

LEA ELETTER - 18 April 2006

Four Curses

Daniel T Jones

Dear Lean Community Member

I breathed a huge sigh of relief the other day. We found a bookkeeper to manage the accounts for our rapidly growing business! Lizzie, my Operations Director, and I concluded that we were temperamentally unsuited to the task. Now she can spend all her time managing our busy schedules, workshops and conferences. I can do more useful things between assignments.

It is amazing how we let our lives get sidetracked from the things we know we ought to be doing, by numbers that tell us to do the opposite. Yet we often feel powerless to change the root cause of this conflict so we can get on doing the right things. Here is my initial list of common curses – I am sure you can think of more.

First come forecasts – which are always wrong, including my own! In this day of electronic point of sale and the ability to transmit real sales data upstream almost instantly, why are we still using forecasts? I so often find that delays in the information flows back upstream are longer than the physical flows. If only we could see how information gets hopelessly distorted the more hands it passes through and the older it gets. Would we act this way if information began to rot like a dead fish?

The answer is not as simple as saying we are only going to react to sales data as they happen. We need to take account of changes in trends and to cover a degree of anticipated fluctuation in real demand. In most cases real end-customer demand is actually very stable and the degree of variation for our high volume products and services is actually quite small. So we ought to at least be able to modify our production plans based on rapid feedback from real sales data as they happen. Our model ought to be picking exact quantities of fresh vegetables in the field today for sale in the store tomorrow, based on the weekly pattern of sales and today's sales data.

Second is the curse of Economic Order Quantities. This algorithm is the second source of noise in our information flows. Yet the more we learn about managing lean supply chains the more we see that big batches create extra costs elsewhere in the value stream and lead to chronic instability – which in turn causes fire-fighting, expediting and chasing. The world of perfect information and everything always going according to plan simply does not exist. Batching activities separately across a value stream simply makes things worse as their impact is amplified.

Aligning batch sizes for volume products to daily or at least weekly demand makes flow possible and creates the stability for ongoing continuous improvement. Make low volume products to order separately. The same is true in distribution – picking up and delivering small batches of more products from more suppliers on milk rounds turn out to be

cheaper than waiting for each supplier to fill a truck with their own products. How much noise do your systems create for your suppliers?

This leads us to the third curse, chimney costing within a department or function. This assumes that by keeping every activity busy by ensuring there is always work waiting to be done, we optimise the utilisation of every asset, department, piece of equipment or truck.

Simply calculating the OEE (Original Equipment Effectiveness) reveals that it actually results in much poorer utilisation. By concentrating on all the causes of interruption in order to synchronise one step with another and create a flow, we end up with much higher utilisation. We are also beginning to optimise the end-to-end flow of value creation and not optimising each activity in isolation.

This leads to the fourth curse, standard costing. Just looking at the costs of direct labour and slow freight has led to many mistaken location decisions and much longer supply chains than we needed. If we look at all the costs associated with the end-to-end value stream, including all the costs of managing variation, we would take very different decisions and have much more effective supply chains. And we would not be wasting so much of the world's energy resources and causing so much pollution!

Challenging these familiar but mistaken rules of thumb will help us do the right things for our customers, our supply chains and our organisations.

Yours sincerely

[Daniel T Jones](#)

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PS. **The second Lean Healthcare Forum** in the UK is taking place on **June 6th** in Birmingham, focused on designing end-to-end patient flows. If you are interested please check the full details on our new web site www.leanhealthcare.org.uk. These will be followed by our **next public workshops on June 7-9th**, details on www.leanuk.org.

PPS. **The next Frontiers of Lean Summit will be on November 20 and 21**, 2006 near Warwick, UK. Put the dates in your diaries, details to come next month.