

## Lean Manufacturing As A Competitive Strategy

by R. Michael Donovan

The business model of “we make it, you buy it and we deliver when we can” collapsed long ago. Now customers not only evaluate product design, quality and price; they are emphasizing two additional performance dimensions:

- Responsiveness* - How good are you at meeting customer requests?
- Dependability* - How good are you at meeting your commitments?

Today, some industries are more affected than others by the increased emphasis on responsiveness and dependability, and there is no doubt that this increased emphasis has already crossed many and will inevitably cross all industries.

For top management, the business model is becoming more complex and challenging, especially with the never-ending issues of how to increase profits and market share. Ultimately, this complex challenge comes down to an inescapable key question:

*What is the right competitive strategy for us to follow?*

One area of particular significance in formulating such a strategy is a company’s ability to implement an effective competitive strategy. The seemingly endless myriad of operating problems such as poor on-time delivery, too much tied-up in working capital, slow response and high costs, among other problems, are often identified as the culprits that scuttle the best of strategic intents. Yet, these are only symptomatic of more serious underlying problems in information and material flow which are often the result of poorly designed processes, even after the implementation of the most modern and comprehensive of ERP systems. In practice, the processes which govern the flow of information and material are typically not issues that are focused on by the corner office, even though they should be very high priorities up, down and across the organization.

### **Changing The Rules**

Executives are often less hesitant on large IT project investments despite the general lack of in-depth understanding. A common complaint of IT projects is that the expected return on investment was never achieved. To a large extent, the promised and hoped for results were not obtained because the focus was on the wrong issues. Basically, the problem resides in how many executives think a manufacturing company should be run. As a result of this thinking, the management endorsed rules and operating logic that people follow on a day-to-day basis can defeat the effective implementation of a competitive strategy. This is especially true when inaccurate and poorly flowing

information and interrupted material flow, from any source, is allowed to continually exist.

Many executives from discrete manufacturing environments often react to the possibility of adopting lean manufacturing in their companies with an “It won’t work here” type of response. For them, lean manufacturing clearly defies the logic of their discrete operational environment. What executives need to do is to challenge the traditional mode. Understanding and accepting that the old agreed-upon operating logic with its agreed-upon but poor rules is, in fact, outmoded. The difficulty in changing mind-sets, at all levels of the organization, is a task that should not be underestimated; but the bias must be changed or you will not succeed at achieving the levels of performance of truly lean manufacturers.

The long accepted traditional rules allow the flow of information and material to be interrupted numerous times in its path. That takes up time - - cycle time and significantly increases operating expense. Even with computers that can process data at the speed of light, most of a company’s information and material flow processes are loaded with the worst kind of time - waiting time. It’s not at all unusual to find information and material waiting in queues more than 90 percent of the time. When you pause and think that central to effective competitive strategy are responsiveness and dependability, then cycle time reduction in the flow of information and material becomes of paramount importance.

### **Is It Worth It?**

Developing the most responsive and dependable operation can be the difference between winning or losing. This by itself should be enough to at least initiate a thorough investigation of a lean strategy. A number of companies, large and small, representing many different industries have very successfully adopted lean manufacturing as a business strategy with astounding results. Your business case may point to improvement potential that may seem so dazzling, they are beyond incredible. For example,

- Costs down 20-50%
- Lead-time decreased by 50-90%
- Overall cycle time decreased 60%+
- Inventory down 50% or more
- On-time performance of 99%+
- Cost of quality reduced by 60%
- Floor space reduced 30-70%
- Material costs down 5-10%

Certainly, improvements such as 99- plus percent on-time performance, a 50-plus percent reduction in process and lead time, and a 10-plus percent increase in throughput would be more than enough for any top management team to certify lean as one of the most worthwhile of strategic objectives.

Think for a moment about the potential of just a 10 percent increase in throughput. If overhead is fully absorbed at the current rate of output, then usually the only significant additional cost to manufacture is direct material. With cycle times reduced by 60 percent or more and on-time delivery exceeding 99 percent, most sales executives should agree that the market share increase will occur. If the increased output is truly saleable, then

30-60 percent of every additional sales dollar is increased profit because the only additional expense is direct material. The effect of a saleable throughput increase could be as much as a 5 percent profit on sales or \$500,000 of profit increase for every \$10 million of sales. As one client company president once told me, "I will be happy with half that" and understandably so.

There are numerous other valid justification viewpoints to examine as well. For example, a substantial amount of overhead activity costs are a direct result of a company's inability to consistently and dependably respond in meeting customer requirements. The amount or degree of schedule misses and changes creates an exponential overhead activity cost behavior as the organization ineffectively scrambles in an effort to meet customer requirements. Without an effective capability to consistently meet customer-requested schedules, overhead activity costs increase rapidly with the organization's inability to meet plans and schedules. Most cost accounting systems have these costs buried in a category labeled "overhead." The fact is, if these cost do exist they are unnecessary.

A large part of these unnecessary costs is often the true and unknown cost of expediting, an overhead activity with a ripple effect that ultimately impacts the income statement and balance sheet. How? Think of the resources consumed, missed shipments, lost sales, higher production costs, quality problems and sales expense among other things.

The question "Is it worth it?" is, in the vast majority of cases, easy to answer with an overwhelming yes. The consequences of not adopting lean manufacturing as a business strategy are so costly that it should become a high priority strategic objective.

### **What Should You Do?**

As executives learn more and more about lean manufacturing and lean supply chain management as a competitive strategy, understanding and acceptance of the improvement potential from lean evolves. Consequently, management will want to determine and understand how good their company could really perform if the old agreed-upon operating logic was changed to a lean strategy. At that time, management should consider an expert-guided focused assessment of the "as-is" condition versus what will be required to achieve a "could-be" state of lean manufacturing. This focused assessment should have the objective of quickly evaluating what improvements are needed when and what is the potential impact on overall business performance. The end product of this assessment should be a game plan that specifies the improvement actions and measurable performance improvements. Certainly, nothing drives the adopting of a new and better way of doing business than very compelling performance improvement potential.

Once management's understanding and acceptance evolves to setting your company on a lean strategy course, the real work begins. Introducing the technology of flow, while challenging, will be easily superseded by the challenge to change the old mind-set. Long established value and belief systems are going to be "upset" as the long management-endorsed rules and operating logic are challenged to be unfit and "scheduled" to be

discarded. This is the critical point in the lean adoption cycle where only management's leadership and dogged persistence will assure that lean actually happens.

### **About The Author**

R. Michael Donovan has consulted with executives and key decision makers in over 1,000 manufacturing companies during his 30 years as a management consultant. His firm, R. Michael Donovan & Co., works with manufacturers to achieve breakthrough performance improvements. Mike can be contacted via e-mail at [rmd@rmdonovan.com](mailto:rmd@rmdonovan.com) or by telephone at 508-788-1100.

### **Additional Publications**

To obtain additional complimentary publications, visit the website [www.rmdonovan.com](http://www.rmdonovan.com).

### **Reproduction Policy**

The author encourages sharing this publication with others. Permission is granted to photocopy this white paper in its entirety so it will be a facsimile of the original. Copyright ownership remains with R. Michael Donovan.