



# Strategy to Reality

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## Turn your Strategy into Reality with TXM

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Welcome again to the TXM E-Newsletter for April 2008, the first to feature our new logo and branding. If you wish to discuss the topics further or are interested in how TXM can help your business, please don't hesitate to contact Tim Mclean on 0404 480 517 or email us at [info@txm.com.au](mailto:info@txm.com.au). You can also learn more about TXM and what we do by visiting our website at [www.txm.com.au](http://www.txm.com.au).

**Tim McLean—Principal, TXM**

## Standard Work—Setting the Standard for Lean

Standard work is one of the most effective tools in the lean toolkit. It is the lynchpin for achieving “one piece flow”, where work flows from one production step to the next at an even pace without waste or interruptions between production steps.

### What is Standard Work?

Standard work is a standard way of completing each task in a production cell or assembly line that is followed by everyone performing that task. Standard work is designed with by production team to be the best and safest way of completing the task in order to minimize waste.

### Why Develop Standard Work?

To achieve a level flow of production at the rate of customer demand (Takt time) you need each step of the production process to be producing at approximately the same rate. This rate needs to be consistent across operators and shifts. Standard work ensures that this is achieved. Standard work zeroes in on each step in a production process and identifies waste involved at each step in that process. For example a production process may take 5 minutes, but how much of that 5 minutes is actually spent creating value and how much is involved in walking or waiting for machines. By following the same steps in the same order, operators are more likely to achieve consistent quality. Problems are also rapidly highlighted when operators are unable to complete the standard work tasks within Takt time.

### When Should you Implement Standard Work?

Implement 5S (see the last TXM E-zine) to organize the workplace and coach team leaders in structured problem solving tools before starting standard work. Ideally you will have completed your future state value stream map to have a clear idea of the takt time you need to achieve and identify the processes that need standard work. Standard work will, itself, help you stabilize the workplace so it may help to start implementing standard work sooner rather than later.

*TXM Associate, Anthony Clyne is one of Australia's leading Standard Work Coaches.*



*Above: Laser cutting in action—TXM is currently assisting clients with both outsourcing and in-sourcing of sheet metal processes—proving that there is no “one size fits all” approach.*

## Outsource or In-source? Five Tips.

Deciding what to make yourself and what to outsource is often difficult. Here are some ideas on how to make the right decision:

- Consider all the costs of outsourcing including transition costs, freight, inventory and quality risks in comparing in-house manufacture. Unit cost is usually only part of the picture.
- Does the process involve your core technology? If so, it probably makes sense to keep it in house to protect your IP.
- Make sure the designs of the parts you want to outsource clearly specified? If they are not, then you need to update part documentation before asking an external supplier to make the parts.
- How much fixed and working capital do you need to invest in the in house process? Even if you can make the parts slightly cheaper yourself, it may make sense to outsource in order to free up capital to invest in your core business activities.
- Extending your supply chain to include external suppliers may create waste and impact on flexibility and lead time. Do a value stream map of the new supply chain and make sure that you keep it “lean”.

*TXM has extensive experience in managing both the outsourcing and insourcing of production for our clients both nationally and internationally.*

# Top Survival Strategies from TXM Customers

Rising costs for commodities, labour, construction and regulatory compliance combined with a very high exchange rate and fierce competition from increasingly sophisticated producers in Asia make this one of the most challenging times ever for Australian manufacturers. Despite this, many TXM customers are thriving, exporting and growing both revenue and profit. We share some of their secrets to success:

## Lean Manufacturing

For the challenges faced by local suppliers the lean approach is a great way to improve competitiveness. The lean approach enables manufacturers to offer faster delivery, smaller order sizes and more consistent quality while at the same time reducing inventory, capital and unit costs. This approach therefore targets



*Above: Automation will reduce costs but at a high price. "Lean" strategies may be just as effective and cheaper*

directly the weaknesses of an import supply chain, namely long lead times, limited product range and high risk of defects. For many manufacturers the market where they can compete is in short run, highly customized products and quick turn-around. Lean strategies are the best way to meet this market need without driving costs up.

## Rationalise Operations

If you have duplication of plants and distribution nodes then now is the time to rationalize them. Typically cost savings of 25% to 30% can be achieved by combining two operations into one and a well executed change and a well designed supply chain can overcome parochial concerns about the loss of a local plant or warehouse. These projects tend to be very complex, so make sure that you plan thoroughly and have the expertise and resources available for your team so that you do not compromise customer service during the change (as this can easily undo the benefits of any rationalization).

## Purchase Effectively

The largest cost in your business is likely to be materials and other supplies that you purchase. Therefore you need to make sure that you are getting the best possible value for these products. Don't underestimate your buying power and don't be afraid to negotiate. Market knowledge and effective negotiation can enhance your relationship with your supplier as they will usually respect a customer who knows what they are buying and knows what it is worth. Do not ignore indirect spending such as sundry items, services and maintenance materials as often large percentage savings can be made in these areas even though your annual spend may be relatively small. Sourcing off-shore should also be considered, but make sure that you get good advice and consider all the costs and risks involved as these usually offset much of the unit cost saving.

## Focus your Business

Focus your business in the areas that add most value to your customers and shareholders. These are activities where your business has unique know how or is particularly competent. Other activities within your business should be under constant review. Outsourcing non-core production or functions can reduce cost and free up capital to invest in the things you do well. It can also help your business to benefit from low cost suppliers rather than just having to compete against them. Equally, you may realize there are activities where you can create value and get a better result for customers and your business by bringing those activities in house. Managing your existing suppliers' reaction to this can be a major challenge when bringing production back in-house. Whatever your strategy there are significant risks, so thorough planning and the right expertise and resources are required to make outsourcing or in-sourcing a success( see our tips for outsourcing above).

## TXM Executive Breakfast: Learn How Varian are Succeeding in the Global Market.

Phil Binns, the Managing Director of Varian Australia, a major TXM customer is the keynote speaker at our Executive Breakfast at the Melbourne Museum at 7am on Friday May 2nd. A few places are still available so contact us at [info@txm.com.au](mailto:info@txm.com.au) to book your place at this event. Cost for this event is \$30

## Do you Know Someone Else Who Would be Interested in This Newsletter?

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