

Directions:

The newsletter of Codexx Associates Ltd

Issue 1 – September 2002

Welcome to Directions:

Welcome to the first edition of the newsletter of Codexx Associates. This is aimed at executives within European manufacturing businesses. Our objective is to share with readers, 'sound-bites' of the latest business trends and thinking, which we believe are relevant to your business.

Lean Business – time for action

Lean Business describes the application of lean techniques to business processes, encompassing the whole value chain from raw materials to the receipt and support of products by end customers. The term 'Lean' was coined in the mid 1990s to describe the implementation of Japanese manufacturing techniques such as 'Just In Time', waste elimination and setup reduction in Western businesses. The focus has broadened from the initial factory focus to encompass the whole value chain (i.e. suppliers, manufacturing, distribution, delivery and support).

The objective of Lean is to drive out waste (encompassing wasted time, activity, inventory and space) and create processes that flow and are initiated by customer demand. By doing this costs can be radically reduced and service radically improved. Companies that have embraced Lean have typically cut inventories and cycle time by 50% in each wave of their Lean programme. Lean does not demand expensive investment in IT, nor complex programmes. But it does demand the challenging and breaking of existing paradigms. And success required the harnessing of the energy and knowledge of company employees together with suppliers and customers.

In the current difficult business environment, the techniques of Lean Business are more relevant than ever. However, very few manufacturers are actively following a strategy to implement Lean Business across their factories and supply chain. The PROBE benchmarking programme, run by the CBI, has benchmarked over 2000 manufacturing sites and only 2% of those surveyed were operating at World Class standards. Since a key element of World Class manufacturing is the adoption of Lean techniques, the 'fatness' of most manufacturing operations is self-evident!

So why are more companies not embracing Lean? In our experience, the length of the commitment is likely to be one reason. To fully deploy Lean across its business, a company needs to allow typically 5 years. It's not a quick fix – although significant results and benefits from pilots will be seen within 6 months. So where should you start? In our experience you should start with your customers. Get their view of your service and your processes. Then look at the 'big picture' of the value chain in which you operate. Where is the waste? How could you improve? What is your vision of your 'Future World' operation? Best practice benchmarking can also be a very powerful catalyst for change in this initial stage. For more on benchmarking, see <http://www.codexx.com/factoryscan.htm>.

To better understand the challenges and achievements companies have experienced in implementing Lean Business, Codexx is working with London Business School on the Lean Business Survey 2002. If you would like to take part or find out more about Lean Business, then email Lean@codexx.com

e-markets – to join or not to join?

What do you think about when you see the word 'e-market'? Many people will think that it was just another dot.com fad that disappeared along with the share values of e-business companies back in 2000. And certainly many of the original e-markets did indeed implode under the pressure of unworkable business plans, non-existent customers and weak value propositions. But a high proportion of the e-markets established by large companies, singly and in consortia, are very much alive. In the automotive sector alone, large e-markets like Covisint, SupplyOn and the private e-markets of VW and BMW are operational (in basic applications anyway) and driving to get first and second tier suppliers onboard. So what's your strategy for dealing with e-markets? If one of your major customers approaches you with a heavy 'invitation' to join their e-market as a supplier, what should you do?

Do you decide to establish your own private e-market instead of joining someone else's buy-side e-market? If you're a small company, it will not be feasible for you to establish your own e-market, so you will need to evaluate public e-markets for your buy-side and public/private e-markets for your sell-side.

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To take part in our 2002 Lean Business survey run with the London Business School, email Lean@codexx.com

e-markets – to join or not to join? (continued)

In evaluating an e-market as a seller, look for:

1. The ability to market your business, products and services, through a directory in the market. Simply being a part number in an e-catalogue = commodity and you will be purchased accordingly.
2. Provision of supply chain information, such as actual inventories and customer production plans.
3. Ease of integrating the e-market systems into your own business systems (e.g. ERP), to enable orders and planning data to go directly into your systems without manual re-keying.
4. Tools to enable the RFQ/RFP process, making it easy for buyers to include you on their tender list
5. Ideally an e-market which is neutral, i.e. has representation from both buyers and sellers in the governance process, although this is rare.
6. An e-market with a high number of existing buyers & sellers. The law of 'Increasing returns' applies here, as more 'liquidity' of trade will draw more buyers and sellers.

For more on e-markets, see <http://www.codexx.com/e-markets.htm>

e-business benefits – have you found them?

Despite the dot.com fallout and the tendency for binary thinking of the western business culture (i.e. if it is not a silver bullet, then it must be a dud), the use of internet technologies – e-business – continues apace. Albeit quietly, with less fanfare. But are companies seeing the benefits? According to a recent US survey (Net Impact study of 2,699 companies in US and Europe – May 2002), they certainly are.

According to the survey, 80% of those surveyed had seen payback from their e-business investments. Interestingly 63% of those surveyed did not have any formal procedures for measuring the benefits from their IT investments. When it came to quantifiable benefits, through cost reduction, companies cited significant improvements:

- 50% improvement in workforce efficiency
- 35% reduction in inventory
- 30% reduction in material cost
- 20% improvement in distribution cost
- 15% reduction in production cost

The survey also examined those factors that seemed to correlate with successful e-business projects. Common factors included: 1. Using e-business in several areas, rather than just one. 2. Use of e-business to enhance customer loyalty. 3. ROI measures on e-business projects. 4. Standardising data across the organisation. 5. Giving mobile users access to the same data as on their desktops.

So how does this compare with experience in the UK? It certainly sounds more upbeat than the story from typical UK companies that we hear. This could be down to typical British conservatism. However, you might question the robustness of the stated cost reduction benefits if the majority of the surveyed companies had no formal e-business project measurements in place. But that is a subjective view. We aim to get an objective view in the 2002 e-business achievement survey being run with the National B2B Centre. If you are interested in taking part contact us at e-survey@codexx.com

Connect to Codexx

Your comments and suggestions on this newsletter are welcome. Contact us at: newsletter@codexx.com

Codexx provides business improvement services. We define our mission as 'helping businesses help themselves'. In our experience this is the best way of creating high impact and sustainable improvement. To do this we provide 'light touch' methods and offerings, using experienced practitioners and academics. We focus primarily on 3 areas: Lean Business, IT Value and Strategies for Innovation. If you would like to know more about Codexx, go to our website at <http://www.codexx.com>

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