

The Impact of Lean on Consumer Product Manufacturers

Market Segment

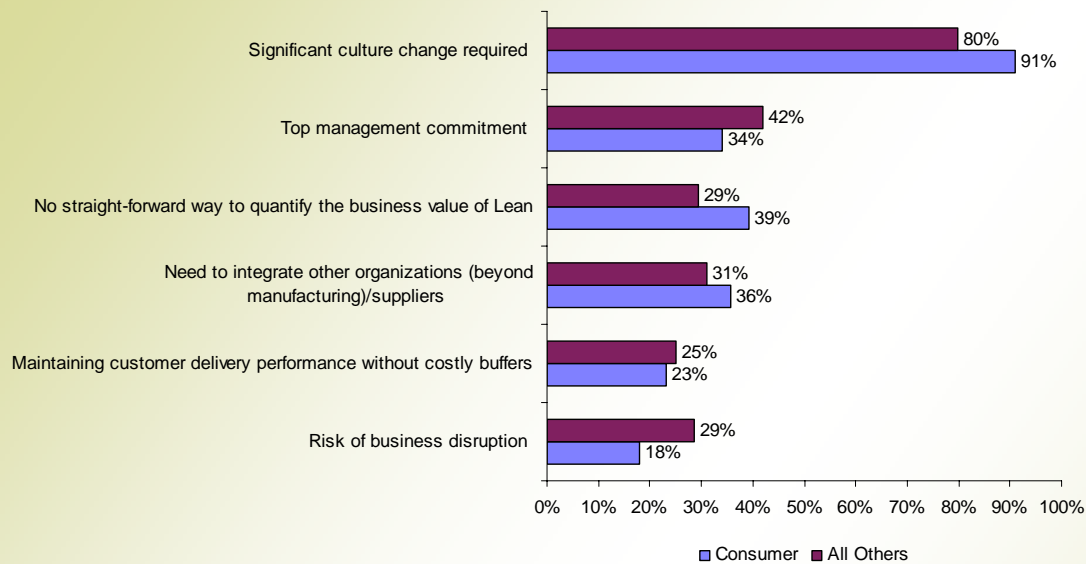
Dedication to Lean requires a focus on change, the identification of areas of improvement across the enterprise and a commitment to monitor continuously. The real challenge to Lean, however, requires this first change, a shift in the culture. Consumer products manufacturers are early on in their Lean journey compared to companies across industry, with 56% less than a year to 3 years into it. By leveraging external expertise and taking small steps in their Lean programs, these manufacturers are setting their sights on reducing cost, driving down inventory, and sustaining a culture of Lean throughout the enterprise. But success is being found by those Best in Class consumer products manufacturers that go the next step by tying their Lean objectives into business opportunities, and by measuring the impact of the Lean program. These companies are placing more emphasis on monitoring the metrics that are tied with success, including inventory and on-time delivery, to truly maximize the competitive advantage to be responsive to the customer.

Key Findings

The turning point for Lean is in the adoption of core principles within each plant, and an understanding of individuals within the organization of how going “Lean” will affect their responsibilities. To ensure a successful transition this message is best delivered from senior management, who can communicate the value a Lean environment will have to the enterprise. Consumer products manufacturers may be early on in Lean, but 52% have already set the priority to *reduce non-value added manufacturing and supply chain costs* with 48% also setting goals to *implement continuous improvement culture and methods*, while *reducing inventory and assets* (41%)

However, their relatively recent adoption of Lean means consumer products manufacturers still face the challenges of adapting to *cultural changes*, with 91% citing this as their top challenge to Lean (Figure 1). Surprisingly though only 34% report that getting *top management* engaged as an issue, versus 42% of companies across industry, perhaps an indication that the blush has not yet faded from the early excitement generated by the possibilities available from “Leaning” out processes and inventory. Yet, interestingly enough, 39% are finding it difficult to *quantify the business value of Lean* versus 29% of companies overall. By deciding early on what the key areas of focus should be for a Lean program, it will make it easier to not only set targets and goals, but also sustain backing of all levels of the organization as well.

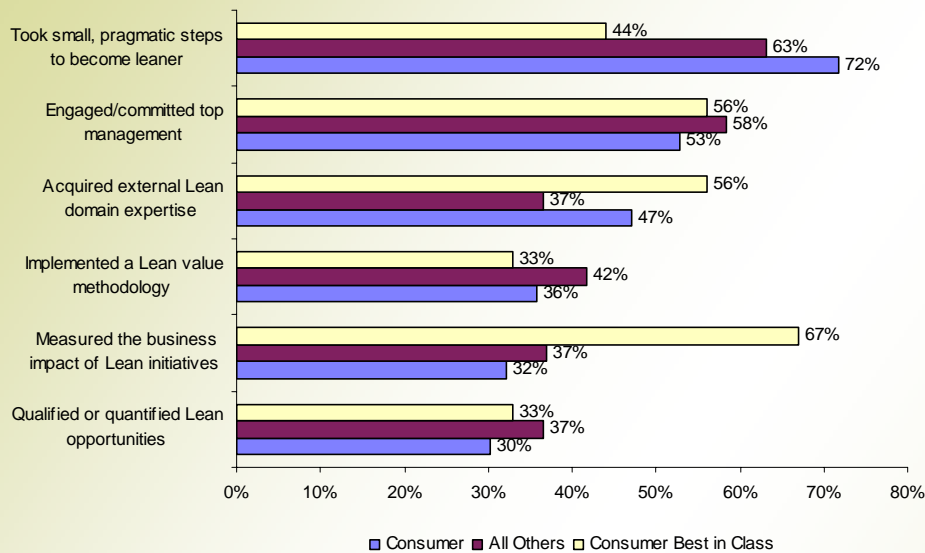
Figure 1: Lean Implementation Challenges



Source: AberdeenGroup, February 2007

Overcoming Lean Challenges

To keep pace, consumer products manufacturers are taking small incremental steps to become Lean (72%) while seeking the aid of *external* consultants for support of their Lean programs (47%, Figure 2). However, consumer products manufacturers are falling behind all other companies for looking at the *business impact* of Lean, with only 32% setting their sights on this objective, and another 30% trying to identify and *quantify Lean opportunities*. Best in Class consumer products manufacturers however, are not only more likely than other consumer products manufacturers overall to leverage external resources to enable their Lean program (56% versus 47%), these top performers are twice as likely to have already *measured the business impact of Lean initiatives* (67% versus 32%). These top performing consumer products manufacturers are not only overcoming the initial cultural issue by bringing in external Lean experts to ease the transition, they have successfully managed to tie initiatives into larger business objectives to truly gain the best benefit from their Lean deployment.

Figure 2: Overcoming Lean Obstacles

Source: AberdeenGroup, February 2007

Automating Lean

Early proponents suggested that no technology was required to implement Lean techniques. Predicated on the “go out and look” principle, these early disciples evangelized against the use of automation. Yet as supply chains become more complex and competition becomes more global, companies seeking significant performance improvements have begun to look more and more to technology and automation (Figure 3). ERP, Custom/Homegrown applications and spreadsheets represent the lion’s share of technology applied to Lean today, with specialty applications for specific functionality such as e-Kanban beginning to grow in adoption rates. Best in Class performance today however requires continued adoption through specialized ERP or Supply Chain functions.

Because of the dynamic environment within consumer industries, finding an automated means of tracking KPIs becomes essential. One such CPG (consumer packaged goods) company, National Foods in Australia, has made significant progress over the years in regards to their Lean program but is looking to streamline the process to lead to greater efficiencies and enhanced visibility. The company will soon be implementing an SAP platform company-wide in part to further facilitate the growth of their Lean program, in addition to an SAP business intelligence tool to monitor critical KPIs.

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If it’s an online system you almost guarantee accuracy. We have made considerable progress with inventory reduction, but we want to take it to the next level. We want to be able to centralize that and that’s how we are looking to optimize our program. Centralized control, centralized visibility and centralized process so we don’t have a lot of duplication within each of our manufacturing locations,” says Ross Martin, Business Transformation Program Director.

Because of the risk of waste due to poor planning and scheduling, National Foods also views the ability to have enhanced forecasting capabilities as another essential to their new implementation. “We are also prioritizing forecasting within the context of our Lean program because we operate in a very short shelf life environment with high inventory turnover. So if you don’t plan accurately you can end up with either lost sales or huge waste. So the better predictability will allow us to optimize waste reduction and optimize our sales performance. We will be tying these Lean KPIs within the SAP business intelligence tool. This will enable the advanced capability to accurately extract information for the KPIs that we establish ongoing.”

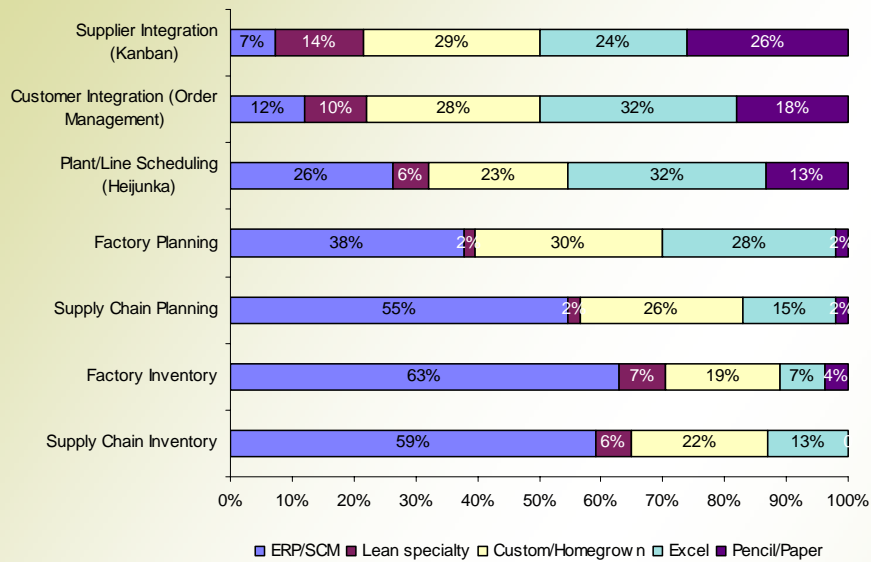
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Monitoring Performance

While consumer products manufacturers have taken significant advantage of ERP to manage inventory both within the plant and across the supply chain, they are not monitoring metrics frequently enough. Currently 29% of consumer products manufacturers are monitoring their Lean programs on an ad hoc basis, with another 24% reporting monthly, in spite of the fact that daily or weekly reporting is required for best performance. Table 1 looks at two of the top Lean Key Performance Indicators (KPIs) currently being monitored across consumer products manufacturers, Best in Class consumer product manufacturers and companies overall. This identifies a lack of focus from these manufacturers, despite their desire to gain better control over inventory. Only 39% of consumer product manufacturers are currently monitoring inventory turns, while a little less than half (46%) pay attention to on-time delivery, perhaps the most critical of all customer-facing metrics. Best in Class consumer products manufacturers meanwhile are keeping close watch on both (67% inventory turns, 89% on time delivery).

Figure 3: Lean Automation



Source: AberdeenGroup, February 2007

Table 1: Top Lean KPIs

	Consumer Best in Class	Consumer	All Others
On-time Delivery	89%	46%	64%
Inventory Turns	67%	39%	47%

Source: AberdeenGroup, February 2007

Aberdeen Conclusion

While consumer products manufacturers are relatively recent adopters of Lean programs, they are already achieving value through a firm commitment to understanding how Lean will affect business processes. External consultants that can help in the transition and this sector seem to be receptive to using the accumulated knowledge of experts. Consumer product manufacturers eager to begin the Lean journey should follow the lead of better-performing consumer products manufacturers by prioritizing the metrics that matter and following suit with frequent measurement to monitor the effectiveness of the program.

Recommendations for Action

- √ Clearly identify goals – specific areas of improvement to be addressed by your Lean program.
- √ Gain top management approval and backing, and communicate the goals of the program to all levels of the organization.
- √ Set priority on measuring the business impact of Lean initiatives, focusing first on customer-facing metrics such as on-time delivery performance. Establish Key Performance Indicators (KPIs) that will reflect the success of the program.
- √ Look to external consultants to help ease the transition into a Lean-enabled manufacturing environment.

Related Research

[The Lean Benchmark Report](#); February 2007

[The Lean Supply Chain Benchmark Report](#); September 2006

[Roadmap to Lean Success: Measurement and Control Benchmark](#); July 2006

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