



DISTRIBUTION CENTER MANAGEMENT

STRATEGIES & TACTICS FOR DISTRIBUTION CENTER & WAREHOUSE EXCELLENCE

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Root out supply chain inefficiencies that are costing you money

Rooting out supply chain inefficiencies — no matter how small they are — can pay off significantly in improved productivity and performance, according to Scott Elliff. He's president of Capital Consulting & Management, Inc., a supply chain management consulting firm located in Alexandria, Va.

"Most managers get so hung up on the normal way of doing business, getting the orders out and fighting the fires, that they don't see the inefficiencies in their operation," Elliff says. Pockets of these productivity-busters creep in over time. "There may be small, incremental changes that take place one week, then a few more the next week, and so on." Over time, an operation's efficiency deteriorates, and it can wind up managing reactively.

Perform a detailed audit of your operation, and chances are excellent that you'll identify a number of ineffective practices, Elliff says. Rooting out these inefficiencies can transform you "from a mediocre operation into a lean, efficient operation," and help you reduce costs while improving service to your customers. He gives the following

examples of problems that have crept into distribution operations and the steps that can be taken to eliminate them.

- **Orphaned, obsolete inventory.** "If you walk around a warehouse or distribution center, chances are good you'll see orphaned, obsolete inventory that's just sitting there taking up valuable space and

losing more of its value every day," Elliff observes. For example, an operations audit at one warehouse uncovered a significant amount of obsolete product, overruns that

Manufacturing had shipped to the warehouse to be shipped to customers another day. "But that day never came," Elliff says. For example, a customer may have ordered 40,000 lbs. of a product, but the plant made 42,000 lbs. and shipped the remaining 2,000 lbs. to the warehouse, where it sat.

"If DC managers have this kind of situation, they need to bring it up to others in the company," Elliff says. You may not be able to do anything about the overruns themselves, he adds, but running a monthly orphaned inventory report "and getting it in the hands of the

right people" can go a long way toward resolving the problem of orphaned inventory, whether it's from overruns that never got shipped or obsolete inventory that needs to be disposed of.

- **Failure to respond to changing order characteristics.**

Customers at one manufacturer occasionally placed fill-in orders for a single roll of a product. Because the product was palletized with four rolls of the product on a pallet, then shrink-wrapped, a forklift driver had to pull the pallet down, cut off the shrink-wrap, take a roll off, rewrap the pallet, return it to its location, pick up the single roll and move it to shipping. Customer orders for single rolls began to increase over time, and the inefficiency became a drain on productivity. It was spotted during an operations audit and easily resolved simply by having the warehouse stock a certain number of single rolls to accommodate the growing number of fill-in orders.

- **Decisions made elsewhere in the organization that affect the warehouse.** "Sometimes people in the warehouse or in transportation have to cope with decisions made in other parts of the organization that have a tremendous effect on

"Walk around the DC and you're likely to see orphaned and obsolete inventory just sitting there taking up space."

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their operation,” according to Elliff. For example, the manufacturer described above increased the weight of its rolls from 500 to 800 lbs. because it was a better size for the manufacturing operation.

But the change meant that, instead of being able to place four rolls of product on a pallet, the company could only put one roll of the new diameter size on a pallet, sharply decreasing space utilization and increasing cost of transportation. The DC manager needed to document the impact the change had on the warehouse and point out to others within the company the additional costs, which far outweighed the benefits gained by Manufacturing.

- **Inefficient customer ordering practices.** “We concentrate so much on being customer focused that sometimes we hesitate to consult with customers about practices that create inefficiencies in the warehouse or DC,” Elliff says. For example, customers of one company

tended to order in 40,000 lb. increments. For a product that cubed out at 38,000 lbs., the company had to ship the pallet or two that wouldn’t fit into the truck via less-than-truck-load carrier. “Most customers don’t know what’s an efficient quantity to order,” Elliff observes. He suggests working with Customer Service to train CS reps on efficient order quantities. “Many times, a slight change in order quantity won’t make a difference to the customer but can have a big impact on transportation costs,” he says.

If you have a number of inefficiencies resulting from customer ordering practices, consider making joint customer visits with Sales. Often, you can develop solutions that benefit both parties, Elliff says.

Tackle the inefficiencies

A range of small, individual inefficiencies in receiving, warehousing, shipping, manufacturing and inventory can add up to a surprisingly high number of supply

chain inefficiencies overall.

“The distribution center manager is in a unique position to spot these inefficiencies and can spearhead initiatives to address them,” Elliff says. “But you have to be willing to stick your nose out,” identify the inefficiencies, and work with others to eliminate them.

“Challenge your everyday operating assumptions and practices,” the consultant advises. Understand your assumptions, root out the ones that are no longer effective, and prioritize the issues. Then address the most important issues with an internal cross-functional team. And, if appropriate, work to implement a joint customer improvement effort.

Initiating a systematic performance improvement effort will pay off in increased space utilization, decreased transportation and distribution costs, a more productive operation — and happier customers.

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Distribution Center Management

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