

ARTICLE

# Why Warehouse Optimization Can't Wait

*Sage Business Cloud*



For distribution and logistics companies, warehouse operations are the backbone of the business. Warehouse operations affect everything from receiving and intake of raw materials or finished goods to final delivery of your product to customers' doors, so efficiency and productivity are of the utmost importance. Whether you're a small distributor, a mid-sized manufacturer or even a large retailer, warehouse optimization should be the top-most concern as no other area of the business can deliver greater gains in efficiency, accuracy, speed, customer service, and ultimately, profitability.

### Where is the Money Going?

Warehouse layout issues, manual inventory errors, and productivity challenges are difficult to track and measure. However, according to transportation and logistics luminary John Larkin of Clarendon Capital, on average, large retailers' warehouse \$1.43 in inventory for every dollar sold; a strong indication they have more product on hand than necessary. Picking and mis-shipment errors, which are also easy to track, add up quickly according to warehouse automation solutions provider Intermec, at \$22 per shipment or roughly \$390,000 for each distribution center - every year. Clearly, there are opportunities to improve efficiencies and increase margins in warehouse operations.

### What Warehouse Managers Need to Know

Often warehouse operators understand challenges that need to be addressed but are too busy dealing with immediate situations to implement a plan that will remedy the root causes. This can create a Catch 22 for warehouse operators - unless they step back, assess, and prioritize which roadblocks to tackle first:

- 1. Inventory Roadblocks:** Typical inventory challenges involve overstock and accuracy. As mentioned, overstock contributes significantly to reducing the operating capital of warehouse operations by tying up funds in unsold products. While most often referred to as overstock, it's a form of inaccuracy that happens when warehouse managers can't account for current stock levels and opt to add inventory as a stopgap measure to ensure items are never on backorder. Other inventory concerns come in the way of measurement errors tied to manual processes in both existing and incoming inventory tracking.
- 2. Productivity Roadblocks:** Due to the enormous costs tied to mis-shipments and mispicks, sometimes the right remedy involves

restructuring the warehouse layout to ensure efficiency in product storage and order picking processes. For example, when rarely sold items are kept toward the front of the warehouse it often bogs down both inventory management and order picking. Therefore, scrutinizing where products are stored in relation to the frequency in which they leave the warehouse is important. Other productivity inefficiencies can be rectified by deploying barcode scanners and other technologies and reducing or eliminating manual processes such as paper documents that follow orders as they move through the warehouse.

- 3. Human Resource Roadblocks:** Systems are composed of the triad of process, technology and people and warehouse operations are no different. Valuable human resources should be doing what machines or software cannot do. If you have implemented optimizations in both processes and technology but are not achieving the benefits you anticipated, the issue may be human-based roadblocks.

In contrast, when managers and other warehouse staff feel supported, important, and empowered, they respond with loyalty and ownership that drives accuracy productivity and lowers costs. Whether it's by rewarding employees, or deploying technology and tools that increase productivity, the goal is to encourage and develop a team mentality that is supportive and drives efficiency.

Pay attention to culture as it substantially influences the productivity of your human resources. A culture that values constant improvement, collaboration and thorough communications will result in high-performing teams that will solve problems quickly, adapt to change, and optimize operations effectively.

**“Nearly three-quarters (74%) of managers believe that increasing automation within the distribution center would have the greatest impact in increasing profitability. The same percentage also believe this to be true for adoption of new technology”**

- Intermec

If any of these roadblocks sound familiar it might be time to start thinking about technology and improved communications and education opportunities that play to your management strengths. In addition, motivating employees through individual and team incentives and other rewards work well to address inefficiencies specific to your staff.

#### **Start with a Warehouse Assessment**

Before challenges can be course-corrected at an operational level, it's important to assess and evaluate the current system. The place to start is with a formal warehouse assessment, which can involve a consultant or an internal team to evaluate:

- The speed products move through the warehouse and which are top sellers
- The margin of error on incoming and existing inventory counts
- Tracking, measuring, and documenting process changes
- Warehouse layout and design in relation to picking
- Rate of mis-shipments and mispicks

#### **Finding the Right Solution**

Once your warehousing picture is clarified and challenges are revealed, a strategy can be developed based on priorities. In setting those priorities, it's tempting to solely focus on the changes that will result in the biggest productivity gains. However, don't ignore those "quick hit" items. Sometimes smaller changes can be realized most quickly, showing early ROI and providing proof points for follow-on improvements.

Most warehouse managers find that when seeking to improve logistics, inventory accuracy, picking, and overall efficiency, automation yields the most dramatic improvements by far. As one example, Supply Chain 247 reports that when operations upgrade their pick/inventory systems from paper-

and-pencil to a more integrated form of order processing, warehouse operations experience on average a 25% gain in overall productivity, a 10-20% gain in space use, and 15-30% more efficient use of stock.

Automation capabilities that significantly improve visibility and functionality can take many forms. Solutions range from barcoding systems to minimize manual data entry errors, to automatic conveyor systems to minimize manual labor to data integration solutions that equip managers with better visibility to support decision-making and forecasting.

#### **Building an Optimal Future with your Team**

As your team moves toward the future, it's important to involve everyone that touches warehousing. Ask for input from the team and take enough time to find the right combination of tools in order to ensure profitability and efficiency into the future. Look at current processes including the documentation and education you provide to warehouse workers, various hardware and software options, and the management styles that may need to be augmented or incentivized. Implement systems that increase automation and track results after implementation in order to continually course-correct and optimize. Doing so will drive consistency internally and reflect externally in improved customer service through timely accurate shipments and accurate information. But perhaps most importantly, your organization will be positioned for growth to meet the growing demand for warehouse and distribution operations.



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