

## *What Effective Warehouse Leaders Do*

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*Editor's Note: In September, a book titled "What Great Service Leaders Know & Do" was released. Its authors, Jim Heskett, Earl Sasser and Leonard Schlesinger are professors at Harvard Business School. All three have been involved in the study of service industries for many years. We define service industry as any activity that does not involve manufacturing. Clearly warehousing is a service industry. This article is not a book review. We reviewed the text and looked for those ideas that will be useful in the management of warehouses. If you want to dig further into this topic, we suggest that you purchase the book. KBA*

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Warehousing is different. Some services, such as call center activities, can be exported to a low wage area overseas. But if you need a distribution center to serve clients in the Great Lakes area, you are unlikely to locate it in Africa or Asia.

Expectations for all services are rising. When Amazon publicizes same-day service and delivery by drones, the expectations of the general public are influenced. While few buyers would expect anyone to match the Amazon claims, service standards that were acceptable a few decades ago are not considered adequate in 2015.

Talent management is critical in the warehousing business. The most successful warehousing companies are those that nurture and retain highly motivated people. While the "churn and burn" approach to human resources may be acceptable in some retail and manufacturing organizations, inability to attract and retain talent will have serious consequences for a warehousing service provider.

Your clients are buying results. While they may go through the motions of shopping for the lowest price, they are really driven by the need for dependable service. For this reason, the best warehouse service providers are those who regularly report to their clients about the results that they have achieved, and their ability to offer continuous improvement, or kaizen. Furthermore, this focus on results requires some visibility. The client fears what he or she cannot see. A key factor in the growth of Uber is that the client who orders a vehicle gets immediate feedback on the location of the car and arrival time. In contrast, conventional taxi services leave a question about where the taxi is located and when it will arrive.

A key element in warehousing is the performance of the frontline employees—usually warehouse supervisors. The best warehousing organizations always hire for atti-

tude, then train for skills. Those who expect to hire someone who already knows how to do the job are likely to be frustrated in today's scarce labor market. Skills can be transferred, attitude cannot. Do not overlook the impression made by your front-line people when they deal with your clients.

### *The unique factors of outstanding warehousing service*

Dedicated employees must be close to the top of the list. Retention of well motivated people is not easy. When a warehousing organization loses a major piece of business, layoffs of good people are inevitable and impossible to control. At the same time, the acquisition of a major new account will require hiring of additional people who have not yet acquired the necessary skills. The opportunity to advance is a key factor in retention. A major logistic service provider is noted for the fact that a significant percentage of its vice presidents started their careers as freight handlers. When other workers see their colleagues moving up the ladder with ease, they are motivated to stay with the company and work for a promotion.

Retention involves continuity in front line supervision. When people are coming and going, it is difficult to provide an environment of stability and continuity.

While very close supervision is easily attained in a manufacturing operation, it is not practical in a large distribution center. When precise quality control is not possible, talent management becomes even more critical. Management must hire and keep workers who are motivated to do the right thing, whether they are supervised or not.

There are three behaviors that are associated with quality in warehousing. Workers must believe in these things:

- My supervisor is involved in what I do
- My supervisor cares about me and my performance
- My work is appreciated

If nearly all the people in your company will buy into these three things, there is no reason to read the rest of this article!

### *Your strategic service vision*

Nearly every warehousing organization has a strategy, and some describe it better than others. Your strategy should consider the target market, your services, and your operation. Start by deciding which companies are your targeted customers. Then consider what results those tar-

get customers are likely to need. Are there some customers that you should not serve? If so, create a “don’t serve” list. As you consider your services, try to find out what business you are really in. Some warehousing companies are really in the real estate business. Others have no interest in real estate but are closely tied to transportation or packaging. They seek those warehousing clients that will best support their existing services.

Operating strategy may involve the “special magic” that separates your company from competition. What are the unique features of your operation? Is your special magic both scalable and sustainable?

### ***The factors of outstanding warehousing service***

Certain hallmarks are usually found in an outstanding warehouse. One is a leadership practice that allows hourly workers some latitude in delivering results. Because the workers enjoy increased responsibility, one result of this is a very high level of employee satisfaction.

A management with no surprises is highly valued. A result is a workplace with very high trust. High employee loyalty is usually accompanied by very high customer loyalty. When management takes good care of its hourly workers, they in turn will take good care of the clients. A quality service experience is usually accompanied by high customer satisfaction. When your warehousing team has done a good job, the customers will show their appreciation. But they won’t do this unless you let them know about what you have achieved.

Finally, all of this should influence the bottom line. When service quality is outstanding, profitability should also be above average.

### ***The nuts and bolts of outstanding warehouse service***

One talent management study identified six things that most employees look for when they join your organization:

- *A boss who is fair.* Fairness is judged by how people are hired, recognized, and even fired.
- *A chance to get ahead.* Workers are interested in self betterment. Most want training and a path to a job with more responsibility.
- *Frequent feedback.* How am I doing?
- *A winning team.* Winners like to work with winners, and they don’t want to work with losers. If management ignores the losers, the winners are demotivated.
- *Latitude to deliver results.* Surprises are fairly common in warehousing. Do your workers have the authority to react creatively when the unexpected occurs?
- *Reasonable compensation.* The expectations of employees regarding compensation are often surprisingly modest.

Hiring for attitude is absolutely critical. You need to attract and retain people who are truly interested in the business, passionate about the mission, and able to relate to your company values. They are comfortable with your culture, best defined as “*how we do things around here.*”

Mistakes will happen. In-service recovery is defined as the ability to “do it right the second time.” When the recovery exceeds expectations, the client is likely to forgive the mistake. Recovery should start with an apology. It should include some recognition of the elements of the complaint. Then you should indicate what might change as a result of the complaint.

### ***Facility design and customer service***

Most of us have seen a retail store that drove us away because of unattractive lighting or merchandise layout. Without even realizing why, you will head for the door. The same thing can happen with warehouses. Does your facility have ample and well-placed reserved parking for customers? Are you well-equipped to provide clean and attractive facilities for truck drivers? When a customer enters your office, what is the first impression gained from reception? Are all of your facilities clean, bright and well-maintained? First impressions count, and facility design can have a great deal to do with those impressions.

To an increasing extent, robotics will be part of your support systems. Most of us have adapted effectively to the robotics involved in an automatic teller machine. A few distribution operations have something similar to enable clients to withdraw merchandise from the warehouse. Is the robotic installation user-friendly? How does it compare to competition?

### ***It is all about risk***

Consider the fact that the corporate distribution manager who chooses your warehouse could be placing his or her job at risk. If your company suffers a catastrophic failure, will the person who selected you survive the experience? Risk management has changed radically with the times. Terrorism and sabotage were unknown risks until a few years ago. When your client asks about your ability to control risks, can you provide a comprehensive explanation about your recovery plan?

### ***The future of warehousing services***

In earlier years, the foundation for a middle-class society lay in manufacturing jobs. Today, services (like warehousing) have replaced manufacturing.

While price competition has been a hallmark of logistics services, this is changing. To an increasing extent, customers are assessing results and comparing value to cost.

Technology will eventually replace the most boring warehouse service jobs. This includes the building and stripping of pallets, as well as packaging. Job satisfaction will increase when workers are no longer required to handle repetitive tasks.

Contrary to popular belief, average wages in the service sector now exceed wages in manufacturing. Furthermore, employment in the service sector is more stable than in production operations. When you are interviewing people to join your warehousing team, be sure they know that a career in warehousing compares very favorably to the factory jobs that used to be more attractive.

Warehousing is a great career. As a leader, are you in the cheering section?

# ***KEN'S COMMENTS***

## ***The neglected metric called churn***



In corporate life, churn rate is the measure at which either employees or customers depart from the company. In my opinion, churn rate is one of the most critical and most neglected key performance indicators.

Something is wrong when employees arrive and depart frequently. Inability to retain talented people is a clear sign that something is wrong with corporate leadership. Of course there can be conditions where a certain amount of churn is normal, such as a highly seasonal warehouse that requires a personnel build up for a rush season, followed by another season where far less people are needed. This is a situation where staffing service workers should be used rather than hiring and laying off full-time people.

What are the things that could cause employee churn? Substandard compensation is frequently blamed, though it is often an excuse rather than a cause. Pay is less important for most people than managers think it is. Poor working conditions could be a cause. In warehousing, poor housekeeping can create an unpleasant working condition. People don't like to work in a dirty or disorganized environment, so it is not unusual to find high employee churn in a dirty or sloppy warehouse. Abusive supervision will cause people to leave. When high churn is concentrated in one department or work shift, this is frequently a sign of poor supervision. Lack of opportunity for advancement will cause churn, and a company that never promotes from within is likely to pay a price.

A KPI for employee churn is easy to maintain, and if you don't have one you are missing an important measurement.

The other kind of churn is a turnover of clients. The best service companies retain clients for a great many years. When they lose an important client, they always determine why this happened. A certain amount of client churn is inevitable, since companies and people change. When the corporate decision-maker is replaced by a new person, a cordial relationship which existed for years could turn sour. Adjustments in pricing can be a cause of client churn, but failure to adjust pricing as costs escalate is equally damaging to the health of the service provider.

Churn is a critical measure, both for employees and for clients. If you aren't keeping track of this, you are missing something very important.

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## ***Howard Schultz servant leader***

A highlight of the 2016 CSCMP conference was a keynote address by the chief executive of Starbucks. He described a culture in which a primary's strategy is "to build a company that our people can be proud of." Benefits are provided for all employees, and the firm spends more money for insurance than for coffee. Schultz believes that growth is not a strategy, it is a result of good management. He makes it clear that people make the difference.

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## ***Amazon's culture of working backwards***

A keynote address at CSCMP by Dave Clark, vice president at Amazon, provided new ideas. The company has always been innovative, but today it is not small. Therefore the challenge is to innovate at scale. The catch is to work backwards with the ultimate goal of providing improved customer service. One way to do this, revealed for the first time in this keynote, is an experimental program called Amazon Flex. Using a strategy similar to Uber, delivery drivers will be recruited from existing vehicle owners who are willing to deliver small packages to earn some extra money. Amazon Flex has the potential to cause disruptive change in the business of delivering freight.

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# ***WAREHOUSING TIPS***

## ***Do smaller pallets mean better cube utilization?***

One of the logistics miracles of the 20th century was the move by consumer products distributors to agree on a standard size pallet. This is the 48" x 40" (or 1.2m x 1m) pallet designed for interchange between manufacturers and retailers. The movement was started by General Foods in the 1960s, continued by Grocery Manufacturers Association (GMA) a few years later. The strict specifications in the General Foods pallet were compromised, but the size was retained. This allowed supply chain partners to trade pallets or at least develop unit loads that were usually the same size. Now it is interesting to see a pallet

manufacturer, Orbis, promoting a 42" x 30" pallet on the grounds that it will more easily fit into trucks and allow better utilization of the space in a highway trailer. We wonder how the shipper will figure out which products to put on the smaller pallet and which ones should go on the standard pallet. The idea is interesting, but the devil is in the details.

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## ***Robotics market breaks record***

In the first half of 2015, more money was spent on robotic equipment in the United States than ever before. The revenue increase was 7% over the same period in 2014. The percentage spent for material handling applications was even greater, up 27%. The Robotic Industries Association estimates that more than 230,000 robots are now in use in the US, and only Japan has a greater number.

## The future and how to survive it

By R. Dobbs, T. Koller & S. Ramaswamy, *Harvard Business Review*, October 2015, pg. 49.

Although this article was clearly written for multinational corporate leaders, there are elements of it that would apply to enterprises of almost any size. Those that have particular relevance for a warehousing business are described in this review. Corporate profits today are very good, but this condition will not last. If you want to maintain your lead in the coming years, you must do five things:

- Be paranoid
- Seek outpatient capital
- Overcome inertia
- Build new intellectual assets
- Go to war for talent

The authors point out that business expansion has been driven by the twin engines of a growing workforce and increasing productivity. These conditions must be considered temporary. The talent issue occupies much of this writing. One third of today's workers in advanced countries will retire in the next decade, and they will be difficult to replace.



## Voice 2.0

By D. Maloney, *DC Velocity*, August 2015, pg. 39.

For much of its history, voice recognition in warehousing was dedicated primarily to order picking. At one wholesale distributor, voice is now used for receiving, put away and returns. Some of the applications will run on smart phones. Others combine scanning with voice. Lot numbers, expiration dates, and product weights are frequently scanned rather than "voiced" into the record. Voice is also used in conjunction with pick-to-light and put-to-light technologies. Performance management has become a "must-have" feature in voice systems. Supervisors can determine a workers pace. Slow movers can be coached to build up their performance. Key performance indicators (KPIs) can be loaded into the voice system to provide performance comparisons.



## The rise of the supply chain advocate

By P. Newbourn & L. Yalch, *Supply Chain Management Review*, October 2015, pg. 32.

The authors argue that an independent advocate can develop a high level of collaboration within the supply chain. While they claim that the advocate could be a logistic service provider or a manufacturer, it appears that the ideal advocate would be a management consultant. One example of how this works is illustrated in describing all of the channels connecting restaurants to sources. The advocate's job is to identify changes in behavior that can improve network efficiency. The role of the advocate is to bring trading partners together to solve problems.

## Learning the Language of Finance

By J. Goentzel & J. B. Rice Jr, *CSCMP Supply Chain Quarterly*, Q2/2015, pg. 30.

This primer of financial terms is designed to help the logistics executive who has difficulty communicating with financial officers and senior management. The article illustrates in detail the financial impact of supply chain activities. MIT offers a graduate-level course in supply chain finance, and this article describes the highlights of that academic program. Seven points are made in the article:

- Supply chain managers must understand the financial impact of their decisions.
- The DuPont model, a formula developed in the 1920s, is still a useful illustration of how supply chain decisions will influence corporate performance.
- Accounting is a practice, not a science. Be aware of the accounting options for classifying various transactions.
- Activity-based costing is a big investment that also offers big benefits.
- Don't hold on to holding cost. Many underestimate the value of an inventory reduction.
- Cash flows are relevant. But don't confuse sunk costs with current cash flow.
- Supply chain decisions will influence working capital. Supply chain strategy was part of Dell's ability to operate on other people's money.



## Press print; delete ship?

By Chris Dupin, *American Shipper*, Sept. 2015, pg. 6.

3D printing, also known as additive manufacturing, is beginning to change the supply chain business. The business of producing 3-D printers has quadrupled in the past five years to become a \$4.1 billion business. One authority expects another quadrupling in the next five years. The machines make parts out of metal and other materials such as ceramics. The printers range from million-dollar industrial grade printers to low-cost desktop machines. Use of these devices could result in manufacture of products closer to their point of consumption, reducing the need for transport and warehousing. Shipping giant Maersk is considering the use of 3-D printers onboard its ships to produce spare parts in case of a mechanical breakdown at sea. Wherever the logistics of delivering spare parts is complex and expensive, use of 3-D printing makes good sense. UPS has installed printers at many of its locations. In some cases, the weight of aircraft parts can be significantly reduced by the use of a simpler design and elimination of welds. For example, using a 3-D printer and a different material content will reduce by half the weight of an airplane seat belt.