



Distribution Center MANAGEMENT

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Managing people, materials and costs in the warehouse or DC

From the Golden Zone

“Insourcing” offers DCs another way to manage their workers

By Mike Schoenfield

As the economy slowly recovers, demand for distribution labor is increasing. The short supply of semi-skilled labor leads to rising labor rates, which is likely to increase exponentially in the next five years.

This is of significant concern to senior executives in the logistics industry. The recession forced companies to scale back, and now that the economy is improving, the decision to add labor back into the distribution center is a tricky one.

To control labor costs and react to fluctuating market conditions, many firms are using staffing agencies or hiring temporary labor.

Which alternative is best for your company? Should you do your own recruiting, use a staffing firm, or outsource part or all of your distribution business to a third-party logistics firm?

Many companies are investing in workforce optimization programs as a way to improve productivity and utilization. But is there a way to get a tangible return from that investment, and can it be measured?

In its simplest form, determining what is best for your company boils down to three components: risk, cost, and benefit.

On one end of the spectrum, the use of staffing firms is a popular approach in which certain com-

ponents of distribution operations are staffed.

Depending on the size of a distribution center, the benefits of a staffing firm include reducing the need for a significant HR staff to deal with personnel issues and a cost savings resulting from less-generous benefits.

The risks of this approach include the likelihood of creating an under-performing workforce, or creating a co-employment situation that would negate any benefits savings originally realized. Training effort and costs, quality, and productivity are often cited as being difficult issues to deal with in short-term staffing solutions. It is often very difficult to create and maintain a high-performance work environment with the constant workforce churn typically associated with short-term staffing.

At the other extreme, many companies use third-party logistics companies to handle their entire distribution operations. Much has been written about the success and failure of 3PL arrangements. Some major 3PLs have achieved high performance for their clients and can bring tremendous value.

At the same time, 3PLs are trying to scale back their service levels to field a labor-only solution. But the larger 3PLs that have achieved the high-performance maturity level are looking for opportunities to bring a full, comprehensive warehousing solution to their customers. This would include

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not only the labor and operational management, but also systems, material handling equipment, and a real estate solution.

This is a wide spectrum of possible solutions. Thus, the market is demanding a performance solution that is “lighter” and more flexible than the expensive, full outsourcing of a 3PL, but carries significantly more sophistication than a staffing firm model.

Companies are searching for a way to gain the process knowledge and execution expertise that the major 3PLs have to offer. But companies want to be able to do this in a more cost-effective manner. DCs are looking for a way to balance the costs, benefits, and risks associated with strategic workforce options.

This is where managed services offerings, often called “in-sourcing” by software and consulting companies, bring a different solution. Managed services providers now offer a high-performance workforce solution and implementation methodology built on their experience in engineering and process improvement, performance management consulting, and productivity software as well as training and organizational development programs. These offerings are designed to provide most of the value of a sophisticated 3PL with the cost and risk profile of a staffing firm.

The managed service approach provides the workforce in much the same manner as a staffing firm. However, these emerging solutions provide a workforce that is “pre-enabled” with the core offerings of the managed services provider.

In most cases, managed services include:

- Engineering expertise for process improvement and best practices
- Cost-based performance improvement plans
- Employees trained in best practices and methods
- On-site performance managers and supervisors
- Dynamic engineered labor standards
- Operational accountability to productivity, quality, and safety
- Sophisticated labor management software
- Well-designed training and organizational development programs designed to develop managers and supervisors into more effective leaders
- Guaranteed cost performance through fixed piece rates and/or gain share-based management fees.

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