
CASE STUDY 12.1

CostMart Warehouse

Amy Gordon could not have been more pleased when she was first appointed as the new inventory management supervisor for the CostMart regional warehouse. She had previously worked part time as a clerk in the local CostMart Department Store while she finished her university degree. After she got the degree, she was named as the section head in charge of roughly one-fourth of the store. Now, a year later, she started to wonder about that old adage, "Be careful what you ask for—you just might get it."

Background

One constant problem Amy had complained about when she was head clerk was the difficulties she had with the warehouse replenishing supplies for her areas of responsibility. She was sure the problem was not hers. The store used point-of-sale terminals, in which the cash register doubled as a computer, instantly recognizing inventory movement. She also realized that shoplifting and other forms of loss were a constant problem in retail stores, so she instructed all her clerks to spot count inventory in their areas of responsibility whenever there was a lull in store traffic. The store computer had a built-in program to suggest replenishment orders when the stock reduced to a certain quantity. Amy had learned, of course, that these were only suggestions, since she knew that some items were "faddish" and would have to be ordered sooner or not reordered at all depending on how the fad was progressing. Some items were seasonal in nature, which needed to be accommodated, and she was also aware when an item would go on sale or have a special promotional campaign. These were announced well in advance during the monthly managerial meetings, and she had good estimates as to the projected impact on demand.

It was because she was so effective at managing the inventory in her area that she was so vocal about the problems at the warehouse. It seemed that almost everything she ordered for replenishment from the warehouse was a problem. Some items were late, occasionally by as much as six weeks. Other items were replenished in quantities far larger or smaller than what was ordered, even if they were occasionally delivered on time. It finally seemed to her that every warehouse delivery was a random event instead of the accurate filling of her orders. Her complaints to general management stemmed from the impact of the warehouse problems. Customers in her area were complaining more often and louder as stockouts of various items became a pattern. Several customers had vowed to never again shop at CostMart because of their frustration. One customer even physically dragged Amy over to the sign above the entrance to the store—the one that proclaims "CostMart—Where Customer Service Is in Charge"—and suggested that she could be sued for false advertising.

In other cases, the quantity delivered was two to three times the amount she ordered. She would often have to hold special unannounced sales to avoid being burdened with the excessive inventory, especially since one of her performance metrics was inventory dollars. Of course, one of the major performance metrics was profitability, and both the stockouts and unannounced sales impacted that adversely. Finally, after one particularly frustrating day, she told the general manager, "Maybe you should put me in charge of the inventory over at the warehouse. I can control my own area here—I bet I could put that place back in shape pretty fast!" Two weeks later, she was notified she was promoted to inventory management supervisor for the warehouse.

The Current Situation

One of the first issues Amy faced was some not-so-subtle resentment from the warehouse general supervisor, Henry "Hank" Anderson. Hank had been a supervisor for over 10 years, having worked his way up from an entry-level handler position. The inventory supervisor position had been created specifically for Amy, as Hank had previously had responsibility for the inventory. Their mutual boss had explained to Hank that the reduction in overall responsibility was not a demotion, but that growth in the warehouse made

splitting the responsibilities a necessity. Although Hank outwardly acknowledged the explanation, everyone knew that in reality he felt the change was a "slap in the face." That would normally be enough to cause some potential resentment, but in addition, as Hank expressed in the lunchroom one day, "It's not enough that they take some of my job away, but then look who they give it to—a young, inexperienced college kid, and a female at that! Everyone knows you can't learn how to run a warehouse in some stupid college classroom—you have to live it and breathe it to really understand it."

Amy knew that the Hank situation was one she would have to work on, but in the meantime she had to understand how things were run, and specifically why the warehouse was causing all the problems she experienced at the store. Her first stop was to talk to Jane Dawson, who was responsible for processing orders from the store. Jane explained the situation from her perspective.

"I realize how much it must have bothered you to see how your store requests were processed here, but it frustrates me too. I tried to group orders to prioritize due dates and still have a full truckload to send to the store, but I was constantly having problems thrown back at me. Sometimes I was told the warehouse couldn't find the inventory. Other times I was told that the quantity you ordered was less than a full box, and they couldn't (or wouldn't) split the box up, so they were sending the full box. Then they would find something they couldn't find when it was ordered a long time ago, so now that they found it they were sending it. That order would, of course, take up so much room in the truck that something else had to be left behind to be shipped later. Those problems, in combination with true inventory shortages from supplier-missed shipments, always seem to put us behind and we are never able to ship what we are supposed to. None of this seemed to bother Hank too much. Maybe you can do something to change the situation."

Amy's concern with what Jane told her was increased when she asked Jane if she knew the accuracy of their inventory records and was told that she wasn't sure, but the records were probably no more than 50% accurate. "How can that be?" Amy asked herself. She knew they had recently installed a new computer system to handle the inventory, they did cycle counting on a regular basis, and they used a "home base" storage system, where each SKU had its own designated space in the warehouse racks. She realized she needed to talk to one of the workers. She decided on Carl Carson, who had been with the company for about five years and had a reputation for being a dedicated and effective worker. Amy told Carl what she already knew and asked him if he could provide any additional information.

According to Carl, "What Jane told you is true, but what she didn't tell you is that a lot of it is her fault. If she would only give us some advance warning about what she wants to send for the next shipment, we could probably do a better job of finding the material and staging it. What happens, though, is that she gives us this shipment list out of the blue and expects us to find it all and get it ready in very little time. For one thing, she doesn't understand that it's very impractical to break boxes apart in order to ship just the quantity she wants. We don't have a good way to package the partial box, and an open box increases the chance for the remaining goods to be damaged or get dirty. Even if we had a way to partially package, the time it would take would increase the chance we wouldn't make the shipment on time.

"Then there's the problem of finding material. When supplier shipments come in, they are often for more goods of a given SKU than we have room for on the rack. We put the rest in an overflow area, but it's really hard to keep track of. Even if we locate it in the system correctly, someone will soon move it to get to something behind it. That person will usually forget to record the move in the heat of getting a shipment ready. Since the cycle counts don't find it in the designated rack, the cycle counters adjust the count so the system doesn't even know it exists anymore. You might think we should expand the space in the rack to hold the maximum amount of each SKU, but we would need a warehouse at least double this size to do that—and there's no way management would approve that. I guess the only good thing about the situation is that when we do find some lost material that was requested earlier, we ship it to make up for not shipping it earlier."

Amy was beginning to feel a tightening in her stomach as she realized the extent of the problem here. She almost had to force herself to talk to Crista Chávez, who worked for

the purchasing department and was responsible for warehouse ordering. Crista was also considered to be experienced, capable, and dedicated to doing a good job for the company. Crista added the following perspective:

"We have good suppliers, but they're not miracle workers. Since we beat them up so badly on price most of the time, I can understand why they're not interested in doing more than they already are. The problem is we can't seem to get our own house in order to give them a good idea of what we need, and when we really need it. To do that, we would need to know what the warehouse needs and when, and also the existing inventory of the item. We seem to have no idea what we need, and the inventory records are a joke. I spend most of my day changing order dates, order quantities, or expediting orders to fill a shortage, and often the shortage isn't really a shortage at all. Our only hope has been to order early and increase our order quantities to ensure we have enough safety stock to cover the inventory accuracy problems. I've complained to Hank several times, but all he says is that it's my job to pull the suppliers in line, that the problem is obviously theirs."

At least by this point, Amy had a better perspective about the problems. Unfortunately, it was now up to her to fix them. She wished she had never opened her mouth to complain about the problems. Too late for that—she now had to develop a strategy to deal with what she had been handed.

Assignment

1. Structure what you think the problems are. Be sure to separate the problems from the symptoms.
2. Assume Amy needs to build a data-based case to convince her boss and start to "win over" Hank. What data should she gather to help her build the case?
3. Develop a model of how you think the warehouse should work in this environment.
4. Develop a time-phased plan to move from the present situation to the model you developed in question 3.