

FIVE WAYS TO IMPROVE YOUR WAREHOUSE P&L



Warehouse operations are complex. The real challenge for a great number of facilities is prioritizing the right areas of focus for the greatest impact on your P&L.

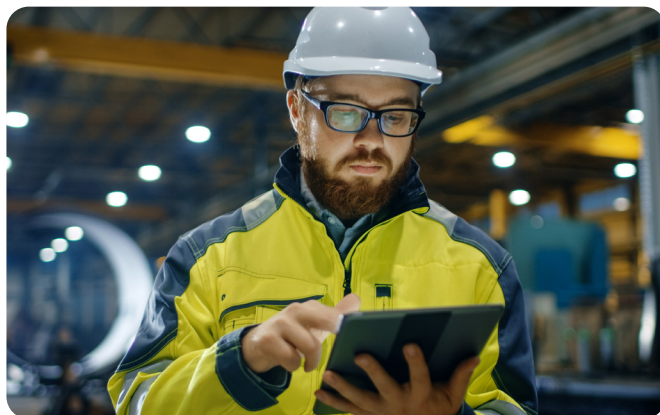
There are a lot of factors working against efficiently managing a warehouse right now. Continued supply chain disruptions, labor constraints and higher transportation costs are all making it difficult for these operations to comply with the “do more with less” mandate being handed down by corporate leaders.

With more attention than ever being paid to supply chains in the current environment, companies are increasingly looking for ways to grow top line revenue while eking more profit out of their warehouses and minimize the associated losses.

Getting there on your own isn't easy. High labor turnover combined with the increase in e-commerce volumes alone can place extraordinary strains on the fulfillment center or warehouse. Add increased risk, poor inventory management and excessive manual processes to the equation and you wind up with a perfect storm of challenges standing in the way of warehouse profitability.

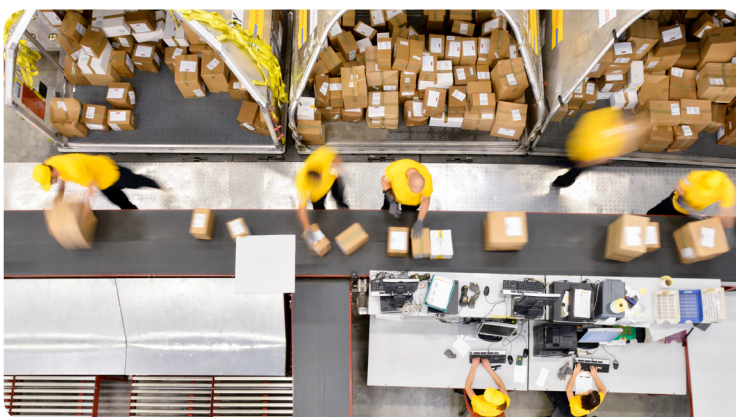
“In most cases, a warehouse supports a company's core business and isn't considered a profit center,” says Jeremy Wisdom, senior solutions consultant, warehouse & distribution at Canon Business Process Services (Canon). “Because it's not generating revenue, a poorly performing warehouse operation can really impact a company's overall P&L.”

The good news is that with the right managed services partner in your corner, you can effectively work through these roadblocks and improve your warehouse P&L. Here are five ways you can start running a more profitable operation today:



1 Manage labor more efficiently. While all five strategies are vitally important, managing labor more efficiently has perhaps the greatest impact on driving improving your P&L. One reason is that labor generally takes up a big chunk of a total warehouse operation's budget.

When the right people are put in place and properly trained, turnover is reduced. This can have a significant positive and lasting impact on the organizational bottom line. "Labor is the largest variable cost in any warehouse," says James Flora, solutions consultant, warehouse & distribution at Canon. "Knowing this, companies are putting a bigger focus on automating, training and helping workers keep their specialized skills updated."



Consider the time, expense, and resources it takes to onboard and train a new employee, only to have that individual leave. If your warehouse has a 50% turnover rate, that scenario becomes very costly and very quickly. By working with a reliable, experienced managed service partner that manages people, processes and technology, companies can effectively align demand with labor resources to create a more efficient operation.

They no longer have to shoulder the financial burden of attracting and retaining the right staff, for example, because that responsibility is handed off to a provider like Canon, which offers that up as part of its basic service infrastructure.

The right partner can also manage labor more efficiently than say, a temp agency, a company that's dealing with competing priorities, or one that's bogged down by supply chain disruptions. Once labor becomes a stable facet of an operation, it's one less thing to worry about and a direct route to an improved warehouse P&L.

2 Improve productivity to drive faster shipping and invoicing, and higher profitability. Higher productivity can lead to higher profitability. One of the easiest ways to enhance productivity in the warehouse is by processing orders more effectively. Whether managed internally or in conjunction with a service provider, assessing and deploying the right tools, systems and processes—all while implementing an effective training culture—can produce significant productivity gains.

“Productivity is often only associated with labor, but a warehouse’s productivity is based on its ability to move the right goods through the operation in the most cost-effective manner possible,” Flora explains. This, in turn, supports both faster shipping and allows companies to invoice and receive payment more quickly. When that happens, the warehouse P&L improves.

The most productive fulfillment operations also focus on continuous improvement and are regularly reviewing their process performance, automation maturity levels and customer satisfaction. Equipped with accurate metrics and data, organizations can make better decisions and continually improve their velocity.

“Warehouse profitability is heavily dependent on having the right measurements and systems in place,” Flora points out, “so that you can identify optimization opportunities and also have the right expertise in place to develop solutions that keep the products moving through the facility.”



3 Institute programs that can minimize risk to ultimately reduce worker compensation claims and litigation. Lack of safety protocols is a financial risk in the warehouse, where slips, trips, falls and accidents involving forklifts, slippery floors, or product in the wrong place can happen at any time. By minimizing risks in this environment, companies can potentially reduce worker compensation claim volumes, deal with less litigation and ultimately improve their warehouses' P&L

Warehouse associates who are not professionally trained or up to speed on best practices, for example, may experience more accidents than a team undergoing regular training. While this may seem fairly obvious, the majority of warehouse executives are not as focused on safety as they should be.

And, depending on a company's accounting practices, many warehouse management costs—such as those incurred as a result of accidents due to bad safety practices—are hidden. “It’s not obvious how much a bad safety culture is costing you,” says Joe Tague, director, warehouse management at Canon. “The costs of litigation alone can eat into a company’s P&L.”



While compensation claims for myriad different issues can add up quickly, those expenses aren't always immediately recognized or factored into a warehouse's overall operating budget.

“For this reason, you must be confident that your warehouse is doing the right things connected to safety because the financial impact is difficult to pinpoint through the financials,” Tague continues. “This is where teaming with a provider like Canon, which has deep experience in implementing an effective safety culture, can really make a difference.”

4 Prioritize good inventory management. Inventory turns, inventory write-offs, obsolete inventory that takes up space, slotting, and putaway practices can all impact a warehouse's P&L. Inventory accuracy can also negatively affect productivity and the customer experience when misplaced inventory causes orders to be delayed.

Inventory accuracy also largely influences the safety stock that's on your books. If you're very confident that you have 99.9% accurate inventory, for instance, then you might not need to have as much safety stock.

The latter costs the company both in the way of carrying costs plus the space needed to store that additional inventory. Canon has worked with a few companies whose annual inventory counts were costing them a lot of money in either surplus or unaccounted for inventory.

"Some companies are writing off millions of dollars during their annual physical counts, whereas if they transitioned to regular cycle counts, they would have much smaller write-offs throughout the year," Wisdom explains. "They can also solve the root cause of the problem and, as a result, benefit from a significant decrease in their total volume of inventory write-offs."



5 Use automation to optimize existing assets. Adding automation to a warehouse helps reduce the number of repetitive tasks that employees have to manage, streamlines operations and allows workers to focus on more important projects. It also helps to create a more ergonomic and enjoyable work environment which, in turn, helps reduce turnover (and, as highlighted in point #1 above, leads to an improved P&L).

When automating, it's important to identify what makes the most sense for your operation, the return on investment (ROI) of automation and what your goals are in this realm. You also need a solid foundation of best practices to build upon, keeping in mind that there are different "tiers" of automation. "Don't just start up an operation and go all-in with automation without having some type of baseline in place," Wisdom cautions.



"Know your options, understand what makes financial sense and estimate your ROI," he continues, "knowing that there are different levels and types of automation that may make sense for your specific environment."

Within that environment there also may be different automation options that make the most sense. For example, one area of your fulfillment center may be ready for robotics; another would surely benefit from voice technology or smart conveyor technology; and yet another may just be in the early stages of using barcoding. "Assess the automation maturity of each department," Flora says, "and determine what it's really ready for today."

Partnering for Success One of the best ways to improve a warehouse's P&L is by partnering with an expert that understands the people, processes, technology and analytics required to run that operation like a well-oiled machine.

Taking this step will not only improve a facility's P&L, but it will also allow your organization to focus on your core business —versus putting too much time, effort and investment into running their warehousing, distribution and fulfillment operations.

"There's no denying that material handling and warehousing directly supports and impacts a company's core business," says Wisdom. "However, if you can't definitively show that these areas are positively affecting your P&L, there's a good chance they aren't. Instead, it's likely your warehouse is simply sustaining or even negatively affecting your bottom line."

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CONTACT US

CANON BUSINESS PROCESS SERVICES

cbps.canon.com

261 Madison Avenue, Third Floor

New York, NY 10016

888-623-2668