

SPACE AND STOCK

THE FINANCIAL FRONTIER

Executive summary

Many firms use ERP-derived 'stock modules' to manage inventory levels and positioning. Unfortunately these usually respect the commercial ordering units, rather than the units in which the physical warehouse deals. A true WMS makes possible the optimisation of stock levels and space usage, with obvious benefits to both cash flow and customer service.



Space and stock: the financial frontier

Irrespective of size, companies need to boldly go where they have not been before to discover a new world of optimised stock and warehouse space. This is a voyage best made not with the Enterprise Resource Planning system, but with a WMS that can integrate financial visibility and other key functions across an operation's universe.

To optimise is to make something the best it can be so it is perhaps surprising that research carried out for the Access Group¹ suggests that while the theoretical benefits of stock and space usage optimisations are generally well understood – almost 40 per cent of companies with stockholding operations rank stock level optimisation high on their priorities - in practice this emphasis is keenly felt mostly by larger companies and, interestingly, by those firms that do not run a dedicated Warehouse Management System (WMS). This suggests that many firms without WMS must be missing out on a relatively easy route to reduced cost and improved service.

In part, this is surely to do with the maturity of the business. Larger, more established businesses tend to have established and robust processes from point of order to point of despatch: with these in place, stock level optimisation in relation to order and volume patterns

is an obvious next step, with clear benefits for cash flow amongst other criteria. Smaller and newer businesses are often more focused on the need to grow the business and meet every customer demand, in the hope of repeat business and an enhanced service reputation.

Small businesses are particularly vulnerable to short term cash-flow problems, and sub-optimal stocking levels, with insufficient stock in some lines leading to lost sales, while too much working capital is tied up in slow-moving lines - providing a very sound recipe for cooking up a cash flow crisis.

Smaller businesses may believe they can sense their stock levels sufficiently using 'Mark 1 Eyeball', but this approach rapidly fails. We know, for example, a specialised fresh produce reseller, dependent on the fast turnaround of high volumes. But with hard to access (although undoubtedly space-efficient) six-

deep racking, and a reliance on the vigilance of warehouse operatives to know the status of intrinsically but variably perishable goods that they can't immediately see, it is no surprise that whole pallets of, for example, speciality grapes, were regularly being written off, at a cost of £2000 per pallet.

Their problem, and we believe a general problem, is that using the 'stock module' in an ERP system essentially provides a financial update on actions you have already taken – unlike a WMS, it can't give you any guidance on what you should be doing.

And yet it would be equally risky to run a warehouse, however efficiently, through a WMS without reference to the financial implications. Very often, we find operations where the people charged with replenishing stock, with raising Purchase Orders, have little or no visibility of what stock actually exists in the warehouse, and how

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much of it is already spoken for by current and forward orders. With a typical ERP stock module, especially one that is to some extent still paper-based, stock can be allocated, or even shipped, to an order but still appear as 'available' in the warehouse, because the relevant

paper, or its electronic equivalent, hasn't found its way home.

As a result, the sales operation makes promises in good faith that

the warehouse is unable to fulfil and the result is either a lost customer, or one that can be satisfied only through the extra expense of special procurement and expedited delivery. It has been truly said that the only thing worse than holding too much stock, is not holding enough. At least in the former case, orders can be fulfilled and service levels maintained, even at cost to cashflow and profit. In the latter case, there is simply no business.

Contrast the situation with a similar company running a competent WMS. By definition, this will give real-time reporting of picking, packing and despatch operations, integrating with other systems to give managers a true current picture of what is available - as well as what isn't.

But one can go much further. If you have real-time visibility of your stocking and warehousing, you can start using Business Intelligence tools: you can analyse trends, identify seasonal fluctuations, and develop

true forecasting of forward stock needs based on analysis of historic data and, derived from that, the likely impacts of proposed marketing, promotional and other activities.

Access Insight, a business intelligence product that links easily with the Access Delta WMS, is the sort of product that really helps to optimise stock level decisions. One can readily look at, say, 12 weeks of data, map this onto trend analysis graphing, and identify and drill down to any anomalies – such as an unusually large order, pre-Christmas stocking by a customer.

Bear in mind that this is live and current – in an ERP system, which is essentially configured about financial rather than physical entities, 12 weeks may be a standard reporting period – little hope there of seeing the true granularity of supply and demand in anything like real time.

Real time integration with financial systems is, however, only part of the equation. Sophisticated WMS such as Access Delta can, through the 'dashboard' integrate not only with financial systems but other data sources that can contribute to

efficient stock management – even Human Resources.

It is quite possible to identify, for example, star performers in the warehouse and flag them for favourable review, or even management consideration. However often we find companies who have used Access

Delta to optimise their stock levels who 'discover' significant volumes of stock that they did not know they had available: when this has been cleaned up they may find they no longer need to expand their warehousing space.

Optimising space utilisation is not just about overall footprint and number of pallet locations: it is about how a company uses them efficiently. An increasing number of companies now have multiple channels to market, with the same stock flowing through different processes and possibly different physical locations, and with pick quantities for the different channels ranging from complete pallets to individual items. A central problem with using an ERP-derived stock control module is that ERP is based on units of account, not physical items and ERP is unhappy if this unit is split up.

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Right stock - wrong space?

With stock levels optimised, it becomes possible to think rationally about optimising space utilisation. The survey¹ finds that three quarters of respondents are not doing it very well / efficiently. This demonstrates that there is enormous room for improvement. Warehousing space is not cheap, and the apparent need to increase storage area can be a real brake on company growth.

A good example of a company that has solved the problems that can arise is multi-channel retailer

The Works. The company has two distinct channels e-commerce: B2C, typically handling many orders for single items; and a B2B store replenishment operation dealing in greater bulk.

In theory the B2C operation, which is handling much smaller overall volumes at any given time, should require less physical space but picking single items from pallets is inefficient, so goods are put away to shelving. This allows for the holding of much more product in a smaller space, but at the cost of greatly increased complexity. A single location or pallet may now hold multiple different products. Often, the 'dirty' solution is to create multiple pallet IDs. The result is a system that is dealing with 500 virtual pallets, even though the warehouse will only accommodate 100 real, physical pallets. Clearly, efficient space utilisation goes out of the window! Access Delta has the ability to hold multiple products on a single pallet ID.

This ability also helps address product of unknown size and dimension. In many operations with high numbers of rapidly changing skus, it is an almost insuperable task to capture dimensional data, and then plan and execute an efficient putaway in time for the goods to be picked. The result tends to be a large amount of stock lying

apparently randomly in inappropriate locations with all the potential for loss, damage and inefficiency.

A client with this problem is digital camera business, Direktek, which supplies leading supermarkets and, particularly, the direct fulfilment of consumer orders. An inbound pallet efficiently loaded will hold very many, small and varied items – to the point where breaking down and putting away the contents could easily take two or three days.

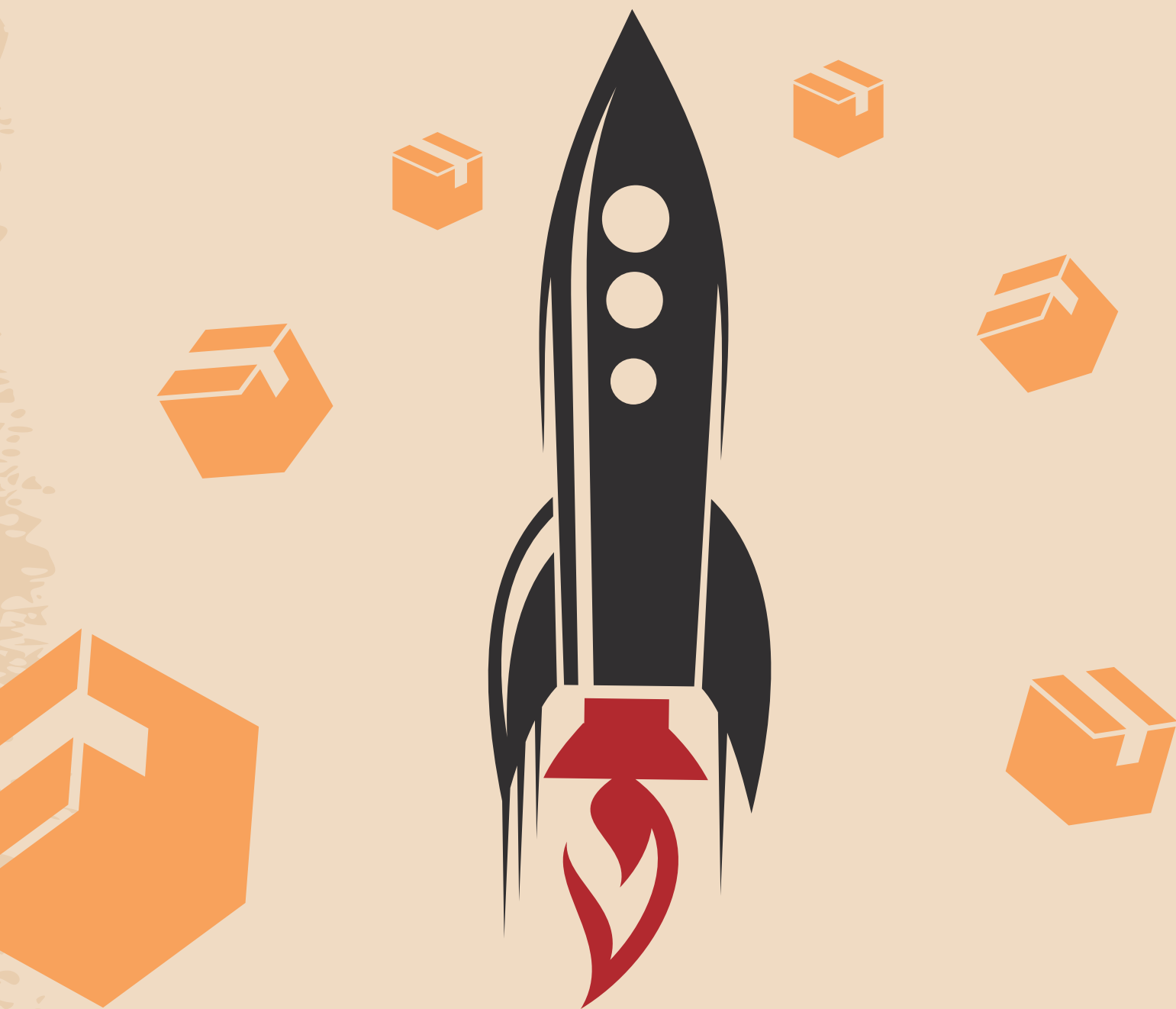
Using Access Delta, each item still of course has to be scanned or captured, but they can remain on the single pallet in a single location (which is itself full, rather than having half a hundred locations with only a few items in each). The benefits, both in terms of space utilisation and efficiency of process, are self-evident.

Finally, we referred earlier to the 'Mk 1 Eyeball'. Effective warehousing is in many ways a visual art. Warehouse Mapping, gives serious visibility to

warehouse capacity issues – white locations are empty, blue are full, and green must be ripe for consolidation. Equipped with a drag'n'drop feature, A WMS will not only allow purposeful consolidation of locations, but will be able to automatically generate task lists for the floor which will 'make it so'.

ERP systems and their add-ons aren't designed or intended to do this. Any firm involved in breaking bulk - and that can mean as little as picking a single item from a case - should, we believe, be using an advanced WMS that by recognising every level of unit, and every unique or shared location, can optimise both stock holding and space usage in real time.

¹The Warehouse Management Survey was carried out for Access Group, the leading Warehouse Management System (WMS) vendor, by Redshift Research among 132 warehouse operators across manufacturers, wholesalers and 3PL warehouse services providers.



About Access

We are a leading author of fully integrated business management software. One of the UK's top five fastest-growing software developers (Sunday Times Buyout Track 100), over 10,000 businesses and not-for-profit organisations use Access to unlock their potential. Offering solutions for ERP, finance, HR, payroll, warehousing, business intelligence, PSA and manufacturing, our vertical expertise and template solutions allow for rapid and easy deployment, whatever your industry or sector.

Customer case study

Read how a leading wholesaler uses the **Access Delta graphical warehouse map** to achieve better recording of stock and traceability

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