

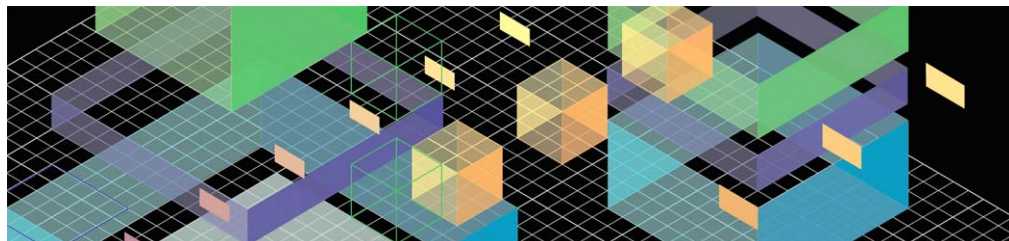
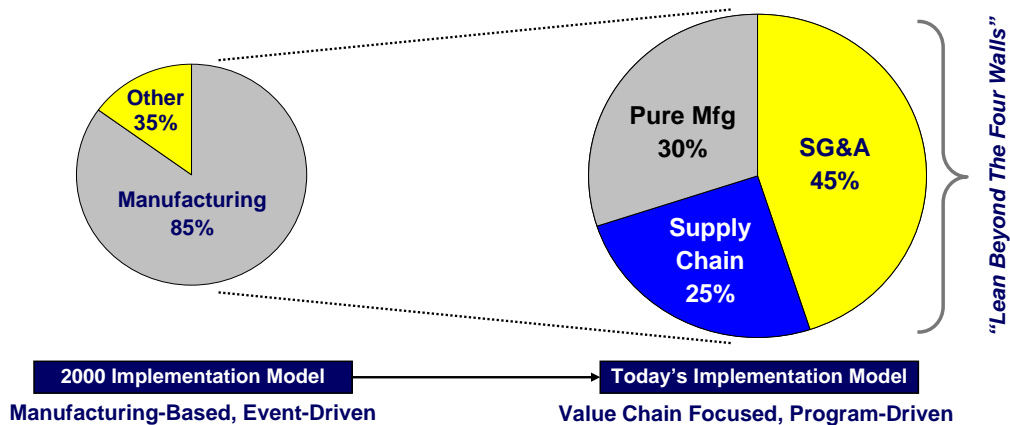


## The New Lean Vision: Creating and Sustaining Enterprise Lean

*As little as 10 years ago, manufacturing networks and supply chain operations were largely domestic, providing minimal complexity and requiring limited management oversight. Today, with global supply chain footprints, outsourced manufacturing capacity and low-cost country sourcing strategies, massive complexity escalation combined with decreasing manufacturing labor costs have forced executives to adopt an enterprise Lean perspective where high-labor and high transactions environments such as SG&A and supply chain operations offer the transformational targets capable of producing the returns demanded by Wall Street. Traditional Lean manufacturing programs delivering 10% to 15% in continuous improvement results have given way to today's multi-faceted Lean vision where the year-over-year improvement bar now stands at 30% to 50% with a clear focus on cash flow, revenue growth and customer service performance.*

### Enterprise Lean: Today's New Lean Transformation Model

Global complexity and economic uncertainty have given birth to the model of tomorrow where manufacturing plays a diminishing role. As manufacturing costs have declined amid rising global supply chain complexity, leaders requiring threshold 30% to 50% improvement levels to maintain growth and cash flow targets have committed themselves to enterprise-wide Lean initiatives by focusing their Lean investments on multiple targets:



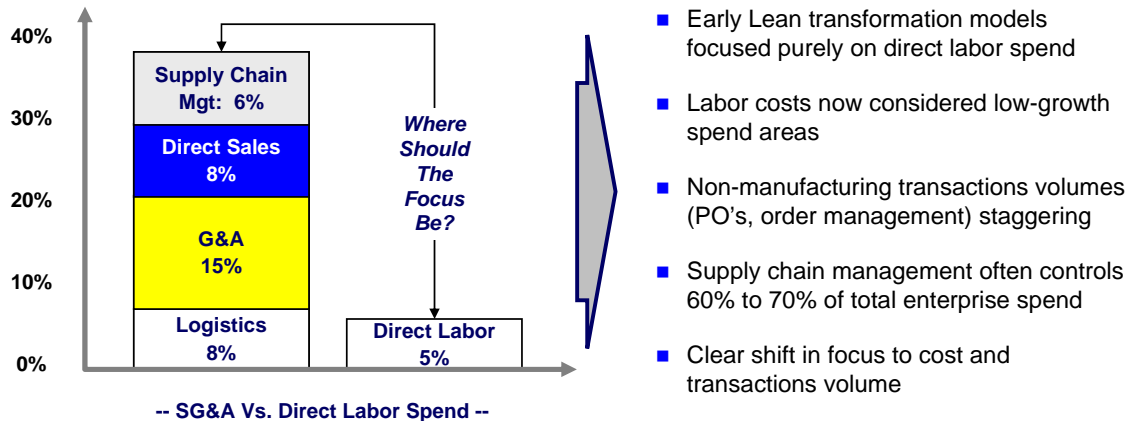
Assisting in the push for Lean beyond manufacturing has been the significant increase in both business complexity and operating costs in non-manufacturing functions such as supply base management (driven by low-cost country sourcing and the associated distribution complexities) and the trials involved in sustaining true cultural change to support a long-term Lean program. Today, four key trends are responsible for the measurable shift towards enterprise-wide, transformational Lean:

1. SG&A as a target-rich environment to generate significant cash flow improvements
2. Distribution operations driving superior customer service performance
3. Critical role of technology in managing enterprise-wide Lean processes
4. Role of cultural in sustaining transformational results and imbedding Lean thinking

Taken together, these four trends are swiftly changing prevailing attitudes around Lean’s central role as an enterprise-wide transformation enabler providing senior leaders with access to significantly larger investment returns.

### SG&A Targeting to Generate Significant Cash Flow Improvements

With manufacturing costs fast declining, executives have scrambled to locate target-rich environments in order to boost cash flow and demonstrate rapid, quantifiable success. High-transaction, high-labor environments such as supply chain operations, engineering, sales and logistics have eclipsed production as the focal points of necessary, rapid change through Lean:



Considering the substantial transactional volumes (order entry, order processing and procurement), Lean’s entry into SG&A provides a highly visible target offering significant improvement opportunities including labor allocation improvements, high-transaction process cycle time compression, increased customer focus (more sales) and reduced supplier spend via optimized performance management capabilities. Senior leaders are classifying SG&A as a high-priority on their Lean target to drive enterprise-wide transformative changes including:

- Significant sales-per-employee boost by 10% to 25%
- Order lead time compression (35% to 60%) to achieve competitive advantage
- Improved customer experience (“easy to do business with”) with increased loyalty
- Delivered cost reductions through focused supplier performance management improvements

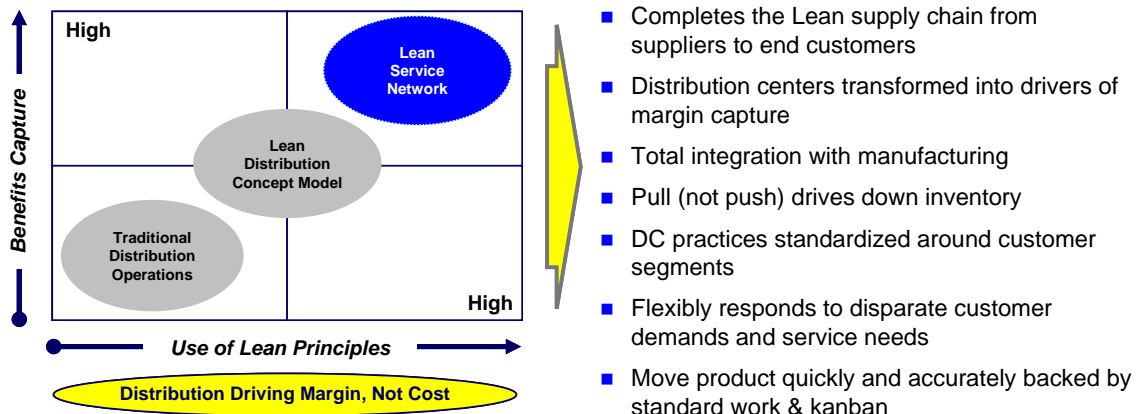
With increasing labor costs, significant growth in transactional volumes and diminishing manufacturing direct-labor expenses, SG&A provides a tailor-made platform for implementing a Lean transformation program and providing rapid, quantifiable cash flow improvements. As a platform to help achieve required 30% to 50% enterprise-wide financial improvements, SG&A cannot be overlooked.

## Distribution Operations Driving Superior Customer Service Performance

Distribution operations have, for several years, defeated Lean manufacturing efforts by creating materials velocity hurdles to enterprise product flows. As manufacturing flexibility increases over time through Lean (e.g., level pull scheduling), push-based distribution operations inhibit Lean manufacturing benefits from reaching the end customer and improving service levels. As the last true customer-facing component of the enterprise, distribution failures generally translate into customer service failures. Executives today are applying the same basic Lean techniques and disciplines in the distribution environment to create transformational change including:

- Shrinking required storage and distribution space by 15% to 40%
- Premium, expedited freight cost reductions by 45% to 70%
- Orders shipped complete and on-time (OSCOT) improvements over 12%
- Distribution center finished goods inventory reductions between 18% and 30%
- Distribution center materials processing velocity improvements over 20%

Lean can equip transportation, logistics and warehousing functions with the same flexible Lean characteristics found in most Lean manufacturing operations to create a customer-centric, focused distribution chain that maximizes margin capture with strategic customers:



By applying the same fundamental principles found in manufacturing Lean operations, Lean can provide a powerful improvement platform for distribution operations by focusing efforts on strategic, high growth-high margin customers and creating an enterprise-wide drumbeat where takt time becomes the integrator between manufacturing and distribution:

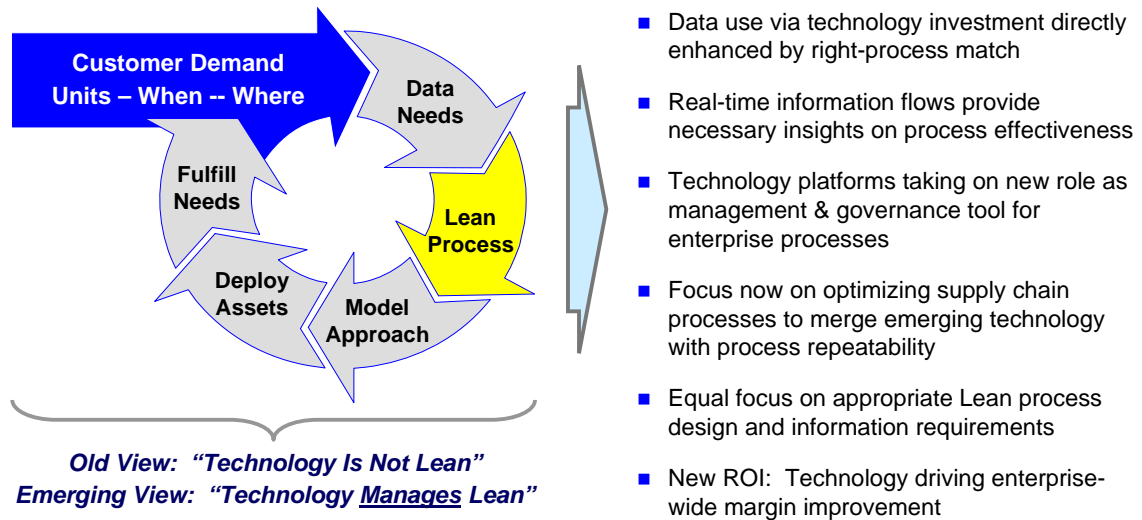
1. Linking distribution operations such as picking, staging and replenishment to takt time to ensure manufacturing materials velocity is maintained throughout distribution
2. Creating warehouse-within-a-warehouse zone-pick logic where intra-DC segments service specific customers with value-added services and individualized takt time responsiveness

3. Extend kanban replenishment signals from distribution into manufacturing to eliminate overstocking and working capital inflation
4. Integrate distribution and warehousing operations into the enterprise S&OP process to ensure global capacity planning and materials staging requirements

Senior leaders can leverage their manufacturing Lean experience into more efficient distribution operations with strong buy-in (“we have already done this”) and quantifiable results including reduced working capital investments, reduced physical asset dependence and laser focus on those customers who can drive long-term growth and profitability. Considering the impacts on working capital investments? The role of distribution in the 30% to 50% improvement program is clear.

### Critical Role of Technology in Managing Enterprise-Wide Lean Processes

The role of technology has dramatically shifted in recent years to become a core driver of Lean transformations to help simplify and reduce complexity while providing the information required to make highly accurate decisions (e.g., S&OP capacity plans) while dramatically shrinking decision cycles. Becoming known as the Lean–technology nexus, senior leaders are now embracing the dual role that Lean and technology plays during the Lean transformation:



Senior leaders now evaluate the role of technology and its ability to feed Lean processes with the information (both in quantity and accuracy) required to make real-time, sound business decisions and enable a robust plan-do-check-act cycle. By focusing on key drivers, Lean leaders are assured of reaping the maximum investment returns for their technology dollar:

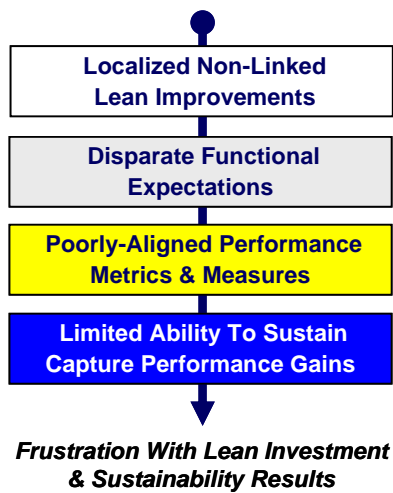
- Lean implementation teams should evaluate final process structures against available technological enablers to ensure capture of process-technology synergies;
- During initial performance management framework development, the design team should ensure that routine performance characteristics can be data-based, managed and accurately reported by the technology enabler, and
- Technological investments should be considered as a component of process success (e.g. process cycle compression, cost reduction) as opposed to a stand-alone feature.

Technology neither distances management from the Gemba nor does it deter necessary investments in human resources when properly implemented as a core component of Lean process design. In order to reduce enterprise complexity and rapidly make decisions affecting service levels and supply chain performance, technology should be embraced not only as a key driver of Lean, but as a powerful force in Lean process governance.

### Role of Culture in Sustaining Transformational Results and Embedding Lean Thinking

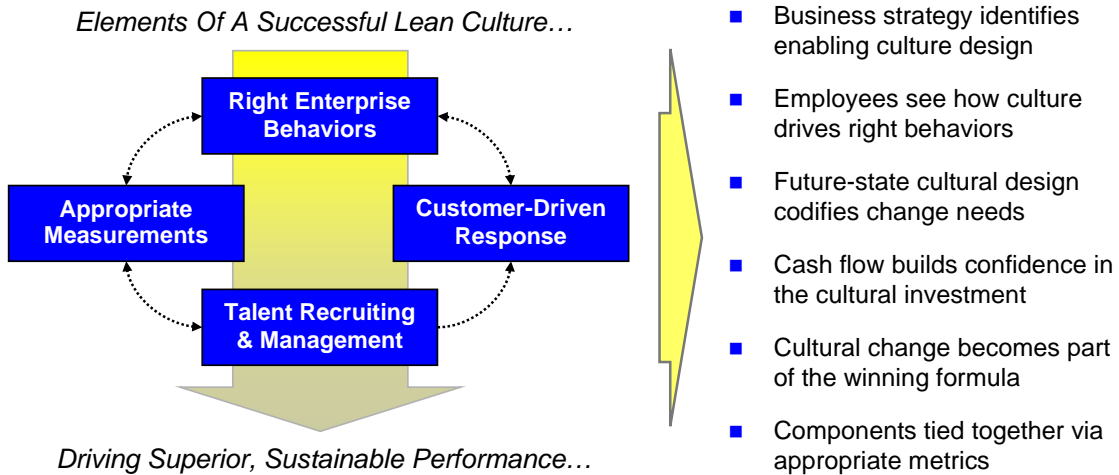
Lean transformations are almost universally cultural transformations when it comes to sustaining the year-over-year benefits normally associated with enterprise Lean programs. Culture operates as both a system (driving enterprise-wide performance) and a cadence (translating voice of the customer data) which can unite the organization via a single improvement language to ensure a coordinated Lean transformation program across all functions and business units.

When left unattended, culture will inevitably reduce long-term Lean results because enterprise-wide behaviors and cultural norms will not have evolved both in their appreciation for Lean and their commitment to managing in the lean environment. Over the past ten to fifteen years, numerous cultural issues have been documented across multiple Lean transformation efforts which clarify the importance of meaningful cultural change:



- Early launch models treated cultural as ancillary in the Lean journey
- Investments in assets, technology and processes were prevalent against a backdrop of non-existent support for cultural change
- Early gains in manufacturing were not leveraged in other parts of the business
- Inconsistent performance management systems supported conflicting Lean messages
- Voice of the customer (VOC) not universally understood or communicated across the enterprise
- Lean performance gains often 60% of original goals with sustainability issues

With the potential to gain an incremental 30% to 40% in Lean benefits, senior leaders are now considering not only the impact cultural change can have on the Lean transformation, but on the transformation investment budget and the allocations originally considered for cultural support. During the architectural stages of the Lean transformation journey when senior leaders are considering long-term strategies, launch points and desired benefits, consideration for cultural investments and culture’s longer-term role should be expanded to include a number of critical elements including the shape of the culture required to support Lean, the most appropriate behaviors required to respond to voice-of-the-customer inputs and the documentation necessary to codify a single culture for all locations and business units. In most cultural transformations, four factors usually drive the success of the enterprise Lean program:



Beyond internal talent development and HR policies, culture is often the determinant of Lean transformation success, and its development should be properly architected and funded prior to the launch of any Lean journey.

### Summary

With continuous improvement programs delivering 10% to 15% annual improvements no longer acceptable, transformational change mandating threshold 30% financial improvements are critical when confronting today's economic and supply chain challenges. To achieve the goal, executives need to consider the role of SG&A in providing high-dollar improvement targets in key areas such as transactions processing, sales-per-customer, and reduced supply chain costs. In order to grow margin, Lean distribution has emerged as a key driver in developing segmented customer service levels to strategic customers by providing higher value-added service levels along with significant improvements in materials flow velocity. No longer an afterthought in the Lean journey, forward-thinking executives are embracing technology as an enabler of Lean through improved information flows and improved Lean process management. Finally, as Lean transformations are truly cultural transformations, executives are matching their Lean process investments dollar-for-dollar with cultural investments designed to create an enterprise-wide Lean language driving predictable customer service performance and universal focus on waste elimination.

### About the author

#### **Bob Hawkey, Associate Partner**

A partner responsible for LHC's Lean Supply Chain management practice, Bob Hawkey has over 15 years of supply chain strategy and management expertise assisting Lean Horizons customers with key supply chain improvement initiatives including sales & operations planning, strategic sourcing and network optimization.

### About Lean Horizons Consulting

Lean Horizons Consulting offers integrated competencies for achieving enterprise-wide performance transformation to global firms in the manufacturing, energy, consumer products, financial services, pharmaceutical, bio-technology and healthcare sectors. Lean Horizons further serves investment firms regarding acquisition integration and rapid value creation.

Lean Horizons aligns Lean and Six Sigma capabilities with the deployment of enterprise strategy to deliver unique, end-to-end solutions that incorporate the organization's business model, core processes, functions and information systems. Lean Horizons' field force of internationally experienced industry professionals bear direct lineage to the Toyota Production System, lending a unique combination of explicit and tacit knowledge to Lean performance transformations.



*Strategically Creating Value through the Elimination of Waste*

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