LEA – E-letter 19 December 2005

Lean Lessons for 2006

Daniel T Jones

Dear Lean Community Member

This is the year when Toyota will almost certainly overtake General Motors to become number one in the global car industry, eclipsing what was once the largest industrial enterprise in the world. Fifteen years ago we predicted this would happen in *The Machine that Changed the World.* Five years later in *Lean Thinking* we described what it would take to respond to this challenge. A decade later Western car makers have struggled to build on their first wave of lean improvements. We will also see whether GM and Ford can throw off the shackles of unsustainably high wage rates and huge pension burdens.

The fundamental reason for Toyota's success is a superior lean business model in which senior managers focus on turning every process into a brilliant process rather than making the numbers and keeping the assets busy in their area. And in which every manager and employee takes responsibility for solving problems to further improve these processes. A problem solving, process focus drives the efforts of the whole company.

Toyota's triumph will have a huge demonstration effect on every industry across the world. It will accelerate the growing interest in lean, triggered earlier this year by the endorsement from GE that lean is the way forward for them. The auto industry will continue to be a lean reference model for design, production and the coordination of the upstream supply chain. However I expect we will see other industries becoming role models for lean in the near future.

I am now convinced that the consumer goods industry has reached a tipping point. Production lead times are beginning to be dramatically compressed, rapid replenishment pioneered by Tesco is improving availability at lower cost and new retail formats and home delivery are demonstrating that convenience does not need to cost more. The era of the focused factory, big automated warehouses and mega stores is coming to an end. As more and more products, from pharmaceuticals to electrical goods, are sucked down this pipeline this will transform these industries too. Rapid lean replenishment will become a way of life for all.

I am also convinced that leading capital good producers like Rolls Royce aero engines are beginning to see the significant benefits from selling the use of their equipment rather making their money on repair and overhaul. "Power by the hour" transforms the way you design and maintain this kind of equipment – leading to win-win gains for producers and users.

The lean revolution is also beginning to transform service delivery systems from call centres to installation and repair operations. There is a lot we can learn from them about building intelligent feedback loops from customer facing staff and turning every customer interaction into a Kaizen opportunity.

But perhaps the most dramatic lessons will come from applying lean in healthcare. We are beginning to see good examples of how lean can improve the flow of patients through existing hospital processes. This is just the start of a much bigger redesign of complete healthcare systems, combining lean system design with new enabling technologies for diagnosis and treatment. It is here that we will see the fastest progress from process improvement through process redesign to rethinking the whole business model using lean principles.

My hunch is that the discussion at the Frontiers of lean thinking will move sharply towards the customer in 2006. More and more companies will track the frustrations of their customers in accessing and using their products and strive to realise the win-win gains from improving the poor fulfilment of their delivery systems, as we described in *Lean Solutions*.

A second topic will be how to improve the process for designing new products and the processes to make and deliver them, particularly in the light of lessons from the first round of lean. This includes the whole spectrum from designing complex products with huge teams of engineers to much simpler but smarter ways for smaller firms to introduce new products.

A third topic which lean thinkers are waking up to is what process management really entails, how value stream managers work with functional managers and how to create the problem solving capability in every employee that is bedrock of lean process management. This will be an important topic for research, discussion and experimentation in the lean movement in the year ahead.

I hope you have a good break and return fired up to continue your lean journey. I look forward to meeting many of you again next year.

Yours sincerely

Daniel T Jones
Chairman, Lean Enterprise Academy

PS. We have had a huge interest in our first Lean Healthcare Forum in Birmingham on the 25th of January 2006. We hope this will mark the acceleration of lean across healthcare, from which we will all benefit in years to come. If you have an interest in lean healthcare do join us. Details are on the web site at www.leanuk.org