

Lean Enterprise Academy

John Shook's Eletter - October 2011

So, what are you going to do about it?

What a year for global supply chains! It started quietly, with a few leading firms taking the lead in reintegrating hopelessly disintegrated supply lines. Then came the shock of the catastrophe known in Japan as 3-11 that left automotive and electronic supply chains so devastated that they are only now – half a year later – recovering.

And then this in Saturday's NY Times: [The great Chinese-led deflation in goods prices may have come to an end](#). Times Chief Economist Floyd Norris presents data that shows a reversal of a 20-year trend, with apparel prices rising, due to rising costs - wages, energy and logistics - in China. The China price ain't necessarily the China price anymore. Quite a watershed year.

All this has combined to kick off welcomed reform in supply chain strategies of many firms. Global purchasing chiefs, not to mention CEOs and other leading thinkers, are calling into question long-established ways of conducting activities such as sourcing, transportation, and scheduling. Indeed a rational rethinking has begun in many industries. Firms such as Toyota and GE have instituted many beneficial changes with more to come.

Most of the reforms are positive and long overdue. It is important, however, that we not swing the pendulum too far in the opposite direction again. Human organizations seem to have a tendency to do exactly that. Outsourcing and offshoring are good? Great – let's do that. Then, outsourcing and offshoring are bad? Okay, let's stop that.

Rather than another knee-jerk reaction, let's use the events of this past year to exercise lean thinking – to create entire supply networks comprised of rationally designed and steadily improving value streams. To do so, it helps to have a method.

Earlier this summer, I wrote in-depth about [the challenges of a lean supply chain in an e-letter](#). As a next step, here at LEI we asked what we could do to help firms do something about the situation. After all, there are few more critical issues than that of total systems integration of large companies in today's economy. So, we decided to publish a new edition of [Seeing the Whole Value Stream](#) (initially published as Seeing the Whole) by Dan Jones and Jim Womack, with David Brunt and Matthew Lovejoy. (More in the P.S. about how to get downloads from the new workbook.)

What a difference a decade makes. When I wrote the foreword for the First Edition of this workbook in 2001, the business world was in the midst of its mad rush to de-integrate value streams by outsourcing and offshoring. Instead of analyzing and improving value streams in order to reduce total costs and provide better value for customers, managers were searching the globe for suppliers who would quote dramatically lower piece prices.

As it turned out, most managers didn't know what was actually going on along the messy value streams they were creating. Many probably didn't even care. The objective, after all, was clear and simple: rapid and dramatic price reductions from suppliers through a new negotiating tactic – using lowest global piece price – often called "the China price" – as a hammer.

Today the situation is so very different. Currencies have shifted, labor costs in many low-wage countries have risen steadily, suppliers in high-wage countries have declared bankruptcy, and the potential for squeezing further price reductions from suppliers is largely exhausted. A decade of endless searching for new suppliers (and squeezing existing suppliers) resulted in massively complex supply streams that are hopelessly impossible to manage.

As a consequence, managers are starting to do what they should have done in the first place: Understand and improve the underlying value creation process that suppliers share with their customers.

[Seeing the Whole Value Stream](#) provides a method for this analysis across organizations and geographies. It enables Lean Thinkers to move beyond value-stream analysis inside facilities – as explained in Learning to See – to extended value-stream analysis between facilities. More important, [Seeing the Whole Value Stream](#) explains how independent organizations – retailers, distributors, manufacturers, component suppliers, parts suppliers, raw material suppliers -- can work together to jointly manage and improve their shared value streams in order to create more value for customers (who will get their products faster and more accurately) with less time, effort, cost and chaos for every firm along the value stream. This is the revolution of Lean Thinking applied to extended value streams.

The method entails a multi-function, multi-company collaborative team that determines to understand the current state of a value stream, to envision an ideal state, and to work together toward a series of targeted conditions that progressively reduce waste, variation, and response time, resulting in lower cost and better value for the customer. The caution, however, is for us to always remember that value-stream analysis alone is not the point. Mapping is only a means for those touching a value stream to learn to see together in order to jointly pursue the vital objective: steady, sustainable improvement that benefits everyone.

This is a crucial understanding that was sometimes lost by many over the past decade: the true nature of the lean enterprise as a holistic business system. Everything is connected – so the practice of point optimization invariably squeezes costs and waste elsewhere in the system. Until we train our vision on the entire value chain, lean savings will be illusory and improvements unsustainable.

The power of lean is realized at the gemba – whether on the plant floor or at the extended value-stream level – through the way in which activities are connected. Nothing is independent. Standardized work, takt time, andon—are all tools and methods that link actions horizontally and vertically beyond one work station, enabling immediate detection and containment of abnormalities followed by quick corrective action. Similarly, the same functions of ensuring effective connectivity are performed at the extended value stream level by such methods as lean information systems, frequent-delivery milk-runs, or finished goods supermarkets replenished via upstream pull. The precise application of these or similar connectivity devices is essential to the performance of an effective value stream.

Conversely, decoupling without careful attention to practical connectivity mechanisms as well as overall configuration will destroy this key dynamic of a truly lean system: the ability to learn, to adapt. Break supply chain management, as many have, into disconnected points of lowest piece-price locations or a set of black-box optimization algorithms and you lose the ability to build rational and flexible supply chains configured as living learning systems. Ultimately this challenges managers to deeply understand how their value streams currently work and to design improved value streams that are configured rationally and are manageable and adaptable to rapidly changing real-world conditions.

So, as organizations learn how to see and improve collaboratively using the method described in these pages, they can make the great leap from shared analysis of individual value streams to shared analysis of entire value creating systems consisting of many parallel and crisscrossing streams. Such a leap toward a complete lean enterprise, aligning the energies of independent contributors working collaboratively to improve and learn systematically, is the next frontier for Lean Thinkers. Now is the time.

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P.S. The new edition of [Seeing the Whole Value Stream](#) contains a wealth of new material reporting on pioneering lean practitioners who have used the principles in the workbook to actually do the right thing in the past decade. We

have captured their lessons, and shared practical advice, in five new essays that are included in this edition. This new material includes pieces that reveal how UK retailer Tesco has used these principles to become the world's third largest grocery retailer, how Acme Alliance formed a successful extended value stream with its global supply chain, and how you can calculate your own true cost of location. There is much more available, including [downloads of some of these new essays, as well as other resources](#) that are ready for you to access right now.