



## ***A NEW WAREHOUSE PROJECT IS JUST A FACILITIES PROJECT, RIGHT?***

### **SYNOPSIS**

ABC Company plans to build a new warehouse to replace the existing one in Perth. The requirement is triggered by business growth, which is causing capacity constraints affecting service levels and bottom line performance.

ABC's CEO, Harry Smith, is planning to delegate the new warehouse project to his Property Manager, as he views it as a facilities project. Just moving from A to B only bigger, right?

Fred, a colleague of the CEO, has a different perspective. Fred considers that a successful new warehouse project should consider that a warehouse is a "system of systems", which should incorporate the successful integration of – People, Process, Technology and Facilities.

Who is right? Harry or Fred?

### **INTRODUCTION**

ABC Company has been highly successful over recent years in its sales and marketing initiatives. Turnover is up 100% from 5 years ago. Business must be good, right? Not really. Harry Smith, the CEO, is coming to terms with the fact that the "back-office" functions of the business are not keeping pace with front-office successes, in order to effectively support the high growth levels.

Harry has convinced the ABC board that a capex investment in a new warehouse facility is necessary to provide additional operational capacity so that medium and long term EBIT targets can be achieved.

Harry figures that he should delegate George, his Property Manager, as the internal champion of the project. His rationale is simple .... a warehouse is a building so we'll give it to the guy who has the most experience in buildings. After all, George has organised the leasing of a number of retail shop-fronts for ABC. In his previous job for a property developer he was also involved in a number of CBD office building projects. So, George it is!

### **DISCUSSION**

Harry was discussing all this with Fred, a colleague, whose company had just recently developed a new warehouse.

Fred seemed familiar with the key issues. He also had experienced the impact of warehouse capacity constraints on:

- service levels – ie longer customer order lead times; more errors; more damage; more out-of-stocks; etc
- bottom line – more overtime; lower productivity; more casual staff; more re-work; more double-handling; higher transport costs to expedite orders; higher outside storage costs; etc

Harry asked Fred what were the key **Lessons Learned** from his company's warehouse project. "Well, that's a good question ....."

1. **Don't treat it as just a facilities project.** If you do, you will be grossly under-stating other critical success factors for the project, including – People, Process and Technology



**PEOPLE:** you can't take – the same people; in the same roles; with the same responsibilities; without reviewing their competencies; without adequate (this means extensive) training; without proper engagement – to the new warehouse. If you do, you'll end up with a major miss-match between the warehouse facility and the human resources in it. At best, you will have missed an opportunity to improve your operations. At worst, the operations may actually go backwards in productivity, morale, safety etc because the people don't know what they should be doing because it's different to the comfort zone of their old warehouse.

**PROCESS:** the same principle applies to process. You must conduct a detailed review of the warehouse operational processes – receipts, put away, order processing, order picking, cross dock, despatch etc. The review will highlight areas of process enhancement and re-engineering to best compliment the new warehouse operations.

**TECHNOLOGY:** your current ERP legacy system, or your 15 year-old WMS, may not have adequate functionality to support the proposed new warehouse operating systems and equipment – including for instance order picking and storage systems. Does your system provide for – real time visibility of transactions; dashboard view of key metrics and KPI's; support to wireless processing; etc?

**FACILITIES:** the new warehouse facility is not just about the building. Don't start with an architect designing a building shell for you! You need to develop the optimum fitout and layout design of the warehouse that best fulfils the **business needs**. You should design the warehouse concept from the inside out, not the other way around. Before you do that of course you need to critically assess what those business needs are – what changes in the way we will do business in the future; what growth projections; what facility lifetime etc?

**INTEGRATION:** the key point is that you can't effectively and successfully consider the four elements of – People, Process, Technology, and Facilities – separately. They must be integrated to achieve successful outcomes. Don't treat these areas as four separate projects. For instance - don't put your HR Manager in charge of a Change Management program, with your IS Manager in charge of a Technology (WMS) project, and your Property Manager in charge of a building project – and cross your fingers that they'll all end up in the same place and the same time fulfilling the same business objectives.

2. **Don't do it all yourself.** Bring in an expert who has done it before. Companies like ours only do this every 10 or 15 years or maybe only once; there are experts out there who design and project manage new warehouse projects all the time. They understand best practice. They know what mistakes to avoid and how to avoid them. They know how to get the best outcomes. You won't get the best result if you bumble along trying to plan a major new warehouse project only with internal resources who either don't have the skill set, or the time because you've also got them doing their day job.
3. **Don't under-estimate the risks.** You must have a risk mitigation plan. Fred was aware of the COO in another company who once said about their proposed new warehouse project: "Am I being too simplistic here, or isn't this project just constructing a new warehouse building and then we move all the stock"? This thinking drove that particular project. It was train-wreck. No concept of risk. No risk mitigation plan. The result was a mega \$ blowout in WMS system costs because the originally specified WMS did not adequately fulfil the business needs or appropriately integrate with the processes and the materials handling solution. The result was significant re-work of the WMS configuration, and lost sales through unnecessary service level failures. It cost that company a fortune – and the COO his job!
4. **Embrace the opportunity for change.** Fred's old warehouse operation was way below acceptable standards in a number of areas. Staff morale was low. Industrial relations were poor; the site was quite militant. Unexplained stock losses were high. Productivity was poor by industry benchmarks. There was a relatively high number of LTI's. Sound familiar? Fred's company realised that the opportunity to move to a Greenfield site presented a significant opportunity to change EVERYTHING – new location; new building; new materials handling and storage solution; new technology; new processes; new job roles; new security regimes; new work practices; new attitudes. You've heard of the difference between chalk and cheese? That's Fred's old operation compared to the new one. Don't under-estimate the significant business benefits that can be achieved by moving to a Greenfield warehouse. Benefits beyond the standard capex business case justification.
5. **Don't commission a new WMS simultaneously** with the start-up of the new warehouse. How many times have you heard that advice? How many times have you seen it ignored? Why does that happen? Usually because of the lack of integration discussed above, in the circumstances where the WMS project manager has his/her own objectives, timetable, reporting lines etc and these are different to the people planning the warehouse facility.
6. **Engage senior management** at the highest level possible, as early as possible. Otherwise you run the risk that they won't understand the project adequately and you may end up on different pathways, with conflicting decision-making to the detriment of the project (or the business). Fred was aware of one warehouse project where a new CEO was appointed late in the planning stages, and the project champion just assumed the new CEO would have the same level of commitment to the project as the outgoing CEO. Wrong! The result was a period of poor decision-making until the project and senior management re-aligned.
7. **Don't under-estimate the change management** aspects of the project. You must create an environment where the staff are looking forward to the new warehouse; that they can't wait to move in.

## CONCLUSION

Harry's story is fictitious of course, but the messages are real.

Treat a new warehouse project simply as a facilities project at your peril. Ignore the importance of the successful integration of the Facility with the other critical elements of – People, Process and Technology – and at best, your new warehouse is likely to under-perform, or at worst, you may have a train-wreck on your hands with lost sales through service level failures and / or significant cost blowouts in capex and opex.



***We think Fred was right!***

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