

“Manhattan’s Slotting Optimization solution has helped our associates achieve incremental productivity gains that have contributed to McKesson’s continued position as the pharmaceutical industry’s benchmark for logistics and distribution efficiency.”

Kevin Patterson, Vice President
Distribution Operations Support, McKesson Corporation



McKESSON

Empowering Healthcare

Headquarters: San Francisco, CA

Distribution centers: 29

Manhattan solution: Slotting Optimization

McKesson moves medicine in record time with Manhattan Associates

McKesson
is a Supply Chain
Leader
Associates

Many SKUs and Large Number of Pieces in Orders Tax Order Selectors and Drive Up Labor Costs

As the largest pharmaceutical distributor in the United States, McKesson Corporation must keep its medicine on the move—our health depends on it. The company operates three business units, the largest of which is its pharmaceutical unit. This division distributes prescription drugs, health and beauty care products and medical supplies throughout the United States from 27 domestic distribution centers. More than 25,000 neighborhood drug stores, retail chains and healthcare facilities count on McKesson to help them operate their businesses with the highest possible quality, safety and efficiency. The company serves some of the country’s largest drug store chains, including Walgreen’s, Rite Aid and Longs, as well as more than 3,000 pharmaceutical manufacturers and medical-surgical supply developers who depend on McKesson to bring their much-needed products to market.

The medical industry’s continuous and rapid expansion of products creates an ever-growing number of products for McKesson to distribute and a constant increase in demand. With a large number of SKUs and relatively small distribution facilities, McKesson understands the need to make the most effective use of their space.

In addition, like all pharmaceutical suppliers, each order McKesson fulfills is comprised of many individual units or “pieces.” Heavy piece picking can mean extensive travel for order selectors as well as increased labor requirements and costs for the company. McKesson also guarantees next-day delivery for its orders, which adds additional pressure for accuracy and efficiency.

Challenge:

McKesson’s large number of SKUs and multi-piece orders led to high labor costs and accuracy issues.

Solution:

Manhattan’s Slotting Optimization provided the tools to create and continuously update highly efficient layouts.

Results:

Picking efficiency rose 15% following implementation, even as labor costs dropped. Order defects at one facility dropped from 750 per million to 200.



One location reduced defects per million opportunities from 750 to 200—meaning customers are benefiting from a dramatic increase in order accuracy. Most importantly, however, the company's use of Manhattan's advanced Slotting Optimization solution means McKesson's clients can provide vital medicines to their customers in record time.



McKesson Picks Manhattan Slotting Optimization to Improve Performance

For help in maintaining the ideal configuration of its facilities and ensuring peak efficiency and order accuracy, McKesson turned to Manhattan's Slotting Optimization solution. This solution enables the company to determine the best location for each piece of inventory in their warehouse according to McKesson's unique business criteria. With optimal product placement that is based on current and historical demand, McKesson increased workforce performance, shortened order fulfillment cycles and maximized customer satisfaction.

Slotting Optimization Calculates Average Velocity, Seasonal Variances and Sizes to Produce Best Layout

Minimizing travel distance for and increasing the accuracy of McKesson's order selectors involved the creation and maintenance of logical picking zones within each McKesson facility. Like items are grouped together (prescription drugs, over-the-counter items and other health and beauty care items) and fast-moving items within each zone are consolidated into small areas strategically located at the most convenient locations, such as at the front of the aisles or adjacent to a dedicated conveyor. Within each picking zone, product is allocated between carton flow and static shelving according to its movement. To do this, Slotting Optimization considers the average historical velocities and sizes of all SKUs in the area and then produces a product arrangement that reflects the best way for them to be picked and packed.

Because McKesson's product mix and demand naturally fluctuate throughout the year, the company's slot optimization requires ongoing maintenance to keep the pick zones balanced and

ensure optimal productivity. McKesson has a dedicated resource focused on slotting at each distribution center and all facilities participate in monthly slotting meetings to ensure an exchange of best practices.

Picking Efficiency Rises 15% as Labor Needs Drop and Accuracy Rises

Manhattan's Slotting Optimization solution enabled McKesson to increase its picking efficiency by as much as 15% at some facilities. One facility measured a 14.8% improvement in the same three-month period over the previous year after adopting a re-slotting program. All facilities using the solution have experienced productivity gains, while also reducing headcount. A key site reduced its Rx (prescription) and OTC (over-the-counter) order selectors from 19 to 17 after re-slotting those areas and another facility reduced OTC headcount from eight to six by properly allocating SKUs to separate conveyor lines based on their movement.

Increased efficiencies have also meant improved customer service at many locations. One location reduced defects per million opportunities from 750 to 200—meaning customers are benefiting from a dramatic increase in order accuracy. Most importantly, however, the company's use of Manhattan's advanced Slotting Optimization solution means McKesson's clients can provide vital medicines to their customers in record time.

For McKesson, whether it is an investment in process (a growing number of McKesson employees are Six Sigma certified) or technology, the investment's ability to create and measure efficiency is critical. The company's initial success with Manhattan's Slotting Optimization solution certainly passed the test and led to integration of McKesson's labor management system with Slotting Optimization for enhanced optimization results.