The Cost of Doing Nothing is Not Nothing

PROCAT DISTRIBUTION TECHNOLOGIES

by Jeff Stomel
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If you're not moving forward, you're falling behind.

We cannot afford it."
Our current system is working fine"
Change is too complex/takes too long."

Discussing technological change can often inspire these types of responses. But every day that distribution centers use outdated or inadequate technology they could be wasting thousands of dollars in lost productivity and increased costs due to avoidable errors and inefficiencies. Additional (but less obvious) costs include the business risks of lost opportunity and reputation.

We call that the cost of doing nothing. These are costs that occur because needed actions, such as technology upgrades, are never taken or are delayed too long. Business owners and managers often equate not spending capital with decreased costs. ***Nothing could be further from the truth.*** Every warehouse process costs more without technology: receiving, put away, replenishment, picking, loading, and delivery. Meanwhile, increasing overhead, rising labor costs, and the cost of errors compound the financial challenges. That makes doing business as usual very expensive.

In a warehouse without barcode scanning, doing nothing equates to continued mistakes and inefficiency. ***See how costs add up for a warehouse with 20 pickers.***

Process	Sources of Error	Annual Cost
Picking	Prevent 100 errors per week @$50 per error = $5000/week in claims	$260,000
Picking	Eliminate 3 checking positions @ $30,000 per checker	$90,000
Picking	Increase picking productivity by 20%	$104,000
Receiving	Reduce freight check-in time by 20%	$12,000
Loading	Prevent 10 misloaded packages per week @ $50 per error	$25,000
Shipping	Prevent 10 misdelivered packages per week @$100 per error	$50,000
	Total annual cost	**$541,000**

But mistakes are not just a box packed wrong, or items missing from a delivery. In the food industries, compliance to strict regulations are a top concern for management. And each mistake has a far-reaching ripple effect on operations and reputation. To be successful, warehouses and distribution centers must focus on both the short-term day-to-day operations, and the long-term strategy. In this paper we would like to show you that not looking at the longer-term impacts of how you do business is costly, puts you at a competitive disadvantage, and puts your business at risk.

The cost of doing nothing on *quality/accuracy*

Customers expect their orders to be delivered accurately every time. If you cannot meet their expectations, they will find a vendor who can. As consumers we have become accustomed to near-instant, perfect experiences, every time. When vendors fall short, we make our purchases somewhere else. The same phenomenon applies to business, and that is where the ripple effects of errors are far reaching — increased labor to retrieve returned items, restocking returned items, redelivering the correct item, added shipping costs, administration cost to issue credits and lost productivity. On the previous page we showed how the dollar cost of an error adds up, with an estimated average $50-$100 cost-per-error, depending on industry.

But there are additional costs at play

LOST CUSTOMERS

Perhaps the biggest cost is replacing a lost customer. Lack of accuracy makes you vulnerable to losing a customer as they lose trust in your ability to deliver what they need. How much will it cost you in time and effort to replace a lost customer? One rule of thumb is that it costs five times more to convert a new customer than it does to keep an existing customer.

HUMAN RESOURCES

Consider the cost on employee morale. Workers get frustrated when they are told about errors they made several days ago. Disorganized and inefficient distribution centers result in higher turnover. The average cost of replacing a warehouse employee is 25% of salary, according to the Bureau of Labor Statistics. Salary.com reports an average national base salary of $33,390. That means warehouses spend about $8,347 to replace every warehouse worker that quits. And that's even if they can find a candidate in this tight labor market.

What's more, extended vacancies cause current employees to have to work much harder to cover, further increasing employee dissatisfaction and potential turnover. How much overtime or comp time do you have to pay to keep up? What is your employee turnover rate? Given the average foodservice warehouse turnover rate of 37.7%, and industry estimates are that half of those turnovers are preventable, preventive measures such as employing technology can mitigate some of the costs associated with turnover.

FOOD SAFETY

In the food industries, accuracy has an impact on compliance, traceability and accountability. The FDA and USDA enforce strict compliance requirements, and may request comprehensive information at a moment's notice in an electronic format. To ensure accuracy, the FDA is requiring more companies use data capture at the source. Consider the cost of the lack of readily available data and non-compliance in food traceability/recall situations – how long does it take you to track down recalled products using paper systems? The International Trade Centre (ITC) estimates that traceability solutions can reduce recall scope by 50%-95%.

The cost of doing nothing on *financial performance*

Not investing in technology has far-reaching impacts on financial performance. At the very least, ERP (enterprise resource planning) systems are an absolute necessity to distribute a physical product and maintain an audit trail of inventory movement. In the best-case scenario, your ERP is an integrated, all-in-one solution that can track the course of inventory items picked, packed, and shipped. Unfortunately, some warehouses are using older systems that do not provide full functionality, or are using a collection of unrelated commercial or home-grown applications that may not work well together.

PICKING

A modular approach such as ProCat's lets you build on your ERP to gain full visibility into your warehouse, benefitting your bottom line. And when you implement barcode scanning solutions like PickRight, your cost per pick decreases by as much as 30%. Customers report increased picker productivity of 20-40%. In a warehouse with 20 pickers, that can result in $180,000 of reduced annual payroll.

20 pickers

$15/hour in labor
x 2000 hours

$30,000 per year
x .3 cost per pick

$9,000 per picker
x 20 pickers

$180,000
reduced annual payroll

LABOR

Given that labor is a warehouse's biggest expense – 48.9% of gross margin – you need to maximize the productivity of every employee. According to recent figures released by Honeywell, inefficient labor utilization costs 3,000 extra labor hours per year, or 8 hours per day. Multiply that by the average hourly labor rate in your part of the country, and you can quantify the additional labor cost of remaining inefficient.

CLAIMS

Previously, we mentioned the far-reaching effects of an error on quality. But the hard costs of a single claim include:

- additional driver labor to retrieve returned items
- restocking returned items
- picking correct items
- redelivering the correct item including additional shipping costs
- administrative cost of issuing credits

INVENTORY

Let's take a look at manual inventory processes such as paper tickets or spreadsheets, which are notoriously inaccurate.

- If a crew of 25 pickers each make 1 mistake per day, that is 25 errors.
- The cost per error can range by industry, but for this example let's choose an average cost of $50 per error.
- The warehouse in this example is losing $1,250 per day, or $6,250 per week. After a year, that adds up to $325,000.

Compare that loss to barcode scanning's 99.9% accuracy rate and you'll see the savings add up.

.9% increase in picking accuracy
x $325,000 annual cost of errors

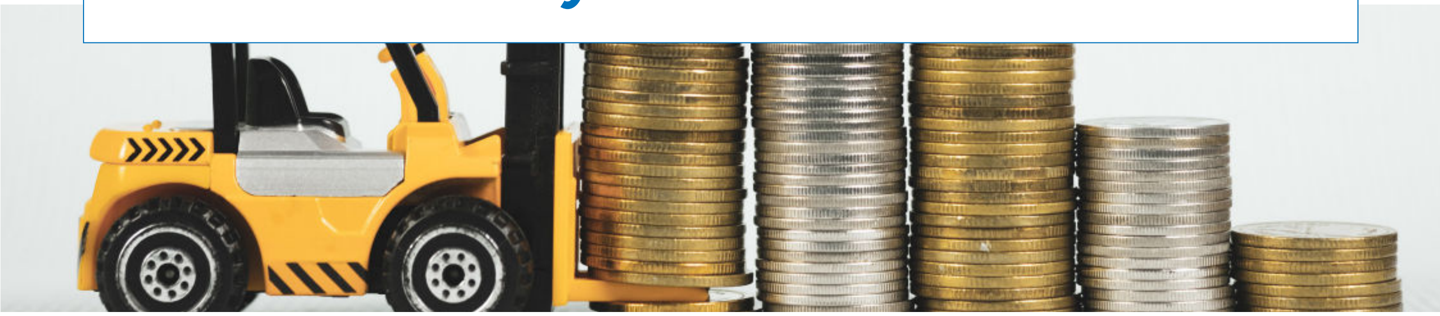
$292,000 would be saved in the above example using barcode scanning technology

Mythbusting

Being wary of implementing new technology and fear of the unknown is common. That said, distribution centers who ignore the reality of customer requests fall behind the competition, incur added costs, and slow their operational efficiency. Allow us to bust a few myths about purchasing and implementing new technology.

Myth	Truth
It's too expensive.	When adopting any technology, work with your finance department to create an ROI calculation based on your technology wish list and current cost of errors and lost clients, and ground your decision in data. ***You may find the resulting investment to be less expensive than you feared,*** or even cost-neutral. For instance, ProCat customers report achieving 100% ROI in less than 12 months.
Implementing new technology will take too long.	When companies seek to improve, it helps to speak to vendors and others who have implemented the solutions you are looking into to hear what they experienced. You may be surprised and find that your assumption is off-base. For instance, ***it takes just eight weeks*** from ProCat contract signing to full operational scanning. And because PickRight interfaces with your current ERP and does not require a WM, implementation is faster and easier than others.
Learning a new system will disrupt my employees and be too difficult.	Employees appreciate investments in technology and in their training that will make their jobs easier and more productive. Work with your vendor and HR department to build training into their established training program. The ProCat system is an easy to use and easy to learn solution, with ***an average training time of 20 minutes.*** During the pandemic, some ProCat customers experienced a shortage of picking staff. With a short learning curve, they were able to train administrative and HR staff in 20 minutes. People who had never done the job before were on the floor confidently picking within half an hour.
My ERP can perform the same process.	Solutions such as PickRight can ***enhance your existing ERP with advanced functionality*** that your ERP doesn't have. For example, technology allows for different picking methods such as team pick, batch pick, reverse pick, and zone pick. Additional foodservice features that PickRight includes are catch weights, temperature capture, expiration date capture, and lot number capture. Each of these increase productivity.
I'm doing okay the way I am.	Run the numbers and you may find otherwise. If you experience 10 errors per week at $50 per error, that adds up to $500/week in claims. And, ***just because a system meets your goals now does not mean it always will.*** The changing nature of our business almost guarantees it won't. The lack of technology can be costing your company hundreds of thousands of dollars each year.
It's not the right time.	Honestly, we agree with you that ***there is never a perfect time.*** But the more time that goes by, the more money you are needlessly spending. The sooner you implement technology, the sooner you can realize the benefits.

Think beyond the short term.



Convincing business executives to purchase new technology – no matter how advantageous it can be – is hard. Companies face finite budgets, shrinking revenues, and competing priorities. One proven approach to considering a purchase of technology is to examine the costs unique to your business. You may likely find why you cannot afford to wait any longer. ***Calculate your costs and expenses to determine where you would be right now if you had implemented a ProCat solution a year ago. How many errors would have been prevented, and how much cost avoided?***

Or, leapfrog ahead five years. Compare where you are now – with 90% accuracy– to where you will be in five years with 99.9% accuracy. Considering only the financial aspect, implementing technology is an easy choice:

Average cost per error: $50
Average errors per week: 100
Annual avoidable costs: $250,000
Multiplied by five years, is $1,250,000 of avoidable costs

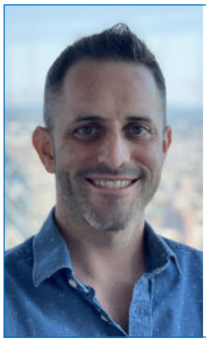
Think about the long view for your business. Do you want to be running the same operation and potentially making the same mistakes, or do you want to be running streamlined operations that deliver near-perfect orders and give you actionable insights? Incorporate a technology investment into your long-term strategic planning and make it part of next year's capital budget.

To get started, download our "Why Food Service Distributors Should Invest in Technology" white paper to see what is behind the top four reasons to invest in technology:

- ***Improve picking quality and accuracy.***
- ***Improve productivity.***
- ***Improve infrastructure.***
- ***Improve financial results.***

Conclusion

Investment in technology is necessary to get ahead. Underinvestment puts your business and reputation at risk and may cause the loss of key customer relationships in this competitive industry. Performing a cost of inaction analysis can be crucial to taking that next step, and getting perspective from an industry partner such as ProCat can help. After all, the first step to getting somewhere is deciding not to stay where you are.



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