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**World Class or distinctly average?**

**Why your lean programme is not nearly enough.**

When everyone is doing something, it's time to think differently...



# Welcome

Since 2002 Applied Acumen Limited has been working with a select group of clients to deliver step changes in business performance by applying lean principles in a manner that translates to real, bottom line improvement. ”



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World Class or distinctly average?

## Why your lean programme is not nearly enough.

When everyone is doing something, it's time to think differently.

One of the hottest buzzwords for this business generation is undoubtedly "lean". Whether you are manufacturing, distributing, doing brain surgery, pushing paper or moving data, somebody somewhere will be keen to apply lean thinking to it.

When such techniques are applied, they very often (but not always) reduce costs, and improve outcomes. When such techniques become a philosophy, and are truly embedded in a corporate culture, they very often (but not always) help to maintain a level of stable performance irrespective of environmental conditions.

The difficulty arrives and mistakes made when an organisation gets so wrapped up in LEAN or any of its many consulting-bred cousins that it ignores today's fundamentals and glaring opportunities to make substantial step changes in profitability.

Right now, across the globe, thousands of people are engaged in lean transformations, yet few will approach it in a way which yields immediate business benefit, fewer still will achieve the rapid step change that is possible, and hardly any will ever be around to see true enterprise cultural transformation.



Ex-Honda and lean business transformation expert Richard Shipperbottom examines the common pitfalls of lean initiatives, illustrated by case studies, and highlights key decisions that will make an immediate and measurable difference long after the buzzwords have passed into cliché folklore.

## The first and most common mistake: NOT making money!

An unintended consequence of many lean transformations is the blanket of protection it affords for underperformance, both financial and otherwise. This is especially true if the concept of 'going on a lean journey' has been bought: the perfect excuse for not acting today.

Lean initiatives are often seen as a route to becoming more competitive. Simplifying and integrating processes, removing non value added activity, eliminating waste etc are all tangible activities that can (and ought to) be linked to the bottom line (see 'Measures' later). The near universal mistake made here is not taking a holistic view of the business. In too many businesses

we find managers enthusiastically implementing lean initiatives, whilst either the customer walks away or the company goes out of business. Production processes become efficient, whilst warehouses fill with unwanted product. Lean Sensei give master-classes, kaizen events are held, SMED exercises done, lean leadership courses run, whilst the fundamentals remain unchanged.

There'll be plenty of people reading this that can't say right now how many direct workers are on their shopfloor, and more besides who think the best solution to their problem is a new piece of kit.



**Far too many people believe the need to make and sustain lean transformational cultural change conflicts with changing the basics right now.**

**That's not just wrong, it's dangerous.**

## Lean? Are you sure?

To a business for whom lean is part of the furniture, such as Honda, the adoption of lean is encouraged, since for Honda it is about much more than elimination of waste. It is about integration, collaboration, simplification, systems, behaviours and action.

Honda is about as lean as you'll ever get, philosophically or otherwise, **but you won't hear them go on about it,**

even when educating and helping their suppliers transform themselves.

Instead, Honda talk about BP - Best Product, Best Profit, Best Position, Best Productivity. It's a 13 week system that delivers results quickly. Honda don't get hung up on lean or other buzzwords, they simply apply common sense systematically, to integrate the new into the current. It far from perfect, but it works, and everyone makes money.

## PITFALL No. 1

# The lean myth

People can get rather evangelical about lean, to the point of exclusion of all else. Countless companies have coveted the Toyota Production System and implemented versions of it for many years now, and continue to do so, often guided by consultants with no better idea than the people whom they are charging, or the last textbook they have read.

Moving leviathan businesses to (a version of) the TPS is a big task. Quite apart from the industrial relations challenges this typically presents, capital investment requirements (to do it properly) were frightening even before the credit crunch.

System integrators have now at least developed reasonably universal products that can do the job we had to invent from

scratch in the 90's (ERP software etc), but still charge a king's ransom for awful non-solutions.

**In the meantime, whether the business makes any money during this exercise is like a question from a parallel universe!**

In reality, although consultants and software vendors would have you believe otherwise, 80% of your benefit can be got at in a very short time frame. A focussed programme to make key product lines (more) profitable, more reliable, and more secure can be achieved with less risk, less fuss, less resistance, and less cost.

In 13 weeks you can make a difference that will spread through the company like veins making blue cheese: everyone gets a taste for it, and there's no going back to being the old lump on the shelf. Take a robust 'sustain profit uplift' approach, and before you know it, you'll be pretty lean. Although it's about focussing on quick results, the key here is to take a holistic view: how do you make the *whole thing* work, at the margin you need? Most people forget that lean techniques are a means to an end, not the end result!



# Case Study

## Lean 'Showcase' Company saves \$1M

Bought for \$220M around the middle of the last decade at around 9x EBITDA, this fmcg company was number 3 in the market supplying the major retailers, with healthy margins and compounded annual growth well into double figures.

Operations were rightly proud of their achievements. A lean program had seen training given, 5S stations installed, kaizen events held, and multiple initiatives on the 'to do list' of their newly recruited Continuous Improvement Manager. Sales were also quite happy, having achieved a marketing coup that had resulted in a near 30% uplift in volume. If anything, the issue perceived by the firm operationally was one of a (manageable) disconnect between sales and operations in handling the uplift in volume.

### Problem? What Problem?

The company took a bold decision to undertake a simple "sanity check" of the business. This simple step, the decision to allow an independent party to make an assessment of initiatives and of potential, was a major decision for the business. This was not a failing business, or even one needing a step change in profitability, and it had a lean program in place. They were just curious.

What this company found remarkable was that the independent check revealed what they wanted to know and more. In particular, that a further \$1M could be put into the following year budget, on top of everything they were doing!

Those who purchased the business were surprised, of course, having determined a fair value at the time based on the usual diligence information. It is not known how the sellers might feel about missing out on around \$9M from the sale they would have had if they'd made that saving themselves (around 5% of the sale value)!

So what did the sanity check reveal? Simple stuff. The basics. What are the managers and supervisors doing hour to hour? What are the measures and how do we use them? How do we schedule? What behaviours do we see? How do we treat our employees? How do we confront poor performance? How do we account for all the machine and man minutes in the building? How do we know if we're on plan or not, and how do we manage recovery?

The answers revealed a world of opportunity being hidden by poor systems, lean preconceptions, agendas, and pride.

Quite apart from the management, the due diligence team were incredulous and embarrassed that so much could be saved, and in such a basic manner. Imagine how the sellers would feel if they knew they could have netted \$9M more if they'd bothered to do the same thing.



## Situation normal

We walk past the poster on the wall that shouts about the 7 wastes, on to the shop floor where we can find no supervisor, and where intermittently produced items are packed at a leisurely pace by agency temps at the end of a conveyor, next to a 5S/Kaizen point.

Next to 3 empty lines an operator is watching a maintenance technician set up a poorly maintained machine for an overdue product, with packaging that isn't exactly right, from a stock location that is too full, in a warehouse that remains dirty despite the dedicated cleaning staff on hand, following a schedule that isn't optimised, in a factory where the performance measures say we're at 102% efficiency and we can't say with certainty whether this week we'll make more money than last...

Yet next week, several training sessions are scheduled on "lean in the work place". **Now that's waste!**

## PITFALL No. 2

# The clueless experts

### PITFALL No. 2 EXAMPLE

*It may come as a surprise to some, but there are many synergies between fmcg food and the auto industry, stretching back to the 50's when Taiichi Ohno, then VP of Toyota, looked at the way US supermarkets operated when considering how to match Ford's then higher productivity.*

*50 years on, and the TPS is indeed a formidable and much replicated system, and good ex-Toyota people can right now be found coaching a UK supermarket in lean principles. But as a representative quote may reveal, times have again moved on, and this is a case of typical preconceptions leading to this retailer succumbing to Pitfall No.2: knowing lean in itself is simply not good enough!*

*We sat there in this room listening to some irrelevant part of the lean text book, and the only examples were from a car parts maker. It became immediately apparent that our systems were more advanced, the supply chain management methods different in even basic ways we had to explain, and that our 3rd tier suppliers were more developed by our team than even some of their own 1st tier had been by themselves.*

Very recently we saw a consultancy write a white paper declaring boldly that there were “3 STEPS to WORLD CLASS MANUFACTURING”, and despite the rather thin content it was clearly a popular article with its target audience.

Setting aside the meaninglessness of the phrase ‘world class’, it takes only a little common sense to appreciate that making a step change of any kind requires more than a few steps, and to suggest otherwise is more than a little patronising.

The good news is that there are plenty of people out there now who genuinely do have experience of a good lean operation, and very many who have experience of lean transformation.

There are very many more people who “know what good looks like”. The bad news is that very few actually understand how to get from looking bad to looking good (hence the popularity of 5S) - certainly fewer than there are people who claim to be expert. When it comes to doing it quickly, you’re down to a few dozen: this partly explains why consultancies tend to invoice huge amounts over years rather than weeks (the other reason is that they don’t do it properly and they’re expensive, but you know that already).

Taking Pitfall No.1 into account (hopefully assimilated by the reader already), if we at least begin with the right premise: that we want (to achieve and sustain) more Ebitda possibly utilising lean and other techniques, then the following approaches might be applied to appropriating the right basis for change:

1. **Training by someone and then DIY (Do It Yourself)**
2. **Recruit some people and then DIY**
3. **Professional Guided Support of some kind (interim or consultancy)**

To be clear, we do not intend the above to be interpreted as a 3 step process, although some readers may recognise it as a default process that has followed in the past!

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**It is quite surprising that so many managers still behave like the mountaineer of the 19th century, refusing to believe a Sherpa might be a good idea rather than a slur on their character or abilities.**

**Then again, when you see what help is generally on offer...**



## PITFALL No. 2 ...cont

# The right experience

When you enter the words "lean expert" into Google you are unlikely to get less than 4 million results. You might possibly blow the LinkedIn servers if you posted a request for paid assistance from a lean expert. So the challenge in looking for support is one of filtering, no matter whether you

are looking for a training partner, a lean transformation manager, or a firm of consultants, and no matter what stage of development the business is at.

**So how do you filter out those who can't from those that do?**

## High Level Filters - what to look for

### SECTOR

Your partner should have sector experience

### FUNCTION

Your partner should be familiar with the demands of the functions under scrutiny

### LEAN EXPOSURE

Your partner should have more than an academic knowledge, and of more than one system

### BEHAVIOURS

Your partner should be professionally trained in behavioural change

### PROJECTS

Your partner should be experienced in managing projects

# Filtering out the lean 'non-experts'

## Sector Experience

Of key importance is the ability to relate experience to the sector. This does not mean your experts need to be experts in your sector – far from it. In a firm of 1000 bakers, the last thing you need is another baker! However, whilst much can be made of the argument for a fresh pair of eyes, and the willingness to ask the innocent questions of the uninitiated, what that bakery firm does not need is a florist with no idea of the issues in a bakery.

## Functional Experience

Much is often made of functional experience, but it does help in two important ways. The first is obvious, and technical: that it helps to know what to look for, and how to overcome blocks both genuine and otherwise. The second benefit is more cultural: a functional specialist will respect and relate to someone with functional experience much more readily than another with clear gaps in knowhow.

This is most infuriating for the department head who may be confronted by some one who has clearly never sat in the same position, or worse, never spent any time in that function personally. This is where many a consultant comes unstuck. Whilst the fees may suggest otherwise, most of those consultants expected to do the work (for the Partners) are relatively bright, young, inexperienced, ambitious but CHEAP! There are areas where basic principles can be applied and such people can be successfully utilized – but you're better off using your own people: recruit some graduates if you have to, it will always be cheaper! supplying your customers at the lowest cost.

Take a business where the boss says "that's what my Managers ought to be doing", and we'll show you a business with poor results and lots of potential.

## Behaviour Change Experience

Lean transformation is often implemented by operational people, who very often are of a certain type: numerical, logical, results oriented and so on. Very few lean transformations take account of the seismic behaviour change that is required. Furthermore, even where there is recognition of the cultural shift that is required (be it micro or macro scale), the typical strategy is to turn to "training" and "communication" of one sort or another. If this is where your organisation is at, you're in a bad place, and you need better expertise in the area of behavioural change management. Your experts should have more to say about this than simply trying to sell you training, "management development" or "leadership" courses!

## Project Experience

Experience within a 'lean' business is one thing – it is quite another to know how to take that experience and apply it to another business within a defined time frame. A common mistake made by very many companies is to think that having a Honda, Toyota, a MARS, or similar background translates to capability. In 1000's of companies around the globe there's a frustrated Manager trying to implement a sanitised version of their previous large systemised employer into their daily job - they were probably employed to do exactly that, sadly, and whilst many get temporary boosts from deploying the basics (kpi's, structured reviews, short interval control etc), it soon peters out, the Manager moves on, or gets wrapped up in something banal, such as getting product out of the door on time.

When you get the right partner, you'll know. They'll be more worried about your results than their invoice.

”

*Knowledge of lean techniques is essential for an Applied Acumen consultant – and I thought I had a head start coming from a well known lean consultancy. I quickly realized these guys worked in a different dimension - it was faster, we covered more ground, and everything was linked to measurable improvement in cash flow - it was nothing short of revelatory!*

*Running a change project is a hugely different proposition from managing day to day... but you need to do both: the two cannot be mutually exclusive if you want to keep supplying your customer at the lowest cost.*

## PITFALL No. 3

# The 5 S mirage

”

*5 S is a great thing to undertake and abide by, just don't think it's the first thing you should be doing, the only thing you should be doing, or the most important thing you should be doing.*

*The craze for 5 S has reached some dizzying proportions. People seem willing to pay big money to have a 5S guru explain how to tidy their desks nowadays. There's only one thing worse than falling for the 5S mirage, and that is paying a consultant for it!*

There are lots of books on 5 S, and most of them will provide an excellent justification for embarking on the journey (and it is a journey, not a destination), so no need to replicate that here.

The pitfall in 5 S is that many companies falling into Pitfall number 1, i.e. “going lean” rather than looking to make money/save money, begin with 5 S, and fall into Pitfall 3.

It seems easy (it's not, necessarily), and it seems instinctively the right thing to do. The place is a mess and no one can ever find the tool they need, so why not have a shadow board, red tag everything and buy a broom or three. In itself, no big deal, but it's not going to move the needle. Depending upon your start point, it ought to actually cost some money.

At Honda, 5S was hugely important. It was part of a philosophy that extended to the wearing of white uniforms – if it wasn't white (i.e. dirty), it meant there was a problem, and we could see it and therefore do something about it. At good, lean companies, the whole place looks much more organised, it's often clean and the new facilities at least are bright, airy, considered environments.

Yes, that is what good looks like, but it's got very little to do with how bright and clean the place is. The lean comes first: it enables the 5S to work, to be implemented and to be sustained. It simply does not flow the other way! More to the point, 5 S is attitudinal. Witness the number of businesses that embark on 5S yet the activity of cleaning is not part of the role or responsibility of the machine operations team, where laundry is not part of the improvement process, where the canteen remains shambolic, where the lighting remains dim, where time is not allocated in the production schedule, where GMP audits score far too generously as they always have, where area organisation is determined by people other than those actually working in it, and where mudha can be seen standing around all over the place, and oozing out of every process.

**5S is a good thing, but if that's your number one idea for making money, you're in deep trouble - unless you're a 5S consultant!**

**5S is a lag activity in lean transformation, but so many companies use it as a lead activity and are then disappointed with the results.**

Are you saying don't do 5S?  
**Are you mad?**



## PITFALL No. 4

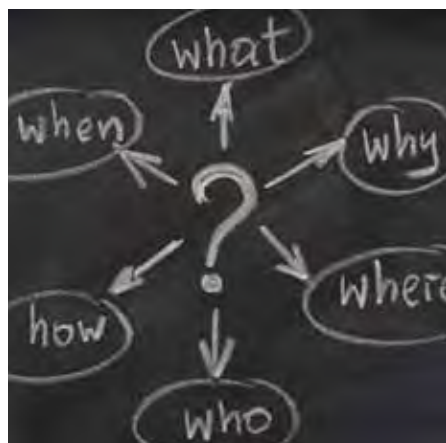
# Behaviours

### PITFALL No. 4 EXAMPLE

*This fmcg company was being touted as a manufacturing showcase, with Kanban in operation, 5S activity, continuous improvement and kaizen events the norm.*

*Yet all the time, the machinery was not only poorly maintained, it was fundamentally unsafe. It was eminently possible to stick your hand in to a dangerous piece of machinery, with none of the usual guards in operation, and certainly none of the expected cut outs.*

*This was a factory not in deepest China, but in the industrial heartland of the US.*



### BEHAVIOURS? WHAT'S THAT GOT TO DO WITH LEAN?

The single biggest cause of lean transformation failure is the lack of emphasis on the changing of behaviours. Change management appears on almost every CV, and is a key skill sought by companies and those who recruit for them. Whilst this is not surprising, what is surprising is that there remains very little appreciation of the actual skill of change management itself.

Why is it that most efforts to change behaviours simply rely on "communication", training, or "leadership development" workshops of one kind or another?

If this is how you think you'll help everyone to "get it", then you haven't "got it" either!

Cultural change is complex, involving macro and micro behavioural change, and the drivers must be understood on a macro and micro level. This takes true specialist expertise, and the right tools, applied in the right way.

It is one thing to be a technical expert in LEAN, but that's actually the easy bit. What you should look for in any supporting partner for your lean transformation effort is expertise in organisational behaviour change management. This knowledge, plus experience applied in the field, makes the difference between success and failure, between short term performance lifts and longer term sustained culture change.

Despite the content of the CV's of most protagonists, many companies take a purely operational view of implementing lean. After all, it's a straight forward exercise of applying the well documented techniques, isn't it?

It is understandable if unforgiveable for consultancies to ignore the behavioural drivers that may impact the sustainability of any changes made. However, it is a mistake for companies to do this, as they, not the consultants, will have to live with the drop off in performance once the so called transformation people have moved on.

### AN EXAMPLE PILLAR OF CULTURE CHANGE - the environment

A key part of any lean transformation must be the social and environmental conditions. In a review of a business looking to implement lean practices, AA look at the prevailing culture of the business as evidenced by such things as health and safety, canteen and lavatory conditions, the level and nature of the interaction between management and the shop floor, roles, accountabilities, and expectations. Lean transformation, and the associated level of performance expected, will simply not stick unless these factors are part of the plan.



Leadership development, communication boards, lean workshops... if you think this is how you'll help your people 'get it', then you haven't 'got it'.

## PITFALL No. 5

# Templates and audits

### PITFALL No. 5 EXAMPLE

*Problems often come when in a bid to achieve consistency across a number of sites, a standard template is adopted to 'measure' where a business is, and the approach is not tailored either to individual cultures, history or needs.*

*Such templates are often a variation of Kobayashi's 20 keys, and are applied top down, or from a central source, and as they become increasingly in vogue, are increasingly popular with consultants.*

*Whilst such tools can indeed be powerful, they operate on a completely different level to the fundamental drivers of resistance or support for sustained change, as this following quote illustrates.*

*"Their analysis showed that we were underperforming, and the next thing you know we had people all over us telling us to do this and to do that. Well, we told them what would happen, and it did"*

*After a prolonged period of working around the clock to supply a grateful customer, an overworked site team resigned en masse after being told how poorly they were doing.*

Nearly every company has the idea that there's a blueprint for excellence, a template against which performance and activity may be benchmarked, an audit that will reveal the shortfalls in achievement of the desired standard.

In food and pharma manufacturing (and others), there's the ubiquitous GMP audit, found almost universally, and almost universally ignored, abused, and lip-served in practice (cue howls of protest, but Applied Acumen would be happy to prove it during a typical audit of our own). Automotive suppliers (and OEM's) have been subject to audits of various sorts, from externally driven ones (such as OEM's auditing of supplier capabilities, Layered Process Audits and so on) to internally driven GMP style ones.

The concept of audits is a sound one. However, companies fall into Pitfall Number 5 because they confuse the fact that the concept is simple and robust with the typical deployment of audits, which is far from simple and robust.

### Typical deployment issues

1. Thinking every site in a group should fit into a neat template that suits the group objective (or more usually an individual's objective at Group level), which they may very well not, for good reasons.
2. By the time a generic audit has been adapted to be relevant to a specific site, the ability to compare performance across sites is diluted too much.
3. Most excellence audits are open to a high degree of interpretation, both in terms of what is being asked, and the level that is being achieved (or perceived to be achieved).
4. Audits very rarely account for behavioural context, or provide any information that would be vital in making change stick.
5. Audits are often carried out by a technical, quality or continuous improvement functionary with little or no line management authority, and continued low level violations occupy a peculiar 'pest' status in most employees brains. High level (i.e. dangerous) violations immediately come under a different category altogether, such as Health & Safety, process deviation (think: brake cables not attached properly), or food safety.
6. Consultants love standard audits because the concept is easy to sell. Multi site Senior Managers love audits for broadly the same reason. Site managers tend to agree the concept readily, but then feel the process is "done to them" rather than developed with their interests and those of the site in mind. Consultants are eager to establish a reason to be there (to fix something, plug a deficiency, take them to the next level or whatever), whereas even the least defensive manager will find it hard to find a happy fit between the audit and the context of site development as experienced and led by that individual (even if only in their own mind).
7. It is extremely rare for any audit to accurately place a real accounting value on hitting a particular level in any area.



The concept of audits is simple and robust - the typical deployment of them is anything but.

## PITFALL No. 6

# The IT crowd

### PITFALL No. 6 EXAMPLE

*Last year, the venerable firetruck manufacturer American LaFrance was forced to undergo Chapter 11 proceedings after what it called “operational disruptions caused by the installation of a new ERP system.” According to information provided to customers, the company incurred \$100 million in debt since it spun off from Freightliner in 2005 due to inventory imbalances and ERP malfunction.*

*When American La France initially bought back its business from Freightliner, the plan was to get its former host company to handle accounting, purchasing, inventory, production, payroll and finance until American La France could work with its consultants at IBM to implement a new ERP system that would handle all of these functions.*

*But after flipping the switch to set the ERP system running in June 2007, American La France encountered inventory difficulties, resulting in serious liquidity issues for the manufacturer. Though American La France said at the time that it was looking into holding IBM legally accountable for its role in the botched ERP implementation, more than a year later no such action has been taken. Since then the company has come out of Chapter 11, worse for the wear after customers complained of late truck deliveries and a shortage of repair parts that made certain firehouses scramble for months to keep their fleets running.*

Don't automate a bad process!

Installing a TMS system is fraught with trouble. Rarely is it linked to attendance policy, even rarer to find a company that has thought about rationalizing their shift patterns before installing the TMS.

How many TMS business cases accurately predicted and included the ridiculous number of hours expended by the front line managers in correcting data, such as missed clocking, shift changes, holiday arrangements and so on? No, that's not the fault of the TMS, and yes, it can be corrected, but it's all too common. Add in the usual poorly thought out supervisory structure, spans of control, levels of absenteeism, grievances and other industrial relations aspects, links (or lack of) to performance management, and you have a classic case of an (expensive) IT 'solution' simply providing another set of issues .

Whilst TMS is an easy example, IT is often proposed as a facilitating element for lean transformation, and indeed it should be. In fact, IT is an essential element of achieving a lean enterprise. However, a massive caveat is that most processes, operating frameworks, and employee behaviours need to change. Most IT vendors are not selling this; IT vendors DO NOT KNOW how to fix this, but you need to!

Vendors know what their software can do, and some of it is indeed fantastic, but one thing is certain, it isn't the total "solution" often presented, or that you may want it to be. In fact, it is this great desire, demand and need that has propelled some rather ordinary offerings into giant global companies. If Honda hadn't been

so focussed upon building cars, they could have been running the enterprise systems of large corporate instead of SAP, JD Edwards and the rest.

So how to avoid Pitfall Number 6? The answer is quite simple: sort out your processes first, strip out the waste, simplify your business, understand your total cost to serve. Do that first, then see if the IT numbers stack up. In our experience, the numbers WILL stack up, but you're looking at 1:1 returns if you've running your business properly, not a lot more. Think of it as automating what you do, not a 'solution', and you'll find you'll get what you want from the IT vendors, and they'll be a lot happier because your expectations will be well met. For a change.

The business case for IT often stacks up, but not in the way it's presented, bought, sold or implemented.



IT vendors know what their software can do, and some of it is fantastic, but one thing is certain, it isn't the total 'solution' it often pretends to be, or that you may want it to be.

## PITFALL No. 7

# Kaizen Fever

There are plenty of consultancies out there that will happily promote the idea of holding Kaizen “events”. There are even more people that will offer “Kaizen” training of one kind or another. Kaizen has entered the business lexicon and is here to stay.

Most managers will recognise it, and many will spend some time and energy on promoting it, encouraging it, restructuring for it, training their people and themselves in it, recruiting for it and so on.

Pitfall 7 is this:

“  
your kaizen activity  
is largely a waste of  
time and effort.”

**Heresy?!..** Perhaps, but let’s examine the facts as we generally find them. You may wish to check versus your own programmes.

1. Hardly any kaizen activity, especially the so called “events” is ever linked to the management accounts. The closest people generally get is to assign a financial value to an increase in OEE or efficiency. Here’s an experiment: ask your factory accountant to identify exactly when your last kaizen activity was done, and separate it out from other effects such as product mix, crewing profile and so on.
2. Kaizen activity often occurs in fits and starts, and must be “arranged” or ‘facilitated’. It is therefore not part of the normal behaviours, and this is exemplified by the likely appointment of a Continuous Improvement manager of some kind, reinforcing the ‘not really the day job’ culture, and in turn reflects that Senior Management still don’t understand what lean transformation involves.
3. Business survival in the 21st century is no longer about Continuous Improvement. To thrive, and in many cases to survive, business don’t need Kaizen, they need Kaikaku . To save you looking it up, it means making a step change. By the time you’ve sharpened your knife, your competitor has invented the machine gun. Who’s doing that for you?



## PITFALL No. 7 ...cont

# What place for Kaizen?

There are many companies promoting kaizen out there that can point to a strong track record of delivering great results. We congratulate them for having carved out a living from it, and merely lament the larger opportunities surely missed by their clients but which equally surely will remain.

Does kaizen have a place in 21st century, other than with those companies who somehow missed the 90's AND the 00's? Actually, we believe yes. First, what it should NOT be: it should not be viewed as the pioneering thrust of organisational improvement or change, and is not a cheap way of achieving it.

Specifically, kaizen should be like background radiation, part of the fabric of a company, practiced by EVERYONE in everything they do. Whilst that sounds like many a mission statement, it is surprising how many companies have no idea how to make it a reality-check your companies value statement!). This means in practice that everyone should be equipped to do it, meaning: they should be trained in (basic) analysis techniques, AND processes, structures and frameworks put in place to empower people to practice kaizen.



## HOW HONDA ENABLES KAIZEN

Every single Associate (employee) undergoes a basic course in 'quality'. What this entails is an understanding of how to interpret qualitative and quantitative data, how to present it so that others can interpret and understand what you have found. Associates are further provided training in the now ubiquitous 5Y problem solving techniques, and all assertions of fact must be evidence based. This is most readily encouraged by the habit of challenging (in an inquisitive way, not a confrontational way): an all pervasive basis of improvement is the proof of claim, facts upon which others can then contribute to a solution.

Furthermore, through the team based review structure, issues are highlighted and team contributions are encouraged. Given that the control systems are reasonably fixed, it is even more paramount to create opportunities to challenge the (very successful) status quo – it's a brave approach but it pays dividends. The company suggestion scheme is more of an event based exercise with a very high profile, and achieves incredible global success every year. We liked it so much we implemented a version of it in a UK Further Education college with 40,000 students and 1200 staff over 30 campuses. It was so successful they won an award from Personnel Today! – the first ever for such an institution.

We liked it so much, we implemented a version of it in a UK further education college with 40,000 students and 1200 staff...it was so successful they won an all industry innovation award for it - the first ever for an education provider! ”

## PITFALL No. 8

# Aligned Strategies

A great many lean transformation efforts fall foul of Pitfall 8 not through any fault of the excellent operational personnel usually tasked with leading such efforts on the ground.

Such people are often excellent professionals, able to manage large and disparate workforces with supreme operational diligence. However, what about the commercial team? On what basis are commercial decisions made? More than one company out there is trying to grow the top line without any real understanding of how this impacts the lean 'strategy'.

### Commercial Imperatives

A key aspect of deploying a lean strategy is managing what is known as the P-D ratio. For those unfamiliar with this, it is a good idea to look it up. If you don't have a strategy for managing it, you don't have a lean strategy.

**Lean? All too often seen as a skill required of the operations team, but you ignore the other functional implications at your peril.**



### People Imperatives

In Pitfall 4 we discussed behaviours, and the central tenet of needing to manage (often change) mindsets and behaviours in order to sustain a lean transformation. Very few companies consider their structures, terms and conditions, reward and remuneration systems, front line development needs, communication frameworks or management culture. We find time and again that HR strategies, policies and practices are incongruous with lean, and often in direct conflict.

### Financial Imperatives

Ultimately, the main driver for lean is often a financial one. Cost down initiatives are often dressed up as lean initiatives, and vice versa. However, very few companies we encounter have robust financial systems and controls (simply asking for an up to date list of who works where often proves a challenge), and even fewer align financial strategy to the lean strategy.

This is usually most evident around working capital, where stock is not necessarily the evil thing it is to the lean convert (how much redundant stock are you waiting for the year end to write off?). However, the issue can be much bigger than simply one of balance sheet games. If my financial standards are based upon one set of assumptions, and those assumptions are no longer valid (in our experience, in 9 out of 10 companies they were probably wrong anyway, but that's a whole other issue).

This can and does lead to misleading information about what is actually happening (i.e. how much money you're making, or not making), and drive incorrect decisions about what you should make, how you should make it, and when it should be made.

How you value activity, stock, etc, and especially how you deal financially with the supply chain, has massive implications for your lean initiative.

**All too often we see lean initiatives start with high level intent, then rapidly descend to an exercise in improving operational efficiency as the imperative to make a saving starts to bite.** ”

## PITFALL No. 9

# Measures

Your improvements don't show up in the accounts

### Typical scenarios

1. Monthly accounts and board performance review centres around Cost of Sales (COS) % figures. Where seasonality is at all a feature, this measure becomes less helpful. Where products vary greatly in manufacturing standard, as in so many cases, this measure isn't just redundant, it can be dangerous.
2. Consultants help to identify where efficiency can be improved, and set about increasing efficiency (on a line, say) with the management team. When the financial controller says he can't see it in the numbers, the consultant still demands payment, and everyone says it must be a system issue, as the higher efficiency is definitely there.
3. A lean initiative is 'piloted' in an area with the intention to roll out. Whilst man hours are removed from the process, and work in process reduced, no visible difference is seen in the accounts.
4. Efficiency is targeted through the introduction of OEE measures in production, and OEE does indeed rise, but again, no visible difference is seen in the accounts.
5. Lean is described as a journey rather than a destination, a step-wise process of some kind, and much effort is invested in creating cell like working structures, with training of employees in team working and basic lean principles. There is absolutely no link of this activity to the bottom line.

”

A common feature of every business we encounter is a set of measures that simply do not help drive business performance.

This is also where so many consultants get it so badly wrong, although it is invariably their clients who bear the pain.



## PITFALL No. 9 ...cont

# Measures

### AVOID WOODEN DOLLARS

*We have been in many businesses who have asked us why their initiatives haven't resulted in the gains they originally thought, and often the reasons are simple.*

*In the first instance, when embarking upon a lean initiative on whatever scale, it is vital to engage the finance function. In simple terms, it should be agreed exactly how any changes will appear in the management accounts, and why.*

*Where OEE or other similar efficiency exercises are implemented, the money may well drop out in different ways. The simplest way is if there is a removal of man hours from the business, but remember - OEE is NOT productivity! Very often we find those hours are simply 'moved' into another area, and the same wage bill is paid at the end of the week! Alternatively, we find that there has been no change in the way agency temps are ordered or managed, and the same number keep returning. We find standards changed without achievement being moved, so more overtime is worked, or product not made. Where efficiency gains are made, throughput may be increased, but is this going into stock or being sold? Are we making the right products, just faster or more efficiently?*

*Where standards haven't been reviewed properly (and industrial engineering techniques are NOT the right way to do this), can we really target improvement effectively?*

### What's going on?

All too often we find executive boards initiating lean programmes without first understanding the true financial drivers for their business.

This sounds ridiculous, but we've lost count of the number of even quite large businesses whose board can't get monthly performance figures until 3 weeks later, and are then disappointed to learn the P&L result doesn't quite match what they were hoping for.

At grass roots level, there's rarely the right standards in place (what's that person doing - the one stood doing nothing, doing there?), there's rarely the right targets in place (witness 103% 'efficiency' in some places, that's just not right!), there's hardly ever the right level of scrutiny (where is that supervisor, exactly?), there's rarely honest reporting (any output, not just good output), or accurate reporting, or even basic reporting (how many people do you have in today, and where exactly are they?). Little wonder as this information works its merry way up the chain, it becomes even less relevant, or useful.



It's even worse at the other end of the communication ladder, where you would hope that someone knows what they are doing. If the recent banking crisis didn't shake you out of that fantasy, there are countless examples of (real) companies going 'pop' not through loss of customers or poor products, but due to simple mismanagement.

You'd have thought poor to average performance would result in changes, but corporate investors are paralysed by the system: the exec team has a plan to 'go lean' to reduce costs, all will be well, removing them for non-performance is too premature, certainly costly, possibly damaging, and there's no alternative to the way they are working anyway, is there?

Not only that, but who's to say current performance is poor anyway? It could be stunning given the current market conditions...

So it goes for hundreds of companies, and this is all despite all the management education, the MBA's, the consultants, the savvy investors and everyone's CV's packed with greatness. ”

## PITFALL No. 10

# Copying the big boys

### Making puddings is not the same as making cars!

The idea of lean principles being wholly transferable is an attractive one, not least to someone wishing to leverage their CV for a new job. The issue comes in the application of lean without adapting the basic tenets to the situation.

### First, the OEM's are by no means perfect role models.

In order to overcome the p:D ratio challenges posed by fickle customers, OEM car manufacturers have created vast dealer networks who create a largely artificial pull. Yes, there are those of us who will not fall for the gorgeous showroom model and order on the factory, but then you wait for far longer than you really want to (12 weeks, say). Despite the lean origins, and the fabulous shiny manufacturing capability, the factory to customer supply chain of OEM's remains woeful (quite apart from the ridiculous 'traditional' doubling of costs to you and I). When you look into the 1st – 3rd tier of the supply chain, those who make seats, windcreens and carpets don't have the luxury of a dealer network, they have several customers, each with different and esoteric ways of working, all of which adds variability and cost. Get down to the third tier and you could very well be visiting a small back street engineering workshop making boot-lid clips alongside hinges for submarine telescopes. Lean is more of a challenge to these guys.

### Putting Toyota into Mrs Miggins Pie Shop.

Everywhere we go we find managers trying to implement a version of their previous big company experience into their new employer (or client). Very often they were employed because of their big company experience. Most often, such managers are operational both functionally and in experience, and therefore can really only impact operational aspects of lean. Not only are the financial and commercial aspects ignored, they are regularly fought with, and it is rare to find an operational head being given the space to tell his colleagues where their way of working needs to change!

So when the operational momentum grinds to a halt, and it will grind to a halt, the CEO is usually faced with an investment choice: a new bit of equipment, so that capacity becomes sufficient to meet the flexibility of demand that this particular business demands. Along the way, there may very well have been a few new recruits: a continuous improvement manager or two, someone who can release capacity, cut costs, using lean techniques, of course. All good stuff, but only ever chipping away at the elephant in the room.

The alternatives are usually dictated by time and pressure. A change in operations personnel, perhaps a consultant or two, a steady decline in margins and loss of market share, increasing irrelevance in the sector, larger investment requirement to dig the business out of the hole, and so on.



## PITFALL No. 10 ...cont

# Avoid Pitfall 10

Do not assume that big company (or big consultancy) experience equates to competence (think “fish out of water”). It is the ability to adapt the approach that is key, and anyone who professes to have the answer before looking closely at it should be avoided.

Understanding the principles is essential, but equally the interpretation of those principles will make or break any initiative. Toyota, Mars and the rest work well in their management system, but that doesn't mean to say that you will work well in it too. Your business is different, so you must adapt the principles to it.

You will be well advised to do this anyway: remember your employees are working for your company, and probably do not want to work for Toyota. If you don't take them with you, you're on your own.

Lean is great in food manufacturing, until you include the customer in the mix. At this point all your lean planning goes out of the window

### WHITE BOARDS & SIC

Nearly everywhere we go we find white boards nowadays. Even in those few places where the boards carry the right information, and even rarer where the boards are used properly, and a version of SIC is in play, we find managers unable to identify how many people might be working in a particular area, even how many have turned up today. Most common is a schedule that either isn't challenging enough or frankly wishful thinking, and targets that are easily beaten by operators who know how to play the system, or alternatively have long since resigned themselves to never hitting the plan. Installing whiteboards, SIC, SMED and the rest don't make you lean, and it doesn't really help unless you've thought about how it all fits together.

You need to adapt to each business, there is no blueprint: run a mile from those who claim to have a one size fits all approach.



# The Right Approach

## The Business Review

The first thing to do may seem obvious, but is actually the question most companies find most difficult to answer: how do you make money?

At first glance, it often appears quite clear on which products money is made and on which we choose to take a bath. However, when one ventures further than the somewhat simplistic portfolio margin analysis (itself enough to trip up 10% of companies encountered), things become more obscure.

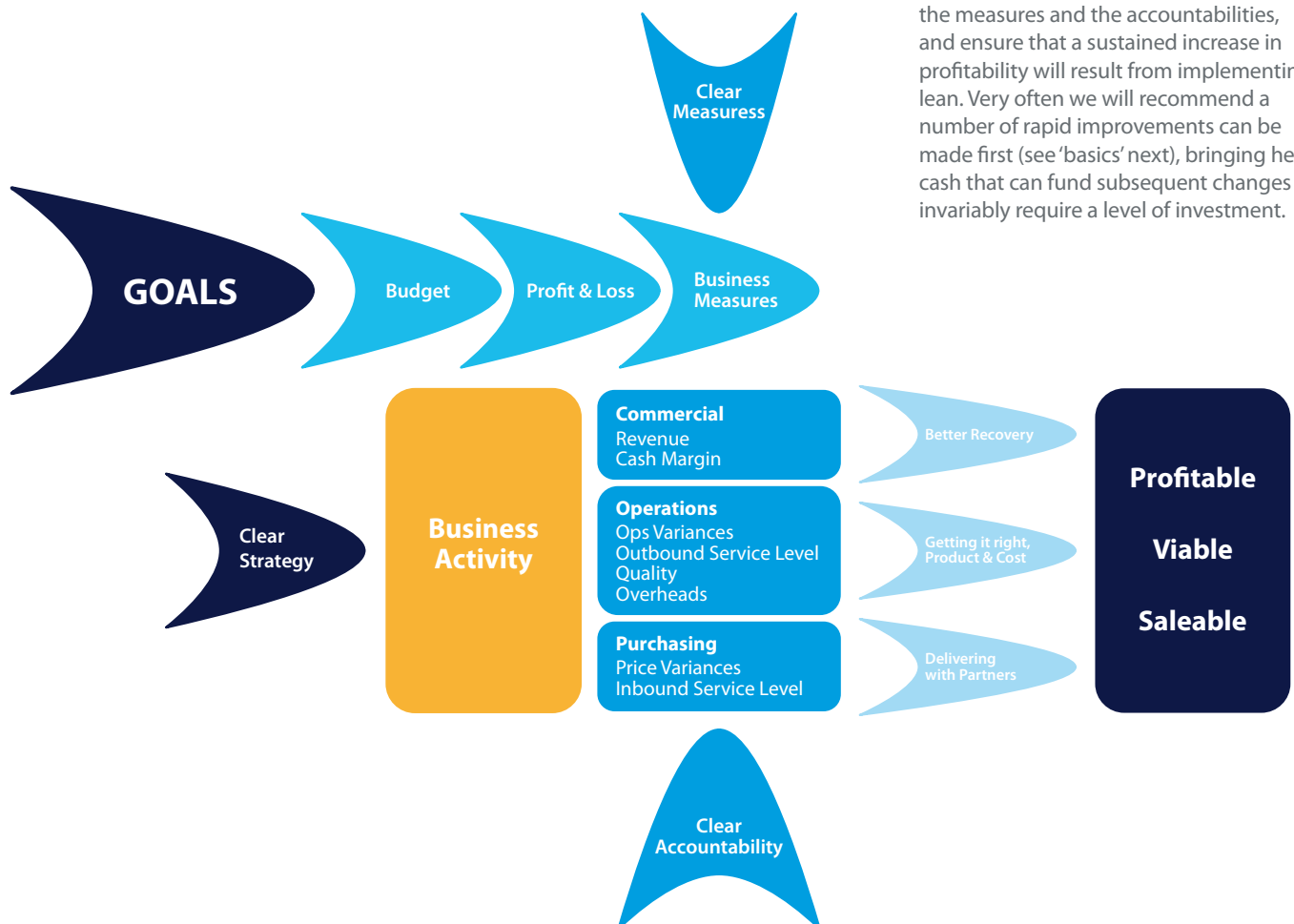
Initially in response to finding so many companies with poor management information (many running expensive ERP, comprehensive financial reporting, and some with vast arrays of operational kpi's), we developed **Business Optics**®.

It is always important to remember your objectives - the reason you (might) want to undertake a lean implementation is not to undergo a lean transformation! Furthermore, it may be you have some homework to do before you undertake any kind of lean transformation.

Most business leaders we encounter think readiness is about whether their people 'get it'. They themselves are sold on lean, and just want to make it happen. The truth is that invariably the business is leaking money, suffering losses and directionally malfunctioning every which way from Sunday, and lean will not just expose those flaws, it will itself become a bottleneck for the step change that is actually required.

With **Business Optics**® we first establish (and where neglected, develop) the links between the budget, the standard P&L measures and the business measures. We identify the disconnects between the measures and the accountabilities, and ensure that a sustained increase in profitability will result from implementing lean. Very often we will recommend a number of rapid improvements can be made first (see 'basics' next), bringing helpful cash that can fund subsequent changes that invariably require a level of investment.

In parallel we work with clients to build a robust business platform, so that the lean initiatives are overlaid onto an **effective** process, a workable strategy, and a measurement framework that ensures the company evaluates value added correctly, and drives the required behaviours.



# The Right Approach

## Get The Basics Right

There are many consultancies out there, and managers, who will go into a business and immediately prescribe a dose of “Short Interval Control”, and over a period of weeks have hourly reviews, hopefully on the shopfloor, where progress and even performance is reviewed and actions set in motion.

Output will indeed seem to improve: it should, simply given the focus and attention “it” will receive, frankly. The fact that performance won’t be sustained is often secondary.

In so many places we ask the simple question 10 minutes into the shift: “how many people do you have?”

If your child’s primary school couldn’t be certain of the turnout 2 minutes into the school day, it is doubtful you’d send your child there, yet there are countless factories where this question cannot be answered fully for 30 minutes, even 45 minutes or more into the day.

It’s no surprise that many CEO’s get the monthly P&L...after a month long wait...and wonder exactly what happened...9 out of 10 companies operate this way or worse...most CEO’s simply blame the incumbent Operations, Finance and Commercial Directors, ill equipped or inclined to recognize what’s going on.

”



How is production output measured? Again, if your process efficiency is anywhere near 100%, you’ve not only got your sums wrong, you’ve got a job to do to put it right. How is product itself measured? In many places we find input measures simply not taken at all, and things being done on guess work. We find inventory being stored in such a way as to invite poor stock counts and inaccuracy.

Meanwhile, with financial accounting systems designed to produce accounting reports that meet accounting requirements, operational reporting against capabilities that aren’t fully understood or quantified properly (and operations managers struggling to hit targets unconvinced there’s more to go at), that leaves commercial teams having little substance on which to build margin. No wonder the CEO, even if it wasn’t a 2 month wait for it, gets the P&L and wonders exactly what happened.

## So what to do?

There is no one answer for every company, but one thing is for sure, you need to get the basics right first. That has nothing to do with lean.

Know your capability as a producer, know your limits of reliable supply and operate within them, and get the right systems and measures in place to know when you’re going to breach.

Keep it simple. Cost your products properly (i.e. what does it really cost you, not what the financial costing, budget, plan, or target says it costs). Try and close the gap. Work out who’s responsible for what. Someone without responsibility? Give them something. Something without an owner? Give it to someone. Make sure that everyone realizes it’s important to turn up for work. If it’s not important, they or it shouldn’t be there.

After that, you’ll be leaner than you realized...

# About Applied Acumen

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Since 2002 Applied Acumen Limited has been working with a select group of clients to deliver step changes in business performance by applying lean principles in a manner that translates to real, bottom line improvement.



Our process begins with a 'scoping', a short exercise to establish relationships, understand the potential for our value added, and quantify the challenges that are faced. As a 'getting to know you' exercise it is free of charge, and is as much about ensuring we have a basis for enjoying a mutually beneficial partnership as anything else.

With a team of trained professionals experienced in many sectors, we undertake analyses to determine a cost benefit case for continued support based upon measurable benefits to our clients. With a case to measure against, we then work with our clients to deliver against an agreed cash flow – that's cash, not OEE, efficiency or anything else you can't actually spend! If we don't jointly hit that cash position, we don't invoice! A few others may claim to be paid on results, but don't actually measure it in the accounts due to their traditional (and flawed) approach. Applied Acumen take a holistic view of the business, and a holistic approach to lean transformation that works, that makes financial sense, and gets results.

STEP	WHAT	OUTPUTS	DURATION	COST
<b>1</b>	<b>SCOPING</b> Agree the extent of the project	Understand what we are capable of  Understand where the challenges lie	A few hours	<b>NONE!</b>
<b>2</b>	<b>ANALYSIS</b> A detailed and expert examination of what could be achieved in areas of scope	An agreed set of targets and measures  And agreed timeframe  An agreed approach  Client team 'see what we see' and process of change started	<b>2 - 4</b> weeks	<b>Shared cost, billed and recovered on implementation</b>
<b>3</b>	<b>DEVELOPMENT</b> Create a programme to deliver the full potential identified from the analysis to suit the customer's strategy, company culture, current capabilities and financial situation.	A mutually agreed programme to deliver tangible and sustainable benefits at the fastest pace possible.	<b>1 - 2</b> weeks	<b>NONE!</b>
<b>4</b>	<b>IMPLEMENTATION</b> This could be : <ul style="list-style-type: none"> <li>• A supported project</li> <li>• Interim project</li> <li>• Recruitment support</li> <li>• Training support</li> <li>• Combination</li> </ul>	Cash flow as per projection Step-changes in performance Sustained improvements Behavioural changes	<b>8 - 30+</b> weeks	<b>Cost, billed and recovered from implementation</b>
<b>5</b>	<b>COLLABORATIVE PARTNERSHIP</b>	Sustained results Identify and release future opportunities Share industry news and developments	Ongoing	<b>NONE!</b>



## Quick Results : Lasting Change

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