

Lean Thinking and the Third-Party Logistics Provider

By Robert Martichenko

The time to fix the roof is when the sun is shining. — John F. Kennedy

THE RECENT PAST has been challenging for many of us in industry. The bold truth is that, regardless of our age or experience level, most of us have never been down this road before. Economists now feel that we have at last hit bottom, whatever that means... I wonder what logic they are using to reach this conclusion anyway. The cold truth is we don't quite understand the past, we are reasonably unsure of where we are today in the present, and we have no idea of what the future will hold. Other than that, everything is pretty good.

As a leader of a third-party logistics company focusing on Lean principles, I am now used to a common question. "Robert, I assume this economy must be good for business, as people will be looking to drive Lean and eliminate waste in order to remain competitive; correct?" While this seems logical, the answer is, "It depends." What it depends on is the organization and its mental paradigm about current economic conditions.

I have always tried not to be a person that says, "There are two kinds of people in this world," but... there are two kinds of companies in this world. The first is the organization that has put on a helmet and hunkered down in the trenches waiting for the economic bombardment to stop. These organizations deal with the harsh reality of reducing their workforces, closing facilities and delaying new-product-development initiatives.

For most, these reactions are necessary, as their balance sheets dictate this as the path for basic survival. It is a category

five tsunami and survival is their strategy at this point.

The second type of company has a financial situation that allows it to see these times as an opportunity. Its thinking is, "What can we do to get stronger so we are prepared when the economy rebounds?" Such companies see the sun shining and it's time to fix the roof. These are the organizations that are now embracing Lean. These are the organizations that will lead their industries as volumes begin to increase.

All of this begs a question from the third-party logistics (TPL) corner... "So what"? What does Lean have to do with me, how would Lean help me and what does my customer care whether I am Lean or not? (See table below.)

The Paradox of Lean and the TPL

One of the major tenets of Lean is the elimination of waste. The king of waste is overproduction, defined as building more than customers are demanding, or buying more than we need at that exact time. Overproduction is the king of wastes because it creates the waste of inventory, transportation and storage. Herein rests a paradox for the TPL. Is our job not to manage and execute inventory processes, transportation and distribution? Does this mean our job is to manage waste? If so, do we really want our customers to get their proverbial act together and become models of operational excellence? Do we really want our customers focusing on stability, standardization, quality at the source and inventory reduction? What if they get so good they don't have excess inventories

Logistics Waste	Examples	Manageable Cause
Inventory	Safety stock	Variability in demand
	Buffer stock	Long lead times
	Carrying cost	Money tied up in inventory
Transportation	Miles - distance	Poor logistics design
	Underutilized equipment	No engineering process
	Trailer demurrage	No formal window times - No receiving schedule
Space	Using potential manufacturing space for storage	High inventory levels
	Investing in storage systems	High inventory levels
Time	Inefficient use of manpower	Long processing times
	Inefficient use of equipment/resources	Long wait times
Packaging	Excess inventory due to forecasting errors	Long lead times
	Ordering more than needed	Lot size too high
	Cubic volume - moving air	Non-stackable pallets
Complexity	Damages	Poor packaging design
	Rework	Complex processes
	Quality defects	Complex processes

*Identify where the different wastes exist in your operations.
Question as to why the waste is there.
Eliminate wastes without negatively impacting other areas.*

that need transporting or storing? What exactly is the role of the TPL in the new age of Lean?

Lean and the TPL We can use two vantage points in considering the connection of Lean to the TPL. One is internal and the other external. The internal view for the TPL asks, "What can Lean do for my organization to drive increased revenues, reduce costs and improve profitability?" The external perspective asks, "If my customers are implementing Lean, what do I need to know and do to remain part of the value proposition?" Let's deal with the internal first.

Third-Party Logistics Providers — Looking Inward Third-party logistics providers have an incredible opportunity to drive operational excellence internally. In our education work with TPLs (yes, we willingly train our competitors), we recognize an opportunity to implement the fundamental Lean principles: strategy deployment, standard work, error proofing processes, time and motion analysis, and visual management and organized workplace (the 5 S's) disciplines.

In addition, very few TPLs have suc-

ceeded in building a problem-solving culture. This latter point is the largest opportunity that exists. The TPL environment is one that is largely made up, by design, of unskilled and skilled team members, floor supervisors, team leaders and floor managers. In other words, the majority of employees working in the TPL industry are driving down the road or on the floor engaged in "real work." Yet, as leaders, we are not engaging them! Taichii Ohno, the famed engineer who led the development of the Toyota Production System, called this lack of engagement a "terrible waste of humanity." These team members live the problems, see and feel the problems (and at times cause the problems), yet we continue to ignore the potential the entire organization brings in solving problems at the root cause. This is step number one for any TPL looking to begin the Lean journey.

But beware! When we do begin engaging the workforce to identify and expose problems, it will create more grief in the short term! Why? Because in TPL University, they brainwash us to believe that the root causes of all our problems are created by our customers. If only our customers could level their shipments! If only the customer could label the boxes properly! If only the customer could load our trucks faster! If only we could get accurate data! And so the story goes; if it wasn't for our customers, we would be the billboard for operational excellence! This level of arrogance will not survive the new economy. Economic volumes will come back, but not likely to the levels we have known in the past. We will see growth,

but it will be gradual and relatively flat. Rest assured, there will be a host of TPLs competing for fewer opportunities. This will truly be survival of the fittest. And the fittest will be those who check their ego at the door, take a good look in the mirror and realize their operations are riddled with waste that has nothing to do with the customer or other external forces. As the great philosopher Pogo once said, "We have seen the enemy and the enemy is us."

Third-Party Logistics Providers — Looking Outward Jim Womack and Dan Jones, leading thinkers and authors in Lean, describe the "Lean Enterprise" as:

"A continuing agreement among all firms sharing the value stream to correctly specify value from the standpoint of the end customer, remove wasteful actions from the value stream, and make those actions which do create value occur in continuous flow as pulled by the customer."

Nobody is so naïve to think that this is not a very tall order. However, we do know something from the last two years that will prove useful. Organizations that continue to create and tolerate process waste will not survive in the new world. Operational excellence is not a *nice to have*, it is a *must have*. Let's examine why.

Prior to the economic collapse, many organizations were riding the wave. Business was great and we couldn't move product fast enough. We built factories and distribution centres. We hired people en masse and the last thing we needed to worry about was waste reduction. Then the tide changed and we reversed all the growth decisions by closing, reducing and

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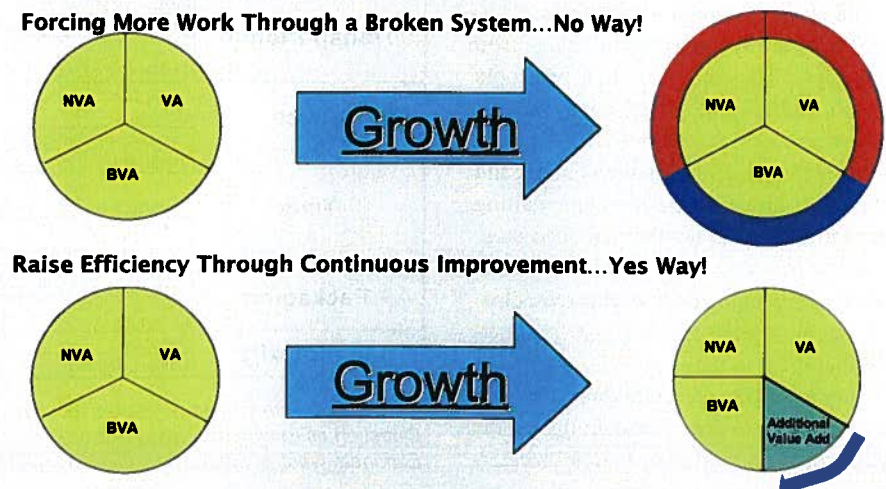
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Figure 1: The Power of Waste Reduction



3. A trustworthy source

4. Concise language

In fact, personalized messages that evoked emotion were more than twice as likely to resonate with the group. Social scientists have shown that negative messages are more attention-getting than positive ones. To get an audience's attention, share:

- Stories about the audience's problems
- Stories about the problems' worsening

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eliminating. The virtual roller coaster. As volumes come back, organizations will be faced with a very tough question, "Do we build, hire and increase again knowing what we now know?" The question of all questions is, "How do we grow steadily and not add infrastructure cost?" The only way to accomplish this is to focus on Lean principles, to eliminate all wasteful activities and do only those things that add value for the customer.

Let's go back to fundamentals. There are only three types of processes:

1. Value-Added; those things that are critical to service the customer, and the customer is willing to pay for these things (think transforming products or services to meet customer expectations).

2. Business Value-Added; those things the customer does not care about but we must do anyway (think homeland security, DOT regulations).

3. Non-Value-Added: those things the customer is not willing to pay for and that serve only to drain money and resources from the organization (think rework, storage, obsolescence).

As Figure 1 shows, when organizations do not focus on operational excellence, growth only serves to increase all three types of processes. We have all lived it in the TPL industry. We get a new customer, which serves as a 10 percent growth in revenue, and we necessarily add 10 percent more people, space and overhead. The revenue curve and the cost curve flow as parallel vectors. What if we could bring on new customers and not add resources in a linear fashion? This can be accomplished by replacing non-value-added activities with value-added activities. In other words, let's stop doing the dumb stuff and only do the smart stuff. This will be the new world.

trajectory

- A relevant story about how you dealt with adversity
- A surprising question or challenge that will interest the audience

Step 2: Creating Desire Positive stories are extremely important for creating a desire to change. If you want your team to do something different, present stories and clear examples of how successful innovators are making a difference. Appeal

What an amazing opportunity for the TPL industry to participate in this new awakening that our customers are heading towards. Our roles will not be to transport and store, but rather to identify problems, implement solutions and add value in a myriad of service offerings. Who better to brainstorm about waste in the supply chain than your friendly neighbourhood TPL? We feel, know and live the effects of much of the undisciplined processes that create the waste. The goal is to become a leader in the solutions to eliminate this waste from the supply chain from a *Lean Enterprise* point of view.

Sustaining for the Future Lean is in vogue. Some believe it is just another program that will gradually disappear. I personally struggle with this. First, Lean thinking has been around for centuries. Second, Lean is about knowing what the customer wants, knowing what steps in your process provide those things and then only doing those things. In the process of doing this, we engage our team members, treat people with respect and create a learning environment through continuous problem solving. How can these basic guiding principles be considered a program or flavour of the month?

The truth is it really does not matter what we call it: Lean, TQM, Six Sigma, ISO. What we are talking about is having a relentless commitment to continuous improvement in order to eliminate wasteful activities in order to remain competitive. Arguing about the virtues of this strategy is no longer an option. Survival of TPL customers will rely on Lean thinking and, therefore, our own future will hinge on our commitment to Lean thinking, both internally and externally.

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to both heart and mind to gain an enthusiastic buy-in. Effective leaders establish an emotional connection.

The task isn't to impose your will on an audience; it's to enable participants to see the possibilities and come to their own conclusions, based on the evidence presented in your positive stories. These stories allow audience members to see the world for themselves, view their relationships in a new way and make progress in implementing organizational goals.

Step 3: Reinforcing with Reasons The desire for change will wane unless it's supported and reinforced by compelling reasons. Remember to share the story of:

- What the change is, as seen through the eyes of those who will be affected by it
- How the change will be implemented, with a delineation of the simple steps for getting from "here" to "there"
- Why the change will work, with an explanation of the underlying mechanisms that make change virtually inevitable

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