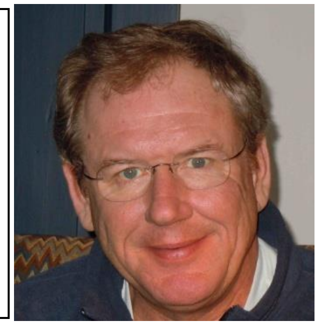
Operation Excellence

July 18, 2013



A couple of troubling observations.

I've had the occasion to work with a few sizable manufacturing companies recently that really "don't get it". By "don't get it" I mean:

1. These firms are so oriented to the cost world measurements that they are overproducing – one of the worst wastes in the Toyota/Lean Manufacturing curriculum. On relatively flat volume… inventories had increased perhaps 18 out of the last 22 months. One of the companies was running about 10% to 15% overtime --- and finished goods inventory continued to climb each month.

2. They really didn't understand the difference between MAKE TO ORDER and MAKE TO STOCK let alone that they really should be running with a MAKE TO AVAILABILITY strategy.

3. Most firms professed to be better than their competitors therefore they didn't see the need to further improve (given that they had both of the 1st 2 listed above "don't get its" -- DGIs). It was incredible.

4. They had an insufficient knowledge of their respective market shares, and the size of their served markets. While these companies were distributing nationwide --- geographical market shares were unknown.

5. With the capability to make some of their product at their multiple locations… the companies' intra-company freight was still excessive and neither demonstrated that they had an apparent coherent strategy of production nor a defined intra-company supply chain.

6. The companies were focused on comparing (monthly) their operations to a fictional "annual plan" that had been authored several months prior. After a few pointed questions it became obvious that their annual plans were largely bogus to begin with. For example, the annual plans contained significant "cost reductions" that were not yet identified. Bonuses were paid on performance compared to these "plans (aka dreams)" – not continuous improvement. In confidence, the plant managers at these companies admitted that many decisions were made on the basis of potential bonus payouts (and some fictional reporting) rather than concrete improvements.

These firms had multiple plant operations. Total employment at each company was several hundred employees. All were delivering "low level profits" – Capital investment was "pinched". What capital that had been spent recently was on projects that had been poorly prioritized… for example, why spend precious capital $s on an additional machine when there was excess capacity on existing equipment? Answer: That gives you the capacity to build even more excess finished goods even faster!

These companies were closely held by larger entities – I guess that shows that the folks above the management of these firms "don't get it" either.

The companies had initiated (multiple times in one instance) either Lean or Six Sigma initiatives. However, as these companies' cultures demonstrated insufficient levels of employee involvement and a lack of focus to target potential improvements that would affect the whole system, I'm certain that the firms have a 100% probability of failing in their efforts to "become Lean" or have lots of "Black Belts".

Sometimes you just have to shake your head in disbelief.

Answers/responses to the above are (in case you "don't get it"):

1. REALLY? Low profitability and building finished goods inventory (in what should have been a MAKE TO AVAILABILITY environment)? See the response to #2.

2. They didn't understand a SUPPLY CHAIN. Both companies were practicing "MAKE TO STOCK"… They should have been practicing "MAKE TO AVAILABILITY"… if you don't understand the difference... google "Make to Availability." Then call me if you still don't understand the difference … this is critical. I googled it and got, "About 630,000,000 responses in 0.29 seconds…" …but I probably have a slow internet connection.

3. If you are better than you competitor today and expect that because of that "perceived fact" (it may not be the case) you will certainly be better than them tomorrow; I promise you with that attitude you probably won't be better than them (or a new competitor) in the future.

4. Not all geographical markets are equal. Not all competitors are equally strong in all geographical markets. A 20% share in one market might be good; it might be bad… for the same company a 10% share in another geographical market might be outstanding. Back when Bill Waddell (a reader of this newsletter as I am of his) was cutting his teeth at Emerson's Copeland Division, I was cutting mine at Emerson Power Transmission, with Gene Yarussi (another reader of this newsletter) trying to get planning and market analysis into my head… those Emerson guys really understood the planning process… a real pain in the hind parts… but the Emerson folks "got it".

5. I think intra-company logistics is an area that is ripe for harvesting low hanging fruit. Granted in the spirit of this newsletter, I am basing that thought on recent observations… but a friend of mine that really knows transportation (specifically TRUCKING) tells me if you haven't evaluated intermodal transportation strategies in the last 3 years, you are probably missing a real opportunity. Truck-Rail-Truck is becoming very cost effective. Management of remote

warehouses by 3rd party logistic companies is becoming more widespread. It can be very cost effective and should be evaluated by any firm that ships or receives truckloads of non-perishable commodities.

6. Most annual plans are as useless as yesterday's newspaper the minute that they are published. Coupling the poor timeliness of the benchmark with a poor annual plan, that is the result of a poor planning process to begin with, creates an endless waste of management's time for the entire year. Remember Dr. Ohno's quest at Toyota? "All we were trying to do was shorten the time from the moment that we received a customer's order until we collected the cash." While I support the statement by Peter Drucker… "If you don't know where you are going, any road will get you there…". You do need to plan. However, the real benchmark is: "are we getting better?"

"Don't get it?" "Don't get it!" Whether it is a question or a statement, it is a troublesome condition.

How is the second half of 2013 looking to you?… Is the plan that you put together last fall now obsolete? If you need some help or a fresh set of eyes to review your operation … please contact us…I'm sure we can help. I want you to "get it!".

"Profound knowledge must come from outside the system – and it must be invited in."

--W. Edwards Deming

All the best!

Jim Covington

www.jpcovington.com

815-988-5404