



A Simpler Way

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November 2001

With the market softening and the competition heating up, manufacturing plants are struggling to cut costs. Yet, it seems like the harder they work at it, the less they have to show for it. What's getting in the way?

I think it's the way people are going about it. They're using approaches that don't work any more, based on assumptions that don't hold up any more. And the more they rely on these approaches, the more difficult they're making it for themselves to manage the business. There are four traps in particular that people are falling into.

The first trap is the belief that the best way to cut costs is to cut heads. This approach assumes that total cost for the plant is the sum of the costs of each individual operation. So, the only way to reduce total cost is to reduce the costs of individual operations, and the best way to do that is to cut out labor and increase machine efficiency. By now, however, most operations have been through so many cycles of that kind of cost cutting that the remaining opportunities are pretty marginal. As a result, it takes twice as long as before to find an opportunity, and it takes twice as many actions to generate the savings that are needed. In the meantime, it takes twice as much effort to deal with a workforce that is getting increasingly anxious about what they see going on around them. Experienced managers know that continuing to cut away at their operations this way will only lead to chronic instability, and even more headaches. So, they resort to accounting

games to make their numbers. But, in doing so, they mask the real problems in the system, making it harder to get at them.

Lean thinking offers a way out of this trap. It focuses on improving the flow of material and information across operations, rather than within them. The benefits of this approach are clearly demonstrated in the current state maps that some plants have developed, which consistently show that 99 percent of the waste is in the spaces between operations. It would make much more sense for managers to focus on that 99 percent of the waste, rather than continuing to focus on the 1 percent in the value-added operations that have already been worked over countless times before.

The second trap is the belief that the most effective way to cut costs is to measure them to death. The problem with this approach is that the measures people use tend to be disconnected from what's actually happening on the floor, particularly the financial measures. They are either a manifestation of what people would like to see happen, or the trailing phenomenon of what people have already done. Even non-financial measures have their limitations. Once they are aggregated and after the fact, they are no longer actionable. Plant-wide performance measures are like the score on the scoreboard. They can't tell you what play to run. They can only tell you after the fact whether you called the right plays. Yet, managers continue to use these measures to drive the business, because they don't see any other way to control costs if they don't.

Lean thinking offers an alternative approach. It builds discipline into the system itself, rather than trying to measure it in from the outside. It focuses on making the system consistently deliver to customers exactly what they want when they want it, safely and without any wasted time or effort. It is the pull from the customer that disciplines the system, all the way back through the supply chain. And it is the systematic elimination of anything that impedes the smooth flow of material and information that leads to lower costs. To make this approach work, managers need measures that provide visual, real time, and actionable information about how the system is operating so they can spot any interruption to the flow of material and information. And they need the capacity to respond immediately to those interruptions. It follows that managers need to spend most of their time on the floor improving the system, then check trends in safety, quality, cost, and delivery at regular intervals to assess their progress.

The third trap is the belief that the fastest way to improve performance is to improve as many things as possible, by as much as possible, as fast as possible.

Unfortunately, this approach rarely produces a breakthrough, only more complexity. Trying to do too much at once usually leads to long laundry lists of objectives, each with a corresponding action plan that needs to be managed. Before long, people find themselves spending most of their time in meetings drawing up plans that never get fully executed, because all their time and energy gets used up in planning or in managing the infrastructure they've created to support this increasingly complex improvement process.

The lean approach is much simpler. It focuses people's attention and energy on a few key leverage points, where a small amount of effort can make the biggest difference. It is this combination of focus and leverage, not level of activity, that leads to breakthroughs in performance. This means that managers need to stop running around in circles long enough to take the time to think through where they could make the biggest difference, then sustain their focus and their efforts long enough to make a breakthrough, despite the turbulence and the fires all around them. Over time, if managers focus on the right things, the turbulence in the system will begin to subside and the smoke will begin to clear.

The fourth trap is the belief that the only way to get the workforce to go along with cutting costs is to cut a deal.

That has led to endless bartering and negotiations, tying up a lot of people's time in activity that contributes little to the business, since the focus is almost always on small improvements because they are easier to get people to agree to. The big opportunities that would put the plant on an entirely different cost curve are either ignored or dismissed as too risky. This approach has also led to a host of special programs intended to pacify the workforce and mitigate the effects of the cost cutting. However, these programs usually end up adding even more complexity and cost to managing the business, and divert scarce time and energy from focusing on the floor.

The lean approach is more straightforward. It assumes that management and the workforce have a common interest in the long-term viability of the business and a shared responsibility for its success. It relies on straight talk, not happy talk, about how the business is doing and a sound game plan that focuses on winning new business, not just cutting costs. It requires staying focused on the big picture, rather than sweating the small stuff. And it requires genuine partnership, rather than pacification and manipulation. This means that managers and union leaders need to spend more time working together on their common agenda of growing the

business and less time playing unproductive games and cutting counterproductive deals.

Falling into any one of these traps makes it more difficult to manage the business. Falling into all of them at once makes it almost impossible. Yet, that's where many manufacturing plants find themselves today -- looking for savings where they are least likely to find them, driven by performance measures that are disconnected from what's actually happening on the floor, overwhelmed by the complexity of trying to do too much at once, and bogged down in endless negotiations over issues that have little relevance to the business.

As a result, much of what managers do every day is a waste of time. And the problem is getting worse, not better. As pressures mount to cut costs, many managers are working harder to wring more savings out of existing operations, using approaches that only add more complexity to the business. They are spinning faster and faster but going nowhere, trapped in a vicious cycle.

Lean thinking offers a way out by focusing on the fundamentals of the business. By simplifying and streamlining the flow of material and information across operations, using customer demand to discipline the process, focusing attention and energy where they can make the biggest difference, and engaging the workforce in growing the business, managers can get rid of a lot of the complexity that's gumming up the works today and channel much more of people's energy into productive activity.

This is a simpler and more natural way to manage the business. It's also the fastest, most effective, and most sustainable path to lowest total cost and a secure future.