WAREHOUSING WOES — AND WINS

Challenges and opportunities in Canada's warehousing and distribution sector

These are challenging, uncertain times for Canada's warehousing and distribution companies. Customers are demanding better service at lower prices, yet offer only short-term commitments in return. And while companies are working hard to meet these increased expectations, they do so without the confidence that they'll have the business they need to pay for it in the months ahead. Faced with such revenue uncertainty, companies are focusing on cost control — potentially missing opportunities to improve their business as a result.

These concerns were voiced in "The Cost of Uncertainty: 2014 Canadian DC Cost Benchmarking Study and Roundtable" by *Materials Management & Distribution Magazine* (MM&D) and sponsored by BDO, which surveyed 112 warehousing and distribution companies across the country. Its findings were further examined through executive roundtables. Together, the survey and subsequent discussions provided valuable insights into the minds of industry leaders, as well as ideas on how to move forward in a challenging environment.

Seeking insight from a cross-section of the industry

The 112 participating companies comprised a cross-section of Canada's warehousing and distribution sector. Companies were active across the spectrum of the Canadian economy, including agriculture, technology, automotive, energy, retail, consumer packaged goods, and health and pharmaceuticals.

The vast majority (84%) of respondents were privately held companies. Nearly a third of respondents reported more than $100 million in annual revenue, though the majority reported revenues of $50 million or less. Over half employed fewer than 200 employees—with one in five employing no more than 25.

Costs top list of concerns

MM&D asked survey participants about their main business concerns. Cost issues topped the list (27%), followed by space utilization (14%), inventory concerns (12%) and staffing (11%). Those whose businesses involved retail or health and pharmaceuticals were noticeably more concerned about costs (36% and 33% respectively), suggesting additional pressure among those companies.

We wanted to better understand the issues behind these concerns, and the roundtable discussions provided an ideal opportunity to do so.

TO LEARN MORE

To learn more about how BDO can help your transportation, warehousing or distribution company with these and other challenges, contact your local BDO office or:

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THE CHALLENGES

Fear of commitment brings unwelcome uncertainty

Roundtable participants were quick to point out their industry's most significant frustrations. Customers' expectations around quality, speed and flexibility are rising even as they press for price reductions. Some participants remarked that customers' financial "muscle" enables them to dictate prices to some extent, leaving suppliers with little recourse.

However, the most troubling trend is customers' unwillingness to commit to long-term contracts for the use of space. Annual or multiyear contracts have been replaced by short-term agreements measured in months, if not weeks.

This "fear of commitment" has serious implications for warehouse owners and operators. With their ability to forecast revenues hindered, they find it difficult to plan for growth, manage their space and simply run their business. Roundtable participants and their peers may want to acquire additional space and invest in efficiencies, service improvements or new offerings, but they can no longer be sure those investments will pay off. Instead, they find themselves having to base decisions on a leap of faith: invest now and hope for the best. It's an approach many players are reluctant to take.

Quality becoming a topic of concern

Roundtable participants also noted that quality was becoming an increasingly important issue. While ensuring goods are shipped on time remains the primary goal, customers' patience with short shipments, backorders, errors and substandard packaging is growing thinner and thinner.

Many warehousing firms are diligently attempting to respond to their customers and deliver the right product at the right time. However, these efforts are all too often undermined by one of the sector's perennial challenges: staffing.

Labour woes: Poor quality and little loyalty

Roundtable participants were united in their view that it's very hard to find good staff, and even harder to keep them.

They noted that jobs in warehousing and distribution are commonly seen as unskilled roles. However, the services provided by warehouse firms today — along with rising demands for speed, accuracy and quality — mean that companies are searching for diligent, reliable, flexible and quick-thinking employees. While those people are certainly out there, many of them simply aren't interested in a warehouse job.

Moreover, those that do take the job often don't stay for long. Turnover continues to be a major thorn in the side of warehousing companies. Workers leave with alarming regularity and younger workers often do so without bothering to give notice. In this sort of environment, labour planning becomes nearly impossible.

Technology skepticism persists

Investing in new technology might help companies address some of the challenges they face, but there appears to be little appetite for doing so. In fact, survey respondents say they allocated an average of 3.76% of their operations budgets to technology or other capital investments.

The prevailing view among our roundtable participants was that the systems and software used today are "good enough," though some admit they could probably use those tools more effectively. They're simply not convinced that new systems would deliver the improvements, cost savings or competitive advantages needed to make the investment worth it. In an environment where revenues are uncertain, few are willing to incur the costs of a systems implementation.

In some cases, this reluctance and scepticism come from poor experiences in the past. Delays and blown budgets — or worst of all, expensive new technology that simply failed to work in the end — have made many companies distrustful of technology service providers and the solutions they offer. It's better to stick with tried-and-true systems, some say, than risk throwing cash away.

ADDRESSING THE CHALLENGES

Canadian warehousing and distribution companies are responding to the challenges facing their industry in a variety of ways, adapting and evolving to succeed in an increasingly unpredictable business environment.

Expanding service offerings

Customers' reluctance to commit to long-term contracts with warehousing and distribution firms means it's much easier for them to switch from one supplier to another. This trend gives retailers and other customers even more leverage when it comes to rates.

To combat this, companies are focusing on improving service, both in terms of quality and breadth. "Traditional" warehousing and shipping are giving way to "pick and pack" and direct shipping on the customers' behalf. Many are responding to customer pressure by moving into third-party logistics (3PL) to become their customers' one-stop shop for warehousing, packaging and delivery. Some companies, especially those whose customers are concentrated in the food and beverage sector, have invested in refrigerated storage — even adding refrigerated trailers to boost their 3PL capabilities.

The takeaway: Delivering better services can help warehousing and distribution companies inspire customer loyalty and deflect some of the rate pressure they're under. This strategy can provide a solid competitive advantage as other firms scramble to catch up.

Building a better work environment

Roundtable participants shared some of the ways they're trying to attract, motivate and retain employees amid increasing business demands.

Some are embracing cross-training to increase their employees' job satisfaction by offering them a way to continue learning and growing. Cross-training also improves overall productivity and efficiency, because staff can step into one another's roles as the need arises.

Other companies have introduced profit-sharing, employee recognition and other programs to acknowledge — and reward — the vital role their people play in their success. At one organization, company meetings include all staff, not just management, reflecting leadership's firm conviction that because everyone plays a part in the company's success, everyone deserves to know what's going on.

The takeaway: Engaging employees — giving them opportunities to learn, grow and share in the company's success — can significantly improve their loyalty and increase the likelihood that they'll stay. A stable, committed workforce can reduce the cost and turmoil of continual recruiting and contribute to better customer service.

Taking on the technology skeptics

A number of industry players remain skeptical about new technologies and are reluctant to invest in them. However, there are signs of the sector's growing acceptance of technology, suggesting that new investments may be in store.

Despite their technology fears, roundtable participants were eager to discuss trends they can't ignore, especially e-commerce and the rise of social media. With online shopping going mainstream, some companies are moving to ensure they're online and available to customers around the clock — delivering the level of service those customers increasingly demand.

Elsewhere, some firms are taking tentative steps into social media as a means to connect with customers and staff. Whether social media provides meaningful benefits to their business remains a question, illustrating the need for companies to have a clear rationale for their online activities.

And then there are those who believe the potential benefits outweigh the cost and risk. One participant had invested in RFID (radio-frequency identification) technology for his business, allowing the company to track and pinpoint the location and status of every item they stored. The RFID investment was costly, but it opened up tremendous opportunities to improve inventory management, shipment tracking and customer service.

The takeaway: "Techno-skepticism" can help companies avoid unnecessary spending, but companies should take care that they don't resist or discard ideas and innovations that could improve their business processes or ability to compete. Avoiding smart risks today could leave companies further behind tomorrow.

AN INDUSTRY IN FLUX

This is not the first time Canada's warehousing and distribution sector has faced a period of challenging, changing business conditions—nor will it be the last. The MM&D survey and our subsequent conversations with leaders in the sector suggest a number of strategies for addressing and overcoming these changes and challenges. We're confident that Canadian warehousing and distribution firms will find a way forward and remain successful in a very different environment.

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