4 Simple Ways

To pay for a warehouse management system

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4 Simple Ways to Pay for a Warehouse Management System

Implementation of a warehouse management system is one of the biggest "bang for your buck" things you can do for your business. There are many ways to review and calculate return on investment for a warehouse management system. By accurately analyzing your warehouse costs you can find ways to pay for a system in a relatively short amount of time. Although there are only four ideas listed below, these alone are enough to pay for your warehouse management system in most cases.

These ideas are basic and may seem very simple however, not many choose to do the work to get there. We are sure you will find your most successful competitors have done the work. This is a very large competitive advantage for them.

1. **Reduce stock.** This may seem pretty obvious to you but many companies have more inventory than they really need. You may be one of them. With real-time and online data collection, inventory accuracy will be dramatically improved. This leads to significantly improved item by location, quantity, and lot accuracy as well as reduced "buffer" or "safety" stock. If you reduce your inventory value, naturally, you can reduce your carrying costs. Reduce the carrying costs for your unnecessary inventory and keep more money for your business.

For example, if you carry $10 million dollars in inventory and you can reduce that by an industry average of 4 to 6 percent. That can really mean big savings. If you look at this $10 million dollars in inventory and reduce it by $500,000 (5%), you can put $100,000 in your pocket. This assumes of course a carrying cost of 20%. Your carrying costs may be lower or they may be higher. The average is about 15% to 25%. Use this money to pay for your warehouse management system and keep up with your competitors or leave them behind.

2. **Reduce or reallocate labor.** This area is the primary driver for finding money to pay for your warehouse management system. With the proper implementation of a warehouse management system you can reduce your labor, reallocate labor, or keep your current labor to prepare for increased sales. This current work force will then be able to handle the workload associated with increased sales volume without adding new employees.

The following labor areas are strongly impacted by implementation and use of best practices while deploying a warehouse management system.

- Pre-receiving
- Receiving
- Inspection
- Put away
- Cross Docking
- Shipment planning
- Pick preparation
- Tracking lot & serial numbers

- Picking
- Pick confirmation
- Packing / Cartonization
- Manifesting
- Shipment document preparation
- Returns management
- Physical inventory / cycle counting
- Managing picking & shipping errors

Bar coded data collected on a real-time basis will produce inventory accuracy up to levels of 99.97%. Errors in writing, reading, and keying of information will be reduced. The need to do a physical inventory can be eliminated.

During this process you will also reduce handling and touches. Naturally, the fewer touches the less it cost you to ship an order. An effective strategy is to streamline the operation by applying industry best practices so that you can reduce the handling costs of an order.

Here is one example of how a company improved their business by implementing a modern warehouse management system:

Before sales were impacted by fill rates as low as 80 percent, orders were picked individually, limiting productivity and sustaining high operating costs. Now, fill rates are consistent at 96-98 percent. Errors are minimal, with store credits at only .04 percent or near-100 percent replenishment accuracy. Consolidation processes allow pick and pack of up to 20 orders at a time; 25 percent fewer people handle some 25 percent more volume.

Overview of areas of improvement

- Lines picked per shift improved from 200-300 to 1,000
- Consistent fill rates of 96-98%
- 99.96% replenishment accuracy
- 25% less staff; 25% more volume
- Directed let-down/putaway/picking
- Multiple order pick/pack
- Reduction of shipping department
- Elimination of third shift
- Transportation cost optimized

It is certainly not unheard of to save thousands of hours of labor each year. These savings encompass all the areas above. This of course translates to many tens or hundreds of thousands of dollars per year. This is your money that you can deploy to invest in a warehouse management system to grow your company and keep much more of your profits. We have seen companies save anywhere from $50,000 to $100,00 per year and more in these areas.

3. Improve Shipping Accuracy. We have seen some companies discover that up to two percent of its outbound shipments were wrong. After looking deeper they found it cost on average about $200 to correct the typical shipping error. This may seem like a small amount, but when multiplied by the number of shipments handled each year, the hidden costs can be high.

If they would really look at it, a typical business can find that it is spending as much as $30,000 or more each year just to correct wrong shipments. This does not even take into account the intangible effects on customer relationships. Many companies lose customers as a result and may not even know it. A warehouse management system can virtually eliminate shipping errors by providing order verifications, order consolidations, and shipments. This is one area that will certainly help you pay for your warehouse management system.

4. **Reduce space requirements.** A warehouse management system should improve space use through better inventory placement and tracking. Also, through consolidation based upon advanced cube utilization algorithms you can better use your space. Your savings may be in a few of these areas;

- Eliminate Existing Overflow Space
- Reduced Transport Costs with Elimination of Overflow Space
- Avoid or greatly delay new construction of warehouse space

Being able to use your space more efficiently allows for reduction of space used for existing inventory. This existing inventory level will be lower as a result of the above advantages of reduced inventory as well. You can reduce or eliminate overflow space by only stocking what you need when you need it. By reducing or eliminating overflow space you will also reduce the cost associated with keeping these overflow items in other locations either inside your warehouse or at another facility. We have seen companies delay building a new warehouse for 5 to 10 years at which time they must have larger space to accommodate an increase in business revenue.

Top Performers and Best in Class

To give you an idea of what you can accomplish, take a look below to see how you compare to the best in class performers. If you are not in the top 20%, you can most likely find money to pay for a warehouse management system. This along with a best practices approach will put you in the top 20%.

Class Definition	Performance
Best-in-Class: Top 20% of aggregate performance scorers	99.7% of orders picked accurately 98.6% of orders arrive at customer on time 98.5% of lines across all orders which can be filled complete -1.7% order turnaround time, trend +0.2% warehouse labor cost, trend
Industry Average: Middle 50% of aggregate performance scorer	96% of orders picked accurately 93.5% of orders arrive at customer on time 93.8% of lines across all orders which can be filled complete +0.5% order turnaround time, trend +1.3% warehouse labor cost, trend
Laggard: Bottom 30% of aggregate performance scorer	88.1% of orders picked accurately 88.5% of orders arrive at customer on time 86.2% of lines across all orders which can be filled complete +4.9% order turnaround time, trend +5.2% warehouse labor cost, trend

Source: Aberdeen Group, February 2009

A Matter of Time

The time for achieving a return on investment (ROI) of an investment in a warehouse management system should be relatively short. Many companies find that the system can pay for itself in as little as 6 to 9 months. A good average to plan on however is a 12 to 18 month span. After this period all of the money found above will simply be added to your profits each and every year while at the same time allowing you to grow your business.

Wouldn't You Like to Know?

As you can see a warehouse management system reduces labor costs, improves space utilization, and reduces inventory cost. Your first question should be "By how much?" You should have an understanding of how a warehouse management system works, how it supports optimized practices and how it relates to your own business. We recommend that you work with a company that has a great deal of experience in collecting, compiling, and totaling all of the above information. You will find this exercise to be very beneficial even if it only makes you stop and think about how you are currently doing things. Many have found this process itself to be very enlightening. If there were things you could do better, wouldn't you like to know about them?

About iCepts Technology Group, Inc.

iCepts Technology Group, Inc. is a 100% employee owned full service technology firm. We specialize in working with distribution companies to make them more profitable. We offer warehouse management systems for a best of breed approach to managing your warehouse and inventory.

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