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Reverse Logistics Procurement Best Practices: Six Elements to Consider

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Featured Industries: Transportation & Logistics, International Trade & Supply Chain Management

Key Takeaways

- Successful reverse logistics procurement relies on a six-step framework-vision, planning, consult, preparation, negotiation and administration-to align returns management with broader corporate goals and deliver measurable value to the business.
- Reverse logistics is no longer just an afterthought; it directly impacts customer satisfaction, inventory accuracy and brand reputation. Poorly managed reverse logistics can lead to lost sales, higher costs and operational headaches, while a strategic approach can drive competitive advantage.
- Companies can proactively assess and refine their reverse logistics strategies, engage cross-functional teams and collaborate with experienced service providers to improve their processes. Clear contract terms, robust performance metrics and ongoing management are essential to ensure reverse logistics operations support business objectives and deliver long-term value.

Companies of all sizes outsource at least a portion of their logistics needs. Effective procurement and supply chain teams implement, directly or indirectly, six key elements of logistics outsourcing in today’s environment. Those keys are: Vision, Planning, Consult, Preparation, Negotiation and Administration. This framework serves as a helpful tool for analyzing the particularities of reverse logistics procurement. Each of the six keys and its application in reverse logistics and broader corporate strategies are developed below.

Key 1 is Vision: ***What future state are we trying to achieve?***

Business leaders are fast recognizing the emerging value of strong reverse logistics offerings as part of global supply chain management strategies. It is now more important than ever to align those reverse logistics capabilities with overall corporate goals and objectives. For example, it may be that customer feedback has communicated frustration about existing return policies or that the lack of ease with returns has curtailed buying decisions. It may also be the case that inventory accuracy or product quality has suffered due to legacy reverse logistics practices. New corporate strategies may focus on proactive solutions to customer returns so that they are a value add to the customer experience rather than an afterthought. In either event, the efficacy of reverse logistics and related operations directly impacts market presence and bottom-line enterprise performance. Refining the reverse logistics vision will show the path forward for execution consistent with broader strategies, especially in this time when procurement needs and approaches may look different than in past years.

Key 2 is Planning: ***What are our procurement needs to support that future state?***

All serious reverse logistics discussions are founded on a clear understanding of current and desired operational metrics. Legacy statistics are essential to planning the precise needs of the reverse supply chain just as is the case when procuring warehousing, fulfillment, distribution and last-mile services for forward logistics. Historic rates of return at the item level, the points and regions of those returns, and the mix of services required to determine and effectuate the disposition of those returns will be invaluable. Any credible service provider tasked with building the reverse logistics solution will use those inputs to model operational needs and the associated cost. Capital requirements such as warehouse space and material handling equipment, as well as material and labor costs, are all derived from those metrics and the forecasted requirements at the item and activity level for the reverse logistics operation. Visibility to the roadmap for achieving the desired future state, the requirements for any potential provider and its range of cost begins to form at this stage.

Key 3 is Consult: ***How do we verify and expand upon our strategic and tactical plans?***

The specific nature of services, performance thresholds and geographies under strategic and tactical plans will narrow the list of providers. However, the logistics world has grown more consultative rather than commodity-oriented in recent years. Service providers, and the consultants who comment on the industry, now bring more to the table than in the past, driving greater value for users of those services. As an example, service providers experienced in delivering value-add reverse logistics solutions will assist in modeling the desired operation, its functionality and estimated cost. Those services may range from the array of customer support functions-refurbishment, disposition, and inventory management-to the traditional pick-up and delivery services associated with logistics. It is commonly the case that the full array of outsourced services available, and the associated cost and performance metrics, are not fully understood until these consultations commence. Of course, while the challenges at hand make this collaboration all the more valuable it is important to take care to guard against disclosure of confidential or strategically sensitive information.

Key 4 is Preparation: ***How do we unify internally before going out to market?***

It is increasingly the case that internal stakeholders are important to the development of reverse logistics procurement strategies due to the high impact of those plans and the cross-functional character of the resulting operations. Effective execution requires buy-in from many different departments and personalities that may express strong views and seek divergent goals. Those who tend to have the strongest opinions on the contractual side of reverse logistics often sit in legal, risk management, trade compliance, tax and finance departments. Internal alignment will increase the speed of bid, negotiation and onboarding processes. It will present an opportunity to update bid planning, RFQs and term sheets for maximum effect and elimination of surprise. As with seeking appropriate legal counsel, this internal exercise will also add value by recognizing otherwise unseen opportunities, obstacles and unintended consequences to further refine the reverse logistics plan in alignment with the overall vision.

Key 5 is Negotiation: ***What are we really trying to achieve through contract negotiation?***

Contract drafting and negotiation is often a time-consuming process for logistics procurement and the complexities of those tasks only increase with reverse logistics. The scope of work and its range of value-add services, service level agreements and key performance indicators are data-driven and require a high attention to detail. Forecasting of inbound and outbound volumes, together with the anticipated services, must be prepared at the item level for determination of staffing levels and service fees. Inventory controls must be determined similar to a traditional warehousing operation, with agreement on the book of record, reporting, shrinkage allowances and the like. Standard operating procedures for the delivery of receipt, testing, refurbishing, relabeling, repackaging and reshipping must be negotiated. The cost structure may also be capital intensive with real estate, facilities, material handling equipment and information technology. It is not uncommon to have early termination penalties with amortization of those costs and possibly title transfer to the user of the services.

Balancing time, risk and return are critical to avoid becoming bogged down in contract negotiation or accepting detrimental terms. This is precisely the point when clear vision, planning, consult, and preparation pay off. A firm understanding of current best practices and prioritized risks can mean the difference of weeks-even months-when it comes to closing out deals. In the heat of negotiation three options will always be available to all sides: accepting the terms presented, finding common ground and problem solving, or walking away. Many of the issues that arise during negotiation can be solved with additional spend, but that is not always the solution for staying within project objectives. As always, if we are to "play the right cards" then we need to know precisely what we are playing to achieve. Risk-based perspectives can help to narrow the range of key issues by focusing on relative risk, value and the potential impact of supply chain interruption in the event of service provider failure.

Key 6 is Administration: ***How will we achieve success after the contract is inked?***

Since reverse logistics operations share characteristics with production, strong provider relationships together with open and honest communication and reporting (just as with internal teams) often have the effect of maximizing the value of spend. The development and use of service level agreements and key performance indicators-in addition to establishing management meeting schedules, escalation plans and root cause analysis requirements-can yield opportunities for strong "partnership" with providers while still respecting the buy and sell sides of the relationships. These structures always benefit from management diligence in communication of issues, both positive and negative, so that isolated instances of emergency and long-term trends may be addressed, and operational performance adjusted as performance data becomes available. Compensation structures may be tied to these performance metrics so that desired behavior and outcomes are incentivized in a manner that aligns the interests of both parties. Effective administration is a long game that is, above all other keys, dependent on the vigilance and persistence of internal stakeholders. Hard-fought contract tools such as service level agreements and key performance indicators do nothing if they are not monitored and exercised. This is essential to achieving success and is, in reality, little different than the management to performance that one would exercise over an entirely in-sourced reverse logistics operation.

Defining Success for Reverse Logistics

The true measure of success will be found in the degree to which reverse logistics operations advance corporate goals and objectives. This is the nature of true operational performance. Increases in customer satisfaction, in inventory accuracy, and in the quality of products routed through the reverse logistics system can convert the returns process which was once begrudged by both retailer and customer into a true value add that squarely aligns with brand equity. It is happening today through visionary supply chain leaders, strong procurement professionals and respectful, carefully crafted relationships with third-party service providers. As e-commerce continues to influence the world this exercise of creative thinking about reverse logistics, savvy procurement and pragmatic provider management will further align with accepted measures of corporate success.

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