

## UPSTREAM MANAGEMENT

By Mike Huszar

### ON THE AMAZON

A couple of years ago, I was in the Amazon rain forest riding on the Amazon River. It is the second longest river behind the Nile River and is approximately 4,000 miles in length and can be up to 120 miles



wide. Although it was a very fast and huge river, it was amazing to me how there were “out houses” on piers along the banks where people would go to the bathroom and they were arranged to drop the waste right into the river. The stench was awful and yet, just a few feet away, kids would be playing in the water. Approximately five miles downstream, after cruising past several of these “out houses,” we met a tribe that lives near the water. Their drinking, bathing, and cooking water all come from this river. These indigenous people seemed to ignore the close proximity of human waste entering the water and being delivered directly to them. I guess you could say it was a case of, “out of sight, out of mind.”

If you think of the value “stream” of an enterprise as our own Amazon River, there is a correlation with many practices in manufacturing in the “developed” world. We work with many clients that either design to order or configure to order. In most cases, there would be a consensus that the assembly department is ultimately the problem child in the system and is responsible for delinquent deliveries, quality mishaps, and cost overruns. However, we see it differently. Let’s take an example.

### PROBLEMATIC REALITY

Company X receives an order from their customer. It is a very large order and everyone in the company is excited about it. The problem is that the customer doesn’t know completely what they want. The design will have to be done on the fly and it will be assumed that the customer will “work with us” through that phase to ensure it meets their currently vague needs. Company X takes the order fully expecting the help that was promised, but the help is slow in coming. Communication is not what it could be. The Sales department, after securing the order... and their commission... is now thinking about landing the next big contract. The details are the plant’s problem from their point of view. So, although they are the ones with the relationship with the customer, they are not motivated to be the necessary conduit for communication. Meanwhile, the plant needs to get moving on this project because the delivery date is not budging. They only have 12 weeks to get it to the customer. After a week of miscommunication and “brilliant” guesses, the order is given to the design department. They have four weeks to have a complete design package released. Of course, they don’t have enough information to adequately design the unit, but they soldier on because the clock is ticking. Half way into their four-week window, the customer gives them a change. It’s not technically a change since they really hadn’t



## PROBLEMATIC REALITY, Continued

agreed to the specifications up front anyway. Company X can charge the customer neither for all of the engineering done to date, nor for the engineering overtime that will be incurred since it has now become a “rush job,” but they’re still happy to have the order so they do the change for free. They ask for more time but the customer is adamant that the due date cannot budge. Design finishes one week late, which is pretty good considering all the changes that they had to make. Good thing our engineering heroes were willing to work overtime to get this done so quickly. Now we move the package to the supply chain team that determines what we will make in house and what we will order. There are some custom items in the design that can’t be delivered within the shipping window of our unit. “Engineering keeps doing this to us” can be heard across cubicle city. Engineering, knowing that they did a wonderful job with what they had, thinks that the supply chain people are naïve and whiny. They could get the parts on time if their supply chain was more local, but they saved a nickel per part by moving those widgets to India. Somebody got a big raise for that decision, but it is killing the plant.

They are continually expediting orders, calling India after dinnertime because of the time differences, and reworking quality problems continually. It turns out that the nickel savings per part was actually a quarter per part increase but it shows up not as a supply chain cost, but as a factory cost. Those manufacturing guys really need to get their act together! The supply chain people, accustomed to the need for heroism, find the needed parts and expedite them to the factory, paying for expedited shipment and airfreight, of course. We are now two weeks behind schedule and the typical three weeks that assembly has to build, test, and crate the unit is now only one week. Assembly is accustomed to this problem and has excess headcount and fabrication capacity to account for it. They also have heavy overtime as a countermeasure to this problem. Of course, they are being pounded by corporate on a regular basis to reduce headcount, inventory, and overtime. The VP of operations wants to know why their machine utilization is so low. Their labor productivity is abysmal. “Why can’t they cut costs like the engineering and supply chain departments have? Perhaps it’s time for a regime change at the factory.” The unit ships two days late and has numerous punch list items (quality defects) that must be amended in the field. A familiar refrain is again heard in the board room: “Another great order with wonderful margins that resulted in a loss due to those terrible factory people that just can’t seem to execute an order properly. Perhaps we should outsource production and simply become a sales and service organization.”

We see it over and over again. Rather than shut down the “out houses” in our upstream processes, we blame the folks downstream for the delivery, quality and cost issues. Rather than simply identify problems, it is time to implement upstream management in order to prevent problems from rolling downstream. Gate checks and error proofing in every process in the system to ensure quality, delivery and cost are critical to ensuring success downstream.

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