

VOLUME 4, ISSUE 47

NOVEMBER 24-30, 2003

The Journal of Commerce

Seasoning the warehouse

Home Depot uses shared warehouses to match its supply chain with seasonal demand

BY KATHLEEN HICKEY

To every thing there is a season, of course, but does that include warehouse space? Home Depot believes it does. With 1,500 North American stores, Home Depot is the world's largest home improvement retailer. The company is practically chained to seasonal demand as well as an efficient supply chain highly sensitive to consumer needs. Those two qualities often translate into the need for sprawling warehouse space.

The retailer has found a seemingly unlikely solution: shared warehousing. The problem is simple, said Lee Bandlow, vice president of distribution at Home Depot: More people want to buy grills in the spring than in the winter, when snow shovels and insulation figure more prominently in buying patterns.

Home Depot wants to accommodate that demand. Shared warehousing allows the retail giant to do that with-

out a warehouse that it doesn't need at various times of the year, he said.

It's a trend that is growing as retailers grow more comfortable with outsourced logistics management and the technology that gives them visibility and control of their inventory even without having a warehouse dedicated to their use.

As shippers fine-tune supply chains to meet seasonal fluctuations, several third-party logistics providers are seeing an increased interest in shared warehousing from both large and midsize shippers across all industries. "The thought is there is a lot of money in this and it can be managed better," Bandlow said.

Randy Mutschler, director of customer solutions for Con-Way Logistics, based in Aurora, Ill., said all of its clients are in shared warehouses.

The company bases management of its network on its clients sharing facilities. Con-Way also provides



Reprinted from The Journal of Commerce, November 24-30, 2003 • www.joc.com

©Copyright 2003 The Journal of Commerce. All rights reserved

Published with copyright permission from The Journal of Commerce. <http://www.joc.com/copyrights> – 12/18/03

transportation optimization including consolidating clients' less-than-truckload moves to truckload.

Harry Drajpuch, executive vice president for shared warehousing, order management and delivery solutions at USCO Logistics, sees a "significant uptick," particularly in retail, for shared warehousing.

About 95 percent of USCO's clients are in shared warehouses, including Home Depot and Bombay Co. In the last two to three years, several customers have moved from dedicated warehouses to shared sites, he said.

Drajpuch attributes the interest to retailers looking for overflow business. "We are seeing a number of retailers increase inventories to even greater numbers even from before Sept. 11," he said.

A third-party logistics provider such as USCO has buying leverage and space and can obtain shared warehousing for clients. Those clients "take it for granted that we can provide that service," Drajpuch said.

Even warehouse builders are accommodating the shared warehousing trend. John M. Pagliari, a partner at Rosemont, Ill.-based Panattoni Development, said his company designs its large speculation buildings for multiple tenants. More than 90 percent of Panattoni's buildings are multi-tenant.

"The smart developer builds as much flexibility into the product as possible. It allows us to have a building that can be occupied by as many as three or four users — separate entryways, separate bathroom facilities and the ability to divide the building into an infinite number of locations," he said. This way, even if a single renter leaves, Pagliari can "make the building more reusable in the future."

Bandlow said there are many reasons for Home Depot using shared warehousing. But "typically we do it

as a strategic move to add resiliency to our supply chain," he said.

It started because Home Depot wanted to improve the flow of merchandise to its stores, Bandlow said. The company wants to replenish out-of-stock goods within 24 hours, he said.

Two years ago, "we were struggling to provide the kind of service we believed our stores needed. Our vendors were struggling. A lot was going directly to the store," Bandlow said.

One suggestion from employees, suppliers and stores was a better supply-chain model that included shared warehousing, which "worked out great. We adopted it as a way we do business," not just for seasonal peaks but in other areas as well, such as emergencies and testing future needs, he said.

For seasonal demands, Home Depot rents space near stores so it can quickly refill inventory. It can do that because its technology system is portable, Bandlow said. "There was a time when starting up something like this would have been much more painful," he said.

It also is easier to get short-term labor than it was a few years ago. "There was a time not too long ago when temporary labor was the job of last resort and you couldn't find much," Bandlow said. "But mostly the driver is technology."

Home Depot uses its own technology to manage its shared warehouse needs — all a store needs is a personal computer running a version of its warehouse management software, Bandlow said.

Bandlow said Home Depot's solution won't work for everybody. A company that has complex warehousing needs might not be able to seasonally rent space the way Home Depot does. "These are very simple warehouses. There is no sophisticated

mechanization or automation," he said. That includes what is being stored.

"For a customer like Home Depot, where the vast majority of the product is bulk in nature, on pallets, it's much easier to coordinate that activity for a six-month period than it would be for a high-volume pick-and-pack operation," said James W. Morgan, executive vice president and general manager of USCO's dedicated logistics division.

Nevertheless, companies are outsourcing more of their needs, including "things that people felt in the past were too complex. Today everything and anything is fair game to be outsourced," Drajpuch said.

Shippers "don't want to pay for an infrastructure that is underutilized at certain points of the year. They have learned the hard way," Morgan said.

USCO helps its customers by using other 3PLs to help manage seasonal overflow, Morgan said. "We are trying to position ourselves to deliver a flexible solution without having to invest in the infrastructure ourselves. And key to being able to do that is our technology systems," he said. "We can bring someone up and running in 10 days."

In Home Depot's case, the company uses seasonal shared warehousing as a temporary solution, Bandlow said. "It isn't good when we have a permanent need. It is to solve a specific need and oftentimes a precursor to something more permanent."

First, the company does a cost analysis using modeling and forecasting of whether it is better to rent a warehouse on a seasonal basis.

"Should I build a center to accommodate a peak or not?" The supply-chain visibility systems and forecasting tools have allowed us to have better insights into volumes that the required distribution center is going to face," Bandlow said. ♦



22 Spencer Street
Naugatuck CT 06770
1-888-246-USCO
marketing@usco.com
www.usco.com