

INSIDE SUPPLY MANAGEMENT™

Resources to Create Your Future

December 2002

ViewPoint

Never Lean Enough

Recession or not, this is a tough economy for most companies. Delayed and declining orders, pressure to focus strictly on short-term costs to boost stock valuations, and hiring freezes are just some of the primary issues facing many organizations. You may be one of the fortunate ones — working for an organization that has traveled far on the “lean journey.” Likely led by manufacturing, much is accomplished. You’ve cleaned and organized, reduced setups and lot sizes, and improved equipment reliability. Product quality is much better, with reduced scrap, rework, and warranty costs. The supply management department has participated in Kaizen and implemented Kanban with key suppliers.

There’s no time to feel comfortable; The old Hollywood saying, “You can never be too thin or too rich,” holds true here as well. Lean, competitive, and economic pressures are never ending. It may be time to turn your attention to challenges beyond your own four walls. SCM must step to the plate to lead the increasingly important



**REBECCA A.
MORGAN, CFPIM**
President
Fulcrum
ConsultingWorks, Inc.
Cleveland

external efforts. The next big leap requires changes in how supply chain members do business with each other. The value stream maps used to guide internal improvements must be supplemented by extended maps that reflect the total supply chain.

In transitioning to an external supply chain focus, remember that (1) the supply chain goes both directions and more than one organization deep — to the suppliers’ suppliers and to the customers’ customers, and (2) the supply chain is constrained by its weakest link, key to establishing priorities.

There are three critical components to making lean leaner:

- Change policies and metrics
- Take supply chain responsibility
- Improve connectivity

1. What policies and metrics must be changed to better support leaning the supply chain?

Beginning internally, identify policies and metrics that prevent improvement. For example, pricing that encourages customers to buy large quantities is a policy obstacle to flow — a key lean element. Performance measurements based on price reductions rather than on total cost of ownership limit the power of lean. Eliminate incentives for large batches on both the buy and sell sides.

The theory of constraints thinking processes are excellent tools for evaluating policies and metrics for undesirable or unintended effects. Policies and metrics that don’t rein-

force waste elimination across the supply chain may contribute to higher overall costs and a less competitive supply chain. Once your own policies and metrics support lean, extend that same analysis process to the rest of the supply chain. Flow interruptions and inappropriate incentives anywhere in the chain hurt the entire chain, which hurts you.

2. What is our responsibility with the rest of the supply chain, and what commitment, skills, and knowledge are required to reduce waste throughout the chain?

Understandably, organizations have hesitated to take responsibility for improving the entire supply chain. Someone else owns the other organizations. A true supply chain management team should lead lean in all directions and throughout multiple levels — to suppliers’ suppliers and to customers’ customers. Leadership for supply chain management is a must.

In the strongest supply chains, each organization is willing and able to work to lean the overall chain. For the good of the overall chain, supply management must examine the chain, replacing organizations without the commitment, and training or replacing those without the ability. Whether you’re replacing supply chain members or working together to strengthen them, your organization must have the commitment and skills to contribute to the process.

“The value stream maps used to guide internal improvements must be supplemented by extended maps that reflect the total supply chain.”

Unfortunately, traditional purchasing, logistics, or materials personnel have often been seen as the enemy or as irrelevant to suppliers, and not seen at all by customers. Take a hard look at your supply management personnel. Does your group have the critical mass of skills, knowledge, and, most important, the external respect to provide leadership in leaning the supply chain? Invest in training where productive and change personnel are necessary. Participation and leadership in Kaizen, Six Sigma, and value stream map efforts provides excellent training and experience.

3. How can we improve the ability to effectively handle connectivity issues within and between supply chain member organizations?

Poor change control systems and poor internal communications lead to costly mistakes. Tunnel vision, local optimization, and other weaknesses

that you've fought within your own organization become even tougher to overcome as you focus outward.

Every hand-off, internal or external, is an opportunity for a mistake and is potential waste. The experience you gained using quality function deployment, target costs, concurrent engineering teams, and visual systems in eliminating numerous hand-offs, delays, and inaccuracies of information in your own organization can be used as a springboard for addressing inter-organization connectivity issues. The same thought processes you used in improving or mistake-proofing internal connectivity will be valuable in addressing external connections. The creation of efficient information and product flow among organizations, as well as within, is key to taking your supply chain to the competitive frontline. And that is key to your organization's long-term success.

Summary

As competitive pressures and the economy force us to get even better, we must work together to eliminate costly waste. Every organization should focus internally as it begins the lean journey. Over time, the need to look externally to work cooperatively with other supply chain organizations become increasingly important. Lean is focus on the customer, eliminating waste, and continuous improvement. That cannot be done without looking outside your four walls, making the same kinds of improvements across the chain that you work on so hard internally. The challenges are great as you begin to work with other organizations... but so are the rewards.