



Warehousing 101: Change The Way You Organize Inventory

Introduction:

Deciding how to operate and organize your warehouse can be quite a puzzle — it requires patience and great problem solving ability. It's easy to get caught up in all the specific pieces that make up your operations, such as obsessing over shelf height or how many items fit in your bins. And while taking a granular look at these processes can be eye-opening, it's definitely worth your time to take a step back to see the complete picture of your warehouse.

Most warehousing strategy spawns from a place of necessity. Items are thrown wherever there's space, and there's rarely time dedicated to circling back to reassess that system. The arrangement of your warehouse and your methods of product classification influence every part of your picking, packing, and shipping processes, so don't take this step for granted. Even your warehouse's spacing needs to be strategic, and you stand to lose a lot if you're not looking at your warehouse organization with a critical eye.

We'll walk you through several key components to warehouse optimization, and provide some success stories of users who are changing the game when it comes to their warehousing strategy.



Classifying Products

In order to determine the absolute best possible organization method for your warehouse, you'll need detailed and up-to-date knowledge about your products and their sales history. Your warehousing strategy will only grow stronger if you start with a well-informed perspective, so it's essential that you take the time to classify your products.

This process consists of evaluating every product you offer in a number of categories, such as popularity and shared vendors, in order to assign them to certain groups that share commonalities. Once these classifications are made, you can divide up your inventory accordingly to ensure that products are sorted by their classification groups — therefore influencing the strategic organization of your warehouse.

Most companies use the traditional ABC method — classifying products based on how much they contribute to overall earnings — by sorting them into three groups:

- A (highest contribution)
- B (mid-level contribution)
- C (lowest contribution)

While this is the most common form of classification, it's by no means the only effective one. ***You could classify products by unit cost, lead time, or carrying costs; any metric that's important to you is worth looking into.*** But, no matter what system you land on, these classification groups will play a large role in determining your warehousing strategy.

Once established, these classifications inform which products are stored where, and whether you have enough data to justify a specific warehouse layout method. Classification characteristics can vary, but there are a few classic examples you can learn from.



Best Sellers

Getting inside the minds of your customers isn't easy, but if (or when) you've identified a tried-and-true trend in their purchasing habits, it's always best to use it to your advantage. In warehousing, this looks like keeping your highest-selling items all near each other, since those products are interacted with the most often. Commonly placed orders can be fulfilled in a snap. If your company has a smaller catalogue of inventory, this might be the strategy for you.

In action

One of our users, Steiner Tractor Parts, has embraced this tactic with full force, and they've taken their organization to a whole new level with their impressive ingenuity. Our friends at Steiner had the brilliant idea to create their own algorithm for analyzing their sales and translating that into their warehousing strategy. They're a big proponent of grouping high-moving items together, keeping them close to the front of the warehouse so they can be easily accessed.

Frequently Purchased Together

This method is best if your company has many similar, compatible products. If you're finding that your staff is moving between the same few places in your warehouse to pack order after order, this method might be the right move. This can apply to individual customers who purchase one or two of the same items at a time, but it's a flexible strategy that also works well for larger, more complicated orders from any big distributors or resellers that you may have in your customer base.

In action

Handi-Craft, another inventive SalesPad user, kept their customers' patterns in mind as they were building their warehouse layout strategy. They've optimized their layout so that inventory is broken into three categories: frequently ordered for small businesses, for mid-level distributors, and for massive orders from Amazon. These products are all kept in separate areas of the warehouse, so when an order comes in, they identify what "type" of customer it is, then pick and pack the order in the corresponding location in their warehouse.



Vendor and Product Type

Some warehouse managers opt to group all of their products that come from the same vendor in the same space. With this method, unloading shipments is a much simpler process because orders won't have to be sorted when they arrive at your location. This immediately removes a step in your warehouse workflow, which is a big win for your efficiency.

By sorting your warehouse according to type of product, you'll be providing yourself with something like a grocery shopping experience. Labeling each aisle in your warehouse by product makes it easy to keep tabs on everything you carry. This way, a niche order and a popular order will take the same amount of time to fulfill. For companies with a wide variety of products, this method often makes the most sense.

In action

Another one of our users, Charter Industries, sorts their warehouse using a strategy that combines product and vendor type. Instead of sorting their stock by sales record or customer behavior, they elected to sort by characteristics of the product. It's definitely a user-friendly method that's easy for new employees to get used to, but even this simple approach has its complexities. Organizing their warehouse based on their own purchasing habits rather than the customers' meant that their purchasing schedule had to be reworked in order to accommodate. Because they had the presence of mind to plan for this, they were able to continue in their success — but this is the perfect example of how one small change in your warehousing layout strategy can have a large impact on other sectors of your business.

And while there is no end-all, be-all way to group your products, your method should reflect the way you want your warehouse to run. Be careful not to make a quick choice because it seems easiest at first glance.



Packing Methods

Since your warehouse layout determines where your various types of inventory are kept, it also influences the methods you use to pick and pack your items. As you're considering your picking and packing strategy, reflect on your current methods, and if there are any inconsistencies among them. While considering your packing strategy, ask yourself:

- Where do you do your actual packing?
 - Is it a hub centralized in the middle of your warehouse, equidistant from all your products?
 - Is it closest to your loading dock, so orders can move right out the door when you're finished?
- Do you pack as you select each product in an individual order?
- Does it vary depending on whether you're fulfilling a single or multi-item order?***

These are all important questions to consider, and you should have a strategic answer at the ready if you're asked why your methods are designed the way they are.

You could opt for a wave order picking strategy, where you'll take note of several orders with the same products and grab all you need to fulfill all those orders as you go. There's also the option of packing on an order-by-order basis — or a mix of both of these. Just like with classifying products or determining which category will inform your warehouse organization, there's no one right way, and you may cycle through many different styles before you land on the one that works best for you.

While you're taking the time to consider the layout of your warehouse, you'll also want to take labor planning into account to determine how layout affects navigation in the warehouse. An inefficient warehouse is definitely a fiscal threat, but it can also be harmful to your warehouse staff. Without solid planning and a structured methodology to inform your packing process, your employees might be forced to perform an unnecessary amount of labor by walking the aisles too much, or by running warehouse machinery (such as forklifts) more often than is wise.



Measuring Success

There might come a time when you decide that a warehouse layout overhaul is in order. It'll take time and energy to fully implement your changes and get accustomed to them, so you want to make sure that it's all worthwhile. In order to take your operations to the next level, it's absolutely key that you and your colleagues are consistently evaluating your effectiveness.

One way you can do this — the way most experts recommend — is by bringing in a third party to observe your operations and make suggestions on what changes need to be implemented to help increase your effectiveness. They'll provide a valuable different perspective, and because they're on the outside, they'll be able to pick up on things you never noticed. ***A Business Process Review is a great way to get a fresh look at your warehouse***, and it functions as a great starting point if you're looking to change up your layout.

Once you've decided to make a change and have landed on the fundamental organization of your products, it's time to put this new system to the test. While you're implementing a new layout, create a designated team that's familiar with the old and new layout, and how the picking and packing processes functioned under both. This team should set up a handful of metrics and flagpoles that are significant to the goals of your operations and indicate the success or failure of your new system. Without these, it can be hard to know whether the change was a smart one, or how it stacks up to your original layout.





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There are a million ways you could go about reinventing your warehouse and shaking up your operations, but these efforts require careful consideration in order to be implemented successfully. Through a combination of responding to customer trends, assessing commonalities between products, and considering the needs and insights of your employees, you'll be on the fast track to bringing your warehouse into a prosperous age.

If you're looking to make changes beyond item classification and the layout of your warehouse, ***take our quiz on whether you should be tracking or managing your inventory*** — another key decision that will affect the way you do business. At the end of the day, choosing between tracking and managing inventory is a question of growth — are you ready to take your business to the next level?



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