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## Logistics News: Are Audits, Assessments, & Evaluations Just an Intellectual Exercise?

### *Many Companies Are Having Audits Done - Few Are Ready to Make Changes*

General warehousing and distribution in this country has undergone considerable changes in just the last 3 years. It's a good bet that business as usual is a thing of the past. More changes can be expected as our enigmatic economy continues to struggle to regain its lost vitality.

All of this has put considerable stress on DCs to make quick adjustments as they try to stay up with changing order profiles and customer demands for specialized services. Unfortunately, bolted-to-the-floor mechanized order picking, sorting and shipping systems, especially those that are more than 5 years old, can be very difficult to quickly adjust and modify. There's also concern that making spot changes to a complex integrated system may just make matters worse – the feared “domino effect” that we discussed recently.

It is in this environment that more companies than usual are looking to adjust and modify the performance of their operations to more closely match current and future business needs. Getting a DC audit may be a tempting first step. But the success of that effort and the value received depends on whether or not the company is prepared and ready to make changes.

If you are considering having an outside firm audit your operation, the following are a few guidelines that will increase the value you receive and success in exposing the required changes.

### **First Understanding What Needs Fixing**

When you go to a physician for a medical evaluation, the first question is usually – “so, what's wrong?” Your response will start the doctor down a specific path towards a diagnosis that will ultimately lead to a prescribed treatment. However, if you're feeling terrible but can't say exactly what's wrong, be prepared to answer

lots of probing questions, and for a battery of time consuming tests all of which are designed to uncover potential problems.

In the DC, your situation may be that SKU mix has changed, case throughput volume has dropped and, even though labor adjustments have been made, productivity (as measured by cases picked/shipped per man hour ) has declined. Your “what’s wrong” is that the system is basically less efficient and sluggish especially at the current business level. The question is how to fix it.

According to **Bob Babel** - VP Implementation Services, Forte Industries ([www.forte-industries.com](http://www.forte-industries.com)) you should be prepared with data, growth projections, metrics, and examples of what has changes. In fact Babel says that he prefers to do a comprehensive walk through of the operation before the “what’s wrong” question is answered – “I like to start with what is different or changed in the business since the system was installed”.

### Take Control

When you go to your physician with a specific problem, you expect to receive diagnosis and treatment for that problem. You may have other medical issues but, assuming they are unrelated to your current needs, you are requesting treatment for your stated problem.

Similarly, don’t allow the audit provider to set the agenda. DC audits are most likely to be effective when the buyer provides clear guidance to the provider about what they want the focus and scope to be. For example:

- a quick assessment looking for “low hanging fruit”,
- broad assessment of current operations and opportunities,
- focus on a specific/problem,
- or, a review of internal developed solutions that needs expert input to substantiate and “sell” to upper management.

The broader and all encompassing the audit is, the more important it is to set scope, parameters, and type of recommendations (equipment and software) relative to capital investment that may be

considered. When the audit provider knows what your budget constraints are at the outset, there is a better chance that the recommendations will be scaled accordingly, improving the changes that they will be implemented.

### **Ask for Resumes**

As the buyer you need to be sure the provider has the expertise you are seeking in order to achieve the desired result. Too often, companies think that one industry consultant or systems integrator is much like all the others. The fact is that most (but not all) firms have a ponderous of expertise in a narrow market segment and general knowledge in the broader market. Therefore, you need to make sure the provider has the required expertise to satisfy the goals you have set. This can be accomplished by asking about similar engagements, checking references, and interviewing the person(s) in detail about their expertise and experience.

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

### **Keep the Focus Positive**

**Fred Kimball** - Principal, Distribution Design Inc. (fkimball@distdesign.com) 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 instance, how can we fault a manger 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?"

Company executives need to clearly communicate the goals of the audit, in a positive way, to department managers, and emphasize the objective is to identify barriers to improving performance. Managers, in turn, must do the same with their functional

supervisors and group leaders, 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/or low cost audits will generally be light on specifics and certainly on how to solve issues raised. For the most part, the goal (of the provider at least) in that scenario is primarily to establish a relationship or identify opportunities that can lead to subsequent work. According to Babel – “Sometimes solutions focus on equipment and services that can be sold rather than processes and procedures that can be changed internally”. In other words, companies should not expect much detail on solutions for the free/low cost audit.

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

Bob says that, as a minimum, a properly written audit report should follow the flow of the operation and include the following:

- analysis details and a PowerPoint for executive summary,
- short-term (quick fix), mid-term, and long-term solutions,
- identify process and procedural improvements,
- and, where appropriate, benefits should be clearly stated with ways to measure success (metrics)

### **Track Recommendations, Actions and Results**

Far too often, ideas for improvements that DC managers agree make sense, are quickly lost or forgotten. Keeping the recommendations visible! Taking immediate 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.

## Understand Difference between Opportunity and ROI

While audits are designed to highlight specific areas of opportunity, almost by definition they cannot provide a full ROI projection for an individual operation or integrated process change. This is true because there may be recommendations that would be operationally beneficial, but in the end can't be justified based on required investment in system software modifications, and/or additional material handling hardware, etc.

## Final Thoughts

If management approves the cost for the audit in the first place, that means they're at least willing to listen to the recommendations.

However, the biggest stumbling block to actually implementing changes that are recommended by the audit provider is the **FUD** factor (Fear, Uncertainty, and Doubt) associated with any project upper management doesn't completely understand and hasn't already mandated. In addition, most audits and subsequent recommendations simply don't hit the appropriate "hot buttons" of buyers. Recommendations produced by engineers usually layout a very clear case – for other engineers, but may not appeal to the CFO and other executives who may not understand a word of it.

To avoid the audit becoming nothing more than an intellectual experience, make sure from the get-go that the audit provider starts with your plan and works with you to get upper management's buy-in – that's at least half the battle. Communication is the key to overcoming FUD and being in a position to implement the recommended changes.

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