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INNOVATIONS THAT WILL CHANGE INDIA

Pankaj Ghemawat, Keki Mistry, Alok Mittal, Sam Pitroda, and The Great Indian Consumer

(Five innovative ideas chosen through INNOVATE FOR INDIA—a nationwide social media contest)

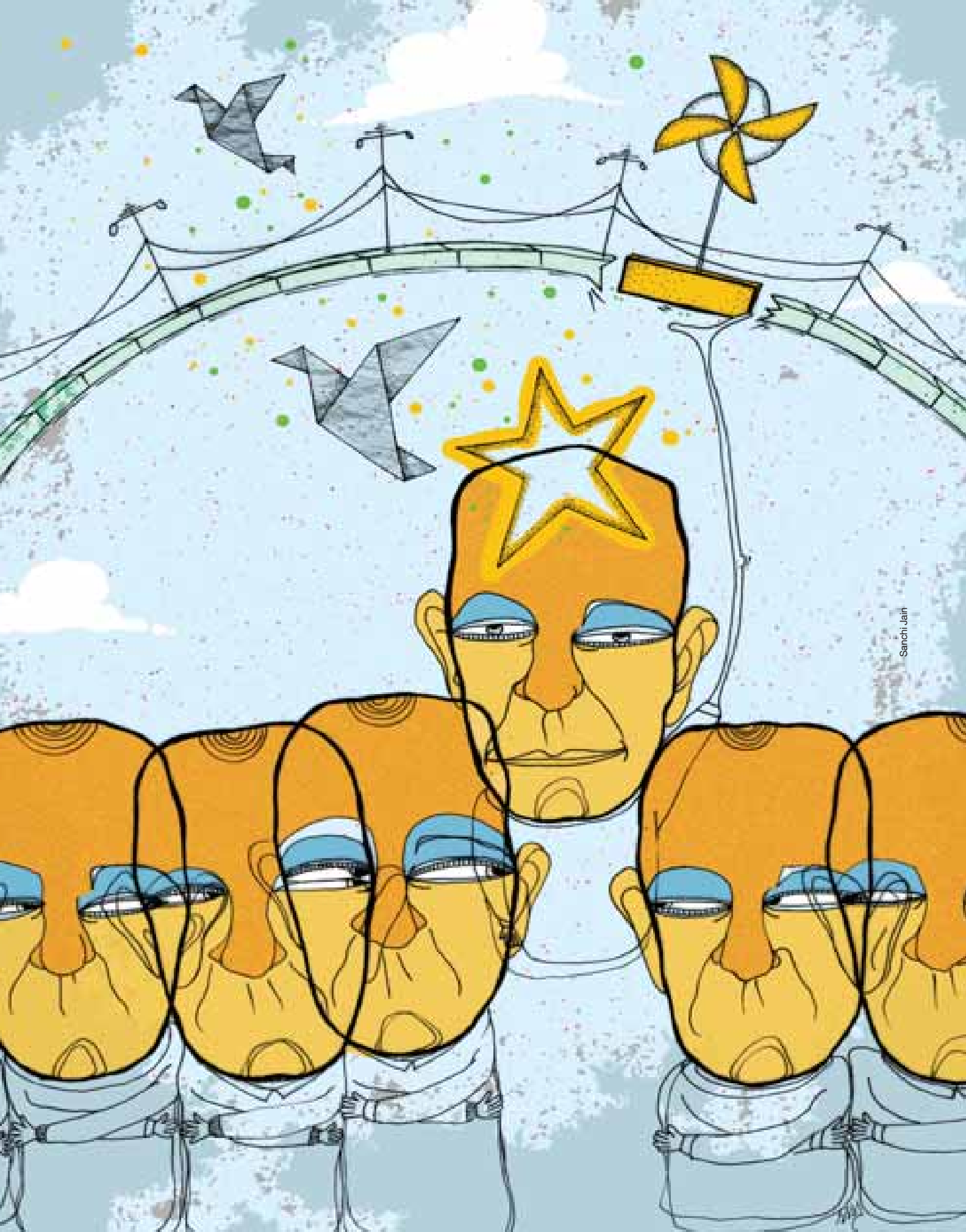


SCAN THIS TO STAY CONNECTED

Change makers

FIRST-PERSON CASE STUDIES ON OUTSTANDING INNOVATIONS

Nylon Net Fence (Sundarbans), Reverse Logistics Company, Sports and Physical Aptitude Test (SPAT).



REVERSE LOGISTICS COMPANY:

Making the reverse journey count

Hitendra Chaturvedi, Founder and CEO



Reverse logistics is that aspect of the supply chain that more often than not doesn't make it to a white paper, report, or dictionary. It refers to those goods that make their way back to a warehouse because their buyers were unhappy with them. Sadly, these mere 3–4% returned goods fail to catch a manufacturing giant's attention, as it's not conducive for companies to invest huge amounts to restore or recycle them. So, these products usually meet the ill fate of being converted to scrap by being stripped by dealers before acid is poured on them—an ecological disaster.

Hitendra Chaturvedi points out, giving the example of LG that targets to be a ₹25,000cr company in India soon, assuming roughly a 3% return rate, ₹750cr worth of returned goods might not lend themselves to investments by the company in elaborate infrastructure facilities. The best solution for such giant original equipment manufacturers (OEMs) is to outsource the job to someone whose core competency is salvaging these goods. That's where Reverse Logistics Company (RLC) comes into the picture—to repair and restore these products before a new home is found for them. The most important part of this exercise remains that RLC's method of restoring returned goods is environment-friendly. Over the last 2–3 years, the company has stopped over 7 lakh units of products from becoming environmental waste. Here, Chaturvedi explains how his company is helping make one man's trash another's treasure.

What does Reverse Logistics Company do?

Reverse Logistics Company is an outsourcing reverse supply chain handler that allows manufacturers to concentrate on their production-related core competencies while it exclusively manages their reverse supply chain with the help of technology, services, and domain expertise.

How it all started?

Chaturvedi worked at Newgistics, a reverse logistics company, in the US for two years. When he later came to India on work, he was surprised to see that most big OEM companies didn't know about the efficient reuse and resale of reverse logistics. Thus, he quit his job in the US to start RLC.

Challenges

- Initially: Tough to convince and prove to companies that managing reverse logistics was important, and that it could be done efficiently.
- Today: To make various small players in the unorganised sector responsible, who more often than not use environmentally hazardous methods to recycle products.



Reverse Logistics Company's biggest value-added centre is spread across almost 10,000 square feet in West Delhi.

In 2000, I was asked to join the management team of a US-based reverse logistics company. I met the founder, who asked me to define supply chain. After I gave him a dictionary definition of the term as 'the movement of goods, products, and services from the manufacturer to the consumer', he said I was only half right. What I had defined was forward supply chain, but what about a certain fraction or percentage of products that go through the reverse journey? He then said, "That is where we play, to help companies manage their returns."

I worked at the company for two years before I moved to Seattle, and joined Microsoft. After about three years at Microsoft, I came to India in 2006 to head their \$400bn OEM business. When I spoke to clients like Dell and HP—country managers or supply chain managers—and told them I worked at a reverse logistics company earlier, they'd get very intrigued. They wondered what that meant.

So when I was called back to the US in 2008, I decided to quit and start Reverse Logistics Company Private Limited (RLC), and the brand GreenDust.

The litmus test

Out of curiosity, I started asking [many companies] five simple questions. The first was, "What's your return rate?" In the US, on an average, 8–10% goods are returned for multiple reasons. For example, Walmart sells about US\$100bn-worth material in the US, and their returns are to the tune of US\$7bn. In India, the return rate of all products from various segments is about 4–5%. In terms of money value that's around US\$12bn. These companies had no idea of the numbers involved.

My second question to them was, "How much do you spend to process a return?" I meant transportation, call centre costs, depreciation, warehousing cost, people cost, everything. Again, most of them had no idea. With over 70% of the products that are returned, the cost to process returns is higher than the value of the product. India ranks third from the bottom when it comes to supply chain efficiencies. Our forward supply chain itself is so [unorganised]. But in the West, the model for reverse logistics is very simple. People, companies, brands, retailers are very focused on their core competency, which is,

WE HAVE BEEN ABLE TO CREATE a hybrid online-and-offline model to provide highly discounted, refurbished products with a one-year warranty to the Indian market...



coming up with new products and delighting customers with fantastic customer service. Since managing returns is not their core competency, they outsource this to companies that exclusively deal in this.

My third question was, “How much money do you recover from your returned defective items?” Surprisingly, again, they had no clue. Most of these products only recovered 8–10% of the value which is the final extract value. For example, if a mobile phone is kept in the garage for six months, it loses 90% of its value. I saw returned palm pilots sitting in warehouses since 18 months, and nobody knew what to do with them.

My fourth question was, “Do you understand the impact of a bad return experience?” They didn’t care. I told them that around 80% of customers, who had bad return experiences, would never buy their brand again.

My fifth and final question was particularly for people in the electronic sector, “Are you complying with electronic waste regulations?” We [entered the market] when this regulation was in its draft stage; it basically states that it’s the brand’s onus to ensure that a product at the end of its cycle is disposed in an environment-friendly way. That is when they got scared.

Pain relief

[In five years], RLC is India’s largest reverse logistics company. We have been able to create a hybrid online-and-offline model to provide highly discounted, refurbished products with a one-year warranty to the Indian market [through the brand GreenDust].

We solve three pain points. First, we solve a manufacturer or retailer’s reverse logistics problem. Second, we help the world’s biggest benefit-maximising market by giving them as-good-as-new factory seconds, with a warranty, at a highly discounted price. Lastly, and I am most passionate about this, we are green.

Earlier, I saw many of these returned products being picked up by scrap dealers, who would pour acid on them and turn them to scrap—basically killing our environment. But our model and DNA has five ‘R’s imbibed in it—reduce, reuse, repair, recycle, and resell. Over the last 2–3 years, we have stopped over 7 lakh units of products from becoming environmental waste. We have repaired them, and found a happy customer for them. So our model inherently is green and innovative.

Sourcing, then sprucing

We primarily source from three stakeholders. The first and largest source is brands such as LG, Samsung, etc. The second channel



All photos courtesy: Reverse Logistics Company

Value-added centres are hospitals, of sorts, where various kinds of electronic products go through triage, surgery, and recovery, before a home is found for them.

is retailers like Croma, and the third are e-commerce companies. We pick up the returns either from the brands' warehouses, or their reseller, or directly from the consumer, based on the [pre-decided] arrangement.

For example, in the case of Lenovo, our agreement is to pick up returns directly from the consumers because they are smaller items. But with LG, we let the customer return it to the retailer, and we pick it up from them because products like refrigerators and washing machines are heavier.

We have an interesting business strategy called 'local acquisition' and 'local disposition'. We acquire locally. At every stage we have a place called a 'value-added centre'. Think of it as a warehouse on steroids! Just like a patient who walks into a hospital, visualise these value-added centres as large hospitals for consumer electronics, IT-based products, mobile, and home appliances. They go through triage, surgery, and recovery, after which we find a new home for them.

We have 14 such value-added centres across the country, which are locally self-sufficient. We are present online via www.greendust.com, and we have 170 franchise stores where customers order online and the products are then shipped to them. Franchises have their own dedicated stores with GreenDust.

The ideal model

Companies can [manage returns] internally but the problem is that the volumes do not justify the cost. I've seen them try it in the US and Europe. But eventually, they realise that it is not their core competency and the costs exceed the value of the products. If our clients had been only Dell or LG, then even we might not have been able to justify the costs to run this business. So we add value across brands, retailers, and e-tailers. That's how this is a sustainable business model—most OEMs are working with us. Our number of customers is testimony to the fact that there are people who are realising the strategic importance of this.

This entire sector was unorganised before we came in. LG was selling its [returned] products to almost 450 small scrap dealers and resellers, who picked these up from its

46-odd warehouses. In East Delhi, many of these products get converted into scrap by acid being poured on them. The area is extremely polluted. We are trying to stop that. I don't want my country to be turned into a junk yard; I want people to be more responsible.

Beyond the warehouse

Every industry has returns. Though the ball game [for handling these returns] is different, the principles are the same. My data tells me that in the pharmaceutical industry, 20% of the drugs in the market are expired. The systematic process of returns which ensures that expired drugs get picked up at a retail location, are brought back in a secured way, and incinerated in an environment-friendly manner is reverse logistics.

Many food items with a short shelf life get disposed in garbage dumps and are turned into fertilisers. But many food items that are not quickly perishable can be fed to the hungry. For example, grocery stores in the US or Europe with returned food items like meat products that have still not expired, send these to old-age homes, or orphanages, or shelters, so poor people can be fed.

I believe this is an emerging market model, and I am not satisfied [with this model staying only] in India. I think there is huge potential in countries like Philippines, Indonesia, Thailand, Sri Lanka, Bangladesh, etc; also in the Middle East and Africa. Our aspiration is to take this model that came out of India, and make it a global or emerging market model.

We learnt our lessons from the US when we created something that was the next revolution of our reverse logistics model, where both the disposition and returns management of reverse logistics were combined into one. I am also a part of the Reverse Logistics Association (RLA), and when we shared this model at the last RLA conference in Las Vegas, we saw a lot of shocked faces. We are doing something interesting, exciting, and innovative. ★

As told to Sabiha Ghiasi.

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