

IS YOUR DC HIDING SOMETHING?

The Cost of Unproductive Time in Distribution and Fulfillment

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OVERVIEW

If your DCs are nothing more than cost centers that are hampered by unproductive processes and inefficient strategies, you can apply advanced warehouse technologies to squeeze more out of your day-to-day fulfillment operations and improve your bottom line.

Technology may be helping companies work faster and with fewer resources, but the modern-day distribution center (DC) is still some way from achieving optimum productivity.

However, during that time span, the average amount of unproductive time per eight-hour day has increased from 15 to 22 minutes. Using order mispicks as a benchmark — and with companies reporting approximately 134 mispicks per week — the total cost of mispicks is \$400,000 annually, according to the recent Honeywell report, *Unlocking Hidden Cost in the Distribution Center*.

Realizing that no one can afford to waste valuable time or dollars in today's competitive business environment, more organizations are turning to their logistics and DC managers to fix these and other productivity problems.

Nearly eight out of 10 (79%) managers have been tasked with finding cost savings from existing operations. The amount of cost savings managers have been tasked with finding is not minimal. In fact, most have been asked to find an average of 19 percent in cost reductions in their DC operations, according to the Honeywell report.

"With more distribution executives reporting directly to their CFOs, these executives are being asked to help drive their organizations' bottom-line profitability," said Mike Miller, senior director of consulting services at Honeywell Voice Solutions, North America.

"Any time you reduce inefficiencies and drive costs out of a cost center like a DC, those actions can significantly impact the shipper's bottom line."

In this market brief, we'll explore the DC-related productivity challenges that companies are facing, and the ways in which unproductive time in your DC might be costing you more than you think.

THE MANY FACES OF UNPRODUCTIVE TIME

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Unproductive time takes on many different faces in the distribution environment, where both direct work (handling merchandise, picking orders) and indirect work (cleaning activity, empty pallet collection and breaks/lunches) can all impact an operation's overall productivity levels. Spread over many people, shifts and/or locations on an annual basis, even seemingly minute spans of unproductive time can add up to significant financial losses for employers.

In the DC, unproductive time can also be traced to bad processes and methodologies. Performing a specific function repeatedly, but in an incorrect or inefficient manner, for example, can also hamper productivity. For this reason, Honeywell recommends frequent "health checks" and refresher training sessions for employees who play a key role in ensuring smooth workflow processes and as little unproductive time as possible. It also recommends looking at the end-to-end processes, reviewing quantitative studies, and examining potential technology/tools that can help streamline processes and reduce unproductive time.

On average, the DC that employs at least 50 workers loses close to 3,000 hours of productivity in any given year. Breaking those numbers down, 48 percent of companies believe that there is up to 15 to 22 minutes of unproductive worker time available within the average eight-hour shift. In many cases, companies are turning to technology to help solve the problem.

In fact, 89 percent of managers believe that investment in new technology would enable time savings and improve worker productivity, thus significantly reducing these lost hours. Voice technology, for instance, is helping operations pick more accurately, utilize hands-free options, improve employee focus, and save money – as much as \$300,000 over previous solutions in a small DC operation.

"They're throwing people and technology at the problem in a Band-Aid-like fashion. But they don't always look at the root cause and how to mitigate it."

— **Mike Miller, senior director of consulting services at Honeywell Voice Solutions, North America**

WANTED: DOUBLE-DIGIT PRODUCTIVITY GAINS

Honeywell's experience shows that the operation that moves from a manual or paper-based DC management approach can easily expect 20 percent productivity improvements by switching to automated processes.

In some cases, these changes are being driven by customer demands and complaints. And while the top 5 to 10 percent of companies are investing in continuous improvement projects, many more operations have largely chosen to ignore the perils of decreasing DC productivity.

"A lot of companies just do what they have to do to meet their fulfillment obligations for the day and then be done with it," said Miller.

"They're not really focused on how to do things better or be more productive over time in a strategic manner."

This can be a costly oversight, as Honeywell's global survey found. "They're throwing people and technology at the problem in a Band-Aid-like fashion," Miller continued, "but they don't always look at the root cause and how to mitigate it."

For technology to have a positive impact on productivity, it must be married with good processes. In other words, simply layering good technology on top of bad processes doesn't work. If, for example, you implement a new system, but continue to rely on paper or poor methods and procedures to manage your DC operations, then you won't get the full benefit of the technology investment.

A better approach is to utilize workflow solutions that are developed with best practice methodologies, and that can be applied efficiently — and then honed accordingly over time — within the distribution environment.



FOLLOWING THE PAPER TRAIL

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Any time Honeywell works in a DC to help ferret out inefficiencies and improve productivity, we start by looking around for paper. “If I see any paper documents, pick lists or picking labels being used on the DC floor,” said Miller, “I know they’re probably associated with an unproductive, inaccurate, paper-based process.”

These paper-based processes are also onerous from a training standpoint, and particularly for companies that have global and/or diverse operations. “It’s nearly impossible to print out all of the materials in multiple languages or expect everyone to understand and follow one language,” said Miller, who adds that roughly 25 percent of people working in any given DC in North America, France, Germany or the U.K. do not speak the native language.

“When someone can’t get up to speed on accuracy and efficiency quickly, it creates an even bigger problem for DCs that are striving for better productivity,” added Miller.

Paper also inhibits accuracy and, in many cases, leads to low morale among workers and safety-related issues. An employee who is constantly shuffling through paperwork and stopping mid-task to manually record data must direct his or her attention away from the work at hand. For someone who is navigating an eight-hour shift in areas where automation, conveyors and forklifts are in use, the consequences of that distraction can be potentially dangerous.

Once Honeywell has identified a company’s paper trail and assessed its potential impacts on productivity, we then look at the types of materials that the facility is handling. A pallet-based operation that’s using radio-frequency (RF) scanning to manage inbound and outbound shipments, for example, is probably more efficient as a whole than the DC that’s handling individual cases (or single picks sent directly to customers).

Many times, this single-pick DC will try to use paper or RF to get the job done instead of implementing workflow technologies like handheld technologies such as hands-free wearable devices, voice and mobile printers. “In these instances,” Miller said, “technology adds an incremental layer of accuracy and productivity that operations won’t get from more traditional paper-based methods.”

When assessing their productivity levels, DCs should also consider error rates — both for inbound and outbound freight. Whether the receiving process is handled accurately (or not), for instance, can have a ripple effect across the entire supply chain. In fact, receiving is often seen as one of the most critical processes in the DC for driving productivity improvements.

When orders are received correctly, inventory balances are updated, and new orders are generated and fulfilled based on those inventories, filled rates are high. When just one of those three processes goes awry, orders get shorted, shipments are delayed, and customer service is negatively impacted.

“Everyone has their sights set on the perfect order, but when the order isn’t picked right, then that’s where the highest revenue losses come into play,” said Miller. Honeywell’s survey estimates that businesses are seeing \$400,000 annually in mispick losses.

“That’s a pretty large number that can be reduced by marrying good processes with today’s advanced workflow technologies like voice, handhelds, mobile printers and 2D barcode scanning.”

IT ISN'T GETTING ANY EASIER

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With e-commerce continuing to grow by leaps and bounds, customer-driven demand for speedier delivery with later order cut-off times, coupled with visibility and flexibility means the omnichannel distribution environment is becoming increasingly complex. The operations that aren't taking the time to optimize their DC workflow processes now could find themselves in real trouble.

As the sheer velocity of orders moving through the typical fulfillment center continues to grow, operations will either have to add more space and/or workers — both costly endeavors — or optimize their workflows in a way that allows them to do more in the same amount of space and with the same number of employees.

"If companies can't meet customer demands, they'll have to deal with lost sales, returned goods and other costly impacts," said Miller. "Eventually, these operations will fall behind the curve and be overwhelmed by their competitors."



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Honeywell Safety and Productivity Solutions (SPS) provides products, software and connected solutions that improve productivity, workplace safety and asset performance for our customers around the globe. We deliver on this promise through industry-leading mobile devices, software, cloud technology and automation solutions, the broadest range of personal protective equipment and gas detection technology, and custom-engineered sensors, switches and controls. We also manufacture and sell a broad portfolio of footwear for work, play and outdoor activities, including XtraTuf™ and Muck Boot™ brand footwear.

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Honeywell Voice

2555 Smallman Street
Pittsburgh, PA 15222
www.honeywellaidc.com/voice

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