

Executive Forum

MANY COMPANIES IN THE NORTH AMERICAN AUTO INDUSTRY BELIEVE THAT THEY ARE PRACTICING **lean manufacturing.**

IS THE AUTOMOTIVE INDUSTRY AS **"LEAN"** AS IT THINKS IT IS?

Editor's note: Each issue, Actionline poses an industry question to executives and prints their responses. If you would like to suggest a question or volunteer to serve on the Executive Forum panel for the next issue, please contact Carla Kalogeridis, editor in chief, Actionline, at reachcarla@comcast.net.

Kevin Fallon, CEO, Pelion Systems



There is a major business performance gap between practicing lean and operating a lean enterprise. The promise of lean is profitable customer service: quality, delivery and price. As the OEMs have demanded improved customer service from their suppliers, supplier costs have increased under the old push-production methods.

This is evidenced by the current financial strain in the automotive industry. So, I would have to conclude that the automotive industry is profit-lean but not operationally lean.

One conclusion of a recent Aberdeen Group Lean Benchmark Report entitled "Closing the Reality Gap" was that "approximately 80 percent of best-in-class, 60 percent of industry average, and 40 percent of laggard companies are meeting, if not exceeding, expectations in key areas such as reduction in inventory and assets, manufacturing and cost, improved product quality, and improved customer service." However, when quantitatively questioned on order-fill rate, yield and on-time delivery, even best-in-class companies reported less

than three sigma performance. This provides evidence that the automotive industry is not as lean as it thinks it is.

What will it take to become truly lean? There are three key components: leadership, action and a vital, often overlooked piece—a lean operating system to enable and sustain both performance and cultural transformation. The industry as a whole has achieved moderate success but at great cost because of manufacturers launching tactical, disparate initiatives without a lean-operating platform. This may be likened to the major energy squandered in business process re-engineering in the early 1990s, where results relative to investment were abysmal.

However, there is good news for automotive manufacturers. Lean technology platforms or specialty manufacturing execution systems (MES) are available for plant and operations management. These lean operating systems enable companies to create positive cash flow from lean programs in 90 days and operate in a best-in-class lean mode within 12 to 18 months.

It's not just information technology we're talking about. A lean technology platform must be one that drives a new way of thinking and represents the "voice of the product" specifically developed for operations. Currently, ERP and SCM systems push schedules on the plant floor, creating much non-synchronized and costly volume production. A lean technology platform creates synchronized daily and hourly schedules within the plant based on real-time pull signals from actual customer demand. Companies leveraging lean MES have transformed from merely *practicing* lean to *operating* lean and are enjoying the business benefits.