

**“LEAN”  
(The new buzz concept)  
What is it?**

Lean basically means lowest cost.

We are seeing more articles on “Lean Manufacturing”, “Lean Supply Chain”, and “Lean Paper Flow”. It is the hottest topic in management and recent articles.

Modern supply chains are a form of “lean thinking” i.e. they reduce overall costs by reducing the cost of warehousing.

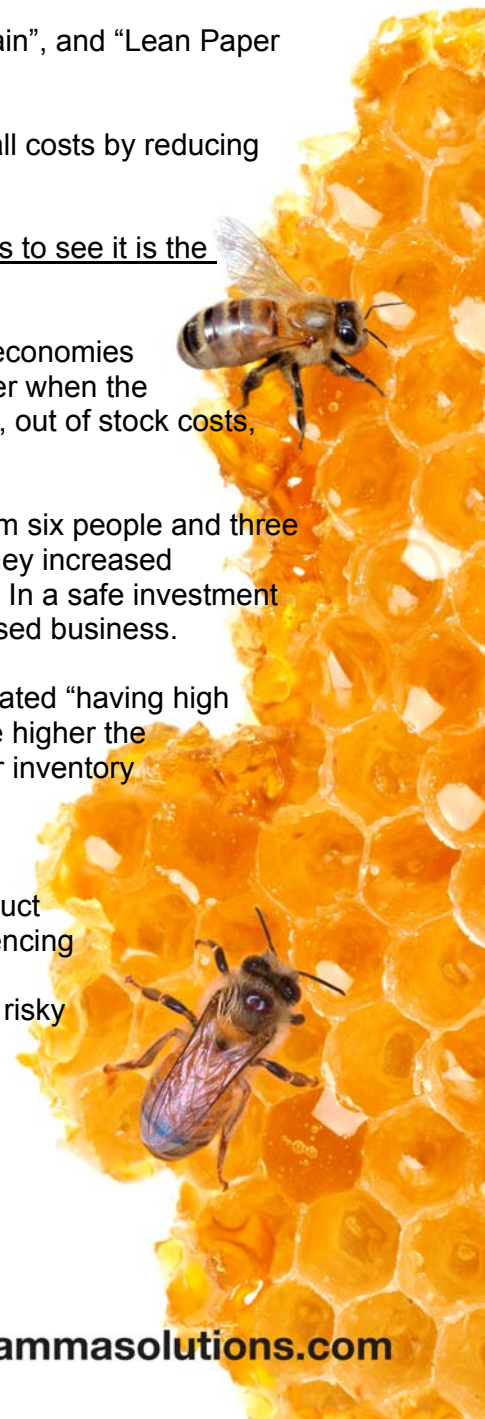
However “lean” is not just about cost cutting, it is reviewing every process to see it is the leanest possible way of doing business.

For example, a company may manufacture products in long runs to get economies of scale. Long runs obviously reduce the unit cost of production, however when the company reviews warehouse costs, obsolescence risks, inventory levels, out of stock costs, and insurance etc, they find shorter runs actually produce lower costs.

Recently a bank reduced their loan review processes for home loans from six people and three days to two people and half a day. The cost saving was immense plus they increased business by marketing this new “lean” concept to prospective borrowers. In a safe investment area (homes) they found going “lean” offered cost reductions and increased business.

Toyota are regarded as the gurus of “lean” and as one of their experts stated “having high inventory should reduce out of stock situations but experience shows the higher the inventory the less likely you are to have what is needed”. So does buffer inventory increase or decrease costs?

When a product is manufactured in Australia, JIT manufacturing may be the lowest cost. However, if a company’s JIT system relies on a product supply sourced from overseas, there could be a number of factors influencing product reliability. Eg: custom and freight issues, political unrest etc. Therefore, the cost of having reserve stock may be “leaner” than a more risky JIT concept.



“Lean” is balancing the conflicting concepts to produce the leanest overall costs.

Therefore, in business you will not just hear the words “supply chain” but will hear “smart supply chains”, “lean supply chains”. The same way you will hear “lean manufacturing” etc...

It is not cheaper based on getting lower prices, but is lowering costs based on the overall review.

Part of the concept is “every process must have a net added value”. The theory being every process is reviewed and if it does not add to the value of the way we do business then it should be eliminated. It’s ruthless, but the justification is only lean organisations will survive in a globalised price competitive environment.

On a loftier plain you even see articles mention “lean and green” i.e. adopting lean and green concepts into industry.

Just like ISO accreditation, you see organisations boasting of adopting “LEAN” concepts.

“LEAN” is the bringing together of many concepts including Kanban, Kaizen, JIT, ISO and others. The objective is to produce processes with the leanest cost to business.

If you would like more information regarding this issue, suggested websites or references, please contact our Sales Team on 1300 555 563.

