

LEAN BUSINESS, FAT PROFITS SERIES

GET *INFORMED* ON LEAN

# BUSINESS PROCESS improvement

MIKE KARLE



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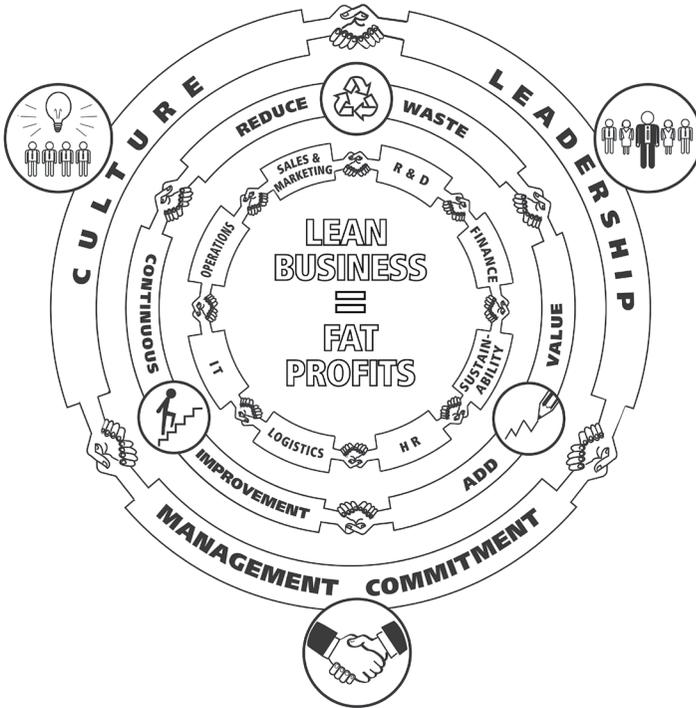
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# LEAN BUSINESS



Inform's consulting philosophy is based around the principles of 'Lean Business'. Indeed, we believe that a LEAN BUSINESS equals FAT PROFITS!

As shown in the inner circle above, Lean principles can be applied to every system, every process and every function within every organisation, including Sales and Marketing, Finance, IT, HR, Logistics and Operations.

The second circle depicts the 3 broad principles of the Lean philosophy, i.e.:

- Understanding *who the customer is and what they most value* from the product or service being provided
- Understanding that *every function or service* within a business is a process that can be *documented, standardised, and most importantly, continually improved*
- Identifying and eliminating any waste within the process, where waste is defined as any activity that adds no value from the customer's perspective, i.e. it is the extra (wasted) resources (time, labour and materials), spent producing the product or service.

Of course, implementing Lean across any organisation, be it service based or manufacturing/production based, needs to be carefully planned and executed. It requires true leadership, management commitment and a constructive culture (the final, outer circle).

In this series of eBooks, we provide some insight into the challenges and opportunities of applying Lean principles to each of the key functions within an organisation, and along the way hope to inspire you to create your own Lean Business.....with Fat Profits!

# ABOUT THE AUTHOR



## **Inform Consulting Group**

We are a specialist management consultancy formed in 2006. With many years of practical business experience in diverse areas, Inform consultants have a broad range of skills that qualifies us to consult with you at a general business level, and then to provide specialist pragmatic advice to improve your business.

We assist you to 'operationalise' your business strategies by improving your processes by means of a rational and balanced focus on policy, process, people and technology.

With our emphasis on providing integrated solutions based on the Lean philosophy, we strive to improve your business through the application of holistic solutions that are simple and practical, rather than complex and expensive.

Mike is Inform's 'go to' person for Business Process Improvement.

## **Mike Karle**

Mike's speciality is helping Inform's clients get the most out of their business processes. Through strategic analysis with a focus on LEAN, Mike has helped our clients to improve operational efficiency and most importantly, increase profits.

Mike has over 25 years experience as a Senior Manager, Business Advisor, University Lecturer and joint MD of a manufacturing business.



# GETTING INFORMED ON LEAN BUSINESS PROCESS IMPROVEMENT



It is perhaps unfortunate that the work of the original Lean gurus, in particular Taiichi Ohno at Toyota, focused on manufacturing organisations, which created the perception among many business owners and managers that Lean was only applicable to companies that 'manufacture'. In other words, service industries were explicitly excluded from becoming 'Lean'. Thankfully however, it was left to the likes of Womack, Jones, Hines, Bicheno and others, who in the early part of this Century, clearly demonstrated that Lean is applicable to all organisations. It is now generally accepted that....

***Lean is applicable to every system, every process and every department, within every organisation.***

Implementing Lean in any business, whether a manufacturing or service provider, is based on two broad principles i.e.

- Understanding who the customer is and what they value from the product or service being provided. These customers may be external to the organisation, i.e. the 'traditional' customer, or internal, for e.g. the customers of the IT department are the other functional departments within the organisation that use the data and services provided by the IT system.
- Understanding that every function or service provided by any department or organisation is a process

that can be documented, standardised, and most importantly, improved. Improving any process necessitates the identification of waste within the process, where waste is defined as any activity that adds no value from the customer's perspective, i.e. the extra (wasted) time, labour and materials spent producing the product or service.

Using the above premise and the fact that no business process is waste-free, Lean can be implemented in any environment, as every business process can be analysed and improved.

In this short eBook I share with you a selection of posts from the Inform Consulting Group's blog that will help you better understand how you can improve your business processes.

For more helpful hints and business tools, [visit our website](#).

Mike Karle  
Partner, Inform Consulting Group

# HOW TO BECOME LEAN



In today's competitive market, the only way to build adequate and reliable profits is to ensure you are delivering what the *customer really wants*, at the lowest possible cost, and adopting a Lean approach to your business will achieve this.

The Lean Philosophy has been around for many years, but unfortunately it is not always understood, predominantly because Lean is often associated with 'manufacturing', and also because of the misconception that Lean is an 'operational' issue that can be solved by the 'operations people'.

Lean is about business; any and every business.

A Lean business strives to understand what the customer really values, and then maximises customer value while continually improving internal processes and operations to minimise waste.

Lean is *every system, every process, every department* and *every employee* within the organisation.

Going Lean does not mean the introduction of complicated systems and procedures, or the use of sophisticated tools and techniques. Lean focuses on simplicity. Lean is not short-term, rather it is about creating a sustainable long-term Lean business culture.....and generating long-term profits.

The goals of Lean are simple:

1. Add value and improve quality
2. Eliminate waste

Your customer determines the *quality* and *service* you need to deliver for a defined price – this is their *value point*. If you exceed the quality and service they expect for the same price, they see greater value, but if you exceed their requirements and accordingly the price they are willing to pay, they may not see the added value. Adopting a Lean approach to your business starts with determining what the customer *really* values, and then eliminating or minimising all those activities that add no customer value.

#### a) Identify and Declare War on Waste

The *Lean Philosophy* is fundamentally a continuous process of identifying, from the customer's perspective, the value added and non-value businesses processes, and then reducing or eliminating the *non-value adding activities* – the extra time, labour and materials spent producing the product or service that the customers doesn't want to pay for, commonly called waste.

*“Waste is all Non-Value Added Effort, i.e. any activity that the Customer is not prepared to pay for.....but often has to!”*

The 7 traditional Lean wastes within an organisation are:

- *Transportation* of goods both internally and externally
- *Inventory*
- *Movement* of people in 'getting the job done'
- *Waiting* for a process, product or service
- *Over production* (just in case production)
- *Over processing*, or inappropriate processing using excessive (wrong) resources

- *Defects* and other quality related issues.

Within the Service or Office environment, the above wastes can be more clearly broken down into:

- *Sorting & Searching* (wasting time looking for documents, files etc.)
- *Inappropriate Measurements* (measures drive behaviour). What reports are being generated and are they all used? What is their purpose?
- *Under-load & Over-load* (e.g. month-end, year-end). Can one smooth out the demand cycle to create an even flow of work?
- *Inappropriate Priorities* (important, un-important vs urgent and not urgent)
- *Inappropriate Frequencies & Presence*. Unnecessary attendance at meetings, compiling reports, etc.
- *Interference* via emails streams, people, Facebook, Twitter etc.
- *Duplication* of information on multiple (non-integrated) systems.
- *Over-design and sub-optimisation* (what does the customer want?)
- *Mistakes, Errors, Misunderstanding or Lack of Knowledge*.
- *Delay or Waiting* for a response from another department or individual.
- *Start up and Sign Off*

As depicted below, the Lean approach enables you to identify these wastes in your processes and then reduce or eliminate them, while simultaneously increasing the value-added component. The result is reduced costs, reduced lead times, increased capacity, fewer quality issues, and an overall improved customer experience. Lead time is critical, as this is the total time required to complete a series of

tasks or a process, for example the time taken to turn raw materials into finished goods, generate a customer quote, process an order or introduce a new product or service to the market. Reducing the lead time reduces waste.



## b) Identify the Value

In order to improve any operational process and provide greater customer value, the process first needs to be understood, and the easiest way to understand a process is by drawing or mapping it. Creating a visual picture of the process allows you to determine where customer value is being added, and then to identify the non-value added activities....this can be applied to every *department* within your business.

Mapping aims to create an end-to-end “picture” of the business or process to understand the current state and help design the future state.....*A picture is worth a thousand words.* The map is purely a mechanism to facilitate dialogue and understanding of the process.

Create a map and ask *the critical questions* about the individual tasks within the processes to identify areas of waste, i.e.

- *Why are goods/documents being stored here?*

- *Why are the goods/documents etc. being stored for such a long time?*
- *Why is this task necessary and why is it being done by this person/department?*
- *Can we rearrange the physical layout of the department/office/factory/shop/operating theatre etc., to reduce the amount of movement and facilitate flow?*
- *Can we eliminate, simplify or combine this task with another?*
- *Is this task actually adding customer value?*
- *Why does this task take so long?*
- *Can we group these people/departments/tasks together?*
- *Are we giving the customer what he really wants or only what is available?*
- *Is this report necessary, who uses it, and for what purpose?*
- *Are we using metrics that will allow us to improve the process or customer value?*
- *Why do these tasks result in scrap components or process errors?*
- *How can we eliminate or reduce the scrap rate or processing errors?*
- *Can we eliminate duplicated information by improved IT systems?*
- *Can we use technology to improve the process?*
- *Can we locate operations/tasks next to each other to reduce time/movement?*
- *How can we improve the customer's experience by reducing the time from order to delivery?*

### **c) Conclusion**

Lean is a proven, company-wide systematic approach to eliminate or minimise waste in the production of a "good" or "service". It is not just a manufacturing program confined

to shop floor employees, but *Lean is every system, every process, every department and every employee within the organisation.*

Typical business improvements that result from the application of Lean include:

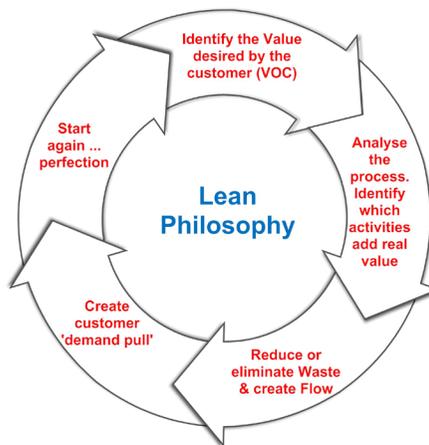
- Quality performance, fewer defects, rework and data input errors
- Lower levels of Inventory – an 70% reduction is not uncommon
- Improved space utilisation, typically 30% or more
- Higher efficiency and greater output per person
- Improved delivery performance with lead time reductions of 60% and more
- Reduced time taken to prepare customer quotes and presentations
- Greater customer satisfaction and value
- Improved employee morale and involvement
- Increased capacity and therefore potentially higher output
- Reduced operational costs, and so greater profits!

Lean is the way to reduce your costs and provide you with a competitive advantage to help you grow your business and achieve long-term success.

# LEAN BUSINESS STARTS WITH THE VOICE OF THE CUSTOMER (VOC)



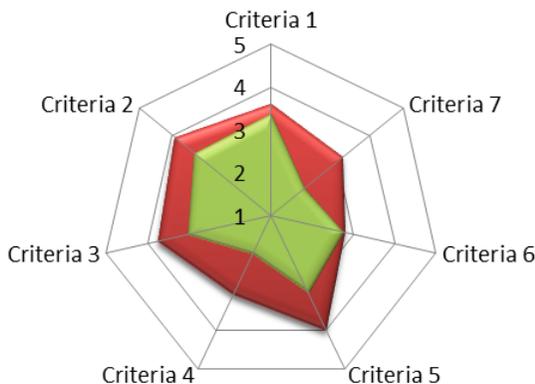
The implementation of a Lean Philosophy in any business is a continuous 5-stage process that begins with the identification of the value desired by the customers. Unfortunately, this old marketing concept is frequently forgotten during Lean implementation as suppliers and service providers regularly introduce new products and services that are constrained by their own internal demands and their existing facilities and paradigms, rather than by actual customer requirements.



Far too often companies, whether manufacturing or service orientated, work on the assumption that they know exactly what their customer needs, or they give their customers what happens to be convenient to them, e.g. automated telephone answering systems that reduce costs to the

provider but infuriate customers, or goods packaged in containers and in quantities that suit the manufacturer, but not the customer. While many companies often know who the key decision makers are in the customer organisation, few actually understand the individual value criteria that influence their buying decision making. True customer satisfaction is achieved only when suppliers meet or exceed the customer's expectation against a range of customer-specified value criteria.

While customers do want price, quality and delivery (PQD), there are a host of other factors that can influence buying decisions, e.g. packaging & labelling, invoicing, design flexibility, communication (including methods, speed, style, documentation etc.), quotations, after sales service, environmental issues, lead time reliability, technical support, safe handling, product/package disposal, and payment terms. By conducting a detailed customer needs analysis with the relevant decision makers, i.e. those people that come into contact with the product or service and are able to influence buying behaviour, many companies are surprised to find that the actual customer needs are quite different to their perception of these needs as is depicted below.



## Customer Value – Actual vs Perceived

Determining the actual customer-specified values depends on the number of customers and relationship that the company or service provider has with these customers, i.e.

a) Direct relationship with relatively few customers, as is the case with a typical manufacturing company that supplies other manufacturers or the wholesale trade.

b) Indirect relationship with many customers, as is the case where goods are sold to the mass market via retail outlets.

The first case lends itself to conducting direct interviews with the various decision makers within the customer organisation, asking them to identify their personal value criteria and then ranking your performance relative to your competitors or the 'best in class'. Where the decision maker has identified numerous needs or values, these should then be ranked in order of importance.

In the second case where there is only an indirect relationship with the customers, market surveys, focus groups, warranty repair data and customer feedback forms typically become the data source for determining customer value criteria.

Any customer needs analysis should be conducted with a representative group of existing customers (high, medium and low volume), and should also include potential customers. Be sure to include the following two aspects of product or service delivery, i.e.

- Pre-Ordering: Listening to the customer to understanding what is important to them before they place an order.

- Post-Delivery: Determining the actual level of service achieved relative to customer expectations.

Having collected the data, collate and plot the results to determine the most important value criteria, and then establish action plans to address shortcomings within your organisation.

Only after having listened to the voice of the customer to understand the true value of the product or service from the customer's point of view, can the supplier continue down the path of Lean and identify those internal processes that contribute, or add value to that product or service, i.e. stage 2 – identifying the value stream for each product or service group. This is the sequence of all current processes, both value adding and non-value adding from raw material to product launch or from initial customer contact to service completion. In doing so, the non-value adding processes will automatically be identified which allows the supplier to progress to stages 3 and 4 in the Lean implementation, and use the various Lean tools and techniques to reduce and ultimately eliminate the non-value adding processes.

Having completed an initial cycle of the Lean implementation, the process constantly repeats itself in a never-ending quest for perfection.

# 20 QUESTIONS TO HELP IMPROVE BUSINESS PROCESSES



**Lean** is a philosophy to *continuously identify and eliminate* waste within an organisation, where waste is defined as any activity that does not, from the customer's perspective, add value. Fundamentally the Lean Philosophy is about **continuous process improvement** to create a business that optimally responds to customer demand.

While all business managers will recognise that the above statement is somewhat obvious, the *real* question is how does one actually go about improving processes?

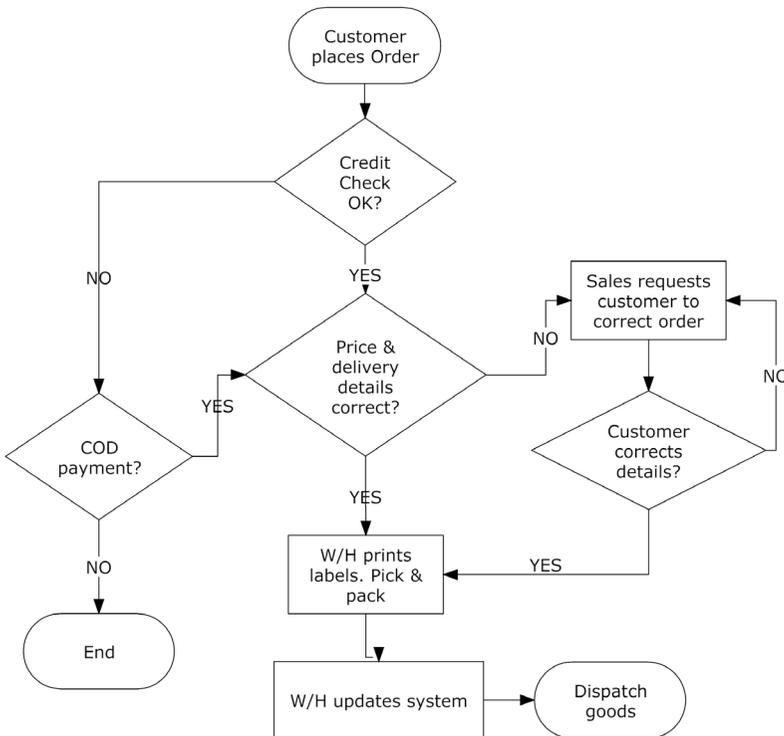
Firstly, what are business processes? Business processes are '*how we do things*', including, for example processing sales orders, drafting customer quotes or proposals, credit checking, generating a production schedule, placing purchase orders, generating invoices, creating reports, machining a component and assembling a product. Within any such process, there will always be an element of waste, where

*"Waste is all Non-Value Added Effort, i.e. any activity that the Customer is not prepared to pay for.....but often has to!"*

In order to improve any operational process and provide greater customer value, the process first needs to be *understood*, and the easiest way to understand a process is by drawing or mapping it. Mapping aims to create an

end-to-end “picture” of the process.....A *picture is worth a thousand words*. Creating a visual picture of the process allows one to determine where customer value is being added, and then, by using the *20 Questions*, identify the non-value added activities that may be reduced or eliminated to improve the process.

While there are many types of maps and charts, the simplest to use is *Process Flow Chart* that depicts the flow and interaction between tasks or operations, e.g. the customer order process at a local distribution company is shown below.



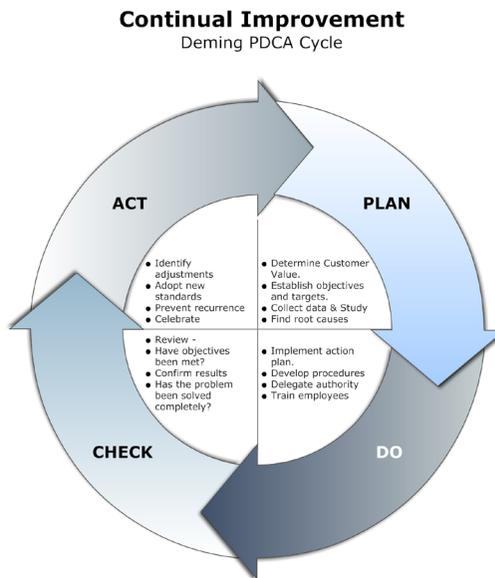
Once the process has been mapped and understood, areas of waste can usually be identified by asking one or more of the following *20 Questions*, i.e.

## 20 Questions for Process Improvement

1. *Why are goods/documents being stored here?*
2. *Why are the goods/documents etc. being stored for such a long time?*
3. *Why is this task necessary and why is it being done by this person/department?*
4. *Can we rearrange the physical layout of the department/office/factory/shop/surgery etc., to reduce the amount of movement and facilitate the flow of goods/information?*
5. *Can we eliminate, simplify or combine this task with another?*
6. *Is this task actually adding customer value or is it something "we have always done"?*
7. *Why does this task take so long?*
8. *What rules govern the process and completion status, and why?*
9. *Can we group these people/departments/tasks together?*
10. *Are we giving the customer what he really wants or only what is available, or perhaps even worse, what we have always provided?*
11. *Is this report necessary, understood, and what is it used for?*
12. *What metrics will allow us to improve the process or customer value?*
13. *Why do these tasks result in scrap components or process errors?*
14. *How can we reduce or eliminate variation, scrap rate or processing errors?*
15. *Are we manually entering the same data in different systems and can we eliminate duplicated information by improved IT systems?*
16. *Can we use new technology to improve the process or provide greater customer value?*

17. How can we improve the customer's experience by reducing the time from order to delivery?
18. When pressed for time, what steps in the process are skipped or worked around?
19. Are we using accounting systems that require excessive time to produce management reports which may then result in poor decision making using 'out-of-date' information?
20. Are costs being allocated in a manner that adds value to the decision making process?

The classic Deming PDCA improvement cycle is often used as powerful tool in conjunction with the 20 Questions to ensure all improvements are carried out in accordance with a well organised and defined methodology.



In Deming's cycle, the **Plan** is not just about planning, but also includes communicating and gaining consensus. Far too often companies neglect this phase and fail to properly

identify constraints and/or 'root causes' of problems. **Do** is the easy stage where the actual implementation is carried out, and this must be followed by the all-important *Check* phase. The **Check** is actually a learning phase where the prevailing question should be "is the change sustainable and did it work as we predicted, and if not, what can we learn for next time?" The final phase is the **Act**, where the emphasis is to standardise and communicate the improvement, prevent recurrence and to prepare for the next round of the cycle.

The PDCA sounds simple but it is often glossed over as many organisations concentrate on the 'do' and neglect the P-C-A, or alternatively adopt Murphy's corollary to Deming's PDCA cycle, i.e. "*Please Don't Change Anything*".

Process improvement is the essence of Lean, for without improvement, organisations will fail. Using the *20 Questions* can assist in process improvement and guide an organisation along a path of continuous improvement.

Want to know if Inform can help you improve your business processes? We are happy to meet with you over coffee, no strings attached, and discuss how Inform can help you. [Click here](#) to arrange a time to chat.

# LEAN MISCONCEPTIONS



The Lean Philosophy has been around for many years, but unfortunately it is not always understood, predominantly because Lean is thought to be:

1. A cost reduction exercise
2. A process to reduce the number of employees
3. Only applicable to 'manufacturing' organisations
4. An 'operational' issue that can be solved by the 'operations people'
5. Only for 'big' organisations.

Nothing could be further from the truth!

In this series of articles, I will discuss each of these misconceptions and demonstrate that Lean is about *business; any and every business*. A Lean business strives to understand what the customer really values, and then maximises customer value. Lean is not a short-term fad, but a long-term commitment towards continual improvement that involves *every system, every process, every department and every employee within the organisation, irrespective of its size*.

## **Misconception # 1: Lean is a cost reduction exercise**

The Lean Philosophy is fundamentally a continuous process of identifying, from the customer's perspective, the value added and non-value businesses processes, and then reducing or eliminating the non-value adding activities, i.e. the extra time, labour and materials spent producing the

product or service. The non-value adding activities are those that the customer doesn't value and doesn't want to pay for, commonly called waste.

The first stage of any Lean process analysis (diagram 1), is to analyse the business process from the *customer's perspective*, and then to categorise the various activities as:

- *value added* components, i.e. those that the customer wants and is prepared to pay for
- *non-value added* components, i.e. what the customer is not prepared to pay for
- *necessary non-value added* components, i.e. those activities that are essential in any organisation to ensure it functions effectively, e.g. administration, accounts, planning, etc.

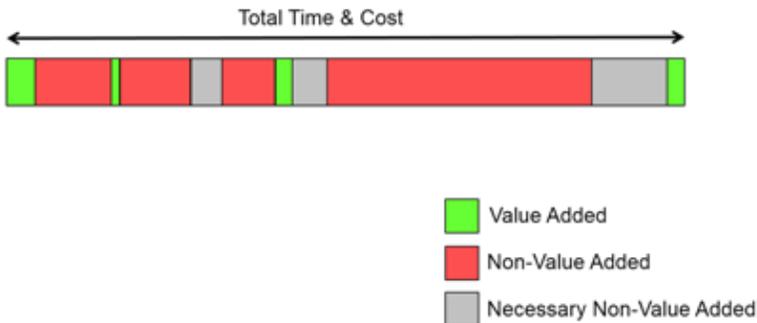


Diagram 1

In the second stage (diagram 2), Lean tools are used to reduce or eliminate the non-value added components. Typical Lean tools would include process mapping, facility layout, total quality management, customer demand-driven 'pull' systems, visual control systems, and error or mistake proofing.

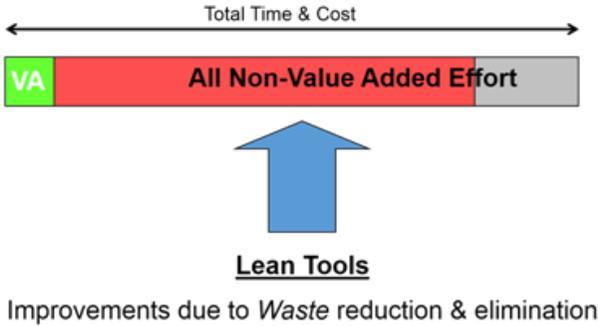


Diagram 2

By reducing the non-value added components or waste, *capacity is increased* (diagram 3). *Increasing capacity is the purpose of Lean, not cost reduction.*



Diagram 3

By *increasing capacity*, the organisation then has the resources to add *greater Customer Value (VA)*, and/or *increase Output*. Cost reduction is a natural consequence of Lean, but not its purpose.

## Misconception # 2: Lean is a process to reduce the number of employees

As discussed in “*Misconceptions # 1*”, reducing the non-value added components or waste, *capacity is increased* (diagram 1), and *increasing capacity is the REAL purpose of Lean*.



Diagram 1

By creating this additional capacity, the organisation now has the opportunity to either:

a) *Reduce the number of employees.*

Using this approach will invariably result in the following:

- The process of continual improvement which is fundamental to Lean, coming to an instant halt. After all, which employee wants to reduce waste and make improvements to the organisation if it means that either he or his peers will then be without a job?
- A huge decrease in employee morale.
- Stagnant/declining productivity with the possibility of implementing any future improvement program/s being slim.

- Stagnant growth and process improvement, thereby allowing the competition to catch-up and finally overtake the organisation.
- Distrust between management and the employees, perpetuating the “us vs them” culture.

b) *Utilise the employees to increase output and/or add greater customer value.*

Using this approach will have the exact opposite effect to that of (a) above.

Companies often talk about *people being their greatest asset* and that *people make the company*. As previously mentioned, Lean is about reducing waste, and perhaps one ‘waste’ that is not often regarded as such particularly by management, is the waste of ‘*untapped human potential*’. Ohno, the father of Lean thinking at Toyota, said that the real objective of the Toyota Production System was to *create thinking people*. Lean is about total employee involvement and using employees to continually improve processes. In the 1980’s, many companies like GM experimented with total factory automation, and they learnt the hard (and expensive) way, that any automated factory that does not benefit from continual improvement, will fall behind in the productivity race.

Using the untapped human potential that is unfortunately often dormant in many organisations, requires commitment and management support, plus a culture of trust and mutual respect. Much like continual process improvement, basic and continual employee training is essential in a Lean organisation. You cannot expect employees to make process improvements or identify and add greater customer value, if you don’t *educate* them. Teach them to identify waste, give them the necessary tools, and allow them to

make improvements. The old adage of “what happens if I train them and they leave?” is replaced by “what happens if I don't train them and they stay!”

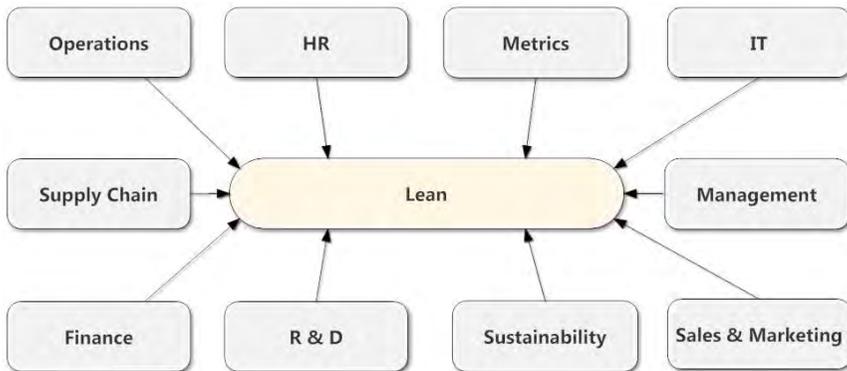
There are countless examples of work teams or quality circles that have made dramatic improvements not only in terms of productivity and quality, but also in adding customer value. The engagement of people on a Lean journey is essential as it will predict *their* behaviour and *your* success (Hines, Found, Griffiths & Harrison, 2008). In the highly competitive environment in which we live, using Lean as a mean to simply reduce headcount is a road to disaster.

### **Misconception # 3: Lean is only applicable to manufacturing organisations**

The origins of Lean can be traced back to Henry Ford in the 1920's when he developed the assembly line for the Model-T Ford. In the 1950's, we then had the quality crusade driven by Deming and Mitrofanov's Group Technology which was further enhanced by Burbidge in the 1970's. In the 1980's the Just-in-Time, Zero Inventory and Total Quality Control (JIT/TQC) era rose to the forefront, and finally Lean took centre-stage with Ohno and the development of the Toyota Production System (TPS) in Japan. So while neither Ford, Deming et al, called their methodologies 'Lean', their approach always focused on the elimination of all forms of 'waste'...the very essence of Lean. It was only in the 1990's that these various approaches to process improvement were finally amalgamated and called 'Lean'.

However, it is perhaps unfortunate that the work of the original Lean guru's, in particular Taiichi Ohno at Toyota, all focused on manufacturing organisations, which created the perception among many business owners and managers that Lean is only applicable to companies that

'manufacture', i.e. service industries were explicitly excluded from becoming 'Lean'. Thankfully however, it was left to the likes of Womack, Jones, Hines, Bicheno and others, who in the early part of this Century, clearly demonstrated that Lean is applicable ALL organisations. It has now generally accepted that Lean is applicable to *every system, every process and every department within every organisation.*



Implementing Lean in any business, whether a manufacturing or service provider, is based on 2 broad principles i.e.

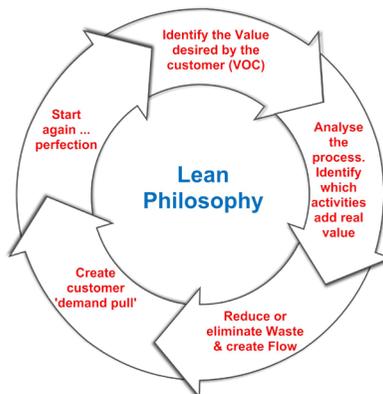
- Understanding *who the customer is* and what *he values* from the product or service being provided. These customers may be external to the organisation, i.e. the 'traditional' customer, or internal, for e.g. the customers of the IT department are the other functional departments within the organisation that use the data and services provided by the IT system.
- Understanding that *every function or service* provided by any department or organisation is a *process* that can be *documented, standardised,* and most importantly, *improved.* Improving any process necessitates the identification of waste within the process, where waste is defined as any activity that

adds no value from the customer's perspective, i.e. the extra (wasted) time, labour and materials spent producing the product or service.

Using the above premise and the fact that no business process is waste-free, Lean can be implemented in *any* environment, as *every business process can be analysed and improved*. Lean now has a proven track record within many non-manufacturing organisations, including:

- Banking and Financial services
- Hospitals and Health Care
- Engineering
- Architecture
- Food services
- Repair services of all types
- Government services
- Legal services
- IT

All these organisations have adopted the 5-Stage continuous Lean improvement cycle that always starts with identifying the value desired by the customer, or Voice of the Customer (VOC).



## **Misconception # 4: Lean is an 'operational' issue that can be solved by 'operations people'**

Largely due to the fact that Lean “grew up” in the manufacturing industry (see Lean Misconception #3), there is still a strong belief by many managers and business owners that Lean is an ‘operational’ issue that can be solved by the ‘operations people’.....nothing could be further from the truth.

In very broad terms, Lean consists of two components..... *technical* and *strategic*, often referred to as the ‘hard’ and ‘soft’ sides of Lean. Firstly the technical side.

Lean uses a number of tools and techniques to identify waste and then make process improvements, where these tools typically include:

- Value Stream Mapping – current state & future state
- Facility or workplace layout design (factory, office, warehouse, operating theatre etc.)
- Level Flow & Standardisation
- Setup time reduction
- Pull systems
- Visual measurement systems
- Total Productive Maintenance
- Error or Mistake Proofing
- Total Quality Management
- 5S

These tools and techniques are generally easy to learn and can deliver significant benefits within a very short period of time, a good example being workplace layout design. By analysing the physical layout of any workplace, one can usually make quick changes that have a dramatic impact on operational efficiency, for e.g. moving workstations closer

together, changing the location of printers, inventory, or other shared services. Operational people 'love' these Lean tools as they can quickly implement process changes to improve throughput while simultaneously reducing inventory and operational expenses. Technical solutions fit well into the gambit of operations people as they are objective and straightforward.... this is what they do! Companies will often train people to use these Lean tools as they become invaluable in diagnosing and improving operational processes.

Strategic Lean on the other hand, encompasses a holistic approach to implement Lean. First and foremost, the Lean initiative is driven by the owner or managing director who then ensures that all employees and departments are 'part of the program' (figure 1).

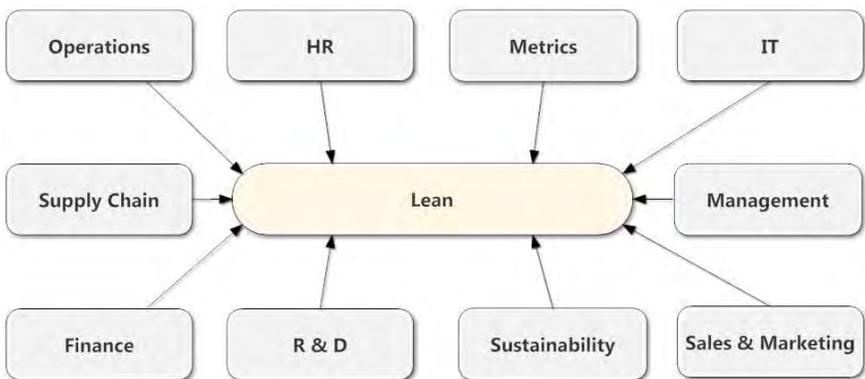


Figure 1. Lean applies to all people and departments within an organisation

Strategic Lean leaders understand that the entire organisation is involved and that in order to make lasting and permanent improvements, the culture of the business must change....Lean thinking must become 'ingrained' in

the organisation or put another way "Lean is the way we do things here". Changing the culture of any organisation is not a quick-fix as it takes time to change old behaviours, and any such change must start with the owner or MD. By definition, this means that process improvements through strategic Lean take more time to become effective, but once this cultural change has taken effect, Lean becomes sustainable and improvements permanent.

Unfortunately, some organisations rush to implement the tools without considering the strategic or cultural aspect, which then results in "initiative fatigue" as managers move on to other projects. Without the sustainable strategic (cultural) component, technical Lean improvements fizzle out as the program is unsustainable (figure 2).



Figure 2. Strategic and Operational Lean Improvements over time

Lean is not an operational issue that can be handed to the 'operations people'. To create a sustainable Lean culture, a holistic or strategic approach is essential.

## **Misconception # 5: Lean is only for 'big' organisations**

Lean is applicable in EVERY organisation as long as there is an understanding that every function or service provided by any person, department or organisation is a process that can be documented, standardised, and most importantly, improved. Improving any process necessitates the identification of waste within the process, where waste is defined as any activity that adds no value as seen from the customer's perspective, i.e. the extra (wasted) time, labour and materials spent producing the product or service. Using the above premise and the fact that no business process is waste-free, Lean can be implemented in any environment, as every business process can be analysed and improved.

The original work of the Lean guru's (see Misconception # 3), focused on large manufacturing organisations which created a perception among many business owners and managers that Lean is only applicable to big companies. The broad application of Lean across these large companies meant that they had to allocate significant resources to Lean, which typically included dedicated Lean personnel, a Lean office and in many instances a Lean leader or manager who reported to the CEO. Today, large companies that are serious about implementing Lean create the infrastructure and allocate the resources to ensure that Lean receives the attention it deserves, for without this, the implementation would not be successful.

Small organisations, including the 'one-man-band', can still implement Lean as long as the owner or Managing Director supports and drives the program and is of the belief that no processes at the company is perfect, i.e. waste-free. A typical SME will often be unable to allocate the personnel resources to Lean that a larger company can, which means that staff may have to 'wear a number of hats'....a common

situation for most SME's, i.e. the Lean leader will typically also be the business owner or MD. Under these circumstances, it is not uncommon for SME's to achieve Lean success at a faster pace than a big company.

Lean uses a number of tools and techniques (see Lean Misconceptions #4), to identify waste and then make process improvements. Because some of these tools are easy to learn, they are not restricted to big companies and budgets, and any organisation can, with little investment, acquire and use these techniques. A good example being workplace layout design, e.g. a local SME manufacturer uses a spaghetti diagram to analyse and change the physical layout of their plant as products and processes change. In doing so, they ensure that the flow of goods and services is as efficient as possible which directly contributes to a reduction in lead time (less waste), and therefore greater customer satisfaction. Another SME ensures that improvement ideas generated by staff are discussed, with the MD in attendance, on the 1<sup>st</sup> Monday of every month, and he then ensures that the implementation of all improvements is carried out as quickly as possible. Another Lean tool, the housekeeping concept of 5S (sort, sweep, simplify, standardise, sustain), is applicable to any organisation....it can even be used at home!

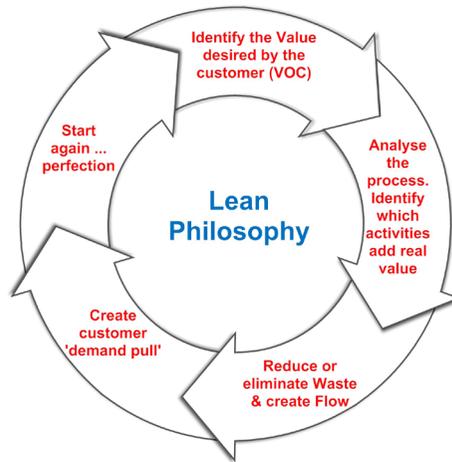
# GAINING A COMPETITIVE ADVANTAGE BY BEING BOTH LEAN AND GREEN



Customers, suppliers, governments, competitors, unions, employees, regulatory and environmental groups...these are just some of the bodies that a typical Australian business has to deal with in 2012. Add to this the uncertainty in global markets, interest rates, legislative changes, natural disasters, rising temperatures and it is easy to understand why business people often find it difficult to know what to address first in order to make *real* progress.

How can a company increase the value of the products and services that they offer their clients, while simultaneously creating a sustainable and environmentally friendly enterprise? Have we not been led to believe that going green *increases* costs? Are the two seeming diverse concepts of *Lean* and *Green* actually compatible? Can a green enterprise actually *reduce costs* and *add customer value* to its goods and services? The answer is quite simply... yes.

The *Lean Philosophy* is fundamentally a continuous process of identifying, from the customer's perspective, the value added and non-value businesses processes, and then, by using suitable tools and techniques, reducing or eliminating the non-value adding activities, commonly called *waste*. Lean uses a 5-stage cycle (figure 1), to identify 7 traditional wastes within the organisation.



**Figure 1. The 5-Stage Lean improvement cycle.**

The 7 traditional Lean wastes are:

- *Transportation* of goods both internally and externally
- *Inventory*
- *Movement* of people in 'getting the job done'
- *Waiting* for a process or service
- *Over production* (just in case production)
- *Over processing*, or inappropriate processing using excessive (wrong) resources
- *Defects* and other quality related issues.

Through the 5-stage cycle, the Lean approach enables you to identify these wastes in your processes and then reduce or eliminate them, while simultaneously increasing the value-added component. This then results in reduced costs, reduced lead times, increased capacity, fewer quality issues, and an overall improved customer experience. In fact, contemporary Lean thinking now includes *environment* as the eighth waste!

Environmental waste is the unnecessary use of resources and/or the release of substances into the atmosphere, water-ways, or land that could harm human health or the environment. In the same way that reducing the 7 traditional lean wastes can add value to the customer, reducing environmental waste can be shown to *add value to the customer* by reducing both the depletion of natural resources, and the impact of pollution and other health hazards on the environment at large. These environmental impacts are often called *externalities* and have traditionally not been factored into customer value and the cost base of products and services.

*Going Green* uses a similar approach to Lean, i.e. *identify the value desired by the customer together with what is good and positive for the environment*. By defining a set of *environmental wastes*, companies are able to identify and reduce these wastes within their processes to simultaneously reduce costs (not increase costs as is the common perception), increase value and create a more competitive business. Just as there are 7 Lean wastes, there are also 7 *environmental wastes* with a clearly visible overlap, i.e.

- *Materials* – can you design your products to reduce the consumption of virgin materials and increase the use of recycled materials? Reducing the consumption of virgin materials not only reduces costs, but has a positive environmental impact.
- *Water* – can you reduce water consumption, use recycled water, or harvest rainwater for use in your processes or facility?
- *Energy* – we are all aware of rising energy costs and any reduction in energy consumption is important to any business. Minimising power consumption and incorporating renewable energy sources where possible, has both an economic and environmental benefit.

- *Garbage* – garbage waste comes from paying for something that we throw away. To make matters worse, in addition to this initial cost and its environmental impact, we usually have to pay an additional charge to finally dispose of the garbage!
- *Transportation* – the impact of excess and unnecessary travel on both operational costs and the environment are obvious.
- *Emissions* – not only carbon, but other pollutants as well.
- *Biodiversity* – this comes in two forms; firstly the direct destruction of the environment from the building of infrastructure, and secondly from harvesting resources at a rate faster that they can regenerate themselves.

Lean improvements directly contribute to a reduction in energy consumption, emissions and environmental waste. As the USA EPA have demonstrated, there is a direct relationship between *Lean* and *Green* as the *Lean* and *Environmental* wastes both aim to reduce costs and increase customer value (see table 1). Furthermore, it has been proven time and again that *going green* increases customer and employee loyalty, and aids in attracting new customers and retaining existing staff.

<b>Waste Type</b>	<b>Environmental Impacts</b>
Overproduction	<ul style="list-style-type: none"> <li>• More raw materials and energy consumed in making the unnecessary products</li> <li>• Extra products may spoil or become obsolete requiring disposal</li> <li>• Extra hazardous materials used result in extra emissions, waste disposal, worker exposure, etc.</li> </ul>

Inventory	<ul style="list-style-type: none"> <li>• More packaging to store work-in-process (WIP)</li> <li>• Waste from deterioration or damage to stored WIP</li> <li>• More materials needed to replace damaged WIP</li> <li>• More energy used to heat, cool, and light inventory space</li> </ul>
Transportation and Motion	<ul style="list-style-type: none"> <li>• More energy use for transport</li> <li>• Emissions from transport</li> <li>• More space required for WIP movement, increasing lighting, heating, and cooling demand and energy consumption</li> <li>• More packaging required to protect components during movement</li> <li>• Damage and spills during transport</li> <li>• Transportation of hazardous materials requires special shipping and packaging to prevent risk during accidents</li> </ul>
Defects	<ul style="list-style-type: none"> <li>• Raw materials and energy consumed in making defective products</li> <li>• Defective components require recycling or disposal</li> <li>• More space required for rework and repair, increasing energy use for heating, cooling, and lighting</li> </ul>
Over processing	<ul style="list-style-type: none"> <li>• More parts and raw materials consumed per unit of production</li> <li>• Unnecessary processing increases wastes, energy use and emissions</li> </ul>

Waiting	<ul style="list-style-type: none"> <li>• Potential material spoilage or component damage causing waste</li> <li>• Wasted energy from heating, cooling, and lighting during production downtime</li> </ul>
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Table 1: Environmental Impacts of Lean Wastes (Source - USA EPA)

Lean improvements directly contribute to a reduction in energy consumption, emissions and environmental waste. There is a direct relationship between *Lean* and *Green* as the *Lean* and *environmental* wastes both aim to reduce costs and increase customer value. Furthermore, it has been proven time and again that *going green* increases customer and employee loyalty, and aids in attracting new customers and retaining existing staff.

As opposed to being reactive, business executives should become more proactive and companies need to develop their Lean and Sustainability Philosophies as an integral part of their overall corporate strategy. Lean and Green are not at loggerheads, and those companies that have embraced both concepts have set themselves on a path of creating a sustainable competitive advantage.

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# GOING GREEN CAN PUT YOU IN THE BLACK



Going 'green' may sound a little gimmicky but it has some real benefits for SME businesses. Operating a green business is not only good for the environment but good for your business' bottom line because conserving resources and cutting down on waste ultimately means money savings for the business. For the imaginative entrepreneur the move to thinking green also opens up a wide vista of opportunity in developing and marketing green products.

Growing concern about environmental issues has opened up a wide variety of new markets related to producing and selling green products that answer to an increasing desire by consumers to be ecologically friendly.

Established in 1995, Roots Biopack Limited produces eco-friendly biodegradable food containers and packaging products using agricultural by-products, such as sugarcane fibre and empty fruit receptacles. In their factory the boiler's waste heat is used to heat up water for office and staff housing. Roots' clientele has grown to include many leading international fast food restaurants and supermarket chains.

Fried chicken and the environment might not seem to have much in common but FiltaFry developed a micro-filtration process that significantly extends the life of cooking oil, which means much less waste is generated. FiltaFry will come to a restaurant, hospital or hotel and clean the

cooking oil on location. And not only does the oil last longer, but it's also cleaner, which means the food is healthier too.

## **Saving Production Cost**

Even companies whose line of work is more traditional can benefit from using green practices.

TerraCycle produces an organic plant food made from worm castings but what is different about their product is the packaging – used plastic soft drink bottles. Not soft drink bottles that have been melted down and remade into a different form, but the actual used bottles themselves. The company has repurposed over a million such bottles, which has meant savings in production costs as well as a lot of good publicity.

Thomas Mott Bed & Breakfast phased in energy efficient practices over a number of years to reduce its electricity bill from its pre-program level of \$11265 to a post-program one of \$1649. How? The owners of the old farmhouse-turned-B&B invested in wall space insulation, windows designed to minimise heat loss, a state-of-the-art boiler, highly efficient compact fluorescent lamps, switched the kitchen from electric to gas and planted trees to provide shade and lower cooling costs in summer.

## **Common Sense Savings**

While any one small business may produce few direct greenhouse gas emissions, their collective use of energy in the form of electricity to heat and cool and drive equipment, of oil and other chemicals and of fuel to transport raw materials, distribute product and remove waste all add up to a significant contribution to total emissions. By optimising energy use most small businesses

achieve significant savings on their utility bills as well as reducing their carbon footprint.

Most of the savings that green businesses make result from nothing more than common sense thinking. Laptops use less power than desktop models; motion detectors in bathrooms, timers on water heaters and coffee pots, and programmable thermostats throughout the premises all cut back on using electricity when people aren't using the facility; replacing equipment that performs inefficiently, such as printers, refrigerators and air conditioners with new, energy efficient models reduces energy use and utility bills; moving to email to deliver mail and accounts reduces paper use. Look at your business carefully and there is likely a lot of low-hanging fruit to be picked when it comes to saving energy. Added up, these will amount to significant savings.

### **Coming Ready or Not**

In industrialised countries small businesses consume from 50-55% of the oil and natural gas resources, and so are responsible for a significant amount of greenhouse gas emission. It's only a matter of time before the impact of global warming results in mandatory limits and penalties for non-compliance and these will be applied to SMEs no less than to large companies. Yet while SME surveys regularly find that increasing energy prices rate as a top concern, only a minority report actually spending money to increase energy efficiency. That's a disconnect that needs to be addressed. Since one of the quickest ways to cut greenhouse gasses is for businesses to become more energy efficient it seems that the most sensible solution for SMEs is to kill the two birds (greenhouse gasses and energy bills) with the one stone – introducing more energy efficient production methods. SOURCE NOTE: RAN One

# GREENHOUSE “SCEPTICS” BENEFIT FROM KNOWING THEIR FOOTPRINT



With the demise of the Emissions Trading Scheme, a lot of businesses are uncertain of what they should be doing/need to do with respect to carbon emissions. Senior Consultant Michael du Plessis and I have been working with one business which is not asking questions, but taking action. This leader in carbon neutral printing has been building their business in a sustainable manner for some years and surprising as it may seem, they see opportunities to reduce carbon as a way to improve their profitability.

One question we hear often in discussions with business managers and owners is – “If I don't have to report on greenhouse gas (GHG) emissions, why would I be interested, especially in knowing my carbon footprint?” A very valid question, and one I have asked being a bit of a sceptic when it comes to global warming and the impact of carbon dioxide (CO<sub>2</sub>).

Well even if the sceptics are right and GHG emissions were not causing global warming, if it becomes the catalyst for us to further cut down on waste and reduce pollution, it couldn't be all bad. To quote Warren Buffett, “I believe the odds are good that global warming is serious.... If you have to make a mistake, err on the side of the planet. Build a margin of safety to take care of the only planet we have.”

While most businesses in Australia do not have to report on their GHG emissions, and more importantly, those that do

only have to report on what is generated as a direct result of their manufacturing processes (this is known as Scope 1 & 2, not Scope 3 which refers to their supply chain), why would they be interested in knowing their carbon footprint?

We have discovered that many organisations that undertake a review of the environmental impact of their business operations come up with new ideas that can improve productivity and their bottom line. Often they are surprised that the environmental review comes up with ideas that they may not have considered before. For our client, we agreed to do a high level carbon footprint “snapshot”. What we discovered was that most of his carbon was generated by raw materials he bought in, not his actual manufacturing processes. He also discovered that the “carbon neutral” claims being made by his major competitor were at best, questionable.

From this high level snapshot we were able to determine that:

- He could improve his bottom line and be more carbon friendly by changing his freight procedures.
- He could covertly challenge the “carbon neutral” claim of his major competitor by changing his marketing, and at the same time position himself as an environmental leader.
- By completing a detailed carbon footprint analysis he could provide a client who did have to report their emissions with information that made their task easier – a competitive advantage.
- He was able to provide prospective clients with information relating to the carbon impact of various production options – those who wanted to make the environmentally responsible choice could do so.
- He could see where the carbon is generated in the supply chain and then choose suppliers who were

making efforts to reduce their carbon footprint, hence reducing his own. And with carbon having a cost associated with it in the future, better understands the cost implications on his business.

It's true that not all organisations are under immediate pressure to measure their carbon footprint, however we are discovering that those looking at sustainability from an environmental perspective, are not just doing the right thing by our environment, but are also reaping commercial benefits of a more sustainable business.

# LEAN MANUFACTURING AND YOUR CARBON FOOTPRINT



A number of Victorian companies reported recently that “they are on track to reducing their carbon footprint by 30% through the efficient use of energy.” This report is fantastic news and music to my ears.

The company spokesman described their actions as a “win-win” – they reduce emissions and save money at the same time. Simple and effective.

## **So how does Lean Manufacturing principles and your Carbon Footprint relate to each other?**

Lean Manufacturing principles are all about eliminating WASTE in your business. Waste whether it is transport from one factory to another, inventory of finished goods, product rejects, electric lights being left on or simply duplication of electronic copies with paper copies.

All waste consumes energy; energy has a CO2 equivalent rating and contributes to your carbon footprint. Those companies in Victoria are applying LEAN THINKING to their business. They are analysing where they can be more efficient and use less for the same level of production.

## **Lean Potato Chips?**

A great example of Lean Manufacturing and energy consumption is how a Potato Chip manufacturer in the UK

reduced their consumption of gas significantly. Their main supplier, Potato Farmers were paid on the weight of their spuds so to ensure that the best price was achieved the farmer kept his produce hydrated during transport to the chip factory. The chip makers in turn had to use more gas to drive the moisture off the sliced spuds, thus using more energy. Using Lean Manufacturing methods the chip maker identified this grower practice as a non-value add activity resulting in a significant waste of gas.

Solution? Change the purchase contracts to be based on weight and moisture content – result – the growers use less water, the manufacturer uses less gas and less energy is consumed. Winners all round.

Lean Manufacturing eliminates waste, focusses on what the customer is prepared to pay for and the end result is less energy use. This is good business practice that should be simply the way we do business.

Want to know if Inform can help you understand and manage your Carbon Footprint? We are happy to meet with you over coffee, no strings attached, and discuss how Inform can help you. [Click here](#) to arrange a time to chat.

# WANT TO MAKE MONEY THROUGH IMPROVEMENT IN YOUR OPERATIONS.....QUICKLY – HERE’S HOW



What is MORE important – focus on the outcomes or the inputs to your business? I would argue that the output – e.g. profits or sales is a direct result of what you and your people are working on during the month, in other words the inputs.

The old computer saying – “garbage in garbage out” is true for how we run our businesses. So how do we know what we should be working on and how do we know it is directly related to my financial performance?

## **Step One: Identify the critical things you do in the business – or business processes.**

For example a contract builder has about three critical processes to get right –tendering, sub-contractor selection, project management. These are all processes with inputs, step by step actions and if all are not well executed there is a high risk of losing REAL money.

So, first things first, look at your business and identify those top 5 critical “things” you and your team do each month. Write each one on a separate sheet of paper. On the left hand side write what you/your team do well; on the right hand side right what you could do better. Try and fill the sheet for each of your critical processes.

## **Step Two: What do I work on FIRST?**

It is essential that you DO NOT try to fix everything at once, otherwise you will fail.

Review your five sheets of paper with your critical processes listed. Select those three that “if we get these right, we will make a lot more money.”

Now with these three, review each sheet and highlight the most important What We Do Well and what We Could Do Better.

You now have six critical “things” to measure.

Why do we look at what we do well? Simply because this is why you are a success, why your customers buy from you and how you are positioned in your market. So KEEP DOING it and let all your people know this is critically important to the success of the business. Also, never take your eyes off these and do not let them slip while you make other improvements.

## **Step Three: Measure, Monitor & Remember?**

For the six areas you have identified – set up a weekly measuring system for each one. One could be hours spent re-working mistakes. Get this down and you will make more money.

Report them each week, ideally on a big board so all the team can see. Have the actions that will be done over the next two weeks written out so everyone knows what is going to happen.

Do this for 3 months and see how you go. If the three that you do well have stayed flat or improved, FANTASTIC. Likewise if the three you could do better in have improved then FANTASTIC AGAIN. Your business results will be improving as a direct result of working on the INPUTS.

Remember – celebrate your success with the team and go back to Step One every three to six months. Within a short period of time your business will be on the path to Excellence.

# GROWTH REQUIRES CHANGE



Businesses need to change if they want to grow. Change can be proactive or reactive, but without it everything stays the same and growth is impossible.

Many organizations have found to their detriment that it's unwise to fail to anticipate changes in the external environment and suffer the consequences. Change has to be carefully planned and implemented with strict controls on both its extent and the pace at which it takes place.

First let's look at changes that can happen to a business. These might take place over an extended period of time, often so slowly that management is unaware of the extent of the changes until it has been confronted with the unpleasant financial results.

- Team morale decreases and productivity declines
- Customers depart and sales decrease
- Costs rise and profitability suffers

Each of these change paths can happen gradually and unless management regularly monitors key business metrics and ratios they can cause an unpleasant awakening to reality. Isn't it much better to plan positive changes to an organization and benefit from the outcomes?

Think instead of your business experiencing these kinds of change:

- Team morale is improved by a program that creates greater job satisfaction and productivity increases
- A customer relationship management system generates increased turnover and word-of-mouth brings in new customers
- Active management of costs and better purchasing policies reduce expenses and improve profitability

## **Plan and implement positive change**

Where the first set of changes happened to a business and would be detrimental to growth, the second set of changes are the kind that are planned and create growth. Planning and implanting positive change is an essential element of management.

Yet change for its own sake can be a mistake. It's important that when considering making changes to an organization the effects are fully identified and carefully analysed.

Discuss the proposed changes with two important groups of stakeholders – your customers and team members. The first group has to accept the changes or your sales will decrease; the second group has to accept them or they won't happen in the manner you intend.

Betty Krecji of the Purdue University Department of Consumer and Family Sciences says that how one views change is dependent on many things:

- The number of changes occurring at once – individuals can only handle so much change. The greater the number of changes occurring simultaneously, the more likely it is that they will be viewed negatively.
- The pace at which change is occurring – the faster the changes come, the more difficulty we have in

adjusting to them and the more likely we are to view change as loss.

- The amount of control in times of change – the greater the involvement individuals have in making change, the greater their sense of control. The greater the sense of control, the more likely the change will be viewed as an opportunity.

## **Remember the human element**

Communicate the planned changes internally before they happen. Change should never take place suddenly or unexpectedly; to do it this way is to invite rejection. All team members need to know what's going to happen and why it's a good idea.

Business owners often ignore the human element of change because they believe it can be created through giving orders. Positive and lasting organizational change isn't like that; it's 'owned' by the team and they get behind it to make it happen.

Don't expect change to go as quickly or as smoothly as you've planned. No matter how much planning has gone into the process there will always be unforeseen forces that impact the success of the change effort.

Harvard Business School's Todd Jick conducted a study that identified these problems that were experienced by a majority of firms implementing change:

- change took more time than allocated
- unforeseen problems surfaced
- coordination of implementation activities was ineffective
- competing crises distracted attention

- insufficient capabilities and skills of those involved in the implementation
- inadequate training was given
- uncontrollable external factors had a major adverse impact (e.g. Competitive, government, economic)
- inadequate support for change
- failure to define expectations and goals clearly
- failure to involve all those who will be affected by change

Change for the right reasons and done the right way can be a powerful growth stimulant for any organization. Done badly, change can become a business disaster. Consider change carefully, analyse it as critically as possible, and implement it only after you've gained the support of stakeholders.

# IS LEAN BUSINESS SIMPLE COMMON SENSE? HOW TO GROW SALES AND PROFITS – AT THE SAME TIME



The answer is a resounding YES but the key to success is the HOW.... the HOW to implement, the HOW!

## **HOW to communicate and the sustain improvements for the long term.**

Let's start with your business culture.....

I see the culture of an organisation as the key to success of applying LEAN principles throughout a business or organisation, especially to gain long term benefits in growth and profitability. What do I mean by culture? Simply put, the culture reflects the values of the organisation and in most cases the culture reflects the history and the values of the leaders. Or it is simply "how we do things around here..."

If "how we do things around here....." means:

- We share ideas and no one has a silly idea
- We have open communication on a regular basis
- We are always looking for ways to improve our product or service to our customers
- We are always looking for ways to be more efficient

then you have a solid foundation to implement LEAN Business principles and get the long term benefits growing sales and reducing costs.

## Where to start.....

LEAN focusses on the Voice of the Customer (define the product/service attributes and features) and delivering what the customer is prepared to pay for at the lowest cost. So, the focus is on customer service and reducing unnecessary costs in the business.

When you start to really get serious and detailed about the Voice of the Customer (VOC) you will very quickly start asking questions like “Why do we do things that way?” You will start looking for ways to be more efficient and deliver what your customer needs. To get real solid data on the Voice of the Customer consider surveys, interviews, focus groups and reliable consumer research. The best method will depend very much upon the number of customers you have, whether they are consumers or whether you are more “business to business”. What is vital is to get the whole picture quantified, not just, Quality, Cost and Delivery but other factors such as:

- Packaging and labelling
- Invoicing and payment terms
- Flexibility in service
- Technical support and after sales support

Having a clearly defined and quantified the VOC then the next step is to measure your current product and/or service offering against the data from the survey. This will do two things for you:

- Identify where you are not meeting your customer's needs – allowing you to do something about it!!!
- Allows you to identify what your customer is not prepared to pay for, that is, the non-value add activities. These can be considered a waste and need to be minimised.

This is a starting point for the implementation of LEAN Business, one which will give you a clear focus on what is valued by your customer. You will find that all your staff will be able to contribute positively to this approach so long as the “way we do things around here” matches the four points above.

Want help to grow your sales and profits at the same time? We are happy to meet with you over coffee, no strings attached, and discuss how Inform can help you. [Click here](#) to arrange a time to chat.

# MANUFACTURING STRATEGY – GAINING A COMPETITIVE ADVANTAGE



In today's increasingly complex competitive environment, consumers are demanding greater variety, shorter lead times and lower costs. Unfortunately, in many instances corporate strategy is dominated by marketing and finance with little or no input from manufacturing. This often results in manufacturing being simply expected to respond to demand changes, which has contributed to the seemingly endless complaints about the 'unrealistic' demands placed on production. Many production managers are faced with overriding pressures to meet day-to-day targets, including scheduling, efficiency, quality, output, inventory reduction and productivity. This, coupled with the highly quantifiable nature of production, has led to a greater focus on *operational efficiency* (doing things right), rather than being *strategically effective* (doing the right things).

The lack of understanding by many senior managers towards manufacturing often means that when difficulties do occur, the favoured course of action is to eliminate the problem by sub-contracting the manufacturing tasks either locally or offshore. This unfortunately does not address the root cause of the problem and may even lead to the inability to compete in future markets as critical manufacturing processes and infrastructure is dismantled.

As opposed to being reactive, manufacturing executives should become more proactive and companies need to develop their manufacturing strategy as an integral part

of their overall corporate strategy. Manufacturing should choose its processes and design its infrastructure (controls, systems, procedures), in a way that helps products *win orders* in the market place. A *critical* element of this process is to determine the *value that customers desire* (Voice of the Customer), and then for the manufacturer to match the *processes and infrastructure* to these 'order winning' criteria. Finally, the processes and infrastructure should be adaptable to changing market demands.

Although R&D, finance and HR will naturally impact on manufacturing, the link between the marketing and manufacturing strategies is perhaps the most important. Developing a coherent manufacturing strategy should include the following steps that emanate from the corporate objectives:

1. *Corporate Objectives*

Senior management should set the long-term company objectives including growth, profit, return on investment, target markets, environmental sustainability etc. This will then lead to the formulation of the financial, HR, R&D, marketing and manufacturing strategies.

2. *Marketing Strategy*

Strategic marketing initiatives include product range, pricing strategy, promotion, market positioning and mix, volumes, leader vs follower strategy, etc.

3. *Voice of the Customer*

This vital step seeks to determine the *value actually desired by customers* so that the company can 'win orders' in the marketplace. Customers *value* a range of factors including price, quality, brand image, service,

design flexibility and customisation, product range, delivery lead time, environmental factors, lot sizes etc.

#### 4. *Manufacturing Strategy*

Having completed the above 3 steps, a manufacturing strategy can now be formulated that *supports* the company's products in the marketplace and assists it to win orders against the competition. This encompasses two aspects:

- a. *Process Choice*. Manufacturing processes to support the strategic objectives can now be chosen after having evaluated available technology, finance, plant capacity, factory layout, the role of inventory, anticipated volumes, sub-contracting etc.
- b. *Infrastructure Design* to support production, including production planning and control systems, quality management systems, support functions, organisational structure and compensation agreements.

Gaining a competitive advantage in today's global market requires manufacturing to become actively involved in the corporate strategic debate by being able to *influence* decisions for the overall good of the business.

## DANGER LURKS IN YOUR INVENTORY



Inventories are usually made up of many types of stock. There are fast-moving and slow-moving products. There are products with a high profit margin and products with low profit margins. Some products are in demand and other products past their peak. To simply look at an inventory as having a single 'value' can be very misleading.

At the bottom end of the inventory process is a warehouse full of dead items past their prime and can't be sold for anything like their cost of acquisition. It's truly amazing how much of this 'dead' stock is retained on the books at cost price and lingers in the warehouses of so many companies, adding to the value of their inventories but doing nothing for their sales.

An inventory is a dangerous thing. If it's not properly managed it becomes the equivalent of money that's depreciating at an increasing rate and can actually drop below zero value. Be aware of the danger and don't let this situation develop.

How important is inventory as an asset? It's probably the largest asset of most SMEs, but it's by no means the most valuable asset in the business. The most important assets are those that turn the inventory into cash – the sales team, the marketing and the business' customer relationships. That's what keeps the business ticking over, not just a bloated inventory waiting to be sold.

Some businesses manage to trade quite profitably without an inventory of their own. 'Just in time' manufacturing

processes created a whole new outlook on parts inventories that made maintaining huge stockpiles of components obsolete and saved manufacturers a lot of money. This line of thinking can be successfully applied to just about every inventory situation.

This taught businesses the importance of accurate sales forecasting – knowing what the demand for a product would be and when it would arise. Orders for components could be placed according to the projected demand and the need to retain year round inventories was eliminated.

Most proprietors at least know their sales volumes and would no doubt like to retain them. The catch is how can they do this and at the same time operate with a reduced inventory? If every item in the inventory turned over at the same rate this might be a problem, but a careful analysis of what's in any inventory will find some fast movers as well as some items that have a much slower path to customers.

Go through the inventory in detail. Look at the age of what's in stock as well as how quickly each item turns over and the search will soon find some real opportunities to cut down on the number of items there. It's also possible to discover some items in the inventory that haven't moved for so long they're virtually obsolete. So it's not just the total value of an inventory that's important; it's what it consists of bit-by-bit.

Now look at the profit margins the business earns on each item in the inventory. Relate this to the turnover rate for each item and some surprising facts will emerge. Finding items that turn over slowly and generate low profit margins should ring a huge alarm bell that perhaps these products can be either dropped from the range or sourced from suppliers 'on demand'.

Inventory on its own doesn't sell itself. Certainly a business wants to be able to provide its customers with fast-moving, high margin items with the least possible delay, and that's where the focus should be. In most SMEs the '80/20' law applies to the products they sell – 80% of the turnover comes from 20% of the products. It makes sense to have those 20% of products dominate your inventory and find alternative ways to handle the less-important 80%.

If an organization's inventory is made up mostly of those '80%' products it's time to do some housecleaning. All they're doing is depreciating from year to year and that capital could be better employed in selling more of the 20% products. Even if items in the old inventory will someday be moved, wouldn't it be better to let someone else have the joy of buying and stocking them? Liquidate them and free up the capital for more productive uses. They can always be repurchased when and if required.

Always remember that an inventory represents cash just sitting there. It's not cash in the bank; it's cash that's been invested and on which needs to generate a return. Everything in an organization's inventory has a cost attached to it – just acquiring and warehousing it can be expensive, and the longer it's unsold the higher the costs become.

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