



Who is Watching Over the Operations?

By Jason Bader

I was recently having a conversation with the VP of Sales for one of my clients. He pulled me aside after an education session I was having with his branch management team. He was very concerned that sales efforts were being hampered by some operational challenges in the organization. Many of you might be rolling your eyes and saying, “Sales complaining about operations - shocking.” I would agree, this seems to be the age old problem in most organizations. In this case, he was really trying to be heartfelt in his question, “Who is watching over the operations?”

We were looking over the leanings of the executive team members and ultimately came to the conclusion that no one was very well suited to the task. An argument could be made for the CFO to be the overseer; but being relatively new to the industry, I don't think he would be a good fit. I think the VP was secretly recruiting me to consider the job. Unfortunately, I have become far too comfortable slinging wisdom from the sidelines. After 15 years of independence, I am not sure I am cut out for full time employment.

This lack of operational oversight is a glaring problem in the distribution industry. Remember where we all came from. For the most part, these organizations were started by sales people who decided to part ways with their former employer. Selling stuff and working out the details later is in our DNA. Over time, and many sleepless nights, companies eventually started to put a few rules and procedures in place to insure the timely delivery of sold products. Sometimes, during times of prosperity, these policies and procedures are bent or disregarded entirely. The lust for greater sales volume often causes companies to turn a blind eye to operations. Trust me, this will catch up to us.

The first step to getting the operations under control is to assign responsibility. Where does the buck stop? In smaller organizations, this could be the general manager or even the branch manager. In larger organizations, the title might be more global in nature. Think in terms of VP of Operations or Director of Operations. Titles are nice; but will hardly invoke change. If you really want to put some teeth into the title, the position must be on equal footing with the sales management. Otherwise, the policies and procedures set forth will just get trampled under the thundering herd of sales orders.

Once you have determined the who, and given them the authority to stand their ground, the next step is determine what constitutes good operations. What is the benchmark for operational bliss? Ok, bliss might be a bit too optimistic. Let's just shoot for operational satisfaction. What does that mean in your company? All customer calls are answered on the third ring? Orders are processed and ready for shipment in 24 hours? 95 percent of all lines on an order will be filled from stock? What do we call a bunch of ideal situations? Goals.

The only way we are going to achieve operational satisfaction is by setting goals that are both realistic, within the constraints of the company infrastructure, and desirable. As many of you know, I am a strong proponent of monthly scorecards. I believe that scorecards allow us to monitor progress toward operational satisfaction and give us the opportunity to course correct in a timely manner. When creating goals, start with the macro and work down to micro. For example, if we are trying to reduce the number of times we ship the wrong product, we might start with measuring shipping errors in general. As we change the environment, or apply technology, we can start to get more granular in the

goal to determine the real cause of the barrier. I would also suggest that you don't get too crazy with the number of measurements. Do not exceed 10 goals or it may get too confusing for those tasked with improving the process.

I believe that everything we try to improve should be in line with customer satisfaction. I believe that we buy and stock inventory that our customers want us to carry. I commonly refer to this as a "customer centric view of inventory management". If our customers don't want it, why should we take up precious real estate in the warehouse. When it comes to setting customer centric goals, take a look at the expectations in the vertical market you serve. I grew up in the contractor supply market. The order fulfillment expectation is generally less than 8 hours. With labor being the greatest expense in a contractor's income statement, keeping those hammers swinging is how the customer achieves profitability. With this in mind, I might set an operational goal that all orders must be picked and ready for shipment by the end of the day. By tuning into the profitability of your customer, you can start to work backward toward building operational goals.

Sometimes, these operational goals can get a little out of hand. For example, is it realistic fulfill 100 customer orders a day with only 2 order pickers? Perhaps, but I doubt it. Setting goals is a solid intellectual exercise, but it also must fit the constraints of the infrastructure. This is where a strong operational manager can determine what resources will need to be employed to achieve the desired goals. Using comparative metrics such as number of orders per employee, gross margin dollars per employee or even number of delivery orders per truck will help an operational manager make recommendations for investment.

Here is the bottom line. Most distributors are riding a wave of prosperity right now. The operations side of the business is being strained to the point of failure. Ultimately, this strain will cause challenges to service and potentially drive our customers to look elsewhere. I know that you don't want to hear this, but it might be time to refocus your energy on shoring up the operational side of the business before the next dip. Invest, and empower, in a strong operational manager. Give them the teeth and the tools to clean up the mess. Accept some short term pain, for the long term gain. Let the sales people keep selling; but remember, it will all be for naught if we keep dropping the ball on order fulfillment. If you would like to discuss this further, know that my door is always open. Good luck.

About the Author:

Jason Bader is the managing partner of The Distribution Team, a firm that specializes in helping distributors become more profitable through strategic planning and operating efficiencies. The first 20 years of his career were spent working as a distribution executive. Today, he is a regular speaker at industry events and spends much of his time coaching individual distribution companies. For more information, call (503) 282-2333 or contact him by e-mail at Jason@Distributionteam.com. Also visit The Distribution Team's website at www.thedistributionteam.com.