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## Lean logistics: Moving into the House of Lean

**Lean is not just about tools and tactics. It requires logistics professionals to modify cultural models and commit to fundamental change. Here are several strategic areas you'll need to master before you move in.**

*By Robert Martichenko, President, LeanCor LLC -- Logistics Management, April 1, 2007*

### The House of Lean

[A3 Thinking: Organize your goals on paper](#)

[Reduce Inventory](#)

[Relationship Building](#)

[Revolutionize Incentives](#)

[Commit to Hard Work](#)

[Reading and Resources](#)

Lean is not just about tools and tactics. It requires logistics professionals to modify cultural models and commit to fundamental change. Here are several strategic areas you'll need to master before you move in.

Many logistics and supply chain professionals are well on their way to understanding how lean principles will help in their drive toward supply chain excellence. In fact, many are moving out of the awareness stage and into the implementation stage, preparing to make the mental and cultural changes necessary for a smooth transition into the House of Lean.

Moving into the House of Lean simply means you're ready to apply lean knowledge and implement lean principles into your supply chain—a taller order than some think. To take this important step, be sure you can answer the following three questions:

What exactly is "lean" and how does it specifically apply to my logistics and supply chain operations?

What does it take to mentally and culturally prepare to successfully implement a lean supply chain?

What is the benefit of doing all of the work involved to get lean? If you can answer these questions clearly and concisely, then your initial awareness has allowed you to understand the essence of lean. If these questions continue to leave doubt in your mind, then further education may be required.

To help ease any uncertainties you may have, we're going to first define the principles that build the House. Then we'll take a deeper look into the fundamentals of lean thinking and offer insight into how you'll need to change the way you view inventory, supply chain relationships, and incentive programs on your way to a seamless transition into lean.

### The House of Lean

Let's first review the five critical elements that construct the House of Lean and how they relate to your supply chain operations:

**Stability:** Creating a supply chain that is visible, predictable, and capable.

**Standardization:** Having disciplined supply chain processes and rigorously challenging SKU proliferation.

**Quality at the Source:** Recognizing that errors cannot be allowed to enter the supply chain.

**Pull-Just in Time:** Driving inventory reduction to expose organizational problems and focusing on the goal of one piece flow (make one/ ship one).

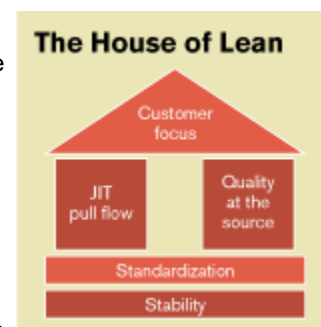
**Customer Focus (Based on Takt Time):** Not only knowing what your customer expectations are, but also understanding and synchronizing supply chain processes to the rhythm of customer demand.

**In order to become lean, logistics managers need to have the courage to reduce inventories and expose all the problems and weaknesses that lie beneath.**

While the elements of the House of Lean are critical to building a lean enterprise, it can be argued they simply represent tactics and tools that are used to drive lean operations. While tactics and tools may be the foundation of some lean initiatives, they aren't the entire essence of lean. To be successful in moving into the House of Lean you must have vision, strategy, tactics, and specific reachable goals established for a given period. Reaching these goals requires a change in how we drive strategy: For the logistics department, this will require a shift from looking at the business as a series of functional departments to viewing the business as an entire system.

### A3 Thinking: Organizing your goals on paper

To make that shift, shippers will need to have a disciplined approach to strategy deployment based on the cascading of breakthrough goals to strategies and tactics with specific performance targets. This simply means



These five building blocks (**stability, standardization, quality at the source, Pull-Just in Time, and customer focus**) create a sturdy "House of Lean."

Source: [LeanCorLLC](#)

The A3X

that you need to know that the activities being performed will, in fact, help you achieve the common goals—and functional areas will stop working at cross purposes. Organizations often fail in deployment initiatives, due to a lack of alignment of vertical goals and strategies. The A3-X is a simple tool that engages every level of the organization to develop a driving force so that the organization can move unanimously in the same direction to meet measurable goals. The A3-X aligns executive vision, with management strategy, and tactical work-plans/projects at all levels of the organization, so that organizational goals can be achieved. Work plans and strategies are analyzed, and correlation levels are assigned to assure that projects and work plans are essential to the united effort. It bonds the organization as a whole, to one simple, achievable program that is documented, and frequently updated and posted. Team member and executive alike, join in the concerted effort to achieve agreed upon goals as set forth in the A3-X.

This is accomplished through the use of A3 Thinking; in particular, the use of an A3X document to verify work on specific action items to help reach breakthrough goals. A3 simply refers to the use of an 11x17 piece of paper. The logic is that if you cannot get your thoughts down on one piece of 11x17 paper, then you have not thought through your goals clearly enough. A completed A3X shows how to cascade breakthrough goals to strategies, tactics, and performance targets. It also illustrates correlations between each to help identify the right focus. The A3X also helps give shippers a visual on who needs to be involved and at what levels each party needs to be engaged with each tactic. A3 Thinking is critical for the supply chain professional because supply chain initiatives will span functional areas of the organization. Without the use of strategy deployment, a lean supply chain initiative is at risk of not being supported at all levels of the organization and initiatives will not succeed when tough decisions need to be made. Once A3 thinking is embraced and performance targets are set, the lean shipper will begin to view inventory in an entirely different way.

**Reduce Inventory**

Implementing the lean supply chain will require a major change in the way logistics professionals view **inventory and inventory management**. To understand this, let's review the essence of the lean enterprise. The lean enterprise is a learning culture: An organization becomes a learning culture by solving problems everyday and sharing those lessons learned across the company. However, the challenge with problem solving is that most of us can't see the problems in our organization. What keeps those problems hidden? In a word: Inventory.

**The lean enterprise is a learning culture: An organization becomes a learning culture by solving problems everyday and sharing those lessons learned across the company.**

So, in order to become lean, logistics managers need to have the courage to reduce inventories and expose all the problems and weaknesses that lie beneath. This requires a shift in perspective. The supply chain professional must change from using inventory to hide problems to reducing inventories to expose problems, and subsequently solve these problems at their root cause. This is not an easy change—but it is critical for a lean supply chain. Viewing inventory from this new perspective, the logistics professional will need to grow internal partnerships.

**Relationship Building**

To be successful in creating the learning culture, the supply chain professional will need to be a master of relationships. And in approaching this, it is critical to keep in mind that logistics and supply chain management aren't simply functional areas of a business—the supply chain is the business. The logistics professional won't be able to drive results without engaging all aspects of the business. From **purchasing**, to marketing, to human resources, and production, **creating the lean supply chain** requires complete collaboration. This means CEO-level support is vital because many of the required changes may be counterintuitive to some levels of the organization. For example: Will a CFO accept an increase in transportation cost if it means an increase in material velocity and **reduction in lead time** to the customer?

**Revolutionize Incentives**

Supply chain and logistics compensation and incentive programs in most organizations work at cross purposes to the business. Most incentive programs assume that if you micromanage and reduce costs in all functions of the business, you will, in turn, minimize overall organizational costs. Nothing is further from the truth. The reality is that by attempting to minimize all functions in the supply chain, you will be suboptimizing the whole—in other words, in your drive to reduce cost in each functional area you will actually drive total logistics cost up. The supply chain is a dynamic system and a change in one area may have reciprocal change in another. For example: Compensating a transportation manager solely on reducing transportation costs will only serve to reduce that manager's eagerness to embrace system changes that may, in turn, impact transportation costs. This is very common when organizations begin to look at more frequent deliveries of smaller lot sizes. Organizations must develop a reasonable approach to articulate and calculate total logistics cost, and hold all functional leaders to creating efficiencies from total cost point of view. We have very rarely found anybody to disagree on this; however organizations, seemingly, do not act on this. The fact is that traditional financial accounting methods and compensation strategies are outdated and do not reflect the progression of lean or contemporary supply chain management disciplines. **Supply chain management** is about managing a system—and measures need to reflect its dynamic nature.

**Commit to hard work**

Successfully implementing the lean supply chain is no small task. It won't happen overnight and it requires knowledge and discipline of process. The most important requirement, however, is commitment to hard work. Most supply chain issues result from a lack of internal and external collaboration, and an ignorance towards basic discipline of process. Years of bad data entering our systems, the propensity to force suppliers into cost reductions, and not recognizing the voice of the customer has

resulted in supply chains that are invisible, unstable, and riddled with defects. Lean teaches us to get back to basics by building a foundation of stability and standardization, instituting rigorous discipline around process and quality at the source. This discipline is achieved by the reduction of inventories, which will serve to reveal organizational problems and reduce lead times, creating an environment where you can pull from the customers to implement flow. Embracing lean for all that it espouses in the supply chain can bring incredible results to organizations. But, remember: A strong and sturdy House of Lean requires every building block to be in place.

### Reading and Resources

["What does 'lean' really mean?" John Kerr](#)

[The Lean Enterprise Institute](#)

[Learning Lean Logistics](#)

[Lean Lexicon-A graphical glossary for Lean Thinkers. The Lean Enterprise Institute.](#)

[Understanding the Lean Supply Chain: Beginning with the Journey](#)

[Lean Distribution: Applying Lean Manufacturing to Distribution, Logistics, and Supply Chain](#)

[Learn Six Sigma Logistics: From Strategic Development to Operational Success](#)

["How Delphi Went Lean," R. David Nelson](#)

["A Lean Approach to Cross Docking," Robert L. Cook, Brain Gibson, and Douglas MacCurdy](#)

["The Lion of Lean: An Interview with James Womack," Francis J. Quinn](#)

["The Big Things in Logistics", Forbes.com](#)



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