

Three ways to prepare for **GROWTH** (while containing costs)

We asked a panel with more than 75 years combined experience in logistics and distribution to identify three warehouse/DC best practices that improve the distribution network, reduce the work, and leverage the most important asset in any organization—its people.

By Maida Napolitano, Contributing Editor

Economic conditions may be much improved from the dismal depths from which they emerged, but we're not quite out of the woods yet. A status quo of high unemployment, sagging consumer demand, and lingering financial constraints has kept controlling costs the prevailing

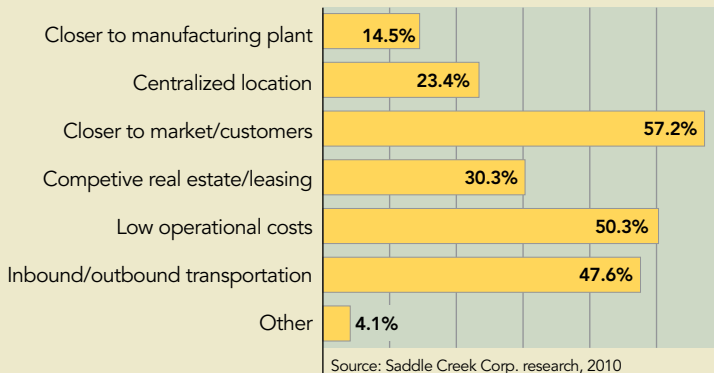
theme in warehouse and distribution management.

As Vice President of IT Business Systems for Tommy Hilfiger USA, Inc. and president of the Council of Supply Chain Management Professionals (CSCMP), Bob Silverman says he's seeing this scenario play out firsthand. "The recession has forced companies to do more with less, and often capital isn't available," he says. "Even when a solid ROI can be demonstrated with a project that would improve distribution operations, the project sponsor can't get it funded."

Ann Elliott, CEO of Solertis Logistics Consulting, agrees that money remains tight across the board. "Many operations have been challenged to perform with fewer people and a smaller payroll." Unfortunately, a smaller team can sometimes compromise the ability for a company to provide the highest levels of service that customers have been expecting.

In fact, the effects of this economic

Optimal characteristics for a DC location

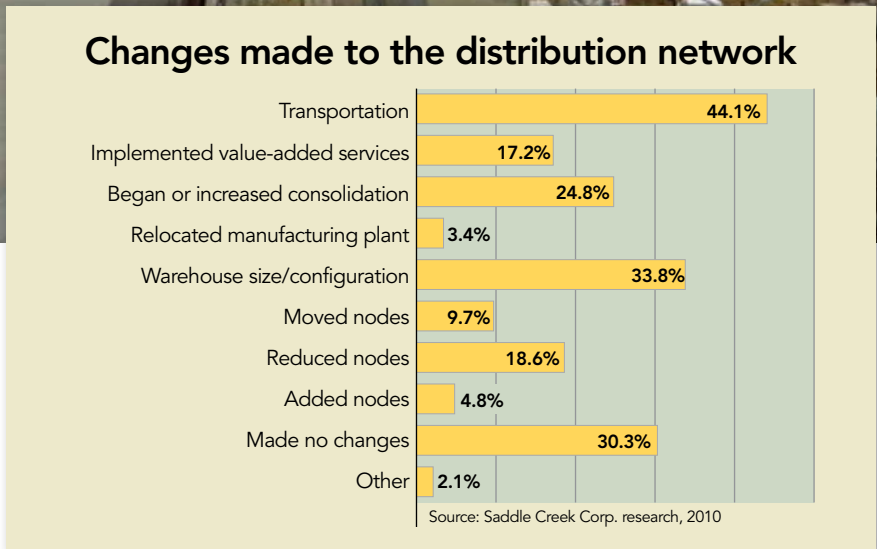




tsunami reverberate far beyond the four walls of the warehouse/DC to the entire distribution network. In a recent survey conducted by Saddle Creek Corporation on distribution network trends, two-thirds of the 235 responding logistics professionals confirmed that they have made changes to their supply chain distribution network design as a result of recent economic challenges.

“Companies have had to reevaluate their supply chains carefully in an effort to identify opportunities to create efficiencies and cut costs,” explains Tom Patterson, senior vice president of warehouse operations for Saddle Creek Corporation. “Adjusting network strategies has allowed many companies to accommodate marketplace demands and significantly impact their operating costs while maintaining strong service levels.”

That said, here’s the \$64,000 question for logistics management professionals: How do you prepare your operation for growth while still keeping a close eye on controlling costs?



To help answer this daunting question, we assembled this panel of experts who have more than 75 years combined experience in logistics and distribution. They’ve identified three warehouse/DC best practices that steer clear from fancy equipment investment and, instead, focus on tried-and-tested solutions that improve the distribution network, reduce the work, and leverage the most important asset in any organization—its people. But better yet, these three best practices have a history of resulting in substantial benefits with minimal costs.

So, pay attention because these solutions may not only cut your costs today, but may serve as a point of differentiation

for your business as the economy slowly but surely improves.

Redesign your distribution network to match today’s needs.

With such a fluid economy, changes to your business and your customers’ requirements are inevitable. It’s always a smart move to regularly improve and update your network. Of course, the 25 percent reduction in distribution costs that many companies realize from a network study doesn’t hurt either.

So, where should you locate your DCs so as to optimize your network? Respondents to the Saddle Creek

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survey clearly had their preferences. Most said that they valued a location closer to their market or customers (57.2 percent) rather than a location closer to the manufacturing plant (14.5 percent), suggesting the priority placed on last-mile distribution.

“That last mile can be a challenging and costly segment of the supply chain for many companies because economies of scale break down due to smaller shipment sizes and traffic congestion in urban settings,” explains Saddle Creek’s Patterson.

Low operational costs and readily available inbound/outbound transportation also rated highly when selecting a geographic location (50.3 percent and 47.6 percent respectively). Patterson believes that this is because managers are looking more closely at their total cost, recognizing the value of a more holistic approach to their business.

The survey also reveals how companies are zeroing in on three key areas for change in their distribution network design: transportation (44.1 percent), warehouse size and/or configuration (33.8 percent), and consolidation of shipments from suppliers (24.8 percent). And when asked which network changes were most effective, respondents cited changes in transportation such as modal shifts, re-negotiating fuel surcharges, and transportation network restructuring. Some are changing packaging and product design to help



increase freight density and lower freight costs.

At the warehouse level, many companies, particularly those with \$2.5 billion or more in gross global sales, have reported changing the size/configuration of their warehouses. Other

changes at the warehouse level include: improving inventory control, reconfiguring warehouse layout/racking and slotting, adding small parcel shipping lines and stations, adding a slow-moving section to a DC, simplifying warehouse processes, renegotiating real estate leases, and right-sizing regional nodes.

To prepare for growth in such an unpredictable market, Patterson suggests a shared-space approach to strike a better balance between fixed and vari-

able space as a way to improve supply chain effectiveness. In a shared-space approach, a third-party provider manages two or more client operations in a single facility with overflow capacity. This allows companies to bring products closer to market without increasing overhead, manage seasonal or promotional fluctuations, and accommodate business growth.

Companies are able to adapt more quickly to changes in the marketplace and better serve their customers without investing in permanent personnel, space, and equipment. Patterson cites an example in their Lakeland, Fla., campus where a shared-space approach works very effectively for two of Saddle Creek’s customers: a well-known beverage producer and a leading food manufacturer.

“These two companies share space in a 487,000-square-foot warehouse that offers fixed space for each customer on opposite ends of the facility and a central area to handle any overflow on an as-needed basis,” he says. “The arrangement allows the beverage customer to improve efficiencies by reducing its number of distribution centers while accommodating seasonal business fluctuations. At the same time, it gives the food manufacturer a cost-effective, centrally-located space to accommodate anticipated growth.”

Patterson adds that neither customer pays for unused space, and both now have the flexibility to handle whatever the future might bring.

Changes made to the distribution network by company size

	Less than \$100 million	\$100 to \$500 million	\$500 million to less than \$1 billion	\$1 billion to less than \$2.5 billion	\$2.5 billion or more
Changes to transportation	48.5%	43.9%	62.5%	42.1%	38.7%
Implemented value-added service	30.3%	19.5%	0.0%	10.5%	12.9%
Began or increased consolidation	27.3%	31.7%	18.8%	15.8%	25.8%
Relocated manufacturing plant	0.0%	2.4%	0.0%	0.0%	12.9%
Changed warehouse size/configuration	27.3%	31.7%	50.0%	10.5%	45.2%
Moved nodes to new locations	6.1%	12.2%	0.0%	0.0%	22.6%
Reduced nodes	6.1%	14.6%	18.8%	21.1%	38.7%
Added nodes	3.0%	9.8%	0.0%	0.0%	6.5%
Made no changes	33.3%	34.1%	25.0%	31.6%	22.6%

Source: Saddle Creek Corp. research, 2010

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Leverage technology to improve efficiency.

In many industries the trend has been towards smaller, more frequent orders. Retailers who used to place bi-monthly bulk orders for their distribution centers are now placing thrice-weekly orders for individual stores. These types of orders have put more of a burden on what is already the most labor-intensive area in the warehouse: picking.

Tommy Hilfiger's Bob Silverman suggests utilizing technology to reduce the amount of work expended by pickers to get their jobs done. "Often by studying profiles of how work flows, similarities can be uncovered to improve productivity," he explains. With pickers spending 80 percent of their time traveling and only 20 percent on picking, Silverman proposes batch-picking orders

requiring significant travel distances to dramatically reduce unnecessary travel.

Small orders would be combined one of two ways—either a master pick list would be generated for the aggregation of orders still allowing them to be individually picked, or the SKUs for multiple orders would be consolidated into a batch and individual orders could be subsequently picked downstream.

"Some warehouse management systems (WMS) have the functionality to intelligently aggregate orders or other tasks," says Silverman, "but often it's easier to have a programmer develop a small application to combine orders to create a wave based on a

criteria that is most appropriate to your operation." For example, orders with the same SKU, one-line or one-piece orders can be combined and batch picked separately from the rest of the orders.



This same concept of uncovering similarities in picking can also be applied to replenishment tasks. Let's say a DC has four sizes of the same product. If this product was stored in reserved storage by size, four different pallets would have to be retrieved to replenish the product in a forward-pick area. If the sizes were mixed on the pallets, perhaps only two pallets would have to be retrieved to fulfill the replenishment.

What benefits can be expected?

Guide to best practices in picking and packing

The chart below is an excerpt from Warehousing Education and Research Council's (WERC) *Warehousing and Fulfillment Process Benchmark & Best Practices Guide*. WERC uses this guide in their recently launched WERC Warehouse Certification Program in which the organization can certify an individual warehouse facility's capabilities and ability to perform core warehousing functions. For more information about this program, go to werc.org.

Pick & Pack	Best Practice
Strategy and methods	Picking strategy supports current and forecasted customer requirements and will include multiple optimized pick/pack processes. Optimized wave picking and task interleaving.
	Review pick processes and strategy for each product at least once per quarter. Modeling and simulations are run frequently.
Tactics and equipment	Pick areas are optimized to support current and flexible enough to handle future demand.
	Conveyors or other automated MHE to bring orders into each required pick zone, eliminating travel time for pickers (Pick to Light, AR/AS, flow rack, auto pick equipment, may be used).
	Operator pick efficiency and travel time are system managed and optimized.
	All pick/pack areas laid out ergonomically to reduce employee fatigue and injury.
	Excellent housekeeping.
Pick documents	Pick travel path minimization through order picking in travel path sequence using serpentine approach.
	Batch picking of the same SKUs for multiple orders, or wave pick sequencing to plan picks per zone in advance.
Transactions	RF terminals, wireless speech system, or similar 2-way data transfer system enables automated order communication to personnel, portable printers used.
	Transactions are in real time.
	Single system of record, no data redundancies.
Performance	RFID tag/Electronic Product Code tracking integrated into pick process when required.
	Record of daily activity by major task and staffing levels displayed on warehouse floor. Employees are included in continuous improvement programs.
	Productivity targets set and measured, showing an improving trend and/or meeting goals.
	Customers can review performance activity level via on-line reporting.

Source: Supply Chain Visions & WERC, 2010

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Silverman reports significant productivity savings often in the range of 20 percent to 30 percent for the tasks that are consolidated. “Of course, you’ll ultimately need to confirm to the WMS that these orders have been correctly picked, so everything reconciles properly—sometimes this can be accomplished by the external program electronically confirming the picks.” He adds that for operations without a WMS, this external application can provide the systemic picking intelligence that is often otherwise lacking.

Cross-train your “All Stars”

To weather the storm, a typical knee-jerk reaction in many companies has been to significantly reduce staff and batten down the hatches. “Getting out the hatchet and chopping staff levels is never a good long-term strategy,”

says Solertis’ Elliott. “A better response that we observed in several of our clients was to avoid layoffs by freezing wages and implementing salary reductions of up to 10 percent.”

As a best practice, she suggests cross-training your top people. “Pick some of your best performers and most reliable staff members and rotate them through areas that interest them and through areas that you want to increase your pool of talent,” she explains.

If you don’t already have a formal cross training program in place, she recommends that you create one with prestige, visibility, and accolades to acknowledge and reward your best per-



formers without adding additional cost to your operation. “This will demonstrate that you are investing in your staff and will further engender their loyalty, trust, and support—encouraging your best people to stay through

the lean times.”

When the going gets tough, good managers are those who step up to become better leaders. It’s the responsibility of these leaders to innovate creative solutions to everyday problems, instead of doing things the way they always have. That’s what “best practice” is all about. □

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