



5 Strategies to make Money in Your Warehouse!

iCepts

Your warehouse is the most important area of your business or building. Why is that? Isn't this where you keep a lot of your money? You invest all that money in your products and you keep them in your warehouse. Who is watching your money out there?

1. **Manage your Inventory better.** You need to know what is in your warehouse and how many of each item you have. You need to know this always. There is no excuse, inventory accuracy is a must. If your inventory is accurate, you can reduce back orders, improve customer service, and increase fill rates. Reliable inventory accuracy enables companies to maintain lower inventory levels through reductions of safety stock and scrap. Increased inventory turns contribute to savings in inventory carrying costs. Plus, inventory reductions increase the storage capacity of the facility. In order to receive all of the benefits from a good inventory management system, stock balances must be at least 97% accurate, *every day of the year*. This means that the actual available quantity of every item in the warehouse is no more than 3% greater or less than the available quantity displayed on your computer inquiry screens.

Time is money as we all know. If your sales people have to constantly go to your warehouse and check to see what you have and what they can sell, that is a waste of time. It is also lost opportunity. While they are in the warehouse they cannot be selling, helping your customers or up selling/cross selling your customers. Help your sales people sell. Allow them to always have access to what and how much is in your warehouse. They will be happier and so will you customers if they don't have to be put on hold or receive a call back after your sales person journeys to your warehouse to "see what you have".

If inventory in your warehouse is lost, stolen, or broken, it needs to be replaced. Buying replacements is an expense. Just like payroll, rent, or any other expense, the replacement must be paid for. Guess what? It needs to be paid for with part of your net profits. For example, if \$200 of material is lost per week (\$10,400 per year), this \$10,400 comes from your net profit. Assume your net profit before taxes is 4%, it takes \$260,000 in new sales to make up for this ($\$260,000 \times .04 = \$10,400$)! Think about how easy that will be to accomplish with your sales people running around your warehouse looking for your products.

If you promise products to a customer based on what your computer says is in stock, but the material isn't actually available in your warehouse, the result is a disgruntled customer. You will lose your reputation as a reliable supplier for your customers. And not being a reliable supplier is one of the best ways to increase your competitor's sales.

Dead inventory is inventory that has had no sales or recurring transfers for the previous 12 months. Slow moving inventory that has had some movement, but less than one and a half turns a year. This means that you have sold the normal shelf quantity less than 1-1/2 times in the past 12 months. Items that will turn or be replenished more than 1-1/2 times within a 12 month period are your "good" items.

If your dead inventory is not being held for parts replacements or they are not promised to a customer, get rid of them. They are taking up very valuable space in your warehouse and costing you money. You need to be a distributor not a collector.

Your slow moving items need to be carefully reviewed. Do you expect the demand for them to continue or increase? Do your customers expect you to have them always available for delivery when they call? Is there any other place to get these items and still be able to meet your customers' expectations so that you don't have to stock them? Also, is this product cheap enough that it does not require a large investment to keep it in inventory? Go through all these items because they are literally tying up your cash that could be used to purchase new items to make more money on.

Many warehousing operations have been successful convincing their employees that inventory accuracy is important and they provide economic incentives to maintain this accuracy.

Make money here:

- Reduce inventory by 10% and not impact customer service
- Reduce inventory carrying costs by up to 35%
- Reduce shipping costs
- Reduced investment - keep more of your money

2. **Control labor costs.** If you ask any distribution company what the most difficult cost is to control and they would most likely say labor. This is of course the largest part of the cost in a warehouse operation.

Take a look at what is being done today. Question and document who is doing each function and how long it takes them to do it. Start with receiving; go through the whole process all the way up to replenishment and picking. You will most likely find that picking takes most of your time to complete. Find out what takes them the most time for each function and what areas they struggle with. Ask questions, they are the ones that know in many cases how things can be improved to make them more efficient.

You will also want to check the layout of your warehouse. Make sure that it is laid out in the most efficient manor to help reduce time hunting down inventory. Make sure that your fast moving inventory is front and center.

Once you have a good handle on the current processes, don't be afraid to try to improve each one. Start with the smaller ones that you know you can improve quickly. You will be amazed how easy this actually is. Once you have hit the low hanging fruit move on to the larger or more complex processes. Don't be afraid to create a small team to make recommendations and drive improvement.

Consider automating these processes. There are many ways to do this to cut down or eliminate paperwork and time wasting processes. Manual processes are very time

consuming and are extremely error prone. Even if you are not making many mistakes right now, what is that costing you in terms of everyone that has to touch or check each order?

Picking typically accounts for approximately 60% of labor costs. Companies that implement a system to improve labor utilization by about 16% to 35%. These companies also maintain steady labor and equipment levels while they increase sales. Indirect labor, overtime, and duplicate data entry are drastically reduced.

There are many systems and tools to help with this process. The idea is to better control your labor costs. The most efficient warehouses are able to reduce warehouse cost significantly by reallocating employees to other areas of the business or not replacing employees that have left or have retired. They are even able to grow more quickly and substantially without adding new labor costs in the warehouse.

By aligning all the stars in your warehouse you will also reduce labor turnover. It costs a lot of money to hire and train new employees. Create incentive plans around your now more efficient warehouse to ensure things flow smoothly. This will help you to motivate your warehouse employees and to keep them satisfied. The most efficient warehouses implement systems that require very little training for new employees for when they do need to add new ones. It is also very easy for them to hire temporary and seasonal laborers and get them to work in just a few minutes.

Eliminate physical inventory. If you have good processes in place you can eliminate the fun everyone has doing a physical inventory. You can simply do cycle counting to ensure that inventory is accurate. If you are like many distributors, you shut down your business for a few days and pay people overtime rates just to count what you have in inventory. If set up properly, you should already know this. Imagine how much money this can save you in recovering lost revenue and keeping the money you pay in overtime.

Lastly, seek professional help. Warehouse experts know the best way to layout a warehouse and know what systems make the most sense to implement to add to your bottom line. They will also help to plan for your future needs.

Make Money here:

- Personnel handling paper - potential headcount reduction or resource redeployment
- Personnel handling order picking - potential headcount reduction or resource redeployment
- Personnel handling shipping paperwork and confirmation - potential headcount reduction or resource redeployment
- Eliminate physical inventory-Cycle counting will replace physical inventory requirement.
- Reduce excess labor by eliminating material returns due to picking or shipping errors. Improvements of 16% to 25% are often realized.

3. **Manage your facility.** A properly managed warehouse can delay or eliminate the need to enlarge your existing warehouse space or construct a new one. You can also reduce or eliminate the dependency on outside storage facilities and associated costs. By reducing inventory levels as described above you can better utilize your existing facility and further leverage that investment.

Some distributors physically separate inventory in an attempt to reduce picking, shipping, as well as valuation errors. This of course creates a situation where your warehouse space is not utilized to its fullest. By implementing improved processes and new systems aimed at managing your warehouse you can eliminate the need to keep inventory separate. Implementation of put away rules as well as an efficient picking process will allow you to manage this situation.

An increase in labor utilization and labor reallocation as outlined above will also have a positive impact on expenses related to material handling equipment. If you need fewer people to do more work, you will of course need less equipment and less maintenance on this equipment. Future equipment needs may be eliminated or much delayed because of this fact as well. Most companies have seen an increase in equipment utilization of 10% to 30% as well. These companies get the most from their investments in facilities and equipment.

Make money here:

- Eliminate or reduce need to enlarge storage or construct new storage facilities.
- Reduction in material handling equipment.
- Realize equipment utilization increases from 10% to 30%.

4. **Improve customer service levels.** We all know that the cost of acquiring a new customer is up to five times greater than maintaining a current customer. By improving your warehouse operations, you can make sure that 1) mistakes are pushed to an absolute minimum, 2) Deliveries are timely, 3) shipments are accurate and 4) customers stay happy. This results in avoiding the very costly problem of losing existing customers to your competition.

Ability to receive orders and ship the same day without expediting. Consider the value of receiving orders as late as 3:00 PM and shipping them the same day. This results in a higher level of service that helps differentiate you from your competitors.

By streamlining processes from order to delivery, you can more accurately determine product availability and realistic delivery dates for your customers. You can automatically identify and release back-ordered inventory and also can reduce returns as a result of increased shipment accuracy.

Customers can also receive timely order statuses along with electronic Advance Shipment Notification (ASN) which can significantly streamline the receiving process at

their facility. You also reduce or eliminate charge backs from your customers for having invalid data supplied by you.

Increased sales is a by-product of having your warehouse in order. By processing orders more quickly you can increase daily sales.

Make money here:

- Ship the right product on time, every time.
- Reduce customer service calls.
- Have status of orders available.

5. **Reduce the errors that are made.** Most errors cost between \$100 and \$200 each. Items that make up this cost are 1) overnight freight on correct item which includes picking, packing and shipping. 2) cost for return freight including receiving, inspecting, and putting away. 3) Lost sales for the returned item in transit or potential write off for damaged goods. 4) Lost confidence in your company from the customer
- As you can see making mistakes is extremely costly. For example, you ship 100 orders per day and have a 98% accuracy rate. This is 2 mistakes per day. Considering 220 working days per year, this is 440 errors per year. At the low end of \$100 cost per error this is of course \$44,000 per year. There are probably other things you can do with that \$44,000 each year.

This can be a difficult one to correct completely without adding more processes for checking orders which of course means more labor and more cost. However, there are ways to reduce errors. You should start by looking at your ordering through picking process. Are there steps that you can improve upon? Do your employees thoroughly check each order before it goes out the door? Is each order checked by more than one person? This is a very costly verification system.

You need to have a system that is simple and easy to follow. Have an easy to read pick ticket. Don't use a shipping document as a picking document. This has too much data on it for your customer and will be hard for pickers to find pertinent information. The information should be displayed in the order it is required: location, stock number, description, unit of measure and quantity required. Make sure that the document lists items in pick route order to save the picker time and avoid missing line items.

Make sure your employees follow the system. A system can be paper driven or fully automated with handheld Radio Frequency scanners. Do not let your warehouse employees make decisions on exceptions. For example, if an order comes along that shows a back order and there are plenty in the bin for the order, make sure the picker follows the order. What that means is do not pick the quantity on back order. Why? the quantity in the bin may be allocated or reserved for another customer or order. In this

example not following the system will result in a mistake and unhappy customer that is expecting his or her order to be filled.

Yes, you can and should bar code everything you touch. But just because you have everything with a nice little code on it does not mean that now you are efficient. Sure you can receive things in with a bar code and put them away. If you are doing that now, nice job. However, most of your mistakes are made while picking. You should bar code everything so that you are prepared to take the next step and really manage your warehouse.

If you have your paper or manual system streamlined as best you can and still find that mistakes are being made, maybe it is time to look at an automated system. Let's face it there are people involved and they can and do make mistakes. An automated system can drastically reduce errors and cut down on labor time tremendously when implemented correctly. This allows you to truly manage your warehouse and make money with it. There is a very short return on investment time in purchasing a warehouse management system with radio frequency scanners. These systems can in most cases pay for themselves within 12 to 18 months.

Make money here:

- Reduce errors that cost you a lot of money. These are \$100 to \$200 each.
- Invest in a warehouse management system to reduce errors and save labor

Conclusion

Order fulfillment can be complex. This is where receiving, put-away, storage, packing, shipping, order processing and customer requirements converge. There is no shortage of choices in terms of procedures, equipment and control systems. To be successful in distribution means being very efficient and competitive. Making money with your warehouse begins with an understanding of order fulfillment and the warehousing functions. For you to have more money to keep, share, or invest, you need to start making it with your warehouse. If you do not have your warehouse streamlined and efficient already, you are losing money each and every day. Your competition may already be way ahead of you in this area.

About iCepts Technology Group, Inc.

Since 1980, iCepts Technology Group has been offering the “Best-of-Class” technology solutions to help distribution companies become more profitable. We have implemented hundreds of systems and can help your company determine the appropriate warehouse management fit. Discover why customers have been with iCepts for so long; our vast industry knowledge, friendly personnel and superior customer service!

We provide start to finish services for the warehouse solutions we represent. We provide services that cover process analysis, implementation, and training. Naturally, we also provide full ongoing support for years after implementation to help our clients succeed.

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