

Lean Drives Productivity Gains and Value Chain Improvement

The results of TBM's fifth annual "Multinational Manufacturing Pulse" show continued gains in productivity primarily due to Lean, with respondents identifying the greatest opportunities to sustain that trend by applying Lean principles to more parts of their value chains.

In the third quarter of 2007, 3,082 executives in mid-sized to large firms were surveyed in six countries: the United States, United Kingdom, Germany, Spain, Mexico, and Brazil. Ninety-one percent of the executives surveyed reported productivity gains over the past year. According to the survey, Lean is the leading driver of these gains.

When asked to specify which productivity or quality improvements they used, nearly three-quarters of the executives identified kaizen as their primary method, up from 29 percent in 2006. A Japanese term for continuous improvement, kaizen is a key component of Lean. It is commonly deployed during five-day events in which dedicated teams target one process for dramatic improvements in cycle time and waste reduction, with immediate changes made to the process.

Sustaining Gains with Lean Value Chains

Questioned about the greatest opportunities for productivity gains in the coming year, 70 percent of respondents identified value chain improvements. This reflects a natural progression for these manufacturers in the implementation of Lean, which typically begins on the factory floor.

Production is a critical step in the sequence of business activities that transform raw materials into finished products and services, but it is just the beginning.

By applying Lean techniques to customer-facing processes, suppliers, logistics, planning, and scheduling, manufacturers are reducing waste, improving quality, and accelerating delivery at every link in the value chain. Creating a Lean value chain brings manufacturers closer to their customers and increases the speed and efficiency of every step from the moment a customer places an order to the moment the manufacturer collects payment.

Ultimately, a Lean value chain helps manufacturers leverage lean for growth. They become solutions providers, bundling their products and services in ways that create superior value for their customers. Masters of the Lean value chain demonstrate agility and responsiveness that lock customers in. They create barriers that are much more difficult for competitors to overcome. Creating a competitive advantage is a key reason the majority of leaders who responded to this survey are targeting value chain improvements in 2008.

Resistance to Change Remains Top Obstacle

Two obstacles to improving productivity dominated the survey results in 2007 as they did in the 2006 survey: resistance to change (40 percent) and a lack of leadership (25 percent). Resistance to change continues to beleaguer companies that must change to compete in a global economy: Forty-six percent of respondents to the 2004 survey identified it as a barrier.

Nearly two-thirds of all manufacturers identified cost pressures as their greatest challenge for the future, followed by people issues (36 percent), quality issues (23 percent) and rising energy costs (11 percent). This survey marks the first time cost pressures appeared as a major concern, reflecting the growing strain placed on manufacturers by the global economy. Cost pressure is another reason manufacturers plan to develop Lean value chains to improve productivity, control costs, and promote growth across more parts of their organizations.

More Innovative Thinking Needed

The survey also asked executives to identify the greatest shortcoming of their workforce: Thirty percent listed a lack of innovative thinking. While executives recognized that innovation exists in their organizations—72 percent said they were “somewhat satisfied” with their companies’ level of innovation—the survey suggests that a greater degree of innovative thinking will be required if their organizations are to successfully compete and grow.

Asked where innovation is most active in their organizations, 39 percent said new product development, 25 percent pointed to the plant floor, and 11 percent named new technology.

The recognition that innovation is occurring on the factory floor reflects another benefit of Lean that manufacturers hope to extend throughout their value chains. In a Lean culture where everyone continuously strives to improve, employees must be innovative not only in their day-to-day activities, but also in getting closer to their customers to understand and meet their needs, developing new products and services faster, and delivering solutions. Respondents recognized that innovation exists in their organizations. They also recognized that they need more of it, in more areas of their companies, to tackle the challenges ahead.

About the Survey:

The productivity survey is conducted annually by the TBM LeanSigma[®] Institute in order to understand the core concerns of manufacturers in industrial nations in the Western Hemisphere as well how “productivity” differs from region to region. This is the fifth year TBM conducted the survey.

For more information on the 2007 survey, visit the TBM website at www.tbmcg.com.