

# Reassessing Enterprises to Redefine What's Possible: Laying the Groundwork for a Successful Transformation

## Achieve Breakthrough Improvements With Lean

**\$2.4 Billion** in client-verified cost savings\* — that equates to greater than a 10:1 ROI for our clients

\*Achieved by Simpler clients as a result of their transformation efforts from 2011 to Q1 2016.



The reView methodology was developed in response to the question that underlies the majority of a company leader's decisions: **How can I significantly increase the enterprise value of my organization?**

Lean transformation is a proven, highly effective strategy for increasing enterprise value. Based on the revolutionary principles of the Toyota Production System, Lean describes a problem-solving approach and organizational culture change that drives continuous improvement. Its focus on identifying and eliminating waste has the ability to maximize efficiency in organizations of all types and sizes.

## **Yet research shows that 70 percent of complex, large-scale enterprise change programs fail to accomplish their stated goals.<sup>1</sup>**

The reasons why vary from a lack of employee engagement to inadequate management to poor cross-functional collaboration. More often than not, however, these points of failure can be traced back to the same root cause: an incomplete or inaccurate understanding of business opportunities prior to Lean implementation.

What's more, company leaders often become caught up in simply doing Lean rather than using Lean to turn their strategy into action and cultivate a culture of customer satisfaction and employee motivation. They do what they can rather than what they should, often because the "should" seems impossible.

This traditional approach effectively sets limits on the improvement potential of the organization, sabotaging the transformation before it even begins.

### **Redefining What's Possible**

This white paper will introduce you to a comprehensive approach to Lean transformation that provides unparalleled, upfront insight into the capabilities of your business. Known as the reView<sup>SM</sup> Diagnostic, this process has the power to reveal huge opportunities you may be missing — and help you understand how to pursue them, achieving results you never thought possible.

1. "The 'how' of transformation," Michael Bucy, et al. May 2016, McKinsey&Company, <http://www.mckinsey.com/industries/retail/our-insights/the-how-of-transformation>, accessed May 2016.



## In the following pages, you will learn:

- ✓ How the reView Diagnostic can overcome the common failure points in a Lean transformation
- ✓ Why this approach is essential to appraising the value of your company, and how that affects your Lean transformation
- ✓ How this approach ensures your Lean transformation is aligned with your business strategy
- ✓ How this approach focuses your Lean transformation on changes that have the highest possible impact
- ✓ How other organizations have used this approach to achieve breakthrough results

# Your Roadmap to Transformation: Bypass the Failure Points

The reView Diagnostic helps answer two fundamental questions:

1 What's the size of the prize?

2 How heavy is the lift?

The reView Diagnostic is based on an approach long-used by financial investors to appraise the value of companies they may decide to purchase. Because it's built around the business challenges and time constraints inherent in a fast-paced acquisition, it's rapid and intense — yet accurate and effective. This uniquely equips the approach to overcome the minefield of potential failure points that often impede a Lean transformation.

## Why Are We Doing This?

One of the most common pitfalls of a Lean transformation is a lack of engagement from the senior leadership. And without enthusiastic involvement from executives, other employees have difficulty understanding the intentions driving the Lean transformation and connecting improvement activities to business opportunities. Their interest in and commitment to the system will wane, drastically reducing the chances of success.

Furthermore, when company leaders delegate the management of a transformation to a project group, the focus often turns to tactical actions that don't address the fundamental challenges faced by the company. A popular analogy in the Lean world is choosing to kill mosquitos one by one, rather than draining the swamp.

The reView process gets people at all levels of the organization — from the C-suite down — involved and invested in the Lean journey. It helps them understand the purpose of every activity and allows them to play an active role in defining the challenges, goals, and metrics.

A central outcome of an effective reView diagnostic is a high level of demonstrated commitment from the leadership team to drive the transformation. Because when a CEO can see the waste firsthand — and frontline workers feel empowered to make decisions — Lean becomes an inspiring journey in which everyone takes ownership of the outcome.

## How Will We Do This?

When defining strategy, leaders are often so focused on the *what* — the end result — that they fail to clearly define the *how*. The reView Diagnostic provides a thorough definition of the strategy implementation to help answer critical questions like:

- How do we turn our strategy into action?
- What are the real breakthroughs we need?
- Who is responsible for each deliverable?
- Which processes and capabilities need to improve to support our goal?

**In Lean, a breakthrough is defined as “a level of performance one does not currently understand how to achieve.”**

Even when everyone understands the strategy driving transformation, there is often confusion surrounding roles and responsibilities. This can result in a lack of accountability, which of course prevents progress.

By implementing a culture of transparency and communication, the reView process helps ensure each individual understands what they are expected to do and how it will be measured. Everyone is held accountable for their contribution to the success of the system — and ultimately, the improvement and growth of the business.

The final magic ingredient is commitment. Many participants will claim to understand the strategy, but few will demonstrate their commitment with action and a willingness to be measured against bold targets that really define a breakthrough. The reView process helps secure this commitment before improvement activities get underway.

### What is Everyone Else Doing?

An end-to-end business process, particularly in a large organization, is typically rife with hand-offs between departments, business units, and even regions. And it's that lack of efficient collaboration in these interactions where waste is typically found, in the form of delays, errors, rework, and low morale. The customer is frequently able to see it and experience its negative effects, but employees and leaders are usually too focused on the status quo to recognize it.

The reView process takes a horizontal view of your end-to-end business process, examining every single step in each value stream for its ability to deliver value to customers. Doing this at the beginning of a Lean journey helps ensure that each function or department's Lean efforts will integrate harmoniously rather than compete with each other. This end-to-end view can potentially be further expanded outside the enterprise to include suppliers, influential customers, and other sources of support.

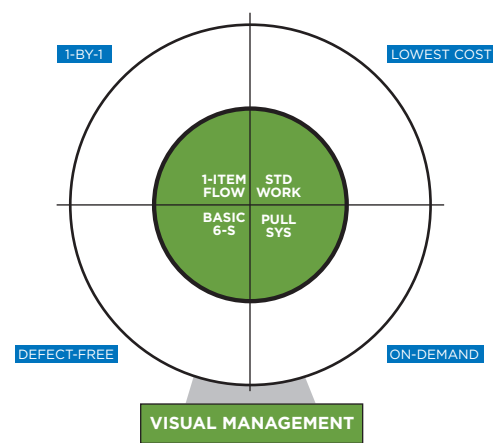
In the end, the customer will recognize the benefit because the entire flow has improved, rather than one area being optimized to the detriment of others.

Take demand creation, for example. The process of winning new business often involves multiple employees from marketing, sales, engineering, purchasing, estimating, legal, finance, and the C-suite to perform a variety of tasks including calculating quotes, drafting proposals, generating contracts, and more.

A potential order has to navigate each of these hurdles — often in the face of approval limits, thresholds, and automated routing processes — before it can be sent to the customer. This can cause extended lead time and errors, and may cause the business to lose sight of the customer's real requirement.

The reView Diagnostic allows a company to reorganize the demand creation process into a team-based, flow-driven environment. Specialists from each department are configured on-demand in a **cell structure** to pick up the opportunity, progressively add value, and not put it down again until it has been completed and sent to the customer.

Demand creation is just one example of a value stream that exists in most businesses. Imagine the potential impact when the reView process is applied across all value streams.



A cell is a collection of work elements with a clear input and output, where the work flows in the least waste way. A cell is characterized by having: visual management to highlight problems at a glance, one piece/need flow to reduce waiting time and inventory, standard work to define the least waste way to perform the work at the rate of customer demand, and pull systems to prevent unnecessary inventory and overproduction.

Prior to participating in a reView Diagnostic, one energy company had set a goal of \$6 million in annualized cost-savings. **The enterprise reView assessment was able to identify \$60 million in opportunities.** Leaders selected a set of strategic options based on prioritized business goals, and the company is now tracking toward the first \$25 million.

**The original \$6 million goal was hit in the first 120 days after the reView.**

Conducting a reView diagnostic as the first step can **accelerate time to value** for your transformation **by as much as 6-12 months.**

### We've Improved. Now What?

Achieving your Lean improvement goals is only part of the equation. To realize the full benefit of a Lean transformation, you must have a cashing-in strategy. How will you fully convert the improvements you make into a top-line/bottom-line or balance-sheet impact?

For example: Suppose you succeeded in increasing productivity by 30 percent, resulting in 80 fewer people per month required to produce your product or service. What will you do with those extra resources? Lay off workers? Give them meaningless busy work? Or perhaps reassign them to start developing that new idea — the one with the potential to increase revenue by 15 percent? Few businesses shrink their way to success. One of the leadership's primary responsibilities is to help the team understand how to reinvest the valuable resources freed up by your transformation.

Many companies make the mistake of focusing their transformation on driving costs down, rather than driving value up. The former is a dead-end view, while the latter opens up your business to a near-limitless supply of possibilities. This is specifically where and how an effective transformation can enable and fund the deployment of your strategy.

The reView process helps you identify ways to create capacity, and then goes further to find ways to reinvest that capacity to better meet the needs of your existing customers and attract new business. And this is how you increase the value of the enterprise.

### We Can't Do That

Perhaps the most detrimental — and difficult to overcome — point of failure companies will encounter is the inability to alter their mindset to see what's possible.

Corporate culture tends to foster a reluctance to commit to big goals and big change, because failure often brings consequences. This fear of failure inhibits honesty and creativity, limiting the potential for improvement.

The reView process allows company leaders to set more aggressive goals — based not on a flight of fancy, but on sound logic and verifiable data. Then, it shows the organization multiple ways to achieve those breakthrough targets, and empowers them to make an informed and inspired decision on which options to pursue. This, in turn increases everyone's personal investment in the value creation process.

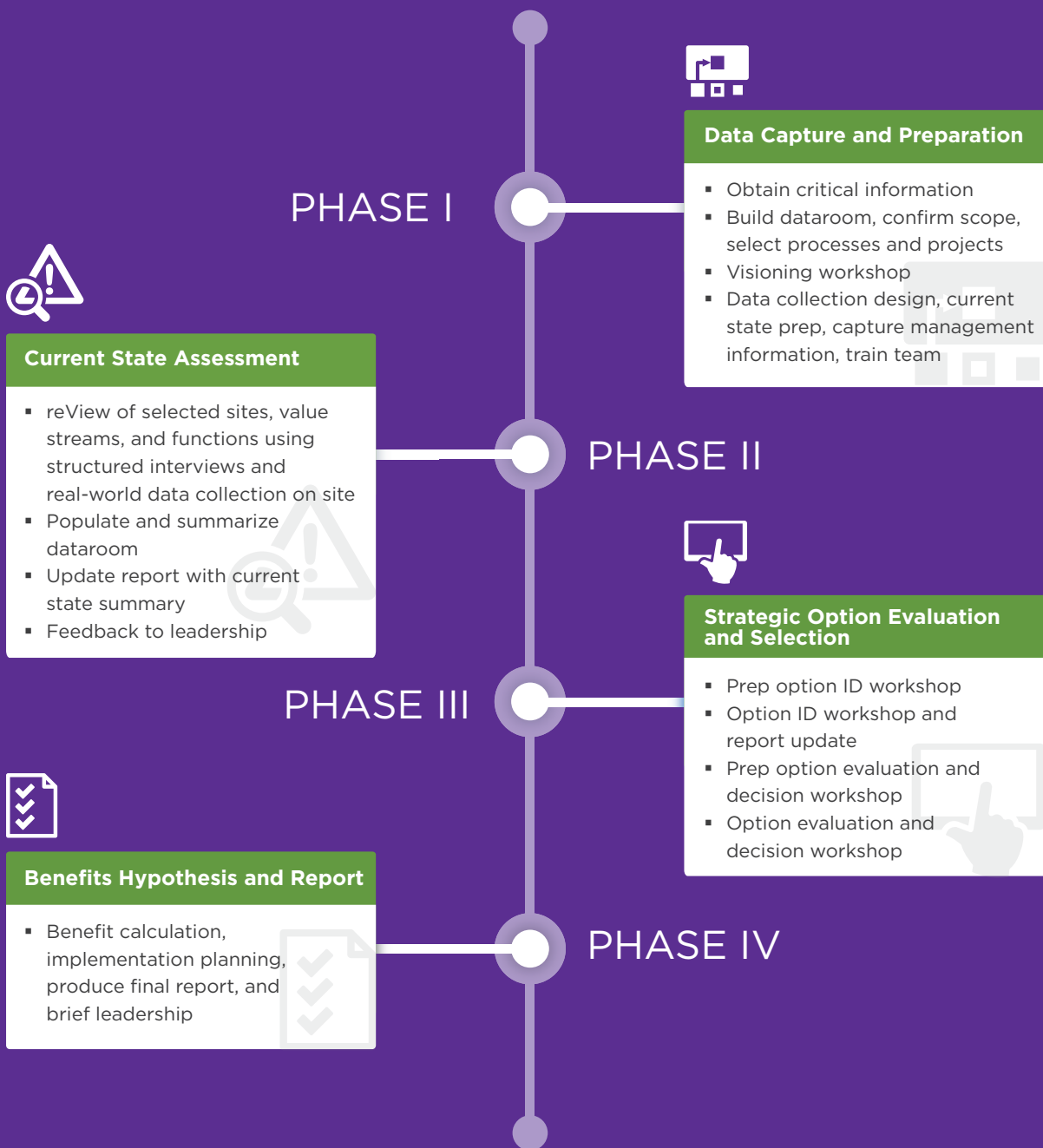
**The reView Diagnostic Approach Enables:**

- Significant increase in enterprise value
- Rapid business growth
- Maximum return on investment
- Clearly defined opportunities for improvement breakthroughs
- Positive customer impact for improved retention and acquisition
- Strong commitment and engagement from leadership and other employees



# A Better Process for Better, Faster Results

What makes the reView Diagnostic different from the less effective Lean approach attempted by so many organizations? The answer is in the meticulous process it follows, which occurs in four phases.



## reView Diagnostic Types Duration: 3-10 weeks, depending on size

Type	Duration	Org. Size	Org. Revenue	# of Sites	Access	Information
Large (Enterprise)	10 weeks	1,000+	\$500M+	Multiple	Full access to visit locations and interview leadership	Full access to P&L, balance sheet, key metrics, supporting data
Small (Business Unit or Site)	1 week onsite; 3 weeks after	100-500	\$30M- \$500M	1 Main	Full access to visit locations and interview leadership	Full access to P&L, balance sheet, key metrics, supporting data





## Phase I: Data Capture and Preparation

An effective reView Diagnostic is a business-minded assessment; not an academic exercise for tactical lean zealots. It requires a blend of business and commercial acumen combined with an experienced eye to see and imagine what's possible. The approach must replicate the attitude and mentality of a prospective new business owner. That means using real data and taking nothing for granted.

## The data capture and preparation phase must begin with the question, “What’s the reason our business exists?”

Using a proven set of data requests and analysis, the data capture and preparation phase accomplishes the following objectives:

- Define the value offered by the company
- Reveal a clear picture of the company's financials
- Gain a solid understanding of the customer perspective
- Confirm the fundamental business strategy and goals of the leadership team
- Outline clear targets and expectations
- Define breakthroughs
- Determine the scope of the Lean transformation
- Prioritize needs and determine the critical business areas to focus on

Because nothing is assumed, all subsequent evaluation is driven by a trustworthy source of knowledge that dramatically increases the potential for breakthrough improvements.



## Phase II: Current State Assessment

The current state assessment is arguably the most important part of the reView Diagnostic. This is where you will rapidly and systematically uncover the improvement potential of your business.

Using a proprietary mapping technique with highly customized data, each business function in the end-to-end business process is analyzed to identify waste and improvement opportunities. It's a team-based exercise, putting the pen in the hands of the people who actually do the work. And it doesn't take place on a computer screen or a conference room wall; it's a "go-see" process that takes place where the work is done. This combination of onsite observations, employee input, and business data is what makes scalable improvement possible.

By asking the critical question, "So what?" when problems are spotted, the team works together to find potential solutions that when implemented, will solve the problems and add value to the enterprise. Strengths are identified and capitalized on, and best practices are solidified — especially between business units or territories, where differences can be significant.

The team then assembles a dedicated data room where findings from the assessment and answers to the "So what?" questions are summarized in a prioritized and structured manner. The visual, tangible presentation of this information can have an enormous impact on the success of the transformation. Leadership is often humbled to see how large the improvement opportunity can actually be, and everyone becomes excited and motivated by the ability to visualize the possibilities.

The current state assessment highlights your company's strengths and weaknesses, using data rather than opinions. This drives alignment and commitment to the true potential of the enterprise, helping answer the question, "What's the size of the prize?"



### Phase III: Strategic Option Evaluation and Selection

Now that the “what” has been defined, the next step is to determine the “how.” During this phase of the reView Diagnostic, the team determines which strategic options for pursuing the identified goals are viable. The requirements and impact of each option are evaluated, and new breakthroughs are defined. An **improvement hypothesis** makes it easy to objectively rank and compare options.

Then, it's decision time. The team looks at the possibilities and makes a commitment to what they will do. Important factors to consider are:

- Impact on enterprise value
- Impact on customers and employees
- Difficulty, risk, and/or cost of implementation
- Contribution to the cashing-in strategy
- Impact on overall strategic goals

The ability to thoroughly evaluate and then choose strategic options puts the expected benefits, costs, and plan of action clearly in focus for the entire company — before any action is taken. This provides an important opportunity to assess the level of appetite and commitment that exists within the business to make it happen.

**IF** we establish a daily improvement process for problem solving in all operations, **THEN** we can reduce the cost of rework from \$90,000 per month to \$30,000 per month within 12 months.



### Phase IV: Benefits Hypothesis and Report

The final phase of the reView Diagnostic is a comprehensive report that summarizes the key outputs and findings from each of the prior three phases. It is essentially a record and reference of what the team found, what they committed to do, how they plan to do it, and what they expect the results to be. A clear, time-based roadmap for achieving the desired results is developed, taking into account the size of the business, the level of effort required, the availability of resources, and the culture of the organization. This provides the answer to the question, “How heavy is the lift?”

## Real Results

Large-scale companies across the globe, from a wide variety of industries, have leveraged the reView Diagnostic as a powerful springboard for a successful transformation — and a rapid increase in enterprise value. Following are just two examples — one representing an enterprise-level reView, and the other a business unit-level reView.



## Enterprise-Level

### Client A: \$1.5 Billion International Organization

To ensure the viability of its business into the future, Client A needed to reduce costs across all areas of the organization, as well as maximize its share in an increasingly competitive market. Company leaders also sought to develop the agility and enduring improvement capabilities that would allow them to adapt and diversify into new markets, technologies, and geographies.

The scope of Client A's reView Diagnostic spanned six continents in a complex, multi-disciplinary, and often capital project-based environment. It included all business functions — from IT and human resources to purchasing, operations, business development and communications — and every process in between.



Beginning the Lean journey with the reView comprehensive enterprise assessment allowed Client A to rapidly identify the waste contributing to its elevated expenses and decreased efficiency. Performance and cost differentials between divisions and project types were understood. Through the end-to-end value stream analysis, it was revealed that a typical project involved:

- 80 people
- 20,000 hand-offs
- 775 meetings
- Half a million miles traveled
- 5-25% of time spent on value-added work
- 0% track record of getting it right the first time
- Duplication between group and regional functions

Strategic options for increasing enterprise value were identified, including lowering the price per unit to achieve cost parity in the market, reducing pre- and post-planning lead time to improve customer satisfaction, and funding future growth with savings created by reducing operating expenses. Significant improvement potential was identified within the supply chain by implementing global strategic purchasing methodology on key categories, as well as joint supplier cost/complexity reduction workshops on many other critical assemblies.

The immediate impact of the strategic options decided upon by Client A's executive team was determined:

- Project delivery lead time target set to reduce by 30%, allowing completion of **5 additional projects within the current year, resulting in business growth**
- \$9M in upfront savings through reorganization and restructuring
- Procurement lead time reduced by 50%, with 20% less cost in major capital items and a 30% reduction in support services cost
- Productivity gains ranging from 15-35% in value streams within scope

### Potential Annual Net Benefit by 2017

Client A is continuing through to the next stages of its Lean journey, and the **cumulative annualized cost reduction is expected to be in excess of \$100M** by the end of the three-year transformation effort.

**Thanks to the foundation provided by the reView Diagnostic, Client A knows that goal is achievable — and understands how to achieve it.**

## Business-Unit Level

### Client B: \$80 Million Automotive Tier-One Facility

Client B wanted to lower overhead and operating costs, as well as improve working capital. Company leaders wished to sell their existing plant to another manufacturer, and reduce the footprint of their new facility design by 25 percent. They were also interested in assessing the impact of insourcing work that had previously been outsourced. The budget for the year had been agreed and the leadership team believed it included all realizable improvement opportunities. But they wanted to see how the reView Diagnostic could help them exceed that commitment.



The scope of Client B's reView Diagnostic covered all business functions in its 1 million-square-foot main plant location and focused on critical value streams, including customer orders (initiation to payment), end-to-end product flow through the facility, and all associated information flows to customer delivery, including planning, purchasing, and scheduling.

Client B's reView Diagnostic uncovered significant business opportunities surrounding lead time, inventory, supply chain, decision-making, quality, and organizational structure. In each area, the team was able to identify waste and quantify the potential benefit of eliminating that waste.

Strategic options for pursuing these opportunities were chosen, and the immediate impact was determined:

- **\$8.8M in incremental sales, generating a \$1.5M increase in EBITDA**
- Annual costs reduced by \$4.1M
- \$2M improvement in working capital
- Stock turns increased from 15 to 43
- Lead time reduced 5-6 days — a 50% improvement
- Scrap reduction of 3%
- New facility footprint reduced by one-third
- Direct productivity increase of 20%
- Revised make-versus-buy principle to inform sourcing decisions

#### Potential Benefit in Year One

After continuing from the reView Diagnostic through the entire Lean transformation journey, Client B expects to see an EBITDA improvement from 7.2% to 12.5% in the first 12 months. This will generate a return on investment of greater than 7 to 1, and **an additional \$4.8M EBITDA over and above the leadership's existing plan.**

# Distinguish Your Lean Transformation From the Other 70 Percent

The reView Diagnostic was developed by Simpler® Consulting, a leading global management consulting firm that helps organizations improve processes and enterprise value through Lean transformation.

This proprietary approach is designed to rapidly identify the strategic improvement opportunities that exist within your organization, overcome common barriers to a successful change initiative, and construct a customizable roadmap for achieving results you never thought possible.

But the reView process is only the beginning. In the next step toward total Lean transformation, Simpler will help you reThink<sup>SM</sup> how you will achieve your improvement targets using a proven technique to focus, engage, and align your whole organization to deliver on the highest-impact improvement priorities.

Finally, in the reBuild<sup>SM</sup> process, you will apply the Simpler Business System® to rapidly implement the required changes, resulting in a substantial increase in enterprise value and a profound cultural shift in your organization.



## Coming Soon

Additional white papers exploring the reThink and reBuild processes in depth.



## Why Simpler Consulting?

Simpler has guided and coached some of the world's largest corporations through successful enterprise-wide transformations, resulting in a total of \$2.4 billion in client-verified ROI to date for clients large and small. Our global presence allows us to support multinational clients across multiple locations, languages, and cultures.

Many of our clients' transformations are recognized as exemplary case studies by organizations such as the Lean Enterprise Institute (LEI) and the Association for Manufacturing Excellence (AME). We have coached more companies that went on to be awarded the prestigious Shingo Prize — the world's highest standard for operational excellence — than any other Lean consulting firm.

**Simpler Consulting is part of Truven Health Analytics,™ an IBM® Company.**



## Get Connected

Europe:

Jon Armstrong, Executive Vice President

**+44 (7967) 455800**

**armstrongj@simpler.com**

North America:

Gregg Miner, Executive Director

**+1.336.283.4016**

**minerg@simpler.com**



### About Simpler Consulting

Simpler Consulting, LLC, is a leading global management consulting firm that helps companies improve processes to stimulate business-impacting results. Unlike traditional management consulting firms that specialize in developing strategy but fall short on execution, Simpler plays an active role helping clients to create an organizational culture that continuously seeks out opportunities to make improvements. With its proprietary Simpler Business System®, Simpler has delivered the fastest and most enduring Lean transformations at hundreds of organizations across a wide array of industries including manufacturing, government, insurance and healthcare.



### Truven Health Analytics, an IBM Company

Truven Health Analytics, an IBM® Company, delivers the answers that clients need to help them improve healthcare quality and access while reducing costs. We provide market-leading performance improvement solutions built on data integrity, advanced analytics, and domain expertise. For more than 40 years, our insights and solutions have been providing hospitals and clinicians, employers and health plans, state and federal government agencies, life sciences companies, and policymakers the facts they need to help them make confident decisions that directly affect the health and well-being of people and organizations in the U.S. and around the world.

Truven Health Analytics owns some of the most trusted brands in healthcare, such as MarketScan,® 100 Top Hospitals,® Advantage Suite,® Micromedex,® Simpler,® ActionOI,® and JWA. Truven Health has its principal offices in Ann Arbor, Mich.; Chicago, Ill.; and Denver, Colo. For more information, please visit [truvenhealth.com](http://truvenhealth.com).

[truvenhealth.com](http://truvenhealth.com) | 1.734913.3000

©2016 Truven Health Analytics, an IBM Company. All rights reserved. All other product names used herein are trademarks of their respective owners. SIM\_16834\_0816