

SMARTER PERSPECTIVE: RETAIL INDUSTRY

Pulling the Right Levers to Drive Sustainable Operational Improvement and Increased Sales

By Dan Ginsberg and Charvi Gupta

In this article we provide an overview of a recent engagement to illustrate how companies can address and overcome inhibiting supply chain and distribution challenges to drive value creation opportunities.

After being carved-out from a major “big box” U.S. retailer, our client, a specialty retailer retained Hilco Performance Solutions (HPS) to assist with increasing distribution capacity for sales to achieve \$100 million in incremental revenue. In a tight time frame, leading right up to the start of the next buying season, the HPS operational team focused on the Company's owned distribution center and transportation operations to ensure the store network could meet growing consumer demand. The engagement involved deployment of a hybrid onsite/remote team of seasoned HPS consultants, who applied analytics and Lean Six Sigma process improvement techniques to eliminate bottlenecks, reduce downtime, optimize scheduling, and accelerate the flow of goods while adapting to several challenges brought on by COVID-19, including a smaller and constrained warehouse labor base and increasing costs.



The Company's predicament arose largely from a decision several months into the COVID-19 pandemic by its then owner, a publicly traded retailer, to carve out the multi-store retail footprint and one of two distribution centers into a standalone business.

As the domestic economy exhibited increasing consumer demand for goods under the lockdown provisions, our client struggled to receive its goods, unpack items on racks in the distribution center, and then distribute inventory to stores to ultimately be put on shelves. With high prospects for continuing demand of its core and expanding product lines and visible constraints, the retailer recognized it would lose sales opportunities and be unable to support new store openings unless it addressed its distribution center operations before the next ramp-up period.



As part of the larger retailing network before the carve-out, our client supplied its retail footprint from two distribution centers. However, the newly separated entity had only one distribution center for receiving imported goods from suppliers (mostly from Asia) and servicing a growing footprint of stores. This challenge, along with other impacts of COVID-19 such as shortage of labor and issues in attracting, recruiting, and retaining employees, exacerbated the situation. This led to a supply-demand mismatch as, although there may have been inventory available in the warehouse, it was not properly organized. In turn, this led to delays in inventory being sent from the warehouses to retail stores, ultimately leading to stock-outs at stores and lost revenue opportunities. Additionally, the single distribution center had only 40 outbound shipping doors supplied

by its conveyor system; this, combined with the existing process's ability to only load one truck per-bay per-day, meant that, at most, 40 trucks could be loaded each day. This was a hard constraint to the throughput capacity of the facility, a limit that would not meet the peak demands of the retail stores.

Given these factors, our client required a deeper, objective assessment of its operations to determine the root cause of the revenue shortfall, measure potential impacts, and understand the levers that could be pulled for improvement. Furthermore, it needed to understand the cost, benefits, and timeline of the improvement process. With only five months remaining to "up its game" before the next primary shopping season, the company retained HPS to conduct a deep-dive into its ailing transportation and distribution processes.

By working to obtain a highly granular view of the distribution center including those processes, personnel, systems, data and information, equipment, and facilities directly and indirectly associated with the core processes, HPS was able to validate the missed revenue opportunities. Working closely with the Company's warehouse management and associates, our team implemented **Lean and 5S approaches** to expand the warehouse's throughput capacity to retail locations. This included:

1. Inbound process changes involving team unloading, visual controls, team put-away techniques
2. Outbound process conversion to a 3-wave picking / shipping approach
3. Support process changes involving the addition of a dedicated deadwood removal crew, pallet management processes, and vehicle / battery management

HPS ran numerous pilots to demonstrate the changes in actual terms, adjusting the plan as needed, while simultaneously training and working side-by-side with employees. While there was strong support of the effort from the Company's top management, there



BEFORE



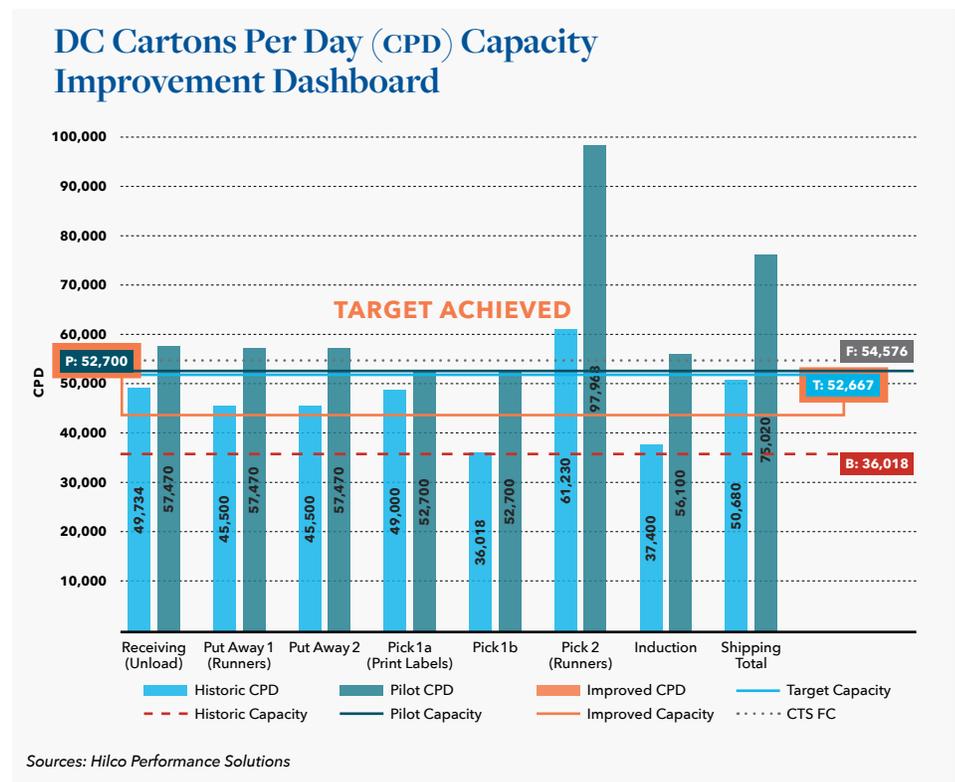
AFTER

was also notable change for middle management employees to process, particularly as it was essential for them to also remain focused on their day-to-day job responsibilities. Our HPS team of seasoned operational consultants across retail, distribution, and transport operations, continuously supported the effort, working both remotely and on site with the Company's warehouse team as COVID-19 restrictions permitted.

Although our client initially felt it would be necessary to implement the project in a staged manner due to competing

cash priorities, the efficiencies generated via execution of the HPS plan enabled the effort to become self-funded in a period of just a few weeks' time, generating a return of 13:1. All work was completed and transitioned to internal teams in only 16 weeks, a highly accelerated timeframe.

While the plan did not require any additional investment in a new distribution center, equipment, software or 3PL services, it is forecasted to result in an **incremental \$100 million of inventory at retail through the**



FOCUS AREA	BEFORE	AFTER
Conveyor-loaded trucks shipped per day	40	60
7-9 case picking level	Frequent	Negligible
Cross-lane equipment traffic	Extensive	None
WIP level buildup in Receiving Main Bay	Extensive	Smaller, well controlled
Case picking location	All in the main racks	3% at induction conveyors
Slotted non-cons picking	All by rack picking vehicles and staged on floor, then picked up later for delivery to store trailer	Most picked up from Level 1 with walkies and driven directly to the appropriate store retailer
Deadwood removal	By the put-away crew at start of shift, reducing productive time and increasing WIP in Main Bay	By dedicated crew, leaving put-away crew to be more productive
Empty pallets	Accumulated in production areas; remain unsorted; areas that need good pallets often starved	Continuously sorted; delivered to appropriate areas by small, dedicated crew
Unloading disruptions	Frequent due to non-value-add activities	None by removing non-value-add activities away from unloaders
Unloading	Conducted by individuals to maximize OPAH	Conducted with throughput focus to maximize number of trailers unloaded per day

Caption: Selected 'Before' and 'After' focus areas are featured in the schedule above. While not representative of the volume of work performed, these are indicative of the portfolio impact resulting from HPS work.

distribution center, an increase of 32%. This will include reversing the trend of lost sales due to stockouts and enabling greater sales growth from existing and new stores. Additionally, the effort is expected to lead to a sustainable process change that will increase warehouse throughput capacity to retail stores by more than 50% and over 52,700 cartons per day, with scalability beyond these levels as well. Importantly, the process changes have also allowed the distribution center's management to maintain a well-organized, efficient, and safe work environment.

Our main client contact, the company's Vice President of Supply Chain and Logistics, said of the initiative, "My team and I found Hilco Performance Solutions very professional and the engagement experience extremely eye-opening. We are quite excited to implement the HPS study recommendations and are confident in their ability to take us to the next level."

If your business or a business in your portfolio is experiencing bottlenecks, excessive downtime, scheduling issues, or an inefficient flow of goods process, within its distribution, warehousing or transportation center operations, we encourage you to reach out to the HPS

team. You're not alone, and we are here to help!

Hilco Performance Solutions (HPS) consists of cross-functional manufacturing experts in the areas of Operations, Supply Chain, People, Mergers and Acquisitions, and Commercial, advising clients toward sustainable revenue growth and cost



DAN GINSBERG IS A MANAGING DIRECTOR AT HILCO PERFORMANCE SOLUTIONS

Dan brings over 20 years of experience in consulting and leadership, supporting company management, private equity sponsors and other key stakeholders in realizing EBITDA and cashflow results through operational and strategic performance improvement initiatives. He has a track record of more than 250 projects with ~150 clients and ~100 sponsors, delivering over \$900 million in measurable benefits and much more in exit values. Contact Dan at 847-504-2453 or dginsberg@hilcoglobal.com

reduction. By combining advisory experts with reputable industry veterans, Hilco provides the right talent to get the job done. While many management consulting companies focus on strategy and sharing leading theory, Hilco Performance Solutions focuses on action, working in the trenches with our clients and translating strategy into results.



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Charvi has over seven years of experience across M&A, corporate turnarounds, financial and operational restructuring and bankruptcy situations where she has focused on transaction execution, due diligence, financial modeling and data driven analysis. She has also worked with companies to address liquidity issues, develop cost reduction plans, implement process improvements and improve profitability. Contact Charvi at 212-697-2400 or cgupta@getzlerhenrich.com