Count, manage and move: Warehouse inventory control strategies

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For manufacturers and distributors in the fashion and home furnishings sectors, strong internal governance and project management control within the supply chain can improve function throughout an organization, as well as augment versatility. Formulating a viable operations strategy within the business and embracing best practice approaches can:

- Improve margins
- Minimize working capital needs
- Turn supply chains into a competitive differentiator
- Mitigate risk and costs attributed to key supplier issues
- Mitigate customer facing issues, such as back orders or missed shipments
- Increase customer service metrics

Given the obvious benefits to a solid plan, what should businesses consider in implementing or re-addressing their own approach to operations?

The following explores measures businesses can take to assure optimal planning when it comes to managing inventory, efficiently moving it into customers' hands, and using a supply chain as a competitive differentiator.

Setting the stage for change

Before implementing a strategic operations plan, or evaluating an existing plan, it's important for businesses to take a step back and assess their ability to implement the necessary changes. As in any deliberate conversion, a business must embrace the following, in order to successfully implement a new strategic vision or alter an existing strategic plan.

Establish a foundation
It's in this phase that an organization sets standards to drive accountability. Research is needed to understand issues and assess business requirements. Critical personnel must be involved to understand unique challenges specific to the business. Buy-in across leadership and employees is essential.

Industry leaders who invest in technology understand the importance of establishing a platform that is scalable as the organization grows. Simply implementing technology such as inventory barcode scanning will do little to enhance the current process. If the current processes are not understood, and the correct people are not involved, implementing new technology can expose a business to even further inefficiencies, or open up a business to unnecessary costs through an unused investment.

Implement efficiencies

Efficiencies need to be cultivated to reduce ongoing manual tasks, increase the speed of information and streamline process flow across the organization. Proper training is paramount in any organizational change. Further, periodic evaluations need to be established to monitor strategies and ensure they are in line with business and marketplace fluctuations.

Optimize processes

Finally, organizations must optimize and continually improve processes, tailoring processes to the needs of the business and customers. Refined practices, such as Lean and Six Sigma initiatives, can be implemented to:

- Address waste and reduce quality issues
- Control and reduce labor or other expenses
- Increase process flow to further streamline operations and data flow

> *Example:*
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> A client was recently acquired by a large multinational holding company. In an effort to improve warehouse efficiency and accounting accuracy, the parent company implemented its standard enterprise resource planning (ERP) platform. While this ERP was the data warehouse for all other operations, the newly acquired company operated in a fundamentally different environment. Without training or process design, the only change at the acquired company was the assignment of a resource to manually update the ERP for each transaction performed on the factory floor.
>
> Rather than increase the speed of information or allow further technology (such as barcode scanning) to be implemented, the ERP consumed a resource and reflected latent, inaccurate information. Though the end state met the initial vision, proper planning and foundational design work would have increased the speed of return for the implementation.

Industry guiding principles

Companies in the fashion and home furnishings sectors face several issues, including outsourcing to third-party providers, supplier sustainability, regulatory and retailer compliance and managing by key performance indicators. Businesses should keep these variables in mind when considering warehouse management strategies. Further, businesses should understand the value of using technology to automate processes that coincide with these trends.

Third-party providers

In the quest for leaner operations, many fashion and home furnishings companies have shed manufacturing and distribution functions and shifted them to third parties. While these third-party relationships can be successful and profitable for both parties, unique considerations are required for both manufacturing providers and distribution providers.

Provider	Considerations
Manufacturers	• **Quality:** While many third-party firms are able to replicate quality of existing products, *quality slip* is a common occurrence. Firms should establish regular quality inspections. • **Intellectual property:** Some countries have intellectual property laws that dramatically differ from those found in the United States. Firms should take care when establishing contracts to clearly outline ownership of intellectual property to include (formula, process, branding). • **Use of inferior goods:** Third-party manufacturers are also bound by margin pressures. Poorly written agreements could result in the use of noncompliant inferior goods without proper notification.
Distributors	• **Service metrics:** Required service metrics (fill rate, order processing time, on-time receipt, cycle counts) should be clearly specified to avoid issues with suppliers or vendors. Inventory control metrics, such as shrink and cycle count and frequency and tolerance, should also be specified to reduce exposure. • **Inventory storage:** Requirements should be clearly specified to avoid comingling of goods, loss due to damage and turn requirements (i.e., first-in-first-out). • **Carrier requirements:** Access to company-preferred carriers versus retailer-preferred carriers. • **Access to data:** Agreement should define what data is tracked and visible (i.e., lot control, real-time inventory data).

Sustainability

Sustainability is more than *green* technology. It's really about eliminating waste, resulting in the ability to repeat a process at a decreased cost. According to current research, reasons for implementing green strategies include social responsibility commitments, resulting efficiencies, as well as customer demand.

A case in point regarding customer demand—fulfillment industry leaders, Amazon.com and Staples recently engaged customers to better understand packaging needs. Their findings uncovered the following:

- Savvy customers are demanding less packaging and waste in general.
- Nonconforming packaging often leads to customer service issues.
- There are significant savings associated with reduced material and higher-cube utilization.

Other sustainable program strategies and resulting benefits are included in the table below. Businesses should consider these efforts, weighing the advantages specific to their needs.

Sustainable programs and benefits

Program	Benefits
Partnerships with local recycling partners	Reduce waste expenditure Offset waste expenditure through revenue-generating recycling programs
Analysis of packaging dimensions	Removal of nonessential corrugate Reduction in overall material and waste
Consolidating less truckloads (LTL) shipments into full truckloads (TL) shipments, depending on service requirements	Favorable shipping rates Emissions reduction Labor savings on loading or unloading freight
Setting standard shipping procedures and palletizing requirements	Increase cube utilization; more effectively filling the cube of a trailer

Compliance

Another trend area in the fashion and home furnishings sectors impacting inventory control is compliance. Failure to comply with various regulatory and customer demands could mean loss of customers, fines and penalties. Distribution operations are especially susceptible to fines assessed by retailers when their requirements are not met. Note the following table:

Compliance programs and requirements

Program	Typical requirement
Labeling • UCC 128 (GS1-128) • Customer specific labeling	Specific labeling information and placement Individual requirements, such as purchase order (PO) and lot number
Advanced ship notices (ASN) or Electronic data interchange (EDI) communications	Electronic transmission of shipment information at time of shipment
Minimum fill rates	Fulfillment of complete POs in one shipment
Preferred carriers	Required use of specific truckload or less-than-truckload vendors
Import and export requirements	Compliance related to importing and exporting regulated materials or ingredients. The expectation of *ethical* manufacturing standards for importation into certain countries
Department of Transportation (DOT) and International Air Transport Association (IATA) restrictions	Hazardous materials • Packaging requirements • Bill of lading requirements • Export documentation compliance

Example:
A major e-commerce retailer was actively responding to customer requests for sustainable delivery options that reduced the waste generated by corrugated boxes. In an effort to respond quickly, the retailer instituted a manual process that required the offline tracking of inventory, manual product picking and packing procedures, and the development of a custom inventory tracking application.

While the company achieved the desired reduction in corrugate boxes and waste, the back-end business process at the retailer was unsustainable. Inventory was difficult to track, and was often lost or damaged upon return from the customer. The business cost of replacing inventory and performing manual processes to route the *special* orders ultimately impacted the level of service provided to the customer, and unintentionally increased the cost of doing business.

Agile companies that are able to quickly respond often win praise and repeat business from customers. In a long-term customer relationship, responding to these requests with manual procedures and disparate technologies outside of existing systems often leads to the inability to meet performance expectations and results in substantial costs. Unfortunately, these costs are often more than the incremental sales increase.

Key performance indicators

Key performance indicators have become a widespread management tool as operational data has become more available. As businesses move toward ERP systems, they are able to use data from this system to identify and report on metrics that have a direct impact on labor management, inventory management and customer service components. Key performance indicator (KPI) metrics measure performance in terms of tangible operational units. These metrics, at their best, are actionable on a day-to-day basis. In addition, KPIs can enhance:

- Productivity and efficiency of work completion
- Product availability, to the extent to which a promised product can be shipped
- Accuracy of order shipping
- Flexibility, measuring the degree to which the organization can respond to volume fluctuations
- Reporting, providing up-to-date and unbiased outcomes

Solid warehouse management planning should increase transparency throughout the organization. Rather than manually consolidating and reporting KPI metrics, quick and simple operational reports can be available to all levels of management. Best-in-class KPI solutions allow visibility of labor metrics, inventory management and customer service elements. Industry leaders harness this valuable data and use it to their advantage to make changes in business systems to improve process flow.

> *Example:*
> KPIs should enable front-line operators to manage labor and meet budgeted goals. On a daily basis, it is difficult to manage dollars and cents. KPIs such as overtime rate or productivity metrics (items picked per hour, boxes shipped per hour) often allow for the approximation of dollars and cents, and can aid in long-range labor planning.

Warehouse management best practices

Fundamental warehouse management procedures can be implemented without extensive technology. While space utilization constraints may dictate manual processes, tactics can be optimized with enhancements. Some examples of this include:

- Pick readiness improvements (referring to a warehouse's order preparation operation, for example, pre-folding or boxing items so order pickers can quickly package product without prep time). This ensures associates' prime function is picking product, not removing excess packaging or replenishing locations. Also, utilization of flow racking can be a helpful improvement to increase picker productivity by minimizing manual pulls.
- Reserve racking utilization (establishing multiple locations on a vertical shelf to reduce physical footprint). This reduces space required by traditional floor locations and forces specific pallet locations.
- Manual pick path tactics allowing associates to pick in the most efficient route. This method provides manual profiling and uses picking zones. It is best implemented with ERP data; however, it can be used without, in some instances.

Just as warehouse management systems enhance organizational transparency, they also serve as a platform to build technology to minimize manual transactions. With an integrated warehouse system, businesses can use technology to:

- Drive productivity in picking operations, such as utilizing Pick to Light (directed picking based on a visual light guiding a picker to the correct product location) or Pick to Voice (directed picking that guides a picker to the correct location and requires verbal confirmation of pick location and quantity with digital and voice-activated technologies).
- Increase inventory tracking through bar-coding, radio frequency (RF) scanning and radio-frequency identification (RFID). This tracking allows scanning to be wireless. Usage advantages include: reduced time for employees to cradle scanners, reduced footsteps while completing tasks and increased capabilities to read multiple forms of bar code platforms.
- Reduce costs by providing quick and efficient ways to add information and track inventory characteristics, lot number, serial number, origination location and date of expiration.
- More effective use of warehouse space, such as using dock-to-stock receiving, referring to a receiving method of placing goods into active locations, rather than holding inventory.

Summary

In a fast-paced marketplace, where the ability to move product is essential to staying competitive, fashion and home furnishings companies must leverage warehouse management processes that strive for accuracy and efficiency. Instilling best practices that facilitate automation and minimize waste is key to managing operational expenses and supporting business growth. Whether it's enhancing warehouse logistics, upgrading scanning capabilities or leveraging KPI, businesses must strive for innovative and custom strategies to manage their products and ensure timely delivery to their customers. It's important to remember, you may have the best product on the market, but if your business can't count it effectively, manage the storage of it and move it to customers when needed, unfortunately, that product will be collecting dust on your warehouse shelves.

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