

# Lean Distribution

A dramatically different approach  
to business

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## Executive summary

Lean is no longer just for manufacturers. Taking a page straight from the lean playbook, forward-looking distribution companies are beginning to embrace the far-reaching value of lean business practices. Hardly surprising, given that every area within a distributor's department and business process—from order entry and processing, inventory control, finance, human resources, and purchasing to supplier management, customer service, customer relationship management (CRM), and sales and marketing—can benefit from lean principles. Proven principles that drive increased quality, reduced waste, and enhanced competitiveness.

Distribution companies bear the responsibility of delivering superior customer service while at the same time lowering operational costs. But trimming such areas as inventory, transportation, and service costs often results in a negative impact on the service they provide. Minimizing costs without affecting service—one of the distributor's most daunting challenges—demands a delicate balancing act.

Companies aiming to strike this difficult balance have a clear imperative: To improve the bottom line not only through cost cutbacks, but also by implementing new and better processes to strengthen productivity and service levels. Enter lean distribution—a dramatically different approach to business.

In this white paper, we explore the concept of lean distribution and how it establishes a framework for helping distributors operate at peak efficiency, exceed customer expectations, enhance profitability, and achieve competitive differentiation. We also provide an overview of Infor™ solution functionality that positions distribution companies to achieve these benefits by helping them navigate the complexities of implementing lean business practices—and by keeping them on the right trajectory to lean performance improvements.

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## The skinny on lean: Doing more with less

Lean companies are efficient companies—and they enjoy many competitive advantages. Distributors are no exception. Those adopting the lean philosophy benefit from a lean distribution operation, performance improvements, greater customer satisfaction, and a better bottom line. And with results as compelling as these, it's easy to understand why the lean concept is capturing the attention of forward-thinking distributors seeking a better, more lucrative way to do business.

A decisive departure from business as usual, lean is often described as a tightly focused process to eliminate waste, enhance productivity and throughput, and lower total costs. To attain such goals, a company must first look for evidence of capacity-constrained resources. These bottlenecks limit output, create needless inventory and/or manpower, and use unnecessary resources that impede efficient, accurate, and timely operations.

Becoming lean means identifying these bottlenecks or the non-valuable steps that reside in every process, procedure or resource—and then purposely targeting them for removal, step by step. It's all about continuous improvement within the process, procedure, or resource, ever striving for absolute efficiency.

The benefits of lean are real and well-documented. But meeting the goals of efficiency, waste reduction, and continuous improvement can be daunting tasks. Confusion regarding lean plays a key part. With the plethora of information produced in recent years on the subject of lean, recommendations for achieving it seem endless and somewhat unclear.

Despite the sheer volume of information floating around, the basic concept surrounding the lean philosophy remains constant: Having the ability to do more with less. This means processing fewer transactions with fewer resources including people, machines, material, energy, and the like—and only using those deemed essential to, for instance, satisfying a customer order.

## The lean approach—inside and out

Almost every internal and external process, procedure, and resource can improve through lean principles. But to achieve these improvements, distributors must adopt lean principles across the entire company and their supply chain, and not only within a single department.

So what does it mean to be lean across all departmental functions inside and outside the company? How can an organization position itself to achieve lean business practices across its entire supply chain? And what critical elements must each manager consider to support lean principles in his or her area of responsibility?

If companies apply lean principles as a holistic approach throughout their entire organization, the potential payoffs for such an enterprise-wide lean initiative can be dramatic. Yet understanding the opportunities for extending the lean philosophy across the enterprise requires a grasp of the guiding principles of lean, as well as the elements that comprise a truly lean initiative. At its most basic, lean represents a focus on greater operational efficiency, the elimination of waste throughout the organization, and continuous improvement.

Lean distribution triggers notable benefits such as:

- Shorter lead times
- Better delivery performance
- Higher sales revenue
- Lower operating costs—and greater profits
- Better customer satisfaction and supplier relations
- Higher inventory turns and dramatic inventory reductions
- Greater employee morale and retention
- Additional working capital for new projects
- Fewer physical space requirements

When a distributor's entire business embraces lean—and success demands an organization-wide commitment to lean—each department can realize significant benefits such as these. But every department or functional area must first examine who its internal and external customers are, as well as the traditional end customer.

A marketing department's customers, for example, may include the company's sales staff, sales channels, distribution partners, and complementary solution partners. For warehouse operations, it's order entry and customer service representatives, sales people, suppliers, and shippers. Finance and human resources departments should view every functional department as a customer, providing business intelligence along with business planning and reporting to improve their department-level performance.

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Once the entire company establishes who its customers are, it must drill deeper within each department to search for areas of improvement. Every functional area can begin by developing a complete understanding of each step involved in its typical business process flow. Ideally, each area should jumpstart this effort by gathering feedback via interviews and surveys from the different internal and external customers. Within the customer management side of the business, the company must examine multiple ways for improvement, linking customers with sales, service, marketing, distribution, logistics, and other areas.

Typical examples of where—and what—to evaluate:

**Order processing.** The order processing department is charged with reviewing the different options and procedures for customers to place orders, as well as the impact on other organizations. Do they adequately support the customers' needs? How often do customers inquire about their order status—and what is the most efficient, customer-centric way of making this information available? What payment options and terms meet the needs of the customer and the sales and finance departments? Lastly, how are orders accepted, processed by the warehouse, and fulfilled?

**Customer service.** Satisfied customers are repeat customers. So having the ability to effectively serve customers, while adding value and solving their issues, is critical. Because long-term customer loyalty hinges on how well your employees manage these important relationships, answering the following questions is imperative: What options and procedures are available to customers looking to resolve an issue? When do customers typically call—and what's the expected wait time? Is the amount of resources allocated to handle these calls appropriate and cost-effective? What are the anticipated issues and known corrective actions? How is follow-up approached? And how are common issues communicated to other organizations and documented for future reference when the same customer calls again?

Given that many lean concepts were established in the Japanese culture where balance, harmony, discipline, and group organization are key themes, it's simply not enough to use only the vocabulary and individual elements of the philosophy. Rather, it's the sum total of the elements, as well as the synchronized relationship to one another that render them most effective. Likewise, it's the adoption of lean beyond one department that makes a lean initiative most effective.

## Going lean: How to get started

Becoming a lean-centric organization is not intuitive. It can be a complex and lengthy process. This, in part, because many distribution companies know too little about their order, delivery, and line-item transaction costs, as well as other essential metrics, to know where to launch lean practices.

Once a company commits to going lean, it must create internal teams to examine every process, procedure, and resource not only for the value it delivers, but also to determine how it's performed. What's more, when each team identifies barriers to improvement in their specific area, they need to prioritize these obstacles based on their impact.

The teams are then tasked with developing and initiating corrective measures for these areas, and then communicating their findings to management. But it's important to bear in mind that the work doesn't stop there. Lean distribution is a never-ending task. The entire process must be ongoing to ensure that the company sustains its ability to operate more efficiently and productively by overcoming its obstacles.

Organizations may face many obstacles to becoming lean including:

- Inadequate personnel training, cross-training, or teamwork—and/or shortage of skills
- Outdated or inefficient tools/equipment and/or lack of automation
- Multiple storage locations for the same products
- Ill-sized storage locations
- Lack of employee ownership of the job at hand
- Fast-moving products that are poorly located
- Excessive picking exceptions
- Poor time management by distribution center staff
- Inefficient execution of receiving activities and slow stock put away
- Excessive backorders
- Hard-to-locate new products or misplaced products

### Plan of attack

To tackle obstacles head-on, lean-centric companies know first-hand the importance of creating a corrective action plan for every identified barrier, beginning with the worst. Common corrective actions to improve a particular process might include:

- Revamping personnel assignments and work hours
- Teaming up with employees for better time management and cross-department communication
- Altering a portion of the warehouse facility's footprint
- Modifying warehouse storage systems

- Trimming picking time by relocating inventory
- Updating/upgrading or replacing storage media and resources for materials handling
- Ensuring capabilities for multiple order picking

To determine the value of the corrective actions taken, performance measurements are critical. If the organization doesn't know how it's performing, how can it improve on that performance? Even as it attempts to implement changes, the company's team must take measurements then compare those measurements to a baseline every week. The entire organization, from warehouse personnel to every member of the team to management, should have access to the weekly results to ensure continuous improvements by keeping the most valuable corrections on track.

Performance-driven improvements are sparked by an overarching focus on challenging existing practices, sustaining a readiness for change, seizing every opportunity to overcome obstacles, and monitoring key performance metrics. These important procedures establish the framework for an effective lean program. One that will show distributors of all types a better way of conducting business.

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## Technology to unlock lean's potential

As with any business process-oriented initiative, effectively applying information technology is the cornerstone of a sound lean program. In fact, the speed, volume, and complexity of today's business transactions dictate the use of technology to better support communication and information exchange across the organization's departmental boundaries—and its supply chain.

Customer order and service requests can be submitted in more ways, including phone, fax, email, web portal, and mobile devices, than ever before. Moreover, companies can leverage appropriately applied lean-centric technology to eliminate the redundant entry of information from one department to another. In other cases, technology saves valuable time by removing steps traditionally requiring human intervention.

Distributors can also employ lean-centric technology to guide workers to the most appropriate work assignments, based on newly established lean practices. In essence, lean tools and technologies deliver an added level of efficiency and business improvements. Equally important, as technologies are created and continually enhanced, distribution companies will benefit from opportunities to broaden lean initiative improvements as they're rolled out within the organization.

## Infor distribution solutions: Driving lean business improvements

The current business environment guarantees more than a few serious roadblocks along the path to becoming lean. But information technology can make for a smoother journey. By delivering tools to enhance efficiencies and improve productivity, Infor solutions help distribution companies run a lean operation. Functionally robust and proven, these business-specific applications do this by equipping distributors to reduce waste and redundancies within an extraordinary climate of complexity—without errors, delays, or inefficiencies.

Distribution companies using these solutions can better navigate common complexities by automating and integrating core processes, including inventory management, order entry, financial management, and sales operations. As a result, they gain a deep and comprehensive view of factors driving customer service and other key processes.

Infor solutions support lean distribution initiatives with core functionality including:

**Order processing.** Facilitates complete control and management of the customer order entry process, allowing exceptional speed, accuracy, and customer service. Orders are fully processed with the least amount of key strokes. At the same time, pertinent information on inventory, pricing, shipping, customers, and more remains upfront and visible to satisfy the ordering process and eliminate redundant and non-valued steps. Integration with other systems such as inventory, warehouse, and financial management helps keep all systems current and workers productive.

**Inventory control.** Drives efficient, end-to-end inventory control and management to help increase inventory turns and maximize margins, while determining the right amount of the right inventory at the least expense. Distributors using Infor functionality can control the complete inventory life cycle—from order entry and customer management to complex pricing and price management to rebates and detailed units-of-measure.

**Warehouse management.** Helps manage warehouse workflow in real time, providing advanced picking, packing, and placement capabilities to enhance the distributor's ability to better manage warehouse activities. Specialized features such as voice enablement, radio frequency identification (RFI), labor management, and dock-door scheduling equip distributors to pinpoint the best place to stock the most popular items, like closer to the shipping department or at the beginning rather than at the back of a row of shelves. These inclusive features even help determine if an item is easier to dispense from a pallet instead of a shelf.

Moreover, by automating the distribution environment, companies reduce product touches, capture data more accurately, and fill a customer's order more completely. Warehouse management capabilities also ensure accuracy, boost employee productivity, and reduce damages, while lessening the need for redundant quality control activities—all core components of a lean environment.

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**Mobility in distribution.** Allows workers in the field to quickly access real-time information, significantly reducing wasted time, inaccuracies, and needless steps in better serving customers. For instance, sales representatives can immediately, easily, and accurately answer customer questions, maintain inventory located at the customer site, or order additional inventory for the customer. All this without the additional steps normally involved when the sales reps return back to the distribution center.

**Strategic business analysis.** Supports lean distribution by providing easy access to information important to sound decision-making. Infor capabilities reduce information overload and improve productivity by presenting the specific information an individual or “role” needs to perform the job in a personalized, easy-to-use format.

When information is presented in a requisite manner for a particular function, employees can better understand their role, make more informed decisions, and perform activities most essential to the task much faster. Embedded in Infor distribution solutions are years of industry-specific knowledge regarding best practices and key performance indicators. Distributors using these applications gain the ability to drill deep into relevant business data stored within them to help every worker become a better, more productive employee.

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## Conclusion

The stakes in the marketplace are high, and the competition is intense. But changes occurring in the supply chain create compelling new opportunities for distribution companies to strengthen business performance by applying lean concepts. While this can be a complicated and protracted process, lean organizations become more agile, coordinated, and responsive to their customers. Going lean also triggers reduced space and inventory requirements, lower transaction costs, and greater accuracy.

By targeting and systematically eliminating non-value activities or waste, companies can establish the best, most direct path to improving performance. Equally important, they will keep overall costs in check—and gain traction in their market space. But achieving a successful lean distribution operation requires challenging current practices, involving appropriate areas of the company, maintaining a readiness for change, and seizing opportunities as they present themselves.

Each documented problem demands corrective action. Solutions proving successful should boost overall performance. If not, it's back to the drawing board to identify additional obstacles until the problem is rectified and goals are met. Tracking key performance metrics must remain front and center. This means regularly examining and quantifying performance metrics throughout the entire organization, focusing most closely on those with the greatest impact, even after the distributor reaches its objectives. Time-consuming, yes, but a small price to pay for the impressive benefits gained by going lean.

Experts concede that lean is a journey, not a destination—and that continuous improvements reside at the heart of a successful lean strategy. But creating a truly lean environment takes time. And it all begins by identifying barriers to success and then developing a solid action plan to turn these obstacles into real opportunities.

Infor delivers solutions that help distribution companies realize tangible business performance improvements by becoming a lean-centric operation. These organizations can also expect a higher, faster return on investment through these performance-driven improvements, a quicker time to value, and a lower total cost of ownership.

### **There is a better way.**

At Infor, we work with a core belief. We believe in the customer. We believe that the customer is seeking a better, more collaborative relationship with its business software provider. And a new breed of business software: created for evolution, not revolution. Software that's simple to buy, easy to deploy, and convenient to manage. Our 8,000+ employees in more than 100 countries and 70,000 customers stand with us. We look forward to your sharing in the results of our belief. There is a better way. For additional information, visit [www.infor.com](http://www.infor.com).

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