



LEAN STRATEGY: CUSTOMER FOCUS

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FOR GENERATING COMPETITIVE ADVANTAGE

GARY KAPANOWSKI

Lean is considered an operational effectiveness approach and a tool to implement corporate strategy. Some examples include reducing the cost of work in process inventory through lead time reduction or improving the process time of customer service through time studies and balancing workloads. A recent publication by David Collis describes the successful implementation of strategies by using lean as an operational effectiveness tool.¹

Lean is more than just a tool for operational improvement; it is a complete strategy that focuses on the customer and allows organizations to optimize their understanding of the customer and thus add more value than the competition. A lean strategy not only offers competitive advantages, it also makes strategy implementation more successful. In this article, I address the definitions of lean, strategy, competitive advantage, and

operational effectiveness and examine the lean strategy argument and its benefits. I conclude by proposing a paradigm shift in the viewpoint of lean.

Definition of lean

The classic definition of lean is the identification, elimination, and reduction of waste or non-value added activity within a process as perceived by the customer.² Lean is the dual emphasis on respect for people and continuous improvement in everyday principles and actions, which allows the organization to stay focused on the customer and eliminate waste (see Exhibit 1 from my article in the January/February issue of *Cost Management*).³ The Toyota Way management system, originally called the respect for humanity system, drives people and cultural change to seek continuous improvement.⁴ Additionally, lean uses current resources to improve processes so that you don't

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have to spend your way toward continuous improvement. In summary, lean is about involving everyone within the organization in continuous improvement efforts by thinking every day about how to make the process better, cheaper, easier, faster, and safer for the customer.⁵

Definition of strategy

Henry Mintzberg described strategy as the long-term goals of an organization, as well as the actions and allocation of resources needed to implement those goals.⁶ Michael Porter defined strategy as how the organization will compete, the goals that need to be accomplished, and the identification of policies that will help achieve those goals.⁷ Generic strategy goals include cost leadership, differentiation, and focus. Therefore, strategy determines the organization's direction and focuses the effort on competing and delivering value to the customer and investors.

Definition of competitive advantage

Michael Porter argues that competitive advantage means deliberately choosing different activities in order to deliver a unique mix of value to the customer.⁸ Thus, a competitive advantage is the organization's ability to apply the five forces better than the competition can. These forces include:

- the bargaining power of buyers;
- the bargaining power of suppliers;
- the threat of new entrants;
- the threat of substitute products; and
- rivalry among competing firms.⁹

As long as the organization can provide a unique combination of these forces, it will avoid the stuck-in-the-middle zone of not having a competitive advantage.

Definition of operational effectiveness

Michael Porter's argument is that strategy is separate from operational effectiveness but necessary for both organizational success and competitive advantage. A strategy agenda is used to define an organization's unique posi-

tion, direction, and purpose. An operational agenda allows for continuous improvement, flexibility, and achievement of best practices.

Lean strategy argument

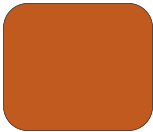
The traditional argument is that lean is a tool for process or operational efficiency. The lean strategy argument, however, focuses on the customer, not just operational efficiency. With this approach, the customers' demands are incorporated throughout different aspects of the organization, including:

- methods (process);
- resources (assets, material, and people);
- measurement;
- management;
- market (competition);
- Mother Nature; and
- the internal and external effects.

This seamless transition from the customer at the end of the process to the beginning of the process determines what the customer is willing to pay for (i.e., value-added).

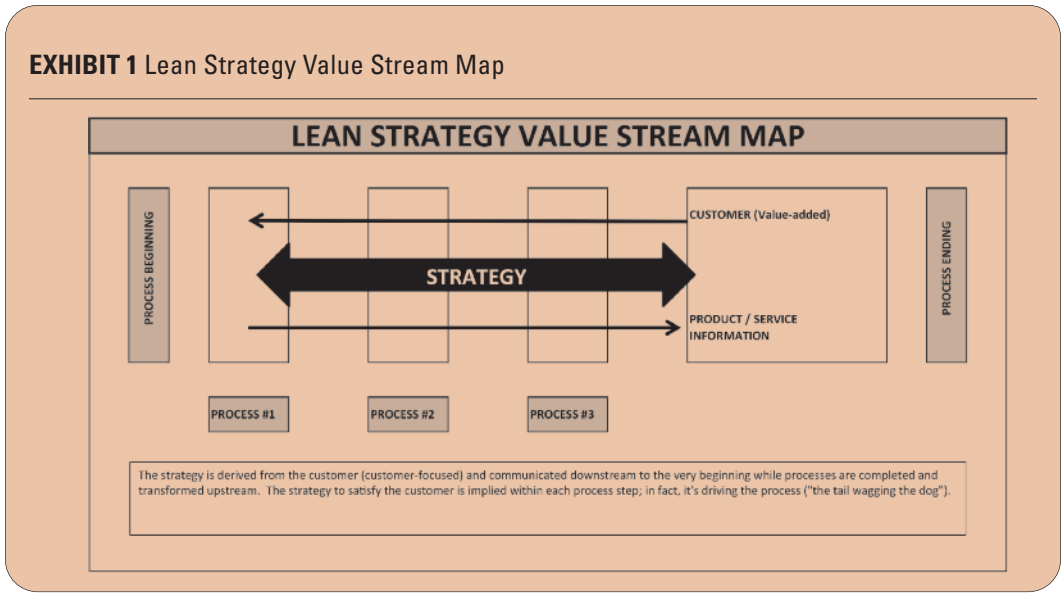
As we view the lean strategy value stream map in Exhibit 1, the strategy is derived from the customer (customer-focused) and communicated "downstream" to the very beginning. As each process is completed repeatedly, improvements of the strategy are implemented and carried "upstream." This system can be summarized by the phrase "the tail wagging the dog," as the customer — who is at the end of the process — is actually driving all aspects of the organization, including strategy.

Lean strategy is customer focus. Lean is the customer at every individual process of the organization. This strategy identifies customer demands and implements them within the organization's processes. This requires organizations to be agile, adaptable, and capable of implementing change. The five steps of lean — identify value, identify value stream, flow, pull, and perfect — apply to this approach. Thus, perfecting each process step allows the organization to become closer to the customer; becoming closer to the customer means providing more



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EXHIBIT 1 Lean Strategy Value Stream Map



value to the customer; providing more value to the customer means the organization is understanding current and future requirements for continuous (perfect) value that will create methods to meet customer demands. Lean is the only business approach that focuses on the customer before the phases and processes of the organization.

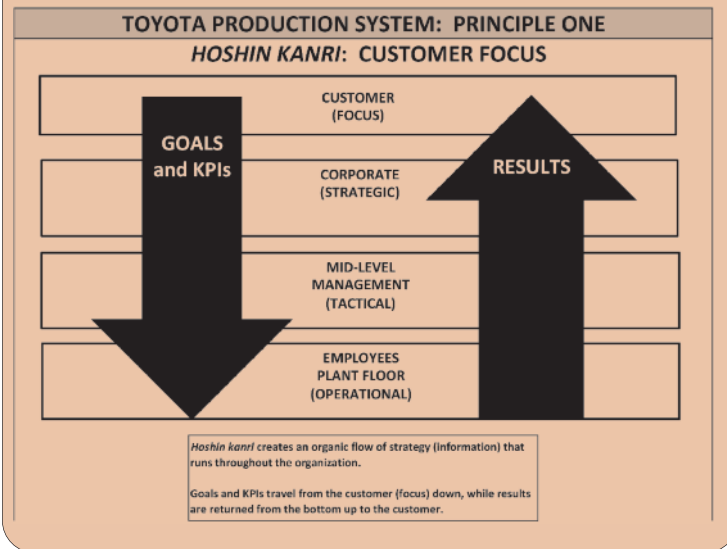
Lean strategy meets the strategic aspects of innovation and external threats. Innovation and external threats are not an issue for lean strategy. The customer contains all the known and unknown aspects of demand, which are directly or indirectly reflected to the organization. The closer the organization gets to the customer, the more accurate the organization becomes in meeting the customer's demands. Direct customer demand is easy to obtain due to the transparency of the information, such as sales orders. Indirect customer demand is more difficult as this may include surveys and forecasting future customer requirements, known or unknown by the customer. Thus, the true value of lean strategy is revealed: obtaining indirect customer requirements.

Lean strategy meets the generic goals of strategy. By focusing on the customer, the lean strategy can be any or all of the generic strategy goals (e.g., cost leadership, differentiation, or focus), and by understanding the customer, organizations can eliminate waste in a process

and become the cost leader of their industries. If the customer demands different products, lean strategy allows organizations to adjust their processes to create innovative ideas and deliver value to the customer. Lastly, the organization can determine if it should focus on a single customer (or a small group of customers) or if that customer (or customers) requires the full attention of the organization based on behavioral, demographic, geographic, and/or physical requirements. Identifying and understanding the customer is critical for establishing the organization's strategic focus and determining where to compete, which satisfies Michael Porter's definition of strategy. Lean strategy can also accommodate one or many of these generic approaches, thus leading to a competitive advantage.

Lean strategy creates competitive advantage. By virtue of the lean strategy, each organization will be different according to its nature. Each organization has different people, resources, and lean capabilities, which produces different results. For example, people will vary based on adaptability, education, skill, trainability, turnover, etc. With large organizations, these five variables can create thousands of combinations. Thus, we can argue that people can produce a unique competitive advantage. Resources, like people, can offer quite a few variables as well, including access to cash, equipment,

EXHIBIT 2 Toyota Production System: Principle One



location, and resource effectiveness, to name a few. Lastly, progress in the organization's lean capability is a major factor of strategy. Implementing lean isn't an easy task; in addition to commitment from management, you need support for change and an understanding of the lean principles from the Toyota Production System (TPS) throughout the organization in order to make processes lean and sustain lean development. People, resources, and lean capability must work together to produce effective and efficient processes. These advantages differ among organizations and even among the functional areas within each organization. Lean strategy produces a uniqueness — and thus the foundation of competitive advantage — for the organization.

Lean strategy has strategy built into its principles (TPS). The argument for understanding the customer starts with the first principle of the TPS, *hoshin kanri* (see Exhibit 2). With the focus on the customer, the organization develops the goals and key performance indicators and then aligns them with the management processes and operations performed by employees; this ensures that everyone is on the same page so that the strategy can be successfully implemented. If I know my customer, my understanding of how to deliver a product or service to them is built into my

processes. This produces results that are delivered to the customer. The success or failure of the strategy is communicated by the customer to the organization. The process keeps repeating to continuously improve our understanding of the customer. The alignment of the customer-focused lean strategy and the organization's actions to produce value-added products or services is crucial for success.¹⁰

Benefits of lean strategy

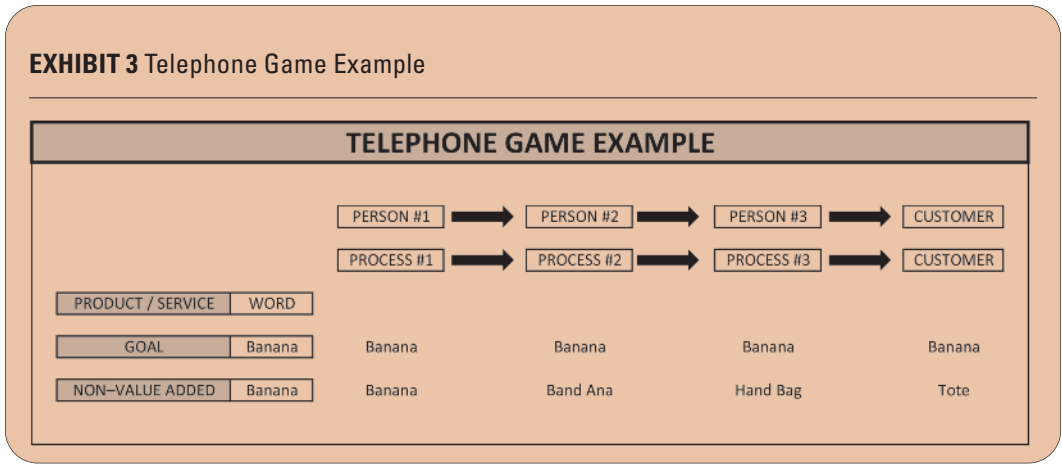
The benefits of a lean strategy go beyond understanding the customer and successfully executing a strategic plan. Through lean, an organization becomes adaptable, grows revenue, promotes entrepreneurial initiative, and gains synergy.

Successful strategic implementation.

Embedded within the lean strategy and *hoshin kanri* are continuous improvement and respect for people, the foundations of lean. With continuous improvement as one strategic pillar, the strategy naturally evolves with the customer to develop processes that align with the customers' needs at all times. The other pillar of strategy, respect for people, fosters a supportive organizational culture and considers the customer by not permitting waste or non-value added activities that will alienate the organization from the customer. A lean strategy will produce a culture — or a respect for humanity system — that allows strategies to be understood and implemented successfully, meet customer demand, and change over time while continuing to eliminate waste or non-value added activities.¹¹ A true lean advocate will not allow waste or defects to pass to the next process step because he or she values the next process or person and refuses to make the next task more difficult. The issue should be corrected before the next customer pull or demand starts.

Think of the telephone game (as shown in Exhibit 3). With each process (or person) connected sequentially, a word is spoken to the first process and then repeated throughout the chain until the information stops at the final process (i.e., the customer). Has the word changed by the end of the chain? How many times has the word changed throughout the process?

EXHIBIT 3 Telephone Game Example



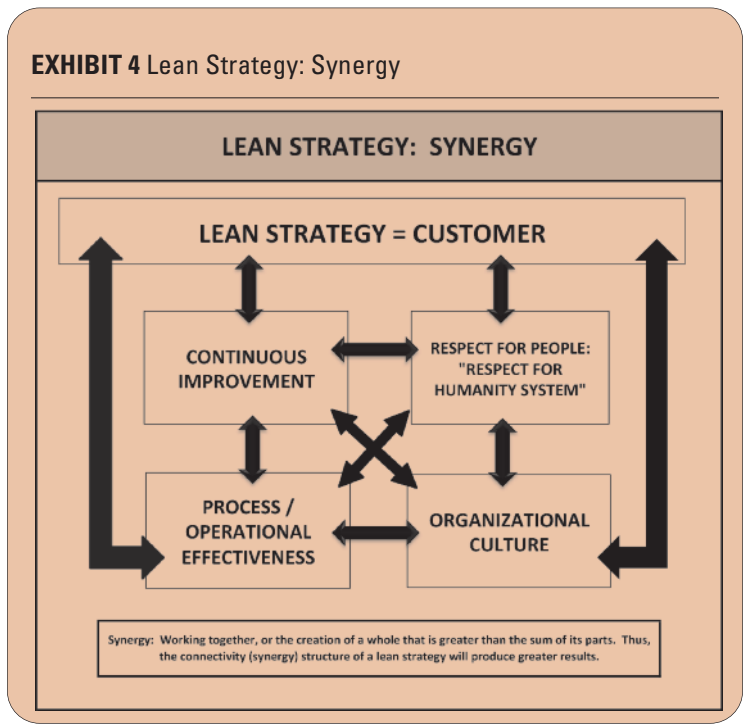
The goal of a lean strategy is to “secure” the word within each process so that it doesn’t change; the word should be the same at each step and at the end of the process. This internal customer focus allows for successful strategic implementation because the strategy is administered, controlled, and continuously improved at each process in the organization.

Culture is an issue for any strategic plan, as discussed in Thomas Lloyd’s book on management.¹² Peter Drucker also discussed culture and is responsible for the phrase “culture eats strategy for breakfast.”¹³ Lean strategy reverses this proposition. With everyone in the organization totally committed to understanding the customer and continuously improving, lean initiatives can be successful. The groundbreaking study performed in the book *The Machine that Changed the World* supports and demonstrates the effectiveness of lean.¹⁴ Lean eliminates gaps in strategy and improvement initiatives, thus providing for sustainable strategic implementation. In our scenario, lean strategy reverses Drucker’s original phrase to “lean strategy will hold culture’s hand and take it out for dinner.”

Adaptability. By its very nature, a lean organization has the ability to adjust quickly to changes in the market built into its processes. This will allow for reduced inventory and the elimination of price discounting. Reduced lead time will allow for enhanced competition as products or services can enter the market faster to meet customer demand.

Revenue growth. At the core, lean strategy provides the pathway for revenue

EXHIBIT 4 Lean Strategy: Synergy



growth. The lean goal, as described by Taiichi Ohno (founder of TPS), is to look at the timeline from the moment the customer places an order to the point when cash is collected and to remove non-value added wastes.¹⁵ By implementing lean strategy, the organization implements lean throughout the organization. By considering time, the organization can improve the throughput of products (services) to the customer (inventory turns) and thus adds capacity for additional sales. This is a benefit of lean that is not normally discussed. Normally, lean is viewed as way to reduce cost or capacity, but the real impact of lean strategy and lean processes is revenue growth.

Entrepreneurial initiative. Lean challenges everyone to use their creativity and initiative to experiment, learn, and grow their skills and knowledge of the process. One example is the stop-the-line system in production that gives employees the ability and responsibility to stop production and implement immediate improvements and prevent waste. Organizations that have included the foundation of respect for people will not need to worry about such issues as morale, improvement implementation, or even the lack of understanding the customer. This produces a corporate culture designed at the process level as customer focus becomes an automatic function to enhance speed of implementation, understanding the customer, and the continuous reduction of waste.

Synergy. To optimize lean, all phases of the TPS must be incorporated throughout the organization.¹⁶ This creates an environment for synergies (working together or creating a whole that is greater than the sum of its parts). Aligning everyone within the organization to focus on the customer through respect for people and continuous improvement results in the implementation of only added-value tasks and the elimination of waste in all processes. See Exhibit 4.

Conclusion

Lean strategy is a viable option for organizations that want not just operational effectiveness, but competitive advantage

as well. By aligning with the customer, all requirements now and in the future are embedded throughout the organization to meet customer demand. The benefits consist of higher success rates of strategic implementation, along with continued lean improvements. Other benefits include adaptability, revenue growth, entrepreneurial initiative, and synergies. As lean meets the standard definitions of strategy, organizations need to look at lean for improved strategy and competitive advantage. ■

NOTES

- ¹Collis, D., Lean strategy, *Harvard Business Review*, (March 2016): 62–68.
- ²Womack, J.P. and Jones, D.T., *Lean Thinking: Banish Waste and Create Wealth in Your Corporation*. (New York: Free Press, 1996).
- ³Kapanowski, G., Lean fundamentals for accountants, *Cost Management* 30, no. 1 (2016): 5–14.
- ⁴Liker, J., *The Toyota Way: 14 Management Principles from the World's Greatest Manufacturer*. (New York: McGraw-Hill Education, 2004).
- ⁵*Op. cit.* note 3.
- ⁶Mintzberg, H., The strategy concept II: Another look at why organizations need strategies, *California Management Review* 30, no. 1 (1987): 25–32.
- ⁷Porter, M.E., *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. (New York: Free Press, 1980).
- ⁸*Ibid.*
- ⁹*Op. cit.* note 7.
- ¹⁰Benson, B.B., *Hoshin kanri: The fundamental starting point for lean success*, *Cost Management* 30, no 1 (2016): 15–20.
- ¹¹*Op. cit.* note 3.
- ¹²Lloyd, T.W., *Management*. (Illinois: Dryden Press, 2000).
- ¹³First attributed to Peter Drucker.
- ¹⁴Womack, J.P., Jones, D.T., and Roos, D., *The Machine That Changed the World*. (New York: Free Press, 1990).
- ¹⁵Ohno, T., *Workplace Management*. (New York: Productivity Press, 1988).
- ¹⁶*Ibid.*