

Distribution Center MANAGEMENT

| Management Strategies

Use these practices of leading logistics firms to improve operations

Marc Wulfraat, managing partner at Kom International Inc., a supply chain consulting firm headquartered in Montreal, identified how some of the leading logistics companies improve operations and cut costs at the DC Expo in May. According to Wulfraat, leading companies emphasize hire the right people (especially in leadership positions), emphasize return on assets, scrutinize technology investments, and emphasize measurement.

Invest in leadership

“The most important investment that any company is going to make is the people in charge,” says Wulfraat. Good leaders have excellent people skills and a strong rapport with employees. “When we walk into lousy warehouses, we notice there is an adversarial relationship between management and people on the floor,” he explains.

The cleanliness of the operation is a good first indicator of how employees view leadership. An operation strewn with broken pieces of pallet and garbage and full of cluttered aisles signals there is no discipline in the facility and is indicative of poor management. Operators are not respectful toward the business; they don’t

take ownership, says Wulfraat.

A good warehouse manager should also be able to immediately answer questions about “key management statistics” such as pick rates and throughput per hour.

Emphasize return on assets

Successful distribution centers keep a close eye on their balance sheet. In the long term, the companies that thrive are those that have a rapid cash-to-cash cycle through fast inventory turns, says Wulfraat.

Inventory accuracy is critical to improving inventory turns. If the inventory information is stale or inaccurate, the purchasing department compensates by overbuying and overstocking.

Many companies have attempted to increase inventory turns through supplier collaboration programs, such as vendor-managed inventory or consignment inventory. Vendor-managed inventory is designed to pass the responsibility of inventory management back to the supplier. The DC informs the vendor how much stock it sells each day, and the supplier tracks and replenishes inventory as needed. The approach is based on the premise that vendors

will do a better job at reducing inventory in the facility than the DC can do itself because each vendor is only monitoring specific items.

The problem with this approach is that people forget to look at whether the total supply chain cost is higher or lower when using vendor-managed inventory. Instead of ordering a truckload once every two weeks, the facility may receive a few pallets every other day. There is a

cost associated with these frequent deliveries, says Wulfraat. Transportation costs may make vendor-managed inventory more expensive in the long run, so warehouse leaders need to determine when these costs offset the reduction in inventory.

With consignment inventory, the DC doesn’t pay for inventory until the item is sold. This reduces the amount of capital tied up in assets in inventory, as the supplier is the actual owner of the stock.

Consider investing in demand planning or advanced statistical forecasting software to improve inventory turns. If buyers have turned into “human calculators,” using huge stacks of

Perform an ABC costing analysis to isolate the costs in the warehouse to determine where the most savings can be found.

paper reports to manually determine replenishment quantities and purchasing activities, “then there is an opportunity not only in efficiency in terms of the buyer doing their work, but also a tremendous opportunity to reduce inventory,” says Wulfraat. There are several inexpensive software programs available that help automate the process.

A low-cost alternative to improving inventory turns is to track service level by purchasing agent — that is, the performance of the items that each buyer is responsible for. Stockouts will occasionally happen, but if the products a buyer handles are frequently out of stock, you must address that. Also look at inventory turns by buyer, suggests Wulfraat.

Scrutinize technology investments

Technology is often viewed as a solution to inefficiencies and poor performance in the warehouse, but companies seem to forget that technology is a tool. “You don’t throw expensive tools at simple problems,” says Wulfraat. Successful companies don’t invest large sums of money to deal with problems that can be solved with simpler methods, he says. However, signs that technology could be beneficial in the warehouse include:

- Chaos reigns. If the only way

you can manage is by putting out fires, you know you have a problem, says Wulfraat.

- Finding inventory is an adventure. If your inventory system only tracks product in a single location for any given item (a single-bin locator system) but you keep inventory in multiple locations, it can be a challenge to track down product. If employees are constantly searching for inventory, a technology upgrade may be in order.

- Sales reps and buyers walk through the DC to validate inventory. This indicates that employees have no confidence in inventory accuracy.

Measure your core competencies

Metrics are an essential component in a successful warehouse, but you need to approach metrics carefully. There are too many things to measure, and measuring anything costs money, says Wulfraat. What you measure depends on your competitive advantage or core competency. Are you trying to be a service leader or cost leader, he asks.

A service leader should focus on key performance indicators in the areas of customer satisfaction, quality, and time. These include measures such as order fulfillment rate, stock availability, on-time delivery, and order cycle time.

Cost leaders should be more

concerned with the areas of costs and assets. Common measures include labor productivity, cost for returns, cash-to-cash cycle time, and capacity utilization.

In order to identify areas where you can cut costs, Wulfraat recommends performing an ABC costing analysis to isolate the costs in the warehouse. Identify all the different functions in your operation, such as receiving, putaway, full-case picking, split-case picking, and loading. Measure how many hours employees spend performing each individual function and the average throughput. (Throughput should be measured based on the individual activity. For instance, split-case picking measures pieces picked, while receiving should measure pallets received.)

Next, look at each operator’s wage rate, including benefits. Based on the number of manhours and the throughput each operator handled, you can determine the total labor cost and the average cost for an individual unit of throughput. This will show where money is being spent in the warehouse, allowing you to pinpoint the areas where you can most effectively attack costs. If picking is the largest single cost (which it generally is), you know that is where “the lion’s share of the savings will be,” says Wulfraat.

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Track service level by purchasing agent to identify and address causes of stockouts or long inventory turns.

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