

# Preparing Your DC for Holiday Peak: A Continuous Process

By **Mike O'Brien**, Multichannel Merchant

**R**etail's peak shipping season often represents 40% or more of annual sales stuffed into a roughly six-week frenzy of activity, and for that reason presents logistical challenges each year for fulfillment operations. But while much of the emphasis is placed on the period of hyper demand, in the bigger picture it's about continuous improvement, with peak as a crucible of learning where take-aways are baked into the process.

At many companies, the planning process begins shortly after the New Year, or sometime in January after the dust settles from the "mini-peak" of gift card sales and returns. And as the summer wanes and fall beckons, operations management and staff are in the thick of "gear up" mode.



"We're definitely talking more about peak in staff meetings now than we were three months ago," said Chip Edgington, executive vice president of operations for plus-size women's fashion company Fullbeauty Brands.

"As we get into the end of the summer, there's an intense focus on staffing and peak planning. We have a couple extra meetings each week with HR to make sure we're aligned and that the process is transparent."



"The traditional catalog and ecommerce companies we've dealt with, often they'll start gearing up right after Labor Day, and take a month to get everything tied down," said Curt Barry, president at operations and fulfillment



consulting firm F. Curtis Barry & Co. "If you're trying out a new process or layout, most people don't want to make any system changes after Labor Day. If it's not tested right or something goes wrong, you'll go through the Christmas period with things that are flawed. That goes for IT, layout or any material handling equipment changes."

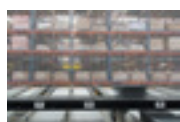
In this report we'll take an in-depth look at a few key areas related to peak season preparation, and see what retailers are doing to ensure they're ready to meet this year's challenges.

## Addressing Staffing and Labor Management

Ensuring the proper levels of staffing across departments is one of the most critical pieces of peak season

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**Some DC Quick Fixes Before the Holiday Season**

preparation, and for that reason companies find themselves planning, projecting and forecasting months in advance. Most often this includes working with temp hiring agencies to augment the efforts of internal HR departments and meet the outsized staffing demands.



Robert Escobar, vice president of operations at women's clothing rental service Gwynnie Bee, said his company breaks down its productivity standards by the hour and minute, and applies them to all its personnel categories (pickers, packers, shippers, etc.).

Based on standard times for each function, he determines how many total hours are required to meet the production standards and working backwards, uses mathematical models to determine staffing needs.

"We model it like most companies, taking the high level numbers and feeding them down to each department," Escobar said. "Everything is managed by hour and converted to people needed. We do monthly reviews with our managers, and look at workload fluctuations from day to day."

Coming into peak season in 2014, Escobar said Gwynnie Bee realized that with a tight labor market in the Columbus, OH area due to an improved economy, and lots of distribution activity nearby offering competitive rates (including hubs for Limited Brands and Toys R Us), it had to find a creative way to attract enough reliable workers.

"Because we had a high percentage of absenteeism and tardiness, we decided we'd offer seasonal employees a \$300 per month cash bonus if they were only late once and didn't call in sick over the 12-15 week period," he said. "It was a win-win. For them, it bumped up their pay, and for us we had guaranteed labor. It worked real well, and now other companies are doing it as well."

If there's one thing different in 2015 than last year, Escobar said, "there's an even tighter labor market for temps, a smaller pool to grab them from."



Erik Caldwell, senior vice president and general manager of Luxottica North America, said cross-training is a huge component of ensuring optimal efficiency during peak season, as well as using forecasting on both the production and operations side to ensure adequate staffing levels.

"If the forecast is off on a particular area, it can become a big bottleneck," Caldwell said. "That's why we

want more people cross-trained to fill in the gaps. Then at peak we can steal people from the simpler tasks like picking and receiving and move them up to the more complex areas of the bottleneck. As they gain seniority they can move into those more complex jobs."

Edgington said Fullbeauty Brands starts looking at expected peak volume in Q1, and begins its planning with HR and temp agencies as the summer progresses. Training for fulfillment operations is a very involved process, he said.

"We start training for the customer care center in September and for the fulfillment center help in October," Edgington said. "We have a very regimented training program where we bring in fulfillment trainees and put them in a lab environment that includes return stations, pack stations and a stock floor picking set up. They're put through an immersion process that includes things like how to read barcodes and the proper ergonomic approach for each job. They work in the lab for a week before they are integrated into the floor environment alongside a certified trainer."

## Maximizing the Use of Your Space

Barry recommends that companies conduct a distribution center layout review for each department as soon as possible after wrapping up the returns echo peak in January.

"Check with your inventory department to make certain about the product levels that will be showing up and accumulating in your facility," Barry said. "Only fix the specific issues that you can realistically complete before the ramp up. Focus on improving your facility's organization, product workflow, efficiencies, storage capacity and space utilization."

Edgington said his team conducts frequent space utilization reviews ahead of peak so they know exactly how many stock floor keeping locations there are, what is in deep storage in the warehouse and what percentage of capacity they'll have on a weekly basis.

"The engineers look at our space utilization on the stock floor and in the warehouse, and know what we need to be up to in September and October, and where the highest point is going to be," he said. "If there are going to be any issues in November, we know by late July or early August, so when new receipts come in the

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door we're aware of the high points and we're prepared so there are no knee-jerk reactions that waste time and money."

"We don't have a lot of flexibility in our North American DC space," Caldwell said. "We've looked at using 3PLs but it's not competitive. At times we need additional space for storage on a short-term basis, but typically not that much, about 50,000 square feet. We've planned our space based on peak level demand, so we plan to stay inside the four walls mostly."

## Maintenance and Ensuring Uptime

Making sure all equipment and systems are up to snuff ahead of peak season is another important consideration for merchants. While maintenance is a year-round exercise, an extra level of diligence should be applied before volumes start spiking up and operations are put to the test.

Barry provided a list of some key maintenance areas to focus on ahead of peak season:

- Is the maintenance of all your material handling equipment up to date?

## Some DC Quick Fixes Before the Holiday Season

Even though fall is just about upon us, there is still a window of opportunity to make sure you're ready for this year's holiday peak season.

Just think back to last year for a moment. Can you afford to have Round 2 of the peak issues you faced then? You may have completed a brief review of what worked and what needs to change. Dust off that document and review with management the outlined issues from last year and the ones that still need to be addressed. This should be done before any other areas are assessed and tackled.

If you're starting from scratch, here are a couple quick assessments and fixes to help get your distribution center facility, staff and operations prepped and ready for this year's peak season.

### Order Projections

Many holiday-dependent businesses receive as many as 50% of their orders in the fourth quarter, with most coming in December. Things to consider:

- Do you have the latest order flow projections from sales and marketing? Have you broken them down to the daily level?
- Once you get into the season, do you have an automated or quick way to adjust the daily order flow up or down based on response?

- Are all of your lift equipment, power conveyors, programmable logic controller (PLC) systems, backup power supplies, RF equipment, order printers and company fleet up to date?
- Are your software vendors aware of your seasonal peaks and have 24/7 support in place?
- If you are located in an area that could be severely impacted by winter weather, have you contracted for snow removal?

Caldwell said Luxottica goes through an extensive punch list of 115 equipment and system maintenance items to cover as part of its peak-season preparation, 85% of which have been completed by the end of July. "We start tracking (completion) weekly starting at 12 weeks out," he said. "Any things we identify that involve any downtime, we create a separate punch list for before peak. All the preventive maintenance is done beforehand so we don't have to take any equipment down."

Escobar said Gwynnie Bee is very diligent when it comes to adhering to its annual and monthly maintenance schedules. When the employee headcount increases at peak, his team makes sure there is adequate bandwidth in the warehouse's wireless environment.

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### Freight and Shipping

- Have you shared your shipping projections with your key carriers? Do they have enough equipment in place to handle your volume?
- Do you have a backup plan in place in case of labor issues?

### Information Systems

We believe that as a matter of policy, companies should not make any significant changes to key information systems once the peak season starts. We have seen IT and management try to rush in a new system in October, even though the project has been lagging behind all year, with disastrous outcomes that put the business at risk.

What IT considerations need to be addressed on an emergency basis to get through the peak? These may be more operational in nature.

### Third-Party Fulfillment

Can you use a 3PL to level out your peak fulfillment needs? We have had clients use this strategy for shipping a limited assortment of their best-selling products. It's affordable and can be implemented in 90 days.



— Curt Barry, president at operations and fulfillment consulting firm F. Curtis Barry & Co.



“Everything from the trucks, to the heating units, forklift, batteries, RF scanners and printers are on scheduled maintenance before the winter,” he said. “There are punch lists weekly, monthly and quarterly, and someone is responsible for each item.”

On the system side, Escobar said there are redundant strategies to address any system glitches, hardware and connectivity issues. They also have on-site IT leads as well as backup from the support team at Manhattan Associates. “In the last year, we were maybe down one and a half hours total,” he said. “We have backup generators, certain systems on backup batteries, so we’re pretty well covered. It’s not like we have to take extra steps in Q4, we just operate on a mindset that we make sure we never go down.”

## Post Mortem and Preparation for the Next Year

For many retailers, the term “peak season” may even appear to be a bit of a misnomer. While technically it

refers to a six-week period in November and December when holiday demand spikes and operational resources are stretched to the max, it’s really more of a continuous cycle of planning, preparation, execution, analysis and improvement. Wash, rinse, repeat – and be sure to integrate your key learnings into the process.

“From January through October, we’re focused on continuous improvement, and we’re deep in planning from January to June, making sure we’re prepped for Q4, with a constant focus on engineering, fulfillment and the customer care center,” Edgington said. “All of the teams meet every week, including logistics for imports and domestic shipments. Everyone is focused on continuous improvement, cost reductions and service improvements. So it’s an ongoing process.”

At Gwynnie Bee post-peak, Escobar said his team will review inputs and outputs, checking production assumptions and baseline metrics against actual results. “Where we went over projections, great,” he said. “Where we were short, we’ll do a post mortem on specific tasks and determine, was it a systems issue, or were planning and production assumptions not realistic because someone did a quick time study? There are a whole host of things to look at.”

Caldwell said that having a complete success at peak can almost work against you, as it can dull the edge of the continuous improvement mindset and breed complacency if you’re not careful.

“That can be a problem,” he said. “You can have a great season where for six months everything goes smoothly, but then the next one is a mess because you didn’t spend the time in review. So in peaks periods success can be a negative thing if you start to get arrogant and think you have it all covered, and you don’t cover your lists as diligently. I don’t wish for a bad peak but that’s where you learn – the more pain suffered, the more you can apply it to next year to get better.”

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