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Adding Value to Our Client Organizations

An Executive's Guide to Lean – Part 1: Why “Go Lean”?

“Lean” is a philosophy that is based on the simplification and standardization of business processes, the elimination of waste in all of its forms throughout the organization, and the concept of continuous improvement. Although it has primarily been associated with and developed by the manufacturing sector, it is becoming apparent to many that the concepts of Lean apply to much more than just manufacturing. Much like the shop floor, non-manufacturing organizations that have implemented Lean have eliminated waste, minimized non-value added activities, improved quality, corrected performance issues, integrated disjointed processes and automated required activities. The only real differences between the shop floor and non-manufacturing are that information is usually being processed instead of actual material components and the product being delivered may be a service or information, not a physical item.

Losing money due to wasted effort, low productivity of knowledge workers, customers lost or upset due to poor practices, mis-information causing chaos and low moral throughout the organization are all symptoms of the need for change. Applying Lean principles can solve many problems and can create a knowledgeable, empowered workforce that can provide a real competitive advantage to the organization.

Lean is not about eliminating staff or resources, it is about improving the value of activities so that workers are performing duties that directly relate to the result that the customer wants. Manufacturing, service, retail, professional, healthcare, educational, governmental, volunteer or any organization that delivers something to a customer via a process involving multiple people and activities can benefit from leaning out their processes, eliminating waste and working to the needs of the customer.

Implementing Lean techniques can help companies improve their operational performance and customer responsiveness and drive positive results to the bottom line. It's not uncommon to save tens or hundreds of thousands of dollars by implementing Lean techniques, however, Lean is not just about cost savings. It is also about potential revenue generation. Money and time that is saved and capacity resources that are freed up can be utilized to pursue other revenue generating opportunities, such as creating a new product or additional services. The improved performance to the customer such as better quality or faster, more reliable delivery, may be a premium on the market that is worth a higher price.

A quick review of the world wide web will produce articles that demonstrate some of the outstanding results obtained by companies that have succeeded with Lean:

- 50% increase in productivity
- 80% reduction in work in process
- 75% reduction in work space required
- 85% improvement in quality
- 95% reduction in lead-time
- 95% improvement in on-time delivery

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All of these benefits are very desirable and should catch the eye of any owner or executive, but Lean is not a one-time event or project that starts and stops so that those involved can go back to doing their regular jobs. It is a way of thinking to be applied to the entire organization which often times requires a culture change or paradigm shift. It is a continual process that revisits issues and looks for opportunities every day as part of the general way of doing business (hence the term “continuous improvement”). Those that have accomplished this realize that a Lean approach is a much better way of doing business.

Lean focuses on five principles that can be applied to manufacturing and non-manufacturing equally well:

1. Value Definition
2. Process Mapping
3. Uninterrupted Flow
4. Customer Pull
5. Pursuit of Perfection

One of the hardest aspects of this approach is to define “value”. The key here is to think of value in terms of the end customer and determine what it is that the customer is actually willing to pay for. Will the customer place the order without it? Is it directly related to the price that the customer is paying? Could it be listed as an item on the customer’s invoice? If not, it is likely something that is not value added so its elimination may be an opportunity for improvement. Once value to the customer is understood and defined, Lean techniques can be applied to eliminate the non-value added aspects of the process.

All too often, the term “Lean” is applied to a company that has reduced its workforce, reassigned tasks and improved how things are done such that those who remain are able to do all that needs to be done. Improvement efforts in these organizations concentrate on how to do things better rather than concentrating on what things really need to be done. By using a Lean methodology, the “how” part does not get addressed until the “what” part is defined, leaned and redefined.

A case in point: A company made improvements to the process of delivering documents between two departments (in this case, the receiving and purchasing departments in a manufacturing company). By installing a vacuum tube system, similar to that used at drive-up bank tellers, the company was able to improve the process of delivering paper work between these two departments. It was an admiral task with positive results: less manpower required to deliver documents, faster and more timely transmission of information and less risk of losing information in transit. The cost justification of this project determined that the benefits were worth the cost of buying and installing the equipment. Great!! Kudos to all those involved. However, this was not a Lean approach to the problem.

In a Lean approach, the question that would be asked is “Why do we need this information to go back and forth?”. As it turned out, the receiving department never used the purchase order

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copies they were sent as they received the product – they simply filed them in a file drawer. Purchasing did not take any action with the receiving documents they were sent - they simply filed them with the purchase order. Payables rarely used either because when they did, the problem solving trail had usually gone cold, so they simply paid the bill from the vendor. AHHHHHHHHH! The Lean approach would understand that this activity has no value to the customer and would concentrate on finding ways to eliminate it.

Those who truly succeed with Lean are those who manage to embrace employee empowerment and continuous improvement so that they can realize the benefits of Lean forever. What they have done is to change the mindset of the entire organization in order to assure the long term viability of the company with benefits such as:

- Alignment of operations and corporate strategy
- Improved quality and delivery to the customer
- Improved throughput and reduced costs throughout the organization
- Improved communication throughout the organization
- Increased flexibility in satisfying changing customer demands
- Focused attention of everyone to the needs of the customer

By applying the lessons learned in manufacturing and focusing on the five principles of Lean, those who have embraced Lean and its disciplines have made an important change to how their business operates regardless of industry. Getting administrative personnel focusing on continuous improvement and the customers' needs is just as valuable as getting the shop floor to be Lean in regards to the organization being competitive and profitable. Having those involved continually looking at processes to identify improvements is vital to the idea of continuous improvement and getting this engrained into the culture is the biggest change the organization needs to make. The key to success in a Lean environment is for the entire organization to concentrate on "Being Lean", not just "Doing Lean".

This is the first part of a multi part series. Next, specific Lean techniques will be presented with details of how they affect the bottom line.

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