

Lean Your Customer List—Part 1

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When was the last time you evaluated your customer list to see how much waste and lost revenue your customers create for your companies?

Despite having numerous ISO and supplier certifications, our shops continue to be audited by customer's supplier quality personnel with an eye for identifying waste in our operations. While we can all agree that there are opportunities to improve our product and service provision, the question remains, who is identifying the waste and loss caused to our shops directly by customers?

At least half of the eight wastes of lean can be identified and assigned as customer-caused losses to manufacturing shops' bottom lines. In this installment, we'll take a look at three of them: waiting, inventory and overproduction.

What are you doing to recover customer-caused waste in your shop?

Waiting

Waiting is one of the most significant wastes because we cannot recover lost time, and its effect is felt immediately. How do customers create the waste of waiting in our small businesses?

Payment within the contracted terms. Does your customer fail to pay within the agreed time and then still take a discount? How much are you losing waiting for payment within contracted terms? How many customers are stealing the time value of your billings? What is the percentage of your billings that are being held hostage? What is the total impact of the lost earnings—on your earnings—by each and all of your customers? This is one of the most significant financial impact wastes that your shop suffers, thanks to customers.

Failure to provide timely authorization. I remember being held to strict deadlines by customers for submissions of PPAPs, FMEAs and other contract review and quality documentation. After submission, we often had to wait months to get the customer's personnel to sign off on the submitted materials, even as their purchasing people clamored for immediate shipment. The loss to our company for waiting included the administrative time of those of us involved in the contract review process, as well as the additional cost of follow up by sales or management to pry the authorization loose. An additional loss is missing promised delivery commitment for the needed raw materials, tools and supplies required to be special ordered, but dependent on customer authorization.

If machines or capacity were held idle waiting for authorization, those costs are directly assignable to your customer. Do you have a date for customer approval of your submissions? Do you have a memorandum of understanding with your customer that at least outlines expectations for the shared responsibilities of contract review? How many hours, days or weeks of idle machine time are you wasting because of sluggish customer response?

The waste of waiting is usually the most threatening to shops because we cannot recover time lost, and our operations are billed on hourly rates that multiply as the waiting period extends. We all have heard about the time value of money, but what are you doing to recover this customer-caused waste in your shop?

Inventory

The waste of inventory is described as storing parts, pieces and documentation ahead of requirements. While the customer might say it was your company's decision to hold the additional product in inventory, the root cause for that decision is often the fact that the customer's forecasts and release schedules are unreliable, and your company is held to meet the delivery requirements, regardless of what their system told you. The waste of excess inventory is often a direct result of the inability of our customers to plan, forecast and release in a reliable and consistent fashion. Are you a "just in time" shop, holding hundreds of thousands of dollars in "just in case" inventory because of poor supplier planning? Why are you financing (and enabling) your customer's inability to forecast? Why not charge for this benefit of assuring product? You know what it is costing you. Surely, it is of value to your customer as well. Let them pay for it.

Overproduction

Making more than is immediately needed is overproduction. It may be convenient to produce more than is immediately needed to avoid more frequent and lengthy setup-related downtime. This choice is masking the need for you to make improvements in several areas. First, the customer order quantities should be agreed upon based on your economic production quantity to enable you to get to the lowest practical cost. So, your customer has some responsibility. The other areas being masked are your inability to further reduce your setup times, making additional production a more preferable of the two evils. It also drives up the inventory waste, which reduces your available credit line as it reduces your bottom line. "Safety stock" is a waste that points us to weaknesses in the system of provision of products. How much has overproduction of safety stock cost your company both in production and in slow-moving inventory? Do you not have a higher and better use for that money?