

## Logistics News: Distribution Center Audits – Real Value, or Marketing Exercise?

### Many Different Types and Providers, from “Free” to \$25K; Making Your Team a True Part of the Process is Key to Acceptance and Success

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Chances are high, if you are a logistics or distribution manager, that you have been approached at least once, if not several times, by someone offering a “distribution center audit.”

Are these audits a good idea? And do many companies really take up the offers, which range from “freebies” to fairly substantial consulting engagements?

The answer to the first question is “It depends.” The answer to the second question is “Yes, but not as many as consultants wish they did.”

The possibility of a distribution center audit can arise from either perceived user need or consultant/vendor “push.” Distribution managers may be seeing a decline in distribution efficiency or performance, overall or with an automated system, but are unable to pinpoint exactly what is wrong. Expert help may be needed to determine what changes have led to the performance decline or what barriers exist to improved performance.

Other times, the need for an audit or assessment may be even more focused. A distribution manager, for example, may seek an expert’s opinion on the facility’s need for more storage space/density.

On the other side, consultants and some system vendors use audits as an important marketing vehicle. They may offer to do a free or low cost audit as a way of establishing an initial relationship, and hopefully (for the consultant) find some areas where the distribution operation needs some help.

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#### Barriers to Audits

The percentage of “takers” for the low cost or free audits, which typically last for just a day with a short written report is very low, especially where there is not an existing relationship. In fact, a number of barriers exist to companies agreeing to DC audits, including the following:

- **The term audit” can have a negative connotation:** After all, who looks forward to being “audited” over anything, whether it is your tax return or distribution center performance? Some consultants use the term “assessment” or “evaluation” instead, which may have slightly less negative connotations, but perhaps not a whole lot better.
- **Fear of looking bad:** Distribution managers are naturally reluctant to hire someone to come in and audit their performance, even if that isn’t really the consultant’s intent. If the expense has to be approved, questions may be asked about what the problems are at the facility, and why the local team cannot solve the issues themselves.

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Another set of related issues is raised if the audit comes down from a more senior executive, who hires someone to come down to take a look at a local facility. Local management may question whether the audit is really needed, and fear that the report might imply they haven't been doing their jobs. These dynamics are probably even amplified if the company doing the audit doesn't have a long standing relationship with the company. In such cases, the interaction can be very "cold."

**Jim Tompkins** of Tompkins Associates agrees.

"I believe the problem with many assessments is they are not about improvement, but about grading performance from the top down," he told SCDigest. "When this is the case, issues arise, egos are hurt, and the value is diminished. The focus must be on identifying improvements that support the organization and local management and they should be part of the process, not just part of the evaluation."

### Types of DC Audits

Duration	Cost Range	Scope and Benefits
1 – 2 Day	Freebie	In general is primarily used as a sales vehicle by the consultant, and as a result, the value can be all over the map. Because of the set-up, there are disconnects in expectations between the company and the consultant in terms of the insight provided. It may be better to have a short "assessment" with consultant/ vendors focused on specific issues instead. Mostly used by local consultants (though that could be the local consultant of a larger firm) who can perform the assessment without incurring travel expenses.
1 – 2 Day	\$3-\$5K + travel expense	Can provide value if scope is narrow and performed by consultants that have demonstrated expertise. Can be both general assessments as well as assessments focused on a single issue. Output will include a written report but will tend to be more directional than solution oriented. Usually there is a bit of a "game" between consultants trying to deliver value for the small fee but without giving away too much of their expertise.
1 – 2 Week	\$5-\$8K + travel expense	Often used when there is a specific but challenging issue in a distribution center that needs to be addressed. Allows for a review of operations including high level performance measures based upon limited data and in-depth discussion/understanding of exceptions and challenges. This can establish the basis for prioritizing projects and efforts to achieve improvement goals.
3 – 6 Week	\$12-\$25K + travel expense	Generally is focused around larger network and supply chain issues, rather than opportunities at a specific facility. As such, almost always sponsored by a senior supply chain/logistics executive. The focus is generally on identifying, defining, evaluating, and prioritizing initiatives and opportunities across the network. The result should be a series of priorities that help establish strategies, sequence projects, and develop investment plans.

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### Types of Audits

After discussions with a number of consultants about their audit services, SCDigest has developed the following framework for the types of DC audit services available, as shown in the table on page 2.

Of course, there are several types of vendors/consultants that offer these audits, including traditional distribution-oriented consultants, materials handling companies/systems integrators, and warehouse software companies.

### Do Audits Offer Real Value?

It's unclear how many companies respond to the "unsolicited" offers for free or low cost solutions, but many certainly do engage long term consulting or system providers for occasional check ups.

For example, **Don Wagner** of Exceed Consulting says that his company regularly does assessments for existing clients who either are feeling operational performance pressures, or just sense that it is time to look at whether layout or process changes are needed in a DC.

Wagner believes the assessments/audits that offer the best value for the client are those that look at how a major initiative (new DC, new Warehouse Management system, new automation system, etc.) is playing out over time. He divides these into two types:

#### Annual Audit of Original Study Analysis:

This effort re-examines the original data points to determine how the business is tracking compared to what was expected. This type of audit can provide great feedback on whether assumptions still hold true and if forecasted equipment/facility needs are still on-track.



**Post Project Audit:** Generally performed 6-12 months after a new system goes live, these audits are designed to look for common areas of problems or improvement actions that a company should consider. Common areas include: "brain drain" from the original project team, changes that may have been made that may be impacting performance, functionality (such as in a WMS/WCS) that isn't being used and could help improve performance, improved system/equipment applications, and other areas.

Tompkins adds that it's important to understand the basic orientation of whatever company you have do an audit.

"The value of an assessment is generally directly related to the cost you pay for it and who conducts it," he told SCDigest. "A good analogy might be, if you have your car assessed by a tire dealer, they will likely tell you to buy new tires, if a filter salesman does the assessment, you will be told you need new filters. It is much the same in supply chain. If you have your distribution operations assessed by a conveyor company, you will likely be told that you need more conveyor as part of the solution. If done by a software company, you will discover you have a need for more software. This is not to say they are only focused on what they offer and not what you need, but that their solution/tool bag contains mainly what they sell."