

# CFO

topline



## SUPPLY CHAIN

### Happier Returns

SUPPLY CHAINS ARE COMMONLY thought of as moving in one direction: from manufacturer to vendor to customer. But goods flow the opposite way, too. Customers open boxes, don't like what's inside them, and return the items to the store, which then returns them to the manufacturer. Food products on grocery-store shelves approach and then pass their expiration dates and are sent back to producers. Often undetected, these "reverse logistics" can add substantial costs to supply chains.

The problem gets worse if companies mismanage the growing pile of consumer returns, damaged goods, and overstocked items, says Bill Morrison, CFO of GENCO Marketplace, a liquidator of such merchandise. Many companies "leave millions of dollars on the table" by failing to make the best use of excess inventory, he says.

One common error stems from a failure to



distinguish between different types of distressed merchandise. Customers are often flummoxed by electronics and appliances, for example, and often return perfectly functional iPods, cell phones, or vacuum cleaners in the mistaken belief that the products don't work. In

such cases, manufacturers might do well to test the products, spruce up the packaging, and sell them "as new" instead of liquidating them immediately, recycling them, or simply disposing of them. On the other hand, companies might want to liquidate seasonal apparel or other lesser-value items as-is and as soon as possible.

Another problem: senior managers are reluctant to write down distressed inventory and thus deplete corporate earnings. That leads companies to hold on to inventory until it grows obsolete or can only "be liquidated in bulk amounts at pennies on the dollar," according to Morrison. "Higher recoveries are possible," he says, "if companies liquidate the items in smaller increments earlier in the product lifecycle." —**DAVID M. KATZ**

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