

Warehouse Coach

Improving warehouse performance

Customer Services, and Costs

By Don Benson – www.warehousecoach.com

I discovered an interesting situation some years ago while working for a hardware wholesale distribution company. They stocked a large line of merchandise, over 50,000 SKUs, providing materials to industrial and retail customers and wanted to talk about how their warehouse labor costs seemed out of line. In our study of their operation we found that the basics were being performed well, with better than average productivity and quality. We also discovered that the company and the distribution center were providing a wide range of services to their customer that were not listed in their catalog, and not documented anywhere.

The first response to our inquiry about these services was that the company offered many different delivery options. For example, some customers picked up their orders at the warehouse shipping dock, others received their orders on regularly scheduled delivery trucks each week, still others received their orders via a common carrier, and some used all three methods, yet the price charged of the merchandise for each customer was the same and the company did not charge separately for non-standard delivery.

Then we discovered that several retail customers received price ticketed merchandise based on their unique pricing model, but for most customers the merchandise was not price ticketed at all. As we explored the area of services further, we discovered that some of sales staff made it a practice to help some of their customers stock their shelves. The range and variability of services provided exceeded what anyone could identify, that the list of services and the cost of these services was not defined, and there was no tracking of who authorized these services, what customers received these services, or how long the company had been providing these services.

When we presented this information to management we were greeted with strong emotion, bewilderment, and lots of questions, including how could all this have come about, and what to do about it? After some further exploration and discussion it became clear that the company focus on customer service had motivated people to independently taken it upon themselves to respond favorably to any “reasonable” customer or sales request and some were just offered as a way to create a competitive advantage. The results of this customer service focus was that it was not controlled, was generating significant costs often in the warehouse, and was potentially a customer service problem because some of the company’s

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best customers were not receiving any of these additional services. Worst of all, because of this lack of control, and the use of the traditional Cost Accounting system, the customers that did not request any additional services both did not receive them and were paying a portion of the cost of the services being requested and received by others as the overhead was spread across all items in the catalog.

As I remember, we had a long talk with management about what to do with this situation. Clearly to eliminate these special services did not make sense. Management was stuck in their attempt to decide what to do, and to help them reach a decision they asked that we determine the frequency and cost of providing these services.

It was a challenging project. There was some resistance to our study, for a variety of reasons, but we were able to create the list of services, a reasonable estimate of the cost per occurrence and the frequency over the prior 6 months. The harder part was management's task: what to do with the information and service?

Their first step was to add a list of services the company was prepared to offer, to their merchandise catalog. In this way all customers became aware of the company's service commitment. Initially these services were listed without explicit costs, and the request that the customer call for a quote. This step helped to build more information so that they could begin to understand the level and sources of demand, and estimate the appropriate level of staffing, space and equipment to better service the customer and understand the costs that were involved. Over time our client developed an understanding of the actual service costs, could apply them more accurately, and in time these services became a profitable in their business. My lesson and it is a theme that flow through many of my columns, is that more and better information leads to better management decisions.

I look forward to hearing from you; about your challenges and approaches to better utilize your people, equipment, systems and building to improve warehouse performance. You can reach me at coach@warehousecoach.com.