics will be gathered, utilized and reported on in a clear and concise manner.

**Factoring in hidden reverse logistics financial costs:** Factors such as **price creep** can occur in different aspects of the Product Return Life Cycle (shipping, transportation, product damage, packaging, etc). Also, depreciation of products due to **market value** decreases and reclamation can result in losses to the both the manufacturer and the dealer. Working closely together, these costs can be minimized resulting in significant bottom line improvements throughout the Reverse Logistics process.

**Following a condition classification of inventory:** Modern technology can assist you here. Many original equipment manufacturers (OEMs) have begun to incorporate a usage mechanism into hardware, firmware and/or software enabling the detection of how long the product has actually been in use. Enforcing such technology can yield huge financial rewards.

**Dealing with defective goods:** Product returns can happen due to gaps in transportation, inadequate packaging, product defects and faulty policies. Monitoring these closely and using early detection methods of defects from initial product returns and early warranty claims can significantly reduce the quantity of product returns, especially if caught early enough in the product life cycle to permit running production changes

**Following a Return On Assets (ROA) approach to reverse logistics:** An ROA approach can help you identify and improve effective utilization of your product inventory.

**Remember,** the end objective is to create the most cost effect value proposition for your business. Working closely across internal organizations by utilizing standardized metrics between Finance and Reverse Logistics can lead to substantial rewards to any company's bottom line. Be passionate about identifying opportunities to improve internal communications and work tirelessly to identify methods of reducing returns and evangelizing industry best practices that will improve your company's bottom line!

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