

# The impact of reverse logistics in retail industry



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## **1. Background**

In today's business world, Companies are looking for ways to improve their businesses by reducing costs, and improving labour efficiency. This enables the companies to implement supply chain management into the business.

Supply chain management is a process which binds and links the entire process from supplying a product until it gets delivered to the end customer.

Reverse logistics is a very essential process which is included in the supply chain management process. Reverse logistics is the process which involves planning, implementing, cost effective flow of stocks and machinery, finished goods, in-process inventory and related information from the point of

supplying to the point of final consumption. Remanufacturing and refurbishing are the two vital aspects of reverse logistics which helps in reutilisation and reselling of a product. It also involves recycling of programs, machinery fault or similar asset problems. Few more terms, often used with reverse logistics are: Reconditioning the machinery when it is not performing up to its mark, repairing it and then using it again. Refurbishing is working on the same product and enhancing and changing it from inside completely.

Remanufacturing is similar to refurbishing but may require completely disassembling the product. Reselling is done after one or more of the above three. Recycling happens only when the product is not in condition where it can be worked on like reconditioning, refurbishing, remanufacturing so as to resell it. Reverse logistics is also about keeping the environment healthy by not disposing too much waste, reducing the waste particles or reusing them.

## 2. Literature Review

According to the Reverse Logistics Executive Council, reverse logistics is “the process of planning, implementing, and controlling the efficient, cost effective flow of raw materials, in-process inventory, finished goods and related information from the point of consumption to the point of origin for the purpose of recapturing value or proper disposal” (Xiaoming Li, Festus Olorunniwo, 2008). The reverse material movement from end customers to suppliers has received much less attention (Rogers and Tibben-Lembke, 2001). Most returned products are processed to put back to shelf. Two alternative waste management policies are studied and compared. The first policy deals with the recovery chain, that is, the flow of used products from consumers to recovery facilities. The second policy deals with the disposal chain, in which used products are carried to landfills (Murphy, P R. and Poist, R F. 2003). There exists a range of ordered sequencing that different companies adopt depending on which activities are engaged in by the firm. Most of the companies set up their processes based on some knowledge of materials flows: inbound receiving, sorting, testing, storing, and outbound shipping. Different products may go through different routes; same products with different types of damages also may undergo different operations. Companies have operational procedures for machine centres; however, returns flows among machine centres are informal in many cases or many factors are not considered (Trebilcock, 2002). Using the information, we develop a generic returns process flow by integrating various broad factors: demand, package and product conditions, test and repair, secondary market, vendor, charity giving, recycle, and disposal. Now a days, managers’ reactions were not quite strong as to whether recycling materials that are

un-useable generate considerable revenues or if channel clearing considerably reduces obsolete items inventory, and if repaired items yield reasonable profits in secondary markets. These set of responses are quite surprising because they are contrary to observations from the experiences reported in the trade literature (Reese, 2005). Murphy and Posit (2000) have reported that recycling of materials, reducing consumption and reusing materials are the three most commonly utilized green logistics strategies. Design for recycling (DFR) has become an important dimension for some manufacturers in the recent times (Masanet, 2002). The ultimate goal of reverse logistics programs is to produce reverse logistics. Resource reduction refers to the minimisation of materials used in a product and the minimization of waste and energy achieved through the design of more environmentally efficient products (Carter and Ellram, 1998). The increase of eco-efficiency leads to reverse logistics activities in the firm. The outcomes of the eco-efficiency calculations will help authorities in formulating criteria for collection of disposed products and in monitoring end-of-life performance of take-back systems (Huisman, 2002). Companies must recognize that reverse logistics has become an important source of opportunity for improving visibility and profitability and lowering costs across the supply chain. Reverse logistics offers an opportunity for improving visibility and profitability while lowering costs across the supply chain. A reverse logistics system will enable us to plan in advance, often as early as the design process, the way to handle returns efficiently and ways this can most effectively feed into the product design plan. Returns provide a revenue generating opportunity via value recapture- return, refurbish, recycle. Sophisticated returns automation systems enable you to leverage a

product's value by quickly placing it in another product for resale before values depreciate (Anderson, Pat, 2009). Formerly, firms have been spending significant time and money in improving their forward supply chains while ignoring their potential reverse supply chains. However, in today's competitive business environment, it is important that firms study the profitability and benefits of implementing a reverse supply chain while considering the uncertainties associated with the supply and composition of used products, disassembly time, recycling or remanufacturing time, and demand for recycled or remanufactured goods (Pochampally, Kishore K. Gupta, Surendra M., Dhakar, Tej S, 2009). Few research studies have published specific empirical data regarding the reverse logistics practices of companies. This multi-stage study employed interviews, site visits, and a mail survey to collect responses from 230 members of the Warehousing Education and Research Council (WERC) regarding their reverse logistics practices. Results suggest that in spite of the growing importance of reverse logistics, few executives have product return processing as their primary responsibility and often undertake this activity along with other job responsibilities. Most firms handle the product returns process themselves and typically within the same facilities that handle forward logistics. Returning items directly to stock, repackaging and returning to stock, and selling as scrap, were the three top disposition options employed by firms. Results indicate that, contrary to general understanding, the majority of retailers and wholesalers reported a recovery rate of over 75% of product cost (James R. Stock and Jay P. Mulki, 2009 ). If a firm is not able to resell the items, they often end up in landfills, or perhaps recycled. Also, the profit margins could be lower for the manufacturer because in addition to the

refurbishing cost, the product often must be sold at a lower price. In view of this, manufacturers' desire to maximize profits often dictates the proportion of product that gets refurbished (Vorasayan and Ryan 2006). Retailer emphasis on training customers in the proper use of their products which can help in improving customer relations as well as decreasing costs of product returns. Retailers can help a great deal by initial sorting and by making decisions on processing versus returning to manufacturer. This could reduce the uncertainty in the timing and quality of returns that has been blamed for the unpredictability of reconditioning and refurbishing returned products (Guide and Van Wassenhove, 2002). A reverse logistics flow is much more active, with much less visibility. Retail stores like primark do not initiate reverse logistics activity as a result of planning and decision making on the part of the firm but in response to actions by consumers or downstream channel members. When a customer returns an item to a retail store, the store collects the items to be sent to a centralized sorting facility. At the time of return, information about the item and its condition may be entered into the retail stores information system, and forwarded to the returns processing centre (Ronald S. Tibben-Lembke and Dale S. Rogers, 2002).

### **3. Research questions**

Do you typically return a whole system, or rather just a subset of components, and where should the items go next? What is the importance of reverse logistics in cost reduction? How reverse logistics influence environmental and social retail environment? How to improve supply chain

management with the help of reverse logistics? How to encourage customer loyalty using reverse logistics?

#### **4. Expected Contributions**

Primark, is a well known retail stores where people do a purchase in bulk due to its low prices. Demand is changing with a high pace; customer may like something today and something else tomorrow and to keep up with this pace organizations need to adopt returns management. For a clothes store like Primark, which go as per the market demand, they need to update themselves with time as customers these days are all looking for style, current trends and so on. This isn't easy to predict, no one can really forecast what is in today and out tomorrow, this is where returns management comes in picture. A company should know how to reuse or resell by doing some refurbishment. Retail stores and even other suppliers have exchange policies or payback policies which provides customer with an ease of exchanging goods and supplies, once these items are returned, it then goes to production houses for refurbishment or to see what can be done with them in order to reuse or resell them. Organizations in order to survive the competition and to maintain a good customer relationship have to be good at exchange policies and need to shorten the time from accepting the returns to the actual supplier so that they can reduce the operational costs and increase profitability. The important task of management is to mind the gap between returning of products till the time it reaches the supplier; this plays an important role in reducing the costs and increasing the profitability. Keeping the customers happy is the only source of income, so satisfying all they need is really very important. A recent case study implies that Primark is looking for a solution which would facilitate an increase in its

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volumes which were projected to grow by 30% per annum- from 45, 000 cartons daily to levels of 100, 000 by 2010.

## **5. Methodology**

### **5. 1 The research method**

This piece of study or investigation emphasizes more on the utilisation of the reverse logistics approach in retail business like that of renowned store primark. The investigation consists of field as well as desk study. The field study will be done on evaluating company's annual turnover, sales and collection of relevant data via company's website, conducting interviews with various decision makers of concerned departments. Desk study or research will consider examining literature collected via the website of the retail store, retail industries journals, press, statistics and magazines and other media sources.

### **5. 2The concept of interview**

An analytical study via interview will be conducted for the collection of primary data. The concept is to evaluate the validity and implementation of current reverse logistical operations in the retail business of primark.

Interviews are particularly useful for getting the story behind a participant's experiences. The interviewer can pursue in-depth information around the topic. Interviews may be useful as follow-up to certain respondents to questionnaires, e. g., to further investigate their responses (McNamara, 1999). The qualitative research interview seeks to describe and the meanings of central themes in the life world of the subjects. The main task in interviewing is to understand the meaning of what the interviewees say(Kvale, 1996).



### 5.3 Interviews

The store manager of primark.

The manager of marketing department.

The manager of finance department.

### 6. Proposed study timetable

Period	Aim	Task	Duration (days)
February	Collect key principles and evaluating it, online survey	Finding relevant literatures and evaluating it, online survey	15
March, 2010	research h	methods, strategic interpretin g research questions.	
March, 2010 –	First meetin	Finalizing the	15
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## 7. Resource Implications

It would be more helpful to make the use of newsletters, online forum, regular meetings through events, telephonic calls. All this is done to analyze

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the data and to know how often does primark change its outstanding stocks on the shelves, check the unsold stock to avoid wastage in-order to make improvements in the reverse logistics processes. The presence of application system is important now-a-days in order to maintain and analyze the huge amount of data collected through staff meetings.

## **8. Evaluation**

It is quite clear that in the future, more firms will lavish considerable attention on reverse logistics. Many firms have only become aware of the importance of reverse logistics relatively, and have yet to realize the strategic

importance of reverse logistics.