

Lean Thoughts

Inspired People

Robust Processes

Lean Operations

January 12, 2004

For all **Consortium** events – Contact Richard for more information.. For other events – contact directly

Important Consortium Dates to add to your calendar

The Consortium Benchmarking tour schedule has been reestablished. This is an excellent opportunity to have your folk's network with peers in other companies to share ideas. Remember the purpose of the benchmarking tours is to create vision and inspire your employees while accelerating your journey.

- Jan 15, Consortium Tour, **CGL Manufacturing** contact Dave Desker, daved@cglmfg.com
- Jan 22, Consortium Tour, **CTS Corp.** contact Bob Garces., Bob.Garces@ac.ctscorp.com
- Jan 23, Lean Communications Model, **CGL Manufacturing** contact Richard Kunst, Richard.Kunst@Kromet.com
- Jan 29, Consortium Tour, **Morrison Lamthe.** contact Tony Vita, tvita@morrisonlamthe.com
- Feb 05, Consortium Tour, **Kromet International.** contact Richard Kunst, Richard.Kunst@Kromet.com
- Feb 12, Consortium Tour, **Kraft Foods,** contact Mariela Castano, Mariela.castano@Kraft.com
- Feb 19, Consortium Tour, **Stackpole AGD,** contact Cindy Grolleman, cindyg@stackpole.ca
- Feb 26, Consortium Tour, **Stackpole CSD,** contact Gerry Ward, gerryw@stackpole.ca
- March 04, Consortium Tour, **Eaton Cutler-Hammer** contact Joe Fisher, JoeRFisher@eaton.com
- March 11, Consortium Tour, **Messier-Dowty.** contact Richard Evans, Richard.Evans@Messier-Dowty.on.ca
- March 18, Consortium Tour, **CGL Manufacturing** contact Dave Desker, daved@cglmfg.com
- March 25, Consortium Tour, **CTS Corp.** contact Bob Garces., Bob.Garces@ac.ctscorp.com
- Apr 01, Consortium Tour, **Morrison Lamthe.** contact Tony Vita, tvita@morrisonlamthe.com
- Apr 08, Consortium Tour, **Kromet International.** contact Richard Kunst, Richard.Kunst@Kromet.com
- April 15, Consortium Tour, **Kraft Foods,** contact Mariela Castano, Mariela.castano@Kraft.com

PETER DRUCKER'S LATEST WISDOM

The management guru Peter Drucker, now 94-years old, always seems to have surprisingly different insights. Fortune magazine has just published an interview - yet another Drucker jewel (summarized here).

On US jobs going offshore: The US imports 2 to 3 times as many jobs as we export - the American jobs that are created by foreign companies (example: foreign owned auto-plants in the US). We are exporting low-skill, low-paying jobs but are importing high-skill, high-paying jobs.

On US labor costs: The high cost of wages is important only when labor accounts for more than 20% of total product cost (like textiles). The proportion of labor cost for typical American products is small and shrinking. It is cheaper to produce in the US when products are skill-intensive.

On moving manufacturing offshore: For advanced industries, the US remains the cheapest production location in the world, not because our wages and salaries are low (they are not) but because American workers are more flexible. Also, US employee benefits (pension costs, benefits, health-care costs, costs associated with regulations, taxation, labor relations, etc.) are cheaper than Europe and almost anywhere in the world.

On manufacturing & production: Manufacturing production in the US has doubled in the past 10 years, even as factory employment has gone down. Our productivity improvement has to do with the shift from the old ways of manufacturing to the new, that requires less unskilled labor.

On the impression that the US has an unemployment problem: America has the highest proportion of population in the workforce, the lowest long-term unemployment rate compared to any Western country, and the highest availability of good jobs for educated people who want to enter the labor force.

On the productivity of the US economy: The numbers measuring productivity keep going up and up, even in this period of sluggish growth. In manufacturing there are basic changes, comparable to the 1920s industrial revolution. The changes are coming, not by computerizing and automating production in the literal sense, but by systematizing production. And flexible manufacturing processes practically eliminate set-up time; in some cases this has come down from 3 hours to 4 minutes.

On the recent so-called recession: What we have been going through is NOT a recession - it's a transition, with a lot of incongruities. For example, fewer young people because of lower birth rates, and yet more young people with immigration. For educated young people there is no recession.

On danger signs in the US economy: The biggest problem is our total dependence on foreign money to cover our government debt. Never before has a major debtor country owed its debt in its own currency. It is unprecedented in economic history. No one know what will happen when we owe so much debt in our own currency and we're forced to devalue the dollar.

Lean Thoughts

Inspired People

Robust Processes

Lean Operations

On capital availability: There is an enormous amount of surplus capital in the world for which there is no productive investment. The supply greatly exceeds the demand. So there is a very jittery body of excess money that is desperately in need of returns, and it could become panic-prone. We have no economic theory or model for this.

On the US place in the world economy: The dominance of the US is already over. What is emerging is a world economy of blocs represented by NAFTA, the European Union, ASEAN. There's no one center in this world economy.

On India & China: India is becoming a knowledge center, a powerhouse very fast - it has 150 million people with English as the main language. In contrast, the greatest weakness of China is its incredibly small proportion of educated people, and the enormous undeveloped excess rural population.

On the role and status of the CEO: In every boom there is a tendency toward CEO hero-worship. The compensation inflation for CEOs has done very real damage to the concept of the management team. The top manager's salary should be no more than 20 times that of the rank-and-file worker. Today it is more like 400 times. It's not about the bitter feelings of the people on the plant floor - they're convinced that their bosses are crooks anyway. The mid-level management is incredibly disillusioned. And so the present crisis of the CEO is a serious disaster.

Fortune Mag - Peter Drucker Sets Us Straight :
<http://makeashorterlink.com/?S3F152FF6>

Peter Drucker Book - Managing in the Next Society:
<http://www.jimpinto.com/reading.html#DRUCKER2>

Peter Drucker Book - Management Challenges for the 21st Century:
<http://www.jimpinto.com/reading.html#DRUCKER>

Can we be Competitive in North America?

Michel Baudin a regular contributor to the NW Lean site recently posted the following message ... many of the items he speaks about are commonly overlooked by zealous purchasing agents who fail to look at the total cost of procurement. ... read on!

As to becoming Lean enough to keep jobs here, let's say a foreign worker is making 10 cents per hour. A U.S. worker is making \$12/hr + employer FICA taxes + workers comp + other benefits + the cost of all federal & local EPA, OSHA, etc regulations. How many times more productive can the U.S. worker practically be in order to compete with a foreign worker making 10 cents an hour? He would have to do the work of 120 foreign workers just to compete on

gross salary alone, not including benefits & regulations. I doubt this is achievable.

Don't forget that labor isn't 100% of manufacturing costs:

- 1.. Milling machines or wafer steppers are no cheaper where workers make 10 cents/hour than where they make \$20/hour.
- 2.. Energy or materials are not cheaper either.
- 3.. The lack of a support infrastructure around the plant drives up maintenance costs.
- 4.. Delivering across 7,000 miles of ocean extends you lead time by weeks, during which your major customer may cancel the order for the units in the pipeline and thereby bankrupt you. (This has happened.)
- 5.. Providing engineering and management support across cultures and timelines is also a frequently underestimated drain on your resources.
- 6.. Protecting your intellectual property in a different country may be impossible.

By the time you factor in all of these issues, the cost advantage due to cheap labor may be down to 10%, which is well within reach of lean manufacturing.

The real differences in labor productivity may be difficult to measure, because, among other factors, of differences in investment in machinery. If one operator with a CNC lathe does the job of 10 with conventional lathes, it is due in part to having a more powerful tool. It isn't entirely due to better skills. The productivity differences are, however, substantial, for the following reasons:

- 1.. Manufacturers in cheap labor countries are under pressure to "provide jobs for the people," and hire more than any reasonable assessment would dictate.
 - 2.. At least in Mexico and China, the bulk of the manufacturing labor force is composed of temporary workers, mostly young women from the countryside, who work in a factory for anywhere from 6 months to two years and then go home. This pattern does not support accumulation of know-how in the work force and burdens manufacturers with recurring costs for recruiting and training.
- Over time, to the extent that the emerging economies succeed, their labor costs will rise and they will compete on other bases than cheap labor.

Best regards.

--

Michel Baudin
MMTI - Manufacturing Management & Technology
Institute
www.wefixfactories.com