

Think outside the “Lean” box for continuous improvement

To improve costs and efficiency in their supply chains year after year, companies need to look beyond the obvious sources of waste

Every company wants continuous improvement in operating costs, efficiency, and service. But even for adherents of Lean, where the concept of continuous improvement originated, this can be difficult to achieve.

Supply chain improvement initiatives typically uncover big savings and significant amounts of waste early on, but once those new efficiencies have been built into day-to-day operations, the savings taper off. For many companies, it's a challenge to continually find new opportunities for savings. That's evident in the results of the 2015 Third Party Logistics Study, which found that the average reduction in logistics and inventory costs reported by shippers and third-party logistics companies (3PLs) has continually declined over the past few years¹.

To achieve improvements in their supply chains year after year, companies need to look beyond the obvious sources of waste, such as transportation routing and warehouse labor. Taking continuous improvement to the next level requires moving up the supply chain maturity scale from simple transactions to more strategic activities. To achieve this, supply chain managers must look at their operations more creatively and be open to “next tier” ideas. At the same time, they must continually monitor changing market dynamics to ensure that new improvement concepts align with customer demand.



¹ Capgemini and Penn State, *2015 Third-Party Logistics Study*, October 2014, 13.

Enabled by data

The good news is that while supply chain managers are keeping their day-to-day operations running smoothly, a host of consultants, academics, 3PLs, and other thought leaders are devising new approaches to supply chain design and operation that promise to deliver the continuous improvement companies seek. These efforts focus in two main areas: reducing waste and increasing productivity.

Many of these ideas tap advances in technology and analytics to identify previously unknowable opportunities.

According to DHL's Logistics Trend Radar 2014 report, mastery of complex and extensive data sources has become a differentiating factor in the logistics industry, driving higher-level activities such as network and capacity planning and real-time route optimization, which help root out waste on a more holistic level². DPDHL Strategic Logistics Consulting has found that end-to-end supply chain optimization can lead to a 10 to 20 percent cost improvement by consolidating inventory and transportation, eliminating supply chain legs, and reducing warehouse costs.

Other new sources of efficiency and continuous improvement come through the application of technology and analytics, including inbound process-flow management systems, control tower visibility systems, and the "backwards" engineering of supply chains from the customer back to manufacturer.

An outside perspective

With their significant investment in technology and deep logistics expertise, 3PLs can be ideal partners in delivering services such as those mentioned above, and in driving additional sources of continuous improvement.

DHL has spent the last two years making significant investments in productivity management tools, resources and change management following the principles of lean and continuous improvement. One big benefit has been an increase in the capacity and throughput of DHL assets, particularly in developing markets. For example, when a facility attains a 10 percent improvement in throughput, customers can push 10 percent more volume through emerging market supply chains without increasing costs - a significant advantage.

Some of the concepts that have driven these results not only benefit DHL customers, but can also be implemented successfully within any supply chain operation. These include:

- Performance dialogue: Team-based performance management of groups within the organization enables associates to gain a clear understanding of how their activities contribute to the overall success of the supply chain. When associates are explicitly charged with seeking innovative sources of continuous improvement and are rewarded for attaining them, the culture shifts to one that embraces such changes. At DHL, this strategy has driven performance improvements of 10 to 20 percent in some areas.
- "Gemba" walks: This lean management concept is founded on the premise that most operational problems are visible, and can be identified by adopting a "Gemba" walk

² DHL, Logistics Trend Radar 2014, 3, 30.

approach to identifying them. Gemba, which means “the real place” in Japanese, follows the same principle as “management by walking around.” When a 3PL’s operations team performs a Gemba walk in a distribution center, for instance, it seeks to better understand the process flows and activities and identify opportunities for improvement.

- **Deep collaboration:** Customers that engage deeply with a 3PL set up their relationships around strategic consulting services with a continuous improvement agenda that includes contractual incentives such as gainsharing. Both customer and 3PL undertake a greater degree of information sharing and collaboration than is seen in execution-focused 3PL engagements.

“Some of the biggest improvements come from those magical moments with customers in which you test the ways things have always been done,” says Richard Winnall, Senior Vice President, APEC Operations Excellence. “We work together using out-of-the-box thinking to get some pretty exciting breakthroughs.”

Emerging concepts

Innovative concepts that can help companies seeking to move to the next level of continuous improvement are continuing to evolve. According to the DHL Logistics Trend Radar report³, approaches that could provide new opportunities for savings and efficiency in the near term include:

- **Multiple-purpose networks.** Rather than create wholly unique supply chain networks to handle specialized goods (e.g., temperature control, dangerous goods and high-value goods), companies could adapt standard logistics networks to transport and store these products – adding on the specialized services they require. This could reduce the total cost of the logistics solution.
- **Anticipatory logistics.** Powered by “big data”-based predictive algorithms, companies can analyze customer product searches, order history and preferences, and anticipate a customer’s order even before he/she places it. This allows the logistics network build process efficiency and boost service efficiency by preparing for such customer demand.
- **Logistics marketplaces.** In the context of globalization and increasingly technology-dependent lifestyles, logistics marketplaces will create opportunities for new services that can overcome geographical and functional segmentation, and significantly enhance cost efficiency and capacity utilization by offering flexible logistics services tailored to the specific one-off requirements of a shipper.

A holistic approach

Lean principles are an excellent source of ideas for making ongoing, incremental improvements in supply chain efficiency. But when those concepts have delivered their greatest benefits, companies need to take a more holistic approach to find new savings. New technology, strategic partnerships, and an openness to change are all important tools in taking continuous improvement to the next level.

³ Ibid, 14.