How Do Your Operational Metrics and Best Practices Stack Up?

Curt Barry, President

F. Curtis Barry & Company
Agenda

- Strategic Issues
- KPIs - where do you stack up?
- Best Practices
- Be interactive with you
“You cannot improve something you haven’t measured.”

-Lord Kelvin, British Physicist
Strategic Issues - Amazon

Amazon has turned many companies from retailers to wholesalers.

› What are your plans to not become slaves to them as they take a commanding presence in your merchandise segment?

› How are you dealing with in transit time to customers to competing with Prime Now same day delivery?

  – We see a trend for local retail chains and shopping center developers investing in same day delivery of orders through Uber or local delivery companies
Major P&L Categories

- Demand to Net Sales
  - Gross demand
  - Cancellations (2% or less)
  - Returns (varies less 1% hard goods to 30% or higher for fashion)
  - Net sales (% of net sales basis for comparison)

- Purchase – COGS – Maintained GM
- Marketing (website, marketing labor, PPC, organic search, etc.)
- Fulfillment (call center & fulfillment)
- G&A (including IT, merchandising, inv control, senior management, services, benefits and taxes, etc.)
- Net Profit
Cost of Call Center & Fulfillment

Efficient $5 to $7 per order 3 lines or less
Percent to net sales: Call Center 3-5% and Fulfillment 3-5%

› Without shipping & handling revenue (income) or outbound freight costs
› Call center– direct and indirect labor, occupancy (heat, light and space), telecom
› Fulfillment- direct and indirect labor, occupancy, packing materials, depreciation
Managing Labor Effectively

- Deal with low unemployment/low quality labor pools
  - Richmond, VA 3.75%, VA 4%
- Labor more than 50% of Call Center and Fulfillment
- Reduce recruitment, hiring and training costs
- Reduce employee turnover, costs $3K to $10K/employee

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Cost Per Order Elements

- Efficient $5-7 per order; many much higher
- Without shipping & handling revenue (income) or outbound freight costs
- Call Center—direct and indirect labor, occupancy (heat, light & space), telecom
- Fulfillment—direct and indirect labor, occupancy, packing materials, depreciation
Merchandise/Inventory Strategies

- Earn high gross margin $ and % - 50% or greater
- Develop exclusives
- Imported product high margin but consider Min PO, Lead Time
- Monitor and liquidate slow moving products – weeks of supply
Age of Inventory

Inventory Summary by Age

Inventory Value by Age

- 0-120 Days: $1,022,642.59 (59%)
- 121-240 Days: $315,397.62 (18%)
- 241-365 Days: $141,589.26 (8%)
- 366-547 Days: $108,500.46 (6%)
- 548+ Days: $155,892.12 (9%)

Total: $1,744,022.05 (100%)

Units on Hand by Age

- 0-120 Days: 224,396 (32%)
- 121-240 Days: 176,779 (26%)
- 241-365 Days: 176,645 (26%)
- 366-547 Days: 27,446 (4%)
- 548+ Days: 86,587 (13%)

Total: 691,853 (100%)

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Performance reporting at the department and associate level
Employees want to meet your standards and goals

1. Establish your current cost and performance levels
2. Set goals or expectations
3. Backbone of most warehouses is to set expectations, measure performance, and communicate results
4. Measure performance and post results

10-15% productivity lift with this concept with no other changes

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“Grow With Us”
Career Path Development

| TRAINING LEVEL 1 | 4100 Load Consolidation | 4031 Order Picker (Pick Truck) | 4030 Order Picker (Pacer) | 4032 Order Picker (Outside) | Load Consolidation | Order Picker (Seed) | Picker (Chemicals) | 1040 Putaway (Mixed Pallet) | 1035 Unloader (Hand) | 1045 Putaway (Full Pallet) | 4065 UPS/CPD Picking | 4060 UPS Packing | 1050 Movement/Return Putaway | 4125 Loader (Pallet) | 4120 Loader (Hand) | 4035 Order Runner (Towline) | 4070 Packing Room Clerk | Receiving | Wrapper | 1020 Crane Operator | 5010 Load Verification | 4040 Stage Checker/Ship Confirm | 2020 Customer Returns | 2030 Return to Vendor | 4130 Shipping Clerk | 1010 Yard Driver | 6010 Inv Control/Cycle Count | Loadbuilder | Seed Tags |
|------------------|-------------------------|-------------------------------|--------------------------|-----------------------------|-------------------|-------------------|-------------------|----------------------------|------------------|---------------------------|----------------------|----------------|-----------------------------|----------------|----------------|--------------------------|----------------|----------------|-------------------|----------------|----------------|-------------------|----------------|----------------|
| TRAINING LEVEL 2 | X                       | X                             | X                        | X                           | X                  | X                 | X                 | X                          | X                | X                         | X                    | X              | X                           | X              | X              | X                         | X              | X              | X                 | X              | X              | X                 | X              | X              |
| TRAINING LEVEL 3 | X                       | X                             | X                        | X                           | X                  | X                 | X                 | X                          | X                | X                         | X                    | X              | X                           | X              | X              | X                         | X              | X              | X                 | X              | X              | X                 | X              | X              |
| CAREER LEVEL 1   | X                       | X                             | X                        | X                           | X                  | X                 | X                 | X                          | X                | X                         | X                    | X              | X                           | X              | X              | X                         | X              | X              | X                 | X              | X              | X                 | X              | X              |
| CAREER LEVEL 2   | X                       | X                             | X                        | X                           | X                  | X                 | X                 | X                          | X                | X                         | X                    | X              | X                           | X              | X              | X                         | X              | X              | X                 | X              | X              | X                 | X              | X              |
| CAREER LEVEL 3   | X                       | X                             | X                        | X                           | X                  | X                 | X                 | X                          | X                | X                         | X                    | X              | X                           | X              | X              | X                         | X              | X              | X                 | X              | X              | X                 | X              | X              |
| SENIOR WHSE ASSOC| X                       | X                             | X                        | X                           | X                  | X                 | X                 | X                          | X                | X                         | X                    | X              | X                           | X              | X              | X                         | X              | X              | X                 | X              | X              | X                 | X              | X              |

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How Are You Developing People?

Provide a path for career advancement, while ensuring the highest level of professionalism & productivity.

- Standard, consistent work rules
- Reduce turnover
- Grow in their professions
- Eliminate stale productivity
- Improve morale

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Formalize Department And Individual Productivity Reporting

› Lack of formal productivity reporting most companies

› Necessary data
  ▪ Identify and collect units of work
  ▪ Collect hours worked (e.g. cost per order or cost per shipped package)
  ▪ Collect labor cost including hourly and salaried
  ▪ Cross trained workers it’s not easy to ID

› Hours worked on processes → cost per process and → cost per units of work
How Close to Breakeven on Shipping Costs?

› Understand how you are losing money? “Free shipping” dim/weight, what packages cost to ship with accessorials and dim/wt.

› B2B apt to be closer to breakeven

› Few B2C breakeven or make profit on S&H

› With Amazon and large retailers many companies are losing 5% or more on net sales

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Free Shipping

Threshold at AOV; free shipping to get higher AOV orders.

Do customers change purchase behavior with “free shipping” last?

How are you absorbing costs (COGS, marketing expense, etc.)?

Any company do A/B tests?

What happens to response rates when take away free shipping?
**Fulfillment Service Levels**

<table>
<thead>
<tr>
<th>Dock to stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Best in class 2 hours; many same shift</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Same day shipment all orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Crutchfield 100%; many approaching 75%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Most 2 days of receipt all steps in process (inventory and customer credit/refund)</td>
</tr>
</tbody>
</table>
Review and Overhaul Processes

- **Review every aspect of your business**, identify “low hanging fruit” to save money
- Diagram and document
- Eliminate “I didn’t know we still did that!”
- Share the findings throughout your business
- Squeeze Out Touches, Squeeze Out Costs – examples
- Eliminate layers of “old thinking”, reports, analyses
- Continual process. Simplify.
- Invest in training and certification of **Six Sigma and Lean teams; project management certification (PMP)**
Work to Standard Rather Than Work Load

› Develop KPI’s in order to *work to a standard* versus working to a workload – work at maximum efficiency

› $900 million, 350 stores - employee turnover (62% turnover in hourly workers); absenteeism causes

› **34% variance in cartons shipped per day**

› 16,048 and 22,091 cases/day in a 6 month period
Track Key Inventory Metrics

- top-line sales and bottom-line profit growth
- maintained gross margin
- initial customer order fill rate (see chart)
- final fill rate
- gross margin return on investment (GMROI)
- turnover
- cost of backorders
- age of inventory
- measures of overstock
- write-downs as a percentage of costs
- cancellations (2% or less)
- returns (varies less 1% hard goods to 30% or higher for fashion)
CALL CENTER
# Call Center Benchmarks

<table>
<thead>
<tr>
<th>Primary Benchmarks</th>
<th>Improving Calls</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cost per call</td>
<td>• Lunch &amp; Learn</td>
</tr>
<tr>
<td>• Cost per order</td>
<td>• Call monitoring programs</td>
</tr>
<tr>
<td>• % to net sales</td>
<td></td>
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<tr>
<td>• Concurrent chats</td>
<td></td>
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<tr>
<td>• First call resolution</td>
<td></td>
</tr>
</tbody>
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Social Media, Web Support & Call Center

How are you measuring social media and website support and quality?

Measuring new channels with consistent metrics?
Feedback to Employees

Post company results daily and weekly in high visibility area

Call Center Ex:
- # Calls
- # Orders and sales
- Abandonment rate

Fulfillment Ex:
- Receipts
- Picks
- Packing
- Shipped orders
- Returns processed
Initial Order Fill Rate

Apparel Initial Order Rate

Percent of Orders Shipped Complete Within 1 Week

Week

Orders Shipped Complete Within 1 Day

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<table>
<thead>
<tr>
<th>GMROI Calculation Chart</th>
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</thead>
<tbody>
<tr>
<td><strong>Gross Margin Percent</strong></td>
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<tr>
<td></td>
</tr>
<tr>
<td>0.5</td>
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<tr>
<td>0.75</td>
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<tr>
<td>1</td>
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<tr>
<td>1.25</td>
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<td>1.5</td>
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<td>1.75</td>
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<td>7.75</td>
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<tr>
<td>8</td>
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What is Cost of Error?

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>200,000 orders shipped annually; &gt;50%+ ship alones; 0.5% error rate (1,000 X annually)</td>
<td></td>
</tr>
<tr>
<td>Original call center phone direct/indirect labor</td>
<td>$3.00</td>
</tr>
<tr>
<td>Original fulfillment direct/indirect labor/unit</td>
<td>$0.62</td>
</tr>
<tr>
<td>Original outbound shipping (avg $17.00/package)</td>
<td>$17.00</td>
</tr>
<tr>
<td>Customer call/resubmit order - direct/indirect labor</td>
<td>$2.49</td>
</tr>
<tr>
<td>Returns processing</td>
<td>$2.50</td>
</tr>
<tr>
<td>2\textsuperscript{nd} fulfillment direct and indirect</td>
<td>$0.62</td>
</tr>
<tr>
<td>2\textsuperscript{nd} shipping cost (avg $17.00/package)</td>
<td>$17.00</td>
</tr>
<tr>
<td>Cost Per Error</td>
<td>$43.23</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>$43,230.00</strong></td>
</tr>
</tbody>
</table>

99.5% accuracy sounds good unless you are one of the customers not getting the right product or damaged package.
Jagged Peak’s Multiple Shipping Points
Packages Shipped Weekly
On-Time & Accuracy

Knoxville DC On-time Shipping Weekly

Knoxville DC Shipping Accuracy Weekly

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Cost Per Order, Per Package, Per Call
Abandoned & Conversion Rates

Knoxville Call Center Abandoned Rate Weekly

Knoxville Call Center Conversion Rate Weekly
What is the most valuable benchmark there is?

Answer:
To create goals, metrics and history to BENCHMARK your performance against yourself
Thank you for your input!

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