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LEAN THOUGHTS

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Why Production Must come First : The proper sequence for Lean Enterprise Transformation

By Todd McAdam

Lean has certainly come a long way from the days of Henry Ford and the Model T. Taiichi Ohno added the supermarket pull system, which allowed Lean to be applied to value streams producing a variety of products. Thus cars could be manufactured with options, without significantly sacrificing productivity or flow. Over the years, organizations have applied Lean in a wide variety of industries, each requiring a slightly different application of the Lean Principles 1 . Lean is being applied in banking, national defense contracting, shipbuilding, job shops, hospitals, and almost any other business application one can think of. 1 The Lean Principles were identified by Womack and Jones in Lean Thinking and are based on the operating philosophy behind the Toyota Production System.

The industry in which Lean is successfully being applied is not the only way in which this powerful business concept has evolved. Even within traditional manufacturing industries, Lean is being applied to nonmanufacturing tasks such as accounting, administration, product development, and the supply chain. These days an organization planning to embark on an enterprisewide Lean transformation may be overwhelmed by all of the different applications available, and most are left wondering where to start.

The Starting Place

Although it may seem that the majority of the problems in your organization exist elsewhere, it is *essential* that all Lean transformations start in the value streams where value is added. For manufacturing firms, this means that the starting place is Lean Manufacturing. Project management firms, however, should start with Lean Project Management. To find where value is added, simply ask, "What does our customer pay us to do?" Much of the waste that occurs in other areas of the business is in fact caused in our valueadding value streams. For example, accounting frequently conducts thousands of wasteful transactions to track inventory because there is no control over that inventory on the manufacturing floor. Thus, the transactions are necessary until Lean Manufacturing makes them wasteful by putting control over inventory accumulation. Level loading production will create a smoother demand profile for the supply chain, thereby improving supplier performance without actually improving supplier capability.

Lean in the Office

Many organizations add value to their customers in an office environment. Their valueadding value streams involve business processes, processing queues (either paper inboxes or electronic ones). For these organizations, the starting place for an enterprisewide is with Office Mapping (value stream mapping for the office). From there, these organizations will continue to apply the Lean Principles of Flow and Pull as they drive out waste, and reduce processing times. However, not all administrative value streams add value. For most organizations, their administrative (or office) value streams enable the creation of value in other value streams. Although it may frequently seem that problems within these enabling value streams are hindering value creation more than enabling it, we must resist the urge to begin our Lean transformations here. Consider the advantages of reducing the order processing time for a manufacturing firm. Orders flow quickly through the sales force to order entry, and arrive in the scheduling department only a couple of hours after they are placed. In a Lean Enterprise, this is an excellent advantage as the orders can then be levelloaded and quickly produced with a short lead time. The customer receives confirmation and an accurate expected ship date scheduled in the near future. However, without Lean embedded in the valueadding value stream, the orders will not likely get processed in a timely fashion and the customer cannot be given an accurate ship date. This is not to say that there is not much waste in the office, or that there are not big improvements to be made there. However, without first applying Lean in the valueadding value streams, the improvements in the office will have little impact to the customer.

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Where "Lean Thoughts" Become Reality



Lean in Product Development

Lean Product Development is an amazing evolution of Lean. A clear value definition creates the best possible product, without any frills for which the customer is not willing to pay. Driving waste out of the development process drastically cuts time to market, reduces nonrecurring costs, enables faster revenue generation, and strengthens market position by getting their ahead of competitors...

The above article was reprinted from the Lean Solutions Newsletter.

Subject: Economics 101... a great illustration !

Economics 101.... TAX SYSTEM

Suppose that every day, ten men go out for beer and the bill for all ten comes to \$100. If they paid their bill the way we pay our taxes, it would go something like this:

The first four men (the poorest) would pay nothing.

The fifth would pay \$1.

The sixth would pay \$3.

The seventh would pay \$7.

The eighth would pay \$12.

The ninth would pay \$18.

The tenth man (the richest) would pay \$59.

So, that's what they decided to do.

The ten men drank in the bar every day and seemed quite happy with the arrangement, until one day, the owner threw them a curve.

"Since you are all such good customers," he said, "I'm going to reduce the cost of your daily beer by \$20." Drinks for the ten now cost just \$80.

The group still wanted to pay their bill the way we pay our taxes so the first four men were unaffected. They would still drink for free. But what about the other six men - the paying customers? How could they divide the \$20 windfall so that everyone would get his 'fair share'?

They realized that \$20 divided by six is \$3.33. But if they subtracted that from everybody's share, then the fifth man and the sixth man would each end up being paid to drink his beer.

So, the bar owner suggested that it would be fair to reduce each man's bill by roughly the same amount, and he proceeded to work out the amounts each should pay.

And so:

The fifth man, like the first four, now paid nothing (100% savings).

The sixth now paid \$2 instead of \$3 (33% savings).

The seventh now paid \$5 instead of \$7 (28% savings).

The eighth now paid \$9 instead of \$12 (25% savings).

The ninth now paid \$14 instead of \$18 (22% savings).

The tenth now paid \$49 instead of \$59 (16% savings).

Each of the six was better off than before. And the first four continued to drink for free. But once outside the restaurant, the men began to compare their savings.

"I only got a dollar out of the \$20," declared the sixth man. He pointed to the tenth man, "but he got \$10!"

"Yeah, that's right," exclaimed the fifth man. "I only saved a dollar, too. It's unfair that he got TEN times more than I!"

"That's true!!" shouted the seventh man. "Why should he get \$10 back when I got only two? The wealthy get all the breaks!"

"Wait a minute," yelled the first four men in unison. "We didn't get anything at all. The system exploits the poor!"

The nine men surrounded the tenth and beat him up.

The next night the tenth man didn't show up for drinks, so the nine sat down and had beers without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them for even half of the bill!

And that, boys and girls, journalists and college professors, is how our tax system works. The people who pay the highest taxes get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up anymore. In fact, they might start drinking overseas where the atmosphere is somewhat friendlier.

David R. Kamerschen, Ph.D.
Professor of Economics
University of Georgia

For those who understand, no explanation is needed. For those who do not understand, no explanation is possible.

"I'm a big believer in growth. Life is not about achievement, it's about learning and growth, and developing qualities like compassion, patience, perseverance, love, and joy, and so forth. And so if that is the case, then I think our goals should include something which stretches us."

—Jack Canfield

"Opportunity is a haughty goddess who wastes no time with those who are unprepared."

—George Clason

Consortium Event Schedule



Tour Workshop Conference

January	February	March	April	May	June
<p>T</p> <p>Wednesday 24 <u>Eaton Electrical</u>, contact Joe Fisher, JoeRFisher@eaton.com</p> <p>W</p> <p>La-Z-Boy Corporate Monroe MI February 14 & 15 <u>Enterprise Value Stream Mapping</u> How to use the VSM tools to map admin processes. Contact Richard Kunst for info. Richard.kunst@la-z-boy.com Register at www.ame.org</p>	<p>T</p> <p>Wednesday 14, <u>CFN Precision</u>, contact Paul Kaulback, pkaulback@cfn-inc.com</p>	<p>T</p> <p>Wednesday 21, <u>Nestle Waters</u>, contact Mariela Castano mcastano@perriergroup.com</p>	<p>T</p> <p>Wednesday 18, <u>CTS Corp.</u>, contact Bob Garces, Bob.Garces@ac.ctscorp.com</p> <p>C</p> <p>Lean Design & Development Conference Wed 18 to Fri 20 Chicago Contact www.iirusa.com/lean</p>	<p>T</p> <p>Wednesday 16, <u>Stackpole CSD</u>, contact Don Barber Don.Barber@stackpole.ca</p> <p>Consortium Shareshowcase</p> <p>Saturday 05 <u>CGL Guelph</u>, Contact Cindy Grolleman Grolleman@canada.com or Dave Deskur daved@cglmfg.com</p>	<p>T</p> <p>Wednesday 20, <u>Morrison LaMothe</u>, contact Tony Vita tvita@morrisonlamthe.com</p> <p>C</p> <p>AME Regional Conference Mon 18 to Thur 21 Edmonton, Alberta Contact www.measureupforsuccess.com</p>
July	August	September	October	November	December
		<p>T</p> <p>Wednesday 26, <u>Kraft Foods</u>, contact Hanif Jivraj hjivraj@Kraft.com</p>	<p>T</p> <p>Wednesday 10, <u>CGL Manufacturing</u> contact Dave Deskur daved@cglmfg.com</p> <p>C</p> <p>AME National Conference Mon 29 to Friday Nov 2 Chicago Contact www.ame.org</p>	<p>T</p> <p>Wednesday 14, <u>Messier-Dowty</u>, contact Mike Smith Mike.Smith@Messier-dowty.on.ca</p>	<p>T</p> <p>Wednesday 12, <u>Orenda</u>, contact Brenda McIntosh brendamcintosh@orenda.com</p>