



# Distribution Center MANAGEMENT

September 2012

Managing people, materials and costs in the warehouse or DC

## From the Golden Zone

### Recession lessons for the next boom

By *John Phelan, TriFactor*

If your business was like most five years ago, you probably thought that growth and prosperity would never end. Low unemployment and hefty earnings created an atmosphere of complacency in maintaining sound business practices.

Now that we are through the recession and clawing our way back, it's hard to imagine how many times DC managers have shaken their heads and thought, "If I could only go back to 2006, I would ...."

Well fortunately, business and the economy behave in cycles. Prosperity will happen again, hopefully sooner rather than later. Knowing that good times lie ahead, we should do more than simply wish about what we should have done in the past. Instead, we can learn from our mistakes, recognize where we were complacent, and take action for the future. Here are some lessons from the recession and ideas for going forward:

- **Delaying equipment upgrades can be costly.** Capital equipment replacement was a missed opportunity during the high times. Getting product to the shipping docks and meeting demand was the top priority. Upgrading or replacing the equipment used to accomplish the mission was the last thing that many businesses wanted to consider, even if it was fully depreci-

ated. They simply did not want to deal with the added headache of re-engineering a facility or performing wholesale replacement of items like conveyors, sorters, and flow rack.

Delaying equipment upgrades during prosperity magnified the negative impact on operations during the recession. Companies that relied on older equipment were exposed to breakdowns and maintenance that increased operating expenses just as operating expense reduction was top priority.

- **Document all processes.** During the downturn, many companies had to reduce their operating staff and ask employees to perform duties that were previously accomplished by other people. Employees had to wear multiple hats. Unfortunately, when they were busy, they did not take the time to document the unique processes and systems required to do the tasks at hand.

Having systems and processes written down and not dependent on only a few key people allows for more efficiency, easier training, and also more flexibility when personnel decisions need to be made. Be proactive by training workers who are well-prepared and able to move from one area of the warehouse to another from day one.

- **Take advantage of technology.** By using automation in areas that would reduce the skill level of personnel needed to accomplish the

This article was reprinted from the September 2012 issue of *Distribution Center Management*.

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same task manually or would simply eliminate any manual need altogether, businesses are positioned better for both busy times and slow times.

For example, a certified forklift operator is one of the more expensive warehouse workers. The task of moving a pallet of goods from the pallet building station to a stretchwrapper and then off to either shipping or storage can be done with a pallet conveyor. In this task, the forklift operator for the subtask of moving the pallet over long distances in the warehouse is completely replaced by the pallet conveyor.

Other forms of technology in the distribution center that offer benefits during all parts of the economic cycle are the use of software systems that allow for easy adjustments of daily operations. In a pick module, pick zones can be adjusted in the software and control system (pick to light, pick to voice, warehouse control systems, etc.) so that if demand slows down, the personnel required to work in the pick module can be decreased to cover wider pick zones without extensive work needed to alter the software.

- **Outsource noncore business tasks.** By shifting operations that are not core components of the business to a variable cost as opposed to a fixed cost, companies can save money, leverage expert suppliers, and focus on running the mission-critical aspects of the business.

One area in a distribution center where outsourcing can be accomplished is planned maintenance and emergency service of plant equipment. Unless the equipment is constantly breaking down, the result will almost always be less expensive and

provide a higher quality of service. If you find that the equipment is always breaking down and the outsourced service is actually costing more than using internal maintenance personnel would, then the source of the issue is likely the age of the equipment and thus, wholesale replacement might be worth considering.

You don't want to head into a downturn with plant equipment that takes a lot of maintenance to keep alive. The biggest fear to overcome when transitioning to outsourced maintenance is the loss of the comfort of knowing that a body or many bodies are physically present just in case something happens.

Another area of opportunity for outsourcing for some distribution centers is industrial engineering and internal process improvement. Having an industrial engineer or staff of engineers only justifies itself if the improvements they provide save the company more than the fully burdened cost of the staff, every single year.

Document now what you would do if you could go back to 2006 and prepare for the highs and lows of future economic cycles. Soon enough, the world's largest economy will come roaring back. Business will be thriving and you will undoubtedly face a choice — be satisfied and complacent again, or learn from what history has taught and take action.

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*Distribution Center Management™* is published monthly by Alexander Communications Group, Inc., which provides news, data and information on key distribution and warehousing topics through newsletters, books and website.



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