# M&D Watch

## *Transportation & Logistics*

## Dead Storage – the Unknown Profit Killer

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Storing goods or inventory has a monthly cost, which depends solely on how long we expect that product to remain in our warehouse. Handling revenue derived from moving product in or out of the warehouse depends largely on the speed at which we move it. Therefore, the cost of storing a unit of product decreases as the turn rate increases.

As with any business, profits are influenced by productivity. Productivity equals profitability, and is measured in terms of the rate of output. Inventory does not always turn as frequently as anticipated, which leads to lower revenue and dead storage in the warehouse.

What is dead storage?

Dead storage is defined as inventory in the warehouse that remains idle for a prolonged period of time. When inventory enters the warehouse, there is an expected turn rate. If inventory does not turn as expected, it becomes a profit killer. Carrying costs are associated with this idle inventory, which directly affect the company's bottom line. Warehousing companies and third-party logistics (3PLs) should identify dead storage early on to avoid a decrease in margins and cash flow.

The goal of warehousing companies is to avoid dead storage by increasing the number of units moved without increasing labor and other variable costs. The result is an increase in productivity, or increased number of units handled per hour.

Variable costs, such as labor, are never as flexible as they seem. Management may be reluctant to eliminate experienced workers, particularly when those workers may be needed for a coming busy season. Staffing considerations should include reducing overtime, evaluating the effect of part-time versus full-time employees, and using agencies to hire temporary, inexperienced versus experienced workers.

The use of technology is essential. Automation can be achieved through warehouse management systems while reducing human intervention and manual processes. Data analytics can be extrapolated from these systems and raw data can be examined to draw conclusions and make better decisions, and eventually allow warehouse managers to make more productive use of their time.

Management can use the data to obtain relevant information related to the inflow and outflow of inventory in the warehouse. At its highest capability, data can be used to evaluate peak times and high demand in the warehouse, which helps identify actual personnel needs, and potentially reduce unnecessary personnel costs.

Warehouse management systems provide information about specific customers. Warehouse managers can analyze inventory turns by customer channel and compare results with established contracts. Companies that monitor this information frequently can be more alert and more effectively identify what inventory is sitting in the warehouse, potentially turning into dead storage.

Warehousing companies can obtain historical data by customer channel to evaluate profitability by channel, and use those results to create more accurate forecasts and manage expectations. Warehousing companies can use this information to communicate with customers, which can lead to review of, or even amending, customer contracts, modifying terms related to inventory turn rates, contingent charges, and pricing, and ultimately holding the customer accountable.

Automation and mechanization carry risk, such as when the system or equipment doesn't work as promised, or is not used to its fullest ability. This leads to the costs of acquiring and maintaining operating equipment that comes with a heavy price tag. Most of these related expenses are recurring, and they are incurred even though no revenue is generated from inventory that has not moved.

Another thing to consider is the layout of the facility, how the product is being stored, and how the floor space is used versus the air. The higher the product is stacked, the less floor space is occupied for the same amount of inventory, and the less you pay. If there is no structure or organization in the way goods are stored, inventory often ends up being placed wherever there is empty space. Poor planning eventually leads to a large amount of inventory slotted in an unorganized manner, leaving no room to reorganize due to limited warehouse space.

In conclusion, companies want to increase efficiencies and eliminate dead storage. They should remain proactive, manage expectations both internally and with customers, and hold customers accountable. Managing expected inventory and taking advantage of automation processes are critical to success.

Please contact the WeiserMazars Transportation and Logistics group to learn how we can help you eliminate dead storage and restore profitability to your warehouse.


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