Business Horizons (2009) **52**, 139—148

Available online at www.sciencedirect.com

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Reverse logistics program design: A company study

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KEYWORDS
Reverse logistics;
Case study;
Reverse logistics human resources;
Formalization;
Systems approach

Abstract A series of visits to a Fortune 500 wholesale distribution company of technology products revealed a changing perspective regarding building and implementing reverse logistics programs. Five major initiatives define the reverse logistics program design process at this company: (1) Gain senior management support and turn reverse logistics into a company-wide initiative; (2) Involve your customers in the reverse logistics design process; (3) Give distinct recognition to the employees involved in handling returns within the firm; (4) Implement carefully developed written rules and procedures that reflect both internal and external concerns; and (5) Assign strict responsibility for the execution of the reverse logistics program. The study follows these five major considerations in more detail. The interviews and observations at this particular firm provide guidelines for managerial decisions relating to reverse logistics.

You need to change the mentality of the top management team, the organizational culture, when it comes to building a successful reverse logistics program. — Reverse Logistics Manager at WCC (pseudonym, representing "Wholesale Computer Company")

1. Reverse logistics: Climbing up the "priorities" ladder

Reverse logistics is defined as "the process of moving goods from their typical final destination for the purpose of recapturing value, or proper disposal" (Rogers & Tibben-Lembke, 1999, p. 2). Gradually, the return movement of goods and services in the supply chain is becoming a necessary business activity regardless of the industry or product/services involved. Overall, the value of returns is estimated to be around $43 billion per year, representing an average of 15%-20% of all goods sold (Norek, 2003). Consequently, reverse logistics has long outgrown the role of a reoccurring headache which is simply part and parcel of the cost of doing business. Stock, Speh, and Shear (2006, p. 16) best describe the strategic change taking place: "Reverse logistics should not be viewed as a costly side-show to normal operations. Rather...[it] should be seen as an opportunity to build competitive advantage."

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0007-6813/$ — see front matter
doi:10.1016/j.bushor.2008.09.005

The fact, though, is that "most companies' executives would rather spend their energies getting products out the door to customers who want them" (Zieger, 2003, p. 21). Maximizing sales and planning the outbound process, from raw materials to manufacturing to final consumption, is the focal point of contemporary supply chain management and logistics.

Firms are beginning to acknowledge that, in many cases, reaching the final customer does not automatically represent the end of the journey for a product/service. Products flow backwards after reaching their point of consumption for numerous reasons. For example, what happens when damaged and/or defective goods reach this final point? What if the final customer has received incorrect items or quantities? What if repairs are needed or piles of unsold merchandise await their destiny in a costly overstock situation? These questions are mainly related to the product side of the process. Marketing-related causes for returns must also be addressed, including customers' dissatisfaction with a particular product and/or customers who change their mind after the initial purchase. Straightforward abuse of firms' return policies by some customers provides for additional volume of the market-related returns (Rogers & Tibben-Lembke, 1999). For years, the answers to these issues were given secondary attention, at best. The obvious reason for neglecting to implement a state-of-the-art reverse logistics program is cost related. Companies are already hard pressed to cut costs—including logistics expenditures—to a minimum; dealing with returns is considered an unnecessary and costly effort.

Even as companies begin to recognize the value-added potential of reverse logistics, they often fail to distinguish the specific dimensions of the reverse process. Often, they attempt to incorporate it within their forward logistics operations (Knemeyer, Ponzurick, & Logar, 2002). Although intuitively appealing, this simplistic perspective of reverse logistics can be misleading. While it is true that both forward and reverse logistics must be engaged in handling the physical flow of goods and services, some notable differences exist when management capabilities are addressed. Stock and Lambert (2001) warn about the potential danger of equating forward and reverse logistical flows by stating that "most logistics systems remain ill equipped to handle product movement in a reverse channel." In a study related to the recycling industry, for example, the factors affecting the reverse logistics channel proved to be substantially different from those linked to traditional logistics' forward flows (Pohlen & Farris, 1992). These authors conclude that "differing product characteristics, extensive handling, and low density shipments pose considerable obstacles to establishing an efficient reverse channel" (p. 35) by just mimicking the forward flows. A strategic shift in the understanding of the complex nature of reverse logistics is necessary.

WCC—a pseudonym for our focal company, "Wholesale Computer Company"—provides a great opportunity to examine the successful implementation of a reverse logistics program. At WCC, the necessity of dealing with returns gradually transformed into a pressing problem. Returns began piling up in the distribution center, without a clear company protocol and dictate regarding who was responsible for processing. The situation became critical when customers—including key accounts—started to complain about excessive wait times for returns-related financial credits and, as a result, started to divert some or all of their business to WCC's competitors. The initial reaction of WCC's management was to substantially increase the budget for reverse logistics, with emphasis on hiring additional labor. A returns supervisor best described the resulting situation: "The returns department soon became crowded. The approach was to throw more bodies at solving every problem associated with returns handling, without any idea why the problem appeared in the first place." Top management was surprised to find that the increased budget seemed to worsen the situation.

The apparent contradiction required focused efforts to identify the root problem(s). Company executives assigned to the task reached a unanimous conclusion: there was a definite lack of understanding as to what was involved with handling returns, including the major processes and accompanying activities, and how to clearly map them.

The research presented herein describes the major processes and activities related to returns handling at WCC, and illustrates the successful turnaround the company made regarding its reverse logistics program. First, a more detailed description of the company and its competitive environment is provided. Second, a rationale is offered for selecting the specific case of WCC. Next, an analysis of the reverse logistics program at WCC is presented, with an emphasis on customer involvement and process formalization as key determinants of enhanced program performance. Finally, implications for managers involved in handling returns at other companies are discussed. Although descriptive in its nature, the case study can help other companies to more fully exploit opportunities to improve reverse logistics.