

Volume 11, Issue 10 **March 08, 2004****Important Dates to add to your calendar...**

- Apr 13&14 High Performance Relationships – the company-wide complement to the 5-month “Practice of Leadership & Coaching” process.**
These 2 days provide the common language, philosophies, and key skills as provided in depth to those who will lead their company’s transition to world class. It is two days of hands-on, nuts & bolts training for practitioners that’s presented by practitioners. Call 519-893-6260 or check www.hpmconsortium.com
- Apr 27&28, Intro to Lean Accounting 1.5 days This fall...** there will be a “Lean Accounting Roundtable.” We’re looking for HPM’ers and readers of the Weekly Update serious about implementing LA. If interested, attendance at this session (and others) is a pre-requisite for being considered as a “Pilot Site” & participation as a Case Study at the Roundtable.
- May 12th, Consortium-to-Consortium Phone Exchange** HPM will be continuing to chat with ‘consenting consortiums’ from Newfoundland to BC to share ideas on what consortiums do best – *exchanging ideas on their best practices for mutual benefit*. There will be a series of calls on this day & more to come. Interested consortiums should email Dave at dhogg@netcom.ca or call 519-893-6260.

Started A Lean Library Yet?

Have you started to accumulate a “Lean Thinkers Library?” If not, the Lean Enterprise Institute at www.lean.org has an excellent start for you with six very

well written books. At Friday’s VSM clinic, **COM DEV’s Mgr. of Industrial Engineering, Nabeel Mirza**, highly recommended several LEI books as being not only outstanding but of high practical value in helping them achieve the huge cycle time reductions. Here is LEI’s recommendation for a starter library, and we agree:

Lean Thinking (expanded 2d edition) Ya gotta start here folks!! — breaks down the concepts of lean into real nuts-and-bolts language. It explains the benefits of a lean business system and offers actionable advice so you can champion a lean transformation. Written in a straightforward style, the book describes lean’s main elements, tools, and thought processes, gives specific manufacturing examples from a variety of industries, explores the common obstacles, and offers an Action Plan to help you develop and implement the lean transformation.

Lean Lexicon — provides definitions, examples, and

HPM’ers Not At Wednesday’s “CASE STUDY on CULTURAL TRANSFORMATION” With Gary Kerr – either missed a ‘Leadership Clinic’ – or, feel they already have the culture they are going to stand pat with to take on the competition going forward.

“The cultural change that occurred through this process at ADI is very impressive ...it was the foundation of the results they achieved.”

Jeff Weisel, Vice President, COM DEV Space, Switch Division

“A very worthwhile 4.5 hrs of my life was spent today”

Nabeel Mirza, COM DEV Space, Manager Industrial Engineering

Avnet Electronics: This was a clear, unvarnished, practical, factual, first-hand look at how one company made the cultural transition to Lean Thinking **presented by the leader who conceived it and achieved it**. How many can point to a productivity boost of 370%, reduced work-in-process inventory by 94%, dramatically reduced lead times, and more, such as the development of a **Code of Conduct** based on values of the employees and developed by the employees themselves. Gary Kerr was ‘The Man’ who conceived, risked, and delivered dramatic change as Director of Operations at ADI Munitions – a 320-person company with a transformed workforce outside of Melbourne Australia.

Gary Kerr is a leader, and an effective and entertaining communicator who transformed the thinking, the cultural environment, and the performance of his company. Gary provided a frank, hands-on interpretation of what worked and what did not during ADI’s journey toward World Class. As promised, the session was a conversation with 26 assembled leaders, looking for a better way and new tools, from **COM DEV, Rockwell Automation, Hammond Power Solutions, Mancor Industries, Gerrie Electric, Honeywell Canada, Hedstrom, Ergonomics @ Work, Orenda Aerospace, NPG Envelopes, Eagle Precision Technologies, and Home and Park Motorhomes.**

Lessons Learned: The culture is the gateway to results Harnessing the intellectual horsepower of everyone exceeds that of management alone. To develop a “Code of Conduct” based on the values expressed by employees requires time to ‘self-talk’ about it, think about it, and come to a consensus... it cannot be blitzed. Est. a year Supervisors manage systems, the people manage the processes Use of “Name Stamps” is simple yet powerful Employees must “OWN” their data

lots of helpful illustrations to clarify the special language lean thinkers use — and sometimes confuse. Unlike most business glossaries, it is focused on lean thinking & production.

Learning to See — is the first of LEI's workbooks that explain in plain language how to implement key elements of a lean business system. Written by subject matter experts, and generously illustrated, the workbooks contain step-by-step methodologies for implementation, complete with the necessary formulas and forms. *Learning to See* shows that the proper place to start the lean transformation is with the value stream for each product family within your facilities. Value-stream mapping identifies the root causes of waste and gives managers and executives a picture of the entire production process, including value and nonvalue-adding activities, so they can prioritize improvement actions.

Seeing the Whole — expands the value-stream map beyond facility walls. It explains how to use the macro mapping tool to identify and remove waste along an extended value stream from raw materials to end customer. The workbook uses a realistic example, showing how four firms sharing a value stream can create a win-win-win-win future in which everyone, including the end consumer, is better off.

Creating Continuous Flow — provides step-by-step instructions for eliminating waste and creating continuous flow at the process level, especially at your critical "pacemaker" cells or lines. The workbook offers a practical methodology for gaining and sustaining the full benefits of cellularization.

Making Materials Flow — explains in new detail how to supply purchased materials to cells and lines in order to support continuous flow. Key elements include the Plan for Every Part, developing a central supermarket, creating timed delivery routes, implementing pull signals, and sustaining and improving the system.

All this for \$240.50US which saves you 15% buying them individually. You can get the set from www.lean.org)

'Kerrisms' from Wednesday's Case Study

"If you can't directly measure it – and if you cant directly affect it – then it is someone else's metric"

"At all times – keep moving in the 'general direction of forward'."

"Rewards – Recognition – and 'Redirection' ...must be soon, certain, and significant."

*"Keep score... why would you want to play any game if no score were kept."
- Gary Kerr, President AME Australia*

Elevator Talks – “Lean vs. ERP” quick & to the point. Here's an exchange between HPS's Scott Smith and Chuck Harrison, Alberta NRC ITA.

"Good Morning, Chuck,

Here's my two cents regarding Lean and ERP.

Enterprise Resource Systems tend to be large systems aimed at providing a 'one-stop-shopping' solution for companies operating system requirements.

Although some systems are becoming more configurable, the basic assumption is that the company is going to follow the processes outlined by the system. An example is SAP that requires a big bang approach, i.e. you load the entire system and not just the components or operating modules that you need. In the systems I have observed, companies that follow this approach are only using about 20% of the system's capabilities. The system is still required to fire all modules installed, so you end up with the waste of complexity as you still have to follow the full system logic.

The base problem I see with ERP is not the system itself, but the inability for companies to select the correct system or 'right size' the systems to their needs. Companies tend to purchase systems and install them based on what they 'think' they require and how they 'think' their business processes work. In a lot of cases, the system is purchased and implemented without this understanding and employees end up supporting two processes. The first is to support their daily work and the second is to support the data and activity required for their business or ERP system. **As a barometer, ask the users of the system how many other data bases and spread sheets they use to gather the information to perform the activities required by their customers.**

Lean and ERP can complement each other when used and implemented correctly. **The ideal way to purchase and implement an ERP system is as follows:**

- 1) **Define** the current state of your processes through value stream mapping
- 2) **Create** a future state of your processes based on both your internal and external customer needs (the main internal customer being manufacturing or those who add true value to your product or service).
- 3) With your future state and processes now well defined, you can **select** a ERP system based on the actual needs of your processes and business.
- 4) You may be required to **adjust** some of your future states based on the ERP system
- 5) **Implement the future state processes** as part of your ERP implementation.

One of the key failures of ERP implementation is the lack of attention to change management and the ownership of the users. By utilizing this methodology, the employees using the system actually provide the selection requirements and future state of the company and are involved in the implementation. This should create a higher level of ownership and a higher success rate.

For those who have already purchased a system, they should follow a similar methodology:

- 1) **Define** the current state of how your processes operate.
- 2) **Create** a future state of your processes based on the functionality of your system, utilizing the system as a 'tool' rather than a boat anchor.
- 3) **Utilize** the future state to 're-implement' your business system. This should also help to create a higher level of ownership. The main problem that you will have to overcome is the 'ego' of those who selected and implemented the original system.

ERP and business systems should be viewed as a tool rather than a constraint.

- Scott Smith, Value Stream/Supply Chain Specialist
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Value Comments of Attendees to Wednesday's Leadership Clinic with Gary Kerr

"Excellent job, a well presented success story."

Joe Kane, COM DEV

"Gary's enthusiasm is contagious"

- Al Raftis, Hammond

"There is a lot more to Australia than Cricket, Field Hockey, Beaches, and Beautiful Ladies...."

"Great job getting quality speakers and moving us all in the "general direction of forward."

David Silk, Honeywell

"Great Presentation – I'm glad I attended."

George McKnight, Mancor Industries

Here's a welcome message from LEI's founder, Jim Womack, author with Dan Jones of "Lean Thinking"

Dear David,

I was out on tour this past week, listening to companies' stories as they try to achieve a "lean" transformation. And I was struck, as I often am, by confusing terminology. The companies I visited thought they were "adding value" but I mostly watched them adding cost. So let me try to clarify things.

I always use the term "creating value" rather than the more familiar "adding value" because the former is the voice of the customer while the latter is the voice of the accountant. Companies add up their costs - both bought-in materials and internal spending on capital and labor plus their margins - then subtract the cost of their purchased items to determine how much "value" they have "added". The problem is that this leaves out the customer, the only one who can determine value. Often, what a company really means by "adding value" is "adding cost". Whether the extra cost creates any value is known only to the customer, and many managers never ask!

A quick example, in case I haven't been clear: Let's suppose a company buys some nuts and some bolts and assembles them into a simple product. These purchased items clearly are costs. Then let's suppose the company uses a lot of labor to store these parts, take them to the point of assembly, assemble them, rework the defective items, store the assembled goods, hunt for missing items, and then ship them. Finally, let's suppose that the bought-in items cost 50 units and the selling price for the finished product is 100 units. Clearly the company must have "added" 50 units of "value". Right? Wrong!

From the customer's standpoint this company may only have added fifty units of "cost" including its margin, and created very little value. The reason is simply that most of the steps consuming the resources - storing the parts, hunting for them, reworking them - added cost but no value from the perspective of the customer. Customers actually would have thought the product was more valuable (and been willing to pay more) if these steps had been left out and the product had been delivered faster!

Because products come as a bundle of value and costly waste and because the firms in most industries currently mix the two, customers often have no choice but to purchase the waste along with the value. But what if some lean thinking firm in your industry separates value from waste and eliminates the waste? If that isn't your firm, watch out!

Words aren't a substitute for action, but the wrong words often get in the way of the right actions if managers can't tell the difference between value and cost. So I hope lean thinkers will sharpen their language to focus on actually creating value, often by eliminating unnecessary costs.

Best regards, Jim Womack, President and Founder, Lean Enterprise Institute

P.S. We are doing what we can to help create value by steadily expanding our range of workshops on lean methods. In Boston on April 13-15 we will introduce new workshops on **value stream mapping in product development**, on creating basic stability (capability plus availability) in production processes, on lean logistics between firms sharing value streams, and on lean operations for process industries. In addition, John Shook will offer his **superlative workshop on lean leadership**, and I will be present at many of the workshops to say hello. I hope I'll see you there. <http://www.lean.org>.