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Rest Easy

Let our experts help you cut costs

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Rest Easy

MM&D's Cost Saving Roundtable highlights ways to alleviate stress by cutting costs in your operations



Panelists at the MM&D Cost Saving Roundtable. Standing, L-R: Scott Deutsch, director, global marketing, Honeywell; Andrew Bulmer, managing director for Active International in Canada; Greg James, partner, 3D Storage; Jason Cunneynworth, vice-president, Direct Distribution Centres; Colin Alves, senior vice-president, Colliers International. Seated: Vera Friedrich, CEO and vice-president, sales of Dematic in Canada

By Emily Atkins

Each time we ask MM&D readers “What keeps you up at night?” we hear the same response. Controlling costs in warehouse and DC operations is consistently the primary concern of the managers responsible.

With that in mind, we decided to offer our readers some practical ideas for keeping costs down. While we don’t want to put you to sleep with the article, hopefully some of the ideas in it will help you to rest easy, with less worry about your operational costs.

Helping us out at a roundtable conversation on the topic were: Vera Friedrich, CEO and vice-president, sales of Dematic in Canada; Jason Cunneynworth, vice-president, Direct Distribution Centres; Greg James, partner, 3D Storage; Colin Alves, senior vice-president, Colliers International; Scott Deutsch, director, global marketing, Honeywell; and, Andrew Bulmer, managing director for Active International in Canada.

This diverse group brings a wide variety of perspectives to the table. In a far-ranging conversation the panelists discussed everything from inventory optimization and ways to gain value from writing down unused product, to how to maximize space, and find the hidden value in your real estate contracts.

Here are the highlights of the conversation.

Real estate

Challenged by FedEx Canada to help identify potential cost savings in their lease arrangements, Colliers International established an audit process to help clients manage real estate costs.

“It’s really a three-pronged approach,” said Colliers International’s Colin Alves. “It’s a very passive program for our clients. We don’t require much information other than a copy of their lease document and the landlord billing statements.”

First, a lease abstract is created, flagging any potentially onerous clauses and highlighting critical dates to avoid missing notice periods. This helps quantify exit costs.

Second is a lease audit. Alves said that in about 50 percent of leases they look at, there’s some sort of a discrepancy.

According to Alves, it’s not adversarial. In many cases the landlords are appreciative that these things have been uncovered because it may just mean an additional cost to them down the road.

The third step is a strategic lease restructure. “We never recommend to our tenants that they actually go ahead and exercise a renewal option because that limits you to simply a rental rate discussion,” said Alves. “We want to take it through an entire renegotiation of the lease to identify those potentially onerous clauses. Let’s shift some of that risk and liability back over to the landlord.”

Although it varies on a case-by-case basis, some clients can realize huge savings through this process.

“We had a client occupying 50,000 square feet of warehouse space in Mississauga, which is not a considerable amount of space,” Alves said. “Through the lease audit we found they had been overcharged for a number of years, which tallied to about a quarter of a million dollars in savings.”

Jason Cunneynworth of Direct Distribution Centres asked if it’s possible to mitigate the high cost of buildings in low-vacancy regions like Toronto, Edmonton and Calgary.

Alves said the key is to start the negotiation process early on. “In our business, time is leverage,” he said. “A year to two years out, regardless of where you’re at in the market cycle, it’s going to improve your negotiating position regardless of where you’re at.”

Cunneynworth noted the building stock available needs to catch up to the demands of the industry. A proactive approach can ultimately be a money-saver, he believes.

“You know, we open one to three sites a year in any 3PL business, and it’s a big deal. My concern right now is that the older buildings aren’t getting torn down that are only 20 feet high, and MHE equipment can be 40 feet now. I need the buildings to catch up with everything else,” he said.

“Helping landlords figure out what to build is something we should all be looking at to help us save money. Because if I can get 36- or 40-foot clear, I’m not five high, I’m six or seven high. It’s a lot less costly to go up than it is out.”

Alves noted that the Toronto market has the lowest vacancy rate ever seen. “But the interesting caveat to that is all the developers decided to go out and build the exact same buildings. So we’ve got a flood of buildings coming onto the market that are all the same,” he noted. “That’s going to present some pretty significant opportunities to the occupiers of these buildings, if they happen to be looking in that size category.”

The space-labour continuum

Vera Friedrich of Dematic moved the conversation from the building itself to what is inside.

“Especially with the spaces getting more expensive, we work to reduce labour and real estate costs through high-density storage solutions, mini-load, unit-load, and automated storage and retrieval systems (ASRS). There are also the very narrow aisle (VNA), AGVs that are basically a one-on-one labour replacement, if you have the business case for it.”

She explained how automation solutions can be scaled depending on the user’s needs.

“A 3PL might go for a lower-end technology solution, or you can take it a step further to store-ready delivery with basically sequencing product down to goods to person stations and eliminate labour there,” she said.

► The MM&D cost saving roundtable is an editorial feature, made possible with support of the following companies. The sponsors’ input was made exclusively through their participation in the panel discussion.





Top Takeaway: Be proactive.

— Colin Alves

“We look at return on investment for the different solutions. So if you’re looking at a voice solution by itself, it might be a 10-month return on investment that’s possible. It’s not just labour reductions it’s also accuracy.

Scott Deutsch from Honeywell noted that expectations for return on investment have changed dramatically over the past couple of years. “There’s a dynamic we are seeing in the marketplace today with everybody wondering ‘what’s the right decision to make to give me the flexibility?’” he said.

“Because what we are more afraid of, I think, than people actually touching the cases, is a one percent change to the business that could make whatever you just put in obsolete. So you really need to know. People want flexibility, they want scalability and they want the operational efficiency.”

Friedrich noted that flexibility is possible from currently available automation solutions.

“It’s not just the floor plan anymore,” she said. “You can actually leverage all your upper space. You can build it over the dock door. What we call the mini load, or multi-shuttles, basically storing totes or parts.

“And the scalability is there for all of the solutions and also looking at slow movers versus fast movers. So just dedicating a part of your limited space, you can create additional space from your slow movers.”

Greg James from 3D Storage offered suggestions on ways to improve space utilization in the DC.

“People put a pallet on the floor. That one pallet sits there for a full year rather than putting multiple shelving levels in there, more SKUs in there so that they, again, don’t have to go out and expand the warehouse or the building,” he said.

A pick module will allow you to use more vertical space, and condense the footprint. Likewise, carton

flow, will certainly condense products in a given space.

If 80 percent of your volume is 20 percent of your products, that lends itself to creating density, whether it’s push-back, flow, or very narrow aisle.

“So look at the methods you’re using,” James said. “A good chunk of our business is from the average Joe whose business has grown and he doesn’t want to go out and get another building; warehousing is a cost to him. And it’s our job to come in and try and solve those problems for them to get more products or give him more time so their business can continue to grow.”

Process improvement

Deutsch talked about ways to analyze processes in order to decide where savings can be achieved. He suggested starting with the smallest incremental improvement.

“That’s actually the way you build business cases,” he said, “without making strategic bets for the business. And in a risk-averse environment that’s still pretty important; people don’t like to risk their careers too often to make a wrong decision.”

He said it’s pretty typical for processes to be the way they are because it’s the way they’ve been done for years and nobody has bothered to see if they are efficient.

“So maybe it’s really a matter of perspective, and it’s the simple things that add up to big savings for a company.”

The first step, Deutsch said, is to really understand the business and actually go through it step-by-step.

“Literally sit and watch the pallets,” he recommended. “What are the steps? Are you actually shooting a barcode to make sure the inventory’s been received so your backend systems know what to do with it, from your warehouse management system, from your automated control system? Who’s taking control? What happens to that data?”

“If you’re looking for increased operational efficiency, if you’re looking for ways of saving cost with what you’re doing today, figure it out: ‘Why do I do that?’ Remove that step. And if I do that step nine million times a year from my 140 workers per building, and it costs me 15 cents each time, there’s your business case.”



Top Takeaway: Be open to many alternatives.

— Vera Friedrich



Top Takeaway: Evaluate your processes to improve productivity.

— Scott Deutsch

Relationships

Working with your customer is a big one for cost savings in the warehouse, said Cunneyworth. He cited the case of a client who wanted three-day delivery across Canada. He suggested a compromise where the top 10 SKUs were made available in a Calgary DC, making it possible for the three-day target to be met.

“Those types of conversations, I think, can drive a lot of savings,” he said. “The real issue is how do you get your customers to listen? Because you are one of 500 or 3,000 vendors, they can’t listen to everybody, or not everybody can be right. Because there is a lot of money on the table, I believe, in working with your top customers.”

Andrew Bulmer from Active International broadened the conversation to include vendors and customers.

“People need to engage their vendors as true partners and not just beat them up on price but really understand how you connect your supply chain with your vendor partners. And engage your customers in the conversation too.”

He cited an example from a previous job in which as a supplier, his company worked with the client to streamline supply chain operations.

“We moved them from any day, next day delivery across Canada, to once a week,” he said.

“That enabled us to reroute our trucks and to consolidate orders, reduce our carbon footprint. It was a complete engagement of the customer.

“It took our sales team, all of our folks in our DC

chain to be part of the team and really work with them to unlock those efficiencies. If we’re reducing the number of SKUs we can, in turn, turn to our vendor partners and strip out costs and efficiencies and pass those along. It was a huge win-win.”

Motivation

One cost area that’s hard to control is directly linked to employee behaviour. In warehouses, damage to racking can really add up and it’s the managers who are accountable for it.

“Damage is always occurring, but nobody knows what shift it occurs on,” said James, relating the story of a client that solved the problem. “They said to every employee who got a bonus at the end of the year that the cost to replace and repair damaged racking was coming out of their bonus.”

Every time there was damage a sign showed how much the bonus pool had shrunk. It was a way to “get them to start taking responsibility and ownership for reducing damage,” he added.

“Every incentive to drive productivity needs to be tied to a safety one as well, otherwise you will get people cutting the corners, hitting the racks, running instead of walking, driving the machinery unsafely,” Cunneyworth said.

“They need to understand that it’s all tied to a safety component—like any lost-time injuries and you’ve lost the incentive for this month.”

He added that good labour management practices can also be a powerful way to streamline operations. Making sure people show up and on time is one small measure.

But also, it’s key to measure individual productivity and keep those people who are above average on the payroll.

“Sometimes it’s unpopular, but I think of it as taking care of those that take care of you and do it safely,” Cunneyworth added.



Top Takeaway: Be open to change.

— Greg James

Top Takeaway: Treat your people well.

— Jason Cunneyworth

Bulmer advocated exposing staff to as many parts of the business as possible: “Connect the sales team with the procurement supply chain team, right down to having folks ride a truck, work in the back, and understand what you’re selling and what the implication is in the back end of the organization. You know, a lot of consumer goods organizations, those folks start out on the road, on a truck. It’s not an incentive, but it’s the way you incent the entire organization and link the entire organization.”

Inventory management

Bulmer explained how corporate trade can help businesses reduce costs by writing down unwanted inventory.

“A lot of businesses in Canada are constantly re-evaluating their assets and their inventories. They’re evaluating the SKUs they’re selling as the urban market grows,” he said.

When there’s a risk of writing down that inventory, it’s possible to provide a mechanism to maintain them at their wholesale value or their book value, ideally. We issue trade credits to them. They’re booked as a prepaid expense. The book does a sale, in essence, for trade credits. They then spend those trade credits back to our business. For 90 percent of our customers, it’s on media and that helps reduce the cash outlay on that media expense.

“So for the conversation at this table, folks within supply chain, 3PL, managing the footprint to get product to market, it’s an enterprise solution across finance, across-marketing as well, to identify if there’s obsolete inventory and obsolete equipment, a real estate footprint that they’re looking to write down or write off. We can step in and keep that asset whole. And then reduce the operating costs of the marketing folks as well, with their media plans.”

Top Takeaway: Engage across your organization and to suppliers and customers.

— Andrew Bulmer



Measurement

The key to succeeding at any of these ideas is measurement, said Cunneyworth. Look at the space, the layout, the WMS features and functionalities, the people—all of the things that are cost-drivers.

But the bigger question is how do you measure? Cunneyworth asked: “How do you cut three steps out of the nine? What is the business case to get your WMS to do it a little bit differently because you can save two or three heads, if you were to cut out those steps?”

“Whether it’s Lean Six Sigma and all of the things that come, go, stay, it all comes down to common sense, to me, and it’s to measure everything,” he said. “The people that I feel really bad for are the ones who say to me, ‘You know what? I don’t have time to measure all that.’ Or, ‘It costs too much to measure that.’ I say to them, ‘hire as many people as you need to measure everything because they’re going to pay you back.’”

He cited the example of 3PLs, which all have at least one industrial engineer on staff. They can be expected to recover their salary two or three times every year with these types of improvements, no matter the facility size.

“To me, it’s measurement, whether on a spread sheet, a stop-watch, engineers or with a piece of software, measure it all. And then what’s the utilization that you’re getting that gives you the business case with the savings.”

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