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Implementing Lean Marketing Systems



Liker on PDCA

Guest was Jeffrey Liker, author of *The Toyota Way*
and *The Toyota Way to Continuous Improvement*



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Dr. Liker is a nationally recognized authority on lean manufacturing methods and Professor of Industrial and Operations Engineering at the University of Michigan. He is an expert on U.S. and Japanese differences in manufacturing and supply chain management, and co-founded the Japan Technology Management Program at UM.

Dr. Liker has authored or co-authored over 70 articles and book chapters and eight books. He is author of the best-selling The Toyota Way: 14 Management Principles from the World's Greatest Manufacturer (McGraw Hill, 2004), which speaks to the underlying philosophy and principles that drive Toyota's quality and efficiency-obsessed culture.

He co-authored The Toyota Product Development System with James Morgan (Productivity Press) that won the 2007 Shingo Prize for Excellence in Manufacturing Research. This is the first book to examine in detail the product development side of Toyota.

Dr. Liker is also the Editor of Becoming Lean: Experiences of U.S. Manufacturers (Productivity Press, 1997), winner of the 1998 Shingo prize (for excellence in manufacturing research). He has also won Shingo prizes for his research in 1995, 1996, and 1997. He is active as a keynote speaker, speaker for executive retreats, Lean consultant, and co-founder of Optiprise, Inc.

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Jeff Liker: I mentioned the new book, which is "The Toyota Way to Continuous Improvement," which really revolves around PDCA and becoming a learning organization. The core argument is that, Lean, Six Sigma, Theory of Constraints, Agile, I mean, all these kinds of tools and techniques and programs really focus, really try to act on the process to make it lunar, remove the constraints a little better. They're trying to act on the process, as well it's kind of independent thing, like it's a physical thing that you're trying to improve.

The philosophy of PDCA in continuous improvement needs to really act on the people. The people are the primary focus, people are then the ones who improve the process continuously, I mean, continuously recognize waste, recognize constraints, and are, and that's the definition of continuous improvement, and that's improvement happening continuously.

Which won't happen if you'd spend the time, expert consultants or Theory of constraint Jonahs or Scrum masters to come in and act on your process for you, then it's not continuous, by definition it's discontinuous, it's kind of one off.

In the book, we talk about the difference in philosophy between the Toyota view of the Toyota Production System and the Toyota way, and the western view of process improvement. We illustrate that through many different case studies, in different kinds of industries of how someone trained, Joe Toyota trained, we have one Honda trained guy, but who had been trained in PDCA, and how they approach organization's transformation, and then we come back and reflect on that.

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So that's what that book is about, so it's very much what you're talking about with PDCA, as a kind of a center. We've done work in every area imaginable. We've been at that for about eight years and worked with many, many companies. We still do, and that's really the main, probably the most of my consulting business is in Lean product development. And also, we do some Lean software development work. We've kind of bumped up against the Agile folks.

Joe Dager: Welcome, everyone. This is Joe Dager, the host to the Business 901 podcast. With me, today is Jeff Liker. Jeff is the author of the bestselling book, "The Toyota Way," and Professor of Industrial and Operations Engineering and co-founder and director of the Japanese Technology Management Program at the University of Michigan.

Jeff, I'd like to welcome you. It's my honor to talk to you. You've got a couple new books coming out. Could you give me the titles of them?

Jeff: Well, the first one, which is, I've worked on for several years, is called "The Toyota Way to Continuous Improvement," and that had started because we, I was working on this with David Meyer, a book about each of the four Ps of the Toyota Way, philosophy, process, people and problem solving. We wrote, "Toyota Talent," which was about people, and then I wrote, "Toyota Culture," which is broader and macro about people. The next title up was "Toyota Processes."

Every time we tried to write about it, we kept on getting into a trap, where we found we couldn't really talk about processes without talking about people and problem-solving, they're so interrelated.

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Ultimately, I began working with another colleague, Jim France, and we ended up calling the book, "The Toyota Way to Continuous Improvement." The book is really about the philosophy of continuous improvement. Using case examples to illustrate the difference between continuous improvements, based on Plan, Do, Check Act.

As you know, Deming, Dr. Deming was one of the main teachers of Toyota. Toyota was perhaps the best student of Dr. Deming. We talk about a PDCA approach, what are the philosophy and how do you approach a company when you're taking that philosophy in a way that's very different from a normal consulting project that you might call a Lean consulting project, or Lean Six Sigma consulting project.

So we illustrate that with many different industries, and it ranges from product development to iron ore mining, to nuclear fuel rod assembly to various hospitals. An insurance company, that's part of the health care industry.

So we try to give as many different examples as possible in order to show that the thinking process, the way of approaching the organization is actually the same, it has the same roots and the same philosophy, even though each organization is unique. And the problems they have are different.

Joe: So, PDCA isn't what you would say, just a problem-solving process.

Jeff: PDCA, we actually change the acronym a little bit, and we call it Plan, Do, Check, Adjust. More often it's Plan, Do, Check, Act. And I still have mixed feelings about that. But the original concept of PDCA that Deming learned from Shewhart was that you start with a plan. Then once you understand what you're trying to accomplish and how you're going to

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accomplish it, and then you do something. Then when you do something, you check what happened. And then you take some sort of further action, we call that adjust rather than act.

Now, we have one table in the book where we have in one column, here's the western view of PDCA, and in the other column, here's the Toyota, and I think it's a little bit more eastern, Japanese view of PDCA.

In the western view of PDCA, it is really a kind of a one-off problem-solving process. It's represented in Six Sigma by DMAIC, where you define, measure, analyze, implement and then control. And western philosophy is that there's a process that needs to be fixed, and you come in with your toolkit, and I use the analogy at some point of you call your electrician.

You want to either upgrade the electrical system in your house, or perhaps you have a power outage or there's a problem with your electricity. So the electrician comes, and he takes out his tools. He figures out what the problem is. He has to define the problem. Then he fixes it. He does the work and fixes it.

Then you flip the switch, which is the check, and if the electricity works, it's confirmed and you're done, and you close out that problem. You pay the electrician and the electrician leaves. The problem is solved.

It seems to us that the western view of the process improvement of PDCA is like that. In the DMAIC case the final step is control. You've got the process now fixed. Now what you want to do is control it, so it stays fixed.

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In the eastern view of PDCA or the Toyota way for sure, it's a different story. For one thing, the problem definition is absolutely critical because there are so many problems you could possibly work on. One of the steps, for example, in Toyota's version of PDCA is to envision the ideal state.

So, what you want to do in that first step is decide what this process would look like if it was ideal. Even before that, what purpose am I trying to serve? What am I trying to accomplish in the big picture sense? What's my purpose?

Then, if I were to achieve this purpose, what would this process look like in an ideal state? Since the ideal state is so far out of reach, and is impossible to achieve, and then you break it down. You break the problem down into pieces that are more manageable but as steps that will get you toward that ideal state.

You take each step, each individual kind of sub-process, and you have to find, then the root cause. That's through the 5 Why method. You try to understand what is the real root cause of this problem?

It has to be a root cause that's controllable by you that you can do something. Because you can end up with a root cause that says some other group, like engineering, or the problem is the government or the problem is something not under your control. But you have to focus on the root cause that's in your control.

Then you come up with ideas for improvement. When you implement them, Toyota calls those improvement ideas countermeasures. It's a countermeasure to the problem. The

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problem is always defined as a gap, a gap between the desired state and the current state. You want to close that gap. So, you have a countermeasure to close that gap.

Then the do stage should probably be called try rather than do. What you're doing is you're trying your countermeasure to see if, in fact, it reduces the gap. Then you check, and check is a check on what happened when you implemented that countermeasure. Then you learn something from the check. From your investigation, you learn something. You learn what worked, what didn't work, whether it brought you closer or not. Why it brought you closer or not.

Now you've got some new knowledge about something that worked or something that didn't work. Then the adjust stage is now to take what you've learned and make further improvements, standardize what worked, and then start to plan, or lead into planning the next step that you're going to take that will move you closer to that ideal state.

So, it becomes a continuous sequence of PDCA, PDCA, PDCA, as steps that move you toward the ideal state. In each of these cases, your starting assumption is we don't really know what's going to happen until we try until we do. We're humble enough to realize that the universe is way too complex. There are way too many variables for us to know in advance what's going to happen, to predict. All we can do is our best guess, and then we can try. Then we can learn from trying.

I really think the underlying philosophy is quite different. I think about the underlying philosophy of what I'm calling the western approach to PDCA as more of a mechanistic process. Like you're fixing a machine, and you expect it to stay fixed. The Toyota approach

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is more organic and more of a learning approach, where taking little steps toward the ideal in each step, recognizing that we might fail, even if we fail we'll learn something.

Joe: I think that is the essence, maybe, of why it's so difficult to put a Lean culture with the company, because PDCA is the culture isn't it?

Jeff: Yes, yes. We like us to have everybody in the company act like they're a scientist, an empirical scientist, an empirical based scientist. Have that same humble attitude that, we're not an expert, we're just learning. It also suggests that whoever is closest to the actual place, the Gemba, whoever understands the situation the best is usually in the best situation to find the current state to understand the problem. So, that person gets a lot of respect. Particularly, if they've learned the PDCA method, which is something you could spend your whole life perfecting and learning. It's just how to go about solving problems, because it's actually not intuitive, and it's not a natural skill set to go through each step of P, D, C, and A.

So, people that master PDCA, and are at the Gemba, end up having the power in the Toyota system. They may not be the people with the highest academic degrees. Or they might not have a black belt. Or they might not even be a manager; they might be an hourly employee. So that, by itself, kind of throws off the whole corporate bureaucratic system.

Joe: What makes PDCA, something other than just another problem-solving methodology like DMAIC? Is it a cultural thing? Is that what it's all about?

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Jeff: Yes, I think it's a cultural thing. I've worked with various trained Black Belts and learned a lot from their Six Sigma Training and the projects they did. But the way I would look at DMAIC is that it's very scripted, mechanistic approach. The underlying assumption -- which I think is a strong Western, scientific assumption -- is that if you can understand the phenomena well enough through a combination of data and analysis of that data, you ought to be able to predict what's going to happen.

The better you analyze the data, and the more you are precisely trying to identify exactly what the cause is, the better able you are to predict what's going to happen. If you get it right then you've solved the problem, and like I said, the case is closed. You're like the electrician. You put the tools back in your toolkit, and the case is closed.

In the Toyota way of thinking, again, it comes from humbleness, and it also comes from a background of the company, which started in a rice-growing region of Japan. If you're a rice farmer, no sane rice farmer would think that they could control everything. They can't control light; they can't control the weather; they can't control soil conditions. So they're constantly trying to struggle to adapt to things that they can't control.

That was the environment in which Toyota grew. It kept that humble attitude that the world is just too complex, and we're never going to be able to predict what's going to happen. It's kind of a false sense of security to spend an enormous amount of time collecting data and analyzing the data with ever more sophisticated methods. Because the precision is false precision anyway, and we don't really know what's going to happen.

If we can come up with a lot of different ideas and try those ideas quickly, and then, actually learn by doing and actually see what happens. Then we have to go the next step

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of actually checking what actually happened, and what actually happened isn't just what happened the week after the Six Sigma project was done. It's what happens over the next six months, over the year, and over more than that. Do we sustain the process? So you live with the process to understand it.

Then you now have to, somehow, capture that information in a way that it's reusable, so that people won't make the same mistakes and don't have to start the learning process over again in three years, when the manager has moved on, and most of the people have moved on. They have no idea that you made this great intervention three years ago, and you're aware that these 10 things that work and these five things that don't work. That's where you become a learning organization.

My complaint is not necessarily DMAIC itself, but rather, the underlying philosophy and the organizational approach, which is you send in a Black Belt, who's like the expert electrician. They take the tools out of their toolkit; they fix your problem, and they may work with you to try to teach you a little bit while you're there. Then they put away their tools, and they go away.

They assume that they if they did enough statistical analysis which often, in these Six Sigma projects that I've been involved with, and even when I've seen the Lean Six Sigma that comes out of Six Sigma, I sometimes use the analogy that it's about 80 percent massaging data numbers and about 20 percent actually thinking deeply about the problem, and taking action, and learning from what happens.

It's the reverse in the Toyota way. It's about 80 percent thinking deeply, engaging the right people, trying, observing, figuring out what happened, and educating the people who

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are part of that problem-solving process. Then, there's about 15-20 percent, which are the tools and techniques and the analysis. That's generally considered fairly irrelevant. It's not a big deal, the methods themselves. The measure of success is what a person has taken away from this process: the hourly workers and the supervisors. What did they learn from this?

Joe: Well it seems very much like it's more of a "people" process.

Jeff: Exactly. Sometimes, I've heard people say Six Sigma is more sophisticated, and it's like the graduate school for the tougher problems that require advanced statistics; and Lean is more common sense and practical, and more quick and dirty. That's not the way I look at it all. But the tool that you see with Lean is something like the Kanban system. You have a card, and you write information, and you decide what the maximum and minimum are. When you reach the minimum, you send a card. That's a very simple production and inventory control system compared to a linear program that is on the computer; you put in all sorts of data and you optimize the schedule.

Here, you've got these cards, and people that are just counting cards and it seems very primitive. But the reason why these tools are so simple is because Toyota wants the people who are actually doing the work to see the problems as they occur. They want them to solve them in real-time, one by one, as they come up, instead of allowing problems to accumulate, and then, perhaps once a year, once in three years, do a big, deep dive project and you're basically trying to solve three years of accumulated problems.

So the tools and techniques are intentionally very simple, a trend chart, not regression analysis. Admittedly, there may be some loss of precision, because we don't know if it's

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statistically significant or not, but what we're doing is lots and lots of little problem-solving cycles, and we're learning by direct observation. Because you can see it and touch it, people who are actively engaged at the workplace can understand it.

So it's by definition the tools are very visual and very easy to understand.

Joe: It sounds very much like Agile. Is there a difference, or is Agile just an outgrowth of PDCA?

Jeff: My firm has done consulting work with a large company that develops a lot of software, and they have an Agile consulting group, and then we're the Lean consulting group, and they're trying to figure out what are the Lean problems and what are the Agile problems, and when should they bring in us, when should they bring in them? The whole exercise to me seems like a lot of waste, but what I've learned, and I don't consider myself an expert on Agile, but most of the sort of core concepts of the Scrum and the Scrum master and breaking the software down into little pieces and understanding the purpose and the requirements for each piece. Then working on each piece very quickly and having all the right people together looking at that piece of software and evaluating it and making quick decisions, is really trying to create a lot of small, rapid-fire PDCA loops. In that sense, it's very similar.

A lot of the basic concepts to me look like, and when I read about them, I'm pretty certain I'm right. They really came from the Toyota Production System. The people that I believe started Agile, their model was what they were seeing in Toyota plants, in the factories.

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Each work area, each small work area, consists of a work group with team leaders and there's a one to five ratio between a team leader and a team member, and then a group leader, and there's about a one to four, one to five ratio between the team leaders and the group leaders.

The group leaders and the team leaders are teachers, and they are process improvers, and they're experts on PDCA. They collect data, and they have data posted visually on boards, and they have daily meetings where they look at the measures, and they look at, "How are we doing?"

They have a longer-term objective; they have an annual plan and "How are we doing every day in moving in the direction of that plan toward our targets?"

They're doing daily problem-solving to achieve very specific targets that they agreed to, and they're checking the process every day. They're acting a lot like what happens in that Scrum, and I think, it's like I said, I think the Scrum was modeled after the Toyota work group and the factory.

The only concerns I have about Scrum is that I think there's a kind of inherent kind of personality trait of IT guys that they love flowcharts. They love terminology. They love acronyms, so I think that they've created a lot of vocabulary and a lot of diagrams and a lot of concepts that are rather complex and theoretical and abstract. So I think they've maybe overcomplicated the whole thing.

The basic core concepts though, one-piece slow problem-solving, breaking the software into smaller problems and really trying to understand what does the customer want? What

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is the purpose of this little piece of software? How can we get small batches of software written very quickly and go through little PDCA loops? I think all that is very consistent with TPS.

All right, we came at it differently with the product development system and we started by looking at Toyota's product Development System, and there are some different concepts in the Toyota product Development System than in the Toyota production system.

It seems to me that Scrum and Agile really started by observing the factory floor and then extrapolating that to software development, which is really a product development process.

Where I think a better starting point is to look at the product development process, start with that and extrapolates from that. That was the approach we took as starting with really Lean product development as a general framework.

Joe: So is PDCA different in Lean product development at all?

Liker: Well, the basic concept of PDCA is the same. I mean, it's not... I mean the PDCA is simply how we learned. We have to break down any problem into small pieces and we have to have some intention, some plan, and then we have to try something and then we have to check what we tried and then we have to adjust. You would do that same thing if you were learning...If you're serious about learning to play a musical instrument, you do the same thing. If you want to become a great cook, you do the same thing. If you want to become a great athlete, a great golfer or a great tennis player.

PDCA is just how we learn. It is the very basic, the DNA at the genetic level.

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In product development, one of the very important things that I think sometimes is missed in Agile, in the applications I've seen, is that in a product development process, you really need a very protracted, very detailed, very well thought-through front end stage, we call it front end loading, and in that stage, you need to gather together everything you've learned from past projects and set big picture targets for the product development process. What are we trying to accomplish with this project?

And get a cross-functional plan in place, and do some, analysis at the systems level to understand the constraints of the system and what problems you might have and how you can avoid those.

Then you launch into the execution process, where you start to execute... Toyota calls it the Obaya, their big meeting room, and that's very much like the Scrum team meeting in a room that's visually managed.

I think once you get to that point of execution that the Scrum is similar to what Toyota does but may be taken a little bit too literally and a little bit too rigidly than you see at Toyota. A lot of the front end loading, upfront planning, and the customer requirements planning that part of it is seen kind of not done so well.

Joe: One of the things that I see in Agile, in the Lean Startup craze that's kind of going on is that they all seem to have their basic roots in PDCA. But the difference in them is what you have exactly said is the Eastern world looks at the PDCA as a knowledge creation type. Where in the Western world it look like a methodology. And the first thing people think of is how to apply it in a DMAIC way.

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Jeff: Well, DMAIC and then there's the 8D that became popular in the auto industry, the 8D problem-solving method and then there's A3. Then people confuse the actual A3 report and being able to write something down in each of the boxes of A3. They confuse that with the actual PDCA learning and thinking process. I think our tendency is to kind of reduce the learning process to a set of tools and techniques where we can check the box, and we say, yeah, I did that. Yeah, I did that. Yeah, I did that. Check, check, check.

So, I've done Lean, or I've done problem-solving, or I've done Agile. We put a lot of attention on it at just certain periods of time. For example, the vice-president continues to prove what's created by the new CEO, and suddenly there's a lot of attention placed on Lean task forces put together, whatever you call it, Agile or whatever pertains to improvement.

A task force is put together, and we put an enormous amount of attention at that time into what is the methodology, how can we have a common vocabulary, how can we have a standard problem solving process. And at some point the vice-president that continues improvement moves on and the CEO moves on or loses interest. And then we go back to our business, and usually these methods atrophy.

Then at some point we look back and say, "Well, remember that program we started with A3 four or five years ago, what happened to that?" Somebody will say, "Well, people were writing all these A3 reports, and we ended up with notebooks. The notebooks are on the computer. We ended up with thousands in our database, and it was too much for anybody to even look at."

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We found that when we did a cost/benefits analysis we spent more money than we saved. So, it didn't work. So then the conclusion is A3 didn't work for us. What is the next thing on the list? What's the newest thing that will not have the problems of A3? The problem with A3 was that it was a lot of writing things down on paper and filling boxes, but it wasn't really driving cultural change. So, what's the next thing up that's going to drive it?

So, we're constantly looking for the next thing without realizing that we already had it to begin with, whether it was total quality management or a continuous program or A3s or DMAIC, whatever it was. The underlying PDCA concept was there to begin with, but we didn't continue.

We didn't have what Deming called "Stability of purpose," and we focused on the tool and deploying the tool instead of developing the culture, so that PDCA became a way of thinking and a way of living rather than a program.

I think that's the basic dilemma. I think the concept of PDCA is not a new idea. It goes back to Shewhart who preceded Deming. It's over a hundred years old, and really the insight into it really hasn't changed in a hundred years. We need a new idea that doesn't exist. It's that we have to be serious about it and committed to it.

What we ended up concluding in the Toyota Continuous Improvement was that what you're really committing to... Often, people who leave Toyota and go to other companies really like the term, operational excellence. They're not so crazy about Lean or Six Sigma, but they like operational excellence because what you're really committed to is excellence. You are committed to a vision of being the best you can be at whatever it is you're doing.

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To be excellent, you need to have a playbook to know what you're working on, why you're working on it. You need to break it down into small steps that you can practice and master, and then as you master those small steps you build up to bigger and bigger steps and more difficult steps. Like I said, that's the way you learn. You master and become good at anything.

Famous saying now or the famous number is now of 10,000 hours of practice to become a master of anything. So, it's practice, practice, practice, but it's got to be deep practice. Deep practice is defined as intentional practice where I know this is what I am trying to accomplish right now with this practice. This is what I want to learn. That's the plan, and then I do it.

Then, you need a way to check whether I'm doing what I'm trying to do. Then you have to make adjustments based on what you learned. Once you master that step, and then you move on. So, you could say that something like DMAIC and doing the Six Sigma project is a good first step in learning the methodology of problem solving.

When you start off with PDCA, you need some concrete, more defined process that's more structured so that you can try it and follow all the steps and say, whatever this process is, whether it's DMAIC and follow all of the five steps. Then, if you have a really good coach who's giving you feedback as you go through each of the steps, you'll learn something.

Now you need to do it again and this time at perhaps a little higher level. Or, maybe, this time you're going to focus more of your attention on the D, on the defining because we're kind of weak on defining.

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Some other stuff you're going to solve, you're going to put more of your attention on the "I", on the implementation. Because when we implemented in the past the people didn't buy in who we worked with, and the change was not sustained.

So I am going to focus more on implementation. How can I do that well? You can spend a lifetime with DMAIC, mastering it and learning it in deeper and deeper and deeper levels. My problem is that I don't think we do that.

I think we do our Black Belt project, and then after that we are to expect to deliver results, in every quarter another \$250,000 project. And we honestly get better each time we do those projects. We're just trying to get the results at that point.

Joe: Does Toyota practice this in their sales and marketing? Is PDCA something that could be applied to sales and marketing?

Jeff: The Toyota Motor Sales in the United States, which is its own corporation and somewhat of a unique entity, are trained and developed by Toyota Motor Sales in Japan, but they have their own Toyota University. In the Toyota University, they teach many things, but some very basic technique sorts of things. But they also do a lot of TPS- Lean training applied to sales and marketing. What they're teaching is to look at sales as a process or as a set of processes.

For each process you could break it down using PDCA and really think about what is the problem, define the purpose, define the objective, and go through the whole PDCA problem-solving process for whatever you're doing -- whether it's making decisions about

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incentive programs, whether it's how you trained dealers to sell the vehicles. They also have to repair the vehicles. That's a part of sales, so there's a whole process there.

One of the interesting stories and this is in a very macro level, was the creation of the Scion. I had spent a lot of time in California at Toyota Motor Sales trying to understand how they apply Lean, how they apply this way of thinking. One of the better stories was the Scion creation. They really followed the PDCA process for designing the Scion brand.

As I mentioned, when you're designing something, when you're developing something, the P phase -- the problem definition phase -- becomes really, really critical. So they had to first ask actually what the problem is. The problem was not we need a Scion brand. The problem was that the average age of Toyota and Lexus buyers was too old. It was a few years older than the industry average.

That's not a sustainable model. Unless you have young people coming in and starting at the entry level and then growing into Toyota and Lexus, you don't have customers for life. That was really the problem, is how do we get people to enter that life cycle of buying cars and prefer Toyota and become loyal to Toyota?

To do that they set targets like what is the average age of the buyer that we want to bring in and what percentage of those buyers should come from a family that doesn't already own a Toyota, so that they're new entrants into the Toyota family? Those were the objectives they set.

Then they had to do a lot of exploration of what is it that young people want? They would hang out at beaches, and they would go to various kinds of clubs. They checked out all the

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online websites. They had to teach themselves what young people are like and what they prefer then set the criteria. Then they had to come up with models.

Now one of the things they learned about young people is they like things customized. They like my cell phone, my way, with my colors, and I want to be able to personalize it. That became then a logistics challenge. How do you create a car?

The other thing that young people like is they don't have a lot of money, so they like high value. They want a lot for the money. They also tend to think that they should be able to have everything that their parents have in their \$40,000 car in a \$15,000 car.

Jeff: So how do you do all that stuff? They actually went around exploring, and they'll go and see when they had an idea. One of the things that they heard about was a Chevy that was selling well in South America. It was highly customized. It was sold a lot over the Internet, and you can design it your way. So they went down to South America, and they investigated it. The core concept was that you start with a basic small stripped-down Chevy that's very standard, and then you customize it after the fact. That became the model for Scion - -is basic cars that are very standard, and the customization happens after the car leaves the factory.

The cars are all made in Japan. When they get to the port, there's like a small factory at the port in California. That's where they do a lot of the customization. Then there are certain customizations, certain features, you can then add at the dealership.

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Then there's been clubs that are formed, and there're businesses formed around companies that will further customize your Scions. They found that social networking tools are important. So they use a lot of social networking tools, and they create clubs.

They have events all over the country, and you can bring your Scion to this event and get in free to Disney World or something like that for a certain day. Show off your version of the Scion and see other accessories that other people have. It was actually very successful in bringing about 80 percent of the people were in their age category and didn't come from the Toyota family and a lot of excitement, a lot of energy and a lot of clubs around the country where Scion became like a lifestyle, more than just a car, tremendous success because of the planning.

I kept refining it and changing it and they could learn that young people don't like to negotiate over price and they don't like to think that they got ripped off, you know, "You got this for \$20 and I had to pay \$40." So everything is one price, including an oil change. Everything is one price.

There are lots and lots of details. The interesting thing is that based on the news media, you would think that the Scion has been a failure. In fact their sales were really good, they exceeded their targets by about the second and third year and they were selling maybe \$45, \$50,000 a year and then it went down to about \$25,000 and they had a bad year, you know and then suddenly you know you read in the media that the Scion brand is in trouble.

Then journalists questioning, "Is the Scion brand profitable?" Well, the reality is, is it's been profitable because it cost them practically nothing. It's a basic car; the car already

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exists; they're customizing it at the dealers', the dealers are existing Toyota dealers, it cost them almost nothing to create the brand.

That was never the point. The point was that the whole purpose of the Scion was to bring these young people who ordinarily would not have come into Toyota and experienced it into Toyota and experience it firsthand. And based on that experience then become committed to Toyota.

Repeat business was very important as a measure and the percentage, the age of the people who came in and the percent who didn't own a Toyota before, those kinds of things were the key metrics not profitability and the Scion was never judged inside Toyota either for the sales numbers or the profitability.

That was kind of an interesting story because you know, here you have a really clear connection between, "Here's our plan, and here's our purpose, here's our vision, here's what happened, here's how we evaluate what happened and it's not based on profitability."

Very, very difficult to understand for most of the companies I deal with, frankly is the idea of a strategy like that where you actually might intentionally have a product that doesn't generate profit is unheard of, it's just unimaginable.

But that's sales and marketing. Sales and marketing is really thinking about the long term and about how to develop a loyal customer base that has such consistently positive experiences with your business or service that they would never want to go anyplace else.

Joe: It kind of goes back to the Deming thing of looking at the company as a whole?

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Jee1: Exactly. Exactly right. So they're looking at the company as a whole. Now it's very usual these days too, for companies to reorganize into business units where each business unit is judged on its own as a profit center. By definition, you're destroying that whole concept of looking at the company as a whole and having specific niches, and you know maybe this is a loss leader to them selling more profitable product. You know those kinds of strategies that connect the product lines are not possible in an industry where each product does its own profit center.

Joe: I wanted to ask you about your new book, "Toyota Under Fire, and this seems like a good way to lead into it as you talk about the media a little bit. Though the podcast isn't about that, I just wanted to have you mention it. Why do you think the media and why do you think is after Toyota?

Jee: Last year at this time and Toyota was a hot story. In fact we even did an analysis where we looked, we got a database of just of newspaper articles, actual articles that were in you know some physical hardcopy and we picked the six biggest sources in the country. Just in the month of February there were about two hundred and thirty articles written in these six newspapers that were all negative about Toyota. Can you imagine two, and there's only 30 days in a month. So this is, this is like every day you know, multiple articles, negative articles. We then looked, by August it had dropped to seven articles in an entire month.

So, the media just runs to where there's something that will get attention, something sensational. They need to sensationalize anything in order to get the readership. That's the

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way the media has become; it's maybe the way us as consumers with the media are, at least the way I think we are. And it's very sensational.

You know there used to be the expression that if a dog bites a man it's not interesting, but if a man bites a dog it's interesting. So if a company like General Motors is struggling that's a little bit newsworthy but it's not so newsworthy because everybody knew General Motors was struggling. When it went bankrupt, it was the largest bankruptcy in history that was newsworthy because it was the largest bankruptcy in history.

But even that is a little bit ho-hum compared to the best, one of the best companies in the world that's now a global model, falling down and having weaknesses. You know when you see blood, when a vulture sees blood; you swoop down and go for it. In this case the media saw blood. There was a scratch in Toyota, and they could exploit it.

They, you know the media's looking for the great falling down and the great athlete, the great movie star, they love it when somebody who has a pristine image, has very honorable, very moral, always doing the right thing, always succeeding, when the successful, moral, good, righteous person falls down that seems to be the biggest story, the most sensational story.

The bad guy whose bad another time is not so interesting and that we kind of expect. The average person who does something average is completely uninteresting. But the average person that does something exceptional, occasionally we can get excited about that. But that doesn't seem to get as much attention as the great person who has been successful their whole life and then suddenly their life falls apart.

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So I don't know, you can even generalize a little further and ask the question, "Well, what is it about us, that we get some sort of satisfaction out of the great, failing?" Maybe it makes us feel better about ourselves.

Joe: How would you recommend someone to get started? I mean if I want to really start to develop a PDCA culture, what do I start thinking about? Do I have to go out and get a coach? Do I need to maybe first read your book?

Jeff: No. Actually in reading my book, it would be contradictory for me to say you can learn any real skill based on reading my book. Because that would be -- if you want to use a sports analogy or golf analogy, that would be like the first thing you want to do, if you want to learn how to play golf, the first thing you should do is buy this great book, that's *The 15 Principles to Become a Great Golfer*, or *The Story of Tiger Woods*, or something like that. The first thing you would want to do if you want to learn how to play golf would be to get a very basic golf set and go out and hit some balls. I do think that I would recommend to anybody that they get a golf instructor, because otherwise they are going to start to learn bad habits that will, through muscle memory become hard to overcome, hard to change. I think there is great value in a coach. Some companies are fortunate that they have coaches already inside the company.

One of the cases in the Toyota Continual Improvement was written by Charlie Baker. Charlie Baker was the first Chief Engineer, American Chief Engineer in Honda. He then worked his way up to the first American Vice President of Engineering in Honda of America. Then he worked for several companies. He works for Harley Davidson now. But as the Vice

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President of Engineering, he's actually the master black-belt in leading product development. And that's a wonderful situation to be in.

Unfortunately, there are very few Charlie Bakers. If you have somebody that's great, inside but if you don't have somebody to teach you inside, you have to go outside and get somebody to teach you. The important thing about getting a teacher is that the teacher needs to be able to teach, and it's not enough that they can do, and it's not enough that they can promise great results.

Too many companies make the mistake of hiring consultants based on a promised return on investment. I read a proposal that said, "I will, in this year; it will cost a million dollars, and I'm going to generate \$10 million in cost savings. Here is how I am going to do it, and here is my road map, and my job for the year is to get the \$10 million. It's not to teach and coach."

Anyway you need to get the right kind of Sensei, as they call it in Japan or the right kind of coach, then you need to identify who the students are, who in your company are going to be the students. How much money can you spend on coaches, how much, are you going to get the weekly lessons, or the daily lessons, or have five teachers, or what can you afford. Based on the coaching capacity that will determine how far you can go, how much you can do at once inside your company.

If you have one good coach who's coming once a week, then I would suggest that pick one pilot area. Pick, select some high potential people who can learn to become your future coach or your future coaches, and then give them the chance or the resources for that one small project. Don't judge the project based on the overall return on investment for that

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project. In other words, the project shouldn't have to generate enough savings to pay for all the time, all the coaches, all the people and the outside consultant.

The point of that first project is to, like the loaves and the fishes, generating teachers who are then going to teach others, and they are going to generate teachers, and there is an exponential effect over time of that teaching.

We always recommend starting with pilot projects. The number of pilot projects depends on the number of the coaches you have. We recommend finding some of your best people, who have the right kind of characteristics, who can learn or are open to learning, who have really good interpersonal skills, who have good communication skills, who have empathy.

Because if they are going to be taught to be your internal coaches, they have to now teach others, and part of teaching others requires patience and empathy. You can't get frustrated because they are not getting it, and do it for them.

Then the coach comes in, and the coach gets you started, and you start to work on a project. Like teaching anything else, every time they come they are checking what you have done, they are deciding what your strengths and weaknesses are, and they are figuring out what you should try next. What the next step is, a dynamic process.

The coach won't know exactly how this will go over the next six months or year. They have a general idea, but they won't know until they get into it, and they see how you are doing and how seriously you are taking this. If you are not practicing and you are not doing your homework, you might have to go back and redo something several times.

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That's how you get started. It's just like getting started with any basic skill. That's not what I see happening in very many companies, and that is the approach we try to use with companies we have a lot of trouble. One of the first questions we get is, "What will be the return on investment? And what is your road map for Lean? How long is it going to take before we are done?"

What we want is for somebody to say that's great. We want to do this; we want to learn. We see this as a lifetime investment. We'll get started wherever you suggest, and we're going to judge by how much people learn?

In fact, we're going to put four of our best people onto this project with you for six months, just to learn. After six months, we can spread the four people to four additional places.

One will be the person who stays in the area, who's managing the area, and the other three will go back to their home departments and then they will start projects in those home departments and they'll go through the whole pilot program again in their departments, and that's what I mean, the loaves and fishes starts to then spread.

By the end of the year you may have done one area really well, and you may have great results in that one area, even though it's not enough to justify all the expense, and now you've got four or five people who have training, and they can go to the next four or five areas.

Then they can spend six months or so in those areas to get them started, and in the process of doing that, you're training now the coaches and they're helping you train the next level of coach. Over several years, it starts to really multiply.

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What happens with companies is that they say, "Well, we don't have time for that? We've got these objectives, assigned by the CEO, for this level of cost reduction and this level of improvement of sales," and, you know, whatever the objective is, "We need to double our capacity without adding any floor space."

So in that case, you have to be very directive as a Lean expert. You become more of a Lean expert than a coach. You know, become very, very directive, and tell people what to do in order to get those results very quickly. People kind of learn from seeing it, but they're not really learning in a deep way.

Joe: So learning in a deep way may have to come second to actually instilling a Lean culture?

Jeff: Well, I would put it a little differently. Inspiring a Lean culture may have to come second to... If the company, I'm not sure what you're saying, but if the company... What will sometimes happen is it's very clear that the company has very, very aggressive targets for performance improvement and if they don't achieve those targets, the Lean program's going to die. So just to stay in the game, you have to start...as a consultant, you have to start by being very directive, and by getting the results.

At that point, you don't have the opportunity, really, to do the kind of deep coaching and training necessary to begin to really seriously develop the culture. The hope is that if you are successful, say, in the first year, and you deliver the results, you then gain some good will and some, believers...You develop enough believers in senior management that they will now let you go onto phase two.

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Phase two is taking more of a teaching and coaching approach and slowing down a bit, where you can say, look; this is what we accomplished in a year. Imagine if this same thing was happening in every part of your company. We weren't the ones that were doing it, but it was your own people who were leading it, and therefore you multiply our capability, instead of, you know, five consultants, we've got a hundred leaders who are all leading this. Imagine the power of that. If they're insightful and intuitive, they may be able to make that leap and say, "My God, you know, we'd be unstoppable."

Then they might move into a phase where they say, let's now focus on teaching and what I'm really interested in is that the projects are done well and that people are using the right way of thinking and they're learning from these projects and this is going to be an investment in the future. At that point, you're really more seriously working on cultural change.

I've seen that happen in a lot of companies, where they've even spent several years using a tool approach and being very, very results focused, and then after several years, the senior leaders, sometimes it's because the senior leaders change or because somebody gets promoted who's part of the Lean process and they understood it deeply and they get promoted into a high enough position.

There's various ways that you get there, but you see the companies get to a point where they say, "You know, we've been doing this, we've been getting some results. Some places they're sustained, other places they're not sustained. We're believers now, and what we really need to do is to now start to focus on building the culture and getting the right people in place with the right knowledge.

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I don't care about results for this next year. What I care about is what people learn and how we mature as a culture. That's like heaven when that happens, but it does happen. I don't think those companies made a mistake. I don't think that they blew it because they used more of a tools/results based approach for several years.

I look at it as that was part of their journey, and now they've evolved to another point. So what gets me the most discouraged, because they're not able to sustain the changes, or because of new management that doesn't understand what actually, they have in their company and what they've developed. It bothers me when they just drop the program, and they start the new program of the month. And that's the worst thing that you can do.

Joe: Well, I've taken way too much of your time here. I do really appreciate this. How can someone get a hold of you if they want to learn more?

Jeff: Well, my email address is Liker@umich.edu. Liker@umich - for University of Michigan-.edu. I check email all the time, Liker@umich.edu, and I get emails from all sorts of people. A lot of people think that I wouldn't respond, but I do, so that's the best way.

Joe: I'd like to thank you very much. It was very informative. This podcast will be available on the Business 901 and also the Business 901 iTunes store. So again, thank you very much, Jeff.

Jeff: You're welcome. Thanks for having me.

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