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Keeping jobs in America

America's harsh reality is that we have been losing manufacturing jobs for two decades. An estimated 2.8 million factory jobs have been lost since 2001. Why aren't U.S. businesses growing, and what can we do about it?

A real cost differential exists between the United States and other areas where there are less government regulations, lower capital investments, and extremely low labor costs. A labor hour (including benefits and overhead costs) in the United States is in the range of \$30 to \$50 versus \$0.85 in developing nations. This is the allure of outsourcing. The typical distribution of manufacturing costs for a company in the United States is roughly 70 percent materials, 15 percent to 20 percent overhead, and 10 percent to 15 percent labor costs.

Take a \$60 million company and suppose it has \$35 million in manufacturing costs that are divided as follows: \$25 million in material inventories, \$7 million in overhead, and \$3 million in labor and benefits. The biggest opportunity for reduction is labor, right? Not really. But a large differential in labor costs makes even a small percentage of total cost look attractive.

On paper, outsourcing offers a very attractive solution: Cash flow gets a one-time boost when labor costs are drastically reduced. The real quandary is that the cash flow may be negatively impacted later. Outsourcing to save on labor costs is all about short-term gains. It does not help the U.S. economy or job growth.

How can we learn to compete in a new world? First, we have to think lean. Let's take the example of the \$60 million company. If we consider materials (not labor) to be the biggest opportunity for cost reduction and focus on productivity improvements to increase output, then we are thinking lean.

Lean methods to drive out waste and accelerate the flow of materials can reduce inventory by more than 80 percent. Inventory turns go from 5 to 25 a year, freeing 50 percent of the space required to manufacture the products, and productivity improves by 35 percent. These are typical results from companies that have made the lean transformation. The most important result is that lead-times are shortened 60 percent to 80 percent; therefore, customers can get more customized products quickly, which yields growth.

In the hypothetical company, the accelerated movement of materials now requires only \$5 million of the annual budget in materials. The delivery of products to the market is quicker, which means raw materials are converted into finished goods and sold as fast as possible. Money is collected from customers before suppliers have to be paid. Now money isn't tied up to keep gigantic just-in-case inventories. In addition, the product isn't made until the customer places a real order that can be customized for greater value.

Lean manufacturing isn't the type of instant gratification project that some impatient corporate leaders desire. It is a journey and a new mindset. It's not enough to set up a lean manufacturing plant. You must build a lean enterprise from sales to accounting to upper management to the shipping docks, and then target your suppliers to do lean. It's not easy, but the results are real.

If you are a business that wants to be in business over the next 20 years, there is no alternative to lean. We know lean works! If you agree with our position on this important topic, please give us a call.

