Warehouse Coach

Improving warehouse performance

Charge-Backs
By Don Benson - www.warehousecoach.com

Lately I have noticed clients asking more frequently about what to do about charge-backs. I do not know why charge-backs have become a larger issue, but they certainly are interesting to deal with because vendor requirements are becoming more challenging, and customers are becoming more sensitive to vendor performance.

Charge-backs have been with us for many years, and over that time I have developed a framework for this work that you might find useful. Generally I work in three areas:

1. Clarifying Vendor Requirements – getting clear about customer expectations and building the internal organization to ensure compliance;
2. Optimizing order and handling processes – Defining, documenting and maintaining consistency in the order handling process; and
3. Analyzing the charge-back data – Analyzing the data to understand the patterns and sources of the charge-back issues and suing the results to inform management decisions and actions.

Vendor Requirements - For all the effort that has gone into developing the supply chain over many centuries, I continue to be amazed at the significant variation in how the "best practices" of one customer can be completely different from those of another. These differences have given rise to many of the elements that become vendor requirements. And, as we all have been reading in the trade press, when a customer cannot solve their own operational problems, they often push the responsibility onto the vendor, whether the investment of time, equipment and materials to conform to the Requirements will yield a benefit to the vendor, or not.

As vendor requirements continue to grow and become more complex, many of my clients discover that they need to assign someone to manage this activity. Often called the Compliance Manger this person then becomes the internal expert and resource, to deal with the unclear dimensions found in those interesting Requirements Books, and better communicate those needs to the people who do the work. That person can also initiate the measurement systems that can let you know if the requirements are being met before the materials leave your facility.

The Processes - While there are always exceptions, I have found that you can handle the majority of customer requirements within a standard process. And yet

we know from the Quality efforts over the last 15+ years, that when we study our processes, we often find more exceptions than we expected. Those exceptions often lead to problems and extra costs. In our work we have found exceptions that have cost companies far more than anyone had ever imagined, with little or no benefit. So taking the time to know your processes, document them, enforce them, almost always yields a direct reduction in costs, and always improves performance.

There several ways to approach this work. It can be tedious if done alone, but fun if done with the members of a department in a group setting, taking each process and following it through, noting each step and variation, and interpretation, etc. Often we make flow charts out of colored paper or Post-it© notes on a big blank wall, describing the current process and with different colors, describing what they want the process to be. The result is that the process becomes cleaner, better documented, faster and better performed. During this activity, people learn about the processes used, and the result is that charge-backs decrease.

The Data - Analyzing the charge-back data allows us to discover where the problem(s) originate. Analyzing the data is a lot like a treasure hunt without a map or any hints. Usually we find the major issues by looking for inconsistencies in the data, and being open to the idea that the source of charge-backs may not be in the warehouse. For example, are the charge-backs coming from
1) All customers – Generally the issue here is an inconsistency in the way in which processes are followed, that could be anywhere from the order form, to the many steps of processing in the warehouse, to delivery, or
2) Just a few customers – We start by looking to for patterns such as the orders for these customers are handled by the same carrier, by the same sales person, order clerk or process, or the same warehouse, etc.; or
3) Just one customer – This situation could be the result of a lack of understanding about the specific vendor requirement, or the work of a particular claims clerk, or the behavior of a particular customer, and occasionally the issue is the customer and resolution becomes a task for Executive Management resolution.

In situations where charge-backs were coming from all customers, when we looked more closely at the warehouse we have found operations where
1) The picking document that was designed to be used to serve several functions (packing list, customer check in form, manifest, invoice, etc.), and the picker had a difficult task because
   i) The SKUs were listed in the sequence they were entered and not in a sequence in which the items are stocked or picked in the warehouse;

    ii) The SKU order quantity did not have a uniform unit-of-measure (each, carton, pack, pound, etc.);

   iii) The SKU data including SKU number, description, etc., was presented before the location or quantity to be picked;

   iv) The form could not be used quickly and easily because the lines were not separated clearly on the page;

   v) The form was not printed clearly or was a 2nd or 3rd copy, so could not be read easily

2) The warehouse was poorly lighted
3) Picking locations were not clearly identified
4) Merchandise/materials were not separated cleanly between storage locations allowing a spill-over
5) Some SKUs generated more problems than others. This can be particularly true with pharmaceuticals, and fishing reels, where the brand is the dominate element on the package and the contents descriptions are not clear; and.
6) Specific pickers were generating more errors than others.

Once found, these operational dimensions are easily fixed, and when fixed consistently yield both a reduction in charge-backs, and a noticeable improvement in employee morale and effort to do a good job.

Charge-backs never seem to go away, and their causes continue to pop up in places we had not looked before. I suggest the best approach is to establish a practice of regular monitoring and reporting performance and periodic analysis of the charge-back data to guide inform management decisions and action.. Similar to cycle counting and quality work, once a year attention to charge-backs will not serve the company well.

There are several articles on this site that you may find useful in your task to reduce charge-backs including Picking Document Design, Standardize the Unit-of-Measure, and A simple way to improve the quality of picking and shipping.

If there is something I can do to help with your charge-back challenge, or to improve warehouse operations, or to help you in your work to improve your performance, please let me know. You can reach me at Don@warehousecoach.com.