

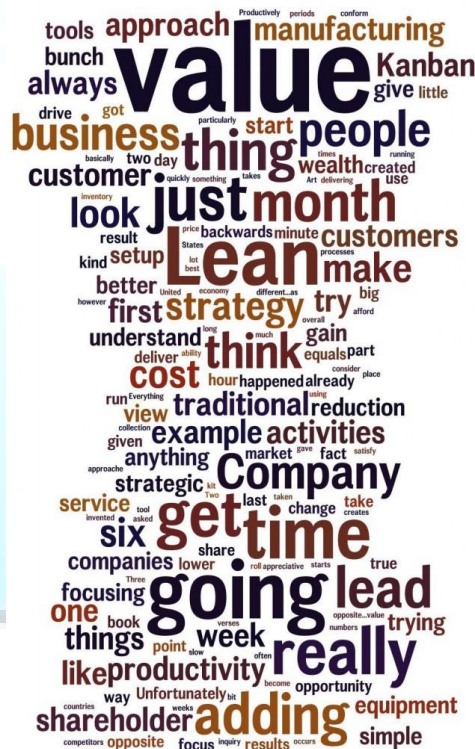
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Guest was Art Byrne

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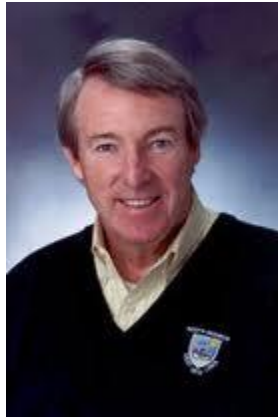
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Podcast Transcription

Implementing Lean Marketing Systems



Art Byrne has been implementing Lean strategy in various U.S.-based manufacturing and service companies, such as Danaher Corporation, for more than 30 years, including The Wiremold Company, which he ran for 11 years. He now serves as Operating Partner at the private equity firm J. W. Childs Associates L.P.

Art recently wrote the book, *The Lean Turnaround* that is said to be the c-level guide to succeeding with Lean. I believe that is an injustice to the book. I believe that anyone that is serious about implementing Lean in any part of the organization can benefit from this book. It is about Lean as a business process or what fuels the fire of a Lean implementation.

Transcription of Podcast

Joe Dager: This is the Business901 podcast where you will find many of the leading edge thinkers in the world of continuous improvement, Lean service design, and sales and marketing. The podcast is sponsored by the Lean Marketing Lab, the learning community dedicated to developing and improving the user experience.



Welcome everyone. This is Joe Dager, the host of the Business901 podcast. With me today is Art Byrne. He has been implementing Lean strategies in various US-based manufacturing and service companies such as Danaher Corporation, and the Wiremold Corporation. He now serves as an Operating Partner at

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the private-equity firm J. W. Childs Associates. He recently talked about his experiences at these places in his new book, "The Lean Turnaround."

Art, I would like to welcome you and start the conversation off by asking you about the title of the book. Is it a turnaround meant in the sense of applying Lean to a company in trouble? Or just applying Lean?

Art Byrne: Joe, first of all, thanks for having me. No, "Lean Turnaround" is just a title to imply that using the Lean approach; any company can be drastically improved, or if you will, turned around. It's not intended to look at a company that is just in trouble, but any company in any industry can be drastically improved, or you could use the word turnaround by using this approach. That's the intention.

Joe: You start out immediately in the book with addressing Lean as a strategy. But it really struck me odd because you changed the focus to strategy from big picture thinking to let's say Lean. Could you explain what you mean by Lean as a strategy?

Art: The book really talks about a business approach. It's really intended as a business book, not just a Lean tools book. But Lean, from my perspective, I've always looked at Lean from the very beginning as something that's very strategic. Probably the most strategic weapon I think that any company can have. It creates an unfair competitive advantage for any company. Therefore, I've always seen Lean as a strategy, not as some grouping of tools. In fact, one of the biggest tragedies that we have is that when we first started to hear about Lean, and I've been doing this since 1982, always done this from the position of a CEO if you will, either general manager, or group executive, or CEO, or chairman. Basically always from the position of a leader, so I've always looked at it from the point of view of improving my business.

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In the Lean world, we started out back when I started in '82; Lean hadn't been invented yet. We called it Just-in-Time. Go back to when it was called Just-in-Time. We messed that up. Western culture, Western societies, we applied the word inventory to it.

The thought wasn't just Just-in-Time as the way Toyota did it, but it was Just-in-Time slash inventory, and then of course because no one believed that you could take the inventory out of the whole supply chain, it became Just in Time/Inventory/go beat the heck out of your suppliers because somebody had to hold the stuff.

Unfortunately, the big three auto companies were pretty good at beating the heck out of their suppliers, and I think it was to the detriment that occurred. But over time, when Womack and Jones wrote the book and created the Lean out of the book Lean Thinking, again, the Lean thinking was the right idea, explained the whole thing correctly. It talked about value streams and all that and really explained it as a strategy.

But, once again, I think we messed this up. Today Lean is basically thought of most commonly as "Lean manufacturing." I think that's a tremendous tragedy because it just takes something that's very, very strategic, and it reduces it down to some manufacturing thing, if you will.

That does two things when you call it Lean manufacturing. The first thing it does is that even in manufacturing companies, it reduces Lean to some minor element of the strategy. Most CEOs say, "Oh, Lean manufacturing, that's something that I can hand off to my operations VP and let him work on that. We'll do the other stuff that we normally do."

Of course, if you call something "Lean strategy," anybody in any other business looks at that and says, "Well, that's a manufacturing thing." I mean if you call it Lean manufacturing they think of it as a manufacturing thing. "So we're not going to

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use that at all. I don't know how it could apply to us."

I think that's a tremendous tragedy and it's partly something I'm trying to address in this book is that if you think of it correctly, in order to improve any company, you need to have three elements that are present. One of them is Lean has to be the strategy. Two, you have to lead the implementation from the top.

Three, you have to understand that the thing that you're trying to turn around is your people. You're trying to improve your people. Most of that stuff is just lost on people, and none of that stuff is utilized.

If you use that approach, however, you can be massively successful with this in just about every instance. I've been doing this for over 30 years now, and I've run Kaizens in over 14 countries. I've done it in different industries, over 30 companies if you count some of the subsidiaries that I've been responsible for as well. It works every time. That's the approach that the book takes, really is to..."How do you improve any company by using the Lean methodology?"

Joe: Point of reference that really struck me in the book, the one big overall thought I had from it, is you view Lean from just about an appreciative inquiry point of view, what you do well, what are the value adding activities? That's practically like heresy sometimes, what many consider Lean thinking. I think the first thing when someone thinks about Lean, they think about waste reduction. But, you talk about value adding.

Art: That's correct. There's a simple definition of, what is a business in the first place, not just a manufacturing business, but any business? It's really a very simplistic thing. It's a collection of people, and a bunch of processes all working to try and deliver value to customers. That's true for any business. It doesn't have to be just manufacturing. Unfortunately, the traditional approach that we've evolved to when we run these businesses, we started

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out with strategy, and more often than not the strategy is to create shareholder value, which I think starts out by having it all backwards because shareholder value, to me, is a result, not a strategy. It's a result of what you do, and the value that you deliver to customers over long periods of time is what's going to improve your shareholder value.

You can't just say, "I'm going to do shareholder value." That's backward. The other thing that occurs in almost all traditional approaches to a business is we take the value adding part of the business as a given. For example, if you're running a company and you have a six-week lead time, and you've always had a six-week lead time, then that's taken as a given, "OK we've got a six-week lead time. How do we do our strategy around that?"

What we try and do instead is we try and get our customers to conform to what we do, to the fact that we have a six-month lead time. Then, of course, we focus very, very heavily on making the month. The traditional management approach is focus on the numbers and make the month, make the quarter, that kind of thing.

Unfortunately, when you're focused on make the month; you're focusing on something that already happened. You can't do anything about that anymore. That already occurred. That happened last month.

In fact, for most companies, by the time they get the results of last month, they're three weeks into this month. Effectively, we're always trying to drive the car through the rear-view mirror when you look at it that way. The reality, however, is the opposite of that.

The value is created by a couple of things, one, by improving your own value adding activities. Two, by delivering more value to your customer than your competitors can. Three, by conforming what you do to your customers to satisfy them and

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make you stand out versus your competition. It's really this opposite...value is created by the opposite of the traditional approach if you will.

I always like to use the example of a simple thing that productivity equals wealth. Productively, this is true for countries, for companies, for anything. Productivity always equals wealth. If you think of the industrial revolution in England if you think about why the United States has become so powerful, it's all really because of productivity.

A Lean strategy allows you to get big improvements in your value adding activities, which is basically productivity. It's a way to get productivity by focusing on your value adding activities. As you get these, this creates the opportunity for you to grow and to gain to gain market share, which is particularly important in times like this when the economy is really flat and slow and people are struggling to get any kind of sales growth.

The Lean approach gives you the opportunity to do that by focusing on your value adding. I look at Lean really as the greatest wealth creator that was ever invented. But most people just look at it as a bunch of tools, as I said before. It's a whole bunch of tools in a tool kit.

We can roll them out when we want to use them. If we don't feel like using them...if you look at most manufacturing companies, they say they're going to do Lean, and most of them will start where they're trying to do Kanban, just because they can understand Kanban a little bit better than some of the other stuff. They won't do setup reduction.

They won't do some of the other fundamental things. They'll try and do Kanban, without doing all the other things first; you don't get much cane out of doing Kanban. But, that's the approach that a lot of people take.

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I think you have to understand Lean as strategic to understand what's possible here. I can give you a simple example of that, which is, if I just gave you an example that said, we got Company A and Company B, they buy the same equipment from the same manufacturer, so they run at the same speed. Everything is equal. They don't have anything different...as Company B can change the equipment over in one minute, and Company A takes an hour.

If each of them can only afford an hour a day to change that equipment over, then if I asked you who has the lowest cost, and who has the best customer service, A or B, it becomes pretty clear to most people that the guy with the one minute setup is going to have lower cost. He's going to have tremendously better customer service because of his ability to respond quickly.

He decides to leverage that by offering a two-day lead time, when Company A and the rest of the industry has a six-week lead time. He's going to start to gain market share. Company A's first reaction is probably going to be to build more inventory so that he can offer a short lead time. That's just going to drive his cost up. Or, if that doesn't work, he's going to start to cut the price which also hurts his cost structure and his profitability.

Something that most people would look at clearly as a manufacturing thing, setup reduction, turns out that it's going to give me lower cost and better customer service, two very strategic things. That might give you a little insight into why, Lean at its core, is a very, very strategic thing. That's part of the point that we're trying to make in the book, here is applying the Lean tools and doing this...there're some tremendous results you can get from this.

Joe: You talk about leadership as being a real focus in Lean. But, you talk about it more in a participatory sense than what I think traditional thought leads us. We think of Lean as empowering the

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workforce. But, you really do take it that leadership has to participate, and practically, at that ground level. Can you explain that?

Art: Right. Well, if you don't have the leader of the business...and that doesn't have to be the CEO, it can be the leader of a plant. It can be the leader of the division, or anybody that's leading any business, a business owner if you will. My experience with Lean...It's easy to tell you the facts about Lean and tell you the concepts. But, it's very difficult to do. As a result, if the leader isn't leading it, and I don't mean managing it, but I mean leading it hands-on, out front, showing the way, then you're not going to really get very far with this. It's really interesting to me over many, many years...when I've given talks at national conferences on this stuff, or whatever, afterwards, people come up to me and say, "Gee, that was great. Can you come and talk to my CEO and see if you can get him to do this stuff?"

Because, the people down in the trenches that are trying to do Lean, they understand that without the CEO backing it, not much is going to change. The reality is, what's very, very common is that you'll see companies that say, "Oh, yeah? We're going to do Lean," and they think of it as some element of their strategy.

Mostly, they attempt Lean for things like reducing headcount, or improving their inventory turns or something like that. They don't look at it as a strategic thing. They don't look at it as, "How do I grow and gain market share by using this stuff...beat the heck out of my competition?" They just want to cut the headcount.

As a result, they delegate it down to their VP of operations. Then, they try and drop Lean on top of an existing batch structure, leave everything else the same. The reality is you can't do that. You can try it, but you're not going to be very successful for very long.

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If you want to do this and use it as a strategic weapon, you have to change everything over time. It doesn't do you any good, for example, if you're in manufacturing, it doesn't do you any good to try and do Lean at the manufacturing level and let your sales force continue running around doing big batch order taking, or have sales terms that call for you shipping 45 percent of your monthly sales for the last week of the month, and the manufacturing guys are trying to level load production. You're at odds with yourself.

You have to have the leadership to do this. If you can't get the leader to participate, it's something that isn't going to work very well. One of the main thrusts of this book is really to try and help the leaders understand what it is they have to do, and how they have to behave, and what they have to know in order to be successful at doing this.

I give some examples of; you just start out with as to, "Why do you want to do this in the first place?" Well, the results that you can get are fantastic. If I can digress for a second, I could just give you some of the results that we achieved at Wiremold.

There's a whole long list here. Basically, we dropped our lead time from four to six weeks down to one to two days. That gave us the ability to increase customer service from 50 percent to 98 percent, and allowed us to quadruple the size of the business over eight years. We improved our gross profit margin from 38 percent to 51 percent.

Improved productivity by 162 percent. Inventory turns went from three times to 18 times. Our operating income improved by 13.4 times over the course of about nine years. The net result was, our value, our enterprise value, if you will, increased by just about 2500 percent over the course of about nine years. We went from a company valued at around \$30 million to a company that we sold in 2000 for \$770 million. That ought to give people plenty

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of incentives.

I can't imagine someone leading a business and I said, "Gee, if I show you how to use these tools, and you can increase the value of your enterprise by 2500 percent over the next 10 years." If you look at me and say, "Well, that's interesting, but I don't really want to do that." Then, to me, you're in the wrong job. You shouldn't be in that position because you should want to do it.

The book really tries to say, "Look, this is what you can get from this. These are the steps you need to take. These are the things that need to be present. These are the things you need to know. This is how you go about implementing this, and the actions that the CEO or the leader has to take to make it happen." Because, without the CEO driving this, you can really kind of forget about being successful, I think.

Wiremold was an interesting example. After we got written up in a number of books, we were a chapter in the book, "Lean Thinking." We were a chapter in Gemba Kaizen. We were written up in articles. All the industrial tourists started coming. They wanted to come see what we had done.

That was starting to cause a problem because we had a business to run, and it was taking too much time. I basically put in a simple rule. I said look, we should be able...we should want to help other companies do this, but if they don't bring their CEO, then we know that they're not going to do it.

Let's put in a simple rule that you can still come and visit Wiremold, but only if you bring your CEO. Guess what? All the tours stopped immediately.

Art: No one could get the CEO to come.

Art: That's still true today. I think it's one of the two main things

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that I see in the Lean movement over all these years is two things. One, why isn't it being applied to other companies than manufacturing? I said before, I think that's because we started calling it Lean Manufacturing, which limits it right off the bat. The main reason, however, is that...that there's no Lean leader out there. There're not a lot of people that are willing to really lead this. They want to delegate it. They don't want to get their hands dirty. They don't want to have to be on Kaizens. They don't want to have to go out in the shop and do this stuff.

As a result, you don't get anywhere. The book really tries to take a Lean leader through what has to be present for you to be successful and basically break it down into a couple of things. One, you need what I call the management on principles or management musts. Those are things I mentioned before, which are one; you have to see Lean as your strategy.

Two, you have to commit to leading it from the top, and three; you have to understand that it's really all about people. What you're trying to transform is your people. That's the "Toyota respect for people" aspect of things and understanding that all the best ideas for improvement and change, are going to come from the people that are doing the value adding work.

In fact, I always think of whether people could see the organizational structure upside-down instead of...most companies, when you look at the organizational structure, it looks like a pyramid with the CEO at the top, and it cascades down, and the people at the bottom are the people that are adding the value, the workforce, if you will.

Really, you should flip that around, upside-down, and...where the value adding people are at the top and everybody else is below that, and anybody that's below the value adding people, unless they are spending a lot of their time every day contributing to help the value adding people do their work better, then they're

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just a formal waste.

They're just in the way because, what the company delivers to its customers comes through how it does its value adding. If you can start with those management principles, then the next question that's very logical for most CEOs is "Well, gee, I don't know anything about this Lean stuff. What do I have to do? How do I go about this? What do I have to learn?"

I think the approach, there is very straightforward. First of all, it's pretty easy these days to...there's a lot of books on this subject you can read. There are probably companies in your area that you could go visit that are doing Lean already. They can participate on some of their Kaizens and get a feel for it.

Maybe you can have them come and help you run a Kaizen in your operation first and see what that looks like before you commit to this. I think the other key thing for a CEO; they need to learn what I call the Lean fundamentals, if you will. Really, there're only four things there.

There're a zillion different tools in Lean that you're going to pick up as you go along, but I think if you can start with the main four, which is work to takt time, one-piece flow, standard work, and pull systems. If the CEO can grasp those four concepts, and they're pretty easy to understand pretty quickly, and he can just keep driving them into his organization and keep asking the question, "Are we working to takt time?"

"Is everything in a one-piece flow? Have we reduced all the setups? Have we got a pull system working? Can we connect the customer to the shop floor through a pull system? Does everybody do standard work or standardized work, whatever term you want to use?"

If you just keep driving those in, you have a really good chance of being successful. Then, of course, how the leader and the CEO

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goes about his daily work and his daily management, and how he drives this down into the organization is really, really critical. It's something that has to be much more hands-on than sitting in your office and looking at the numbers. Most guys think once they get to be the head of the company, they figure all the value adding occurs in their office.

Art: The reality is it's certainly the opposite of that. No, not a lot of value adding really does occur in that office, and the value adding is going on the shop floor. You'd be surprised at how many people running companies don't have a good idea of how value is added in their own company. They really don't have a good idea of what's possible. Again, if we go back to an example of setup, if you came by one of my companies and you said, "Gee, Art's setting up this punch press in one to two minutes all the time. We take three hours." I say, "Well, I know, Joe. That's correct. That's why we're beating you to death."

You say, well now I understand it. I'm going to go back and tell my guys that they've got to set this punch...our punch presses up in one to two minutes. You go back and say hey, I just went over to CR, and now I want you to set them up in one to two minutes. That's it that's my order. What do you think is going to happen? Nothing, right?

First of all, they...they're going to look at you like you're an idiot. Secondly, they're going to give you a long list of why this is absolutely impossible to do. They've been doing their setups for years and years and years, and they can't get any better than this. You don't know how to do the setup. You're the CEO. You've never done one before.

Now you're stuck, right? You went and saw somebody doing these setups in this timeframe, and you can get the idea that, "Gee, if they can do that, they might be able to beat me to death

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over time. I better get there." But when you go home, and everybody resists it, what are you going to do?

That's where the leadership comes in. The leader has to figure that out. The leader has to work towards making those things happen. The nice thing is it's really fun to do that. I remember when I first went to Wiremold and we had a bunch of rolling mills with some of the equipment that we had, and these are really long machines, rolling steel into shapes, and then we had one.

I said, well, how long does it take to change that over? They said 14 hours. I said oh, that's no good. We've got to get that under 10 minutes. Of course, they all looked at me like...who is this guy?

Joe: Yes, where'd he come from?

Art: Why did we get him as the CEO? We don't need...get him out of here. But I said no, no, come on. I'll help show you. We ran some Kaizens, and we did some experiments, and we had to alter the machine a bit, and it took us a while. It took us a bunch of Kaizens and, as I said, quite a bit of alterations, but a number of months later, we were changing that machine in six minutes. Now, all of a sudden, you've got some real believers. They went from "what are you, nuts?" To "wow, this is really good." Then, of course, about oh I don't know, a year or two after we were doing it in six minutes; somebody runs in one day, and they've got a metal magazine.

It's talking about some automotive company, an automotive parts supplier; I guess it was that had the exact same rolling mill that we had. They were bragging in this article for four pages about how they had figured out how to reduce the setup time down to six hours from 14 hours and wow, what a miracle. My guys are saying, "But Art, we do it in six minutes?" I just said that's right. Be quiet. Don't tell anybody.

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Art: But the leadership is critical here, and so the book tries to focus on a step by step approach to what does the leader have to do? How does he have to be involved? How does he introduce Kaizen? How does he train people? How does he get teams started? How do you organize to do this? As I said before, you can't just drop Lean on top of a batch organizational structure and think you're going to be successful. You're going to have to change your structure. If you change to a value stream type of organization early on, you have a much higher chance of being successful.

Joe: When you change like that, to a value stream, is there a step by step way of doing it, or do you just have to kind of take the leap and do it?

Art: There are lots of leaps of faith in going from batch to Lean and lots of leaps of faith on the part of the leader, because you're trying to get massively better, and that means you're going to stumble. You're going to fall a number of times. But I always go back to what one of my original Kaizen Senseis, a Mr. Nakou, from Shinjijitsu, just as a background thing, when I was a group executive at Danaher corporation, we were the first company in the United States and, in fact, the only company in the United States for four years to utilize Shinjijitsu.

Shinjijitsu, for those people that don't know, is a consulting firm out of Japan, and the founders of Shinjijitsu, there were four of them, all worked directly for Taichi Ono for most of their careers, implementing Lean, and they mostly spend their focus on Lean and the Toyota supplier companies and in the Toyota companies other than Toyota automotive itself.

But these were the original guys. These were the guys who did this. But Mr. Nakou used to tell me all the time, he'd say "Byrne-san, if you don't try something, no knowledge will visit

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you." I always thought that was a great statement, because if you think of it, it's really true. But that means you have to take a lot of leaps of faith. You've got to try something. You've got to give it a shot, see what happens.

It doesn't always work. You're going to fail some. But if you don't allow that to happen, if you don't even want to try, then obviously, you can't get very far. The CEO driving it and being the guy taking the leaps of faith and trying these things is very, very important. I try and layout for the CEO what, as I said, what they have to know, how they go about it, how they implement it, how do you switch to a value stream organization.

We switched to a value stream organization at Wiremold before we ever did the first Kaizen. It wasn't fully implemented. We just took the people, and we announced it, et cetera, and the machinery, of course, was still spread all over the place in the traditional batch way. A department is doing stamping, a department doing painting, all that kind of stuff.

The value stream leader, we were eventually going to give him all the equipment to make his product family complete. We didn't...there were no excuses. You couldn't say, well, this guy didn't get me this part because you had all the equipment yourself. You didn't have any more excuses.

As you go along, there are lots of things that happen that you just have to say, "Well, no, this is the way we're going to go." I remember when I went to Wiremold; we had a lot of punch presses; a lot of punch press dyes. We made our own dyes. We had a big tool room. I said OK, we've got to bring the setups down and all of these...all this equipment, so I want you to go to a standard shut height for all the dyes.

If you need two standard shut heights, one for the smaller ones and one for the big, progressive dies, that's OK, but no more than that. The guy who was running the tool room in the maintenance

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shop, who had been around for a long time and was a really good guy, he looked at me and he says but Art, you can't do that.

I looked at him, and I said, "Well, why not, John?" He said, "Because we have 1,600 punch press dies. It's going to take forever."

Art: My response was, "Well gee; that's a lot. You know we ought to get started because we're doing it." Sure enough, it took us two or three years of altering every one of these dyes to get to what we needed to be, but after that, machines that used to change over three times a week, we were changing 20, 30 times a day. We had a great example once that we presented an AME meeting way back when where we had taken one punch press setup, it was a progressive dye, coil change and everything; it was three hours and ten minutes when we started and we got it down to one minute. Things like that, when you challenge someone to do something like that, and they at first say "you're an idiot." But when they achieve one minute, they feel pretty good about that.

It's a really wonderful thing to watch, but without the leader pushing it, and without the leader insisting on it, it will never happen. All the excuses will overwhelm it, and you will stay at three hours.

Joe: What I feel is interesting when you're talking about these leaps of faith, these things you are talking about are all just small, little changes because you're out where the value is being created, it's not this leap of faith up in the corporate office it's on the floor.

Art: That's right. That's right; it's knowing what's possible, being out on the floor, understanding what you can do, et cetera. You've got to fight what I call the company lore or the industry

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lore that exists in almost any business. I'll give you an interesting example of that. Years ago, I was on the board of directors of a company making jewelry, in this case making mostly rings. They were using gold and precious stones and all that, but it was kind of middle-market rings sold to JC Penny and Montgomery Ward's, and Sears, that kind of level of rings. But the process of making the rings was the same as the whole industry.

Of course like any industry, there's a certain sense of what you can and can't do. They said, "Would you come down; you're on the board. Can you come down and take a look?" I said, "Yeah." I got down there. It was in Miami, North Miami Beach. I said...first question was, "Well. How long does it take you to make a ring?" They said, "Eight weeks." I said, "You're kidding?"

Art: They said, "No, no, no. It takes eight weeks. We'll show you." They take you out in the shop, and the way they were doing it; I believed them. It took them eight weeks all the time.

Art: Then when they told me that was the industry standard. That's exactly what it takes. For some reason or other after that, I ran into three or four different companies making rings like that. Every one of them, I said, "How long does it take you to make a ring?" They seriously all told me, "Eight weeks." They said, "What do you think?" I said, "Two days. We're doing this in two days," and we did. I set up a little cell; we could do this in two days. We could do everything right in the cell. Before in eight weeks, they would finish the rings, put them in a room. They went to a separate department to ship and all that stuff. We set up shipping and everything right at the end of the cell.

Anything that you sent me today I could wax it up tonight and cast it. Tomorrow morning I could finish it and send it to you the next day. It was a two-day lead time. It changed the whole nature of the business really.

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If you think about how most companies go about things, if they had an opening for a VP of operations, and they put a spec sheet out to a headhunter; one of the things on the spec sheet would be, "We want somebody with industry knowledge." When that industry knowledge came in, they would understand already that it takes eight weeks to make a ring.

Art: There wouldn't be any pressure to change to two days, or to one week or two weeks, or anything like that. It would be, "Oh, well; eight weeks is a given. Every place I've ever been it's eight weeks, so we're not going to touch that." That's exactly what I'm talking about in this book. That's your value adding, how you make them and what you do is your value adding. If you're not willing to change the value adding, if you're taking the value adding or the eight weeks, if you will, for granted, how are you going to get any better?

If there's nobody at the top position of the company trying to change that or trying to improve it, then you're just going to keep going sideways really. It doesn't mean that companies that do things in a batch can't do them well; they can; they can be successful; they can make a lot of money. It's just that if they have a competitor who switches from that batch model to a Lean model, over time they're going to eat your lunch and if you don't respond you're going to be in trouble.

You might not see it right away. It might take a number of years. But over time, if you're still changing over in three hours and I can do it in one minute, I've got you, and I'm going to win.

Joe: Does a Lean guy, when he walks in somewhere, just see things differently?

Art: Absolutely. I'm in the private-equity business now; we're always looking for companies to buy, et cetera, and we bought 21

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companies when I was at Wiremold. To me, one of the most important aspects of looking at a company was to go physically see it. You could understand what you were going to see beforehand by looking at the balance sheet. Because if the balance sheet, for example, showed you that inventory was bigger in dollars than accounts receivable and that inventory turns were only two or three times, you could almost predict exactly what you were going to see when you went to the shop floor. You could understand in advance what you were going to see and then you'd go see it.

By walking around, a guy with a Lean set of eyes is going to see a lot of things way different than almost everybody else. Lean gives you a tremendous advantage in acquisitions as a result of that, because you can get your cash back so much faster, because you know what you can do to inventory turns, you know how much space you can reduce, you know how much productivity you can get in a very short period of time.

As a result, you have a big advantage. A lot of the companies that we bought at Wiremold, we got it down to where we were getting all of our cash back within about three years. Then, from that point on, those companies were generating cash that we could use to go buy something else.

In answer to your question, yeah, a guy with good Lean experience walking in, looking at a company, is going to see something totally different than what most people see. It's a huge advantage.

Joe: When you go into a company and look at that and start working with a company, the shop floor is not the tough people to change are they? They've kind of known it all along what they needed to do, right?

Art: You're right. That's very, very true. That's really interesting. I'll tell you a funny story, back in by Danaher days, we were

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converting our own companies and working with Shingijutsu, and we couldn't get Shingijutsu to move off the first two companies because they said...we had 13 companies and they started working with only two of them. When we wanted them to move to the others, they said, "No." They said no because they said, "These are still so bad that we'd like to get these improved to some level before we do anything else." In order to do stuff on the other companies, we created something called the President's Kaizen. We went and did Kaizen ourselves in these companies. It was really interesting because we basically ordered all the Danaher presidents, at that time there were only 13 companies in Danaher was much smaller than, and the VPs of Operations to go to one of our factories and spend three days doing a Kaizen.

You'd go in, and at first, the workforce would say, "Wow. We're impressed that Danaher would send all of its presidents here. But, gee, we've been working here for 20 years. In three days, you're not going to do anything. We'd just as soon you'd go away."

We'd start doing Kaizen. The first late morning or early afternoon, we were moving equipment around the shop, and we were doing all these things. At the end of three days, the reaction from the same workforce that didn't want us there in the first place was, "Hey, you guys have gotten more done in three days then we've gotten done in the last five years. Couldn't you stick around for a couple more days?" Or, the other reaction you get from them all the time was, "Hey; you're not going to go away and leave us with 'them' are you?"

What they meant by that was, "We have been telling management all the things that we just did over the past three days, the improvements that you made, we've been telling them about this for a long time, but they never listened. You guys came rolling in here, and in three days, you did all the stuff that we wanted to do." The value adding people, they know what can

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be done. The resistance to implementing Lean almost never comes from them.

The first real Lean thing we did in Danaher was at Jacob's Engine Brake. That was a UAW location. We never had any problems with that at all because we treated them all like people. We didn't treat them like they were the UAW. We just said, "We're going to get together, and we're going to do this." It was no problem. We had IBEW at Wiremold. It wasn't a problem.

It's really understanding that the resistance you're going to get is going to come mostly from middle management, occasionally from senior management, and heavily from finance. The finance guys are very resistant to this because they're in charge of what I call the anti-Lean. They're very protective of the anti-Lean because they've been doing it that same way for a long time.

The anti-Lean, in this case, is standard cost accounting because standard cost accounting incentivizes all the things you're trying to get rid of with Lean. If you think about inventory, I call inventory the root of all evil because it hides the waste that you're trying to get rid of. Standard cost accounting systems incentivize people to build inventory, to get absorption hours, to make the month look pretty good.

You're just pushing stuff off into the future, et cetera. But, that system incentivizes all the wrong behavior. You're finance guys, are very, very hard to move off of that kind of system. But if they win, if the CEO doesn't overcome that and the finance guys win; you won't get too far with your Lean implementation. You won't make the gains that you ought to.

Joe: I think that's a huge thing that you have to get over there, because the measurements in traditional numbers just don't speak.

Art: They don't make any sense, and yet, people cling to them

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because that's what they've always done. I understand that. That's human nature. It's a normal thing. That's where the leadership has to come in, right? Then when you look at the Lean approach here, for other kind of companies, other than manufacturing, the opportunities and the gains in non-manufacturing companies, in my opinion, are way bigger than in manufacturing. Because in manufacturing people have at least been trying to get productivity and do all these things for a long time. They might not have been using the Lean approach, but they've been trying other things for a long, long time.

Whereas in service companies, banks, insurance companies, hospitals, that stuff...they haven't been doing that. Their processes are things that are done on somebody's desk. Unlike manufacturing where you can go out and physically see the process, it's hard to see the process in some of these other kinds of companies. Therefore, the waste that's in there is enormous, absolutely enormous.

I've done a number of Kaizens in hospitals. The opportunities in hospitals are frightening, actually. They're exciting, and I'm really happy to see a number of the hospitals in the country are implementing and really driving down the Lean path right now. There are several great examples, one of which, we got started way back 10 years ago, was Virginia Mason Medical Center out in Seattle.

One of their first Lean visits was they took 30 of their senior management and seniors doctors from Seattle, Washington to Wiremold to see what we were doing in Lean, pretty impressive, really, that a hospital would do that. We basically said, "Hey look, we do the same thing that you do. We start out with our raw material as a piece of steel or plastic and we run it through a series of processes where we punch holes in it, we add stuff to it, we put it in a box, and we sell it to someone."

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You start with a human body, and you run through a process where you punch holes in it, you attach stuff to it; you're not allowed to put it in a box, you have to put it in a car."

Art: "But it's the same thing." I was very impressed that those guys were able to see that, understand it. They went from Wiremold to see Toyota in Japan, and they've been on a Lean journey for 10 years now. As far as I know, I think they're probably the leader in Lean implementation in the hospital field. But they certainly proved that's possible. ThedaCare is another one out in Appleton, Wisconsin that's done a great job with this. It's nice to see this can be done, and other people are doing it in other industries. But boy, the opportunity for this applied to other businesses is absolutely enormous, and no one really talks about it, because we call it Lean manufacturing, unfortunately.

Joe: I think so. I think one of the things that...I see it's driven in Lean services now; you see more of a Lean design. Lean is tough for a lot of people to get their hands-on outside because it still has that waste connotation to it.

Art: Yeah, but that's what you're trying to do. Let's just take a hospital for example. A hospital is what I would call a...almost all hospitals are what you would call a silo organization, everything's a silo. If you broke your leg or something and you went into the hospital, you're going to go through about 10 or 11 different silos; the emergency room silo, the admissions silo, the nurse silo, the x-ray silo, the blood lab silo, on and on and on. All those silos have to somehow relate and work with each other and communicate with each other well for you to get the care that you need to get.

Because when hospitals don't communicate well, silo to silo, you can die. They can make a big mistake, give you the wrong medication or something like that. The opportunities in those

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pieces, though, are enormous and the Kaizens I've done in hospitals, you start out with the first day and you got the team together and you've got really great people there, a lot of department heads and they're all dedicated to what they do.

It's really fun to do Kaizen in hospitals because the people are so good. You say, "OK. You want me to work on this. What's the biggest problem you have?" Almost 100 percent of the time they all say, "It's the doctors." I say, "Oh, really? What's the problem with the doctors?" "Well, they're arrogant, and they don't do this and they do that," and there's a whole list of stuff about the doctors.

I say, "Well look, this hospital," and the one that I was doing the stuff in was about a 5,000-employee hospital, inner-city hospital. I said, "Look, we've got 5,000 people who work here, 500 of them are doctors. We're going to work on what the other 4,500 do."

I said, "If we improve what the other 4,500 are doing, make things flow and make things better; I can guarantee you we can get the doctors to come along and do what they need to do." That was always proven true; always you could get that to happen. But no one thought of it that way.

They thought of it backward. "It's the doctors. It's not our processes and the way we do everything is such a mess. We'll just blame it on the doctors." But it's never the doctors. It's the processes.

I always like to tell people, "Look, you have to focus on your processes, not your results. If you want to get results, focus on the processes." Most people do it backward; they look at last month's numbers, make the month, and they try to improve the numbers.

They're looking backward. As a result, you wind up with a lot of

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companies that have a terrible month or a terrible quarter in operations, but they try to offset that with a great month in accounting. You do that enough times over a bunch of years and you wind up with guys like Enron and WorldCom and HealthSouth or whatever it was that guy Scruschy ran. All those guys are in jail...

Art: ...because the great month in accounting caught up with them.

Joe: I think that's an interesting perspective on that one. I wanted to make sure I got this in; The Lean Turnaround was probably the best business book that I've read on Lean. It tied business to Lean as well as any book that I've read. I wanted to at least complement you on that while I had you.

Art: Well, I appreciate that, but I think that's always the way you should look at this. Lean, as I said, is the best strategic thing, best strategic weapon you could ever have. I'll tell you an interesting story because this is a little piece of, it's a little Lean history in the United States. Back when we first started working with Shingijutsu at Danaher and Jake Brake. I was the group executive and the guy that ran Jake Brake was a guy named George Koenigsaecker. Koenigsaecker's a very bright strategic-thinking guy and a really good Lean guy as well. We were having lunch with Mr. Iwata one day. Iwata was the head of Shingijutsu.

Both of us said, "Wow, Mr. Iwata, this Lean, this Toyota production system," it wasn't called Lean for another 10, 12 years. But that was the... "This Toyota production system is fantastic. As far as we're concerned, this is the most incredible strategic weapon we have ever seen in our lives. Why would Toyota allow you guys to come out and teach other people how to do this stuff? It's such a strategic weapon."

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Iwata looked at us, and he just started laughing. He said, "Look, I can tell you about Lean," at the time was called Just-In-Time. "I can tell you about Lean. I can show you Lean. But I bet you can't go home and do it." That to me has always been true. He was right on the money then, and he's still right on the money now. That's why we haven't had a lot of great successes in this.

A lot of companies are trying Lean or dabbling in it a little bit, but the number that are successful and made a conversion I think is quite small still. That's all I was trying to address with this book is, "Hey, it doesn't have to be that way." If you look at this as something that can really help you improve your business, if you can understand how strategic it is, and if you can understand your role as the leader, and what you have to do to make it happen, then you have a shot at this.

If you reject either of those two things, then you have no shot. You might as well keep doing what you're doing, because all you're going to do is get your people upset, and mess around with something, you're not really committed to.

Joe: Well, I can go on because I've enjoyed listening to you very much, but we have to end at some time. I would like to thank you very much for the time Art. I look forward to seeing your book get passed around; it's well worth it.

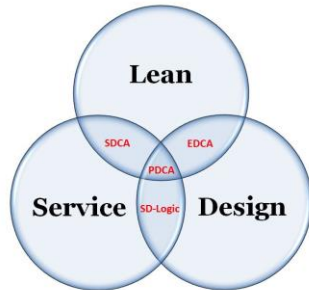
Art: OK, well thank you very much Joe. I appreciate that and thanks for having me on.

Joe: This podcast will be available in the Business901 iTunes Store and also the Business901 blog sites. Thanks again.

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