

**LEA E-letter 5 October 2005**  
**Competing with China**  
**Daniel T Jones**

Dear Lean Community Member

There are two sea changes going on in the world economy. The first is the rise of the "low cost" producers in China and the second is the lean revolution which is now gaining momentum. Although the lean revolution began long before the recent rise of China, they go hand in hand. Lean is as essential to Chinese firms seeking to become global as it is to western firms responding to their challenge. All of us will be better off as a result.

No country has ever built a sustainable competitive advantage based on low wages. Inevitably wages and other costs begin to rise, as they are now doing in China. This is a good thing and the whole point of development. But it means Chinese firms wanting to export more sophisticated products to the west will have to learn that quality comes from good design and capable lean processes from which all unnecessary touch labour has been removed. The good news for them is that lean processes do not necessarily require high tech equipment or expensive IT systems.

There is also no doubt that successful Chinese firms will also establish manufacturing operations in other regions. Indeed they have begun buying companies in Europe and America. This will pose a major challenge to Chinese managers, just as it did to Japanese and Korean firms moving abroad for the first time. It takes time to build a significant cadre of managers with experience of managing operations abroad and to integrate foreign managers into the senior ranks of the company back home. Toyota's unique advantage was its ability to spread lean through its global operations. Korean, and now Chinese firms have to learn lean as well as how to run their global operations.

The initial reaction of western firms and policy makers to the Chinese threat is to increase spending on technology and innovation. Nothing wrong with that - but it can't be the whole answer. Just consider the huge number of engineers being educated in China and now being employed to reverse engineer all the machines they are buying from the west. Also remember what has happened to firms that have pursued a pure technology strategy – like the premium car makers in Germany. They made formidable products that were too complex and unreliable for their customers. Technology alone is not enough.

This points to the one competitive advantage western manufacturers do have – they are closer to their relatively affluent customers – that is you and me! They ought to better understand their needs and ought to be better at developing just the right new products and services to solve their problems – managing their health, coping with congestion, seamlessly communicating etc. They also ought to be able to get these products and related services into the hands of these customers far more quickly than producers located half way round the globe.

This is our comparative advantage – yet we don't recognise it - and we are not really exploiting it very well! Manufacturers are far too removed or even insulated from their customers. They seldom interact with the end users of their products and their distributors, whose main role is getting the best price for products already made to forecast, have in many cases lost contact with customers as they outsourced customer service.

Focus groups and market research are no substitute for knowing exactly who their most important end customers are and building intelligent feedback loops from them on how to help them use their products to solve their problems. This means feeding back to a highly responsive product development process that can get the next generation product to market in months rather than years. Toyota recently announced a target of 12 months from design freeze to launch for every new car. How long does it take you to develop new products and how many of your new products really succeed?

When it comes to responding to their needs more rapidly we also fail. My rule of thumb is that if it takes less than an hour of value creating time to make the product it should take no more than a day to go through the factory. Likewise if it needs an hour's work by engineers and procurement to draw up a quote this should take no more than a day. Every step in each organisation through which the value stream flows should likewise take a day and not much more than a few days to flow between organisations. And it should not take more than a few days to reach end customers within the region of sale, across Europe. The responsiveness of the end-to-end value stream ought to be measured in days and not months.

Most manufacturers are still struggling with a throughput time of weeks and a distribution pipeline of many months. They have also saddled themselves with a supply chain that stretches right across the world, with the same delays as their Chinese competitors. This is not going to be sustainable in the future and all that wasted time and effort costs far too much and undermines the competitive advantage from being more responsive to local customers. The benchmark is an equivalent product made in China, shipped through several distribution points and flown to the UK in an Airbus A380. Why can't you beat that?

Meeting this challenge – getting closer to customers and responding to their needs very rapidly – goes beyond continuous improvement. It entails fundamentally rethinking your business strategy, designing responsive and capable processes and restructuring the organisation and the supply chains to support them. Those with more responsive lean processes will win this global competition.

Yours sincerely  
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P.S. Only three weeks left to join us to discuss these issues in depth at our Frontiers of Lean Summit in Stratford-upon-Avon in the UK from 31 October to 2 November 2005 - full details at [www.leanuk.org](http://www.leanuk.org) I look forward to seeing many of you there.