



# Distribution Center MANAGEMENT

Managing people, materials and costs in the warehouse and DC

## Looking Ahead

### Bunker mentality, e-commerce demands among top challenges for 2014

A rebounding economy, the ruthless demands of e-commerce fulfillment, and an ongoing transportation squeeze will remain key themes for distribution managers in 2014.

We consulted members of the *Distribution Center Management* advisory board for predictions about the coming year. They see signs of growth, which means a return to investment in facilities. But an expanding economy also means more pressure on transportation costs and more competition for the associates who work in your warehouses.

Despite an improving economy, shaking off the hangover of the Great Recession remains a challenge in many distribution operations, says Fred Kimball of Distribution Design.

“The economy has rebounded in 2013 better than the previous couple of years, yet for many companies, the new normal of maintaining the status quo during the recession is lingering,” Kimball says. “The challenge for DC managers is to convince upper management that improving operations has to return to the front burner.”

Kimball recently visited a DC that hadn't

re-slotted its pick areas in five years. Former fast movers had become medium movers, but the medium movers were occupying prime space while fast movers languished in slow-moving pick areas.

This example of poor productivity has been repeated throughout the distribution industry as managers remain hunkered down for a recession that ended years ago.

“What should have been a temporary pulling of heads into the shell has become the status quo,” Kimball says. “DC managers need a new, new normal.”

Kimball suggests thinking back to the good times of a decade ago. You probably were looking for ways to manage growth and upgrade technology.

#### Change requires follow-through

If you decide to invest in new systems, be sure not to fall victim to what Susan Rider of Rider & Associates calls “changeitis” — the unwillingness of stuck-in-the-past workers to adapt to new technologies. Rider says she saw a glaring example at a company that implemented a new warehouse management system.

#### What to expect in the New Year

- Pressures on margins, speed from e-commerce.
- Tight trucking capacity.
- Opportunities in space utilization, slotting efficiency.

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“The company was doing great six months after the deployment,” Rider says. “But as the consultants and management went away, the employees went back to their paper spreadsheets.”

To avoid that sort of debacle, Rider suggests an active management style. You need to sell any upgrade to your people. And after the implementation, you need

to remain constantly visible in your DC, if only to make sure workers don't return to the old way of doing things.

As you examine ways to do business better, you'll need to tailor any solutions to your industry. Rider notes that the challenges vary by sector.

In the pharmaceutical industry, new federal regulations are the major concern.

## Tightening labor market brings labor conditions to the fore

The U.S. unemployment rate dropped to a five-year low in November, signaling the return of a familiar management challenge: Finding and keeping workers is about to get harder.

A generation gap only toughens the task. While baby boomer bosses are accustomed to one way of doing business, workers in their 20s and 30s aren't as apt to accept grueling conditions as their parents were.

“The younger worker today expects a more comfortable workplace — less humidity, better lighting, cleanliness, managers and supervisors who care about the individual, recognition for a job well done, and constructive feedback for improvement,” says Fred Kimball of Distribution Design.

Susan Rider of Rider & Associates says too many DC managers just aren't comfortable with rallying the troops.

“Most see it as a warm fuzzy thing that they avoid,” Rider says.

She has heard no shortage of grumbling from managers who only half-heartedly embrace such team-building exercises as printing company T-shirts or throwing pizza parties. Scoffed one manager, “They don't deserve it.”

“The manager has to believe in the program,” Rider says.

Creating a motivational program that you can believe in doesn't have to be hard, and it need not be filled with gimmicks. Brian Hudock of Tompkins International suggests simple, common-sense steps: Provide training and advancement opportunities. Listen to workers' suggestions. Improve ergonomics with padded floor mats, for instance, or by automating the heaviest lift.

“Of course, the pay needs to be competitive for the geographical area and employees must be given the right tools to get the job done right,” Hudock says.

Once you've hired a worker, you'd better be organized enough to make the worker want to stay, says Tom Tanel of CATTAN Services Group. He suggests a system for welcoming new associates and preparing them for success.

“The two most important periods for a DC employee are the initial two weeks of their employment and then the next 90 days on the job,” he says.

More broadly, the manager's job is to set a tone of productivity and professionalism throughout the warehouse. Tanel offers three tips for setting a constructive tenor in your DC:

1. Moods and attitudes are contagious. The moment you walk through the door in the morning, you are sharing a message with your body language. Walk in with a spring in your step and a smile on your face, and you'll spread the enthusiasm necessary for a productive workday. Everyone sends off vibes, and as a manager or leader, your vibes can oftentimes overpower others.

2. Meet and greet. Begin the day by greeting your people, letting them know through your actions that you care about them and feel they are an important asset to the company.

3. While making your rounds through the DC you can accomplish another objective that is sure to motivate your people to action. People need direction. As you greet your employees, let them know what results you expect to see at the end of the day. Relaying clear objectives and expectations at the start will help to set in motion a day of accomplishment.

Retailers are feeling the pressure to adapt to multi-channel demands. E-commerce operations struggle to deliver product quickly and cheaply in the face of rising transportation costs. Consumer packaged goods distributors and wholesalers are seeing smaller, more frequent orders than ever before.

This theme of small orders represents an upheaval for the distribution industry. It's a change every DC faces, says Brian Hudock, partner at Tompkins International.

"The biggest challenges facing DC managers are how to incorporate e-commerce fulfillment into their existing distribution network and how to optimize the transportation of these e-commerce orders," Hudock says. "All industries are affected by the surge in e-commerce whether they know it or not, and how they respond to e-commerce business may determine their company's competitiveness and fate."

### Transportation should be the No. 1 concern

While every industry faces its own set of challenges, every DC manager faces transportation challenges, says Tom Tanel.

"Transportation costs should be the No. 1 concern of the DC operator," Tanel says. "Today's DCs face more regulatory, cost and service pressures than ever before."

Rising fuel costs are the most obvious piece of the transportation puzzle.

"As many DCs know, fuel surcharges have become an out-of-control variable cost," Tanel says.

There are other issues, too, such as tight carrier capacity exacerbated by new hours of service rules. This new reality makes it imperative that DCs operate their loading docks as efficiently as possible.

Carriers increasingly will decline loads at facilities with excessive unloading and loading times, congested yards,

or blown warehouse dock appointment times.

"Drivers are limited on how long they can be on-duty and behind the wheel," Tanel says. "When they arrive at a terminal, they are on-duty. When the truck is not moving, the drivers are burning hours they cannot recapture."

Botched scheduling of shipments in and out of the warehouse will result in costly bottlenecks. In general, shippers are likely to move away from quick and frequent deliveries to slow and less frequent shipments — and that means DCs will hold more inventory.

Many DCs already are cluttered, so more inventory could pose a costly problem. Jampacked warehouses are one of Kimball's concerns for the New Year.

"Many executives think that warehouse space is free, so it should be 100 percent full or more," Kimball says. "But they aren't looking at how productivity declines as space gets tighter."

You know the drill: Pallets in the aisles. Double-handling of items because of inefficient storage. Track how clutter hinders your productivity, then take the evidence to your bosses.

"DC managers need to communicate the problem up the ladder," Kimball says. "Executives listen more when there is solid data rather than just a verbal complaint."

Too often, DC managers just accept the labor-draining consequences of a cluttered warehouse, Hudock says. Even worse, they're often unaware of the costs of longer travel times and other side effects of poor space utilization.

"Managers often do not see the negative result as they lack real-time performance metrics and are focused on daily management, not improvements," Hudock says.

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