

Private Advice

Vol 2, No.1

FROM THE WORLDWIDE MANAGEMENT CONSULTANCY OF

**KEPNER®
TREGOE**

Can we
make it?
should no
longer
be the
question

Says ANDREW SLIMMING



*Andrew Slimming
BE (Chem) Hons.
A team leader and
partner with Kepner-
Tregoe Australia*

One of the first tasks of our early settlers was to become self-sufficient because imports could not be guaranteed. Fully-laden ships would vanish never to be heard of again and supplies were at premium prices anyway.

Although the historical reasons are valid for this focus on self-sufficiency, this philosophy is contributing to our dwindling manufacturing base today.

The catch-cry is no longer simply "We must become self-sufficient". Now we hear companies say: "We must be a full line supplier" or "We need the volume."

Until recently, distance and our relatively small market has protected our domestic industries, but this is rapidly reducing as, for example, large multi-nationals purchase our local brands.

Let's look at what happens when this occurs.

All organisations seek to maximise their returns. One way to do this is to consolidate production into one site or to reduce the number of sites. One of the criteria used to determine the optimum point of production is local conversion cost. Consequently, most multiple-site organisations benchmark much of their performance data, including conversion cost per unit.

This is where it becomes important to know what we are comparing. Every manufacturer knows short runs of low volume product or scheduling high volume product in small lots adds substantially to his cost base.

Unfortunately, no standard cost system accurately reflects any cost penalty

associated with doing things in that way, so there is limited data-based scope for disagreement. We just know we will see negative variances at the end of the month.

Empirically it has been shown that the lower 50 per cent of products, services and activities, account for 20 – 30 per cent of non-material costs, a huge cost before we even start production!

Without better data to counter the proliferation of low volume / high cost products, our people resort to getting better at running them. We do have factories that are world class at tool changes / die changes / cycle changes etc. However, we do not have many that are world-class in conversion cost.

A multinational comparing Australian factories against its overseas factories will always be comparing us to larger more focussed plants that rarely have the product or service complexity we are expected to deliver

Although we perform well in some comparative studies, our conversion costs are rarely the lowest. This puts increasing pressure on the operation to manufacture elsewhere.

The solution must be to reduce the structural cost of our products or services. Getting better at producing our high volume products will improve the longer-term prospects of manufacturing in Australia.

But the pioneering spirit which has always answered "Yes" to the question "Can we make it?" should perhaps rephrase the question. A more important question in today's times is: "Should we be making this product at all?"

INSIDE

- Key steps on the way to Lean Manufacturing – Page 2
- How to fast-track an improvement project – Page 5
- How to thrive rather than just survive – Page 3
- Consensus of the ignorant is still ignorance – Page 6

Consensus of the ignorant is still ignorance – How to create a high performance involvement culture

BY JIM EDSON



*Jim Edson, B Ec, Dip Ed
Managing director of
Kepner-Tregoe Australia*



*George Elliott
BS (Econ), MBA
A consultant with
Kepner-Tregoe
in the USA*

There are two prerequisites to creating an effective culture of high performance involvement by employees ...

FIRST: A high level of technical job knowledge. Not just the What and How but the Why of doing one's job. One of my colleagues has a saying that "Consensus of the ignorant is still ignorance." You can't get involved if you don't know.

SECOND: A common set of rational thinking skills to enable employee groups to work together to effectively tackle critical issues.

My colleague GEORGE ELLIOTT, for many years a senior executive in the U.S., addresses the tasks involved in creating a high-performance culture by presenting some of the aspects and attitudes that sabotage the process. He says it often doesn't work because managers ...

1. Don't want to delegate authority. They have worked hard to get where they are, and with position comes rights - the right to make decisions their way.
2. Don't believe their people are capable. ("If they were as smart as I am, they'd have my job.")
3. Do not take personal responsibility for the day-to-day performance of their areas. Employee development and involvement are undertaken as another project within the system, not as a value-driven way of life.
4. Have never experienced the output of an involved workforce. They have no culture reference.
5. Have not experienced a work environment where technical competence is a given. This seems to be especially true in larger organisations.
6. Do not have the job knowledge to plan performance input. They are limited to output evaluation where judgment is on people. ("Whom can we nail?")
7. Are not open to others' input. ("We're waiting our turn to talk. The more complex the issue, the less inclined we are to listen.")
8. Do not feel a responsibility to learn the details of the systems that most effect performance. They see improved performance as a systems issue, not a personal imperative.
9. Do not know how to appropriately involve their people. They see the concept as threatening, a loss of control or worse.
10. Are so busy that any effort at real change is an unneeded addition to their workload.
11. Have a very difficult time finding the time or discipline for any serious quest for personal knowledge growth. Without such a quest, involvement only reveals their shortcomings.
12. Have never experienced the concept of maximizing an employee's involvement and capability as a core value.
13. Are far too quick to commit to doing it themselves
14. Cannot intellectually accept this list of barriers to involvement.

**KEPNER®
TREGOE**

Kepner-Tregoe helps management to meet critical business needs with solutions which our consultants have proven to be successful all over the world.

Kepner-Tregoe Australasia Pty Ltd
Level 8, 50 Berry Street
North Sydney NSW 2060
Tel: +61 2 9955 5944
Fax: +61 2 9955 1625
Email: jtimbs@kepner-tregoe.com

Key steps on the way to Lean Manufacturing

Why many of the world's leading organisations are embarking on a Lean program

BY TANYA DICKINSON



*Tanya Dickinson
BEng (Hons), CEng
A consultant with
Kepner-Tregoe Australia*

Imagine a house complete and ready to move into two weeks after signing the building contract! Theoretically it is possible according to research which says there are only 15 days' work in the six months it takes to complete an average house.

But it's not as theoretical as one might think were one to apply some of the many Lean Manufacturing tools and techniques that are now available. In the USA they actually built a house in less than four hours.

So what is Lean Manufacturing and where did it come from?

The central themes of Lean Manufacturing are the elimination of waste and the simplification of processes. Taiichi Ohno identified seven types of waste in a typical manufacturing organisation:

- i. Defects
- ii. Overproduction of goods not needed
- iii. Inventories awaiting further processing or consumption
- iv. Unnecessary processing
- v. Unnecessary movement of people
- vi. Unnecessary transport
- vii. Waiting for an upstream activity

Lean Manufacturing aims to reduce and ultimately eliminate these wastes and also to understand value, line up operations in the best sequence, conduct activities without interruption and ensure operations are performed effectively. The traditional batch systems and departments need to be replaced by a focus on customer needs and product flow.

Five key principles underpin the whole concept of Lean Manufacturing. These are to:

1. Specify value in the eyes of the customer, who is not interested in process but only in what they receive.
2. Identify the value stream from

concept to a final product and eliminate waste and variation within it

3. Make value flow at the pull of the customer. Removing batch systems and process stoppages and making only to order, greatly reduces time taken to convert raw materials to finished goods.
4. Involve, align and empower employees
5. Continuously improve knowledge in pursuit of perfection

Many leading organisations are embarking on Lean Manufacturing programs because a successful program results in being able to do more with less. Typical results of implementing Lean Manufacturing speak for themselves:

- Cycle time 40-90 per cent reduction
- Inventories 30-70 per cent reduction
- Cost of poor quality 50-90 per cent reduction
- Setups/ changeovers 70-90 per cent reduction
- Space 40-70 per cent reduction

For example, a large pharmaceutical company I worked with saved \$500,000 a year by applying Lean techniques to an analytical testing laboratory.

Flow and Pull were implemented along with a 5S program that enabled them to increase their capacity by 30 per cent without additional staff, space or equipment.

The same company reduced the manufacturing batch changeover and clean-down times 50 per cent after the processes were mapped, analysed and non-value or non-essential activities removed.

The principles and benefits outlined above are generic and similar results can be achieved in other business areas. For example, analysis of one documentation process revealed that the process took 11 days, of which 70 per cent were no-value waiting time. By redesigning the process using Lean techniques, lead-time is now two days and customer complaints almost zero.

The key steps on the road to Lean are:

- Identify a leader or change agent
- Develop knowledge of Lean Manufacturing tools and techniques
- Map critical value streams looking at customer value rather than organisational needs
- Begin with the value stream that will give quick wins
- Build on these initial successes to expand the Lean culture across the organisation
- Ensure performance measuring and reporting mechanisms support Lean behaviour
- Ensure adequate reward and recognition systems to encourage the new culture and motivate the workforce and management to accept, then drive change.

The ultimate long-term goal is to expand your Lean organisation to include suppliers and customers but the transition is not easy.

However, the benefits of embarking on Lean Manufacturing far outweigh the required investment.

Private Advice for a friend

To add a friend or colleague to our newsletter readership or to order additional copies of Private Advice, please contact us at:

Kepner-Tregoe Australia Pty Ltd
Level 8, 50 Berry Street
North Sydney NSW 2060
Tel: + 61 2 9955 5944
Fax: + 61 2 9955 1625
Email: jtimbs@kepner-tregoe.com

How to thrive rather than just survive

A five-phase model for formulation and implementation of strategic excellence

BY MIKE FREEDMAN



Mike Freedman
BSc (Econ), DipEd, MSc
A senior consultant
with Kepner-Tregoe
in the United States

Organisations need to create and implement an effective strategy in order to excel in today's market because while organisations without a strategy may survive they are unlikely to thrive.

But how does one define "Strategy"?

Worldwide experience with leading companies and government bodies has proved the following definition over the past 25 years:

Strategy is a framework within which choices about the nature and direction of an organisation are made.

To implement strategy requires an understanding of the components of that definition.

Framework means boundaries clearly defining what lies inside or outside the scope of an organisation's strategy.

The *choices* are what products and/or services will and will not be offered, what markets (customers, consumers, and geographies) will and will not be served, and what key capabilities are needed to take products to markets.

The *nature* of an organisation is its very essence. Hence McDonalds is defined by fast food, Dunhill by luxury goods, and Goldman Sachs by financial services.

Direction means where an organisation is headed.

Kepner-Tregoe's five-phase model for strategy formulation and implementation consists of:

1. Strategic intelligence gathering and analysis

2. Strategy formulation
3. Strategic master project planning
4. Strategy implementation
5. Strategy monitoring, review and updating.

It differs from other models in that it includes the strategy's implementation planning and actual execution.

Only when all five phases are in place is there a realistic chance of achieving strategic excellence. The model must be iterative.

1. Strategic intelligence gathering and analysis. This ensures the information on which strategic decisions are based is up-to-date, accurate, and relevant. The quality of strategic decisions will largely depend on this.

The intelligence gathered includes competition, technology, markets, macroeconomic, political, and social trends, regulation and other subjects specific to each organisation.

2. Strategy formulation. Using our definition of strategy this phase results in the creation of a strategic vision or profile. Such a vision answers nine key questions:

- i. What are our fundamental beliefs and values?
- ii. What are the assumptions on which we will make our future strategic decisions?
- iii. What products/services will we and will not offer and what are their characteristics?
- iv. What customers and end-user groups (if they are

different) will we serve and not serve and what are their characteristics?

- v. What is our geographic scope?
- vi. What products/services and markets represent the greatest potential for growth and require the most investment and resource allocation?
- vii. What competitive advantages will enable us to succeed?
- viii. What key capabilities do we need to ensure we take our product/services to market and to support our competitive advantages?
- ix. What financial and non-financial goals (eg market share, technology leadership) do we aim to achieve?

3. Strategic master project planning. During this phase the plan for strategy implementation is developed. The execution of a significant number of projects (often several hundred) is required for successful implementation.

The creation of a strategic master project plan and development of an optimal project portfolio help guide the organisation on how these projects should be prioritised.

A strategic master project plan can contain projects covering a wide variety of activity including:

- New product and market launches
- Filling capability gaps
- Aligning organisation with strategy
- Complexity reduction
- Synchronising planning and

budgeting with the strategy process

- Functional strategy development
 - Merger, acquisition, and disposal activities.
4. Strategy implementation. This is when planned actions are taken, implementation is monitored, and the strategic master project plan is modified as circumstances change and projects are amended, completed or abandoned, and new ones added.

The involvement of significant numbers of employees is a vital ingredient to successful execution. The higher the degree of ownership for the strategy among employees, the more commitment they will have to playing their part.

This ownership, commitment, and involvement begins with a major communications exercise to ensure there is full understanding of the strategy for each employee.

5. Strategy monitoring, review and updating. Given today's rate and pace of change this is a vital need. Continuous monitoring of strategic progress, goals, and indicators of success is a full-time task and a key input to regular (generally quarterly) reviews.

The success of this five-phase model has been proven with many international and Australian corporations including: BHP Long Products, Australian Protective Services, Hong Kong Gas, Dunhill, The Bank of Ireland, and Corning.

How to fast-track an improvement project and still get a bottom line result

BY CHRIS GERAGHTY



*Chris Geraghty
BSc, MBA(AGSM)
A senior consultant with
Kepner-Tregoe Australia*

We call it Project Blitz and it is Kepner-Tregoe's way to fast-track structured improvement projects so that they deliver real and traceable benefits.

Project Blitz is for organisations under pressure to reduce costs, improve throughput, reduce waste, or undertake any other improvement initiatives. It is also for managers experiencing the pain of selecting which projects will deliver the targeted improvement and how their benefits can be visibly transferred to the bottom line?

Project Blitz recently helped a large manufacturer achieve a 15 per cent increase in throughput, 5 per cent increase in product yield and a 20 per cent reduction in operating costs.

This success was achieved by establishing a separate Blitz at each production unit and appointing a key Blitz operator to work with the unit to assist with implementation and to ensure promised benefits materialised.

In addition to successfully closing the KPI gaps the Blitz approach developed an internal capability for the client to allow them to run solo in the future.

The Project Blitz formula involves eight key steps:

1. Confirm the gap between current and targeted performance.
2. Form a full-time Blitz team involving

multi-disciplined representatives from the client.

3. Introduce the Blitz team to all levels of the client organisation, outline the project approach, and convey the targeted performance gap.
4. Use employee interviews, historical performance analysis, on-line studies and observations to identify opportunities for improvement. Set realistic improvement goals as percentages of the difference between average performance and best-demonstrated performance.
5. Prioritise improvement projects on their ability to deliver. Then select your Blitz projects on their ability to close the performance gap.
6. All Blitz team members undergo a series of skill development modules involving proven technologies in project management, problem solving, and decision making.
7. Set primary and secondary objectives for each project with clear links to cost-centres where possible. Secondary objectives ensure improvements in one cost centre are not detrimental to another, eg Direct labour costs Vs Overtime costs.
8. Establish a reporting system to ensure projects are kept on plan and that progress is communicated and made visible.

**KEPNER®
TREGOE**

Kepner-Tregoe helps management to meet critical business needs with solutions which our consultants have proven to be successful all over the world.

Kepner-Tregoe Australasia Pty Ltd
Level 8, 50 Berry Street
North Sydney NSW 2060
Tel: +61 2 9955 5944
Fax: +61 2 9955 1625
Email: jtimbs@kepner-tregoe.com