



## Logistics Association of Australia Ltd

### MANAGEMENT ISSUES (Part 2)

In his fourth article, Bill Gobbe, winner of the 1995 LMA International Study Award, presents part two of his article on practical aspects of management in some of the world's Best Practice distribution centres.

All companies visited stated that they were continually carrying out Process Re-engineering, either at the site management level or above.

The major corporations have specialist groups continually looking at Process Re-engineering. Xerox has a 'Supply Chain Management Strategic Group' dedicated to improving the processes throughout the North American organisation.

After the Re-engineering proposal has been approved, it is passed on to an Implementation Team, then to the department concerned for staff involvement.

Such Process Re-engineering includes consolidation of distribution centres and, often where this has occurred, the consolidated site has been refurbished, but not increased in size, to take the increased volume of business.

Hewlett Packard also has a consulting team looking at Supply Chain Management Process Re-engineering and is using 'Process Convergence' simulation models to simulate the set up modules in their assembly areas.

The major focus is to facilitate faster product changeover on the assembly conveyors with the rapidly reducing sales life of their computer products. These improvements are sold as a service to the managers of the sites concerned.

#### **Benchmarking**

Most of the companies visited use benchmarking in some form or another.

Benchmarking is particularly used by engineers and senior managers, while at supervisor level and below, it is not, other than the occasional visit by shop floor staff and their supervisors to see a demonstration of a proposed piece of equipment.

Xerox led the way in using benchmarking in the mid to late 80s, particularly in its east coast distribution centres.

Today the technique is mainly used by the 'Strategic Group' when looking at new projects and equipment. Shop floor staff only become involved when the project has been decided and approved.

A welcoming attitude exists with other companies and, sometimes, competitors.

For example, IBM business analysts have been to the Xerox site to observe the Xerox process of distributing parts to service technicians in the field.

AT&T has sent staff from its corporate engineering division to Xerox to benchmark the technicians' process.

It stresses that the process is benchmarked, not the company. AT&T was looking at ways to improve the technical service of its customers' telecommunications equipment.

After their benchmarking observations, the engineers then go back to the AT&T distribution centres to introduce the improvements they have settled upon and again sell this as a service to the distribution centre managers.

Another process being considered for a benchmarking exercise was the packaging and distribution process involved in delivering Hewlett Packard's range of Deskjet printers.

These are now becoming an off-the-shelf item. In the past, they were installed by a technician or a technically skilled person and the packaging and delivery processes reflected this.

Now, the printers are likely to be purchased for home or small office use from a store and possibly installed by an inexperienced user. Therefore, the process is being reviewed.

Other companies being considered for the benchmarking exercise are microwave oven manufacturers because the size is about the same and the item is usually purchased for the same market and delivered via the same channel.

IBM, Digital, Lotus, Unisys, Intel, AT&T and Xerox commissioned a consulting firm to carry out a bench-marking study of their key process outputs, to allow each to set 'Stretch Targets' to the best in the group.

Some companies don't use benchmarking at all, or limit the activity to intercompany 'Metrics', comparisons of the outputs rather than the process itself.

Among corporations operating multiple sites, '*Metrics*' comparisons were quite common, with measurements such as productivity, cost of sales, safety and cycle times.

## **ABC Costing**

There is no consistency in the way the sites are costed.

Sandoz and most of the smaller sites have their logistics tasks costed an overhead.

Xerox is in the process of going heavily into an ABC system in its Distribution Centres. A dictionary of competencies is being prepared and supervisors are estimating the time usually taken to perform the various tasks throughout the centre.

These are to be fed into a model to be used for all cost allocation.

The expected benefits are that internal customers will be happier with the charges they are bearing and won't feel they are subsidising others, and that potential external suppliers can be approached to offer a service once a better understanding of the actual costs exists.

The AT&T system has been in place and evolving over time, with the high volume processing tasks being introduced first.

Early successes included the ability to easily pinpoint lost productivity due to excess process variation. This became apparent in comparing costs of the same process at different sites. The most important indicator is cost per line.

Space is also charged out according to usage.

This is simply measuring the space (volume) and charging the business unit owner of that area for the cost of the space taken. Common areas are charged as a shared cost. Over or under recoveries are transferred to the corporate bottom line.

Meanwhile, the Thomson site in Kentucky has recently moved away from a very detailed ABC system.

This system measured every document, line and unit as it passed through every process throughout the 40,000 square metre distribution centre.

These statistics were then compared to the previously measured time in part seconds and cost calculations were made. Customer companies were then charged according to the activity they had generated in the facility.

While this seems a typical ABC system, they have discontinued it after many years to be replaced by an annually reviewed charge simply based on a percentage of sales.

High value products attract a lower percentage than low value products which require almost identical handling. Products with a higher return rate attract a higher charge.

An external accounting firm audits the new system annually to add credibility, and therefore confidence, to the users.

The ABC system was deemed to be too cumbersome and difficult to maintain. accuracy.

Many companies are levying an extra charge on old inventory to encourage their internal customers, who usually own the inventory, to clean out obsolete stock.

## **Disaster Recovery**

All sites have sprinkler systems, and typically a committee of staff to organise evacuations and practice drills. This is often the same committee which monitors safety aspects of the site. They meet monthly or weekly.

In the multi-site companies, fire prevention equipment is maintained at the corporate level, and systems are in place for order fulfilment by an alternate site in the group in the event of a disaster at any one site. Disaster recovery is a higher priority at all of the US west coast sites due to the constant threat of major earthquakes. Committees of volunteers for post disaster activity have a high profile.

The 3M Safety Committee looks after the earthquake equipment which they store in the pump house because of its more solid construction. This building also stores sufficient food and water for each staff member for three to four days in case of a disaster.

Disaster recovery and prevention have a high priority also at Sandoz following a major fire in 1987. Chemicals from exploding drums were released into the Rhine River and began a 1200 km journey to the North Sea in the form of a slick 80 km long.

Now Sandoz has its own extensive fire brigade and an agreement with two other major companies, CIBA and Roche, to protect each others' sites in the event of a disaster. Their combined brigade is larger than the Basel city fire brigade. Sandoz also openly shares its environmental knowledge with other chemical companies. Its computer system disallows more than one hazardous product on an order.

Contingency planning/business recovery was not observed at any of the sites, one comment being it was difficult to get departments involved as 'the donuts have to get out the door'.

## **Appraisals**

Most companies have appraisal systems in place, with typically a half yearly manager/subordinate meeting to discuss goals, objectives, action plans, strengths and weaknesses. International Thomson in England is refining its appraisal system to be based on a shorter annual review with regular meetings throughout the year prompted by the staff member.

## **Security**

Security is very tight in most of the sites visited, with cameras or contract security guards at each entrance of the buildings and, in some cases, checking every pallet.

In one instance my brief case was checked on exit from the building, a routine check which takes place on every receptacle leaving the site. Metal detectors were at exit points in some sites and all had visitor badges.