A distributor with $30 million in sales had a problem. The company was growing, but the bottom line was shrinking. Errors were out of control. Customer complaints were increasing. They called RSM.

Listening to the client, we learned several key facts:

- A daily count revealed an average of more than 25 items missing out of the inventory.
- A study of shipping errors showed that products that were supposedly loaded onto trucks were not reaching customers more than 30 times a day.
- In total, the client was averaging 65 picking and shipping errors daily.
- With more than 70,000 SKUs and more than 2,000 orders filled daily, that came to a 97 percent accuracy. Increasing customer complaints demonstrated that performance had to improve.

The RSM team went to work, starting with a detailed analysis of operations, which revealed three root causes for the client’s problems:

1. The same product was often stored in multiple locations in multiple warehouses, exponentially increasing the opportunity for inaccuracies in inventory counts and ordering.
2. Products were not consistently identified, either physically or in the inventory system, further exacerbating accuracy issues.
3. Procedures were not being followed.

When its bottom line shrank while the company grew, RSM helped this distributor turn around its operations by redesigning its space, processes and quality controls to minimize errors, while maximizing customer service and efficiency.
Understanding the problem

Here’s how those issues affected operations. Because the company did not have, or at least did not enforce, a specified location for each product, as products came in, they were often stocked wherever they would fit, which made picking a random and inefficient process. It also meant that products were often miscounted or missed entirely during cycle counts. In many cases, customer orders were not filled because items that were in stock had been missed and were not shown on inventory reports. Those items were then ordered, leading to excess inventory.

Incorrect or nonexistent product identification also led to errors, making it difficult for products to be put away, picked and shipped correctly. Incorrect linkage and descriptions of the component parts of kitted orders also made it hard to get all components of a kit to the customer.

While the company’s processes clearly needed improvement, even its existing processes were not clearly documented or followed on a consistent basis, leading to more errors. For example, procedures for packing orders on trucks in an organized fashion were not followed, which meant that orders sometimes would not be found when a truck reached a customer location, even though the order was on board.

Delivering the solution

After discussing these findings with the client and asking about their business model and strategy to ensure we accurately understood their goals, we developed a four-part solution that would simultaneously reduce error rates and improve efficiency:

- Reorganize their warehouses to locate products for maximum accuracy and efficiency based on product size, usage, pull frequency and other key metrics.
- Install a bar-coding system to improve inventory accuracy, eliminating the need for manual cycle counts and speed reordering.
- Rationalize delivery routes by analyzing the profitability of current routes, identifying issues and best practices, and then reconfiguring routes for maximum efficiency.
- Institute a quality control system based on ISO 9001 guidelines. This would not only help to ensure that procedures were well documented and consistently followed; it would also give the client a specific quality standard to point to in its marketing efforts.

Turning growth into profit

The results? Picking and shipping errors have been reduced by 85 percent, from an average of 65 per day to an average of 10 per day, increasing overall order accuracy from 97 percent to 99.5 percent—and those numbers continue to improve.

By reducing errors and improving efficiency, our client has also realized significant payroll savings. Warehouse and shipping payroll is down by 40 percent, and total company payroll is down by almost 20 percent.

Bin accuracy, which was virtually nonexistent and contributed to the other issues, is now nearing 90 percent.

The client is also making more effective use of its space. In one warehouse alone, by redesigning the layout for maximum efficiency, we increased capacity by more than 25 percent, while also opening up the receiving area.

Rationalizing delivery routes allowed the company to eliminate three trucks, saving them another $210,000 in operating costs annually. The client was also able to increase capacity on its more profitable routes.

The bottom line? Our client slashed its operating costs by more than $800,000, while significantly improving its customer service. Now they are growing their profits, not just their business.