

January 2010

Distribution Center MANAGEMENT

Managing people, materials and costs in the warehouse or DC

Trends

Focus on building relationships and streamlining inventory management in 2010

The economic forecast for 2010 isn't quite as gloomy as last year's, but DC managers are still facing a rough road ahead, according to the experts on *Distribution Center Management's* editorial advisory board.

As part of our annual Looking Ahead survey, we asked the board for advice on how to deal with the challenges distribution faces in 2010. The good news? The economy is starting to rebound and there are plenty of strategies DC managers can adopt to position their facilities for success.

Frank Camean, president and CEO of 4Sight Supply Chain Group, says the economic downturn means DC operators must focus on reducing their operational costs, particularly labor costs. With labor typically accounting for 50 percent or more of the operation's costs, getting those costs down will go a long way to helping ready the DC for the year ahead.

"I believe the biggest challenge we have is trying to predict what the economic impact will continue to be," says Mike Coronado, director of distribution for The Container Store. "With the short-term challenges of managing expense through

this recession, we have to position ourselves to be ready as we pull out of this."

According to Ron Grove, vice president at TZA Consulting, a challenge for DC managers in 2010 is that there is little to no capital available for improvements of any type. And even if there is capital available, executive management usually requires any project to have an ROI of one year or less.

It's also unclear if we will continue to see a slow rebound or more substantial growth with the "quadruple crown of

lower inventories, higher employment, more reasonable consumer spending, and the continued positive direction of housing," says Fred Kimball, principal of consulting firm Distribution Design.

Susan Rider, president of Rider & Associates, says DC managers still face the challenge of doing more with less, which is actually a great opportunity to become more efficient and effective.

And how do you get the most out of existing DC resources in the year ahead? By ramping up labor to handle any increased volumes, managing labor costs, and satisfying customer requirements by shipping

Top concerns

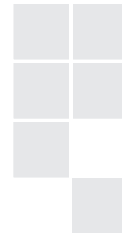
- Labor utilization
- Inventory management
- Communication

This article was reprinted from the January 2010 issue of *Distribution Center Management*.

Interested readers may subscribe to the monthly newsletter by visiting <http://www.distributiongroup.com> or phoning (973) 265-2300.

© 2010 Alexander Communications Group, Inc. All rights reserved.

No part of this article may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying or otherwise without the prior written permission of Alexander Communications Group.



accurate orders, says Norm Saenz, assistant vice president with TranSystems.

Geoff Sisko, senior consultant with Jack Kuchta LLC, agrees that the economy means it's time for DC managers to focus on keeping both customers and employees as satisfied as possible.

Today's supply chains are longer and more complex, which brings increased risk of failure, particularly in the current economy. In 2010, the challenge is planning for and mitigating those risks, says Tom Tanel, president and CEO of CAT-TAN Services Group and chair of the Institute for Supply Management's Logistics and Transportation Group.

Finally, Jim Tompkins, president and CEO of Tompkins Associates, says that even though the economy does appear to be rebounding, the pace of recovery is still "a great unknown." That uncertainty is affecting DC operators, as it exists in all aspects of DC management, from strategy and budget to staffing and inventory levels.

Focus on labor to improve profitability

The economic uncertainty in 2009 has touched almost every area of distribution, but perhaps nowhere as much as in labor management.

"Most companies have either been impacted by layoffs or hiring freezes throughout this period," says Coronado. "The morale of employees has definitely been affected."

It doesn't help when those

layoffs have resulted in everyone being asked to do more for less, adds Rider. "Many are now doing the jobs of three people, therefore the attention to every detail is not there."

But you can improve accuracy and productivity if you just pay attention to labor, Kimball says. "Make time just to

Accuracy is top improvement area for 2010

When it comes to making improvements in 2010, it's all about optimizing processes. According to our annual Looking Ahead survey, accuracy tops the list with 45 percent of DC managers choosing it as the area they most want to improve in the coming year.

Other top areas for improvement include picking productivity (39 percent) and inventory management (36 percent). According to Geoff Sisko, senior consultant with Jack Kuchta LLC, that's not much of a surprise; accuracy, picking, and inventory management are all inextricably linked.

"If you've got an inventory problem, you've got to find out what the issue is," he says. It could be accuracy, whether that's people counting wrong, things being put away wrong, or other processes and procedures that could lead to errors. Sisko recommends you review your process to find out why you have an inventory problem in the first place, then take steps to fix it.

But, of course, every DC is a little bit different. What specific challenges are some DC managers facing in 2010? They include:

- "Providing value-added services and actually getting paid for them."
- "Consolidating warehouses, causing an influx in SKUs and inventory issues."
- "Our smaller labor force needs to be more productive."
- "Stability. With constant fluctuations in the market, and sharp downward spikes, identifying a stable track, or even reacting quickly to trends, will be a challenge."
- "Labor planning against reduced sales."
- "Doing more with less, due to a long hiring freeze."

The good news is that DC managers are already thinking of ways to address those challenges. Many are studying every function in the DC and benchmarking themselves against others to boost productivity and reduce errors. Others are taking a closer look at inventory management and inventory turns to help reduce space requirements and improve accuracy.

And those faced with labor issues are undertaking daily, weekly, monthly, and seasonal comparisons against forecast, and increasing the percentage of part-time employees.



walk around the operation, observe what's going on, and listen to the employees," he says. "In the daily meeting to begin the shift, tell employees what the volume metrics were yesterday and what is expected today."

You can also reduce some labor costs without having to cut staff, adds Camean. He recommends deploying labor standards or workforce management, and integrating a labor management system (LMS) with your warehouse management system (WMS) to reduce labor costs.

The downturn also offers the perfect time to train your staff, Rider says. Focus on training and getting staff the right tools to accomplish the task. Do a periodic review of each functional area to figure out what employees do right and what they can improve.

After all, DC managers spent years complaining they didn't have enough time to do maintenance, reslotting, and general housekeeping, Sisko adds. Why not take advantage of downtime caused by the downturn to do the things you wouldn't normally do?

"Get your people to do the cleanups, do the maintenance work," he says. "Anything you can do to keep them busy and help justify their existence to management when they start talking about cutting people."

Take control of inventory management with slotting and analytics

In this year's Looking Ahead survey, DC managers chose inventory management as one of their biggest challenges, and the experts agree that if you don't get a handle on your inventory now, when the economy is slow, you really won't be able to keep up during a recovery.

"This is a good time to focus on inventory and picking accuracy by putting low-cost or no-cost ideas into place," says Tompkins. He recommends looking at

Incentives boost picking productivity

When asked about the biggest challenge he faced this year, one respondent to DCM's annual Looking Ahead survey said it was increasing picking productivity after implementing a new voice system.

"Our order selectors were able to pick faster from paper assignments because they could do multiple assignments at once while traveling the pick area," he wrote in his survey response. "[The old paper-based system] reduced travel time and increased productivity, but at a significant cost in errors related to proper products/quantities."

The voice picking system reduced errors, but it had the simultaneous effect of reducing pick productivity. The DC solved the problem with an incentive program to boost productivity.

The competition breaks employees into teams, and focuses primarily on cases per hour and number of lines per invoice. At the end of the week, the winning team receives breakfast from management. According to the survey respondent, it has worked wonders, improving picking productivity while at the same time reducing errors.

your slotting practices, which can not only help improve accuracy and picking productivity, but can also help with space usage.

Sound like a tough task? It doesn't have to be, says Saenz. It all comes down to choosing the right storage fixtures and analyzing the best way to organize products within the warehouse. If you find the optimal solution, you'll reduce labor requirements, reduce injuries, eliminate product damage, and increase the storage capacity of your facility.

Open up the lines of communication

Finally, if there is one thing upon which the experts all agree, it's that communicating with employees, executives, suppliers, and customers is the one thing DC managers need to do to not only survive, but thrive in 2010.

Start by opening the lines of communication with your employees. "People

are nervous about the health of the company and their jobs,” Kimball says. “The fear factor drives up tension and stress.”

Coronado says that in his company, communication is the key to quelling those fears. “Constant, clear communication with our employees has never been more critical. Through this economic downturn, you have to ensure that each and every employee understands the company’s strategy and how it will get back on track with the upturn,” he says.

Don’t stop there, either. DC managers also need to properly communicate initiatives to executives if they want to update technology or processes. “In some companies, the last area that gets a technology ‘refresh’ is the warehouse,” Rider says. “Put together a good case for return on investment (ROI) and show the critical failures if the investment is not made.”

Grove agrees. “Learn how to build a comprehensive business case,” he advises. “Understand the components of your cost structure and what the variables are. Use that information to develop a thorough business case for any initiatives for which you are trying to get funding.”

And don’t forget your customers,

Sisko says. Properly communicate with your customers and take a proactive approach to offering them value-added services. Instead of waiting for them to request these services, go to them first and ask what they need. That way, you can properly plan out the services to ensure you make money from them, while at the same time building a positive relationship with your client.

Finally, remember that your DC is unique and any strategy you find to help you through the tough economic times has to fulfill quite a few requirements.

“There is no one-size-fits-all strategy for DC managers; operations and their needs vary too much,” says Tompkins. “The keys for DC managers are to plan for the best case, prepare for a better future, and make sound investments in operations and staffing — starting now.”

Contact: Frank Cemean, frank.cemean@go4sight.com; Mike Coronado, mikec@containerstore.com; Ron Grove, rgrove@tzaconsulting.com; Fred Kimball, fkimball@distdesign.com; Susan Rider, susanrider@msn.com; Norm Saenz, nesaenz@transystems.com; Geoff Sisko, sisko@jackkuchta.com; Tom Tanel, tanel@cattan.com, info@tompkinsinc.com. **DCM**

DC managers still face the challenge of doing more with less.

Ring in the New Year with a reduced price subscription to *Distribution Center Management*

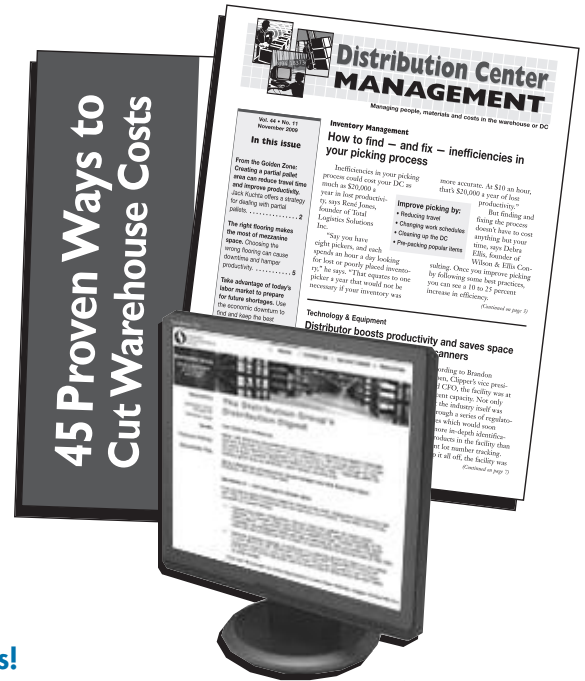
This unique three-part service includes:

Distribution Center Management. Each month, in a quick-reading format, *Distribution Center Management* brings you proven strategies for managing people, materials and costs in the warehouse and distribution center.

Web Extras. Each issue of *Distribution Center Management* includes links to valuable background material, additional information, and related resources at the newsletter website.

45 Proven Ways to Cut Warehouse Costs. Any one of these ideas can produce thousands of dollars in savings. When combined into an overall cost-containment program they can often reduce costs by two, three or four times that amount. *45 Proven Ways to Cut Warehouse Costs* sells for \$29.95 but it is yours FREE with your paid subscription to *Distribution Center Management*.

Subscribe today and take advantage of the special New Year savings!



Risk-Free Order Form — Fax to (973) 402-6056

This special offer expires January 11, 2010

Yes, I want to improve my warehouse operations in the New Year!

Please send me the monthly *Distribution Center Management* at the Special Introductory Rate of \$187 — that's a \$40 saving off the regular subscription price. I'll receive *45 Proven Ways to Cut Warehouse Costs* on payment.

Payment Enclosed.

Rush my cost-cutting guide by return mail.

- Check enclosed.
- Charge my credit card.
 - MasterCard Visa AmEx Discover

Card Number _____ Exp. Date _____

Signature _____

Bill me.

All checks must be in U.S. dollars or equivalent. North America, \$187. Elsewhere, \$217 (includes air mail delivery). Please make checks payable to Distribution Center Management.

Mail: Distribution Center Management
712 Main Street — Suite 187B
Boonton, NJ 07005

Phone: (973) 265-2300

Fax: (973) 402-6056

Email: info@DistributionGroup.com

Web: www.DistributionGroup.com

Name _____

Title _____

Firm _____

Address _____

City _____ State _____

Zip _____ Country _____

Phone _____ Fax _____

Email _____

No-risk, money-back guarantee:

You may cancel your subscription at any time for a full, 100% refund.