

# LEAN THINKING IN WHOLESALE DISTRIBUTION...



## *Spreading Lean Thinking To Suppliers*

### **Introduction**

In a previous article entitled *"Lean Thinking In Wholesale Distribution – Are You Ready For Little Miracles?"*, I outlined the case for the application of "Lean Thinking" principles in the wholesale-distribution environment (*go to our website to download this article*). I summarized how Toyota, which gave birth to the "lean movement", was able to look at their entire operations and reduce "waste" (all non-value-added activities and inventory).

I suggested that the best starting point is to recognize that only a small fraction of the total time and effort in an organization actually adds "value" for both internal and external customers. All non-value-added activities and inventory assets– or waste – can be targeted for removal step-by-step. Eliminating the non-value-added activities, and inventory, is the greatest potential source of improvement in a wholesale-distributor's performance. Additionally, it was suggested that not all value is provided by your organization alone (your business processes and people), and that you should be thinking about how suppliers also fit into the Lean Thinking approach. In fact, partnering and collaborating with their vendors is how Toyota was able to achieve their dramatic results.

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***In my own client relationships, I'm often able to discover the following areas of "non-value" present in wholesale-distribution environments:***

- "Too much" inventory – more than necessary to fill a "reasonable day's supply" of customer demand.
- The outdated use of "economic order quantities" that **"pushes"** inventory into the DC/warehouse.
- Product "waiting" around for movement – resulting from the order processing chain of picking-to-checking-to packing-to manifesting-to staging, to loading, etc.
- "Over processing" – in the warehouse that could mean "over checking"
- Poor inventory control – finding product becomes a "treasure hunt"
- Receiving, put-away, picking and shipping errors – they do have a cost associated with them
- Unused employee creativity – a "waste" of human resources

These are not unfamiliar issues to many wholesale-distributors. Some would even say that this is not necessarily "rocket science". That may be underestimating the case just a bit. Lean Thinking may not require abstract thinking, but it does take perseverance and attention to detail.

In this article we will focus on just one issue, and that is "spreading lean thinking to suppliers". Subsequent articles, in this series, will address a Lean Thinking approach, for you to consider, in other areas as well.

## Challenging Old Assumptions

Frequent reordering of product from a vendor might seem antithetical to those who have spent their careers trying to reduce transportation costs or take advantage of a vendor's prepaid shipment terms. It's a fact that more frequent ordering of product does reduce the average inventory on-hand and the associated annual carrying costs (typically estimated at 25% to 36%). No, I am not suggesting that you ask your vendors to provide "daily milk runs," and I recognize that most vendors are not located around the corner. But is it necessary to have 2 or 3 months supply of a product on hand when we can have it delivered in 1 or 2 weeks - or less? Lean Thinking suggests that we put in place a process that works towards a **"sell one-buy one"** result (assuming some safety stock for variations in demand). **That is called "pull"**. Now in fact, we may never actually reach the "perfect promised land" (we won't buy one egg, instead of a dozen), but we can have a dramatic impact on what we need to stock to satisfy customer demand by "ordering to actual demand" and fostering a "continuous flow" of product.

### How We "Push" Inventory

Our ERP systems typically calculate a "forecast" (they may be a daily, weekly, or monthly usage average). Yet, to meet prepaid minimums, I see Buyers ordering multiples of what is really needed of a product or product line to meet those established prepaid order minimums. Even worse, I've seen safety stock and lead-time parameters raised just to be able to generate sufficient purchases to meet those prepaid order minimums - again "pushing" inventory.

Many of the enterprise software solutions in use today, by wholesale-distributors, over emphasize, I believe, the use of "EOQ's" (economic order quantities). It results in a "large batch" of inventory being "pushed" into our warehouses, which at least 50% of the time is more than what is needed to satisfy customer demand, before the next inventory replenishment is received.

I've often questioned vendor "special deals" which involve accepting (again "pushing") large quantities of product into inventory to obtain a discount or meet some previously agreed upon purchasing objective. Often this occurs at year-end, maybe even just prior to a physical inventory.

### The Impact

The examples above can have a devastating impact on the total inventory investment, the potential for obsolescence, and particularly when "top sellers" are involved. Often, the immediate issue becomes (and I hear this all the time), "where do I put it all?" "My primary stocking location won't hold it!" "It's an "A-item" and I have to store it in the back of the DC or high-up on pallet racking...and I'll have to move it again later, otherwise we'll lose picking productivity!" Of course, there is also the issue of the cost to accommodate this situation, possibly overtime, and the missed benefits of a smooth and continuous flow operation that allows product to move through the DC/warehouse faster. Internal bottlenecks may not be exposed that were hidden by the shear volume of receiving product into inventory.

There is often a lot of talk about vendor/distributor relationships and how wholesale-distributors and suppliers should be collaborating for mutual advantage. A client recently stated to me, in real-life terms: "I surely want to leverage my volume with my vendors, but I'm also looking for a continuous flow of product based on what I am actually selling ("pull" vs. "push"). If I could just get my suppliers to accommodate, I know my inventory would go down, and I believe service would not be negatively impacted. You know, I might even consider paying a tad more per unit (cost sharing = win-win). I'm committed to service and flexibility; my suppliers have to be also".

My client never said the exact words, but what he was effectively saying was - I want to take a "total cost view" - his objective being - to reduce total costs, including inventory costs, rather than any one cost element, such as transportation.

This is a deep question, just as deep as asking suppliers to reduce prices so you can be more competitive. Wholesale-distributors need to elevate this “lean-pull” approach to inventory replenishment as a visible and viable issue, for discussion with suppliers, and has the potential to really connect the supplier to the wholesale-distributor in a collaborative way. Then the wholesale-distributor can focus on **excelling at inventory replenishment at a level as close as possible to actual demand**. The supplier’s job, if they support “lean – pull”, **is to examine their own processes and take some of the costs out of their own internal operations, reduce replenishment lead-time, etc.**

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### **Beginning The Dialogue:**

Beginning to ask the right questions is a simple but effective approach to find the ways “Lean Thinking” can address these issues of inventory, cost reduction, profitability and customer service. To suppliers, the “downside” seems weighty, and convincing them will be no small task, because so much has been invested in the “way we do things”. A good starting point is to gain a common understanding of the mutual supply chain and distribution challenges between buyer and seller and seeing the perspectives and issues from all sides. A lean transformation will begin when the assumptions built into the fabric of the organizations and business processes, **at suppliers and wholesale-distributors**, are challenged. Confidence in taking additional steps will come with the growing sense that the relationship and collaboration is driving some change and mutual advantage.

*MCA Associates, a management consulting firm since 1986, works primarily with wholesale-distributors. MCA Associates provides operational excellence – idea leadership – and implements continuous improvement solutions focused on business process re-engineering, supply chain management, sales development and processes, information systems and technology, organizational assessment and development, and succession planning.*



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