

LEAN THINKING IN
WHOLESALE DISTRIBUTION...



*The Race for Supply Chain
Management Excellence...
What's Your Wholesale Distribution
SCM Strategy?*



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White Paper

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The Race for Supply Chain Management Excellence...

What's Your Wholesale Distribution SCM Strategy?

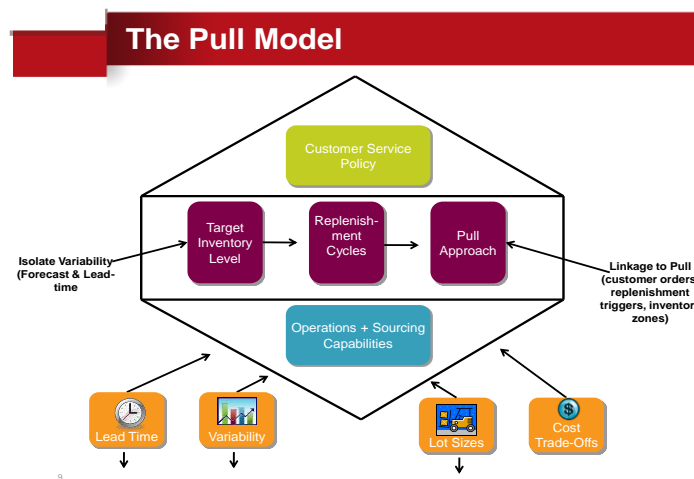
Executive Summary:

Despite the fact that Supply Chain Management (SCM), as an accepted set of strategies and tactics, is well into its third decade, defining it has often been one of the most vexing challenges, particularly in the wholesale-distributor realm. It's kind of like artwork – you know what art is and what you like, but other people have a slightly different interpretation. Such is the case with SCM. Just “Google it” and you’ll find a range of definitions (I counted to over 30... then stopped counting). Each one is a bit unique but they focus, pretty much, on the same issues.

My own personal definition is:

“SCM is directly related to the speed of flow of information and product (i.e.; increasing the velocity of the supply chain, promoting and protecting flow and aligning operating strategies and adequate decision support systems”.

To me “*speed of flow*” says it all... The picture below, in fact, says it all in terms of the potential impact SCM has on cash, inventory cost and customer service strategy. We’ll explain this later on...



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A Brief Disclaimer...

Now, this white paper isn't intended to identify or unravel all the components of supply chain management excellence for the wholesale distributor. There are other many good books on the subject; try, "*Applying Lean Manufacturing to Distribution, Logistics & Supply Chain,*" but the same basic questions, regardless of who you are, have to be asked and answered.

In fact, I have to admit that I often find it discouraging when I see or hear the experts describe the top wholesale distribution trends as *only* being related to:

- The factors influencing consolidation...
- The general business growth tactics and strategies distributors plan to employ...
- Economic forecasts, etc., etc.

It's a bit too general for me.

So Now...Let's Take A Closer Look...

For the typical mid-size to larger wholesale distributor, the functionalities contained in SCM are indeed conducted each day, within their organizations, one way or the other - but you rarely hear the term "SCM" mentioned. Why?

Over five years ago, I first wrote about SCM in wholesale distribution. In two articles I asked the questions; ["Too Small for Supply Chain Management?"](#) and ["Spreading Lean Thinking to Suppliers?"](#)

I reported then that most of the companies that had re-engineered their processes and made large investments in SCM initiatives had been multi-billion dollar - multi-national corporations. They were able to add one more major component to their quest for "operational excellence." The articles went on to attempt to dispel the thinking that smaller enterprises are different in their need for SCM. Nonsense; you are part of a supply chain too! The big difference, often observed in smaller enterprises, is that each component of the supply chain is treated as a separate "silo" – an attempt to optimize each, on their own – disregarding the whole.

The commonality that exists between larger companies and smaller ones is in fact the path to SCM operational excellence. The path is focused on three pillars that both larger and smaller companies share:

- Processes – the steps and tasks needed to efficiently execute a specific function

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- People – the skills and knowledge required to satisfy the processes and sustain performance
- Technology – the tools necessary to support, enhance and measure performance

You have the same three! Each one impacts your outside/inside sales, procurement, distribution operations, inventory management, financial controls and other functional areas. In fact, you're entire "Value-Stream." Agree? Aren't these the same focus areas that should dictate how effective, overall, your company is – or will be? A subsequent article, ["Lean Thinking in Wholesale Distribution – Are You Ready For Little Miracles?"](#) - went on to explain a "lean" approach.

Typically, your SCM improvement questions will probably be the same regardless of the size of your company:

- Are we doing things the right way?
- Is inventory being managed the same way by everyone, in a location, or across locations?
- Are we getting product from suppliers and to customers in the most efficient and responsive manner?
- What could we eliminate to decrease operating expense and redundancy?
- What could we improve, without adding cost?
- Do we have the right people in the right process?
- Can our technology support "lean thinking and continuous improvement"?

See...You're Not Too Small After All!

In fact, your size might give you distinct advantages:

- You probably operate "lean" now, so getting to root-causes and problem resolution will be faster
- You may not be spread across the country (and for most, certainly not around the world!), so proximity and accessibility allows changes to be implemented more quickly and easily
- Maybe your technology will prove adequate, but you may need to utilize it differently
- If so, you can focus on the *Process* and *People* pillars which may yield the most dramatic results

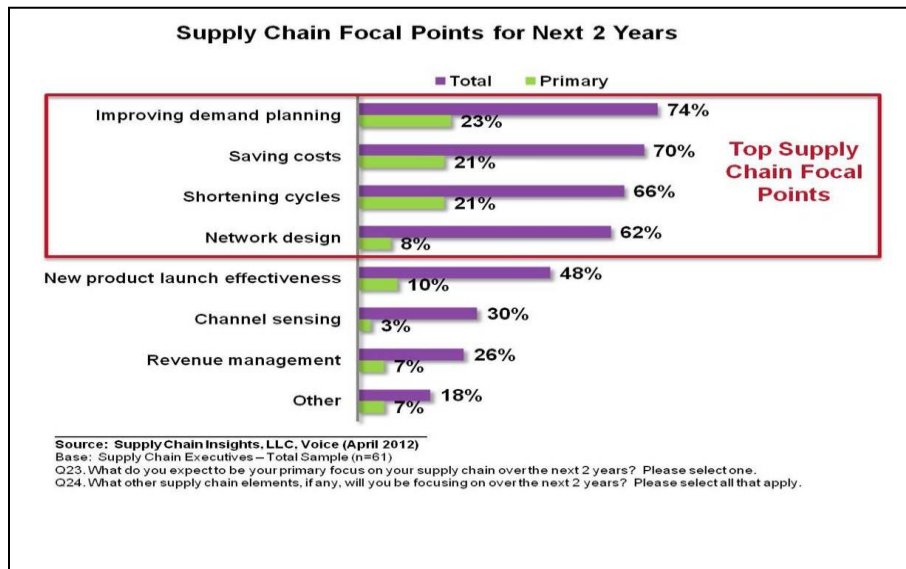
Some Emerging Strategies

I recently discovered the chart below which represents a survey of various industry verticals and sizes of wholesale distributors. These are the things they want to work on over the next few years. Interesting, isn't it?

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Chart - 1



Admittedly, I was a bit surprised by the recognition of and ranking of two (2) of the initiatives (which, by the way, are right out of the playbook used by many manufacturers.)

1. Improved demand planning
2. Shortening cycles

I'm not surprised because I put less value on them; these are, in fact, two areas that are often left to "chance." I was surprised, though, that they would be ranked so high. Apparently, some wholesale-distributor thinking has changed, over time - and for the better.

1. We often leave "demand planning" (the mention of this subject often leaves some in despair and hopelessness!) to incoming customer orders - and the "gods" - or to inadequate demand forecasting systems, or to a lack of *Sales, Inventory & Operations Planning (SI&OP)*.
2. Sometimes, we get swamped with data or are skeptical that it can be improved in the first place. In fact, third party software vendors have been keenly aware of this and are now beginning to "make hay" in the software marketplace, providing "bolt-ons" to popular ERP systems that provide more granular demand analysis and "data digestion", "what-if" capability, and distribution network modeling - all of which can result in new replenishment" schemes and methodologies.

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3. Although “shortening cycles” seemed to me to be a pretty broad survey response term, and recognizing that cycle time is a function of most of what we do; for the purposes of this discussion, let’s define it here as internal (within your own company) and external (supplier) lead times, replenishment cycle time to distribution centers, warehouses and branches, as well as the other inventory “drivers” (like safety stock). Why? The impact of cycle times and warehouse and distribution order processing lead time ultimately affects order fulfillment.
4. Something that I thought was missing from this survey was a mention of recruiting and developing “*supply chain talent*”. Why? I find that this is an issue that can determine the difference between SCM leaders and SCM laggards.

Anyway, this all fits in quite nicely with another chart resulting from this same survey, and that really gets to some of the key objectives of SCM – in other words; *what do organizations want their “new SCM reality” to be?*

Chart - 2



Source: SupplyChainInsights, LLC, Voice (April 2012)
Base: Supply Chain Executives – Total Sample (n=61)
Q14. How does your company define supply chain “excellence”? Please select all that apply.

A lot is related to “demand planning”, isn’t it?

Some Key Success Factors to Consider in Achieving SCM Excellence

So, I’ve chosen five (5) key success factors (there are more) which even today are not sufficiently, I believe, really part of the SCM lexicon of wholesale-distribution.

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1. Sales, Inventory & Operations Planning (SI&OP):

In a way, it's become almost a cliché to say that an organization has “silos”. Those silos result in friction, conflict and communication difficulties between functions. Why do these silos appear? They do because we tend to control segments of our organizations through different metrics.

Over the past 10 years, the concept of consensus demand planning has begun to take hold, although sometimes flawed. It's based on the belief that each organization within the company can add insight to make the demand plan better.

Within the topic of *SCM*, *SI&OP* is often defined as the function of setting the overall level of product acquisition. For wholesale distributors, that's the purchasing/procurement of product; whereas for manufacturers, it's the level of manufacturing output - or their production plan. The objective for both is to best satisfy the current planned levels of sales (sales plan/forecasts), while meeting the general business objectives of profitability, productivity, competitiveness, service, etc. From this perspective you can see that wholesale distributors and manufacturers are not really much different.

Surely a collaborative and integrated plan would need to achieve management's objectives related to maintaining, raising or lowering inventories, minimizing backlogs and backorders, productivity objectives, and “getting a bead” on inventory and operational budgets, etc. From this perspective also, wholesale distributors and manufacturers shouldn't be much different.

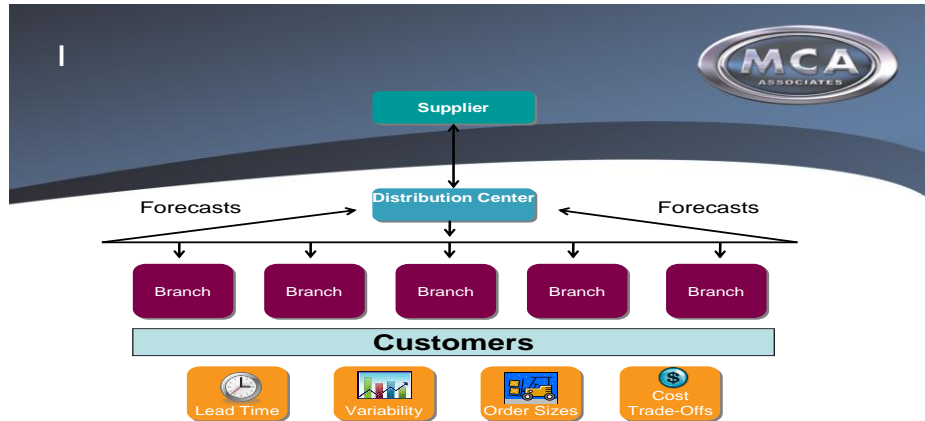


Our white paper; [“Play Off the Same Sheet of Music – The Key Notes to SI&OP Success”](#) goes on to describe this major SCM component and explains *SI&OP* in more detail, and why working to achieve total efficiencies serves the interests of the entire supply chain.

The evolution to demand excellence needs to be built on a basis of continuous improvement. It just doesn't happen on its own. It requires some work; building the right teams and an open mindedness to driving demand signals.

2. “Pull” Supplements Your Demand Planning – So Promote & Protect Flow!

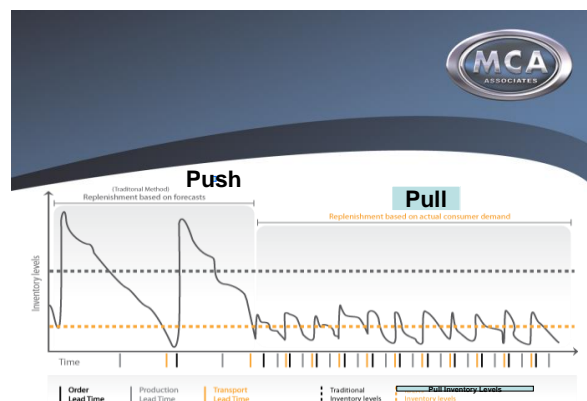
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If you happen to have a “hub and spoke” arrangement, like illustrated above, as your primary distribution network, then your primary objective should be to minimize the total inventory across the distribution network, while meeting your desired service levels to end customers from each location.

So now, I want to ask you to remember this next picture. Keep it in your “mind’s eye”



and then read on...

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Our white paper – [“The Business Intelligence & Supply Chain Management Challenge: Create Profit, Service Level & Working Capital Improvement”](#) describes how distributors can begin to “pull” inventory through their supply chain, rather than “push” it, and form more collaborative relationships with suppliers, while breaking down the “silos”:

- Using customer “demand signals” (buy signals) to drive replenishment, rather than just through traditional “demand forecasts” – and doing so at all echelons of inventory stocking.
- Synchronizing procurement and replenishment order strategies by taking into consideration all of the “inventory drivers”, i.e.; lead-time, safety stock and desired service levels, replenishment order frequency, etc.

Why are these “inventory drivers” so important? Well, just look at the difference between the left side of that picture above - versus the right side! The right side represents *lower average inventory* and *shorter intervals between replenishment cycles*. It may seem counter-intuitive, but that can all translate into *less opportunity for stock-out!*

The fact is; demand planning is a supply chain application with the greatest gap between performance and satisfaction. Most companies are not satisfied with their demand planning. It makes what drives SCM process excellence unclear,

SCM is so much more than reducing inventory though, especially when we don’t look at the form and function of inventory and the real need for inventory to be a buffer between demand and supply volatility. One of the most effective ways to increase the potential of the supply chain is to improve the demand signal.

If we encourage, measure and make inventory “flow” visible, we can bring all our objectives together and align them towards an inventory and service level goal – as well as an expected

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R.O.I. Flow, then, becomes the bridge! It defines the difference between the leaders and the laggards.

3. It's A Game of Minutes – Throughput & Productivity



There has been, I believe, a certain degree of a “stepchild” approach to our DCs and warehouses; it’s called putting it on the “back burner.” It’s part of your supply chain. It’s all that stuff done “back there” - by the “Picker-Packer-Rack-Stackers.” It’s sometimes done under severe constraints; whether it’s space, obsolete storage methods, outdated receiving and picking methods, the absence of or under-utilization of technology, etc.

While historically a DC or warehouse facility has been a large box used to store inventory for periods of time, I believe that these facilities need to be thought of more as “distribution activity hubs” - *adding SCM value* to the processing and flow of product to external and internal customers. These value-added activities are labor intensive and speak to the need to focus attention on flow, productivity and operational efficiency.

At some point, I suspect you may have given thought to being able to expand the number of shipments you can make. Maybe you need more picking areas, more pick slots and a better way to store backup inventory. The purpose of your DC/warehouse may have changed and its design may be in need of change also. Read our whitepaper; [*It's a Game of Minutes...in Your Warehouse – DC, So Don't Rely On Your Step Child for Efficiency.*](#)

Also, take a look at [*“Your Distribution Center & Warehouse Operations...Cost Center or Profit Center?”*](#)

4. RFID in Wholesale Distribution

This is probably a bit of a ways-off still. But learn more about it. It’s coming. It’s about the flow of information! It’s also a great way to foster a collaborative relationship with your suppliers that allows for greater efficiency and innovation across the board.

Start by imagining this: An RFID reader portal at your warehouse/DC dock door reads data on RFID tags applied at the supplier source, and simultaneously, from cartons, pallets or other types of containers as they are unloaded from the truck. It answers the question “what or who you are”. RFID provides immediate verification (answers the question; “this is who I am”) of all the

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contents of the load - and real-time visibility. Data is transferred to your warehouse management system (WMS). The WMS then reconciles the product received against open purchase orders. It identifies those items that can be cross-docked and those that can be staged for stock put-away.

The entire process occurs without human intervention. No clunky barcode scanners; no scanning of the visible barcodes of individual items, where warehouse associates have to be sure to align them with a scanner.

In contrast, RFID tags or labels do not have to be visible (they can be inside the packaging) to be read by an RFID reader. Multiple items can be read by one reader at the same time.



I believe the key to effective RFID will be to find applications and processes where current barcode scanner applications can be improved. The capture of information on products and assets in motion, reduction of human error and improvement of integrity and security are some major incremental benefits that RFID can provide over existing systems. Read our whitepaper; [*RFID -The Essential Basics of Warehouse & Distribution Applications.*](#)

5. Supply Chain Talent



SCM talent is not a trivial matter. It's often called the “broken link” of the supply chain. It's not a back-room operation anymore. **It's a profession.** The SCM position, as it is today, requires not only a good understanding of your business, but strong influence skills and deep analytical capabilities. These attributes are often difficult to find in combination. They **may not** be present in the “Buyer” or “Purchasing Manager” of today. Anyone can't do the job.

Often, we do qualitative assessments of SCM organizations, for our clients, and their related positions - to better understand the dynamics within their supply chain organization. Time after time, we see a consistent theme. First, though, let's agree on this: *the SCM job is tough and the obstacles are many! On the other hand; the position can be tough to fill.*

Several issues typically stand-out:

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1. Ever changing priorities – once clear objectives - now change.
2. Rewarding the urgent (in other words; rewarding the fire fighter).
3. No time for the important. Not enough time to plan for making better decisions – the job can become one of primarily launching procurement orders.
4. The processes of demand and supply planning may not be well understood by executive leadership; to help drive necessary alignment of the organization.
5. Planning and execution technologies are inadequate; not possessing the right tools.
6. A gap between supply chain and sales.
7. A lack of established career paths that require learning and that reward planning **and** execution...building the talent in SCM.

This all means that we have to think differently about the supply chain talent we recruit, mentor and promote; considering procurement and supply chain talent with advanced degrees, financial acumen, cross-functional and cross-industry experience (the number of business school supply chain programs is growing.) Consider professionals with the relational skills, problem solving ability and emotional intelligence required to generate quantitative analysis and then deliver qualitative results.

More simply put; we need over-achievers with the drive, vision, and self-discipline to make an immediate impact on the company's bottom line, as well as on its SCM culture.

Conclusions:

The world of SCM has indeed changed. *SCM excellence* requirements have changed. The requirements have spiraled upward and now matters more than ever.

Companies moving forward will, I believe, through a continuous improvement process, have to drive supply chain disciplines and implement SCM concepts that, in turn, will drive *SCM excellence*. It means admitting the mistakes of the past. A lot will be based on building the right teams, but just as much on key initiatives that foster continuous improvement in a wholesale distributor's major supply chain activities - and that ultimately result in the expected outcomes.

Supply chains in the future will be a "success differentiator." Those that do it best – those that can establish that *supply chain center of excellence* – will tap the opportunities to **create profit, service level and working capital improvement.**

Think about it!

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MCA Associates, a management consulting firm since 1986, works with wholesale distribution and manufacturing companies that seek and are committed to operational excellence. Our staff of Senior Consultants provides operational excellence – thought leadership - and implements continuous improvement solutions focused on business processes, inventory and supply chain management, distribution center/warehouse design and productivity improvement, sales development and revenue generation, information systems and technology, and organizational assessment and development including family-business succession planning. MCA Associates may be contacted at 203-732-0603, or by email at [**hcoleman@mcaassociates.com**](mailto:hcoleman@mcaassociates.com). Visit our website at [**www.mcaassociates.com**](http://www.mcaassociates.com).