



SUPPLY CHAIN LEADERSHIP CONFERENCE

# Retail Supply Chains: The Use of Lean and IT to Enable Change

## Market Research Summary Findings

- Is Lean understood by retailers and brand manufacturers, and what programmes are being implemented to drive continuous improvement in supply chains?
- Are retailers and manufacturers successfully finding ways to optimise their supply chains?
- How well are supply chain systems and IT enabling change and allowing retailers to align good business process with systems functionality?

This summary report highlights the key findings from primary market research commissioned by Unipart Logistics and Manhattan Associates, and presented at the Supply Chain Leadership Conference on Tuesday 10th June.

## Retail Sector Understanding of Lean

Creating Lean supply chains is increasingly a topic under discussion and debate by supply chain professionals, but how widely are 'Lean' and Lean working practices understood within the retail sector?

The answer is that the majority of directors and senior decision makers interviewed as part of this research programme were aware of the concept of Lean and able to articulate its meaning:

*"Lean typically is about reducing inventory, increasing flow, whilst reducing damage and waste. Fulfilling demand driven by the front end rather than pushing stuff through which isn't really wanted."*

**Retailer**

Many organisations also understand waste removal as a central concept within Lean logistics:

*"I understand Lean as aiming for the most efficient one touch solution in the supply chain. This means that it is the removal of waste..."*

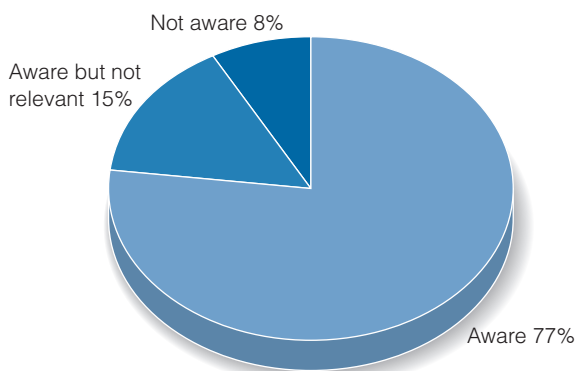
**Manufacturer**

Some retailers were less familiar with the term Lean, though of these respondents most felt – when it was described to them - that the approach and associated benefits would be applicable within their organisations:

*"I have not heard the term before but agree with the principle that cutting waste from the supply chain both in terms of excess stock and wasted time is of great benefit to the company."*

**Retailer**

The majority of directors and senior decision makers interviewed were aware of Lean as a concept:



## The Importance of a Deep Understanding of Lean

A small number of research respondents were a little cynical as to the relevance of Lean outside manufacturing, or were critical of an over-use of the term Lean by organisations without a deep understanding of how to implement or sustain Lean working practices:

*"I think Lean is just a bit of a buzz word, if you are talking about increasing efficiency just say so."*

**Manufacturer**

*"Yes I've heard of Lean. I think it can be a bit of a catch phrase – lots of people claim to be Lean but when it really comes down to it they're not."*

**Retailer**

A number of senior supply chain professionals emphasised the need to evaluate supply chain processes not just in terms of waste reduction, but also in terms of 'value' creation:

*"We're strongly customer-focused in our application of Lean principles. In our view, the main emphasis is looking at what part of our processes don't add value to the customer. Obviously part of this is the reduction of costs but we just say 'does this process add value to the customer?'. If it doesn't then it is waste."*

**Retailer**

Our findings suggest that when the scope of Lean is not fully understood and organisations retain a narrow view of the concept, the tendency is to draw premature conclusions that Lean equates to a lack of flexibility:

*"I guess it's running it as tightly as you can using the least resources. We try to do this, but you need to build in some 'fat' in case something goes wrong. Too Lean equals inflexible."*

**Manufacturer**

In fact, the opposite remains true, whereby the full potential of Lean is to deliver not just efficiency, but also a flexible and responsive supply chain capability.

## Why Retailers are Finding it Hard to 'Optimise'

For many large retailers, the focus for Lean implementations tends to be on big step changes or 'transformations'. The pace of change in the multi-channel retail sector, combined with the current economic climate, can force retailers into a continuous programme of significant change initiatives. Fewer retailers are able to relate their experience of Lean to a programme of ongoing iterative changes or continuous improvement.

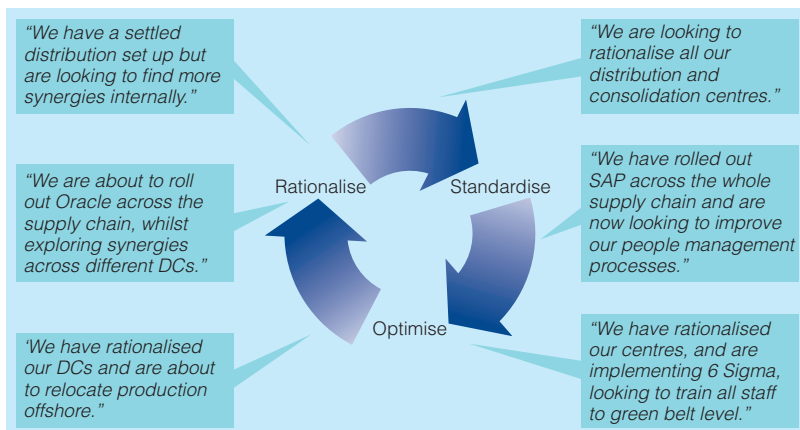
Examples of such step changes reported in the research findings included distribution network consolidation, major changes to supplier contracts and relocation of manufacturing facilities:

*"We are looking to further consolidate our DCs... moving manufacturing off-shore."* **Manufacturer**

*"We are currently trying to consolidate various receipt centres and goods distribution channels. Ideally, we would like to get the entire operation in one location so we can be more focused and efficient..."* **Retailer**

When the driver of change is to reduce costs, increase margins or simply respond faster to market changes, our research suggests that a cycle of rationalisation followed by standardisation is a familiar pattern for larger retailers.

A Cycle of Rationalisation and Standardisation:



## The Challenge of Continuous Improvement

Getting to ongoing continuous improvement beyond a rationalisation programme, and before the next step change initiative in response to market conditions or competitor activity, can be challenging:

*"We consolidated all our businesses 5 years ago in an attempt to remove a lot of the waste and we have certainly moved in the right direction, but we are nowhere near done yet!"* **Manufacturer**

Success will follow when organisations find a way to implement the necessary step changes whilst still finding the resources to manage continuous improvement activity:

*"It's about doing both big step changes as well as constant iterative changes. You can spend £50m on a new warehouse but then there's always room and requirement for further smaller refinement. You've got to look at things to the nth degree... and look for constant iterative changes and improvements."* **Retailer**

Retailers and manufacturers who have recognised this operate their supply chains accordingly:

*"It's about being dynamic and always looking where efficiencies can be made to run the business. Its not about big changes, it is the constant small improvements."* **Manufacturer**

## Sustainable Lean Programmes

As organisations begin to understand more about Lean, the challenge is to recognise that Lean is a journey, rather than a destination. Embedding sustainable Lean programmes requires top management to demonstrate a commitment to creating a culture within the organisation, characterised by a belief in continuous improvement, and one which empowers employees to solve problems at their own level:

*"I want to instil an attitude of continuous improvement throughout the company with ideas like JIT and an understanding of what Lean actually is. At this stage I am looking at putting mechanisms in place."*

**Manufacturer**

*We do apply the principles [of Lean], we have all our people on the 6 Sigma programme. Everyone will be trained to 'green belt' level with quite a few at 'black belt' level."*

**Manufacturer**

## Using Lean to Manage Supply Chain Risk

Supply chain change programmes can be inherently risky, not least those initiatives involving large-scale systems changes. Our findings suggest that it is not unusual for even the larger retailers to make do with long-standing legacy systems, rather than expose the organisation to the additional risk of change and new systems implementation.

The alternative is to understand, measure and continually improve supply chain processes, using Lean working practices in order to create the best climate for controlled change and to significantly reduce the risk associated with major transformations:

*"I agree with the idea that if you know your supply chain and have a good overview of stats. and metrics, it does reduce the risk associated with change. Also, the best way to mitigate the risk of change is to set up best practice... or learn from other parts of the business."*

**Retailer**

*"We have not as yet experienced any major problems with the new system's roll out, I think this was because both the IT system and the supply chain are well understood"*

**Manufacturer**

## The Role of Supply Chain IT and Technology

Our research programme set out to investigate the role of supply chain systems and technology. We were keen to understand whether systems and technology are drivers of change within the retail supply chain or, conversely, whether solutions are selected to support business process.

The research interviews highlighted that IT and technology are seen as enablers - selected or developed in response to the specific needs of the supply chain:

*"Technology is used in response to people's needs in the supply chain. There needs to be a clear business requirement for the software. Too many people jump to software solutions without actually thinking whether it solves the problem."*

**Retailer**

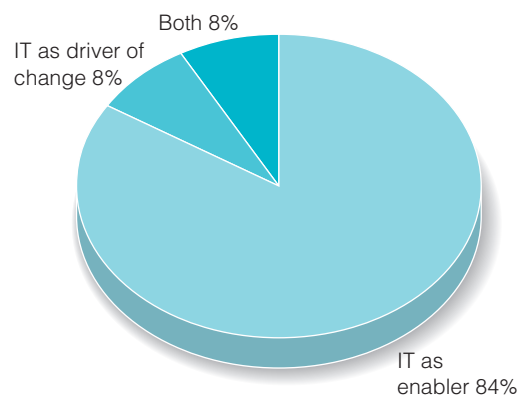
*"The most important thing is to understand your goals and aims. It is then a case of finding a technology solution, which enables you to achieve them. IT is an enabler, it does not define your strategy."*

**Retailer**

*"I think that technology rarely drives change, it supports it but we wouldn't change the technology we used unless it was of significant benefit."*

**Retailer**

IT is seen as an enabler rather than a driver of change:



## Using IT to Standardise or Stabilise Supply Chains

Predominantly, retailers are using IT to standardise or stabilise their supply chain and operations – particularly those who appear risk averse or who are facing performance issues.

Information gathering is another primary role for technology and IT, specifically to review performance or to target areas of inefficiency and check whether changes have resulted in any improvements.

The use of IT in the supply chain:

Standardisation	Information Gathering	Directly Enabling Change
<ul style="list-style-type: none"> <li>Companies use IT to help standardise and stabilise their supply chain and operations.</li> <li>This is especially true for companies who are risk averse or poorly performing.</li> </ul>	<ul style="list-style-type: none"> <li>Companies reviewing their performance and operations require information allowing them to target areas for improvement and check whether changes have resulted in any benefit.</li> </ul>	<ul style="list-style-type: none"> <li>Occasionally implementation of a new technology will directly drive substantial changes to operations and procedures.</li> </ul>
<p>'We prefer a uniform system across the board – at this stage it's exactly what we need'. <b>Retailer</b></p> <p>'IT provides a structure; it's integral to how the DC is run.' <b>Manufacturer</b></p>	<p>'Deploying IT gives you the information you need to make things Lean or improve a situation.' <b>Retailer</b></p> <p>'Technology's main role is to help automation, information gathering and to drive performance in that way.' <b>Retailer</b></p>	<p>'We introduced 128 bar-coding across the whole European operation... warehouses could be electronically pre-advised as to what to expect... this cut out a lot of wasted time.' <b>Manufacturer</b></p>

## Supply Chain Systems' Functionality

There is a great need for flexible, proactive supply chain IT systems to provide both current and historic data. Our findings show that this need extends across a broad range of sectors and job roles. A common requirement not met by many supply chain systems is the need for dynamic or real-time reporting:

*"If I could improve one thing about the present IT set-up in my warehouse it would be being able to have more live reports on both product availability and work flow."* **Retailer**

*"You must be able to see the situation and have access to the relevant information to change a situation. The thing I'd like most is access to good management reporting; KPIs will change over time... often by the time I get the information it's too late to act."* **Retailer**

Other organisations interviewed during the research find it difficult to create an integrated picture of their entire supply chain:

*"Another big issue with IT is that we struggle to have all the different systems from different parts of the supply chain integrated and giving overall integrated information on the entire supply chain. I want to be able to pull info out of multiple systems and need good MIS."* **Manufacturer**

*"My biggest headache is getting data from our multiple systems."* **Retailer**

Particularly for retailers, as their businesses grow or become more complex due to the challenge of multi-channel fulfilment, difficulties can arise as a result of legacy systems not originally configured to manage complicated supply chain operations:

*"The different warehouses use different software, they are packaged in-house solutions. The company's ethos is to use in-house software where we can. The question is whether the software will be able to keep up as the business becomes more complex and diverse."* **Retailer**

## Barriers to Implementing New Systems and IT

Despite the shortcomings of legacy systems, particularly where several individual systems have been developed in response to specific business needs and are now required to provide end-to-end supply chain visibility, there often remains a resistance to implementing new technology or systems.

We found this can be due to a perception that some IT systems are overly complex, incorporating functionality which may not actually be required. Other causes of concern in relation to technology as an enabler of Lean working practices included the perceived time to implement new systems: (see over)

Perceived barriers to new system implementations:

Redundancy	Risk	Implementation Time
<ul style="list-style-type: none"> <li>Members of the DMUs for many organisations felt that IT systems could be needlessly complex and included functionality which was simply not appropriate or necessary.</li> </ul>	<ul style="list-style-type: none"> <li>For some, the risks of implementing a new system may outweigh the perceived benefits. In other cases there may be specific risks with a new technology.</li> </ul>	<ul style="list-style-type: none"> <li>In some cases, the time taken to implement a new IT system means that by the time it is up and running, the organisation's requirements may have changed.</li> </ul>
<p><i>'When you bring in a new system a lot of the functionality is in fact redundant either because people don't need it, or don't know about it.'</i> <b>Retailer</b></p>	<p><i>'A new WMS might save us 15% of our warehousing costs. However, warehousing costs only represent about 2% of our turnover – so the savings are not great. More importantly there is the worry that changing all the processes and systems could cause a disaster and get you into the FT for all the wrong reasons.'</i> <b>Retailer</b></p>	<p><i>'One problem is that the lead times are so long between signing the contract and the delivery – up to five years.'</i> <b>Retailer</b></p>

## Using Technology to Enable Lean

Organisations securing the most benefit from new or existing supply chain systems were found to be those who are successfully aligning IT functionality with well-managed business processes:

*"Technology is very helpful and certainly helps to enable Lean processes."*  
**Retailer**

*"The key point with practically applying Lean processes is that you need to be able to measure how you are doing, to see if you are actually being Lean. You need to be able to measure all the relevant factors such as lead times, stock figures and supplier stats. I think some software can actually confuse processes if it's not that flexible."*  
**Retailer**

## Management of People

With the focus on trading objectives, or a series of initiatives in response to increased customer expectations of service and tough market conditions, it can be a challenge to dedicate sufficient time and resource to optimised labour management.

Our research found that very few companies had particularly well-structured labour management approaches, although most of them recognised the need and significance of correct labour management:

*"Labour management is important. Getting the most out of the staff is very important. It is about making sure people are being positioned correctly in the warehouse and doing the right job at the right time."*  
**Retailer**

*"As a company, we are not very good at labour or people management... there are a number of areas we really need to work on."*  
**Retailer**

## The Use of Systems for Labour Management

The research findings also indicated a wide recognition of the role of IT in relation to the management of people, but found that a number of organisations are not getting enough details from their IT to allow optimised labour management.

All organisations interviewed measured picking times in some way to understand how well their staff are performing, but only 20% of the companies said they also used accuracy metrics in assessing picker performance.

Issues faced by retailers and manufacturers, specifically in relation to reporting picker performance, included not getting the data on demand, or only being able to measure picks over time and not by product group. Other organisations are finding it difficult to drill down to individual staff member level.

*"The system should support labour management, it should allow you to view the work that is there, see how many man hours are required and see if you are matching those targets aligned with industrial standards."*  
**Retailer**

But for a number of organisations, this information is not readily available:

*"We use the WCS system for this though it is a bit frustrating that to look at employee A's performance you have to pre-request the system to log the data. You cannot get the data on demand."*  
**Retailer**

Whilst some senior managers were very happy with the level of information and control around picking activity:

*"All our picking here is done manually. Both the old and the new systems keep track of all the picking times both in terms of people and product using an RF tracking system so I can check anything."*  
**Manufacture**

Many others were experiencing difficulties:

*"Whilst it does the basics well, aspects like in and outbound orders and stock allocation, it lets us down with regard to reporting. There aren't details around picking times which would be useful when trying to make improvements."*  
**Manufacturer**

*"The system measures when people log in and how many picks they perform. It does not measure the time for each individual pick. It is possible to take the data and put it into a spreadsheet to analyse it further for pick times for a product, but the system doesn't do this work for us."*  
**Retailer**

## Integrating People, Process and IT

Truly Lean operations can only be achieved through the alignment of people, processes and IT. A successful approach will combine standard work as the foundation for continuous improvement, with trained employees who have an in-depth understanding of processes – and the tools and techniques to problem-solve at their own level – plus integrated supply chain IT to identify and measure improvement activities.

Research interviews further revealed that both initiatives aimed at improving a process and the IT itself were being undermined when the correct people and processes were not in place:

*“More often than not, the issue will be nothing to do with the technology in place, it will be to do with the reason for receiving the information. To solve that problem you need to sort out the people, not the technology. The ONLY source of positive action and improvement is people.”*

**Retailer**

*“However good the IT, ultimately, it depends on the people who use it and implement any changes.”*

**Retailer**

## Drivers of Change in the Retail Supply Chain

Organisations are forced to change for a number of reasons. It may be the need to improve customer service, or in response to increased competitor activity. For some, change becomes imperative in order to meet ongoing cost and margin objectives or simply to survive.

Our findings revealed that drivers of change vary according to industry sector, end customer needs and current financial performance, but are most frequently cost or a combination of cost and customer service requirements:

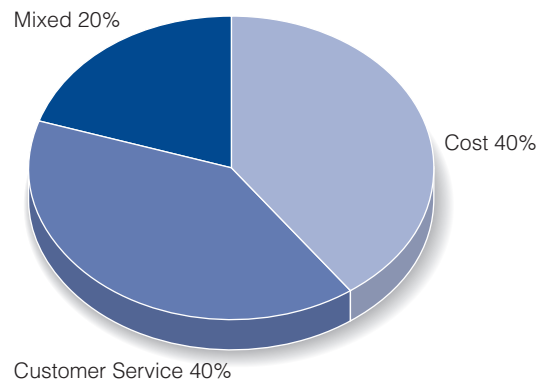
*“The key driver for continuous improvement is cost.”*

**Retailer**

*“Customers and cost drive continuous improvement – it is impossible to single out one as the main driver.”*

**Manufacturer**

Equal numbers of retailers and manufacturers see costs and customer needs as the primary drivers of change in their supply chains:



## The Means of Implementing Change

Our research uncovered a wide variation in approaches to driving change and implementing continuous improvement focused on the supply chain. For many retailers and manufacturers success is achieved by means of a process driven approach:

*“Our people are on the 6 sigma programme... this means that on the floor our people are encouraged to be constantly coming up with ways of improving the processes they are involved in.”*

**Manufacturer**

*“We’ve set up a process similar to the Unipart Way – it really helps to engage staff.”*

**Retailer**

For other organisations the approach to continuous improvement is champion-driven, whereby an individual – or group of individuals – is tasked with reviewing working practices and driving through solutions and improvements:

*“My role is to try and instil a culture of continuous improvement.”*

**Manufacturer**

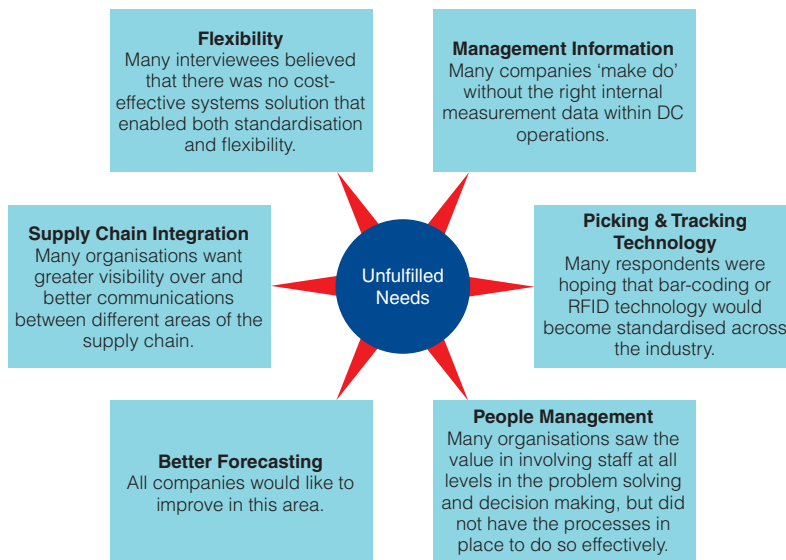
Finally, for some organisations the methodology to implement and sustain continuous improvement is not yet fully defined:

*“We are looking to make little improvements all the time, but don’t have a system in place to make that happen.”*

**Retailer**

## Unfulfilled Needs

In conclusion, our findings revealed the most common areas of difficulty for senior supply chain professionals. Described as 'unfulfilled needs', these problem areas are often specific to an organisation's position in the supply chain, or to the industry sector, but several broad issues are common to many retailers and manufacturers. In comparison with our previous research programme 18 months ago, unfulfilled needs now attracting increased attention are people management and supply chain integration:



## Research Methodology

The primary research programme from which this summary report of findings is taken was commissioned jointly by Unipart Logistics and Manhattan Associates, and undertaken by White Space Insight.

The programme objectives were to research retailer and manufacturer understanding of Lean principles, to better understand the scale of Lean initiatives and to reveal to what extent supply chain systems are being aligned with Lean working practices.

**Unipart Logistics** provides logistics and supply chain services across a wide range of sectors including retail, manufacturing, aerospace and automotive. Clients in the retail sector include Halfords, Homebase, ASOS.com, Waterstone's and Habitat. Core services include warehousing, transport, e-fulfilment solutions, inventory and supplier management as well as service and repair management, which can be combined to provide bespoke solutions for specific clients.

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