OPERATIONAL IMPROVEMENT

Myth versus reality: Lean manufacturing

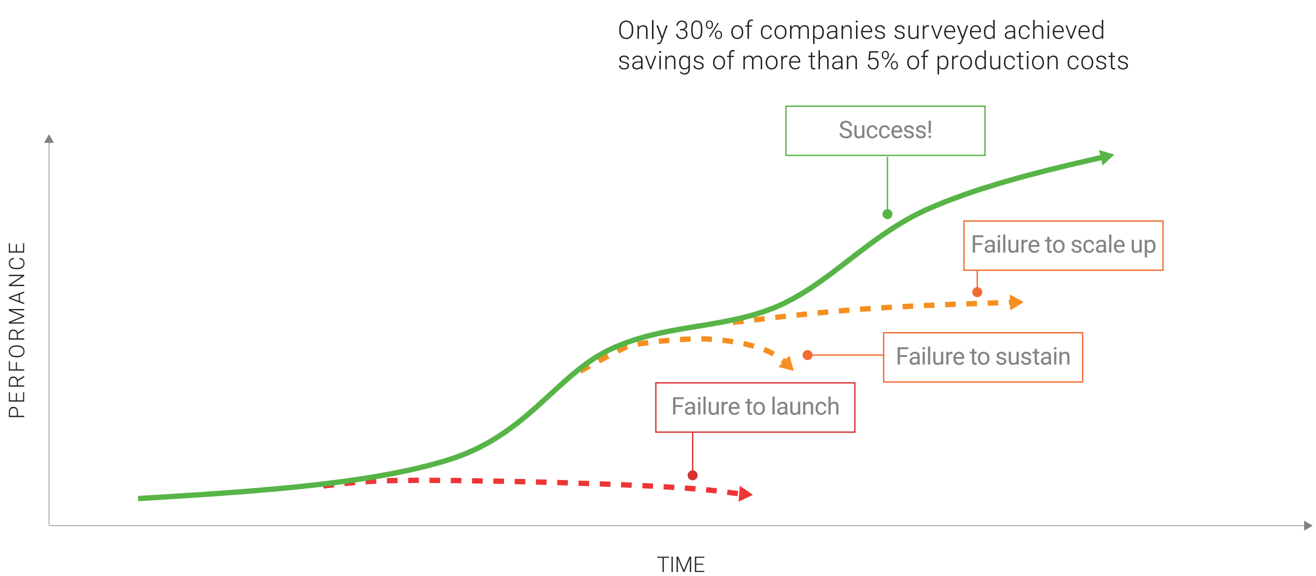
MYTH 1

THERE'S NO QUICK PAYOFF FROM LEAN

The philosophy and practice of lean have taken hold at large manufacturers worldwide. Now smaller manufacturers are adopting it as well—and in the process discovering some of the myths around lean's purported flaws and shortcomings.

In this article, the first in a series, we take on the myth that lean implementations take too long to pay off.

FAILURE TO GENERATE QUICK SAVINGS CAN OCCUR FOR A NUMBER OF REASONS

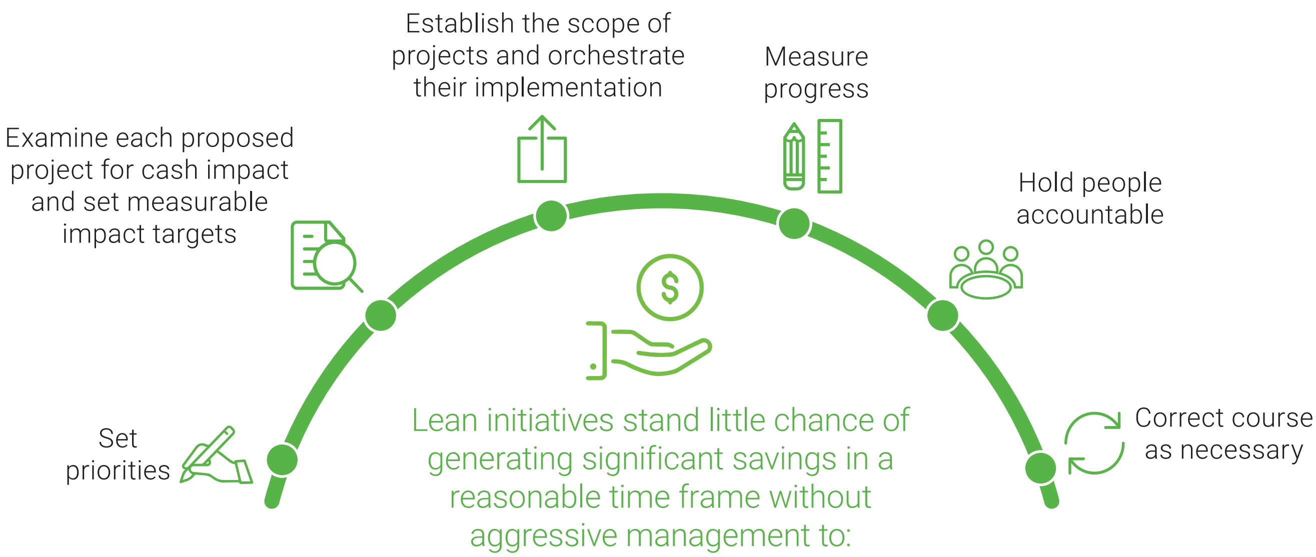


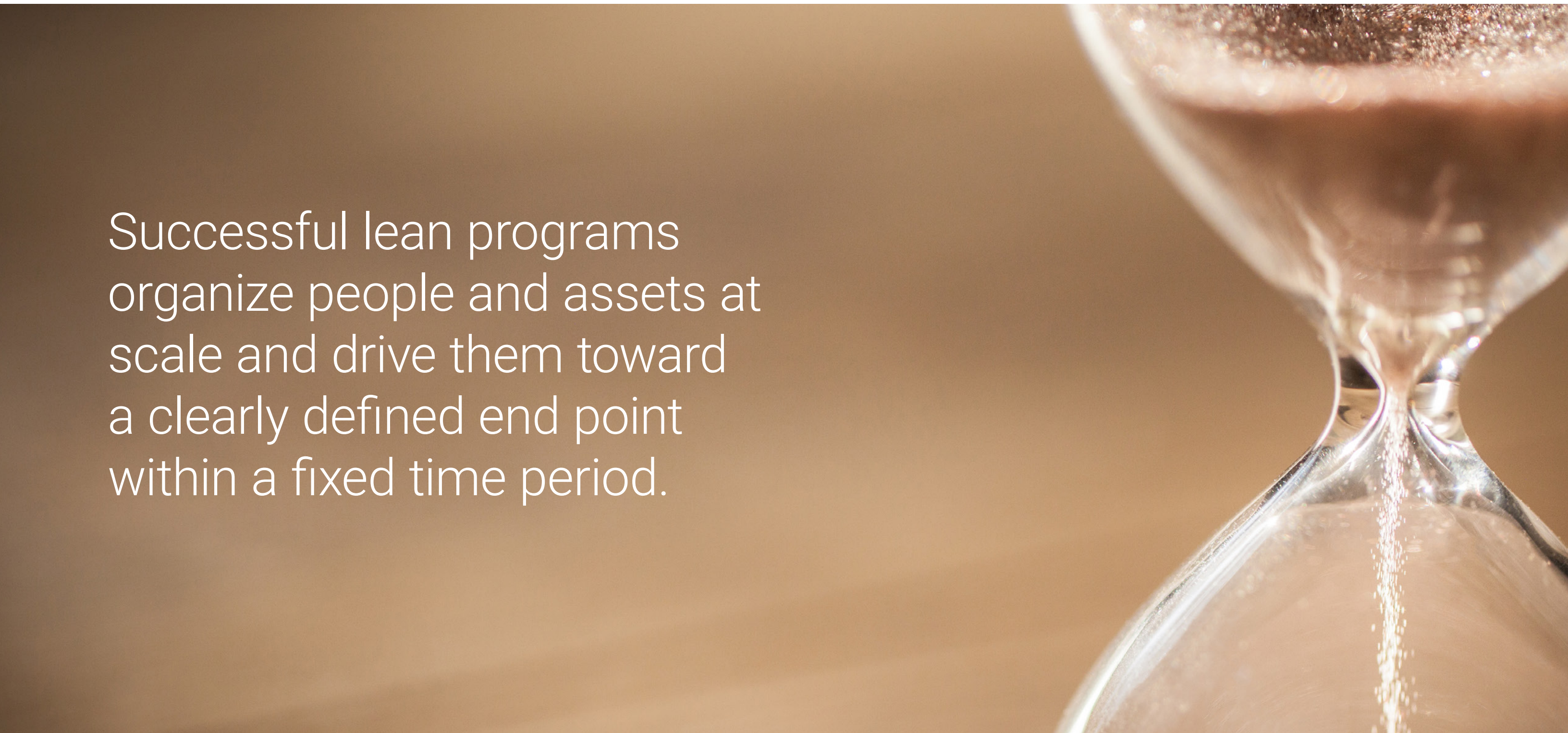
FAILURE TO LAUNCH	FAILURE TO SCALE UP	FAILURE TO SUSTAIN
• No urgency • Focus on use of tools not results • Incremental — ambition not big enough • **CFO or CEO cannot see where bottom line savings will appear**	• Rollout not coordinated • Pace too slow • Lack of leadership • **CFO or CEO cannot see bottom line savings quickly**	• Performance targets not clearly articulated • Key talent gaps not addressed: run with who we have versus what is needed • **CFO or CEO cannot see bottom line savings continue**

Leaders of manufacturing organizations often draw a blank when the conversation turns to the financial benefits of lean.

Lean is typically touted as a means of generating cash savings that flow to the bottom line, but in many cases, either those savings fail to materialize or they take so long to appear that their financial impact is diluted. An AlixPartners survey on the effectiveness of manufacturing-improvement programs revealed that only about 30% of the companies surveyed achieved savings of more than 5% of production costs.

A number of factors combine to slow the speed and blunt the financial impact of lean initiatives, but the single biggest contributor to underwhelming results is lack of effective management and governance.





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Intensive management and steering from the top of the organization can minimize the risk that lean initiatives will devolve into a haphazard collection of small-bore activities that generate little measurable payoff. Attention from the top can also help manufacturing organizations avoid other risks and pitfalls, including:

FAILURE TO FOCUS ON CASH

When the operational focus is on 5S, kaizen (improvement) events, or the number of green belts on the shop floor, cash considerations too often fall by the wayside. The 5S system is a workplace organization method that uses a list of the five Japanese words *seiri, seiton, seisō, seiketsu,* and *shitsuke*, which have been translated as *sort, set in order, shine, standardize,* and *sustain*. By involving finance from the outset of an initiative to help link lean activities to plant management processes such as planning, crewing levels, and budget, effective managers can improve the chances of turning manufacturing improvements into cash.

INSUFFICIENT COORDINATION AND ORCHESTRATION OF ACTIVITIES

Projects that bubble up from the shop floor often take aim at a narrowly defined issue, such as reducing the cycle time of a single bottleneck station or process. Effective management can identify systemic, higher-impact opportunities, such as a suite of slow, inefficient operations at multiple plants, which, if tackled holistically, can deliver speedy and tangible benefits such as reduced shifts or lower direct-labor staffing.

EXCESSIVE DEPENDENCE ON HIGH-DOLLAR CAPITAL INVESTMENTS WITH NO CLEAR TARGET FOR RETURN ON INVESTMENT

When undertaking manufacturing-improvement programs, leadership sometimes defaults to expensive automation programs or other costly, slow-developing capital expenditures. The business cases for these projects often fail to account for such items as engineering, maintenance, and spare parts, which add to the true cost of operating new equipment. The cases might also overlook the potential value of simply improving existing equipment rather than replacing it. Potential capital projects should be evaluated against opportunities to change (1) settings, (2) operating procedures, (3) routine maintenance, or (4) other activities that can be put in place rapidly and at minimal expense.

What intensively managed manufacturing improvement looks like:

CASE EXAMPLE: A chemicals manufacturer's leaders were dismayed by the mismatch between their large number of improvement projects and the projects' limited financial impacts. Although the company's continuous-improvement teams eagerly shared outcomes and findings from projects generated after multiple kaizen workshops, the manufacturing organization failed to meet its cost savings targets for three consecutive years. To remedy the issue, the organization's leaders reoriented their ongoing initiatives by organizing them around three imperatives.

THREE IMPERATIVES

1 STAND UP A PROJECT MANAGEMENT OFFICE (PMO) TO CHARTER AND TRACK PROJECTS

By setting up a PMO, leadership became able to impose a governance structure, process discipline, and a review cadence on the entire improvement program. The PMO gave management visibility into every ongoing initiative, and a formal project-approval process enabled leadership to prioritize improvement activities. The PMO ensured that the right projects were given highest priorities and necessary resources and that the projects got executed on schedule. It also served as the single source of truth on all plant projects.

2 FOCUS ON EASILY SCALABLE OPPORTUNITIES WITH HIGH CASH IMPACTS

An analysis of the company's entire manufacturing network revealed opportunities at multiple sites to reduce waste, improve productivity, and rightsize the asset footprint. The opportunities were prioritized by their cash generation potential, with highest priority given to potential improvements with minimal CAPEX requirements. Employees were cross-trained so that management could run the initiatives simultaneously across the manufacturing network, thereby amplifying the savings.

3 RELENTLESS FOCUS ON EXECUTION

To lay a solid foundation for the improvements, leadership set up and took ownership of a robust operating system to drive fact-based decision making linked to the bottom line. Putting accountability at the very top helped eliminate bureaucracy and free up critical resources for the implementation. Via the operating system, leadership closely tracked shift handover metrics, convened daily and weekly meetings to review the numbers and take any needed corrective action, and established other metrics—such as material-waste percentage and overall equipment effectiveness—that exposed backsliding and corrected it. Other metrics tracked were safety, quality, and customer delivery.

By using the PMO structure, the company was able to refocus team efforts on projects that would quickly and positively affect the bottom line. The PMO also reinforced process discipline, monitored project execution, offered resource support, and resolved conflicts. The successful shepherding of a couple of quick wins across the finish line at multiple sites also helped build grassroots support for the program and laid a foundation for culture change.

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Conclusion

Some manufacturing executives will tell you that lean is a long journey, that it isn't just about savings. That's true as far as it goes, but our experience has taught us that successful lean programs organize people and assets at scale and drive them toward a clearly defined end point within a fixed time period. And those piles of cash at the finish line? They're the signs of a journey done right.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.