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Implementing Lean Marketing Systems

Podcast Transcription

Lessons from Escaping the Improvement Trap

Guest was Michael Bremer, co-author of Escape the Improvement Trap

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Michael Bremer is President of The Cumberland Group – Chicago, an Adjunct Senior Engagement Manager for Motorola University, and lecturer for the University of Chicago and Loyola University. He has over 25 years' experience including director of the information systems group for a Fortune 25 company, former Chief Financial Officer for the Association of Manufacturing Excellence and President of several new business start-ups. He was responsible for creating a global based continuous improvement process for a conglomerate that owned more than 400 separate profit centers. This was one of the models used to establish the Baldrige Quality Award criteria. Michael initially studied quality improvement with Dr. Deming and Dr. Juran in the early 1980s.

Michael is an executive with broad domestic and international industry experience in business process redesign, Six-Sigma, Kaizen/Lean methods, post-ERP business process performance improvement (financial and operational), project team development, lean accounting and continuous improvement. Michael has co-authored the following books:

Escape the Improvement Trap: Five Ingredients Missing in Most Improvement Recipes

The Six Sigma Black Belt Handbook (Six SIGMA Operational Methods)

Six Sigma Financial Tracking and Reporting: Measuring Project Performance and P&L Impact (Six SIGMA Operational Methods)

Joe Dager: Welcome everyone. This is Joe Dager, the host of the Business 901 podcast. With me today is Michael Bremer, the co-author of Escape the Improvement Trap. Michael. as we talked before the podcast, it's something that isn't rocket science. It's kind of straight forward. We'll touch upon that, but would you tell me about what you're up to and what you do first.

Michael Bremer: We, I have one partner, have a consulting company since the early 90s. In many ways, it's like my second marriage. We can finish one another's sentences. In our consulting world we, of course, work with organizations on performance improvement and process improvement. Then, a year and a half ago some friends in Canada approached us, and the other thing that we are now doing is we run a consortium of half a dozen manufacturing companies and the title of that group is the Chicago Land Lean Enterprise Consortium.

Those companies meet on a monthly basis. The whole idea of that particular group is it's pretty common for leaders to get together and exchange ideas, but what we're doing with these groups is pushing down inside of the organizations, so the first nine supervisors go visit the first nine supervisors in the other organizations.

Everybody does a much better job of getting in touch with reality and learning back in their home company. That has been positive and energizing for everybody, including Brian and me.

Joe: You're not a novice to book writing. You've written a couple other books, haven't you?

Michael: Well, I've written three books. I don't know if this is fair to say, but the first two books, I was a co-author on all of them. When I was finished writing the book, I learned so much in doing the writing that I really would have like to have written a different book based on what I had just learned. This third book is the first one that I wrote that we've been frustrated with the subject for so long that we thought a lot about it before we wrote it. When I was finished writing this book, I'm actually, I'm very proud of what we wrote.

I mean, I think we did the best job we could of writing on this subject. It will be interesting to see what the readers think about it. But, on this one I think we really captured the message that we wanted to bring out to the marketplace.

Joe: When I look at it, is it a lean book? Is it a Six Sigma book? Is it a TQM book? I mean, is there a basis for it or you tell me, what is it?

Michael: Well, I started doing this type of work with Dr. Deming and Dr. Juran. I worked for a Fortune 30 company that no longer exists, but it's not my fault. That was Beatrice Foods. I wish I could go back and spend time with Deming and Juran again because I know so much more; I could learn so much more from those guys now.

You couldn't mention a continuous improvement programs that we've not done in the last 30 years. We've done them all. And so, we're not focused on a particular methodology. Of course, the popular ones today are Lean and Six Sigma or the Toyota Production System, if we want to call Lean that.

But, when you look at the basic concepts of anything that's come and gone over the last 30 years, they're very similar, and most of them have their roots in traditional industrial engineering techniques.

My frustration and that's why it's not focused on the methodology, are organizations doing these things. They implement; they do get better, but their competitive position doesn't change. This new book is not so much methodology focused; it just tells a story of why didn't my competitive position change even though I got better?

Joe: I thought that was a great statement that I read in the thing because everybody's trying to get better. You have to somehow kind of leapfrog people, don't you?

Michael: Well, you really do. It's hard because when you're inside the organization, you look at how much better you are today versus how you operated 10 years ago, and you think well, wow, we are so much better than we used to be. You take pride in that. What people fail to realize is that, in all likelihood, your competitors are doing exactly the same thing. Here's the world's, the most simple assessment that anybody can do to tell us they're probably average is put your company's name at the top of the sheet of paper and then write down a half a dozen things that you're doing to improve inside your organization.

After you've done that, go back to the top of the paper and erase your company's name and insert the name of your toughest competitor. Now, you look at your list again and in all likelihood; your competitor created a very similar list.

My experience when I did this with groups is the vast majority of times people say yes, my competitors are doing this. So, you're getting better. The competitors are getting better. As an end result, not too many changes from a competitor's perspective but the customer benefits. The customer benefits because the industry got better. But, your competitive position as a business entity does not change.

Joe: I think you make a valid point. People don't know how similar they appear to be. If you go to a competitor's website and your own website, and just change names, or you print five website's home page out to people a lot of times, and take the heading and garbage off of it and lay it down there; some people can't distinguish their website from two or three others.

Michael: Well, I think that's absolutely true. We all want to think that we're different, and we all are different, but probably not quite as unique as we'd like to feel. At the end of the day, people are people, and people tend to go about doing these things in a very similar way. Now, every once in a while you get somebody that's truly unique. I mean, Toyota, until they had the problems the last couple of years, were certainly one of the best improvement entities of anybody in the world.

I mean, their process for going about the business of improvement is still very good. They actually got away from that a little bit the last couple years. I think now they're trying to restore it. But, for the most part, people go about doing things the way everybody else is. Or very often, even with benchmarking, you go out, and you see how somebody else is doing it and then you come back and try to do it like they're doing it which is good because you learn from it, but it doesn't cause you to be a whole lot different.

Joe: Well, you started out with something that I just thoroughly believe in and one of these things that really just caught my eye, it just jumped out at me. Whether you call it customer focus or customer value, it's your value proposition in your customer eyes that have to drive your improvement to make a difference. That says a lot.

Michael: Well, it does, yet it's funny when you, let's just talk about Lean, the Toyota Production System which is a very powerful improvement methodology. Most people, when they're doing an improvement project, they'll do a value stream map or process map. They certainly look at the steps that add value from the customer's eyes for that particular process. And, they'll go back, and they'll try to eliminate the waste.

But, how often do you do that for the overall business? What are we doing with the business? I mean; most people focus with the staff on a project by project basis, not really what's the best thing we can do for creating value.

Let me share just a mythical story. I was not here for these conversations, but here are two stories about creating value. There's this company in Asia, and somebody comes up with the idea that wow, look at what these baby boomers are doing. They're buying a lot of new, hot cars. We really don't have any cars like that. Maybe we should do some kind of car that the baby boomers want to buy. They're talking about it, and they decide, they're going to do that.

Somebody else in this company says well; you know, the way that people buy cars really, it's an ugly process. People just don't like buying on the car dealer and coming in and doing all those negotiations.

While we're doing this new car thing, let's create a whole new buyer experience. We're not going to do this through our existing distribution chain. We're going to create an entire new chain to do this. Lo and behold, you have Lexus. They completely redefined the customer buying experience.

Now, there's a competitor of Lexus that's in Detroit, and they see what Toyota's doing and they say, "Well, wow look at those guys. They did this new luxury car thing. Maybe we should do a luxury car thing in our business." Somebody else says, "Oh, my God. No, we can't do that because that would hurt Cadillac if we do that.

So they're quiet for a little bit. Then somebody says, "Well, we're pretty bad at doing small cars, let's do this to small cars, and we'll create this whole new customer buying experience with small cars." With all due respect, to the people at Saturn who busted their butts to try to do the right job, the strategy is doomed from the start. And why is that?

Well, what do the margins look like on a luxury car? I mean; they're like a foot high. You make a lot of money if you're selling a luxury car. If you're selling a small car, the margins are in the pennies. You're looking at pennies on the car. The strategy is doomed. Now, let's go back and talk about what are we trying to do to improve the business?

Well, if I'm focused on the right value, what it is that we were doing, and the organization can make money on it; we're... I can think have improvement projects that are going to relate and will do well. Whereas if you've got a value proposition there, the probability of its working is so low, you can't improve it enough.

Most people they don't link their improvement projects to that value proposition. We find things to improve, but it's not really driven by a strategic perspective for the customers. Long answer but that's how you think about it.

Joe: Well, to summarize that a little bit. You're saying that... really defining your value proposition, not only within product markets, but as an overall business strategy is important.

Michael: It has to start with that. How do you usually structure an improvement effort? Somebody decides they're going to do Six Sigma, or they're going to do Lean. What they do is they appoint some bright person to be in charge to the improvement initiative and that person then goes and launches a series of improvement projects t try to improve stuff and to make things better to eliminate waste, which is good. Meanwhile, you have the people that are running the business that have a dialogue about what's the strategy for the organization, what is it that we need to be doing new, next year. That's usually unlinked to what's happening on the improvement side. I've got the leaders of the business having this great strategic dialogue. I've got the improvement people finding things to improve and those two things are only loosely connected in an average organization.

Let me define average. Average is what most organizations end up being because it's a mathematical fact. Most of us are average. We can't all be in the top 20%.

Joe: I always remembered this survey one time when people rated themselves of where they were or something like that. And it was really funny because 70%, 80%, 90%, I

forget the number anymore but over 70% - 80% of the people rated themselves above average. There's a problem here. We can't all be above average.

Michael: We can't. and I think that goes back to the thing we were talking about earlier of that perception we have of ourselves and how much better we've become than we used to be. We just have to believe that well, obviously we did this better than everybody else. When you look at it as an industry as a whole, you start to see some different things. I think that that's really what we're stressing, is you really need to look at improvement through the eyes of what's happening within the marketplace.

Joe: Well, how do you do that? How do you know that you're not average? How do you determine that? Do you touch upon that in the improvement trap?

Michael: Well, if you're working on the right things, you're improving your market share. If you're not improving market share, you're not improving the right things. It's very simple. You're improving your market share, and your profits are going up, if those two things are not happening you're not improving the right things. It doesn't mean that you're not getting better, but you're not improving yourself that makes a difference in your competitive market space.

Joe: So, you're really looking at market share as a good indicator.

Michael: I think market share and profitability are the... those are the two most important things that an improvement should be making happen. Let's just go back to Toyota, which for so many years was a classic improvement machine. At Toyota for years and years as they got better and better at manufacturing small cars into the early 1970s,

they really knocked out the domestic U. S. manufacturers from the small car market, as they took more and more market share over the years.

As they did that, they refined their quality systems. So that their processes were so stable that they could, at a much lower cost than anybody in the U.S. was doing at the time, manufacture a small car. Now, once they had that solid quality base, and they have a market locked then they were able to start moving up the food chain and do the higher margin products like Lexus.

If you look at market share and you look at profitability and then I look at the things that... that drives a certain type of project that it is that I should be improving. Whereas the safe thing to do, inside of the business is for me to go find some things where there's a lot of waste that we can see if I'm a manufacturing plant, on the factory floor. If I'm a bank, I can go look at what it is that we're doing with the tellers or the operations in the back of the bank and find those things to improve.

But the people that you're involved with, shepherding the improvement process, rarely do those people have the opportunity to influence what's going on from a strategic perspective. Cisco Corporation in the U.S. would probably be one of the few exceptions, where they'd put such a senior person in charge of their improvement activities. That person had access to chambers, as they were talking about making changes at Cisco, that they truly did go hand in hand with what their business strategy needed to be and what are the things that are just we need to be improving in terms of making the customers' experience better.

Joe: I think the book offers a nice procedure to look at whether you're improving or not. Can we just start here and you tell me what the improvement trap is?

Michael: We touched earlier on part of the improvement trap with the way that organizations structure the improvement initiative by putting a person in charge of it, rather than an improvement being driven by the executive team. Let's go to the other part. There are five ingredients that we did... we got a lot of research in this over the last three years. The funny thing about those ingredients is they're not unique. All organizations do these things to a degree. But there's a major difference in terms of the effectiveness between and average organization and an organization that's in the top 20 percent of its industry in terms of improvement effectiveness. We call those companies level four and five.

So, what are the five ingredients? The first is customer value. If the organization really doesn't know crisply why their customers are buying from them, what is it they want to buy, the example we discussed previously was the Lexus versus the Saturn division where it got a high margin product that customers really care about. Whereas I've got another product that people care about, but we can't make money on it because the margins are too small given the nature of the product.

If I don't have a value proposition clear, then nothing else can be in alignment. I can't be improving the right things inside my business, because what happens inside is, Joe, you've got one definition of value, for your piece of the business, I've got a slightly different perspective of what value is because we haven't really agreed on. When we go back to our

functions, what we do is we work to optimize our view of value rather than something across the enterprise.

Joe: Is that usually when you ask that question about what a customer values it's not necessarily answered internally the same.

Michael: I would say that it usually is answered internally. We're not usually going out and talking to the customers to get a good understanding of what's the value that they perceive from regarding what it is that we're doing. The classic thing is where we go back to the features and functions of the product that we're selling rather than how is this product helping the customer to solve their problems, and selling it from that perspective.

Joe: I just want to touch one more thing on that before I leave to go to step two. It always seems that most of these improvement efforts, even though they talk about voice of customer, value to the customer, value stream mapping, getting rid of the waste and delivering only what the customer wants. Most of these continuous improvement efforts always seem to get internalized very quickly. That seems to be a huge problem in sustaining improvement effort. The person that drives the improvement effort is the customer and market share.

Michael: Should be. But I think, a lot of this falls back to the pathway of least resistance. The easiest thing for me to do is what's staring me in the face today; what it is that I know. The easiest thing to do, in terms of improvement, is to go inside the business and find what people like to refer to as 'the low hanging fruit, ' because we all have it. So, I go inside, and I find all of this low hanging fruit, and I feel really good, because, from an

activities standpoint, we're making things better. The problem is; from an engine growth in creating more value for my customers; I'm not really being driven by what it is that I want to do there.

So, that's why we end up getting better, but not that much change. The neat thing is; your competitors probably going about doing this in exactly the same way, so you're not losing ground. You're staying even. You're not losing ground, because everybody else is going about it in a very similar fashion.

Joe: I'm not way off base in my thinking, there, am I? That's a key part of the improvement trap is that you do have to determine your customer's value proposition.

Michael: It's the most important thing, yet, again, we're not the first people to talk about this. There are tons of books that have been written about the facts of strategic planning and what the customer wants. But again, back to the path of least resistance, think about what it is that they want. Let's just take Motorola, for example. Motorola is a company that is full of absolutely, brilliant people, and every once in a while, Motorola has a hit.

There most recent hit was the Razor phone. They may have a new hit with the Droid that they've just come out with. It's too early to tell. But there last hit; the Razor phone, what did they do with it? Did they really look at where the market was going and the changes that were starting to take place in the cell phone market, and get ready for the next generation? No.

What they did is; they came up with Razor phone 2, the Razor phone 3. They kept doing reiterations of the existing product, rather than going back and redefining, and changing

what it is they need to be doing. It's an organization that's done that many times in its history. They rode the analog phones into the ground when they were the leader in the cell phone market, before they changed to digital.

They had the Razor phone that was... I have one. It was a great fashion thing. But they looked inside then. They were making money on it. They ride it to the ground. And then, it's a disaster. They go back and look for another hit, because they've got all these smart people. They seem to produce another one. Hopefully, this time, they'll be better with the Droid. It's close to an Apple, which, as soon as it gets a new product out, it begins cannibalizing that product right away.

Apple doesn't, so much, talk to their customers about what the customers want, because who knew we wanted an iPhone? But Apple does a much better job of anticipating what it is the customers need. They certainly do a lot of research, trying to understand that.

Joe: I can't speak for them, by any means, because they do seem to come out with a hit, after hit, after hit, which is amazing.

Michael: It is. They ran into a little bit of a problem with their iPad. And they actually ran into some process problems; some quality problems with the iPhone, which was surprising for their organization. But, like Toyota, it looks like they're trying to recover from the errors of their ways, pretty quickly, and right the ship.

Joe: What's step two in this whole process?

Michael: If understanding what value is the most important one, the next most important thing you need to do is you need to engage the people inside your organization. Most organizations say that people are the most important asset. But if you go down to a department level and you say, well show me inside your organization what you're using to measure the development of your people, you don't usually see much. One of my favorite quotes and we use this in the book, comes from Peter Drucker. Drucker says that leadership's most important responsibility is to create an environment where people can do their best work. What a powerful statement. If you think about it if leaders created an environment where the people that were working within the organization could do the best job possible, the organization would have to be a winner.

Whereas, what typically happens. You've got an idea of something radically different that your boss should be doing, or the organization should be doing. And so you're going to go to your boss and say, hey, Mary, I think we need to be doing this thing differently. And when I've asked people, "How many people think there boss would be receptive to that idea?" the response is, most people roll their eyes and say my boss doesn't really want to hear that. Because they're busy trying to do what it is they need to do right now, and they don't want to radically look at doing something in a different way.

Well, if you look at most surveys by the large organizations like Wyatt, Neilson, any organization that does people surveys, what they'll show is less than 30% of the people are highly engaged in the work that it is that they do. If you can't engage your people in what it is you're trying to do, again, you're not going to be in the top 20% of your industry in terms of improvement effectiveness.

Joe: You're saying that our people really have to understand that the value that they provide to the organization is...and have really a clear focus on what they need to do to improve that value.

Michael: We'll; they really do. I really like the Jim Collins books "Good to Great" a lot. It's a book that I'll often go back to and read again. When Jim talks about, for people, you've got to make certain that you've got the right people on the bus, but after you've got the right people on the bus, you also need to make certain that they're in the right seats. And in that book "Good to Great" another thing that he points about the people, I think he's using Wells Fargo as an example. He's saying the organization needs to have a clear idea of the value that it's providing to its customers. If you've really got the right people in the right seats, they're going to figure a lot of stuff out on their own. You just need to be able to give them space to be able to do it.

But most organizations there's this idea that the leaders are going to control everything that's going on and, so there is a way more control of that. What the people are try to do, they are trying to do the right thing but, in fact, what they are really doing is restricting people's ability to do the best work possible.

Joe: But you can't just turn the key and do that, can you?

Michael: No, you can't. But you can create an environment. There is a story I heard one time of a guy that was getting some training at Toyota. I think it was Pascal Dennis. And the story that he shared is that he was to be trained as a Toyota person. He was working on the assembly line, and he had this job that he was supposed to do that took about two

minutes to perform. He's doing some insertions on a side body panel of a car. And so his first reaction was: how difficult can this be?

So he is doing this job, he is about four hours into it, and low and behold he scratches a side panel. So then his thought is: oh my goodness, I scratched a side panel, but it's on the bottom so maybe nobody will see it. Can I let this thing go through and maybe I won't get caught? Then I won't get in trouble. I won't be embarrassed.

But his boss had told him that if you have any problems, if anything happens, be sure to notify me. So he pulls on the andon cord, and the boss comes over, sees what's going on, and makes a correction there on the spot. Then what the boss does is sits there and observes how Pascal's going about doing his job for 15, 20 minutes and after observing that calmly points out, well, here are some other ways that you could hold this tool, here's some things it is that you could do.

Now all of this part is normal. I think that could happen in many organizations. But the thing that happened next is pretty powerful. At the end of the day he goes into the locker room and all the other people on his line are coming over and patting him on the back. He's in Japan, so they are talking Japanese. He really doesn't understand what they are saying. After all of the people on his line had come and patted him on the back he looks at his translator and says, "Well, what were these people saying to me?" They were saying, "Thanks."

He said, "Well, why? Am I about to get fired for the mistake I made?" He said, "No, they're thanking you because you showed that that mistake was right there. It did not make its

way to the customer. It didn't make it to the inspection point so that inspection they needed to figure out where this error took place. You showed it right there. We took care of it right at the source."

How many organizations really operate like that? Create an environment where their people can say, "Oh, my gosh, this thing just happened. We need to do something about it and do this in a way that I'm not being blamed that we look at the process for the fix that needs to be made"?

That whole type of environment creates space to truly engage the people. I think in making improvement, they're not being afraid to do it and not being afraid to say if a problem took place. Most organizations aren't quite as open as that.

Joe: Very few of them are, and it's more like... They go a different way, whereas, "Oh, did you see what Charlie did today?"

Michael: Absolutely. They'll laugh about it, but no one's really comfortable going through and addressing the issue. So you allow these things to fester and then you've got problems with the reliability of the processes and there is a bazillion little things going wrong in your organization, and they're impossible to deal with.

Joe: That doesn't even have to happen with a part. It could be just a service-type thing of how a customer was treated. Even a retail store that, gee, that customer walked out a little dissatisfied, and you could walk a clerk through on maybe what wasn't the best procedure in the way they handled it.

Michael: Absolutely. Do it in a way that the person's not being threatened by the advice that it is that they're getting that they're really focused on the process, understanding the process. The thing I loved about Toyota for so long--and I think this is a thing that they got away from--is that when they had process problems, they have always been so good at shining the spotlight on those process problems and swarming it, where we send in a series of people. We designed this process. We thought this process was going to work in a perfect way, and it didn't. Why not? I think what happened at Toyota last summer was they started having some problems. I think they went to General Motors-type thinking, traditional General Motors-type thinking. Maybe they're thinking differently in GM today.

But that, oh, my goodness, here's this problem, but we can get this fixed before this problem gets too big. That's the antithesis of how Toyota has approached this stuff for so many years. It was one of their strengths, and I think they're going back to that. Most organizations don't operate like that.

Joe: Well, really what we get down to is, it's a real active PDCA cycle.

Michael: Absolutely. I mean; it doesn't matter what the problem-solving methodology you use. What's the problem? Observe what it is that's going on. Make some changes. Check to see how the change went. And then we've got to go through this cycle all over again.

Joe: Now, let's move on and go to Step Three. You start talk about metrics. Metrics is a big word now. We all have metrics. We have all this data coming to us. Maybe, it's this

average thing you're talking about, are there key metrics? How do you define the difference?

Michael: Well, first of all let's talk about, what's an average organization doing? Then we'll talk about, what's a more mature organization doing that's doing this effectively? The easiest way to measure performance is--you're in engineering. I'm in sales. We've got a third person that's in operations. We've got a series of metrics that we can use for doing good sales and doing good engineering and doing good operations. I'm responsible for maximizing the performance of my metrics. Unfortunately, we can't all maximize the performance of our metrics and have us working across the organization to serve the customer in harmony. There needs to be a balance of our metrics to serve the customer.

People have been talking about this since Deming talked about it 50 years ago. It's not like this is some newly discovered, brilliant insight. Yet people still continue to measure performance from functional perspectives, not really looking at what's happening at the process going on across the organization. How you move to figuring out what those vital few key metrics are, it goes back to value. What is it they were trying to do from a customer perspective?

What do we believe is the most important things that we need to be doing over the next 12 to 18 months--that's a good time horizon--and how are we going to measure that? Well, if I'm clear on what it is you're trying to do from a value perspective, that's a hypothesis. We think if we do this that good things are going to happen to our organization.

I then need to put some metrics in place that tell me, are we hitting the milestones? Are we progressing the way that we thought we should be? And if we're not, then we need to be going back and making some adjustments. That's a handful of metrics.

There are a couple of things that I should be looking at from a strategic perspective in the tool that people are using today to deploy that. Some people call it Hoshin planning. Some people call it strategy or policy deployment. But to use that tool of, what are the three to five things that are most important to our business?

If you have more things that are important to your business than you have fingers on your right hand, you have too many things. So it's the three to five that are most important for us, and how are we going to measure how well we're doing on that? I deploy that then down inside the organization.

Joe: Do you have any tips on maybe how to get started and to weed out some of them? Or weed out some of the clutter? It goes back to Step One of really defining your value proposition.

Michael: Well, it definitely goes back to step one. If I'm in manufacturing and half of the work that we do is with manufacturing organizations, certainly on the floor, you're going to have safety. You're going to have productivity. You're going to have quality. You're going to have time. You're going to have cost as a metric. That's going to be true in any organization. But let's go back to the value proposition. I'm a big believer of the 80-20 Rule. If you believe that in this instance, typically, 20% of your customers are providing

you 80% of your profits. If that's true that 20% of your customers are 80% of your profits, then the next thing that's true is 50% of your customers are 5% of your profits.

What I should be doing with my metrics is I should have metrics that are focused on those two distinctive customer groups. From a value perspective, I want to make certain that we're focusing on value. The people that like us are that key 20%. Call that the mojo. It's my mojo group. It's where my mojo is. Those people like us. That's where we're making our money.

What can we be doing to create more value for those customers? I'll share a company example in just a second. That other group that 50% that's 5% of the profits--what that group is doing is some of those customers we are losing money on. They're sucking resources. They're sucking the life out of our organization.

Yet, if I go back to my metrics that we talked about, in my functional group, if I quit doing work with this group of people--this group of customers that's in the ugly 50, then you're going to start taking resources from me. I'm going to look bad. So I keep serving these people even though I know they're ugly.

I then distinguish the metrics, so I have the important customer groups to begin with. Now there's a company, Webster Plastics, and what they did is they sold commodity plastic component parts, and they sold some plastic component parts to the medical products industry that required very, very tight, very, very accurate engineering standards on the finished product.

When they did this 80-20 analysis, they found that they were making most of their money on the speciality plastic component parts, and they were losing a lot of money on the commodity products that it was that they were making.

But when the leadership goes back to redefine that value proposition--that we're going to focus on the medical industry, and not only are we going to sell them plastic, but we're going to sell them engineering services where we'll help design the things that they need moving forward in the future--that then makes it easy to figure out what it is I need to be measuring.

If I don't have that value proposition clear, then it's anybody's guess as to what the most important metrics are inside the business. This whole thing is driven by value. If the value is fudgy, then nothing else is good.

Joe: I think so few people really realize that. Sometimes you have to as I call it break it down into product markets because there may be different value metrics assigned to them to understand it within your organization. But they're there.

Michael: Absolutely. You could have several value streams, groups, within the company that is serving distinctive customer groups, and each of those could be its own little 80/20. From the overall executive level, I might look at the mix of those different businesses that we're in and say, "Do we want to continue to be in this business?" But as I go inside each of those distinctive customer group sets, you're going to have a set of metrics like that. I think you need to do what you just said. You need to dig into it. You need to do the detail work to figure out what it is that's going on. Most people do these metric things through

their budgeting process. How does that work? Well, I looked at what we did last year. The sales people look at what they sold last year, and then they say, "Well, how much more can we sell this year?"

Then those numbers come into the accountants, and the accountants look at those numbers. They say, "Well, what were those sales people smoking when they came up with these numbers? They're not going to be able to sell that." The accountants massage the stuff, and they come up now with the budget for the organization. Everybody else lives with that budget, and that drives their metrics. It has nothing to do with really creating value in the marketplace.

Joe: Move on from metrics, and we get to process improvement? We have a tendency to want to jump here anyway, don't we? We want to skip the first three steps a lot of times and get to number four here, the process type improvement. So how do you go about this step and how do you prevent from jumping right to it?

Michael: Well, it's funny. When I talk about it to people about the five ingredients, what I'll say regarding the process one is don't even worry about this process one because this is the hardest one to understand because most people are not process thinkers. If you focus on the value, you focus on creating space for your people to do the best job possible, and if you get your metrics in alignment--if you do a good job in those three things--you're going to become a process thinker. It's really challenging for executives to think across the organization from an overall process perspective.

Whereas the improvement people, absolutely, they do exactly what you said, Joe. They jump into the processes. They're looking for the waste that's in that process. They're trying to make improvements to the process. The problem is the waste inside of our business is almost infinite.

There is an endless pile of stuff that could be better, but there are only a handful of things inside the business that are truly going to make a competitive difference to the organization. If I don't focus on those things, all of this activity that we do to get better is not going to make a change in the overall enterprise.

Joe: We have gone through the first three steps. We understand value. We have our value proposition. We've changed our way of thinking within the organization. We're engaging people. They're coming up with ideas. We're talking, and we've created open communication.

Our metrics has been defined. Here's what our metrics are, and to improve market share we think we need to drive these certain metrics this way to improve market share. Now we go to process thinking and process improvement. Is this tactics? Is this where we enact the strategies?

Michael: Well, all of these--the first three steps--there are certainly tactics involved getting the metrics right. There are tactics that are involved in creating space for other people to become more engaged in the organization. There certainly are tactics and certain where your value is. But the process improvement block is where you pull all of this stuff together. So if my metrics are focused on process performance in how well it is that we're

doing there, then doing a current state map for what does our process look like today? As we typically would do something, we're starting or what do we think that are important improvements for us to make given the value that it is that we're trying to create?

And then you can project. I can do a future value stream map. Or even if I'm not doing that map, I can project what is the future that we want to go to. Now what are the priorities that we want to do? I think you said this. I hadn't thought about it like this but the way you said it is exactly right that people like to jump to the process thing and start doing that right away.

But those other three things that we've been talking about, there's a model that we'll often use of talking about improving effectiveness. It starts with the customer value that you then go in, and you look at the processes. You try to align these processes for creating that value for those customers. You go underneath that process block. What sits underneath that are these things called "support systems."

Support systems are the way we go about planning, the way we measure performance, the way we hold people accountable. There are several things that are under there. The people go through, and they'll try to make changes to the process doing this project approach. But what they don't do is go in then and change the underlying support systems to sustain the new way it is they're trying to operate.

Then what ends up happening is within two years 70% of the improvement that you had proven you could do when you did your pilot test of the project has evaporated over the next couple of years.

The reason that is because I haven't gone in to align those support systems--the way we're measuring performance. The value fits with what it is that our plan we're trying to accomplish, the engaging the people. Certainly there's an accountability aspect of that for people being able to do what it is that they say they're going to do.

If you don't get those support systems in alignment to support this process activity, then you lose those temporary gains that you had. I think that's the answer to your question. Those made me think about it differently. I like that.

Joe: The fifth step is the executive mindset, and it's about focusing on business improvements, but not necessarily just focusing on cost savings. An executive doesn't ignore the cost reflected on the product. That's a big driver of what he does.

Michael: Absolutely. The executive mindset in this instance is what we're talking about here. Maybe it's funny. When we started writing this book--any one of the chapters that we have--like when we talked about value, you could write a whole book on value. You could write a book on strategic planning. There certainly are many books that have been written about measuring performance. And a friend of mine, who was one of the people that gave us some feedback as we were writing the book, is Jack McCullough from Caterpillar. What Jack described was that we need to stay focused on the sweet spot, or what do we need to do to improve our improvement effectiveness? So this executive mindset we're talking about here is totally focused on how do we do a better job of improving?

They do that by not so much focusing on the individual improvement projects that the average organization focuses on. You need to look at that, but it's not enough. What you

need to look at from an executive mindset, if you want to be in the top 20 percent of your industry in terms of your improvement maturity, is managing that value definition process--managing the way that we're engaging people.

One of the examples we use in the book is Terri Kelly that's the CEO of W. L. Gore, the company that manufactures the high tech materials. Terri said she spends 50 percent of her time on the people side of the business, as much time there as she is looking at products and services. So the people that do this best focus on the value, they focus on the engagement. They focus on the metrics.

Then, as I'm doing my process improvement, it's going to be much more substantive. It's going to be much deeper, and the changes that we come up with are more likely to last.

There is a story I can share. Art Niimi was the President of Toyota North America. I was sitting with him one time, and we were talking.

One of the stories that he shared was that they had 10 facilities in North America at the time. So once a year the plant managers would all go to one of the other plants, and that plant manager would share an improvement story that they did. After this person is done sharing this good thing that they did, and of course you want the other nine plants to go back and take the good things they find there.

But with a Plant Manager, they may ask, "Can you think of anything else that we could have done?" When I said this the power of the statement just blew me away because here you've got the Senior Executive of Toyota North America at the time and what he's saying

is, "We did this really good thing in our plant but if there's something else we could have done."

I have nine other smart people that are in the room. Would it pave the way to inspire continuous improvement and to say, "We know we're there."? The executive mindset for driving these ingredients, really it's that simple. It's, "Wow! This is really good what it was we did here!" If I create an opportunity to gather their insights and there are other things that we could do, let's get there.

It was so inspirational and won't say that one remark changed my life, but it changed the way that I look at business improvement when Art showed that.

Joe: I guess when you talk about improvement and you talk about the difficulty of being something other than average, but what is average?

Michael: Well picture a normal distribution curve. Let's take every hospital that's in North America. One of the things that all hospitals struggle with doing a better job on is reducing the number of infections to a patient that are caused by the hospital, a very important thing for a hospital to do. All hospitals that I'm aware of are working at trying to do a better job of doing this. If we look at every hospital in North America, it's a mathematical fact that 50% of them are doing a better job of reducing the number of infections than the other 50%.

All we have to do is come up with the metric, the way that it is that we want to look at, and you're going to get a split in the industry. Some data for some industries might be a little bit harder to find, but this is publicly available. So the first split is 50% aren't doing as

well as the other 50%; 100% of the industry might be getting better, but it's some of them are doing a better job of getting better than the other half.

The next math fact, if you look at this in our normal distribution, is that 60% of that industry is right around the mean. With 30% to the lower side of the mean, they're in the bottom half. But they're not a disaster but they're not in the top half.

The other 30%, the other half of that 60 split, is in the upper half of the industry. And those people can see how much better they are doing what they used to do that they're feeling really good about themselves. As you mentioned earlier, Joe, they probably think they're in the top 70, the top 80% of their industry in terms of performance. But 60% of the industry is right there.

Then we go to the tails of our normal distribution curve and over on the left we've got the people that are complete disasters, so let's ignore them. But then you've got the top 20% of the industry that is truly doing a better job than everybody else. That is always the case, when you look at improvement; everyone that we've looked at comes out of pretty normal distribution across the board, where it's just a handful of organizations really doing an extremely better job than the rest of the pack.

In that whole idea, understanding that you're probably average. You're probably not as good as you are. It's important to realize because that opens you up to the possibility that you could be doing significantly better tomorrow than the way you're doing today.

Joe: I really have to do something different than everybody else. I mean, dramatically different to improve, right?

Michael: As simple as that sounds, absolutely! If you're not doing something significantly different from what your toughest competitor is doing then, you're not going to be changing your position. Traditionally how organizations will try to handle that, is they'll try to come up with a hot new product. That's kind of the, I don't want to say that MotorOil doesn't go about trying to get better, they do. But when you look at their website at MotorOil, I kick on them a little bit because they have some familiarity there. It's not like they have $15 billion in savings on their website, but you look at the organization, and it's been a disaster in terms of business effectiveness and competitiveness.

If I want to change my position I can't do what everybody else is doing and just do that a little bit better, I've got to have some things that were doing that are meaningfully different to our customers to allow some of this change to happen. In most improving programs that are not usually integrated in the fabric because the way they're going about improvement.

Joe: Can you give me an example of this without innovation? I'm am average Joe, and it's tough for me to create the next iPad. What do I do?

Michael: I'm kind of a do-die guy! I don't think there's a lot of difference between improvement and innovation. You don't have to do this with just hot products. A couple of examples that I'll use is certainly Toyota with the Lexus that was a hot new product. But if you go back to the example that we discussed earlier of Webster Plastics, they didn't come up with hot new products. They didn't come up with some new products but more where they reposition themselves are the markets it is that they're focusing on, the things that it is that they try to go after and do.

Joe: What you are saying is that I can do that with business intelligence a little bit by creating a stronger value proposition in a certain product market, is kind of a little I in itself, right?

Michael: Well that really is. There's a company; I can't say their name, but there's a company that manufactures fuel lines for the automotive industry. What they did as far as innovation isn't so much hot new products. I mean; there are new products that they need to make as the car models change and they need to redesign the fuel line for those products. But what they've done is, they've incorporated the engineering. So they're doing engineering on more and more hotter fuels flowing through the car. Or you go to Autoliv, which manufactures the explosive devices that go under airbags.

They're manufacturing facilities are in Utah, they're not next to any of the automotive suppliers yet they supply to automotive companies all over the globe with the explosive device that will make your airbag work. They're doing a lot of engineering but mostly what they're doing is when they make commitments to their customers they deliver whatever it is they say they're going to do. They deliver when they say they're going to do it.

They're doing some impressive visual management of their engineering projects today. Is that innovation? It is innovation, but it's not like you're bringing a hot new product to go to the marketplace. There are just significant improvements to allow the business to run better.

Joe: So when it gets down to it, it's understanding your value proposition and how your customer values it. If we were going to take one thing away from this conversation that would be it.

Michael: Well, I hate the simplicity by how that sounds but that is it. I mean; it's all driven by clear understanding the values that our organization is trying to provide and being open to redefining that value as people inside the business which we can be going after and pursuing and certainly listening to your most important customers, what it is you need to be doing for them because it's always changing. As we're doing a good job, there are three, four, five, ten other competitors in the world, and they're trying to catch us and eat our lunch. So in order to stay ahead of the game, we need to keep doing a better and better job of getting better at improving. If we don't then other people are going to come up with us and catch us.

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Podcast Transcription

Implementing Lean Marketing Systems

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