

A truly lean organisation needs to master supply chain complexity

With the resurgent focus of Lean and Six Sigma principles, Julian Mosquera, Director at LCP Consulting explains how a broader approach to their application is the way for businesses to achieve the next level of cost and service improvement.

We call this “LEAN PLUS – MASTERING COMPLEXITY”

Lean (with its focus on lead time and waste reduction) and Six Sigma (with its focus on process variance reduction) are once again the focus of attention for management teams seeking improvements in operational performance and cost improvement to drive EBITDA. In the current economic climate it is not surprising that this is becoming their singular focus.

At LCP we argue that the predominant focus of Lean and Six Sigma on operations improvement will only take businesses so far; the same tools with a more holistic supply chain approach is required ... 'LEAN PLUS'.

The supply chain is truly complex and the central question is how much of this complexity is not value adding for an organisation. The interaction of all of these flows, the business processes that emerge, and the organisation that evolves to manage and control them, is a hive of sub-optimisation. Constrained thinking, defaulting to a 'one size/solution fits all' mentality generates systemic and operational waste, leaving immense potential for improvement.

At LCP we integrate Lean and Six Sigma techniques into our overall consulting approach. We selectively apply them, bringing real value and clarity to a problem, without the project overhead typically associated with such programmes. The operative word is 'selective' – a major criticism levelled at such programmes is the 'death by analysis' and the time taken to generate actionable results. For instance, our fact based RapiSCAN® methodology can be deployed in anything from 4 to 8 weeks dependent on scope, whereas a comparable Six Sigma exercise would be measured in months.

The SEVEN drivers of business and supply chain complexity

Professor Martin Christopher has categorised the levels of complexity experienced by businesses into SEVEN key areas:

1. CUSTOMER – some customers generate a high Cost-to-Serve® for low margin products, resulting in many customer-product combinations being loss making
2. NETWORK – globally extended channels of supply that do not behave in a uniform and predictable manner
3. ORGANISATIONAL – management structures that constrain supply chain flexibility
4. PROCESS – the higher the number of steps in a given process, especially if these run sequentially, the higher risk of significant non-value added time and greater process variability
5. PRODUCT – complex supplier buying and manufacturing schedules, large slow moving components stocks, varying supply lead times, especially for unique items with long replenishment lead times
6. RANGE (or Service) – portfolio proliferation: products, variants, pack sizes etc. tend to grow in an uncontrolled manner. Non adherence to a strict PLM (product life cycle) program easily dilutes profitability
7. SUPPLIER – too many, too few: a balance must be struck. Managing the critical relationships necessary to maintain high customer service standards

LEAN PLUS – MASTERING COMPLEXITY

LEAN PLUS draws upon the traditional techniques and applies them holistically across the whole business enterprise, introducing an approach and methodology that widens the analysis and addresses issues of direct concern to the Board.

It focuses on three themes additional to the lean agenda that address the true 'Cost of Complexity':

a thought leadership Insight

- Eliminating unprofitable complexity in both product and customer dimensions
- Focusing on real value for customers
- Working and fixed capital conservation

This scope is broader than Lean or Six Sigma but fundamentally draws upon the philosophies of waste and time reduction, the removal of process variability such that all business processes are more predictable across all seven dimensions of complexity.

Essentially the LCP process and focus is to transform the business through its P&L and Balance Sheet, using "Power of 1" thinking - small improvements in many areas give rise to a substantial improvement in EBITDA, far in excess of any individual area of improvement (the sum of the whole being greater than the sum of the parts).

We prescribe the following 5 steps for LEAN PLUS

Our fast, efficient, fact-based approach follows 5 proven steps to yield practical results that can be quickly implemented:

1. **Map the main supply chains**, specifying their typical trading and flow characteristics (applying selectively Lean, Six Sigma and LCP's Segmentation toolset)
2. **Design out complexity**, where possible; in many cases simply understanding how best to manage it. Establish simple management

rules and guidelines to introduce greater control and governance over the range of channels that exist, thereby limiting the degrees of freedom a business has to contend with

3. **Streamline management processes**, such that they become more predictable and resilient
4. **Design in responsive capability and capacity**, for those areas of business that require the flexibility to be more "demand driven"
5. **Define a road map** of discrete interventions across all areas of business that will cumulatively give rise to a significant margin / profit improvement.

Leveraging your trained resource

Many businesses have invested heavily in developing trained resources ... green and black belts. The underlying capability exists; the challenge is often the constrained scope of the work of these teams when it comes to consider addressing the root causes of complexity and its cost. The key is 'knowing where to look' and what the typical wider problem is likely to be. The ability to narrow the field of investigation to the 'big value potential' rapidly as well as the consideration of potential solutions is a crucial skill and expertise that functionally based 'Lean' teams may not have.

Combining external expertise with internal resource can achieve outstanding results that 'stick'. Through the programme of investigation there is a natural transfer of knowledge and the internal team automatically has buy-in to the solutions developed and are the best advocates a business can have to achieve wider adoption / acceptance of proposed changes.

About LCP Consulting

LCP Consulting is a leading specialist in customer-driven supply chain management. With over 20 years' experience in the field, we identify where supply chains make major contributions to how businesses operate profitably and compete effectively. We support businesses review, re-design and implement changes to their end-to-end operations. Our fact-based diagnostics pin point exactly where & how to cut costs, enhance operational efficiency and invest for the future.

LCP Consulting is a member of the Green Logistics Consultants Group, which is an international collaborative network of supply chain consultants who focus on improving the environmental performance of supply chains.

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