Reverse Logistics in the editorial sector:

An exploratory study


REVERSE LOGISTICS IN THE EDITORIAL SECTOR: AN EXPLORATORY STUDY

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ABSTRACT
Nowadays, the Reverse Logistics field is becoming very important. On one hand, laws are imposing companies to be responsible for the contamination made by their products. On the other hand, companies have discovered the profits derived from a good Reverse Logistics process. This paper is the result of the work undertaken by a group of companies from the Spanish Editorial sector to understand and improve their Reverse Logistics process. The paper describes the characteristics of the Reverse Logistics process in this sector and the improvements identified by the “work group”.

1. INTRODUCTION
Reverse Logistics (RL) is today a very important issue for companies. On one hand, in few years EU laws will make companies responsible for the contamination derived from their products. On the other hand, companies have discovered the potential profit derived from an efficient RL process, see for example, Maslennikova and Foley (2000).

Companies are looking for different strategies and technologies to improve their RL process. Lourenço and Soto (2003) described three main areas of improvement within the RL process: companies can reduce the level of returns through the analysis of their causes; they can work on the improvement of the return’s process; and, finally, they can create value from the returns.

One of the sectors where returns are becoming a big handicap is the editorial industry. The Spanish editorial sector, one of the leaders in the world with nearly 2500 millions of Euros of sales annually, has an average return rate of 41.17% of the sales. For this reason, RL is a topic of importance among professionals in this sector. However, it has not been considered as an outstanding topic in the RL literature. None of the existing studies considers this industry. The objectives of this paper are: to describe and analyse the RL process within this industry and to propose some ways to improve it.

We believe that this paper will be both informative and insightful to managers and researchers in the SCM field. Managers are provided with some guidelines to improve the RL process. And, researchers are given some lines of further research.
2. LITERATURE REVIEW
Kroon and Vrijens (1994) considered a practical application of RL in the reuse of secondary packaging material. They presented a quantitative model and a case study for returnable containers. Barros et al. (1998) conducted a case study in the construction industry. The paper described the RL process but it also proposed a mathematical model to decide the most efficient location of the recycling containers. Fraser (1998) explored the role of purchasing and other functional areas in the RL systems of 12 North American manufacturing plants. The Reverse Logistics Executive Council (RLEC) sponsored several studies to assess the state of the art of the RL process in the apparel, electronics and small appliances industries (see RLEC, 1999). Kokkinaki et al. (1999) conducted an exploratory study to analyse the RL services provided by companies selling in the e-commerce channel. Krikke et al. (1999) described the case of Roteb, the municipal waste company of Rotterdam, which implemented some recovery strategies for PC-monitors. And, finally, Goodman (2000) described how sustainable operations in Scandic hotels were performed and the savings achieved.

Our study shares with Kroon and Vrijens (1994), Fraser (1998), Barros et al. (1998), Krikke et al. (1999), Kokkinaki et al. (1999) and Goodman (2000) the use of the case study methodology. Researchers are claiming the use of more case study based papers (see, for example, Voss et al. 2002). But our study differs from the existing ones in the industry object of study. Our study focus on the editorial industry, which is characterised by a high return rate. Our objectives are to describe and analyse the RL process and to identify how this process can be improved.

3. THE SPANISH EDITORIAL SECTOR
The Spanish editorial industry is the fifth on the world ranking according to the sales figure (2.450 millions of Euros). It represents 0.6% of the Spanish GDP. The business network is composed by 2000 editorial producers, with approximately 13,000 direct employees. Every day 175 new titles are introduced in the market and the volume of the average production by title is decreasing every year. This implies that editors have to make a great effort to sell their products.

Book sales are mainly done through bookstores; however, sales through hypermarkets have been increasing during the last years. This is leading to a higher competitive environment, as hypermarkets are pressing editorial companies for reducing prices. Non-periodic publications can be classified in text books and general editions. In our study we focus on general editions, the group which generates the highest level of problems in terms of RL.

4. RESEARCH METHODOLOGY
To achieve our objectives, we conducted an exploratory multiple case study using the methodologies recommended by Malhotra (2004): workgroups, visits and interviews. The case study methodology followed was adopted from Yin (1994).
The units of analysis chosen were Spanish editorial companies. The Logistics Managers of sixteen editorial firms were contacted and invited to participate in a work group on RL conducted by the Centro Español de Logística (CEL) and the Research Group in Business Logistics (GREL) of Universitat Pompeu Fabra. Eleven companies accepted the invitation. To collect the data, the work group was created in December 2001. We met every 2 or 3 months, depending on the work load of the participants. The project ended in September 2003.

5. RESULTS
The results are presented in terms of the Research Questions.

5.1 RQ1: How is the RL process in the editorial sector?
We evaluated the differences and common issues between the companies regarding the RL process. For simplicity we evaluated the transportation process independently.

5.1.1 The transportation process
The most common practice is that the editor picks up the books from the client with its transportation resources (own or outsourced). If the client decides to send back the books without the editor’s authorization, then it has to pay for the transportation fees and it assumes the risk of not having the books accepted by the editor. These two options are the most common practices in all the companies analysed.

5.1.2 The rest of the RL processes
The basic activities identified in the remaining part of the return process are: (1) Product reception, (2) Refunding, (3) Quality assessment, (4) Legal certification for destroying the books, (5) Other classifications, (6) Recovery and, (7) Disposition practices. We identified some differences between the order in which the different processes are performed in different companies. However, the basic activities are almost the same for all of them. Five of the eleven companies do the quality assessment before refunding, while six refund the money of the returns despite of the state in which they arrive. The order in which the refunding is done has important logistical and financial implications. Other issue to remark is that not all the companies follow the same recovery process. All of them usually clean the book and take out the price ticket (if present), but not all of them cut the borders of the books or change the cover. In fact, only five of them change the cover of the books and seven editors cut the borders (if needed). Finally, in terms of the disposal activities, it has to be noticed that all the companies usually reincorporate the products to the inventory. There is only one company that sends the books to charity or secondary markets.

5.2 RQ2: How are the Spanish editorial firms in each one of the three areas of work within the RL process?
We follow the description of working areas made by Lourenço and Soto (2003).

5.2.1 How are the companies in terms of knowledge about the returns and their causes?
One of the areas of work within RL is to reduce the returns through the analysis of their causes. We observed that the main causes of returns were associated with contractual
agreements (42.6%), excess of inventory at the bookstores (22.0%), finalization of promotional activities (20.2%), obsolete products (7%) and inventory adjustments (6.2%). The impulse sale is very important in the book’s market. Companies need to have high levels of inventory at the stores in order to promote sales (editors follow a push strategy). Retailers take advantage of the agreements with the editors and, usually return the unsold products in order to adjust inventory.

5.2.2 Which is the performance of the returns process?
The second area of work within RL is the improvement of the RL process itself. In other words, to examine all the activities that need to be done in order to get the product back to the editorial company and look for any potential for improvement. We analysed the materials, information and monetary flows. We detected the following main problems in the RL process: (1) Books are send in bad conditions, and therefore, they cannot be recovered and reused; (2) There is not information about retailers’ and distributors’ book sales; (3) Clients do not send a detailed information about the books returned; (4) There is not a clear information about the causes of the returns; and, (5) Clients send the product back without authorization and without informing the editor about it. Most of the problems pointed out are associated with the information flows.

Another aspect analysed were the main causes of discussion between editors and clients regarding returns. The principal cause of discussion is the quality state of the products. There are only three companies that accept all the returned products. The extended policy is to accept only those products in which the client is not responsible for the damage.

5.2.3. Are companies creating value from the returns?
Companies were asked about the principal disposal activities they usually perform: We found that they have basically four types of disposal activities. Most of the products are recovered and returned to inventory (88.8%), which means that editors probably can recover a high value from the returned products. Another disposal activity is to destroy the products (8.3%). This is mainly done to products that have been classified as “not recoverable”. And finally, other disposal practices are: to sell the products through secondary markets (1.3%) or give them to charity (1.5%). Given the fact that the highest value from the returned books is to recover them and send them back to inventory, other disposal activities, such as to give them to charity or to sell them through secondary markets, are basically “reserved” to obsolete or not recoverable products.

5.3 RQ3: How can the returns’ management be improved?
One of the main objectives of the work group was to find different possibilities of improvement in the returns management. In the following sections we describe the actions of improvement that can be undertaken in each one of the three areas of work.

5.3.1. Can the returns be reduced?
To reduce the returns we have to attack their causes, and the main cause of returns is the commercial policy of pushing the books to the stores because of the importance of the impulse sale. The editors participating in the work group recognised the problem but they concluded that they were not able to change this policy. However, the work group
recognised that there was one possibility to reduce the returns: to have better forecasts. To improve forecasting these companies need appropriate software packages and real time information about sales. This latter aspect means that editors and bookstores have to collaborate and change the actual type of relationship for one of a more partnership style.

5.3.2. How can the RL process be improved?

There is a large field of improvement in the operational process of the returns. Some of the ways in which they can work to improve the RL process are: to change some processes, to automate some of them, etc. However, the main area of improvement is in the management of information flows. As stated in section 5.2.2, there was not any sharing of information about sales and many of the stores were not informing about returns and neither about the causes of these returns. Editors consider that the most useful information from the retailers is the point of sale information on real time because it can help them to evaluate if a book is successful or not at the beginning of the sales period. Editors also pointed out that information about returns (such as, number of books returned, causes of returns, quality state, etc) is relevant for the improvement of the RL process.

In order to improve the information flow and the quality of the returned products the work group defined common methods for the returns process. The group developed a document called “Best practices for books’ returns”. This document was agreed by the editors participating in this study, the Spanish editors association, the bookstores’ association of Madrid and the National Federation of books’ distributors.

In order to improve the efficiency of the RL process the group is still working on the design of an optimal process of returns. Up to now two things are clear:

- The optimum is to locate the refund before the recovery process of the product. In logistics terms, it is better to do the refund before the quality assessment process, but it implies that the commercial principle of receiving only good quality products (used by some editors) should be revoked.
- The optimum is to recover only those products that have a high probability of being sold again. Editors were spending a lot of money in recovering books which were not going to be sold.

5.3.3. How to create more value added from the returns?

Creating value from returns is not a priority in this sector. They obtain the highest value they can for most of their products, which is to recover and reintroduce them to the end-product inventory.

6. CONCLUSIONS AND FUTURE RESEARCH

In this paper we explored the actual state of development of the editorial sector in Spain. As a result of the analysis, some projects were engaged by the authors and the principal companies in the books sectors. Up to now, these projects have provided good results for the companies in terms of benchmarking and improvements in the returns process.

We have to point out that this study has some limitations: Some of the companies have not provided all the data requested. Another limitation is the reduced sample size: there
are 2000 editors in Spain and we have only considered eleven companies. However, it must be said that given the size of the companies in the study, we covered 50% of the sales of the editorial industry.

But despite of these limitations we believe that this paper will be insightful for managers and researchers in the RL area. For managers, we provide some guidelines about how to perform a RL analysis identifying ways of improvement. In this way, managers can see RL as a profit potential area instead of a cost center. This process has been also a benchmarking opportunity for the companies participating in the study and it can also be applied to other sectors and companies.

For researchers, the methodology used can also help those who want to develop sector analysis in the RL area. The work provides some lines of further research: it is necessary to develop new models for forecasting and planning (models where the returns can be considered as part of the planning process); there is also the need to develop models that consider the effect of information sharing in planning the returns; and finally, there is also the possibility of investigating the creation of a Central Return’s Centre and its implications in terms of costs.

7. REFERENCES