



Lean Enterprise Academy

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Value Stream Management

Dear Lean Community Member

As we emerge from the recession and look ahead old ways of thinking and action will not be enough to meet two big challenges ahead. The first challenge is the growing impact of the web in opening up the possibility of turning customers from strangers to partners. The more customers know about what they could have and the way products and services are produced and delivered the more demanding they are becoming. They recognise they have an increasingly powerful voice! And they expect providers to be able to deliver exactly what they want, when, where and how they want it and to significantly improve the experience of using these products and services while minimising the impact on the environment. In return they may well be willing to share their plans and to respond to suggestions from providers.

In retailing, the advent of home shopping revealed that at that time supply chains could only fulfil exact customer orders about 60% of the time. While suppliers comfort themselves in thinking their service levels are close to 98% this turns out to be for orders they accepted, not what the retailers asked for! From the retailers perspective the suppliers' ability to supply what the retailer wanted is often closer to 70%. This hidden gap can only be closed by rapid replenishment supply chains where suppliers make, ship and sell in line with demand within days and not months. A similar performance gap exists in every industry, if we look closely enough.

Second, sustainability and environmental issues challenge us to look end-to-end to find systemic as well as piecemeal solutions. Most supply chains, which are often 200 to 300 days long and involve products travelling thousands of miles before being used, will have to be redesigned on economic grounds quite apart from the need to reduce their carbon footprint. But so far progress in doing so has been disappointing, even though the opportunity for compressing supply chains in almost every sector is huge.

The root causes of this hidden performance gap and these elongated supply chains go right to the heart of modern management – the separation of thinking and doing between experts and workers and the organisation of activities in increasingly strong functions, departments and business units. We are recognising the potential of involving every single employee in continuously improving their own work. We are learning to see all the buffers, inventories, delays and handoffs put in place to insulate activities from the rest of the organisation but we are still reluctant to accept that point optimisation and improvement of our own activities is often at the expense of designing and optimising the end-to-end value creation process. As a result no one can see let alone cost these end-to-end flows, particularly when they share a common pipeline with many other products or services.

In short the biggest obstacle to meeting these new challenges is that functions, departments and business units have become too powerful and act in their own interests. And the countervailing power to articulate the voice of the customer and the voice of the organisation as a whole is too weak. Squeezing budgets to remain price competitive only delivers lasting benefits if we also change the value stream that delivers these products or services. Asking function heads to simplify their planning

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systems, simplify their product mix, build smaller simpler plants closer to customers and get rid of unnecessary warehousing space is like asking turkeys to vote for Christmas! It just will not happen, even if they are the right things to do for customers and for the organisation as a whole.

But the way forward is not about reducing the power of functions but about rebalancing organisations by introducing value stream analysis and management. The value stream manager and their team are critical to defining the problem or performance gap to be closed, establishing the evidence base across the value stream through stability and visual management, developing the ability to respond quickly to interruptions, gaining agreement from the key players on the right actions to improve the value stream based on the facts, resolving conflicts between departmental and value stream objectives and delivering win-win-win-win results for customers, employees, the organisation and the environment.

Over the last year we have learnt a lot more about the specific ways in which Toyota uses the scientific method to develop the problem solving skills of its employees. We will also learn a great deal more in coming years about how leaders at Toyota really use policy or strategy deployment to prioritize and focus everyone on improving the vital few, right things. But I think the only way we are going to learn how to make value stream management work is by conducting many experiments in different situations. The learning that results will be extremely valuable as we seek to design the management systems that will be necessary to create and sustain new systemic solutions to the challenges we face in the coming years.

I hope you have a very good Christmas and a productive New Year.

Yours sincerely

Daniel T Jones

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