Planning and Executing a Sustainable Lean Transformation

Milwaukee Logistics Council
January 19, 2012

Presented By:
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About Your Moderator

**Todd Wiese**

- GE Healthcare; Lean Six Sigma Master Black Belt
- Rockwell Business CI Champion
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About Your Moderator

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- Toyota Eng Mgt, Quality, Operations
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Objectives

• Understand some of the key characteristics, behaviors, and beliefs of organizations that do “more with less”.

• Provide an approach for transforming your organization from current to desired state. Start a plan.

• Receive practical, real-world advice on how to overcome the most common hurdles.

• Your goals / objectives?
**Transformation Self Assessment**

**Exercise objective:** Understand participants’ level of knowledge and understanding of Lean thinking.

On one side of the notecard…

1. How would you rate your organization’s continuous improvement efforts on a scale of 1 to 10?

   1 = Since I’ve been here, we have actually gotten worse  
   10 = Toyota could learn a few things from us

On the second side…

2. List top 3 things on which your organization is trying to improve. i.e. labor and/or material costs, production cycle time reduction, engineering quality, sales force effectiveness, etc.
Disclaimers

• WATA

• No “get rich quick” schemes, silver bullets, or cookie-cutter solutions…we’re not offering any.

• 73 days vs. 73 years at Toyota…You must practice to become proficient.

• Not about becoming Toyota; rather understand what they did and why, and how to apply principles to your situation.

• Simple ≠ Easy
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Elements of a Continuous Improvement (CI) Organization

A system, not simply a set of tools…

Most want to focus here!
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3 Phases of Lean Transformation:

I. **Understand**…how a Lean transformation happens, how leaders must think and behave, what your customers value, how you are currently creating value, where you want to be tomorrow, the plan to get there.

II. **Stabilize**…your operations by minimizing system variation, ensuring systems / equipment are up and running, providing the right material and information, effectively measuring and reviewing performance, and most importantly, ensure you are attracting, developing and retaining the right people.

III. **Continuously Improve**… your value proposition by continuously improving people and processes.
Adaptive Transformation Framework

I. Understand
- Lean Leadership
- Define Customer Value
- Vision & Business Goals
- Business Strategy

II. Stabilize
- Establish HR Strategy
- Align Metrics
- Establish Operating Mechanisms
- Level Load the Work
- Develop Standard Work
- Mat’l & Info Replenishment
- Systems & Equipment

III. Continuously Improve
- Personnel
- Customer Value
- Process (Use tools)

Kaizen

Performance

Time

Think • Beyond

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If the leader of an organization does not understand the basis for the Lean Transformation Framework, they will not be able to lead the organization through the challenges.

“First Who, Then What”
### Leadership Traits – Level 5 Leader

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 5 Executive</td>
<td>Builds enduring greatness through a paradoxical blend of personal humility and professional will.</td>
</tr>
<tr>
<td>Level 4 Effective Leader</td>
<td>Catalyzes commitment to and vigorous pursuit of a clear and compelling vision, stimulating higher performance standards.</td>
</tr>
<tr>
<td>Level 3 Competent Manager</td>
<td>Organizes people and resources toward the effective and efficient pursuit of predetermined objectives.</td>
</tr>
<tr>
<td>Level 2 Contributing Team Member</td>
<td>Contributes individual capabilities to the achievement of group objectives and works effectively with others in a group setting.</td>
</tr>
<tr>
<td>Level 1 Highly Capable Individual</td>
<td>Makes productive contributions through talent, knowledge, skills, and good work habits.</td>
</tr>
</tbody>
</table>

Source: Jim Collins, “Good to Great”. 
Most of your largest issues will require an “all hands on deck” effort…the business leader has to be the one leading the charge.
Lead with the heart…

Kotter/Adaptive step 9
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Think . Beyond
Define Customer Value

First, let’s define **Customer**…

Anyone who provides expectations/requirements that you must meet.

- External Customer
- Internal Customer
- Shareholders
- Regulatory Agencies
Understand What Your Customers Value

American Airlines

“We know why you fly” show photos of family and dogs....what does that do?

Virgin Atlantic

“They may know why you fly, but we know what you want once your up there.”
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“We are a market-focused, process-centered organization that develops and delivers innovative solutions to our customers, consistently outperforms our peers, produces predictable earnings for our shareholders, and provides a dynamic and challenging environment for our employees.”

“We help the families of Apple Valley live happier and healthier lives by providing the freshest, tastiest and most nutritious local produce: From local farms to your table in under 24 hours.”

Clearly communicate where you want to be 50 years from now and how to get there.
Set Clear Goals & Objectives

Have something for everyone…

- Shareholders
- Employees
- Customers

Beyond next quarter or even year…

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Business Goals – Goal Setting

- **S**pecific
- **M**easureable
- **A**ttainable
- **R**elevant
- **T**ime bound

No…

“Improve our customer experience; make us their #1 choice for their printing needs.”

Yes…

“Increase Net Promoter Score from 25 to 40 by FW48 in product lines X and Y.”
## Business Goals

A simple chart to plot your organizations goals…

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>3</th>
<th>5</th>
<th>10</th>
<th>20</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers (NPS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees (% Turnover)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders (ROIC)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exercise: Communicating Goals & Objectives

Exercise objective: Understand effectiveness of current managerial communications

1. On a note card, write your top 3-5 goals and objectives. Ask your immediate manager to do the same. Additionally, have your subordinates list their goals and objectives.

2. Compare those goals and objectives to both your leader’s (boss) as well as your subordinates’ objectives. Evaluate the differences.
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Kaizen
What are we going to do to create greater value for our customers than our competition over the long run?

Now that we have identified our customers and what they value...

Key questions to answer:

1. What makes us different?
   - Do we want to run the same race faster? (Operational Excellence)
   - Do we want to run a different race? (Differentiation)

2. What makes us think we can outperform the competition?
What did Toyota do?

Good - Scion

Better - Toyota

Best - Lexus
Contrast Toyota’s strategy with the U.S.’s (former) “Big 3”…

33% ownership
If people know why they are doing something, they require less direction.
Create Unique & Sustainable Competitive Advantage

**Value Proposition**

Home-city replacement cars for drivers whose cars are being repaired or who need an extra vehicle, at low rates (30% below airport rates)

**Enterprise Rent-A-Car**

• Numerous, small, inexpensive offices in metropolitan areas, including on-premises offices at major accounts
• Open during daylight hours
• Deliver cars to customers’ homes or rental sites, or deliver customers to cars
• Acquire new and older cars, favoring soon-to-be discontinued older models; keep cars six months longer than other major rental companies
• In-house reservations
• Grassroots marketing with limited television
• Cultivate strong relationships with auto dealerships, body shops, and insurance adjusters
• Hire extroverted college graduates to encourage community interaction and customer service

**Distinct Activities**
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Kaizen
People and Talent (HR) Strategy

How is a business like these teams?

People are not a company’s greatest asset…great people are a company’s greatest asset.
People and Talent Strategy – Org Structure

The org structure plays a critical role in personnel development. Toyota’s org structure has a 5:1 ratio of front line workers to 1st line supervisor. This ratio allows the team leader to immediately assist team members if a problem occurs.

Managerial level roles have similar requirements. Managers must have an understanding of the processes in their organization. Before becoming plant manager, a candidate must have successfully completed variety of functional (i.e. Paint, Body, Assembly, etc.) and support roles (i.e. Materials, Quality, etc.).

If you value problem solving, structure your organization to promote it.
How do you find and hire the right people?
Who develops the team members?

_______________________________.

Guidelines:

• Coach must understand and be proficient in subordinates’ jobs.

• In order to have this, the organization must have a career plan to develop leaders.
People and Talent Strategy - Retention

Keep the people in which we have invested, working at our organization….

Recommended reading: “One more time, How do you motivate employees”

Frederick Herzberg, HBR

How much does it cost to replace a valued associate?
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**Kaizen**
A failing company hires a new CEO who agrees to work for $1/year plus bonus. His bonus is based on Return on Assets. He sells the most profitable division, leases it back, and earns a huge bonus. The next year the board changes the metric the bonus is based on to Earnings/Share. The new CEO uses the cash from the sale of the profitable division last year to buy back stock and again earns a large bonus.

Name the CEO..
### Examples of good metrics (when balanced):

<table>
<thead>
<tr>
<th>Function</th>
<th>Goal / Strategy</th>
<th>Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR</td>
<td>Develop internal talent.</td>
<td>% hires from outside for key roles.</td>
</tr>
<tr>
<td>HR</td>
<td>Improve employee job satisfaction.</td>
<td>% Annual Employee Turnover</td>
</tr>
<tr>
<td>HR</td>
<td>Improve department performance</td>
<td>Time to fill open roles.</td>
</tr>
<tr>
<td>Operations</td>
<td>Reduce working capital requirements.</td>
<td>Days on hand of inventory.</td>
</tr>
<tr>
<td>Operations</td>
<td>Improve product quality</td>
<td>Rolled Throughput Yield</td>
</tr>
</tbody>
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Exercise objective: Understand poorly designed metrics can negatively influence organizational performance and behavior.

Background:

You have been asked to analyze the current metrics for Acme, Inc. Do you like the current metrics? If not, what would you change and why?

<table>
<thead>
<tr>
<th>Department</th>
<th>Metric</th>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assembly</td>
<td>Overtime</td>
<td>&lt;10% of total paid time</td>
</tr>
<tr>
<td>Customer Service</td>
<td>Call Time</td>
<td>&lt;10 minutes</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Time to fill open position</td>
<td>&lt;30 days</td>
</tr>
<tr>
<td>Sales</td>
<td>Revenue</td>
<td>&gt;$10MM / Quarter</td>
</tr>
</tbody>
</table>
Sales

“I think I’m going to make my numbers…you’d better have the warehouse filled!”

Operations

“No way I’m going to fill the warehouse…they never sell what they say and I’ll miss my inventory and labor numbers!”

Ensure metrics are derived from strategy, goals, and objectives. Align to minimize conflict.
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Kaizen

Performance

Time

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Success Requires Frequent Feedback

“When do you receive feedback on your progress to budget?”
Operating Mechanisms – Establish A Daily Cadence

Daily stand up meetings allow us to quickly ID problems and take immediate actions.

Guidelines:
- Have the right people attend
  - Sales
  - Engineering
  - Production
  - Sourcing
  - Others
- Follow a standard format
- Write down action items
- Focus on abnormalities
- After stabilizing automate data
- Focus on the process not the person
Operating Mechanisms

- Standardized
- Simple to read
- Low-tech
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Kaizen
Is it more difficult to establish and follow standards if the level of output required, continues to significantly change?
Trader Joe’s:

• All employees can be cashiers

• Employees restock shelves until 2 bells, then the run check outs.
Level Loading Can Be Done Anywhere

Rush Hour Traffic

- Median moving equipment
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Kaizen
The Importance of Standardization

• If you were coaching 1 student, how would you approach helping him/her improve?

• Now...how would you do it if you had 100 students?
Only when work is standardized can the kaizen cycle begin.
Comments:

- Simple and easy to follow; not overly verbose.
- Able to learn in no longer than ~3 days.
- Visual references, if possible.
- Critical to Quality (CTQ) characteristics where necessary (none seen here).
- Living document.
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**Kaizen**
“I love businesses that have poor material replenishment systems.”

Fred Smith – Founder of ______________
Material Replenishment

Establish a plan for every part…

Kanban

VMI

Consignment

Min / Max

MRP

One size doesn’t fit all…understand prerequisites, pro’s, and con’s of each.
In transactional businesses & functions, information must be available...

**Information includes:**

- Approvals
- Customer information
- Pricing
- Terms
- Info needed to proceed

**Four Questions to ask:**

1. Do I have all of the information that I need?
2. Is the information correct?
3. How long does it take me to get the information?
4. Who really needs to see / approve the information?
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Kaizen
“If you don’t schedule equipment downtime for maintenance, the equipment will schedule it for you.”
Techniques for Systems & Equipment Availability:

• Develop a preventive maintenance strategy:
  – List of all equipment/systems
  – Develop PM schedule
  – Operator ownership
  – Allocate necessary resources
  – Track of PM to schedule
  – Problem reporting procedures

• Identify equipment redundancy requirements.

• Plan outages for overhauls.

• 8 + 2 shift allows for maintenance time.
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Kaizen
Continuously Improve Personnel

Organizations just need to execute the HR plan they developed in the Stabilize phase.
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Kaizen
A person pays $100 for a bottle of water.

How can this be?
Ideas for increasing customer value:

- Improve existing products:
  - New features
  - Lower prices
  - Improve reliability
  - Improve performance
- Create new products/services
- Shorten lead times
- Develop new markets (Starbucks)

Note: Value creation strategy should be part of the overall business and marketing strategy, not a separate exercise.
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Kaizen
The most important (and first) step to solving any problem is…

recognizing you have a problem!
Every process, physical or transactional, should speak to us just like this shadow board.

- Is there anything wrong?
- What is wrong?
- What problem can this help us identify?
- What should we do?
- What concepts have we learned about in the framework that help us identify an abnormal situation?
Every organization should have a standard approach to solving problems…It should be:

• Formalized
• Data driven
• Based on the scientific method

If we expect employees to be problem solvers, we have to give them the right tools.
Many methodologies to solve problems…

• Six Sigma
• 8D (Automotive)
• Scrum (Software Dev)
• Agile (IT)

All based on the same principles…pick one or establish your own.
Common Questions

What do I do if my organization is jumping directly to Improve?

1. Get the results but eventually you need to circle back to become great.
2. Accept the fact that you will only be good, never great.
3. 3 words…if you want to work at a great organization.

How do I get started?

1. Create a desire for Leader’s to learn…review “success” stories such as Toyota or Herman Miller.
2. Educate the leadership team.
3. Get a coach…there are far too many mistakes to make.
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“It is like tasting the best cake you have ever eaten and asking for the recipe. However, when it is time to bake the cake yourself, you determine that you don’t have the time or patience to follow the recipe exactly so you cut corners. You don’t let mixtures rest over night, you use less expensive ingredients to save money, and you cut the bake time down by a few minutes.

Then, when your cake doesn’t taste as good as the original, you blame the recipe!”

Bill Suycott
Former Adaptive student
Last Thoughts On Why Organizations Fail

• Can you dig a hole at the water’s edge?

• Can you keep it open?

• What must happen to do so? What happens to the kid?

Lasting, impactful transformation requires the entire organization to dig!
Adaptive Business Solutions facilitates the adoption of Lean thinking into your organization by integrating with your current culture and delivering the education and coaching needed to enhance and sustain customer, employee, and shareholder value.

For inquiries regarding our services and availability, feel free to contact us via e-mail at inquiries@abstb.com, or contact the managing partners directly:

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