

Lean Focus



Strategic Lean for CEOs, Part 1: Going and Staying Lean

By Stan Askren

Navigating the complexities of a for-profit organization is a rough-and-tumble business for every CEO. The pressures to compete in an oft-ruthless economy are relentless and achieving profitable sales growth while meeting the needs of all stakeholders have become more challenging for all business leaders, regardless of their industry. The job of the CEO is also beset by shareholder demands for an even more profitable enterprise.

Now, all stakeholders are looking for a larger piece of the pie and growth of their particular interest. The concept of capitalism and creating value for shareholders is often under attack. Yet, if the CEO does not deliver profit, they are gone in the blink of an eye. It is a real conundrum and a huge challenge for CEOs to sort out.

Every CEO faces their unique challenges in a rapidly-changing global economy. Yet, they also face many commonalities. For instance, CEOs are seeing their supply chains dramatically disrupted. China has quickly become a huge challenge and risk after a migration toward Asia in the past 20 years. There is currently little good news coming from China.

Most CEOs are busy reshoring their supply chain to reduce volatility and future risk. Domestic labor also poses a significant challenge. Despite high levels of unemployment, it is still difficult

to find workers. In addition, absenteeism is at alarmingly high levels due to unemployment incentives, health concerns and childcare concerns. As a result, meeting customer demand as well as meeting the increasing requirements to take care of employees in a responsible manner has become more challenging in recent times.

Even in a pre-pandemic world, pressures were high. We saw higher compensation cost to stem higher turnover, dramatically escalating benefit cost--often for mandated legal changes--and social demands for more sustainable business practices which often come with a higher price tag.

Moreover, customers continue to be ruthlessly efficient. Customers are demanding more, better, and faster for less. Loyalty has become an outdated concept. Customers are less loyal to what you have done for them in the recent past and they will switch to other products or services in a hurry if they perceive a better value elsewhere.

There also exists a nonstop demand for profit growth in a complex market—again, always demanding more, better, faster, and for less. It can be a CEO's nightmare.

Business managers are also faced with rapidly changing channels of distribution. They must work separately but together to take care of their existing channels of distribution while spending significant money developing new capabilities in the click-to-buy and fast evolving new channels of distribution. The successful businesses in the new economy are those able to navigate legacy channels of distribution while at the same time developing new channels of distribution. It is an expensive and challenging proposition.

The upshot is that CEOs feel the pressure from all directions.

The good news is that a lean approach to eliminating waste while increasing efficiency and improving the bottom line can (at the least) work to keep the wolves outside the door during tough times—times like these.

A warning to the wise: if you are in a slow growth market faced with intense change, you may need to be leaning the business just to free up resources and dollars to hold your position. Thus, it may not be possible to advance your position. You simply need to hold your position while you figure out where to go next. Lean is not a magical strategic bullet. If you are in a bad industry with a bad business, lean only prolongs the eventual demise.

The objective is to free up resources by focusing on the portion of your business where you can win and make money. You must conduct a portfolio review--which includes a comprehensive and honest assessment of your market position, market back. You will need to conduct a disciplined product/offering review. You will need a clear assessment of your market value profile.

You will also need a detailed cost structure review which includes materials overhead and direct labor. Included should be a detailed SG&A review. You will need a prioritized capital plan review. You will want a resulting prioritized portfolio plan of product, markets, business, and operations.

Next, you should apply the 80/20 rule, and “USA”, an acronym for - understand, simplify, and then act or automate. Following the 80/20 evaluation process, you will then want to apply disciplined lean concepts to areas which are creating value and where you can compete and win. Finally, you will need a list of strategic investments for the core as well as the plus side of the business.

Going lean requires forethought and discipline to stay the course—even when the economy improves.

The objective is to have a detailed and disciplined understanding of what is creating value and what is not creating value. Every business has a core that is essential and every business has a non-essential business which has a lot of activity. All of this is easy to talk about but difficult to act upon.

The reason you want to understand what is creating value versus what is not creating value is because you do not want to apply lean to areas that should be eliminated, or at a minimum, isolated. Peter Drucker once said,

"There is nothing so useless as doing efficiently that which should not be done at all."

Those are excellent words for lean application.

Along those lines, it is important to remember that lean is not just a productivity tool. It is a waste elimination tool. The application of lean is consistent with the latest ESG focus and initiatives. Lean leads to green. Because lean eliminates waste, it is very consistent with the focus on ESG (Environmental, Social, and Governance). Lean is also an employee improvement tool - improving safety and wear-and-tear on production level employees. Lean is a speed-to-market tool. Lean is a working capital velocity tool. Lean is a capital investment improvement tool, ensuring more up time and right-sized, lower cost equipment.

Ultimately, lean should be the CEO's best friend. It should not just be a part-time dalliance or an initiative to be delegated down to mid-level management. Lean should be core to the value creation process and ultra-critical in these times to free up cash to invest in a changing business and global economy.

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BACKGROUND

Mr. Askren served as the chairman of HNI from 2004 until December 31, 2018 and as CEO of HNI from 2004 until July 2018. Previously, he was the president from 2003 to April 2018, and executive vice president of HNI from 2001 to 2003. Mr. Askren had worked at HNI for 27 years, including as vice president of marketing, vice president of human resources, and as an executive vice president and president of HNI's hearth business segment. Mr. Askren has also worked in several industries and previously held multiple executive management and general management positions with Emerson Electric, Thomson S.A. and HNI.

Mr. Askren also serves on the board of directors of Allison Transmission Holdings, Inc., a commercial duty automatic transmission and hybrid propulsion systems manufacturer and Armstrong World Industries, a leader in the design and manufacture of innovative commercial and residential ceiling, wall and suspension system solutions. Mr. Askren formerly served on the board of directors of the Iowa Heritage Foundation, the Business and Institutional Furniture Manufacturer's Association (past chair), the Iowa Business Council (past chair) and Arctic Cat Corporation. Mr. Askren brings to our Board extensive operating, senior executive leadership, manufacturing, sales and distribution expertise, lean business expertise, as well as valuable insights from his experience as a public company chief executive officer.

Stan holds a Bachelor of Arts, from the University of Northern Iowa and an MBA from Washington University in St. Louis.

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