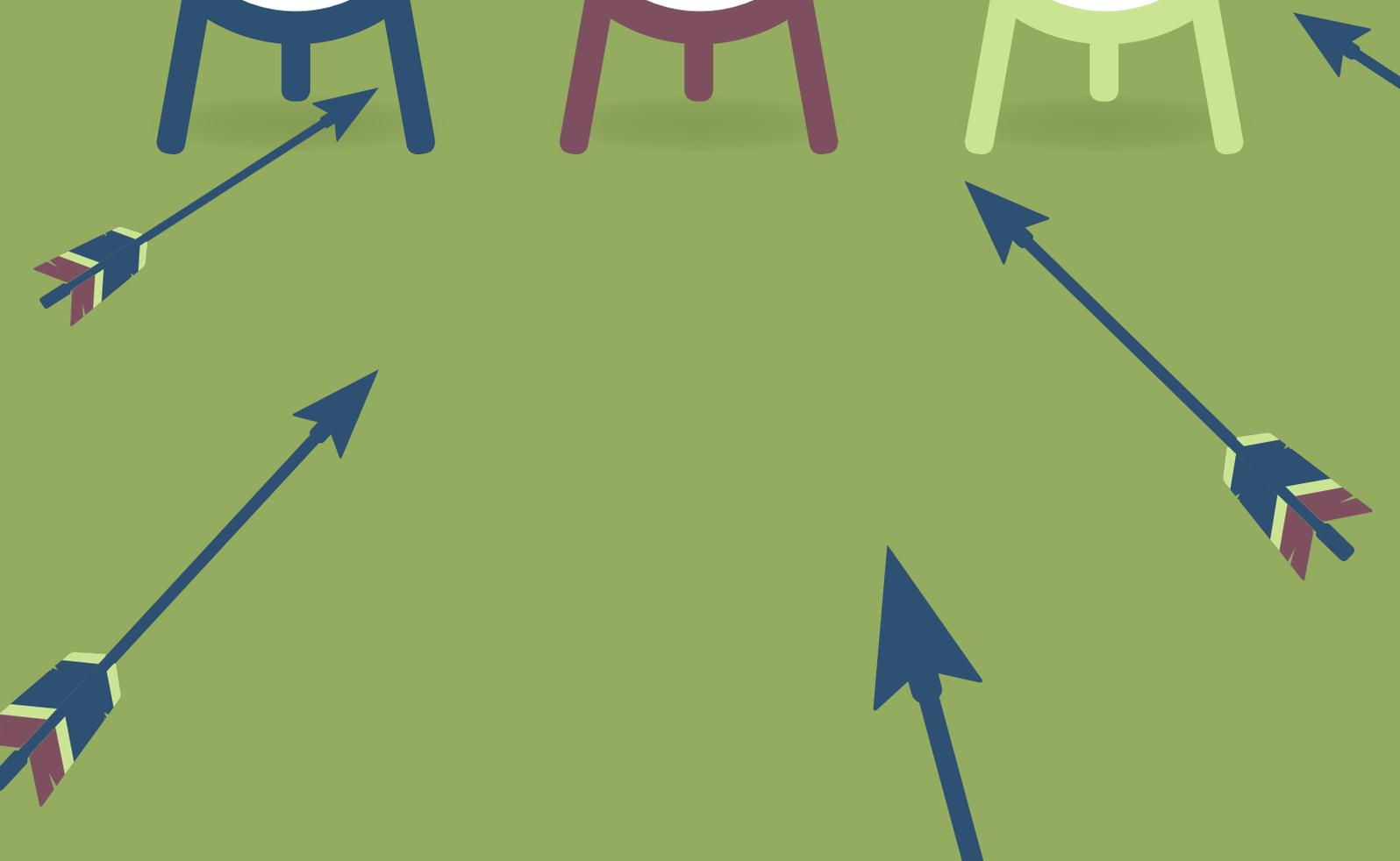


# THE WAR ON WAREHOUSE COSTS



# Executive summary

There may have been a time when all warehouse operations were much the same – simple, standard processes representing an irreducible fixed cost to the business or supply chain. If that was ever true, it certainly is not so now.

A new survey of warehouse operators, carried out for Access Group, the leading Warehouse Management System (WMS) vendor, by Redshift Research, found that reducing the cost of running warehouse operations led the way in a list of the most critical challenges for business improvement.

The research highlights several key areas in which companies are taking on this challenge such as making online ordering a smoother and more capable process from the back office, improving ‘pick and pack’ techniques, and reducing wastage within the warehouse.

The survey also reveals that where companies apply technology appropriately to these challenges, they are likely to be more successful at reducing their warehouse costs.



# The war on warehouse costs

Nearly half (43%) of business regard reducing the cost of running warehouse operations as among their most critical challenges for business improvement - even more critical than such 'customer facing' imperatives as speed (lack of accuracy adds to warehouse costs) of fulfilment. This was the finding from an important new study carried out for Access Group, the leading Warehouse Management System (WMS) vendor, by Redshift Research among 132 warehouse operators across manufacturers, wholesalers and 3PL warehouse services providers. The study suggests three principle areas where technology can help companies take on this challenge: namely, promoting online ordering, improving 'pick and pack' techniques, and reducing wastage within the warehouse.



## Everything in order

At first glance, the way a customer places an order might have little to do with warehouse efficiency. Yet nearly a quarter of businesses now receive most or all of their orders online, and almost 50% receive half or more of their business this way.

The benefits of online ordering ripple out from the warehouse, including its back-office functions, to the wider business, and appear to march hand in hand with a considered use of technology.

In the first place, 'ownership' of correct ordering is firmly in the hands of the customer, eliminating scope for customer claims that the order has been erroneously taken down, accepted or transmitted. And that good customer-generated input remains untouched, despite going through a myriad of systems, until the order is actually picked and the courier instructions printed. Costly errors and disputes no longer arise.

Second, online ordering, providing other suitable systems are in place, gives the customer the benefit of a real-time view of current stock levels. No longer should the supplier either underpromise (declining business because stock exists but can't be 'seen') or overpromise, for example by undertaking to supply goods which have in fact been pre-empted by another order. The costs of mispromising range from air freighting and emergency couriership to significant over-ordering and holding of inventory.

It is noticeable in the survey that where firms are receiving a majority of orders online, they also tend to be advanced in their adoption of other technologies. They tend to be extensive users of mobile and hand-held devices in the warehouse, adoption of barcoding and/or voice technology is commonplace, RF communications and headsets are popular, and such firms will probably employ a dedicated WMS.

The conjunction of online ordering with other appropriate technologies enables such companies to attract and fulfil correctly a higher proportion of smaller orders, while

creating expectations of faster despatch or shorter lead times. Growth in revenue and the ability to reach new customers are also reported, but significantly, these effects are seen even more prominently in companies that also make extensive use of mobile and handheld devices. Because data travels seamlessly from order to pick face the mobile-equipped warehouse operative is, in effect, in direct communication with the customer.

Given these advantages, why does a minority of business take few or no online orders? Inadequate central financial systems and the perceived expense of the required IT take some of the blame, as do customers, who are either

resistant to the concept or have incompatible procurement systems. The survey finds that a third of such firms, though, claim that their problem is that they deal with large complex contracts that 'cannot' be administered online. Certainly, the advantages of online ordering in terms of reduced cost and error and higher service performance may be most sharply revealed in a situation where many small orders are being despatched to multiple locations – these large contracts may, for example involve many products from different locations being delivered (at different rates) to a single destination – but the advantages of unambiguous instructions generated by the customer and thereafter 'untouched by human hand' still pertain.

Access Delta user Warren Warehousing & Distribution, as a contractor to Tesco and other major supermarkets, needs to operate both online and end-to-end, and the operation – collection, reception, consolidation and delivery of bakery products, certainly qualifies as 'large and complex'.

A major issue was Tesco's requirement for Advance Notification – where the client requires a package of information before the load actually arrives – not simply for full pallets of one product but for multiple products and purchase orders to one pallet.

Warrens uses laser scanning guns and bar coding, so that the quantity, details and 'best before' dates of every product loaded onto any given pallet is all provided. This system can track products for recalls and iron out any disputes about where, when or if a specific delivery was made.



## Pick your own

A second target area for the war on reducing warehousing costs, as revealed by the survey, is that of 'pick and pack'. For over half of the firms surveyed this is a significant part of the business and others expect it to become so – 64% of those surveyed said their pick and pack operations were growing – and among 3PLs it is even more significant (although of course this is one of the activities for which 3PLs could have been invented!)

The reasons why a firm might offload pick and pack to a 3PL are evident in responses to the survey when firms were asked to categorise their experiences. 17% claim pick and pack is 'easy' but a quarter described it as 'fiddly', nearly a third said it requires 'significant manual intervention', and almost 40% said it was 'time consuming'.

It is clear from the survey responses that IT systems have a major influence. A mere 11% of firms said the IT controlling pick and pack was fully integrated 'end-to-end', while 15% admitted that different systems, such as warehousing and invoicing, don't

communicate. Just 29% claimed to have 'an efficient process from order receipt to order despatch' but this rises to a much more respectable 41% among firms that make extensive use of handhelds and mobiles in the warehouse.

In a field where margins are so slim that the cost of retrieving a mis-delivered product may exceed its value, end-to-end systems that preserve data integrity as well as removing labour cost from the information flow, are invaluable, and unsurprisingly, 3PLs in this field have invested significantly. For the rest, though, there is a reluctance either to remove, or to make further investment in, 'legacy' systems.

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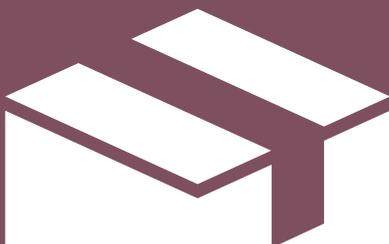
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At its European regional warehouse in Preston, global electronics manufacturer Mobiletron has linked Access Delta warehouse systems to Radio Frequency technology and KPI dashboard management tools. The company benefits from having a pick and pack operation that is simple to use. This means they are spending less time on training new staff. Moving from an alphanumeric picking and replacement process to a fully automated one, Mobiletron expects Access Delta to streamline and speed warehouse operations, track real-time performance, view inventory graphically on-screen, and share schedules with larger customers.

## Waste not, want not

Wastage can and does occur anywhere in a supply chain but, given that the warehouse is arguably the most controllable element in the chain, waste really shouldn't occur here – but it does, a lot. Almost half of survey respondents reported that sometimes, often, or for 6% at a level that is creating a significant problem, items either have to be sold off at discount, or simply thrown away. Bear in mind this is warehouse wastage, not the wastage that inevitably occurs in the perhaps less controllable retail environment.

Causes of wastage range upwards from obsolete packaging (which may be a new branding, or it may be that legal requirements for labelling have changed), to dirty or damaged packaging, expired or near-expired sell by/ best before dates, and on to 'we ordered too many' or the flip side of the same coin 'nobody wanted to buy them'.



The precise causes vary by sector. Foods, pharmaceuticals and the like are subject to very strict and inflexible sell by/ rotation dates – and with some batch processes it may not actually be feasible to reduce production in response to reduced demand. Other excuses are less justifiable. Obsolete

packaging, because of a rebranding or promotion, suggests that Marketing hasn't been talking to the supply chain; dirty or damaged packaging is often a sign of poor stock rotation, itself often the result of over-ordering, and both of these suggest a lack of visibility of what is in the warehouse. Technology industries, in particular, suffer when a new product renders an older version at best obsolete, or at worst incompatible – the impact of a competitor's new product may be unpredictable and unavoidable: stock rendered obsolete by your own new product launch suggests another failure in

stocking policy.

The survey also suggests that wastage is a more common event in larger businesses, larger warehouses and across multi-site operations, although the researchers concede that this may be merely because larger volumes of waste have greater visibility.

WMS technology can directly address these issues. For example, automated picking rules can be set up so that the system will drive you to rotate stock in an optimal manner. The system can track who has done what, and when, so that if, for example the older stock that should be picked first is not in the correct location, there is a record of who last moved it or when it was last picked. And of course, greater initial picking accuracy reduces the incidence of items returned which are no longer in saleable condition and thus have to be written off, or which although resaleable, are left to gather dust.



## Conclusion

Overall, in the war on warehouse cost reduction, the biggest cost is people. Appropriately integrated software makes operations more efficient and less manual, saving cash in every area from the cost of mispicks and returns to the overtime and weekend working costs of periodic stock checks.

## About Access

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## Warrens Warehouse & Distribution

Warrens has seen **10% growth per annum** over the past four years and claims it wouldn't have been possible without the warehouse management solution, Access Delta.

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