

ADDRESSING THE IMPACTS OF GROWTH ON DISTRIBUTION

Wise decisions are necessary for small warehouses taxed with supporting growth.

Ordinarily, impressive sales growth makes the CEO, sales executives and stakeholders very happy. But sales growth does not always translate into additional profits.

Depending on your warehousing operations, chances are you may be the one responsible for fulfilling increased demand with the same distribution system that was at capacity before demand increased. After all, it is the distribution and logistics managers who are tasked with supporting growth.

It is not unusual for the boardroom to commit resources to the front end of the business—sales, marketing, product development—only to rely on a fulfillment system that is already at capacity. Delivery is the moment of truth for any brand. Increased market share and sales growth can be quickly undermined by boardroom neglect on the back end of the business. It is for this reason, distribution should be advocated as a frontline business strategy—as a way to increase profitability and brand equity while sustaining growth.

A growing company running an undersized, suboptimal warehouse needs to embrace growth and resist the temptation to simply throw labor at the problem. There are already a plethora of pressures being put on the warehouse brought on by the on-demand environment that has facilitated SKU proliferation, value-added services and more customization. On the flip side, the procurement department is buying in bulk for cost savings, creating rising congestion, inefficiencies and safety issues. As a result, accuracy and productivity levels decline. In the end, adding labor alone will simply increase labor costs and congestion with little to no productivity increases.

Don't approach the challenge of increased fulfillment requirements by creating more congestion and increased costs. Ultimately, hiring additional labor is a quick fix, but it is a band-aid solution that may not be appropriate and cost-effective for the long term.

When running out of room, look at your options. Do better housekeeping by re-slotting your inventory, and in so doing better utilize the cube of your warehouse. If you pick primarily from reserve, you may need to slot the higher-velocity items into an additional pick line. An evaluation of order profiles may suggest modifying certain carton sizes. For example, manufacturers should pack product that is ordered frequently but in smaller quantities per order in smaller cartons.

One of the first areas that need to be addressed is the reserve storage area. If reserve storage space has completely run out, you may move pallets of slower moving product to public storage or a leased warehouse. In this case, the inventory with the most days on hand would be shipped to the outside warehouse. A small staff for

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loading and unloading product will allow you to maintain control of the inspection and flow processes. Nonetheless, outside warehouses, especially if located a distance away, are often uneconomical since transferring product between facilities costs time and money.

Insufficient throughput rates may not be related to lack of space but due to inefficient material handling operations. Smaller scale distribution systems improvements may give you the processes you need to cost-effectively stay ahead of demand.

Because small warehouses are typically manual operations, their operators need to be creative problem solvers. Installing a small amount of automation or changing your processes could do wonders for productivity rates. Semi-automatic tapers and mechanized void-fill systems will increase packing efficiencies. Scales and manifest systems may be practical options here as well. Picking rates can be increased by installing gravity conveyor throughout the pick lines. Pick-and-pass picking may be a natural consideration for picking up the pace with high-velocity items.

When retrofitting your existing system, improve your operation wisely. For example, install equipment that is cost-effectively moveable in case you do need to relocate it in the future. Powered conveyor is expensive to move because of the labor costs associated with de-installation and re-installation.

Despite your operational improvements and space utilization efforts, there may come a point when building a larger facility or expanding your existing facility is the right thing to do. For example, a growing company may be able to accommodate up to five years of growth and drastically increase productivity in a well-planned facility. Nonetheless, new facilities come at a cost and a risk. It's important to know the operating differences between a small, manual system and a larger, more advanced system and the required steps to making the transition.

The expected costs of building a new facility include: a network analysis to determine the size and location of the facility; the initial purchase of the land; the cost of building construction; research and procurement of system equipment; implementation of material handling equipment and systems; the transfer of labor, office supplies and inventory; the time investment for the entire project; etc. We're talking about a multi-million dollar capital investment. You must do



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your homework to make sure that such an investment is justified. Additionally, the planned and designed solution must be flexible and scalable enough to meet your future needs while achieving a return on investment.

If you're growing and you want to continue to do so, you may have to change the size of your distribution center. Becoming a medium-sized warehouse or even a large warehouse requires operational and technological advancements. Be prepared.

Small warehouses usually don't have strictly defined, formal processes and procedures. Larger warehouses tend to have set procedures to keep control and tasks more efficient. Since you will need commonality of process no matter the worker, formal processes and strict guidelines for activities will be necessary even though your work force may not increase. While growing, set procedures and create standards and training material to do so wisely. You will need to change over time, so plan for it.

Small warehouses are primarily run with paper pick lists and refer to routing guides on hard copies or CD. These warehouses are not prepared for sophisticated routing guides and compliance programs required by most large customers. Medium-sized warehouses will potentially move to an ERP or mid- to lower-tier WMS. This provides the necessary level of control, tracking, and compliance for label formats and shipping procedures.

Small warehouses sometimes use compliance software for appropriate shipping labels and advanced shipment notices (ASNs). Larger distribution centers have more sophisticated electronic data interchanges and the WMS is directing the carton sortation according to shipment rules and instructions.

Parcel shippers typically use a manifesting system to generate labels for the carrier. A minimum number of parcels per day is defined by the parcel carriers, who do not allow manifesting for amounts that are below this specified minimum. The small warehouses that don't have a high enough volume of throughput for a manifesting system may use an online pick-up log or carbon paper for parcel processing.

Eventually, growing companies will naturally evolve to more complex and sophisticated distribution environments. Once an operation reaches the point where functions can't be handled well, a WMS should be adopted. Not all warehouse management systems are created equal. You need to investigate a number of WMS offerings and perform a gap analysis. This involves identifying the required system functionality for the new operation to support the new throughput requirements. A gap analysis simply identifies the functional requirements needed that you do not currently have. At this point a warehouse control system (WCS), the software that sits between the WMS and the automated equipment, should be considered.

- ☒ So if you're quickly growing, don't be fraught with anxiety. You need to get your bearings and handle the growth effectively. The best steps are to implement lower-costing modifications for short-term improvements while adding labor wisely. Build a business case through data analysis and future forecasts for projected growth. And most importantly, use this business case to advocate distribution as a frontline business strategy so that you have the resources necessary to distribute on demand and sustain long-term growth.

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