

A truly Lean Organisation masters 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**'.

Lean techniques have been applied since the mid 1980's, so the question is what has changed? Beyond the packaging of the techniques, the answer is pretty much nothing! Clearly sectors have adopted “Lean thinking” at different points in time, from the early adopters in automotive and high-technology / electronics, through batch and general manufacturing, more recently large retailers, and now we see great focus coming from the pharmaceutical / healthcare and chemicals sectors. So beyond natural evolution, is there more to this?

The major challenge for organisations continues to be the sheer scale of the transformation – from training and education, through to the deployment of improvement teams, to actually landing value benefit and securing it over the long term i.e. projects that deliver real value and ‘stick’ in the organisation. A whole industry has grown up around these initiatives, teams are generally large and programme delivery is often characterised as cumbersome and technical ... not the lean delivery one might expect.

So first there is a need to really focus the effort through small tight teams that can quickly pin-point the root cause and then deploy equally small teams to implement a permanent solution. It is important to be highly selective on the tools used and analysis required to be undertaken, drilling down where the nature of the problem demands.

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.

Our ethos is to consider organisations holistically. Lean and Six Sigma have over the last 20 years homed in on operations such that the wider supply chain and management dimension is often missed. One recent exception is retail; the majority of such businesses fundamentally don't manufacture anything and as a result a retailer's focus

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necessarily is holistic, considering all business activities and processes, with a passion for time compression and waste reduction.

The essence of Lean and Six Sigma is about operational improvement to generate competitive advantage through cost and efficiency. It is about 'doing things right'. The underlying principle is that being able to perform at a lower cost than the competition gives competitive advantage. Indeed it does, but it is not the complete 'grail' of competitive capability. Companies can create even more advantage by focusing also on 'value'. This is about 'doing the right things' with the goal that the organisation does the 'right things well'.

The key to this is applying many of the same tools to address inherent business complexity. It is a fact that no business operates a single supply chain. There are multiple sourcing points, production or transformation points, third party vendors and intermediaries; even the handling characteristics and storage options give rise to alternate material flows. And then there are customers, channels to market and service standards. Each one of these end-to-end processes constitutes a separate supply chain that possesses its own unique characteristics and potential for control and decision making.

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.

Organisations experience great complexity which brings a cost and competitive disadvantage that needs to be 'mastered'. This complexity is compounded by the reality that business has to manage volatility and turbulence, to an increasing extent such that they are exposed to high levels of risk from supply chain disruption.

What are the drivers of business / supply chain complexity?

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

- 1 CUSTOMER – the ordering patterns of customers and their individual service requirements give rise to a wide variety of fulfilment criteria, to such an extent that some customers will generate a high Cost-to-Serve®, for low margin product, resulting in many customer-product combinations being loss making
- 2 NETWORK – the more nodes or links in the chain, with the trend to globally extended channels of supply, gives rise to networks that are complex to plan and manage and that do not behave in a uniform and predictable manner
- 3 ORGANISATIONAL – complexity arising from the sheer scale of business activity, mergers and acquisitions, functional structures and their discrete measurement focus, often gives rise to management structures (silos) that constrain supply chain flexibility. There is a need for constant review and reengineering of structures, processes and systems in order to serve the customer well
- 4 PROCESS – the more steps or stages that make up a given process, especially where these run sequentially (rather than streamlined and in parallel), the more hand-offs that will exist and the longer the overall process will be, resulting in significant non-value added time and greater process variability

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- 5 PRODUCT – few companies truly manage the design function to the point the Bill of Material is interrogated to ensure component commonality is maximised. The result is complex supplier buying and manufacturing schedules, with large stocks of slow moving components and the risk of obsolescence. This is further complicated with varying supply lead times, especially unique items with long replenishment lead times
- 6 RANGE (or Service) – in businesses product lifecycle management (PLM) tends to be poorly managed such that the portfolio (products, variants, pack sizes etc) tends to grow in an uncontrolled manner, making their management and maintenance more complex and simultaneously diluting profitability
- 7 SUPPLIER – it is often the case that businesses will have too many suppliers and simply not manage well the critical relationships necessary to maintain high customer service standards ... equally a dependence on single sourced supply in critical areas of the business is risky; a balance must be struck where the supply base can be proactively managed.

LCP's 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. We focus our effort on three themes additional to the lean agenda that address the true 'Cost of Complexity':

- 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: i.e. small improvements (even just 1%) in many areas gives 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 key 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); or in many cases determine 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.

Head Office:
LCP Consulting
The Stables
Ashlyns Hall
Chesham Road
Berkhamsted
Hertfordshire
HP4 2ST
UK
Telephone: +44 (0) 1442 872298

info@lcpconsulting.com

For more information please visit

www.lcpconsulting.com

