

Recovering

Smart reverse logistics helps avoid waste and saves cash

By Kara Kuryllowicz

Engines, fenders, light bulbs and spark plugs—those are just a few of the hundreds of thousands of parts handled by 25 employees at Spencer Butcher's 300,000sqft facility in Brownstown, Ontario every year.

"Automotive OEMs account for about 90 percent of our business and we've managed packaging and logistics for various auto industry firms since 1943, so when asked to handle reverse logistics for various automotive clients about 10 years ago, of course, we agreed," says Greg Spencer, Spencer Butcher's CEO. The company works with OEMs such as General Motors, Volvo and Tier 1 and Tier II suppliers such as Magna, Flex-N-Gate, ABB and others.

When faced with the monumental task of managing the parts their dealers return, OEMs often sent the parts and packaging to landfills despite the fact about 25 percent of it could be recovered and sent back to their distribution centres and ultimately their dealers for resale.

Assessing the parts to identify the "good" versus the "bad" is about a lot more than the money. As Spencer explains it, brand protection is the customer's ultimate goal. Allowing a substandard part to leak into the grey market could reflect poorly on the customer who could face everything from poor word-of-mouth to massive lawsuits. If a part doesn't warrant restocking, its plastics, metals and paper are sorted and if necessary, shredded and repacked for recycling.

"Our average recovery

rate is 24 percent and of the products that aren't recovered, about 80 percent are recycled," says Spencer. "Disposal, which carries a cost, is the last resort."

Fortunately, the various OEMs recognized the potential impact on their brands as well as the loss of revenue and costs associated with the disposal of the parts and the packaging. They subsequently outsourced their reverse logistics to Spencer Butcher, which remanufactures core items such as engines, transmissions and motors to their original condition and OEM specifications for resale, refurbishes parts to a usable state for resale and reclaims parts for sale through dealers or for recycling and raw material recovery.

"Before we started getting trailerloads back from the OEMs' distribution centres, we developed and implemented a series of rules to give us more control over the process and the products," says Spencer, whose firm's turnaround time is typically five days from receipt in Brownstown, Ontario to processing and sending it back out to a DC, dealer, recycler or landfill. "To consistently manage their returns on a more granular level, the rules or guidelines constantly evolve based on our customers' inventory and product obsolescence."

While one might assume inbound or reverse logistics is simply the flip side of outbound logistics, there are significant differences that affect the process. With outbound logistics, the packaging and material handler typically knows exactly what to expect from scheduling and volume to the condition of the goods and the packaging. When it comes to reverse logistics, it's virtually impossible to predict what will arrive on your doorstep.

"Every day is different," says Spencer. "Most of the time, we open the trailer doors to what invariably looks like a big, messy, dirty pile of garbage dotted with recognizable auto parts."

Not surprisingly, the packaging is rarely in mint condition—at best, it's been resealed and at worst it is open, damaged, destroyed or missing. In view of what operators first see when the load arrives, the condition of the parts themselves also varies widely.

"The onus is 110 percent on Spencer Butcher to assess the part, run a quality check and decide whether it makes financial sense for the OEM to process and restock that part or throw it out," says Spencer.

Spencer Butcher employees scan the part's bar code to determine whether the part is restocked, recycled or disposed of, then assess its condition/quality accordingly.



value

In most cases, Spencer Butcher partners with its clients to develop the “decision tree” or evaluation parameters that are unique to each customer, and generally look at demand for the part as well as its inventory levels, value and age. Even if a low-value part, such as a small light bulb, is in pristine condition, it’s considered waste as its five-cent value doesn’t justify the restocking costs.

“Our reverse logistics is a unique combination of very automated material handling and highly manual tasks,” says Spencer. “We have to pick up and physically touch each part to get it out of the trailer, scan it, disassemble and inspect it, then sort, relocate and package it.”

In Beaver Dam, Wisconsin, Vintage Parts has been stocking parts for over 40 OEMs that include the likes of Honda, Ford, General Motors, Caterpillar, Komatsu and John Deere for about 40 years. Currently, its business is equally split between the automotive, agriculture and construction industries and they sell directly to the OEMs’ authorized dealers. About 85 percent of the 40,000 dealers Vintage Parts works with are in Canada and the US, but the company does business globally. The 1,000,000 service-part numbers that Vintage Parts stocks in Wisconsin represent everything from a clip or a bolt to very large construction service parts.

“We specialize in the slow-moving, obsolete and discontinued parts the OEMs no longer want to warehouse in their service-part depot facilities, but still see enough activity that the dealers need access to them,” says Brad Wallis, vice-president sales and marketing at Vintage Parts, Inc. “The vehicles are still in service, but that particular model is generally no longer in production.”

On the automotive side, Vintage Parts’s sweet spot is the support of vehicles from seven to 15 years old, while in the workhorse world of heavy construction equipment, the vehicles are 15 to 25 years old.

Vintage Parts receives its inventory of service parts directly from its partner OEMs, however in the case of one particular OEM, a percentage of the volume comes via Spencer Butcher, which sets aside those destined for Vintage Parts, shipping them once a full trailer-load has been collected. Wallis notes that the trailer loads Vintage Parts receives from Spencer Butcher are well organized and packed in a highly efficient manner.

“Returning service parts from dealers is a time-consuming job and we believe Spencer Butcher does an excellent job based on the results we see when the parts arrive at our facilities,” says Wallis. He observes that from his perspective, other OEMs could benefit from implementing a dealer-return process that models the processes developed by Spencer Butcher. **MM&D**

