

Next-generation Lean

Letting go of what Lean has become so Lean can become what it should be



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Next-generation Lean

A Lean approach to process improvement is nothing new. Automobile and other discrete product manufacturers have employed Lean to successfully increase productivity, eliminate waste, and boost customer satisfaction for more than 50 years. Further, Lean is no longer constrained to the manufacturing floor. It has evolved into an inter-industry practice appropriate for any company that seeks to re-invent its workflow and unleash

a profound transformation in business processes. Yet we find too often that Lean has become an abandoned initiative that has lost luster in the eyes of the managers and executives who believe they have mastered it. Commoditized and diluted, it may exist only in the echoes of buzzwords; remnants of scattered, unused visual management tools; and inconsistent 5S audits.

What Lean has become

In many organizations, the goals of re-invention and profound transformation have been diluted, if not altogether forgotten. These companies have declared mastery of Lean after simply applying its tools to reduce waste and increase cash over several months. They have successfully implemented the initial stage of Lean to win quick gains in productivity and eliminate waste, only to abandon the approach in favor of a newly popular “method of the month.” Few organizations have the discipline to follow Lean to its transformational fullness. Complicating the issue, consultants in firms large and small put the Lean toolbox into their services portfolio and then promote themselves as Lean masters. They are unable to guide their clients to the full maturity of a true Lean journey, however.

The tools of Lean are the techniques, concepts, and templates that are used to apply the Lean approach to a workflow;

they provide a standard methodology that enables organizations to reliably and quickly optimize operations and achieve cost savings. These gains may be meaningful only at discrete, functional levels of an organization, however, and most are not sustained for the long term. As a result, much of the energy around the transformation typically dissipates and organizations abandon the Lean approach at an early stage. In addition, we have found that many organizations abandon the Lean transformation after the first or second year due to apathy of senior leaders and inadequate time allocated for employees to learn and practice new skills. Once a Lean transformation is in progress, we have seen that many executives turn their attention to other issues and delegate the Lean initiative to business-unit managers. That’s a mistake: No cultural change is self-sustaining and an upheaval of this magnitude requires a visible and constant commitment from senior leaders.

Letting go

The attention span of most C-level executives is, by necessity, very short. In the rough and tumble of today's fiercely aggressive business environment, top executives typically focus on short-term goals that are driven by the impatient expectations of shareholders and escalating demands of global competition. Leaders attempt to solve problems by adding more resources, more processes, and more information.

With Lean, less is a more efficient path. That's because Lean is an approach that aims to create value for the end customer and eliminate any process that is wasteful. Basically, Lean seeks to eliminate all steps that do not add value or help achieve continuous improvement in the use of people, equipment, materials, and space.

The Lean approach has survived decades of evolving operational strategies and management fads. It is a fundamental operating approach that can enable a business to implement and sustain processes and practices that continually free up significant resources, reduce waste, increase capacity, improve productivity, and decrease capital spending.

To go beyond the quick wins available from a shallow and wide deployment of the Lean tools, business leaders must let go of the view that Lean is simply a cost-reduction effort deployed in a fragmented way over a short term in difficult times.

All of this leads to what the new leadership view of Lean should be.

What Lean should be

As the economic recovery begins to gain traction, many companies are once again focusing on top-line revenue growth. To achieve that, organizations must connect with their customers to deliver more value while providing the products and services they want and be more flexible in doing so—or risk losing their business to more nimble competitors and disappointing shareholders.

In PwC's 14th Annual CEO Survey, customer demand was cited as one of the most important drivers of strategic change; most respondents said they are adopting new strategies to get closer to their customers and boost revenues.¹

This revenue-growth challenge makes the new imperative leadership view of what Lean should be more relevant than ever:

The purpose of a Lean approach is to achieve growth and increase value for customers while using fewer resources. Lean is an evolutionary journey that requires a willingness to engage employees in a long-term commitment to continuous improvement to attain its ultimate purpose.

The results can be quite impressive and can help create a uniquely valuable enterprise. The few organizations that have let go of the typical commodity view of Lean and faithfully followed Lean thinking through to its principles-based grip have dramatically reduced lead times, improved quality, and boosted responsiveness. They have also increased customer satisfaction by continually increasing the value

they provide and created competitive differentiation. For Lean to be what it should be, it must include the entirety of three phases: tools, systems, and principles.

Tools: As mentioned above, tools are the techniques, concepts, and templates that are used to apply Lean to workflow. While necessary in every Lean journey, an organization must move beyond this traditionally shallow, one-dimensional approach to Lean.

Systems: The systems phase requires a deeper, non-negotiable, and widespread application of Lean tools, coupled with the non-negotiable acceptance of the workforce across all functions, departments, and leadership levels. Work streams connect as waste is eliminated, and employees and management alike can quickly employ visual management to assess the status of the operation. It is also essential that organizations prioritize their journey toward Lean management. Executives must conduct performance assessments that evaluate the organization's ability to create and sustain growth; this is typically achieved by documenting the current performance and mindset of the organization's people. In this phase, gains are significant to the wider enterprise but sustaining them may not be a priority.

Principles: In the principles phase, every aspect of the organization's culture has been imbued with the Lean thinking and behaviors. Continuous improvement is everyone's job. Everyone is a customer, and everyone is a supplier in a principles-focused Lean enterprise. An organization

1. PwC, 14th Annual Global CEO Survey 2011

that has reached the principles phase exhibits a rhythm of efficiency and a visible focus on eliminating waste and continuous improvement; a well-developed problem-solving approach exists at all levels of the organization. Suppliers become Lean, flexible, and synchronized partners, and clear competitive advantage is generated. As a result, customers benefit consistently from the sustained improvements and the organization achieves consistent growth. Active involvement and support from the C-suite is more critical than ever to the success of the Lean way of doing business at this point. Top executives must be personally involved, continually develop Lean aptitude within their people, and regularly attend meetings devoted to improving processes.

At the same time, it is essential that managers and supervisors ensure that new processes are properly documented, communicated, and enforced. Front-line employees need time to learn new and better ways of deploying the Lean tools and practice new skills. Rushing from one process improvement to the next, without adequate time to absorb the changes, will exhaust people and derail the transformation.

These new processes must be internalized, and Lean thinking must ultimately become embedded into the very DNA of an organization. To secure and sustain the gains of Lean thinking, organizations must:

- Quickly respond to key customer needs
- Reliably deliver quality solutions on time
- Keep pace with customer demands
- Use all resources prudently
- Innovate to satisfy evolving customer needs

Organizations that successfully implement Lean to its full maturity in all three phases will benefit from increased sales and a closer connection with customers. As companies become better attuned to the voice of their customers, they can dramatically shorten the time to market for new products and improve the profitability of these products. This will transform an organization to the extent that the mastery of Lean can be rightly declared.

Consider, for instance, Pella Corporation, a leading manufacturer of windows and doors. Pella began its Lean transformation in 1993, and since then has more than quadrupled its sales—a rate that is significantly higher than its leading competitor.

At Pella, each manager devotes at least one hour a day to identifying and addressing processes that can be improved. As a result, the company has reduced lead times by as much as 60% and increased its reliability among customers from 80% to 98%.² The Lean approach has enabled Pella to grow, maintain short customer delivery-to-promise lead times, and maintain or reduce pricing for its products.³

Lean business practices have become embedded in the corporate culture, enabling Pella to sustain these gains throughout several changes in top leadership over the years. Indeed, what CEO would choose to abandon such an advantageous atmosphere of both continuous improvement and growth?

2. Arnand Sharma and Gary Hoursef, *The Antidote: How to Transform Your Business for the Extreme Challenges of the 21st Century*, 2006

3. Pella Corporation, June 2010; http://pressroom.pella.com/news_releases/new/352/

How PwC can help

In today's competitive market, a high percentage of organizations fail to meet their profit, sales, and market targets. We believe that a Lean approach to business process improvements that goes beyond the tools phase and transforms the social architecture of an organization can enable companies to achieve their objectives while creating a closer connection with customers.

Yet that's no easy task—and certainly not one that can be quickly achieved and sustained for the long term.

That's where PwC can help.

We believe that the journey to a Lean principles-driven enterprise is not a collection of isolated events. Rather, it is an enterprise-wide practice that provides value to the customer by addressing people, process, and technology aspects. As such, Lean requires a careful, disciplined

assessment of an organization's current operations and culture, followed by a customized long-term plan to change values, beliefs, and behaviors.

We take the time to understand your business needs and align a Lean initiative with your unique requirements and objectives. Our Lean masters—in conjunction with our team of professionals specializing in strategy, innovation, growth, supply chain, sales effectiveness, finance effectiveness, and people/change management—can help assess your capabilities and culture to determine how Lean can lead to long-term gains. We can help you lay the foundation for Lean by aligning the culture and business processes. Once in place, we can help fine-tune a Lean initiative to help ensure it drives growth and customer satisfaction—for the long term. PwC can be your experienced guide in your Lean journey, taking you farther than most have ever gone.



Contacts

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