

2012

# Warehouse/DC Equipment and Technology Survey: Momentum stalled

**Our 2012 exclusive study finds that overall market uncertainty has curtailed materials handling infrastructure spending and has increased facility consolidation and engineered process improvements. Cost containment has returned as the most important issue of the day.**

BY MAIDA NAPOLITANO, CONTRIBUTING EDITOR

## **2012 State of Warehouse/DC Equipment and Technology Survey**

Questionnaires were e-mailed in January to *Logistics Management* and *Modern Materials Handling* readers by Peerless Research Group (PRG) yielding 314 total respondents from manufacturing (30 percent), warehousing (30 percent), corporate (29 percent), and aligned logistics professionals (11 percent). Revenues of responding companies range from large—24 percent have sales of \$500 million or more—to small—45 percent are under \$50 million. Only those responses from management and personnel involved in the purchase decision process of materials handling solutions were considered.

**W**hat a difference a year makes. Our 2011 results showed that we were finally turning the corner, with budgets for materials handling equipment spending increasing from an average of \$395,000 in 2010 to \$451,000 in 2011. However, our 2012 *State of Warehouse/DC Equipment and Technology Survey* conducted for *Logistics Management* and sister publication *Modern Materials Handling* by Peerless Research Group (PRG) shows forward momentum has stalled.

Average anticipated spending over the next 18 months has barely budged at \$451,700. In an economy that's still fighting for recovery, 60 percent of the survey respondents are either taking a "wait-and-see" approach by only making purchases that are critical for business, or holding off on any investing



DANIEL GUIDERA

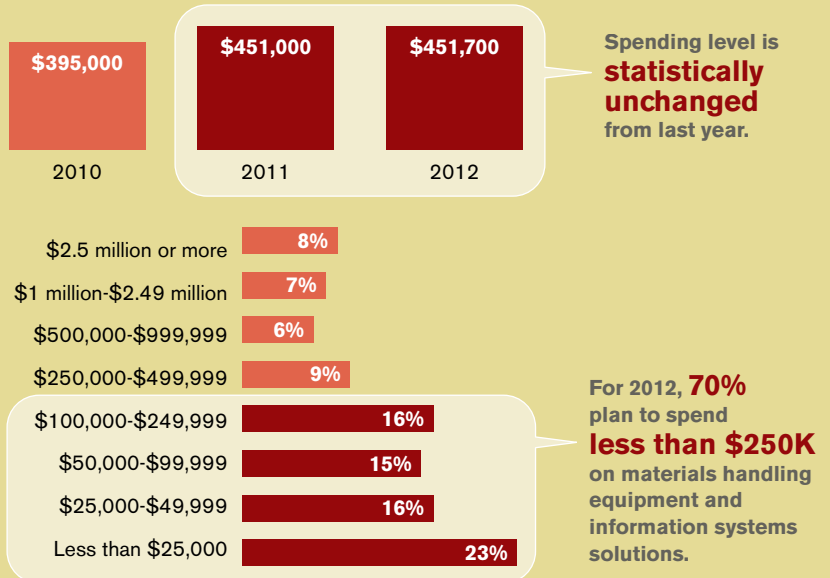
whatsoever. Ninety-two percent of the respondents have rated cost containment as their number one most important issue today.

Our experts are not surprised. “Market uncertainty has curtailed materials handling infrastructure spending,” says Lawrence Dean Shemesh, this year’s president of the Warehousing Education and Research Council (WERC) and president and CEO of OPSdesign Consulting, a NJ-based supply chain consulting firm. “We’ve seen a profound shift to facility consolidations and labor reduction through engineered process improvements that are not reliant upon materials handling spending, but are aimed at reducing costs.”

According to Robert Muller, senior consultant and engineer also from OPSdesign, in the past two years, companies are investing only when they

## Level of spending in the next 18 months

In total, over the next 18 months, approximately how much do you expect to spend on materials handling equipment and information systems solutions?



Source: Peerless Research Group (PRG)

really have to. “And respondents are not investing on extensive materials handling solutions, even those with a favorable three-year payback. Instead, they’re looking for a quicker return on their investment.”

Over the next few pages we’ll dig deeper into the data gleaned from the 2012 survey results while tracking changes in the materials handling market over the past year. We’ll then zoom in on specific areas that managers are planning to invest, track which “best practices” respondents are considering, identify the hottest green initiatives, and then peer into our respondents’ outlook for the future.

**Top level findings: No quantum leaps**

A closer look at respondents’ spending plans shows that in the next 18 months 70 percent are going to be investing less than \$250,000 on materials handling and information systems solutions. “These are not major materials handling warehousing and distribution projects,” notes Shemesh. “There may



**“We’ve seen a profound shift to facility consolidations and labor reduction through engineered process improvements that are not reliant upon materials handling spending, but are aimed at reducing costs.”**

— Larry Shemesh, president of WERC, CEO of OPSdesign

be some marginal improvement that they’re looking for in terms of equipment configuration and layout, but based on these numbers they’re not engaging in quantum leaps in terms of technology.”

Muller agrees: “The respondents that are actually doing real upgrade projects are those 15 percent in the million dollar-plus range where companies may be actively investing in new software or new equipment. Everyone else is probably adding some racks or some lift trucks as existing infrastructure ages and needs replacement.”

In fact, this year there has even been a significant drop in the number of respondents that have a pre-approved annual capital expenditures budget for materials handling solutions—from 60

percent in 2011 down to 48 percent this year. Shemesh speculates that funds that organizations have available to invest in themselves are being funneled to what he calls “top-line generating” activities, such as marketing and research and development, as opposed to warehouses and distribution operations. “Concurrently, by spending more on these top-line activities, they’re squeezing every last drop of productivity out of the existing infrastructure systems on their backend or support operations.”

On average, manufacturing and warehousing operations are still operating at activity levels of about 60 percent of capacity—a steady decline from pre-2008 levels of over 70 percent. Although the slow economy may have had a thing or two to do with this decline, Muller also attributes this to the smaller lot runs occurring as a result of more widespread implementation of just-in-time (JIT) strategies.

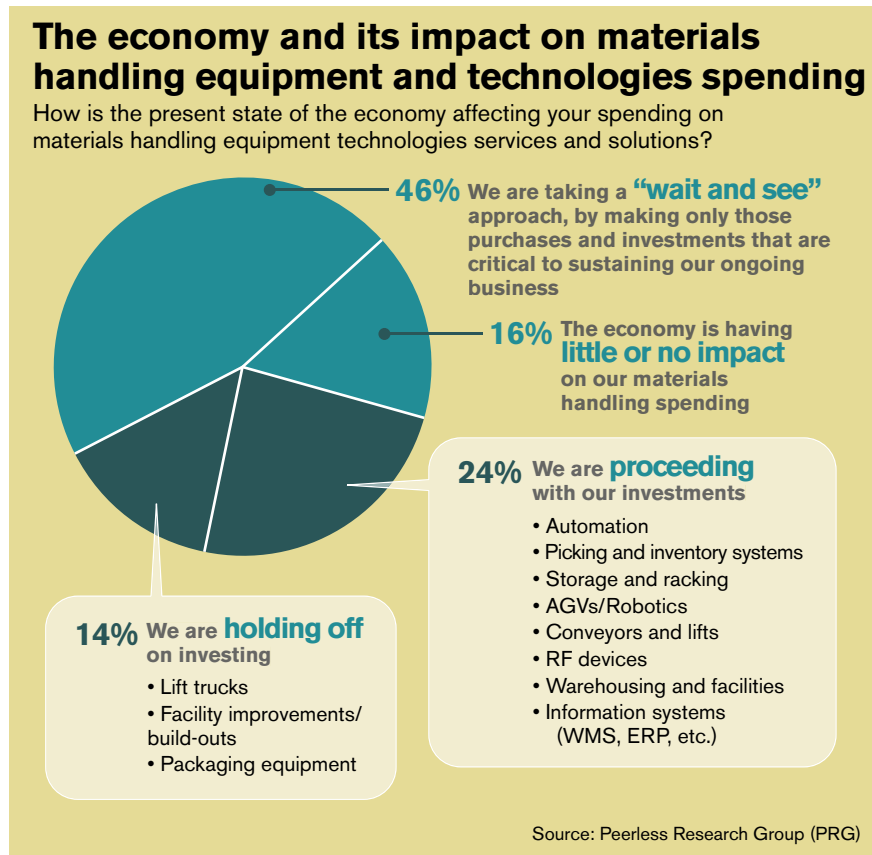
“Production runs for many of our manufacturing clients are getting smaller,” says Muller. “They’re using the same amount of resources to produce a little bit less.” He says that JIT is also being pushed in many warehouses. “Instead of picking full pallets, they’re picking at the layer or case level, so as to support the JIT programs of their customers.”

These days, adds Shemesh, no company wants to hold inventory in its supply chain. “As a result, vendors and suppliers who have JIT capabilities are better poised to serve their clients and will gain market share as a result.”

**What’s on the shopping list?**

While the budget for this year’s materials handling spending is still not as big as many had hoped, there are a number of key areas in which supply chain organizations are planning to invest over the next 18 months.

The top three are (1) new equipment/new equipment upgrades (73



percent); (2) information technology hardware/software (51 percent), and (3) staffing/labor (40 percent). However, we found a significant increase in the number of respondents who will be spending on maintenance services this year—37 percent, up from 23 percent over the previous year. “Companies are holding on to existing infrastructure and applying the ‘Band Aid, bubble gum, and duct tape’ that might be necessary to keep them running,” says Shemesh.

There also seems to be a greater focus on enterprise applications with 23 percent of respondents planning to spend on enterprise resource planning (ERP) and customer relationship management (CRM) systems, up from 12 percent last year. Shemesh attributes this to the increasing numbers of acquisitions and mergers he’s observed over the past two years. He relates how these mergers may sometimes wind up with two enterprise systems such as SAP on one side and Oracle on the other side. “Much effort must then be expended on either choosing one of these two systems or bridging the two with some middleware or fully functional warehouse management systems (WMS) that reports and harvests from each ERP,” says Shemesh.

Lift trucks and accessories actually top the list for specific materials handling equipment that companies plan to evaluate or consider in the next 12 months, while WMS and ERP top the list for information management systems.

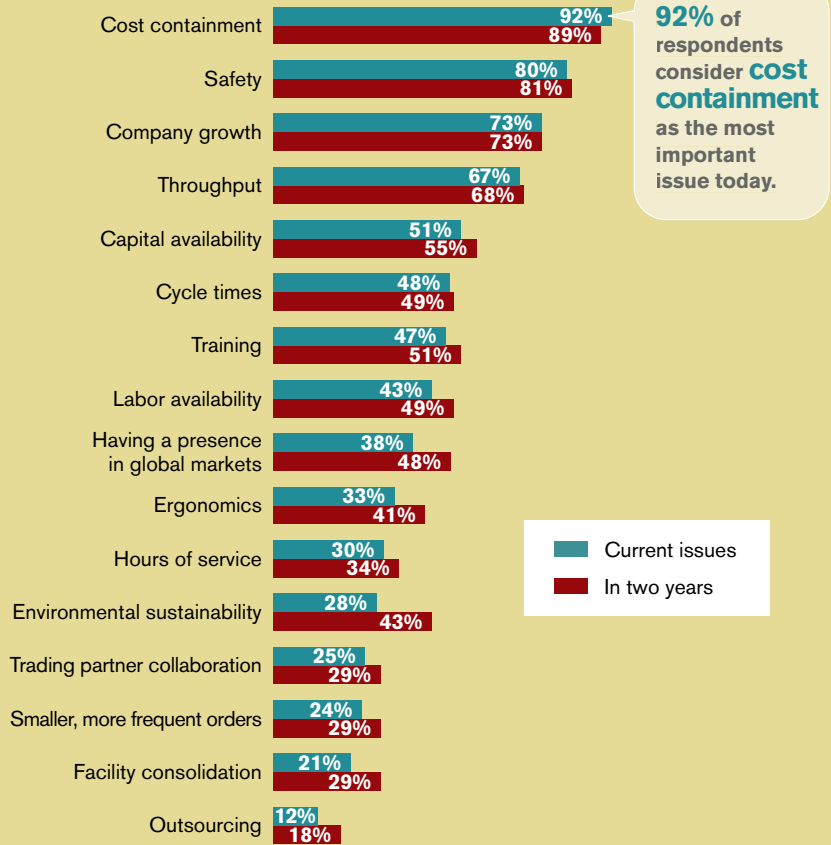
### 2012 best practices on the rise

More JIT initiatives have also put greater emphasis on workload planning and labor productivity and measurement best practices for those in distribution. “With JIT, particularly in retail, there’s uncertainty in what orders are coming in next week and the week after,” notes Muller.

“The workload is difficult to judge as volumes can be 20 percent less one week than the previous week. Without good workload planning, it’s difficult for companies to manage their staffing and workload.” Shemesh suggests leveraging your WMS to increase the real-time visibility of product within the warehouse, while developing key performance indicators (KPIs) and other standards to

## Important issues today and in two years

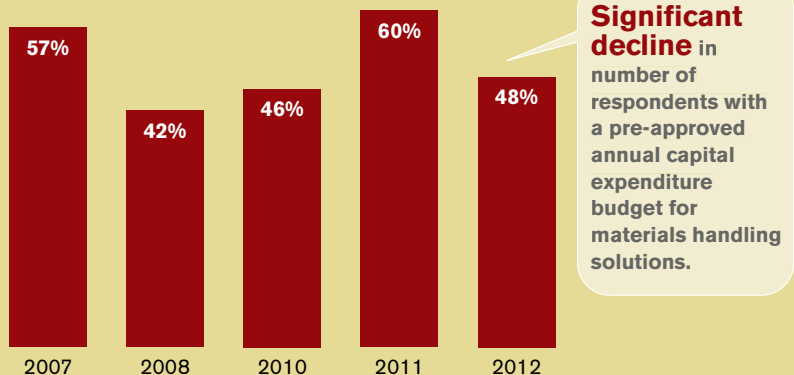
How important are each of these issues today? Two years from now, how important do you expect these issues to be?



Source: Peerless Research Group (PRG)

## Pre-approved capital budget for materials handling solutions

Do you have a pre-approved annual capital expenditures budget for materials handling solutions?



Source: Peerless Research Group (PRG)

manage employees and allow you to better plan your operation moving forward. “Of course, sharing real-time business intelligence between customer and supplier will help smooth the operational turbulence,” says Shemesh.

Another best practice that’s continuing to gain prominence according to our respondents is same-day order shipping. Today’s consumers have been spoiled by the speed-of-light Internet connectivity and the handful of companies such as Zappos and Amazon that pioneered same-day order shipping or next-day order shipping. “It’s become something that consumers are expecting at this point in time,” says Shemesh.

Recycling remains the top green initiative with 78 percent of respondents putting some level of program into action, followed closely by lighting fixtures and/or controls (69 percent), and fans to circulate cool or warm air (58 percent). “Social and political pressure from the marketing and public relations side of the business to be environmentally responsible is becoming increasingly apparent,” states Shemesh. “But at the same time they’re not pulling the trigger on these projects unless there’s a reasonable return on investment that comes along with them.”

**Risk management gains momentum**

What happens in the event of natural disasters, power failures, or system crashes? While most (79 percent) say that they have a risk management plan, Shemesh is surprised by the 29 percent

**“The respondents that are actually doing real upgrade projects are those 15 percent in the million-dollar-plus range where companies may be actively investing in new software or new equipment.”**

— Robert Muller, senior consultant and engineer, OPSdesign

of respondents that have yet to put a plan into place. “In most of our conversations with clients, it’s one of the first questions that comes up, particularly when you’re looking at single distribution center models,” says Shemesh. “Those supply chain organizations not addressing risk mitigation tactics are putting themselves in grave danger.”

When respondents were asked in which areas they had risk management plans in place, supplier risk was at the top of the list. Muller says he can understand why this is the top most concern. “With the volatility in the overseas mar-

ket, suppliers can go out of business.” He points out how delays in overseas shipping from suppliers can spell disaster—particularly for JIT operations.

**Sales secrets**

Shifting gears to the equipment purchase process, our survey shows how respondents clearly expect more from their vendors and providers beyond the actual purchase of a materials handling solution. Eighty-nine percent of respondents consider after-sales service and support as high priorities. More specifically, spare parts inventory availability (64%) top the list as the most important after-sales support service. Last year, maintenance was number one.

Shemesh believes companies are looking for ways to cut costs. “They’re reducing their expenditure on preventative maintenance, driving their equipment to the ground. When it breaks, which it will, they need to know that their spare parts inventory is available.”

**What’s ahead?**

With budgets flat, Shemesh already sees how the bulk of his consulting activity has been coming from consolidations, mergers and acquisitions, cost-cutting measures and “have-to” projects. In particular, he notes that supply chain software specification, selection, and integration projects are also becoming an increasing percentage of his overall consulting projects in recent years.

When respondents plan on only a modest investment in capital, he believes those projects are in essence, “Triage work aimed at stopping the proverbial bleeding. Wish-list projects are just not making it onto the radar screen.”

And with the economy remaining the way it is, the materials handling equipment and technology industry’s short-term future is simply not as rosy as previous years. In the next two to three years, fewer respondents (55 percent, down from 62 percent) are planning to increase their spending. “They might have been over-optimistic building excess capacity in the past and are just now realizing it,” adds Muller. □

—Maida Napolitano is a Contributing Editor to Logistics Management

