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IBM/VAI Warehouse Management Expo 2006

The Domino Effect of Business Disruption

Many companies who have learned to live with the domino effect of business disruption view it as the “cost of doing business.”

- Excess Inventory
- High Labor Cost at the Warehouse
- Incorrect Inventory Shipped
- Incorrect Shipments to the Chain Stores resulting in severe “Charge-Backs”

Un-Automated Warehouse:

Shipping:

- Returned inventory, if replenished after shipping, will often become excess inventory.
- Invoices with returned inventory often don't get paid on a timely basis.
- Excessive credits and adjustments for returned inventory results in additional work for the accounting department often leading to the loss of vendors' early payment discount date.
- Wrong shipments to the chain stores often result in severe “charge-backs.”

Receiving:

- When inventory is received at the warehouse, it is manually verified against the purchase orders and then the computer records are manually updated.
- When space is needed for newly received inventory, half-empty shelves are consolidated. If the computer records are not updated correctly, the consolidated inventory will collect dust until the next physical inventory takes place, resulting in excess inventory.



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- At picking time, when the inventory is not scanned or verified by the computer, the wrong item and quantity can be shipped.
- At shipping time, one person verifies the picked inventory for accuracy and a second person packs the products. This results in double labor costs.
- Accuracy level of the inventory cannot be determined until a physical inventory is taken in the warehouse.

Automated Warehouse:

- Received inventory is scanned and verified against the purchase orders in real-time mode, updating the computer.
- When the half-empty shelves are consolidated, the inventory is scanned before being moved to new locations, updating the computer in real-time mode.
- Locations can be scanned on a routine basis so that misplaced inventory is found without having to take a complete physical inventory.
- Inventory to be picked is scanned in real-time mode eliminating the errors of picking the wrong item or quantity.
- Inventory to be shipped is scanned and packed by one person rather than two people, resulting in saving labor costs.

Case Study; Un-Automated Warehouse

- Distributor with un-automated warehouse got charged-back \$40,000 by a major Chain Store.
- Absolute inventory valued at \$2 million dollar sits in the warehouse and will be sold on the web as “fire sale” inventory.
- Excessive manual efforts occur company-wide resulting from the inefficient computer system.
- Fixing the old system will result in the “law of diminishing returns” since it will cost as much to fix it as to buy a new system, and it will not perform as well as modern Supply Chain Software.