



## One that is Spreading to the Office

There is a revolution occurring in business today. It is forever changing how customer value is created within the enterprise. Companies joining the revolution early will benefit from sustainable competitive advantages. Those that come to the party late may not survive.

The revolution has a number of names, but it is known in the US as Lean Production. According to the 1990 book *The Machine that Changed the World*, by James Womack, Daniel Jones, and Daniel Roos, Lean Production is a term coined by John Krafcik of MIT because it uses less of everything compared to traditional production techniques – half the labor effort, half of the space, half the development hours, half of the production time, and many fewer defects.

Lean Production is not new technology. There is no product to buy. It does not require years of training to understand or implement. Nor is it a fad that will soon fade away. Lean Production is a revolutionary new approach to assigning tasks and performing work. Any business can go lean with the people and tools they already have in place and realize double digit productivity increases.

Sounds too good to be true? This may be the biggest reason why more companies have yet to embrace lean outside of the shop floor. We all know that if something seems too good to be true, it usually is. With Lean Production the claims are true --- lean helps build better customer focused products and services at less cost. Without a lot of fanfare, companies in all industries are adopting lean and quietly building long-term performance advantages over their competitors.

## The Roots of a Revolution

The lean revolution began in manufacturing 50 years ago. Just after World War II, Eiji Toyoda and Taiichi Ohno at the Toyota Motor Company, pioneered the concepts of lean under the name of The Toyota Production System. Over the years there has been a lot of discussion about how the Japanese automobile industry was able to continually produce better automobiles at less cost than their US counterparts. The real reason is because of Lean Production.

Lean Production is described in *The Machine that Changed the World* as the third and most recent revolutionary era in manufacturing. The three eras are:

- Craftsman Production - generalists work independently to produce customized products

*AGILEAN shows organizations how to use lean office techniques to produce greater customer value in less time with fewer errors*

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- Mass Production - specialists perform individual tasks to create standardized products under centralized control
- Lean Production - generalist teams of cross-trained specialists use standard procedures under decentralized control to produce customer specific products

Manufacturers are the experts in process and productivity. It is easier to study the work flow in the factory --- they can see it. Most breakthroughs in process and productivity occur first on the shop floor and then move into the office. Today the majority of service businesses are modeled on Mass Production; functional organizations of specialists are performing individual tasks under centralized control. Although manufacturers have been experiencing it for years, the lean revolution is just starting to shake up the services industry.

## Continuous Flow vs. Batch Processing

One difference between Mass and Lean Production from a services point of view is the concept of the continuous flow of work versus batch processing. The approach in Mass Production is to handle everything in batches. In Lean batches are reduced or eliminated along with all queues and wait states. Work flows continuously from all upstream tasks to all downstream tasks.

It seems counter intuitive that batch processing reduces business productivity. However batches are bad for a number of reasons.

- Batches add costs without creating customer value
- Batches lengthen the time necessary to complete the work
- Quality problems in the batch are not discovered until later when the downstream work is performed; by then the contents of multiple batches could have errors
- Batches hide inefficiencies and reduce operational agility

It's typically harder to design a work flow with no batches. But once implemented, the higher design costs are more than offset by the day-to-day benefits of continuous flow.

## The Lean Office

Continuous flow is one of a number of Lean Production techniques, that when correctly applied, have the same productivity improvement impact within the office environment. Due to the space and time constraints of this article some are briefly listed below. Other articles will delve deeper into these lean office techniques.

- Clearly define the customer value being created along with the tasks and resources necessary to create that value
- Standardize procedures to eliminate variability errors and make it easier for multiple people to perform the same job
- Establish a common tempo to regulate the continuous flow of work
- Place process task as close together as possible, along with the resources needed for each task
- Define performance levers so employees know the next highest priority task to perform
- Create job flexibility so all employees can work the highest priority tasks company-wide

## Lean Case Study

*The Lean Service Machine* by Cynthia Karen Swank, published in the October 2003 issue of the Harvard Business Review describes the efforts by Jefferson Pilot Financial (JPF) to adopt lean office techniques. JPF is a full-service life insurance and annuities company. JPF's strategy for increasing market share is to provide superior service to the independent life insurance advisors who sell and service their policies.

An in-depth analysis of JPF's New Business unit identified considerable variation in their service quality. A new policy requiring a physician's statement could take between one and two months to issue. Because of errors, up to 10% of all policies had to be reworked. And there was a significant difference in the cost to issue a new policy between JPF's two primary locations.

JPF launched a lean office improvement initiative that delivered impressive results. They cut 50% off the average time from application receipt to policy issuance, reduced labor costs by 26%, and trimmed the error rate by 40%. These outcomes contributed to a remarkable 60% increase in new annualized life premiums within two years. Now JPF will not introduce automation into an area until after lean office techniques are applied and the new environment stabilized.

What is doubly amazing about these numbers is that new business generation for an insurance company is a very visible and well understood process. Most insurers have conducted non-stop efforts for years to scrutinize and squeeze out every ounce of inefficiency from their new business process. It is an incredible testimonial to lean office that JPF was able to find that magnitude of savings from such a finely tuned process. Lean Production and its application to the office truly is revolutionary.

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