

LEAN THINKING IN WHOLESALE DISTRIBUTION...



OUCH!



**Safety Stock...Love It or
Hate It...
A Rebuttal**

Articles in the Wall Street Journal (as well as in other media) have been extremely thought provoking. They suggest that supply chains need to rethink how we view safety stock to minimize stock-outs.

They asked the question; should we scrap Lean and Just-In-Time supply chains in light of industry experience in dealing with the changed product demand patterns of this COVID-19 environment?

They seem pose old questions; do we just throw more safety stock at it? What other solutions are available?

Read this thought-leadership white paper from:

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It explores a key forward-looking dynamic – and a rebuttal to taking a step backward.

LEAN THINKING IN WHOLESALE DISTRIBUTION...



Of course, the issue at hand was not just the familiar stories about bare shelves; no paper towels, toilet paper, baking flour, and cleaning products, etc. More specifically, people weren't necessarily using more toilet paper or even eating more bread. Demand had shifted; panic buying and hoarding, and proliferation of different put-ups or configurations of product being purchased – 'leaned-out' supply chains. **In real time, historical demand patterns were being changed! Let's not lose track of that.**

Sure, there was no toilet paper in grocery stores, but I'll tell you there were warehouses bulging with institutional toilet paper rolls, which are made on different production lines and unfortunately slower – and more costly - to change-over to consumer versions. And what about those 50-pound sacks of bread flour in warehouses for industrial bakeries (some of which had to close down, at least for a time, because of COVID)? Unfortunately, Mom or Dad couldn't buy a 5-lb bag of flour to bake cookies for the kids.

Some have called this - the "perfect storm". But, there's an awful lot to 'unpack' here and it requires a focus on the right things.

Please, Let's Not Throw-Out Lean Thinking:

According to the gospel of Lean; *eliminate waste (cost) from every aspect of production, storage and distribution. Focus on continuous improvement.* Now, there's nothing really wrong with that - is there?

It'll take more than a WSJ article, or others, to get to the bottom of this; the symptoms vs. actual "root-causes". Those of us familiar with and who foster lean concepts, will be asking; is the "5 Why's" sufficient? The 'memory' our supply chain networks have relied upon to anticipate and resolve supply chain problems has been damaged – maybe even

LEAN THINKING IN WHOLESALE DISTRIBUTION...



gone for some - and it may take a while before it returns.

But, I don't think we necessarily need to disrupt all of 'lean wisdom' here, rather be wiser and re-enforce it. Why? There is little we can do to forecast a perfect storm, particularly the way this one came at us; entirely beyond our experience or imagination.

But, there are, and have been, solutions available, for some time, and not sufficiently adopted to mitigate our ability to become more flexible in our supply chain planning, how we recognize changes in demand patterns, and then the reaction - the forward planning - that is subsequently required.

Most people will intuitively recognize what we're talking about here, yet when they read or hear of the methodologies and solutions, they may find them counter-intuitive. I've always thought it's a certain DNA that's been ingrained in us!

So please...don't make this about increasing safety stock!

Maybe you won't be able to address all the hair-raising scenarios you've read and heard about – particularly the *suddenness* of it all. But surely you can address how to “*march more quickly to the customer's drumbeat*”, not just throw more safety stock at it – an old worn-out mantra that has driven some companies to maintain extraordinarily high safety stock levels (have you checked yours?) as a percentage of their total inventory investment - while impacting their financial performance. And by the way, I suggest you could march to this drumbeat with the robust enterprise system tools you probably already possess!

So again, *this is not just about safety stock!* This is not just about some perceived frailties of just-in-time or lean methodology! It is about a better way to recognize customer 'demand signals' within each company's production and distribution network - branch by branch - and at a central distribution center (if you have one). It is about recognizing – through a sensing mechanism - those demand signals.

So, What's It All About?

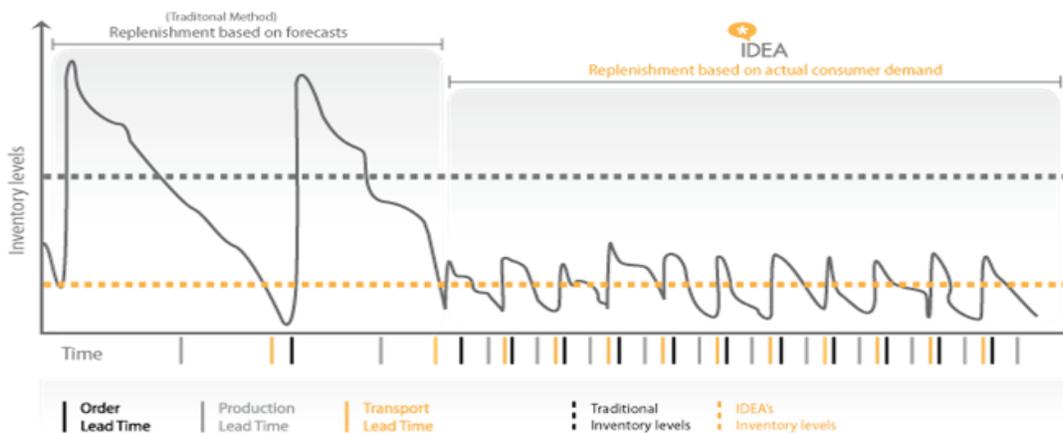
There's an 'old adage' in supply chain and inventory management circles; ***when you reduce the element of “time”, you increase the speed-of-flow.***

LEAN THINKING IN WHOLESALE DISTRIBUTION...



Now what does this have to do with our topic of “safety stock”? Well, it has to do with safety stock’s profound effects – beneficial when right, but detrimental when it’s not – on a company’s current and future financial performance and resultant service levels.

Now here’s a picture that’s truly worth a thousand words!



Notice the right-half of this picture? Average inventory is lower. Inventory peaks are lower. The inventory “lows”, on the right, are actually higher than those on the left side. Why? Because, inventory replenishment is occurring more frequently, to start with - and because of a more continuous flow of inventory that allows you to respond to more recent demand activity. In other words; shortages can be mitigated sooner - maintaining or improving service levels. The ‘effect’ of more frequent replenishment (increasing the speed-of-flow - is less opportunity for stock-out.

So why not turn to a strategy that focuses on this overriding difference; **“Pulling”** inventory between supplier, DC and branches, rather than **“Pushing”** it based on some suspect/unreliable demand pattern (forecast). So some things to consider:

- Increasing replenishment order frequency...
- Reacting to more “actual demand” to drive immediate replenishment needs...
- Shortening actual replenishment lead times...
- Reducing re-order sizes...

LEAN THINKING IN WHOLESALE DISTRIBUTION...



Think about it; it's not necessarily "high-tech" to foster replenishment cycles that will occur more often – plain and simple; meaning less vulnerability to demand variance.



The Outcome – Replenishment More Aligned With Actual Demand

This strategy change results in major positive outcomes:

- A “continuous flow” of product, rather than those ‘high peaks’ and ‘low lows’ you see on the left side of the picture above...
- Improved forecast demand accuracy; now there is more reliance on what customers have *actually bought during the shortened replenishment cycle*...
- Safety stock is minimized because you are reacting to more actual demand. It's more like “just-in-time”...surely not “just-in-case”...
- The opportunity to foster ‘demand signal intelligence ** to product sources becomes more of a reality...

Your Suppliers Need to Be Connected to the Demand Signal Eco-System

A lot of effort needs to be expended on collaboration with suppliers – wholesale distributors communicating more precise needs. So it goes for both manufacturing vendor/suppliers (who, by the way, should not be just sources of ‘better pricing and payment terms’ for short-term savings) and wholesale distribution companies - who should be expecting more from vendors to do their appropriate planning and production/inventory mitigation - while the wholesale distributors are adapting - and adopting their own reaction mechanisms.

Vendors must also be flexible in both their ability to change production lines and production lot sizes, consistent with; **when you reduce the element of “time”, you increase the speed-of-flow.**

LEAN THINKING IN WHOLESALE DISTRIBUTION...



For a long time now, our belief has been that “point of sale” information shared with vendors can be a viable solution, although we understand some of the reluctance too – that is; sharing data. How the mechanism actually works; whether directly (wholesale distributor to vendor) or through marketing and buying groups is still an open question. In some verticals we’ve worked in, there are wholesale distributors who are actually **paid** for this point-of-sale demand intelligence.

All of the players would benefit from an aggregated demand signal that comes from the customer rather than the seller.

Different Perspectives:

“It would be a mistake to assume that the adjustments being forced upon manufacturers and suppliers are in any way temporary. The pandemic has altered certain practices forever...and will remain key elements of efficient supply-chain strategy in the years ahead. But companies chastened by this latest crisis are likely to supplement them with a certain amount of safety stock and more flexible inventory management strategies. It’s not so much ‘let’s build up more stock’, it’s let’s be better about how we analyze consumption rates, resize safety stock and order policies.....” - Richard Lebovitz, President & CEO of LeanDNA.

“Some people think that we are in the “eye of the storm, where savvy supply chain leaders are rebalancing their organization’s skills sets for the ‘next normal’, before the winds pick back up. With no historical guidelines, a company’s speed of demand sensing, reacting to new demand signals, will drive the top line for the coming months” - Katherine Ross - SupplyChainDrive — 9/29/2020).

I don’t disagree, but by the time you read this White Paper, *I would hope that our experiences are a catalyst for change.*

Final Note: After 6 or so pages, I hope you may be motivated to learn even more...**because there is more.** Request our newly-updated thought-leadership white paper, **“The Future of Inventory & Supply Chain Management & Execution for Wholesale Distributors”**. It lays out the facts, and the ‘how to’, in significantly more detail.

For more insights like those presented above, request a free subscription to our “MCA Talk” – monthly newsletter – emailed the second Tuesday of each month.

LEAN THINKING IN WHOLESALE DISTRIBUTION...



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MCA Associates, a management consulting firm since 1986, works with wholesale distribution and manufacturing companies that are seeking and committed to operational excellence. Our staff of Senior Consultants provides operational excellence – thought leadership - and implements 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 family-business succession planning. MCA Associates may be contacted at 203-732-0603, or by email at hcoleman@mcaassociates.com. Visit our website at www.mcaassociates.com.