

# Using Lean Strategy to Survive Declining Sales

## Turnaround Management and Lean Principles

2009 has introduced an opportunity to learn from yet another group - turnaround management. So what do turnaround management groups do when they go into a situation in extremis? These groups may be derided as "slash and burn", but in reality they are invited in to see what can be salvaged and how a viable business can be restored.

They have a very simple approach.

1 - Management Change - Get the right management team in place – one that can work together to work out the issues.

2 - Situation Analysis - This includes both a financial assessment and an operational assessment. The goal is to understand where the bleeding is and what it takes to get to positive cash flow ASAP. This goes beyond simply financials to include understanding what markets of the business are profitable; what are marginal, what are non-performing. Industry best practices are used to bench-mark performance.

3 - Emergency Action – These are the difficult steps to immediately stop draining cash and get to a positive cash flow.

4 - Business Restructuring - Operational changes must be implemented after the emergency action which often entails layoffs, closings, or divestitures. New approaches/systems must be put in place for the long run.

5 - Return to the New Normal – Introduce the philosophy, management and practices that allow the new business to be intrinsically different than the old one.

(adapted from a Turnaround Matrix from Assoc of Certified Turnaround Professionals)

Here's where we see overlaps with lean principles.

### 1 - Management Change

Commitment to total cooperation and total organizational bottom line is key. This requires shifting from departmental views and insular thinking to understand the business by value streams crossing functional lines to supporting product families.

### 2 - Situational Analysis

A number of turnaround groups explicitly reference lean as the best practice guide for what performance "should be".

Financial analysis has very standard practices especially for financial reporting but lean accounting may be a better approach to simplification of financial statements and focus on cash flow rather than the traditional P&L.

There are many potential areas to use lean principles in operational assessment. The goal of lean is to identify the creation of value and eliminate the rest. Using lean accounting, companies can clearly see which product families are driving the profits and which are consuming them. This analysis extends into other resources such as capacity, labor, material and energy to provide focus on true cash drivers.

- Product Family Analysis – clearly define your value streams.
- Value Stream Mapping/Modeling - Rapid development of the current state of value streams from a quantitative perspective is essential. Once prepared, the model highlights where there is adequate capacity or excess capacity based on differing demand patterns. In times of great uncertainty, every business struggles to set reasonable sales targets. The ability to support rapid what-if analysis is key. This may involve reconfiguring products into different families to look at what overall markets are being served. Rapid what-if analysis in response to changing demand forecasts is essential.

Based on the value stream map/model, the achievable interval (EPEI) sets the basis to calculate the right amount of inventory required by the value stream. This is standard supermarket sizing for WIP and raw materials. Finished goods sizing involves review of demand history to see the amount of variation the value stream must absorb in order to maintain acceptable on-time delivery performance while remaining profitable. Finally, lean accounting extends the value stream model financially to see profitability not by product but by value stream.

### 3 - Emergency Action

For those who've been around lean awhile, wasn't this where a few of the early lean adopters got their start? It was "lean or we close".

The impact of the emergency actions needs to be anticipated and planned for so that chaos doesn't result. Kaizen events are needed to reconfigure, reorient, redesign processes, recreate standard work, set up new measurements, etc. These efforts however must be coordinated and monitored.

### 4 - Business Restructuring

Kaizen events, both for incremental and breakthrough changes, must set up and launched. Implementation of flow and pull, new concepts of leveling, buffer sizing, new business models (to-stock, to-order, hybrid) will require training and implementation planning. This will include inventory burn-down plans, shifting work schedules, etc as normally there's excess inventory to burn off.

### 5 - Return to New Normal

Develop a culture of continuous improvement, focus on customer, responsiveness and agility, strategy alignment, S&OP, etc. Synchronized planning using policy deployment (hoshin kanri) helps ensure that only what furthers the overall organizational objectives gets focus and resources.

## **Challenges for Turnaround Situations**

This all must happen very quickly in a turnaround situation. What might be acceptable in months now must happen in days or a few weeks.

Existing ERP systems are not structured for this level of rapid modeling and extensive what-if analysis. Excel™ is good for some basic modeling but for complex value streams, it can be difficult to construct and risks becoming too complex. Spreadsheets by design are a good tool for their master but not for the dynamic and collaborative environment.

That's why Future State Solutions has developed products – to help people to see their business from a value stream perspective and be able to rapidly model how that value stream can perform.

Future State Solutions supports rapid assessments by importing data from ERP systems to generate current state maps in the VSEM product offering. Within days to a week, with close cooperation from the organization, the most common and largest opportunities - excess inventory and misaligned capacity – can be identified and quantified. The organization may take some time to fully implement all the recommendations but the potential savings are identified early on and the needed improvements quantitatively defined. Kaizens then can be launched to go after the issues.

While this isn't strictly "continuous improvement" based on a philosophy of improvement driven from the workers in the process, there's a need and opportunity to target radical changes in performance. Further, by borrowing from Theory of Constraints, processes with the largest challenges and the largest benefits can be identified so that efforts are focused on what will result in the most impact to the bottom line.

While the work of turnaround groups may be more extreme than most companies must face, no company should defer looking at this especially in times when sales are dropping. A number of our customers have found that even before this economy crisis of 2009, these methods have proven to keep them steady and help to weather any economic conditions.

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#### A Customer's Perspective

A Corus division, Thomas Steel Strip Corporation [TSS], is a global supplier of specialty strip steel for use in the energy markets and in custom applications. TSS has been continuously improving their operations using lean principles for the last five years. They re-implemented their ERP system using lean as a guide but they knew they needed more insight. Steve Sinnott, VP Supply Chain, knew they could perform better by working smarter while at the same time using less inventory but he didn't have any quantitative tools to support his 30+ years of instinct.

After using Future State Solutions' rapid assessment methodology and tools for their value streams, Steve had quantitative information in his hands and a target plan in less than week.