WHITEPAPER

THE 10 ESSENTIAL “DON’TS” FOR MANUFACTURERS TO COMBAT MAIN STREET’S “NEW NORMAL” AND WIN

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First: Recognize That the New Normal is Here

While Wall Street celebrates the financial system's signs of recovery, Main Street is resisting the urge to cheer up, disappointing and even confusing economists and pundits. Even as corporate earnings and stock prices recover, unemployment remains high, which means that recession-like behaviors—such as increased saving, deferred consumption and trading down to value product lines is the shape of things to come.

It's not that consumers will stop shopping. It's simply that they will not be fooled into resuming their pre-recession spending habits; indeed for most that is no longer a matter of choice, as it once was. The savings rate, which continue rising to levels not seen in 30 years, will not translate into increased or excessive consumption anytime soon. In fact, consumers are paying off debt and saving the rest for emergencies. Trading down is the new normal and according to a number of analysts, will reshape the manufacturing landscape significantly. Jay Marshall, managing partner of the New York-based business advisory firm AlixPartners says,

"In the short run, we believe all businesses should be getting used to this new normal of reduced demand."[1]

To survive and thrive in this new environment, manufacturers must establish their own new normal— one that reflects Main Street's new cost-consciousness. This is a model where success hinges on lowest-cost producer status with no compromise on quality or utility. Those that can pull this off will be in a strong position to redraw the market-share map taking volume and customers from those companies that can not react.

Second: Change Expectations and Vocabulary. Send a New Message

Lowering the costs of production has always been an important endeavor, but in this post-recessionary economy, the pie is not getting any bigger, which means that manufacturers must compete aggressively with others for their slice of the business. Those that are not prepared for the ensuing battle this time around will inevitably drop down the leader board before the dust settles. What is called for is not a quest to "lower the cost of production"; it is to be the lowest cost producer in your sector: Period.

Third: Don't set a Technology or Technique Goal: Set a Change Goal instead

Manufacturers must also be careful not to lose sight of the end goal of becoming the lowest cost producer. They must get behind the things they do best and drop everything else. Sadly, most factories today have lost sight of the fundamentals. Studies have shown that in as many as 8 out of 10 initiatives associated with the use of new tools techniques or technologies, managers find themselves focusing too much energy on the new tool or technology instead of the goal. They then become marred with over-complexity of measurement and working practices, mainly because of the belief that everything in a plant must be measured intensely.

This means don't embark on esoteric data-capture projects and put an end to obsessive measurement and analysis, which too often become the end goal. In their place, companies should deploy action-focused projects to improve labor productivity and fully leverage their human capital.

BANISHING LONG STANDING ASSUMPTIONS

Most factories are currently engaged in many activities which yield minimal benefit in respect of the stated goal to become the Lowest Cost Producer in the sector. These are being done because someone supposes that they must deliver a benefit otherwise we would not be doing them. A fresh look will surprise you. One of the biggest gains may come from deciding what you can STOP doing—an attitude that is well aligned with the prevalent consumer behavior of refusing to continue doing what got them into trouble in the first place. Such activities fall under what the Japanese would consider as Muda, or "Waste".

Ten Don'ts to Lowest Cost Producer

1. Don't Lose Sight of the End Goal

Accepting that we cannot expect significant performance alteration without significant change is the starting point. This sounds obvious but it will need repeating many times. It must be accompanied by an absence of blame associated with what went before since that, quite legitimately, reflected the "old normal". The most important factor in delivering transformational change is the people. Don't allow the focus to shift to the Tools and Techniques of Change (essential but also deadly if they overpower the mission).

2. Don't Waste a Crisis

The new normal on Main Street presents a tremendous opportunity to leverage the current climate of fear and uncertainty to drive change. Organizational resistance is low and the workforce is more willing to change daily work practices. To be effective, however, leaders must craft a calm, decisive explanation of how to get the organization ready to respond and gain from this economic climate. When positioned correctly, both management and rank-and-file workers will unite to support the company's leadership.

3. Don't Assume That the Answers Will Come from the Executive Suite

A dangerous assumption that has long been propagated is that performance improvement comes from the Executive Suite. Yet this line of thinking ignores the fact that the real performance dials in today's plants are moved from the bottom up; by the workers, not by upper management. When a company can empower factory-floor workers to improve their individual performance so that the next two hours of work are more effective than the previous two, the results are transformational.

Ironically, this is not that difficult to accomplish. Workers naturally use common sense when they can clearly see what actions they can take to make improvements, when they can see their own performance against target, and are recognized for their own efforts and interventions. What they need is a physical framework that enables this sort of behavior and measurement: this is the role of the new technology innovations.

4. Don't Accept 'Reported' Performance Results from the Factories to be True

When it comes to cutting back on expenses, consumers are no longer interested in incremental improvement. Faced with the harsh realities of job loss and economic uncertainty, they've stopped sandbagging themselves, are separating "needs" from "wants "and are taking drastic measures. Manufacturers must do the same.

Here's the good news: this is not an unrealistic goal. Again studies have shown that most plants with traditional electronic downtime capture systems over-report their efficiency—often by as much as 10%[2]. Their metric calculations are often flawed or too focused on plant rather than operational causes of performance loss or waste. Yet management continues to report these figures to upper management. This practice must stop. Putting an end to it requires that the executive take a deeper look into how these metrics are being calculated and how management are compiling and reporting on this data.

5. Don't Assume that More Data or 'Business Intelligence' Leads to Performance Improvement

Abandon the long-held assumption that having more data equals more improvement. Executives are increasingly realizing that data collection solutions such as manufacturing execution systems (MES), as well as business intelligence (BI) products accelerate into a state of "analysis paralysis" with a seemingly endless quest for perfect or complete data for the entire plant. Although excellent tools for data collection from machinery, they do not in any way improve a process or fix an inefficiency problem. It is essential to focus on the action not the measurement. We are not here to perpetually refine the size of the issue we are here to eliminate or alleviate the issue to become the lowest cost producer.

Simply collecting data does not create a framework where the workforce can take immediate action to resolve the problem or improve the outcome. Manufacturers already know when there are problems a traditional MES simply helps them to recognize this faster. It does not actually help solve the problem.

6. Don't Assume that the Answers Lie with Plant and Equipment

Research continues to show that the answer to improving production performance is not always more equipment or equipment-focused initiatives, which unfortunately have been the focus of the overwhelming majority of the Continuous Improvement programs of the past two decades. Rather, the answers to this challenge lie with people and process. It's about implementing disciplined day-to-day review points, adherence and tuning of best operating practices as well as appropriate skills coaching, re-enforcement and real time feedback "on the floor". The key is to do this quickly and with minimal administrative effort.

7. Don't Avoid the People Opportunity Because of Its Perceived Difficulty

At the same time, manufacturers should not avoid the human capital opportunity just because changing prevailing attitudes and beliefs seems difficult. When operators and supervisors have real-time transparency into production performance, reduced administrative burden and a mechanism that enables them to contribute their own ideas and knowledge turning them into actions, that's when real, sustainable change emerges.

8. Don't Take Too Long to Produce Results

With any performance improvement initiative, momentum is the key and quick wins provide the fuel needed to gain that momentum early on. Early successes ensure that the organization's focus remains fixed on the true objectives—to uncover the causes of inefficiency and to take actions to fix these problems and not on trying to make a factory's performance appear to be higher than it actually is.

9. Don't Build Your Own Intelligence 'Platform'

In this environment, manufacturers cannot afford to try their hand at designing and building their own system to re-enforce such workforce improvements and actions. Instead, they would be best served by finding a packaged solution that is specifically designed for their industry. History has shown that the long, drawn-out process of designing, building, implementing and refining such 'platform based' systems (with strange module names or descriptors), usually ends up with an automated design of the current practices rather than the design of new and "best operating practices"; in essence the exact opposite of the desired goal.

10. Don't Assume that Major Improvements Take Years to Materialize

Finally, don't assume that transformational improvements can't be achieved in the short run. There are a number of solutions that can be implemented quickly and can begin to yield measurable improvements in eight weeks or less. Such a short time to results is possible when Continuous Improvement practices are focused on the workforce impacting the next two hours of production performance, rather than on six sigma black belts analyzing data to make long term strategic decisions about equipment design. The next generation of MES provides enabling technology for the hourly paid workforce to interact with it directly; comes pre-packaged with industry-specific functionality and best practices that deliver value from the moment of installation. This should take weeks not months or years to implement.

THE PAYOFF

By letting go of old assumptions about measurement and "business intelligence" and focusing instead on workforce action and human capital supported by a new generation of easy to apply MES solutions, organizations have increased profitability and are significantly lowering the cost of production in a matter of weeks whilst at the same time being entirely scalable across a multi-plant organization that spans the globe. Indeed the whole point of these exercises is to make the best operating practices and their measurement adhere to a comparable standard which rarely if ever occurs when trying to design it in-house. In this instance the design debate is eliminated and action is all that remains. Action is the only thing that generates results!

For instance, Bay Valley Foods, a private-label manufacturer with 18 plants and $1.5 billion in revenue, saw a 5 percent production efficiency improvement across its plant network within a year. Considering the fact that each percentage point of increased operational efficiency translates into $500,000 to Bay Valley Foods, the company cost savings were on track for $2.5 million within one year.

Berner Foods, a leading private-label supplier of quality food and beverage products, saw a 20 percent improvement in efficiency in the first year. The increased capacity led to improved gross margin and on-time delivery as well as more competitive pricing, driving further sales. Supervisors spend less time collecting data and managing paperwork, and instead take actions to impact the next hour of production.

Marsan Foods is another example. A processor of frozen entrées, soups and other products, Marsan reduced changeovers from 60 minutes to 34 minutes in less than 3 months. The improved efficiencies and reduced changeovers allow the company to lower the cost of production so it could accept business that it would have lacked profit before. Furthermore, Marsan has filled the spare capacity in the plant and installed a new line, leading to double-digit revenue growth. Management administrative time has been cut in half and direct labor costs reduced on all products.

THE RIGHT FRAMEWORK: MANUFACTURING OPERATIONS MANAGEMENT

A manufacturing operations management (MOM) system brings people, process and technology together to drive lowest cost production and make action unavoidable from operators and supervisors to maintenance and quality staff.

ABOUT APTEAN FACTORY

Aptean Factory is a manufacturing operations management system (MOM) that is "pre-configured" to specific industry sector best practices. It makes action unavoidable and unlocks the "human capital" of operators and supervisors to cut production costs.

Aptean Factory standardizes improved daily work control practices and formalizes continuous improvement initiatives. It integrates data capture, packaged metrics like OEE, analytics and scorecards, continuous improvement and paperless quality management. It ensures that every worker is impacting the next hour of production and every leader has the scorecards to drive improvement.

Along with the technology Aptean Factory provides the recipe and change method to focus daily performance reviews on a lower cost every run, every shift, every day.

To learn more about how Aptean Factory can help you identify and tap hidden operational efficiencies in your plants, visit www.apteanfactory.com or email us at apteanfactory@aptean.com.

1. Latson, Jennifer. "Consumers Learning Lessons on Savings." Houston Chronicle. April 8, 2010. http://www.chron.com/disp/story. mpl/breaking/6947180.html

2. AMR Research Survey.
In its study, "Using Manufacturing Metrics to Drive Excellence in Consumer Products," conducted in early 2008, AMR Research interviewed 100 participants in food and beverage (F&B) and in CPG organizations to gain an understanding of what companies' measure, and to examine how metrics alignment drives behavior

Aptean Factory Audit and Benchmark
The foundation of the Factory Profit Audit is a comprehensive study performed by Aptean through more than 80 on-site business analyses over the course of two years. The study, which explored CPG plants' current challenges and approaches to driving productivity, not only concentrated on existing data gaps and plant performance, but also uncovered the significant opportunity available from the hourly paid workforce. Using a hands-on approach, the on-site study included an in-depth examination that spanned from the executive level to the shop floor. The study findings now have been brought together into an industry-wide scorecard and benchmark index.