

OPTIMISING YOUR LOGISTICS BUSINESS DURING RECESSION

LPC International has been assisting clients to put in place operational systems and procedures for 25 years. These systems and techniques have enabled logistics businesses to survive previous downturns, and also helped them emerge **stronger and fitter when the upturn arrives**. Though this recession will bite deeper, recovery will come, and those businesses that have managed best will have an **advantage in the upturn**.

What then can be done to address the problem? If you have sufficient resources and are confident enough to invest capital then develop new facilities and infrastructure for the future, if not, then **planning for recession** is about driving down costs to become leaner and meaner while maintaining a healthy customer base.

Aside from the administrative processes there are three fundamental areas in a logistics business where appropriate, and relatively straightforward, initiatives can be introduced, namely:

- **Inventory Management,**
- **Warehousing Operations**
- **Transport Resource Planning.**

Inventory Management

The challenge of inventory reduction comes to the fore and has a dual benefit in that it not only saves on the direct costs of ownership, but can also lower warehousing costs, due to the need for less space.

Identify those items that haven't moved during the previous order cycle and, unless there are good reasons to keep them, dispose of the stock. Even with limited movement an item may be becoming obsolescent so look to reduce the stock level to match future demand. At the same time **review purchase order quantities and order frequency**. Purchase less, but more often, is the maxim during recession. This should keep risk of obsolescence or overstocking down while reducing storage overheads.

Reduce the number of Stock Keeping Units (SKUs) that are stocked.

Consider buying less popular lines against customer orders, and then cross-dock to the customer when the goods arrive. Customers normally accept longer lead times provided the delivery promise is reliable.

Centralise stocks to take advantage of **Maister's Law** which, for example, provides that **if you hold stock at one location instead of four, the amount of safety stock required to support a given service level will halve**, a saving well worth having.

Warehousing Initiatives

Centralisation of stock can combine and rationalise order processing, inventory control, administrative, security and managerial resources. It also creates the opportunity for the **prudent investment in appropriate advanced storage and materials handling systems** can much improve productivity levels and sweat the property asset+

which are the main costs bases. This backed by a suitable warehouse computer management system additionally improves productivity, order accuracy and, again the use of space.

By centralising warehousing operations, with the correct equipment and operating procedures **it can be possible to release warehouse space**, and even whole warehouses, for sale or to let. It is vital that the starting point for this is a detailed study of the warehouse facilities, **operational procedures**, stockholding and customer order profiles, and levels of productivity and performance. There are well published methods to measure warehouse performance and **independent specialist consultants, such as LPC International, can assist.**

Also consider **outsourcing** as a means of releasing warehouse and, or, transport assets. But great care is needed in the choice of 3PL partner and especially in the setting up of the contract.



Network Planning and Transport Initiatives

Reductions in the number of warehouses in a network or any move towards centralisation will affect transport costs. As a norm, **the more warehouses there are in a network, the greater the warehousing and inventory costs will be, and the lower the transport costs will be**. It is therefore important to balance these to find the optimal network solution.

Many computer models (LPC International uses the Dips model) can be used to **determine this "optimum" network**. They can also be used on an iterative basis, to **determine the potential impact of closing one or more depots in an established network**.

The most economic solution does not necessarily mean that a warehouse should close. It may be that stock should be centralised at one **"national" warehouse** or, perhaps, at a **small number of regional warehouses** with other warehouses in the former network becoming stockless and acting as cross-

dock facilities, with smaller footprints and fewer staff than before centralisation.

Those ex-warehouses identified as having no future use, either as stockholding points or for cross-docking or consolidation can be disposed of.

The same computer models can often be used for transport planning, to determine economic routes and schedules, and to optimise the use of available fleet(s) of vehicles or to determine the optimum size and mix of fleet.

Computerised routing and scheduling can be strategic, whereby it is reviewed periodically or, preferably tactically, where it is used on a daily basis, to optimise each day's transport operations and to **maximise the "fill" of delivery vehicles**.

If acceptable, modify customer service levels if this allows **consolidation of customer deliveries**, which can allow improved transport drop densities and thereby reduced delivery costs.

At tactical level, **savings can be achieved through the introduction of telemetric systems on trucks**, to monitor both driver and vehicle performance. Fuel consumption and overall vehicle performance can be improved through careful attention to driver driving habits (the heavy right foot+syndrome) and engine condition.

In summary think "outside the box" and be prepared to consider radical solutions.

LPC International can assist with the review and solution development process to enable your business not only to survive a recession but also to emerge far better equipped to deal with the future.



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