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Logistics News: Guidelines for Successful Distribution Center Audits

Companies, not the "Auditors," should take Control; Clearly Define the Deliverables

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In a recent article, SCDigest provided an overview of the different types of distribution center or warehouse audits, some of the challenges to making them work, and where they can deliver the greatest value. (See **Distribution Center Audits – Real Value, or Marketing Exercise?**)

In a period where more companies than usual may be looking to improve distribution performance and reduce costs, getting a DC audit performed may be tempting. But the success of that effort and the value received depends on remembering a number of key guidelines, as we discuss below.

Remember, as Always, you get what you Pay for: Free and very low cost audits are in general more likely to be glorified sales pitches than solid or actionable analysis. Align your objectives and expectations accordingly.

Take Control: Don't allow, as many companies do, the audit agenda to be set by the consultant. Distribution audits are most likely to be effective when the company agreeing to the audit provides clear guidance to the "auditor" about what they want the focus and scope to be.

For example, are you looking to receive a broad assessment of current operations and opportunities, focus on a specific issue/problem, get a feel for a potential consulting services provider, or something else? Even for a general distribution operations audit, overall parameters should be set for the scope of the audit and recommendations.

Ask for "Resumes:" You need to be sure a consultant has the expertise you are seeking to achieve the desired result. Too often, companies seem to consider that one logistics consultant or firm is much like all the others. Instead, you need to do the homework and reference checks to ensure the DC audit provider has the expertise to address the goals you have set.

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For example, if the goal is specific, such as identifying ways to increase DC storage capacity, ensure the company or individual you engage really has that expertise. That can be accomplished by asking about similar engagements, checking references, and interviewing the consultant in detail about their expertise and experience.

It is usually also smart to ask to see some example audit reports the consultant/vendor has done for other companies, so you can get a feel for the quality of the work they provide.

Keep the Focus Positive, not Critical: It should go without saying, but this point is especially important if the audit is driven by a higher level executive for a local operation. **Fred Kimball**, of Distribution Design Inc., for example, says that "Some managers get worried, as most of us would, when some outsider is poking at our operation." The key, he observes, "is to make the point that the audit is of the ***company's*** operation, not the people running the operation. For example, how

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can we fault a manager for declining productivity when the aisles are full of pallets? How can we fault the manager for inventory errors when we cut cycle counting from the operating budget?"

Higher level executives contracting for the audit need to clearly communicate the goals, in a positive way, to local managers, and emphasize the objective to identify barriers to improving performance. Local DC managers, in turn, must do the same with their functional managers and supervisors, who may be equally concerned they are being "graded."

Clearly Define Deliverables: This will largely be driven by the scope and cost of the audit, but perhaps the greatest source of friction after an audit has been performed can be the different expectations about the level of detail in the final report/meeting.

Free and low cost audits will generally be light on specifics and certainly on how to solve issues raised. Frankly, the goal (of the consultant/vendor at least) in that scenario is primarily to establish a relationship or identify opportunities that can lead to subsequent work. Companies should not expect much detail on solutions for the low cost audit.

As audits increase in scope, cost and duration, however, the level of detail should scale proportionately.

"An audit that does not provide recommendations for fixing or mitigating problems is incomplete. There should be a recommendation for each problem identified," Kimball says.

Kimball also says that a written report is needed in addition to Powerpoint type presentation materials.

"The PowerPoint mantra is "Six Bullets per Page and Six Words per Bullet". However, six days later, most people will not remember key points the consultant said explaining the bullets," Kimball notes

Track Recommendations, Actions and Results: Far too often, even those ideas for improvement that make sense are quickly lost or forgotten. Keeping the recommendations visible and taking actions on those that offer the most promise not only is key to actually achieving benefits from a specific audit, it is also critical for showing ROI for that audit that can be used to get approval for audit expense in subsequent years.

Consider Contracting for Audits for Several Years at the Time of a New System Implementation: There is a certain institutional resistance to audits, as we have discussed. The best time to solidify future audits of new systems/facilities is generally at the time of the original project. Doing so with the appropriate materials handling vendor, WMS provider, or consultant involved in the system not only establishes the mindset that audits will become a regular operational process, but you may be able to negotiate more favorable pricing at the time, when the vendor wants the overall business.

Understand Difference between Opportunity and ROI: While audits are designed to highlight areas of opportunity, almost by definition they cannot provide a full ROI analysis for a specific change. There may be recommendations that would be operationally beneficial, but in the end can't be justified based on required investment in software modifications, additional material handling hardware, etc.