

# LEAN THINKING IN WHOLESALE DISTRIBUTION...



## *Too Small For Supply Chain Management?*

### **Let's Take a Look**

For the past ten to fifteen years, you may have read about Fortune 500 companies undertaking Supply Chain Management (SCM) initiatives. Business publications are constantly reporting on the successes – the improved profitability, the reduction in operating expense and the better utilization of inventory.

A study done by The Performance Group of PRTM Consulting finds that specific types of manufacturers with mature Supply Chain practices are 40% more profitable than manufacturers with less mature SCM practices.

Supply Chain Management is a set of cross functional processes that allow for the efficient flow of product and the most effective utilization of resources. SCM spans all movement of materials and product inventory from point-of-origin to point-of-consumption. SCM encompasses the planning and management of all activities involved in sourcing, procurement, manufacturing, distribution and logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which includes suppliers and customers. In short, SCM integrates supply and demand management within and across companies.

Most of the companies to date that have re-engineered their processes and made large investments in SCM initiatives have been multi-billion dollar multi-national corporations. They have been able to add one more component to their quest for “operational excellence”.

### **How Can This Work In Your Distribution Business?**

Let's take a look – first at SCM, and then you.

*SCM improvement initiatives usually focus on three pillars:*

- **Process** – the steps/tasks required to efficiently execute a specific function
- **People** – the skills and knowledge required to satisfy the specific steps/tasks, including the education and training needed to elevate and sustain performance as well as culture and attitudes
- **Technology** - the tools that are necessary to support, enhance, and measure performance

You have the same three! Aren't these the same focus areas in your company that dictate how effective, overall, your company is - or will be?

The above study also states that there is a maturation process that should occur in your company to optimize both the performance and the benefits of SCM. It starts by recognizing that you are part of a “Supply Chain” and is driven through your company by a “Lean Thinking” and a “Continuous Improvement” process that needs to be part of your company's culture (visit our website for a copy of our article, “*Lean Thinking In Wholesale Distribution – Are You Ready For Little Miracles?*”)

**SCM through a “Lean Thinking - Continuous Improvement” process addresses the following stages or elements:**

1. **Connectivity** – how well are the internal and external business functions communicating?
2. **Collaboration** – are the functions making decisions sequentially or simultaneously?
3. **Synchronization** – does everyone know the same thing at the same time?
4. **Leverage** – do you know where to focus on SCM to optimize productivity and profitability?
5. **Scalability** – can you replicate processes from one function, location, supplier, customer to another?

*Manufacturers with mature Supply Chain practices are 40% more profitable than manufacturers with less mature SCM practices.*

“Lean Thinking – Continuous Improvement” focuses on the tasks and functions, as well as on the “people enhancement” required, within these stages, to eliminate the non-valued-added steps, that keep the drive towards “operational excellence” alive.

Typically, these stages are addressed within a company first, and then can be expanded to the company’s customers and suppliers. Regardless of the channel, they require strategic, tactical and operational level activities that have to do with:

- Strategic partnerships with suppliers and customers and creating communication channels for critical information
- Informational technology infrastructure to support the supply chain
- Aligning overall organizational strategy and structure with demand and supply strategy
- Customer relationship and supplier relationship management
- Sourcing, procurement and inventory decisions (quantity and location)
- Coordinating your demand forecasting with customers and suppliers
- Order fulfillment and distribution operations planning and execution
- Returns management
- Transportation operations and decisions
- Performance measurement (costs, customer service, productivity, quality of services and asset measurement)

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Industry organizations, such as NAED (National Association of Electrical Distributors), have recently developed “Supply Chain Scorecards, Benchmarks and Best Practices,” which through their identification of the “Key Drivers” and components (efficiency, performance measures and management measures) of supply chain performance - are excellent. ASA (American Supply Association) and NAW (National Association of Wholesale-Distributors) are all making similar efforts.

Whether its “electronic orders”, vendor managed inventory, or new on-line applications and informational content, in SCM there is also a “discovery” of the metrics which will measure a process/function the best and foster a constant focus on driving performance through those metrics.

## Now, Let’s Look At You

Chances are you’re trying to do this already, but maybe not in a formal organized manner. Your business has the same functions as a much larger corporation:

- Procurement
- Distribution Operations or Manufacturing Operations
- Inventory Management
- Sales and Marketing
- Financial Controls
- Delivery of “value-added services”

Each of these functions is made up of the same “pillars” – process, people and technology. Your questions may be the same as those larger companies that have already been through these initiatives:

- Are we doing things the right way? Is it the most efficient?
- 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 I have the right people in the right process?
- Can my technology support my “lean thinking - continuous improvements”?

## See -You're Not Too Small At All!

Your size gives you distinct advantages when looking at Supply Chain improvements:

- You probably operate "lean" now, so getting to root-causes and problem resolution will be faster.
- You are not spread across the country (or world!), so proximity and accessibility allows changes to be implemented more quickly and easily.
- Your Technology may be adequate – you just may need to utilize it differently. If so,
- You can focus on the Process and People pillars which will yield the most dramatic results

The time is right! SCM and "Lean Thinking – Continuous Improvement" processes have been refined and pretty much standardized. The methods to get people involved - inside and outside your organization - the required training of the concepts, and the implementation activities required, has been tested and proven.

*So take advantage of all the ground work that has been done so you can quickly become one of the more profitable companies - in the next study!*

*Get started now and gain your Competitive Advantage!*

*MCA Associates, a management consulting firm since 1986, works primarily with wholesale distribution companies that are seeking operational excellence. Their staff of Senior Consultants provide operational excellence – idea leadership - and implement continuous improvement solutions focused on business process re-engineering, inventory and supply chain management, sales development and revenue generation, information systems and technology, organizational assessment and development, and succession planning.*



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