Distribution Center MANAGEMENT

December 2009 Managing people, materials and costs in the warehouse or DC

From the Golden Zone

Seven keys to improving distribution productivity without a major investment in automation

By Charles Zosel

Distribution operations in most companies are facing enormous pressure. With a sluggish economy and brutal price competition, most logistics organizations are being asked to achieve year-over-year cost reductions on an annual basis.

The last few years have also seen very constrained budgets for major investments in new distribution facilities and material handling equipment. As unit volumes increase, putting further strains on DC capacities, many DC managers must find ways to gain greater throughput from their existing facilities without major investments in automation.

The good news is that there are a number of productivity improvements that can help mangers reduce fulfillment costs while increasing throughput. Better still, managers can achieve these results with low risk and at moderate levels of investment that usually provide a return on investment in less than one year. Though it seems hard for many companies to initially believe, productivity improvements in the range of 15–40 percent aren't just possible — they are commonly achieved.

Productivity improvements ideally involve the intelligent application of three components:

• Engineering to determine the optimal operating methods and procedures and to develop appropriate performance standards.

• Labor reporting software to improve workforce planning and drive improved productivity through individual measurement of employees against fair, accurate standards, as well as other capabilities, such as workforce planning and tracking quality and costs.

• Execution management, to ensure that the potential gains from productivity improvement initiatives are realized during and after implementation. This is achieved through appropriate training of supervisors, operators, and management in the cultural, operational, and supervisory changes required for a successful productivity program.

But despite the fact that productivity improvement initiatives have proven themselves in dozens of companies, including many of the world's logistics leaders, most companies are still unfamiliar with the key underlying principles of these successful initiatives.

Adhering to principles can increase throughput

Below are the seven most important keys to improving distribution productivity. By adhering to these seven principles as part of a productivity program, companies can reduce distribution costs, increase throughput, and gain competitive advantage through performance and service leadership.

1. Start with individual accountability. Few companies do a good job measuring individual performance. Use measurement tools to accurately track performance at the operator level and incorporate discrete, engineered standards that consider the specific characteristics of each indi-

This article was reprinted from the December 2009 issue of *Distribution Center Management.*
Interested readers may subscribe to the monthly newsletter by visiting http://www.DistributionGroup.com or phoning (973) 265-2300.

vidual task performed to measure operator performance against the fair and accurate goal times for that piece of work. Then combine individual performance on each specific task to provide measurement and accountability across the appropriate time intervals (shift, week, month, and so on) for each employee. This notion of individual measurement and accountability also applies as you move up through layers of management, especially for frontline supervisors and warehouse managers.

2. Build standards based on the right methods and procedures. Too many companies still attempt to build standards on existing processes and methods without first carefully evaluating whether they could be improved. In reality, for each task there is a set of methods that provide the most efficient way to perform the task, while maintaining safety and quality. You can only create fair and accurate standards and related production-rate calculations if they are first based on the right methods.

3. Combine software and engineering. Both engineering (the development of improved procedures and methods) and labor reporting software can drive improved distribution productivity by themselves. For example, companies can often gain as much as a 10 percent improvement simply by reengineering existing tasks with the correct methods. However, by performing the upfront engineering work to develop the right methods, using those methods as the foundation to build discrete standards, and then combining that work with labor reporting software that can dynamically calculate performance expectations based on those standards, you will see the largest opportunity for productivity improvement, which is often at least 30–40 percent.

4. Focus everyone's attention on the details. Multiple levels of management must focus on the details of the program for it to deliver maximum success. Executives must focus their attention on the tremendous opportunity productivity programs represent and provide the support needed for the project. It is also critically important that warehouse managers and frontline supervisors understand not only the "what" of the productivity initiative (goals, program elements) but specifically how this transformation will happen and how results will be achieved.

5. Train operators and supervisors for success. Initially, you must train operators on the correct methods for each task and ensure that they demonstrate their ability to execute each task at an acceptable level of skill and performance. Operators also require training in how to use the feedback they receive from labor reporting software, both regarding overall performance (each day/week) and, in some cases, in a near real-time mode (this set of tasks). Supervisors must also be trained to identify and manage individual performance issues.

6. Provide meaningful incentives. In an effort to increase distribution productivity, many companies gravitate toward operator incentives to increase individual performance. While incentives can often be a key part of an overall productivity program, it is critical that they are well planned and executed to avoid problems that outweigh the potential advantages. Build incentive programs on a solid foundation of procedures, methods, and standards.

Build incentive programs on a solid foundation of procedures, methods, and standards.

7. Use formal change management teams and techniques. Organizational change doesn't just happen. The change starts with a clear definition of roles between executives, managers, supervisors, operators, and any third-party providers. Create formal teams in the areas of communication, learning, and rewards. Too often, the potential gains of any initiative are not achieved due to a failure of change management, especially in distribution productivity, which has an impact from the executive suite to the warehouse floor.

Charles Zosel is vice president of TZA Consulting. Reach him at 847-540-6543, czosel@tzaconsulting.com, www.tzaconsulting.com. DCM

Distribution Center Management

712 Main Street — Suite 187B, Boonton, NJ 07005-1450

Telephone: (973) 265-2300 • Fax: (973) 402-6056 • Email: info@DistributionGroup.com • Website: www.DistributionGroup.com

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