

THE VALUE OF LEAN

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Many are still under the impression that lean is a set of tools for shop floor teams to squeeze waste out of their activities. It is far more than that. Lean thinking is a complete business system based on a set of principles pioneered by Toyota many years ago.

It is now clear that lean thinking delivers superior long run performance. All the lean pioneers described in our *Lean Thinking* book seven years ago have grown and prospered, while other showcase firms of the '90s bubble have fallen by the wayside. Indeed Toyota is well on the way to fulfilling it's goal of becoming number one in the auto industry.

Lean has also spread way beyond the auto industry and beyond manufacturing into all kinds of service industries, from the repair and overhaul of aircraft (RAF) and aero engines (Rolls Royce), to construction (BAA Terminal 5) and healthcare (NHS), and to financial services (Standard Life) and technical support (Fujitsu IT Services). The emphasis and language changes with each sector – but they share a common need to coordinate a diverse set of activities to create the value the end customer is paying for.

Lean thinking starts by defining customer value, rather than the capabilities of the firm's current assets that must be kept busy. It then traces every step required to design, order, build, deliver and maintain a product (called the value stream) and asks how many of these steps actually create this customer value. The shocking answer is very few - usually less than 5 % of the steps and time!

A simple method then shows managers how to redesign all these processes to optimise the whole product flow (the value stream), rather than optimise each of the departments, plants and firms through which it travels on its journey from raw materials to the end customer. The method begins by mapping the value stream and improving the capability, reliability and responsiveness of each step so they can be synchronised into an uninterrupted sequence in line with customer demand.

Quite quickly, large amounts of waste can be removed and firms find they can do far more with their existing resources. Unit cost falls, quality improves, and firms can respond more quickly to changing customer needs. At the same time, managing and improving product flows rather than coping with the hassles within disconnected and dysfunctional departments and firms creates more rewarding jobs for employees. And the redesigned supply chain uses less transport and energy – which helps sustainability. A win-win-win all round.

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It is of course much harder to see the waste in service processes, there are no piles of inventory clogging up the factory floor or stacked up in warehouses. Queues of work, delays, batching and rework are however just as prevalent, even if they are hidden in computer files. And knowledge workers are more adept at hoarding their skills and resisting standardisation and control over their work.

The Internet has accelerated what one might call the “industrialisation” of knowledge work – processing insurance claims, designing a new product or running a call centre. However we seem to be repeating all the problems of the traditional business model – dividing tasks into separate departments, managing by keeping each department busy, and more recently moving them to the lowest cost location. The end result is poor responsiveness to individual customer needs, lots of inter-departmental and inter-firm wastes and disgruntled staff.

It does not have to be like this, if we start by defining customer value and use a common method for involving staff in the redesign of their own processes. For example an equipment maker won orders from under the nose of its US competitor by streamlining the activities that are common to every product they sell - the custom design, engineering and quotation steps - even though every product they make is a one-off! Others have found the same thing - organising and standardising the routine activities actually frees up time for more creative activities. By understanding the purpose and current performance of their whole process, staff begin to recognise that standardisation is no longer a threat but the precondition for greater creativity.

The more insidious mistake is to think of services as just a different way of pushing predetermined products on customers. Increasingly customers are left with the task of selecting the right mix of products and services and trying to integrate them into a functioning answer to an ongoing need – whether it be managing finances and risk or computing and communicating. Call centres with programmed responses in a remote location are often of little help. Value to the time-poor customer comes from a dialogue with experienced staff, who can suggest better ways of meeting the need today and can design problem-free solutions for tomorrow.