

Focus on Breakthrough Results

By Rick Pay

Back in the days when Lean Thinking was more commonly known as World Class Manufacturing, many companies had the goal of 5% productivity improvements year-on-year. They commonly looked at Operations as the source, typically gleaning the improvement from their labor costs or suppliers. When they started their transformation, they may have achieved 10% or even 15% improvements the first year, but the ability to sustain that level year-on-year was usually not achieved.

In an article in Business Week called, "Cleverly Chasing the Chip Boom" - June 21, 2004, p. IM1, Applied Material's CEO, Michael Splinter shared how he was going to respond to the ups and downs of the industry as well as a 50% sales drop in 2000. Splinter says, "We are managing our operations differently. We have record employee

productivity...." They are now achieving 10% - 15% productivity gains every year! Additionally, Splinter adds, "it is more of an ongoing management style." As a result, Applied Materials is regaining their sales position and they are seeing improved market share.

With this, one may ask how companies achieve this level of gain. It is important to know what your company is achieving year-on-year and, more importantly, are you able to sustain it? At my prior company, we thought we were pretty good if we did 4-5% per year. Applied Materials is obviously proving that a higher percentage every year is achievable.

In my experience, I have found that the most successful companies achieve breakthrough productivity improvements by focusing on their entire business process from order to delivery and from supplier to customer. It

is more than just operations and the processes for producing or delivering the product or service. I have recently had several experiences, for instance, that clearly show that how orders are presented to operations can have a major impact on how productive the operations might be.



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Expediting, inserting and changes can really have a negative impact on productivity. Allowing other orders to languish can be much more serious than it appears. I know of one case with a contract manufacturer where there were orders on the floor that were over seven months old. Besides the obvious customer service issue, why is that a problem? Number one, those kits consume inventory that could have been used to satisfy customers. Additionally, they take up floor and storage space, and must be tracked, counted, moved, and of course paid for. Just as important, they are a constant reminder to the employees that things are not as they should be!

So, what to do? The answer is in managing the process from order to delivery as a single business process. The key performance indicator is throughput time.

How long does it take from order to delivery? At Applied Materials, they measure the time from customer order to (and get this!) the point where the equipment starts up at the customer's factory!

From the customer's viewpoint, all of the processing time prior to equipment start-up is DEAD TIME!

To help solve the problem, one must map the process and look for ways to combine processes, reduce movement, and most important, ELIMINATE steps! Applied Materials found that after such rigorous analysis they could make twice as much product in the same space! At this point, they have cut their lead time in half. Capacity is able to be much better managed with shorter lead times and inventory management is much easier.

And this is only scratching the surface. I have seen breakthrough cycle time reductions in my clients, in one case for a service organization, from over 40 days to 14 hours! While it is certainly easier to do this in periods of growth, making these breakthrough productivity improvements can save your company in periods of consolidation.

Business is a system, a process, from beginning to end, from soup to nuts. Take time to look beyond labor. Productivity gains can come from surprising places, and can really change the face of your business. If you would like to discuss how this applies to your company, give me a call.

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