

Room to Grow

Shared warehouses give retailers space to store oversized seasonal products

By **Connie Robbins Gentry**

The largest DIY retailer has found that sometimes it pays not to do it yourself—at least when it comes to flowing seasonal product into its stores. Although The Home Depot has a complex distribution network with approximately 75 distribution centers (DCs) located throughout the country and representing a variety of formats, the company has turned to third-party, shared warehouses to support spikes in seasonal demand.

Lee Bandlow, The Home Depot's VP of distribution, says the various formats owned by his company include DCs dedicated specifically to lumber products, DCs that are exclusively for cross-docking and a large number of warehouses for carton distribution.

The lumber facilities receive most of their product by rail car, typically 25 to 30 rail carloads per week, as well as some truckload deliveries. Cross-docking DCs receive 500 to 600 truckloads per week and process a comparable number of outbound shipments. Carton DCs average 400 inbound truckloads per week and many have daily outbound shipments to the stores. Bandlow says that most Home Depot stores receive two to five deliveries per week from each of the three DC formats.

Even with its comprehensive, finely tuned distribution processes, The Home Depot found that seasonal merchandise was difficult to absorb into its existing network. The company distinguishes between live seasonal products, such as lawn and garden plants, and oversized, large footprint mer-

chandise, such as patio furniture, lawn mowers, tractors and grills. The live product ships direct to stores from the vendors but oversized product ships first to a DC, then to a Home Depot store.

In 2002, The Home Depot decided

to test a shared-warehouse solution for oversized seasonal items and began working with Kuehne & Nagel of Naugatuck, Conn., to service its stores in the Midwest from a Kuehne & Nagel-owned DC in Illinois. During the pilot, the third-party DC han-



The Home Depot uses third-party warehouses to store seasonal items that are too bulky to stock at stores.

dled 5,500 to 6,500 units per day for 30 SKUs.

The following year, Home Depot increased its SKU base to 45 items and expanded the third-party relationship to four DCs, encompassing more than 460,000 sq. ft. of shared-warehouse space. At peak volume, the DCs received more than 50 truckloads per day and shipped 190 orders. This year, The Home Depot will rely on seven to 10 shared warehouses and is continuing to outsource to Kuehne & Nagel, as well as to Exel Logistics of Westerville, Ohio.

“Working with a third-party warehouse adds resiliency to our supply chain,” explains Bandlow. “Supplementing our organic capability allows us to position products, such as mowers and grills, closer to our stores for rapid replenishment.”

and still provide the necessary rapid replenishment.”

Holding inventory in the shared warehouses also has yielded some unexpected benefits. Bandlow says the stores are actually safer, with fewer large footprint products on the floor, and customers indicate it is easier to shop in the stores.

“We don’t have specific numbers, but I can tell you it has enhanced our in-stock positioning on these products,” he reports. “Customers are happier because promotional seasonal items are in the store every day, and a happy customer will usually find other things to buy.”

Open-and-shut advantages: In addition to improving the in-stock positioning of seasonal items, utilizing a third-party DC enables The Home Depot to better manage the carrying costs of both inventory and

er a seasonal solution quickly and on short notice,” says Drajpuch. “Whether for seasonal product or promotional items, utilizing a shared warehouse that brings product closer to the stores allows a retailer to shorten its supply chain and ultimately carry less inventory and lower its carrying costs.”

The trend for retailers to order goods later, as close as possible to the time they will be sold, and to order smaller quantities has changed the typical seasonal warehouse cycle. Historically, the start-up to shut-down of a seasonal warehouse would run six to nine months; now the schedule is more likely compacted into three to four months.

“The Home Depot runs counter-cyclical to most retailers, since it needs the extra space and support in the spring and early summer, which

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From a supplier perspective, it is equally beneficial. The manufacturer can forward-deploy merchandise to the shared warehouse, which facilitates increased sales because there are fewer out-of-stocks of fast-selling merchandise and promotional items. It would be virtually impossible for every manufacturer to provide the same level of service in direct-to-store replenishment from its own warehouses.

“The shared DCs can service our stores basically overnight,” notes Bandlow. “If a store has a run on seasonal merchandise, we can replenish it quickly, and having multiple manufacturers and products in a shared DC allows us to fill trucks more easily. It gives us the scale of merchandise to leverage the total order requirements for a store so we can create economical delivery quantities

capital assets. “We can ramp up the seasonal DC operations in a matter of just a few weeks and shut down the operation when it’s no longer needed,” continues Bandlow. “Our WMS can easily be deployed for seasonal DCs and we have the infrastructure to support it.”

Transporting the freight is also a seamless act of outsourcing. The Home Depot relies on dedicated carriage from a number of national carriers including J.B. Hunt, Werner Enterprises and U.S. Express.

Harry Drajpuch, Kuehne & Nagel’s executive VP and general manager of order management, delivery solutions and shared warehouses, reports that the company continues to see an increased demand for seasonal DCs.

“With 60 facilities around the country, we have the ability to deliv-

really flatters the traditional surge for warehouse space that comes in the fall and holiday season,” notes Drajpuch.

Kuehne & Nagel, formerly USCO Logistics, works with a number of retail chains including the world’s largest retailer. Like The Home Depot, Wal-Mart was looking for a solution to accommodate its oversized products, such as lawn furniture and big-screen televisions, which were not easily managed in its existing distribution network.

A dedicated import diversion center was opened in Atlanta to manage Wal-Mart’s forward buys and its oversized, nonconveyable products. Kuehne & Nagel also set up a direct-to-store shipping program specifically for Wal-Mart’s inventory spikes after Thanksgiving. ■

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