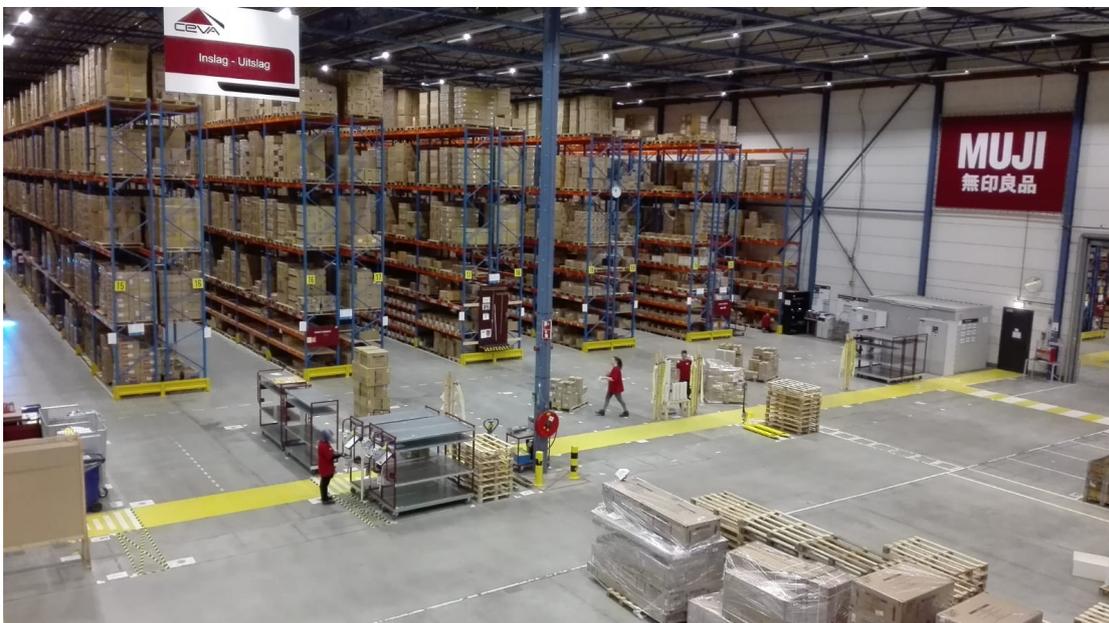


# Managing Lean Success: A Warehouse Balancing Act (B)



## Introduction

It was May 2018, more than three years after Uniqlo CEO Tadashi Yanai's visit to CEVA's Borschwerf II warehouse, during which he had expressed disappointment in CEVA. CEVA's region manager Michiel van Boxtel remembered well what a shock Yanai's criticism had been to him and his team and how this had urged them to find the root cause of the problem and solve it. CEVA decided that in order to sustainably meet its obligations to Uniqlo, the company needed to return to its core value of putting its people first, which is the foundation of lean management and employee responsibility. Instead of opting for the short-term solution of top-down management, CEVA invested in transformational (worker-centric) leadership, which allowed CEVA the production flexibility it needed to be able to handle the variations in warehouse volumes.

This change in leadership style paid off sooner than Van Boxtel had expected. When Yanai visited again in November 2015, he was enthusiastic about CEVA's achievements, even saying that he had never seen such a quick and thorough turnaround in Japan. Uniqlo renewed its contract with CEVA in 2017, and CEVA expanded its warehouse space in the expectation that Uniqlo would continue its growth in Europe. In 2018, CEVA and Uniqlo were already starting negotiations for the next agreement. Now CEVA had happy customers and plenty of warehouse space for future business growth. However, it was beginning to face new challenges – namely, how to ensure that it had enough shop floor workers to keep up with its ever-increasing production requirements, while keeping to its sustainability commitments in the process. The industry was no longer what it had been three years ago: retail collections were renewed much faster, warehouse jobs were moving east, automation was on the rise, and labour immigration policy was tightening. CEVA was already noticing that it was hard to hire and retain good people. Securing enough qualified labour and continuing to promote its sustainability agenda became CEVA's next big challenge.

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*This case was developed by Tao Yue and Deborah Sherwood under the supervision of Professor Rene de Koster at the Rotterdam School of Management (RSM), Erasmus University. The authors would like to thank Professor Rob van Tulder at the RSM and Stijn Groot, Cornelis van Dijk, Michiel van Boxtel, and Luc de Jong at CEVA Benelux for their comments and input.*

*This case is part of the RSM Sustainable Development Goals (SDGs) case series. It is based on field research and is written to provide material for class discussion rather than to illustrate either effective or ineffective handling of a management situation.*

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## The Visit to Japan: Identifying the Problem

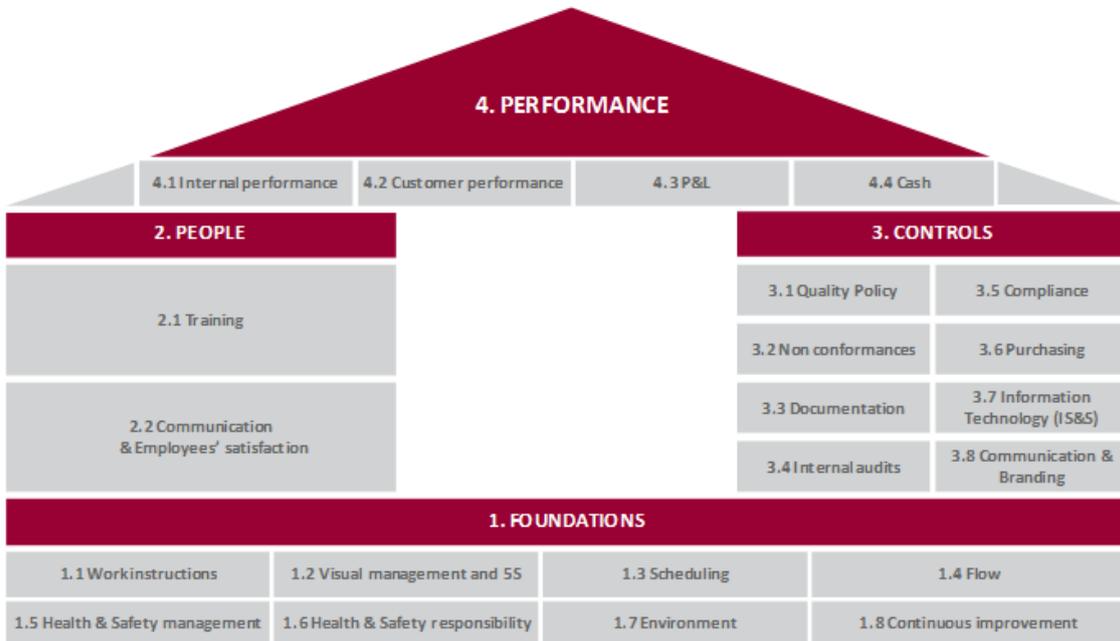
In June 2015, Yanai invited Van Boxtel to come to Japan to see the Uniqlo warehouse there. The visit confirmed Van Boxtel's intuition: CEVA's resort to top-down management when handling the busy startup period for Uniqlo had not been a sustainable solution. It needed more built-in flexibility to be able to handle the variation in warehouse volumes, as well as a return to its company culture of employee engagement. The mistake management had made was that although they had given the warehouse employees the tools of lean operations, they had not motivated shop floor workers to make changes in their day-to-day work. Instead of simply expecting that people would use the lean tools, there should have been more leadership by example. If people did not fully understand how to apply the lean principles to achieve continual operations improvements, the tools would never be effective.

Van Boxtel returned from his visit to Japan brimming with new inspiration. He told his team that lean management was not just about tools, but that it has three inseparable components: a roadmap to the company goals, engaged leadership and lean tools. He also helped them look at things further from the customer perspective: customers were not interested in the tools or processes CEVA used, but only about the value they could receive from CEVA's services. In order to create sustainable value for customers and embed lean behaviour in the company culture, CEVA management needed to first share its goals for lean and sustainable operations with all employees, then promote lean awareness at all levels, and create a structure for people to follow the principles, using leadership by example to encourage participation, collaboration and commitment. This would require a transformational leadership style.

## Emphasis on Transformational Leadership

CEVA set to work in making these changes, placing higher goals for itself each month. In order for employees to understand the company's goal for *lean*, management explained the industry to them and showed them where CEVA was in competition and what lean meant for CEVA. To promote lean and sustainability awareness, CEVA set up a *dojo* (training) room and designed fun training exercises for employees. They also revised and simplified language in safety manuals and lean terminology so it could be more accessible and understandable for employees. To create a structure for people to follow the principles, CEVA created a 'house' of excellent operations that brought together the foundation of operations, people, control, and performance in one chart (**Exhibit 1**) transparent to everyone. To use leadership by example, CEVA began a system of internal assessment, using a showcase model to exhibit the progress towards operations excellence (**Exhibit 2**). The showcase was placed at the most prominent spot of CEVA's Borchwerf II office.

Exhibit 1: Structure of excellent operations



Source: CEVA internal document

Exhibit 2: Site classification assessment

**Objective**

- Set measurable operations excellence standards
- Evaluate operations excellence at site level based on 3-star system
- Journey to showcase level will support creation of operations culture
- Make operations excellence visible

**Approach**

- Clear definition of all 4 levels
- Site assessment tool (22 metrics)
- Reward and recognition system

**Performance Management**



**Showcase operations provide highest stakeholder value.**

Source: CEVA internal document

In addition, the daily 5-minute kick-off meetings were reinstated, providing the important opportunity for the entire team to check in about the goals of the day and how they fit in to the larger goals of the company. The kick-off meetings were also a time for two-way feedback and discussion between the supervisors and their teams – how did things go the previous day, how was the workload, what could be improved that day? The system of *kaizen* was further developed: self-reflection and continual small improvements were realised. Shop floor workers were asked to contribute their ideas, and in each team assistant supervisors were designated. A buddy system was set up in which experienced workers guided new hires. Visual tracking boards, maintained by shop floor staff, meant that production progress could be easily tracked and adjusted. Managers and supervisors were asked to lead by example, and safety and health improved.

In 2017, CEVA hired a new global operations excellence manager and a new Uniqlo contract manager. The contract manager was now also responsible for operations, something unique to CEVA. More and more innovations continued to improve CEVA's operations and kept moving it forward toward better employee engagement. Shop floor employees became key users in warehouse test processes, and 60–70% of the project team comprised of shop floor workers. CEVA introduced Siegel's concept of the 'river of integration'<sup>1</sup>, in which changes come from the employees (bottom-up) and are integrated in production processes without interference from the management team. By the end of 2017, at least 90% of people at CEVA were involved in making improvements. Changes were also made to make the workplace more enjoyable, such as a bright new canteen with music, where people could relax.

Between 2015 and 2017 Uniqlo doubled its presence in Europe to over 50 stores. Uniqlo renewed its contract with CEVA in 2017 for another three years, and in May 2018, CEVA and Uniqlo already started negotiations for the next contract. In April 2017 CEVA completed the on-site move of its Uniqlo operations to the newly built warehouse, which was 9,000 m<sup>2</sup> larger. The new space provided 37,000 m<sup>2</sup> for Uniqlo, making it the largest retailing warehouse in the Benelux. The news of CEVA's success with Uniqlo spread, and CEVA acquired more Japanese customers, including MUJI, as well as additional European customers such as Roland BV. The company's profit margin was increasing. Employee satisfaction at CEVA was high, and turnover had become very low. CEVA felt that it was able to take on any new customer challenge.

## Increased Sustainability Commitments

CEVA believed that operating sustainably was not only good for people and the planet, but could also maximise long-term value creation for the company as well as offer better risk-adjusted returns for its customers by minimising waste and costs. Such an approach would benefit everyone involved: customers, employees, investors, and the communities in which CEVA operated in. It was therefore the foundation of good management practice, but it could only work effectively if everyone involved also took responsibility and if sustainable practices were put in place at every step of the value chain<sup>2</sup>.

To this end, CEVA’s sustainability aims were tied closely to their business objectives. A focus on financial performance and ethical business practices was at the core of the its approach<sup>3</sup>, centering on 4 key areas – *workplace, marketplace, environment and communities*<sup>4</sup>.

The workplace theme focused on attracting the best talent and – crucially – retaining them. This was done through good labor practices, continuously striving to make the workplace safer, and investing in employees by offering them expertise and career opportunities. In the marketplace, the company collaborated and built strong ties with many suppliers, to work towards service standards that were both sustainable and met customer expectations. Environmental considerations were integrated across all of CEVA’s activities, from procurement to warehousing and transportation. The aim was to measure, track, and decrease any negative environmental impacts where possible. Lastly, CEVA’s presence around the world meant it was active in many different places. Working together with local communities and investing in them through the company’s extensive experience in complex logistics could help both society as well as ensuring CEVA’s operations would grow unimpeded.

CEVA communicated with all its stakeholders in several ways (**Exhibit 3**) and 2018 was the first year in which the company conducted a materiality assessment to gauge its stakeholders view on a variety of sustainability topics (**Exhibit 4**). The purpose of this assessment was to gain clarity on what were stakeholders’ sustainability concerns and which environmental, social, and economical issues impacted CEVA’s value chain. Further research through questionnaires, interviews, and comparing processes and performance metrics in the industry had led to a list of topics to focus on (**Exhibit 5**).

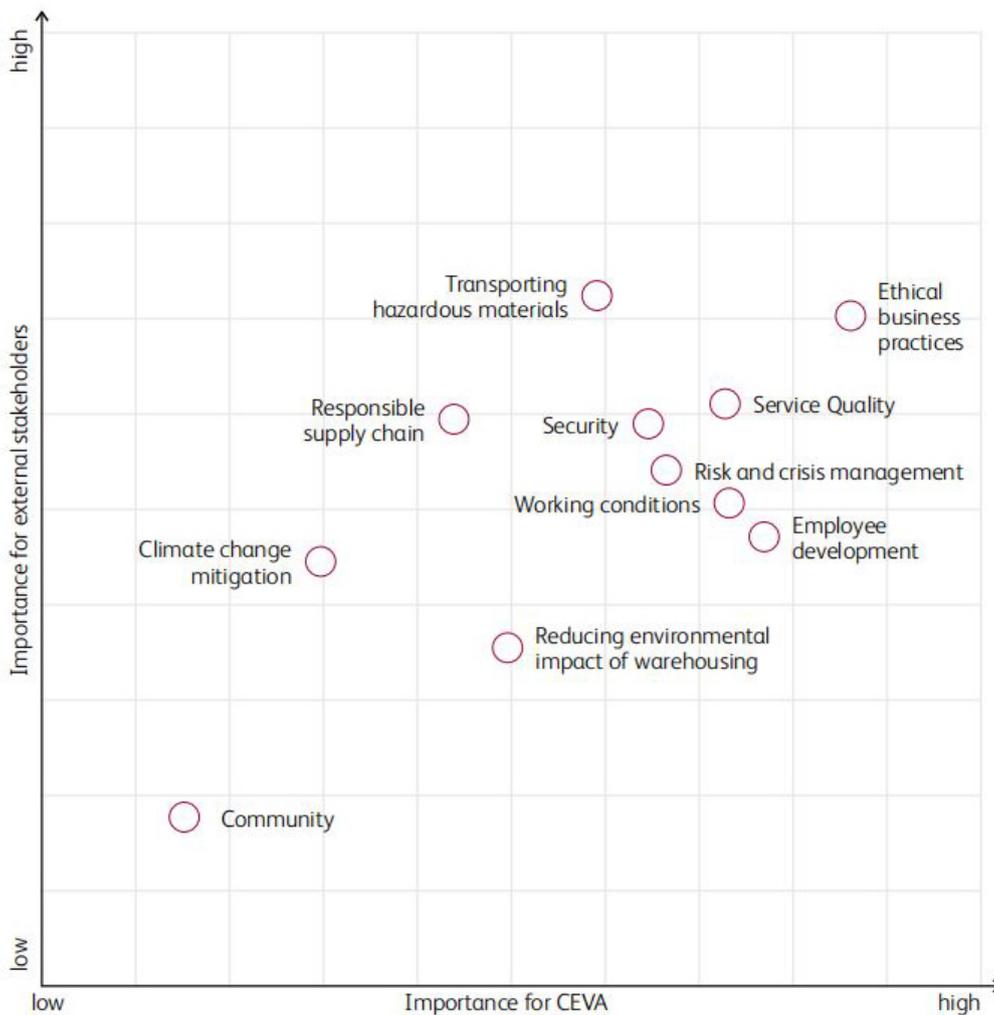
**Exhibit 3:** Examples of CEVA stakeholder engagement

<b>Examples on stakeholder engagement</b>	
<b>Employees</b>	Employee Satisfaction Surveys (in Eastern and Central Europe, North America and Germany) Town Hall meetings with Q&A sessions Annual Performance Management Program
<b>Customers</b>	Quarterly Business Reviews Customer Satisfaction Surveys
<b>Investors</b>	Mostly through Investor Relations. The first annual general meeting will be in April 2019.
<b>Suppliers</b>	Regular performance meetings Monthly cluster and country meetings Quarterly Business Reviews

Source: CEVA Sustainability Report 2018

CEVA was of course not alone in focusing heavily on sustainable development. Its competitors were doing the same. The top three third-party logistics providers – DHL, Kuehne+Nagel, and DB Schenker – all claimed to follow the Sustainability Development Goals (SDGs) as outlined by the United Nations. They all likewise strove to lead the way in sustainability in the industry, focusing on a multifaceted approach which looked at the impact on the environment, economy, and society. For example, DHL said on its website that it aimed to “embrace sustainable solutions, and become a benchmark of responsible business [...] by connecting people and improving lives”.<sup>5</sup> Similarly, Kuehne+Nagel announced that it was seeking to “contribute to the development and well-being of society and the environment”.<sup>6</sup> DB Schenker likewise placed great emphasis on social impact, not just “in creating a great place to work, [but also] giving back to communities too”.<sup>7</sup>

**Exhibit 4:** CEVA materiality matrix



Source: CEVA Sustainability Report 2018

Exhibit 5: CEVA list of material topics

<b>List of material topics</b>	
<p><b>Corporate Governance</b></p> <p><b>Ethical business practices</b>                      Business ethics                      Compliance                      Anti-corruption                      Anti-competitive behavior</p> <p><b>Risk and crisis management</b>                      Risk management                      Crisis management</p>	<p><b>Employees</b></p> <p><b>Working conditions</b>                      Occupational health and safety                      Human rights                      Diversity and equal opportunity                      Compensation and benefits</p> <p><b>Employee development</b>                      Employee recruitment and retention                      Training and education</p>
<p><b>Security</b></p> <p>Warehouse security                      Transportation security                      Cybersecurity (including data privacy)</p>	<p><b>Environmental responsibility</b></p> <p><b>Climate change mitigation</b>                      Greenhouse Gas emissions                      Fleet and fuel efficiency                      Air quality                      Customer carbon emission reporting</p> <p><b>Reducing environmental impact of warehousing</b>                      Energy consumption                      Water management                      Waste management                      Packaging</p> <p><b>Transporting hazardous materials</b></p>
<p><b>Value chain</b></p> <p><b>Service quality</b>                      Business Process Excellence                      Customer satisfaction                      Innovativeness</p> <p><b>Responsible supply chain</b>                      Supplier reliability                      Sustainable procurement</p>	<p><b>Community</b></p> <p>Community engagement                      Urbanization and growing middle classes</p>

Source: CEVA Sustainability Report 2018

## Changes in the Labour Pool and Warehouse Operations

Despite the industry-wide embrace of SDGs, there were forces outside of these companies' control that affected their sustainable practices as well as business. Gradual changes in labour force demographics meant that logistics companies, including CEVA, were beginning to face a new challenge – namely, how to ensure that they had enough capacity to keep up with its ever-increasing production requirements. Did it mean that they had to replace shop floor workers with machines? And, if so, what about the lives of the workers who got laid-off?

By 2018, it was clear that changes in the retail and consumer sector were significantly affecting the face of global logistics systems. Fashion retail collections were renewed every six weeks<sup>8</sup> or even sooner. Most importantly, the growing trend of e-commerce (web shops), with the associated huge fluctuations in order volumes, made shop floor operations highly unpredictable. Within logistics companies and warehouses, the established systems of business process engineering (BPE) such as on how to handle peak periods, solution design and cost models, and BPR (re-engineering) were being put to the test.

Another critical challenge was that jobs in Europe were moving east. Wages, for example in Poland and Turkey, were increasing, and people felt less of a need to move to Western Europe to seek employment. Despite this trend, labour and real estate remained cheaper in Eastern and Central Europe, and customers were moving their warehousing contracts eastward, also to be closer to the growing customer base there. This was not only placing increasing pressure on warehouses in Western Europe to recruit and retain high quality, motivated workers, but also creating uncertainties in predicting future business volumes.

In response to these challenges, some warehouses were introducing automated systems. Although less flexible and more costly (at least in terms of short-term investment) than human labour, many customers were pushing for increased automation. This shift was affecting the types of jobs that were available: fewer manual labour positions and more need for strategists, planners and system programmers.

## **2018 and Beyond: Balancing between Decent Work and Productivity**

CEVA had made huge investments in its employees over the past several years. Things were going well within the company. Yet these larger shifts were making it clear that CEVA's adaptability would be tested yet again. Van Boxtel knew that he had to look even more broadly than the business side of the logistics sector; EU and international policies on migration and integration, as well as global political and economic trends, also strongly affected the company. He needed to take these factors into consideration when deciding CEVA's employee policies and the company's forward path.

Van Boxtel considered the new contract with Uniqlo and CEVA's growing number of customers. CEVA's customers were happy, and business was on the rise. Yet he wondered how CEVA would be able to continue to find enough employees to handle its large portfolio. Any shortage of labour would mean a crisis at CEVA. With this in mind, Van Boxtel knew that he and his team had to decide the extent to which CEVA should follow suit with the automation trend. How could the company best balance its investment in its people with the inevitable requirement to invest in machines and computers? To be attract and retain employees, CEVA needed to continue offering them stable jobs with good prospects; yet CEVA also needed to explore automation in order to keep up with the demand for increased productivity and cost efficiency. And all the while, the company must maintain and expand its commitment to sustainability. How could CEVA achieve the balance?

Appendix A: Site classification assessment at the entrance of CEVA Rossendaal



Source: CEVA

## Appendix B: CEVA team at the Borschwerf II warehouse



Source: CEVA

## Appendix C: CEVA key financial results for Q1 2018

The table below shows the Group's key consolidated financial metrics for the three months ended 31 March 2018 and 2017:

\$ millions	THREE MONTHS ENDED 31 MARCH		
	2018 In actual currency	2017 In constant currency	2017 In actual currency
Revenue	1,790	1,699	1,596
Revenue growth	12.2%		
Adjusted EBITDA <sup>1</sup>	66	55	54
Profit/(Loss) for the period	(67)	(59)	(57)
Net capital expenditure <sup>2</sup>	20		25
Cash used for operations	(67)		(60)
Free cash flow	(130)		(133)

<sup>1</sup> Includes the Group's share of EBITDA from joint ventures, and excludes specific items and non-cash share based compensation costs ("SBC")

<sup>2</sup> Capital expenditure excluding finance leases

The table below shows the Group's key other financial metrics as at 31 March 2018, 31 December 2017 and 31 March 2017:

\$ millions	AS AT 31 MARCH		
	2018	2017	2017
Net working capital <sup>3</sup>	(172)	(255)	(83)
Cash and cash equivalents	203	295	239
Net debt	2,228	2,089	2,056
Headroom	502	578	479
Total assets <sup>3</sup>	3,631	3,557	3,276
Total Group equity <sup>3</sup>	(700)	(675)	(560)
Capital employed / LTM revenue <sup>1</sup>	8.1%	8.1%	8.1%
LTM Net capital expenditure <sup>2</sup> / LTM Revenue <sup>1</sup>	1.3%	1.4%	1.2%
Net working capital intensity (as % of LTM revenue <sup>1</sup> )	(2.4%)	(3.6%)	(1.2%)

<sup>1</sup> Refer to cumulative revenue over the last twelve months

<sup>2</sup> Refer to cumulative net capital expenditure over the last twelve months

<sup>3</sup> As of 1 January 2018 - refer to note 3 for details

Source: CEVA

(accessed from <https://www.cevalogistics.com/en/investors/quarterly-results-and-figures>)

## Endnotes

<sup>1</sup> Siegel, D. (2007). The Mindful Brain: Reflection and attunement in the cultivation of well-being. New York, W.W. Norton & Co.

<sup>2</sup> <https://www.cevalogistics.com/en/who-we-are/commitments/sustainability>

<sup>3</sup> <https://www.cevalogistics.com/en/who-we-are/commitments/corporate-governance-information>

<sup>4</sup> CEVA Sustainability Report 2018 page 9

<sup>5</sup> <https://www.dpdhl.com/en/sustainability/organization-and-strategy/sustainable-development-goals.htm>

<sup>6</sup> <https://home.kuehne-nagel.com/-/company/corporate-social-responsibility/sustainability/>

<sup>7</sup> <https://www.dbschenker.com/global/about/sustainability>

<sup>8</sup> <https://www.borchwerf.nl/nieuws/bedrijventerrein-borchwerf-ii-centrum-voor-fashion-retail/>