



Importance of Metrics in Distribution



In Conversation with
Thomas Campbell
Chief Strategy Officer
Capacity LLC

About Capacity LLC

Capacity is a trusted leader in order fulfillment, e-commerce and electronic data interchange (EDI). As a thriving global third-party logistics (3PL) business, Capacity fulfills up to 100,000 orders across multiple brands in one day during peak periods. In this interview, Thomas Campbell, Chief Strategy Officer, addresses the organization's approach to metrics and shares examples of how the information is utilized to achieve operational excellence.



Interviewer

How important are metrics to your distribution operation?

Thomas Campbell

Data is at the core of everything we do. Metrics define what it is we do for clients. Clients come to us because they usually have anywhere between 300 to 5,000+ orders a day. They need those orders shipped to consumers and retailers. It's our job to know the challenges of each channel and understand how to bring together the processes, material handling equipment and technology we need to execute to the highest standards. Without metrics to define those standards, we would be nowhere.

What would happen if you didn't have the right tools and procedures?

That's kind of like asking an Indy 500 driver what he or she would do with a prehistoric cart with stone wheels. It would be very hard to move product and it would be very hard to satisfy even the smallest clients' requirements. It would be impossible to do the work for our largest clients.

Interviewer

Thomas Campbell

For much of our history we would process orders similarly to many providers, with much of our innovation initially focused on the software side of the operation. We would deploy a team to pick sometimes just one order, if it was very large and complex. A good picker with a large cart could travel through the pick locations, picking 200 to 2,000 SKUs in an hour and picking between 50 to 60 orders per hour. Around five years ago, it just became unsustainable to process in that fashion because the volumes for our biggest clients were so high, especially during peak periods like sales and Black Friday. It wasn't practical to just flood the picking zones with more people. We needed to understand where the bottlenecks were and where we could remove extra time.

There is an old movie, "Chariots of Fire," where the British runner interviews a potential coach and he wants to know what the coach is going to do for him. The coach lays out several shilling coins like the path the runner will take and says, "I'm going to remove these two coins." That's essentially what we do every day, all the time, remove or improve steps in our processes — and we've been doing it ambitiously and aggressively with a large and growing engineering team. This enables us to look at every step of the process, capture data and understand where the bottlenecks are so we can then engineer solutions to address those problems.

How do you describe your overall metrics strategy?

7-day Analysis of Total Orders, Order Type, Quantity Shipped by Building, and Destinations



The strategy is to capture data wherever we possibly can in order to provide excellent service and transparency to our clients. We use tools — whether it's in the design stage with CAD or in the data analysis stage with business intelligence — to understand what the data is telling us. The data is always telling you something, but sometimes you must transform your mindset through the visual language you use to look at the information.

Our overall strategy is about being a best-in-class service provider who can enjoy higher margins than our competition through better quality, accuracy and timeliness of our service. The route to that is the proper use of data. For Capacity, we use data in strategic ways, but it's also the grist for our everyday mill. We capture and analyze data surrounding everything we do, whether it's zip code distributions for a client to make shipping method recommendations, order pick rates, order packing rates or replenishment strategies. Our operations are so intertwined with data, it is not possible to imagine our work without it.

Interviewer

Thomas Campbell

Can you give me examples of how using metrics has helped your decision-making?

Our business was built on the premise that the small- and medium-size companies often can't afford a top-tier warehouse management system (WMS). And they certainly can't afford the kind of order management system that Capacity has built over two decades of experience. We know we can engineer more efficient and accurate solutions if we not only understand the challenges of direct-to-consumer and retailer fulfillment, but also the data of the actual orders that clients flow through our systems and our buildings.

It starts at the very beginning when a client comes to us and presents us with a challenge. We determine what we want, we ask for raw data on their orders, items being shipped, as well as more qualitative data on how they like their orders presented. We create a model and it has inputs like the number of cartons we receive a month, how many orders we ship in that given month and how many units. Then it has data points that we've collected over the years on how many hours each of those tasks takes. We include equipment, replenishment of forward pick locations and allocation of floor space and the costs that we know that this will entail. This model reflects our activity and then we use that to generate a custom price.

Capacity does not have a standard pricing schedule because we understand no two jobs are the same. Like history, fulfillment challenges will rhyme, but they don't repeat themselves. There is no client exactly like another one. We certainly look at a new client and say, "Who does this resemble?" But even today we were pricing out a major CPG and the answer was nobody's business looked similar to theirs. This is a process that is being built for the first time. Therefore, it starts with the data. That's the launch point for determining whether we're going to engage with the client — determining how we price them, delivering that price and then negotiating a partnership.

I imagine this helps you manage labor as well?

Absolutely. I think that's an area where we will evolve. We're looking to have better data capture around our labor. We know how many orders we can pick with a cart, we know how many orders we can put through the wall, etc. All those are critical inputs, but just as important is the ability to back test several different ways. Therefore, we ask ourselves if those productivity rates are just what we saw when we examined it once? Or, are the results born out over multiple iterations and the data that we captured over time?

Interviewer

Thomas Campbell

Measuring processes and doing analytics on them, does that help you stack up against your competition?

I think it depends. I've been at Capacity for a couple of decades and I don't want to claim to be an expert on the competition, but I do go up against them every day. And my strong impression is that we operate in a fashion that is not uncommon for very large providers of supply chain services. The main difference is when they are doing an engagement, it's cost-plus. Almost invariably they are scoping out a built-to-suit solution in which they're going to be an open book. They're going to share everything with the client and they're going to earn a high single-digit or low double-digit markup.

Capacity is more interested to share the benefit of what we learned and how to do it with data, processes and better material handling equipment. However, we also believe that fundamentally some of those innovations should accrue to us and to our bottom line, as well as to the quality of service. If you look at a more sophisticated cost-plus relationship, you could look for gain share and several other ways to spread the wealth. In our case, we're much more interested in competing first on service and second on resiliency because I think that throughout the last 20 years, we've done this. But especially this year, with COVID-19, where only the strongest survive. It has been very difficult to continue to operate and thrive in this environment. It takes real discipline.

For example, we've been keenly interested to gather all the available data surrounding COVID-19. It's to inform us what to do in our efforts and how to keep our people safe. Obviously, we're trying to keep our people safe because that's the right thing to do, but it's also enlightened self-interest. We're trying to keep operational. We ship for 100-plus businesses. They're not selling through retailers as much, and in some cases, they're not selling through their drop ship partners if their products are not deemed 'essential.' If they don't have an operating fulfillment partner, it's incredibly critical because they can't generate income. We act in the best interest of the health of our employees. If we must, we will make decisions like not flexing our labor up, as we have just recently, because we don't want to bring new associates into a given facility. For example, recently in California we had to freeze staffing because of the pandemic increase. If we have widespread contagion, it would be game over for our business and for more than 100 other businesses. We cannot permit that if it's in our power to prevent it.

Interviewer

My last question for you is what advice do you have for distribution decision-makers?

Thomas Campbell

When you compare us to our competition, I believe we do a lot more with automation and technology than other comparably sized companies. They are not utilizing the kinds of solutions that we've collaborated on so successfully with Tecsys.

Most of the things that we learn in life are learned by doing – and I think that's true for supply chain and distribution. I wouldn't ignore the wisdom of the ages, but modern supply chain really started around World War II. It's a young field and it's inextricable from modern computing and modern software programming. Material handling equipment is evolving rapidly, not even touching on robotics, but my advice is to take that onboard and become an expert in each component of the supply chain. Even then you should follow one of the most important methodologies for learning how to do these projects better – go down to the floor and see how it's being done. Talk to your people, ask them if they think there's a better way, have an engineer take a step back, watch it and find ways to improve it. It is only by that process and then analyzing the data that you are going to come up with the right decision. Even then you might make a wrong decision. In some ways though, it's just as important to make the wrong decisions and learn from the mistake as it is to have analysis paralysis and make the right decision every time! You can't. It's not possible. There are too many decisions that executives must make in any given day, month or year!



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Speak to a Complex Distribution Expert



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Since our founding in 1983, so much has changed in supply chain technology. But one thing has remained consistent across industries, geographies and decades – by transforming their supply chains, good organizations can become great.

Our solutions and services create clarity from operational complexity with end-to-end supply chain visibility. Our customers reduce operating costs, improve customer service and uncover optimization opportunities.

We believe that visionary organizations should have the opportunity to thrive. And they should not have to sacrifice their core values and principles as they grow. Our approach to supply chain transformation enables growing organizations to realize their aspirations.



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