Build Your Business

An eNewsletter for CEOs looking to grow their companies.

High-value, "how-to" articles on customer-attraction, sales development, leadership, and best-practices in HR, IT, product development, communication, financial operations, engineering and M&A/value creation.

Everybody's Jumping on the Lean Bandwagon but Many Are Being Taken for a Ride

Companies are climbing on the Lean bandwagon in droves, but how do you know if Lean is the right approach for your organization?

Written by:
Rick Pay, Principal
The R. PAY COMPANY, LLC
Portland, OR
(503) 780-2014 ● www.rpaycompany.com

THE R. PAY COMPANY, LLC

Everybody's Jumping on the Lean Bandwagon But Many Are Being Taken for a Ride

With nearly 70% of all US manufacturers implementing Lean, why do so few achieve lasting results? This article delves into the reasons behind the statistics, reveals the warning signs that a process improvement initiative is headed down the wrong track, and offers keys to lasting success.

Manufacturers are climbing on the Lean bandwagon in droves.
The Industry Week/MPI Census of Manufacturers shows that nearly 70 percent of all plants in the US are currently employing Lean Manufacturing as an improvement methodology. But is Lean right for every company?

A further look at the same IW/MPI survey may provide a clue. Only 2 percent of companies who responded to the survey have fully achieved their objectives and less than a quarter of all companies (24 percent) reported achieving significant results. That leaves 74 percent of the responding companies admitting that they are not making good progress with Lean.

Through my experience, successfully helping a variety of companies implement Lean, I've learned there are four major reasons that companies fail to achieve benefits:

- Senior management is not committed to and/or doesn't understand the real impact of Lean.
- Senior management is unwilling to accept that cultural change is often required for Lean to be a success.
- The company lacks the right people in the right positions.
- The company has chosen Lean as their process improvement methodology when a different process improvement program – or none at all – would have been the better choice.

What are Your Priorities?
Before deciding to implement Lean or any productivity improvement program, management should first examine its business strategy and ask the tough question: *Will a productivity improvement program such as Lean contribute directly to the company's strategy?* The answer is not always obvious.

Some companies' strategic focus, for example, is on competitive market positioning through new product development. In these companies, process improvement and productivity measures may not be perceived as contributing directly to their competitive advantage. You can bet that senior management in these companies may not support a Lean initiative if waste reduction on the shop floor is the focus. And, without the full support of top management, the likelihood of success of any process improvement program is jeopardized.

On the other hand, in companies where strong operational capabilities are viewed as a competitive advantage, top management will be more receptive to the process and productivity improvements that Lean (or other process improvement programs) can achieve. But they still need to be "sold" on its benefits, particularly if its champions are at the division level or in the manufacturing or operational areas. Why? Top management needs to fully understand the various stages of implementing Lean so they won't be tempted to pull the plug before results are achieved. In short, they need to accept Lean as part of their overall operations and business strategies and support it all along the way.

Key Reason Companies Fail at Implementing Lean
The second major reason companies fail to realize Lean benefits is their top management teams miss the point that Lean transforms an organization's culture – and they don't want theirs transformed! Most productivity improvement programs, including Lean, result in enhanced communications, more empowered teams, and the positioning of decision making at the lowest possible levels. These are simply the realities. *If management is not ready to let go of the reins and let this happen, most productivity improvement programs will fail.*

To be successful, top management, therefore, needs to be willing to accept and even drive culture change. The top leadership team must invest in the transformation process with both time and money.

Do You Have the Right Players in Place?
The third reason that companies often fail to realize gains with Lean is because they don't have the right players in the right positions, especially at the line manager level. What's more, they don't support their team with strong training and development opportunities. This is an essential part of process and productivity improvement implementation. For each key position, management should answer the following questions:

- What are the four to six key short-term priorities for the position?
- What attributes or characteristics should the person filling the position have?
- What experience and education should the person have?
- What measures will tell us we have the right person for the job?

Measuring current management team members against these criteria will quickly tell if the right people are in place.

Once companies have top-level commitment, a willingness to accept culture change and the right people in the right positions, they are ready to consider Lean or some other program. But which one is the right one for them?

While Lean is probably the one most talked about and currently the most popular, Six Sigma, Theory of Constraints, Toyota Production System, World Class Manufacturing and others are also very good programs and should be considered. Each one has its strengths and weaknesses, and some companies are even combining them to form approaches such as Lean Sigma.

To help decide which one is right for any organization, one must first address the following three questions:

- What is the focus of the operations strategy for the company?
- Is it primarily on quality, cost, speed and flexibility, or innovation and custom products?
- Is the company process driven or value chain driven?

How is quality defined? Some companies such as Toyota define it as fit and finish, while others such as BMW define it as innovation and features.

Does the company have the necessary technical resources to lead the charge? Six Sigma for instance uses experts known as Black Belts and Master Black Belts to lead initiatives that are selected by management.

So which program is right for your company? Are any of them?
Are you ready for Lean or Six Sigma or any of the rest? First, analyze your business and operations strategy against the goals of the process improvement program; assess your leadership's commitment to the program; determine your company's willingness to change its corporate culture; and decide if you have the right people in the right positions. Only then will you know for sure.

Author's Biography

Rick Pay has been dubbed by his clients as the "Sherlock Holmes of Operations and Supply Chain Management." He appears regularly as a speaker and his articles have achieved national recognition in *Industry Week* and *CEO Refresher*. A frequent contributor to regional newsletters and magazines, Rick also publishes his insights into Operations and Supply Chain Management on his blog, Operations Payoff: https://operationspayoff.wordpress.com

The R PAY COMPANY, LLC is a Portland-based management consulting firm that helps manufacturers, distributors, retail and service companies dramatically improve their gross margins and cash flow through peak operational and supply chain performance.

THE R. PAY COMPANY, LLC

Our clients increase their gross profit margins, cut costs and rise above the competition through innovative Operations and Supply Chain strategies.

Here are some of the breakthrough results we've helped our clients achieve:

- Increased inventory turns from 6 to 12 while reducing order lead time by two thirds through implementation of leading edge operations and inventory management techniques
- Improved gross profit margin by 20% and identified over $1.2 million in inventory reductions with a Materials and Manufacturing Review
- Uncovered a 32% cost reduction and 30% inventory reduction via a Supply Chain Management Study
- Doubled throughput of shipping with no increase in staff using a Process Improvement Study
- Released over $300,000 in working capital and identified outsourcing opportunities by conducting a Materials and Manufacturing Review
- Identified over $500,000 in inventory reductions, increase in profitability by 2% of sales, and reduction of warehouse space by over 25% with an Inventory and Warehouse Assessment for a wholesale distributor

To learn more, please visit us online at www.rpaycompany.com, or contact Rick Pay directly at (503) 780-2014, or rickp@rpaycompany.com

March's eNewsletter summaries are provided below. If you would like to receive the three trial issues, please go to: www.synergy-usa.com/eNews.html.

How a $3 million/yr Company was Acquired for nearly $20 million: in 6 Months — **Mark Paul**
Are you looking for ways to increase the value of your company? As one CEO found out: Attracting significantly more "A" customers, while decreasing expenses is the surest way.

How to Improve Your Company's Cash Flow — **Patrick Wheeler**
Do you need extra cash? Are you searching for new sources of capital to help you survive & thrive? This article is for nonfinancial CEOs and discusses the different "levers" you can pull to improve your cash flow.

Using HR to Boost Company Performance — **Iris Sasaki**
If you are interested in dramatically increasing your employees' and managers' performance, there is a little-known secret that will leverage your strengths – and those around you – to accomplish far more.

Simplifying the Sales and Channel Strategy — **Bill Etheredge**
Is your sales and channel strategy defined? Have you assessed the effectiveness of existing strategies? Are changes in market conditions causing chaos in your strategy? This article defines what to do to boost effectiveness.

How to Really Get Things Done — **Alexander Stein**
Are you always short on time? Does your To-Do list only get longer? Are you at the end of your rope with trying to get ahead? In this article, learn how to get you and your business ticking.

How to maximize the value of IT in your business - IT Outsourcing — **Manoj Garg**
You know that you spend a lot of money on IT and that you need to maximize the value of your investments in IT. Do you know if you have made the right decisions on make vs. buy on IT functions and services?

Are You Jumping on the Lean Bandwagon? — **Rick Pay**
Are you trying to reduce operations cost – and considering Lean Manufacturing? Companies are climbing on the Lean bandwagon in droves, but how do you know if Lean is the right approach for your organization?

Got Heart? — **Dan Duggan**
Is morale an issue at your company? Do employees act listless? Is absenteeism beginning to be a problem? Learn how to recognize and transform "lost heart" into "loving your work".

Ten Reasons to go International — **Richard Biggs**
If you are pondering whether to go global, recognize the fact that you are already "global", in that you very likely have global competitors. You are in a competitive global marketplace.

Engineering Resources: Captive or Consultant? — **Mike Miles**
Too many projects and too little staff? Can't afford to hire anyone full-time? This article outlines how CEOs can clarify what is important in choosing to hire technical staff or to retain an outside consultant.

Can you do it in 6:40? — **Dave Yewman**
Chances are your presentations are too long. Why? Because everyone's presentations are too long. So how do you fix that? Here's one option, a radical option. Are you feeling brave?

How to Find & Attract Capital to Grow Your Company — **Brent Freeman**
If you have ever had to find capital to grow your company, this article will show you how prepare critical documents required to find capital from non-traditional sources.

This is the third edition of a three-month trial of the Build Your Business eNewsletter. We are interested in your thoughts via a survey. To receive past months' articles and to take the survey, please 'subscribe' at www.synergy-usa.com/eNews.html. Thank you.