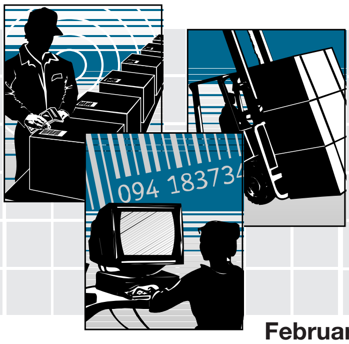

Distribution Center MANAGEMENT

February 2007 Managing people, materials and costs in the warehouse or DC

From the Golden Zone

Network rationalization: Consider it your annual physical

By Michael L. Davis

In a world of mergers and acquisitions, increased fuel and subsequent transportation costs, downsizing and tightening up, and general uneasiness with the status quo, those responsible for running their companies are analyzing their distribution networks now more than ever.

Some shut their doors, scan last quarter's numbers, and puzzle over what to do. But you may want to join those who decide to orchestrate full-blown, formal network rationalizations.

How do you begin?

Take the first step. Gather data about everything: Product weight and size. Volumes, ship-to points, customer base, and shipment characteristics. Labor market. Inventory units and turns. Prepaid vendors versus those who ship collect. Domestic versus imported product.

What you're looking for is information about whether any or all of your facilities are nearing over-capacity, whether transportation costs are outpacing sales growth, or whether delivery cycle times are disappointing.

These questions need answers:

• How can we improve customer service?

• How can we reduce distribution and shipping or freight costs? (Don't forget inbound transportation costs, such as prepaid freight.)

• How are shipping and freight costs expected to change over the next five years?

• Is it even possible to improve customer service and reduce costs?

• Where should our distribution facilities be located?

• What size and configuration should they be?

• How can we create a five-year plan for change we can manage *and* that will help us meet our business goals?

Retailer consolidates network to balance operations

A large, fast-growing specialty retailer of pet food and supplies needed to develop a plan for immediately increasing network capacity. The company was challenged by decreased distribution capacity due to inadequate size of facilities, some of which were owned and some leased, with minimal automation and conspicuous capacity constraints.

With Sedlak's help, the company determined the optimal number, location, size, and utilization of distribution centers in its network. Several scenarios were evaluated against a projected baseline, comparing customer service levels, total network operating costs, capital investment, and one-time facility closure/relocation costs.

Ultimately, the company realized an optimal balance of transportation costs, labor, systems, and facilities, while reducing overall operating costs. Furthermore, the company saved expenses from reduced travel and fewer buildings to maintain.

Over the next five years:

• How will customer service requirements change?

• How will our core business change, either due to mergers/acquisitions, new product offerings, labor market, or economy shifts?

• How much will the amount of imported product increase?

Consider entering your data into one of the software tools that are extremely effective in modeling several different distribution network scenarios. Engage the services of a third party who already owns a copy of the software to save the expense of purchasing your own version.

Obviously, data crunching with software won't be enough to give you a go-forward plan. Your team will want to evaluate each scenario in terms of your company's long-term goals. You'll be able to make network decisions based not only on facts but also on all the things you know about where your business is headed.

Then develop a solid transition plan to lead you to an optimal network for your business.

Regular analysis will identify efficiencies

The current trend is to configure networks with fewer, larger distribution centers, which reduces inventories and gains synergistic operation efficiencies.

Changes made to your distribution network based on solid reasoning can yield significant savings, and payback begins immediately. You will learn a great deal about your internal network, including identifying ways to work more effectively with trading partners by recognizing the impact of cross-docking, vendor-managed inventory, and changing transportation modes.

By the way, the highest level people in the organization must be involved in the process from the very beginning, or your boatload of work will run aground. If management is dragging its collective feet about executing an analysis, remind them of ever-increasing fuel and other transportation costs and their current impact on your distribution network. Say, "Just like an annual visit to the doctor for a physical, a network optimization analysis on a regular basis is a good idea."

For a look at two companies' experiences with network rationalization, see the boxed items.

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Catalog company deals with growth and peak season

Following the acquisition of two new catalog businesses, a catalog company experienced triple-digit growth and found its single facility incapable of handling the new business, even with an additional overflow facility. The company's catalogs encompass a mix of product ranging from furniture, home decor, gifts, and apparel to jewelry and artwork, making managing it all from the same facility even more challenging.

Company executives worked with Sedlak to determine whether they could meet peak order demand expected during the upcoming holiday season, while avoiding the service and cost of fulfillment issues that plagued them during the prior season.

After evaluating numerous options, the final recommendation was to keep all catalog operations in the same facility, adding a mezzanine in the current facility and moving receiving and bulk storage offsite. Sedlak also recommended adding disciplines to the existing order management system and a process for handling material flow between facilities. The company was well prepared for the holiday season and is positioned to easily implement effective long-term solutions.

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