Managing people, materials and costs in the warehouse or DC

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Distribution Center MANAGEMENT

Trends

Growing economy revives interest in supply chain investment, but cost control still an issue

What's in store for warehouse and DC operators in 2004? While on one hand, it's more of the same (i.e., cutting costs, improving service, and implementing new technologies to enhance productivity will all continue to be major trends in the new year). On the other hand, it's a whole new ball game — the upswing in the economy and technology initiatives have companies renewing their focus on investing in the supply chain.

DCM asked several industry insiders for their views on what the next year will hold for warehouse and distribution center operations.

Controlling costs remains top issue

"Controlling and reducing costs remains the single largest logistics issue," says Marc Wulfraat, managing partner of consulting firm Kom International Inc. in Montreal.

Because of consolidation and a slow economy, workforces are leaner than ever, he says. Management teams are becoming stretched in terms of their ability to cope with everything that is going on.

Wulfraat notes that companies are still reluctant to hire new people. "Once they thin the forest, they want to keep it thin," he says.

There is continuing pressure to cut costs and increase productivity, says Arthur St. Onge, president of St. Onge Company, a York, Pa.-based engineering firm. However, "it is becoming more and more difficult to get costs out of the distribution center," he says.

St. Onge identifies advances in inventory modeling tools that help create a better balance between customer service objectives and optimizing inventory at the stockkeeping unit level as one approach that will help.

> The menu pricing of services will lead to "a sweep backward in the customer service" area.

Bob Murray, president of REM Associates, a consulting firm in Princeton, N.J., says that one of the top issues will be measurement. "That means knowing what you have and what you can do with it." He sees growing interest in activity-based cost management.

Very few companies are doing a good job in inventory management, adds Murray. Most don't have a formal ownership of inventory. "Who's responsible for it? Who's charged with managing it?" he asks. A company needs to identify these areas before it can properly manage inventory.

More companies moving to 3PLs

Several observers see activity in third-party logistics (3PL).

Geoff Sisko, vice president and partner at Woodbridge, N.J.-based Gross & Associates, notes a trend toward using 3PL services but says he doesn't know if it will be long term or whether companies are offloading operations for the present only to start bringing them back in-house in a few years.

"There's increasing dependence on 3PLs," agrees Wulfraat, who notes that the trend may have long-term effects, as it is difficult to bring operations back in-house because of the capital investment required to start up a warehouse operation.

One way that companies may be hedging against that dilemma is to contract out the warehousing responsibilities but have the 3PL staff a facility and equipment owned by the company.

In order to keep costs down on both sides, 3PLs will be looking to increase the use of mechanization and technology, says Sisko, but the offset to that is they are going to want longer contracts, or want companies to invest in equipment.

Quality service

Providing quality service is another pressing issue. Two major factors are affecting customer service, says Wulfraat: out of stock and on-time delivery. "There's tremendous pressure on managers to improve service in those two areas," he says.

Companies will need to find more ways to monitor on-time delivery and put pressure on their carriers. At the same time, the new hours of service regulations that are in effect this year may have a significant impact on deliveries, he says.

Murray believes that the trend toward mass customization and customer service will be coupled with activity-based costing and measurement.

"It's going to get to the point of menu pricing of services," he says. Customers that ask for special services will have to pay for them. This will lead to "a sweep backward in the customer service proliferation of giving the customer anything they want," he says.

Murray notes that he sees this as a long-term trend, something that will take effect over the next five to 15 years, but the framework for this shift is already being put in place.

As a parallel to that, Murray says that customers will be taking a harder look at imbedded costs. Good customers want to stop subsidizing those customers that the DC loses money on, and will increase pressure to bring costs down.

New (and old) technologies

On the technology front, the biggest news is obviously the push to adopt radio frequency identification (RFID) applications. "I don't know how many implementations we'll see because there are a lot of questions that have to be answered, but certainly it is going to be up in the forefront," says Sisko.

Despite the overwhelming hype surrounding RFID, there are some noteworthy trends in other technologies. Adoption of voice-directed applications will continue to grow, agree many of the experts.

Many people are beginning to see voice as a viable alternative to pick-to-light in broken-case picking, says Wulfraat, especially in companies with a broad selection of stockkeeping units. Voice and pick-to-light are being merged in some cases in "pick-to-cart" applications.

Companies are looking for more directive computer systems that tell employees what to do instead of react to what they do, says Sisko. "The less a person has to do in terms of finding something or making a decision, the faster they can work and the more productive they are going to be."

More intelligence is being built into warehouse management systems, says St. Onge. Vendors talk a lot about inventory management and control, but most of that is "accounting functions," not intelligent managing. Look for more advances in intelligent systems in the future, he says.

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