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After 25 Years, What's Next?

As we celebrate our 25th anniversary, it's interesting to look back on AME's history and reflect on where we've been. Now we talk about lean but, back when AME was formed, it was Just-In-Time (JIT) manufacturing. Over the years, we've seen continuous improvement (CI) programs evolve from manufacturers' shop floors to enterprise-wide CI initiatives in diverse organizations such as the military, medical care, service industries, and even government. After all, it's all about process improvement and every organization in the world uses processes in the delivery of their products and services.

But what comes next? The continuing evolution of business models and strategies has led to many organizations outsourcing more and more of their value-adding activities and just managing their supply chain to deliver products and services to their customers. The impact is that many manufacturers are seeing the direct labor portion of their cost of goods sold (COGS) dropping into the single digit percentages while purchased components and materials often account for over 60 percent of their COGS (with overhead at 30 percent or more). What does this mean for the practitioners focused on lean transformation and CI? The focus now needs to be on the extended supply chain, both upstream and downstream.

It has been estimated that 80 percent of the cost of a product is determined in the first 30 percent of the product development cycle. How many organizations have their suppliers working with their product development engineers at these early stages of design to incorporate the suppliers' input to reduce product costs? Companies that involve their suppliers early estimate that their product costs are reduced by 30 percent or more, just by involving suppliers and listening to their inputs on design ideas that make it less costly to produce the components. Looking downstream, how can a company's business practices impact the cost of delivery to the end user? For example, do your compensation plans for your sales force create month-end or quarter-end order spurts that prevent level loading of your factory and whipsaw your suppliers with huge swings in weekly delivery demand? Are distributors required to carry large inventories of your products when they don't have orders for these goods? Are you able to configure your products to order or do downstream operations make modifications or add components prior to delivery to customers? These practices add cost to the supply chain and increase the selling price to the end user. When you do a value stream map of your production process, take it upstream and downstream to see where all this non-value-added waste exists in the extended supply chain, including your materials ordering practices and customer delivery policies.

By focusing on CI and waste elimination in this extended supply chain, you can often identify cost reduction opportunities that are much larger than those you can identify within your own four walls. Not only can you detect cost reduction opportunities, you will often find waste that contributes to longer leadtimes and less responsiveness to your end-user customers. This is the new frontier that can be exploited in the next 25 years and it's the reason that AME recently entered into a formal alliance and joint membership agreement with the Council of Supply Chain Management Professionals (CSCMP). Expanding your CI efforts into the extended supply chain requires the leadership and courage to form true partnerships instead of the old adversarial relationships that have existed with suppliers and distributors for so long. Applying the knowledge and tools of CI to these extended supply chains is full of opportunity and will be where the action is in the future.


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