



# Kanban

## More than Meets the Eye

by Doug Olander, Senior Director

In the current business environment, it has become very common for companies to initiate Lean transformations. And while the tactic itself is common, Lean journeys are launched for a variety of reasons. Regardless of the reason, firms that are ultimately most successful initiate the transformation with the belief that continuous identification and elimination of waste are the keys to assuring the long-term success of the company. Both the motivation for initiating the transformation and accurate predictors of long-term success can be readily understood through observation of how various elements of a Lean production system are implemented and executed.

Kanban systems are typically one of the first elements of a Lean production system to be implemented. These Lean elements are well understood and have base level recipes that can be followed to accomplish implementation. The key to maximizing success is not *if* the element is implemented and maintained, but *how* it is executed after implementation.

Introductory materials regarding Lean transformations define Kanban systems as “a method for using cards as visual signals for triggering or controlling the flow of materials or parts during a production process”.

Standard implementation of a Kanban or Pull system offers:

- Communication with employees regarding

production priorities

- Production priorities set by the current factory conditions
- Employee empowerment to perform the necessary work when and where it is required
- Reduction in scheduling paperwork

These results are both common and beneficial. Text book, recipe-based Kanban system implementations that end here will be assessed as successful. But Lean, as we know, is an on-going process - not a prize to be won. In the current competitive environment you must work further to unlock the real power of this Lean element and that is where winners will be defined.

Controlling the flow of materials means controlling inventory. By its very nature, inventory defines waste. Winning Kanban system implementations use the system to identify and eliminate or minimize this waste. It is executing the Kanban systems to reduce or eliminate inventory that allows companies to maximize the value of the Lean transformation and separate themselves from their competition.

Inventory normally serves as a buffer for a number of inefficiencies that might exist within a factory. These inefficiencies include:

- Supplier variation realized in component or raw material delivery or quality

### ANNOUNCEMENTS

**BBK is proud to announce the following team additions:**

Gary Bennetts, Manager  
Detroit

Michael Goldsmith, Managing Director  
Chicago

William McIntyre, Analyst  
Detroit

Christopher Norris, Director of Marketing  
Detroit

### IN THIS ISSUE

**PAGE 1**  
Announcements  
Kanban: More than Meets the Eye

**PAGE 2**  
Kanban continued

**PAGE 3**  
Expanding Resources Through a Global Partnership  
ABI's Great Debates

**PAGE 4**  
Industry Snapshot: Restaurant & Hospitality

**PAGE 5**  
The Future of Sourcing in China  
BBK in the News

**PAGE 6**  
People on the Move  
Inventory Management and Control Webinar

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- Manufacturing process variation – which can be caused by unscheduled machine downtime, quality issues, absenteeism, or a variety of other reasons
- Incompatible process Takt times requiring buffers to maximize operational effectiveness
- Variation in customer demand

Commonly, Kanban systems recognize existing inventory buffers during implementation. Pull Loop sizes and determined inventory maximums and minimums typically recognize and maintain the existing buffers. Doing so allows the base level benefits described above to be achieved while minimizing the risk of disruption that might result from the change to the Kanban system. While to some this may represent an end to the Kanban system implementation, effective practitioners understand that this is the beginning of the real journey.

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*“The Kanban system allowed for the rapid confirmation of the existence of an underlying issue.”*

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With a Kanban system in place, its signal dynamics provide a detailed view of material flow through a factory. With this knowledge, a strategy for systematic, incremental inventory reduction can be established. Seeing and understanding material flow allows specific Pull Loops to be targeted for a size reduction. Through repetitive application of the method, the underlying process issues that created the inventory waste in the first place will be (re)identified.

Essentially, the Kanban system serves as the catalyst for introduction of additional Lean elements that eventually result in the creation of a strong, robust production system. As process problems are identified, additional Lean elements might be introduced to mitigate underlying causes. These might include introduction or refinement of a total predictive/preventative maintenance program, application of quick changeover methodologies, value stream mapping of a process to level work and material flow, or any other element that will mitigate the now evident cause.

Similar to Constraint Management, the use of a Kanban system to identify and incrementally reduce waste in a manufacturing operation is a never-ending pursuit. As soon as an underlying process issue driving an inventory buffer is mitigated, the process of pursuing waste should begin again. An inventory reduction associated with another Pull Loop can be targeted and the process replicated. Also, like Constraint Management, it is important to understand that you might regularly return to and address specific Pull Loop reductions repetitively.

Taking Kanban to the next level through a deep understanding

of the system and its execution will drive waste elimination and create beneficial, functional activities not commonly considered when Kanban systems are discussed.

Effective implementations facilitate a focused, systematic approach to waste elimination while introducing the ability to integrate additional Lean elements into a robust production system.

A few simple questions can help determine whether a Kanban system is being executed to deliver maximum benefit:

- Is there evidence that Pull Loop sizes are dynamically sized based on business conditions?
- In addressing inventory, are you escorted to the manufacturing floor to see the visual Pull signals?
- Is there evidence that there is active inventory (waste) reduction activity occurring?
- Is there evidence that inventory (waste) reduction activities have necessitated the implementation of additional Lean elements?

If you answered no to any of these questions, your Kanban implementation may not be operating as it should.

Under current economic conditions, companies are fighting to survive and gain a leg up on their competition. Now more than ever, using Lean transformations in company operations could provide a competitive advantage allowing the company to withstand the current climate as well as help ensure its future success. Realizing the benefits of the Lean transformation, and seizing the related advantage, will be dependent on how the implementation is executed. Focus must be placed on continual waste elimination and using the Lean elements, in this case a Kanban system, to drive that elimination. Winners and losers will be separated not by *if* a Lean transformation is executed but in *how*. ■



## A WORD FROM BBK

# Expanding Resources Through a Global Partnership



In 30 years of business, BBK has played an integral role in supporting many clients' merger & acquisition activities. From utilizing business relationships to make connections, helping with transitions and startups, to performing due diligence ahead of the transaction, we've seen it all, and feel fortunate to have helped

so many companies move forward.

In recent months, we have turned these experiences inward as we explored how BBK might expand its global reach, diversify its client base, and enhance the resources and services available to our clients. We are happy to announce that we have finalized a strategic partnership with two German consulting firms, ARC GmbH, a financial consulting services firm, and GPM GmbH, an operational consulting services firm.

ARC provides financial consulting services, senior management support, and interim management expertise for receivers and administrators in insolvency cases. GPM provides consulting services including operations and financial improvement, as well as interim management expertise in restructuring cases.

This partnership is a tremendous opportunity for us to deliver every possible advantage to our clients. The 45 ARC and GPM team members significantly increase the value we can collectively deliver to clients throughout Europe, as well as enhancing the value we can bring to North American and Asian units of European-headquartered businesses.

We believe this partnership will enhance our capabilities and allow us to continue offering the best possible integrated financial, strategic and operational solutions.

**David C. Wolgast**  
Managing Director

## VIEW FROM THE FRONT LINE

# ABI's Great Debates

In early April I had the opportunity to speak at the American Bankruptcy Institute's Annual Conference in Washington, DC and debate the merits of U.S. Government backed loans to General Motors and Chrysler Corporation. With a "Supreme Court" stage and 1,000 plus conference attendees, the setting for the debate couldn't have been better.

In the poem we all read in high school, Tennyson wrote "Into the Valley of Death rode the 600". That is similar to how I felt leading the charge against a biased audience of bankruptcy professionals. Fees from an in-court restructuring are estimated to exceed \$2 billion, so I was going to be attacking their pocket books.

I knew my chances of winning this debate were minimal; nevertheless my argument was rock solid. The cost to the U.S. Government of an in-court restructuring would be substantial. A bankruptcy filing would inevitably lead to initial temporary layoffs and then permanent job loss. That means lost tax revenue for our government from

personal income taxes, FICA and unemployment taxes. In addition, transfer payments required by the government for unemployment compensation would be considerable. Then consider the billions from the unfunded pension plans that would fall to the PBGC. Further consider the obligations for medical insurance for 10,000,000 plus people, the direct and indirect auto workers and their families. You start to get accused of "piling on." I saw looks of disbelief that the numbers just can't be that big! Even using conservative estimates the financial argument favors a government loan.

I made the argument, I thought convincingly, with passion for an industry that I've built my entire life around. Still, and as expected, I lost. I will admit the response in favor of the government



*Jim Connor, Managing Director; courtesy of Scavone Photography*

loan surprised me. Almost a third of the audience showed some degree of acknowledgement that a government backed loan is a good idea.

As well all now know, General Motors and Chrysler have filed for bankruptcy – but that still doesn't change the fact that bankruptcy harbors a host of risks and uncertainties. It takes time to weigh the risks and benefits for different courses of action. One thing that we can all agree on, is that no matter what happens, this Great Debate will continue. ■



## BBK SERVICES

# Industry Snapshot: Restaurant & Hospitality

*Interview with Scott Norrick, Senior Director*

### What are the pressing issues for restaurant/hospitality companies?

The restaurant industry actually started seeing signs of decline prior to the overall economy. This decline has been precipitated by the convergence of four factors that all peaked within the past 12-18 months:

- All-time high increases in key food commodity costs
- Over-building of restaurants in most markets
- Increasingly leveraged balance sheets
- Slowdown in overall guest traffic from the slowing economy

When economic conditions suffer, dining out is one of the first things that many consumers will cut back on. But even before customer traffic started slowing down, key commodity costs for restaurant operators were at all-time highs for most of 2007 and 2008. Record high costs for beef, cheese, gas and other commodities have really put tremendous margin pressure on the industry over the past two years. These higher costs came on the heels of many restaurant companies taking on additional leverage either through a private equity buyout or through an internal restructuring. The shrinking margins and higher debt service levels made cash flow tight even before traffic began its recent decline.

### What are some important steps these companies need to take to survive?

I strongly believe that there will be a significant shakeout in the restaurant industry over the next three years in which some companies and brands will go away completely, giving others the chance to emerge as stronger players. The difference between the survivors and the failures will come down to the following factors:

1. Surviving companies will have a unique brand with a distinct competitive position. For example, there are too many casual dining

restaurants in the bar & grill category (Chili's, Applebee's, TGI Friday's, Ruby Tuesday, Max & Erma's, Bennigan's and others) that all look and feel too much the same. Some of these brands will emerge as survivors by providing food, service, atmosphere or value distinctions that separate themselves from the pack. Others in this category will go away completely due to a lack of distinctive competitive position.

2. Surviving companies will be led by an experienced and consistent management team. The number of ownership changes in the industry over the past three years has created an unprecedented level of leadership changes across the industry. Those companies that burn through a new CEO every year or two (which has happened with some of the companies purchased by private equity investors) will be the most likely candidates for failure. Companies that are led by strong, consistent management teams that have the ability to execute long range plans have the highest probability for success.
3. Surviving companies will aggressively close underperforming units and exit underperforming markets. With most markets over-supplied with too many restaurants, even the strongest brands will need to close some units. Those companies that take immediate and aggressive actions to close the weakest of their restaurants (even at the expense of a large one-time write-off) will fair better than those companies that drag their feet by incrementally closing a few restaurants here and there. Large one-time closures that allow management to then completely focus on improving the successful base are much better for the brand and internal culture than the never-ending stream of one-off closures that many companies seem to choose.
4. Surviving companies will have a diligent focus on cash flow

and liquidity over the next two years. Every line item of the P&L, along with all working capital and capital expenditure policies, need to be reevaluated given the unprecedented recent economic conditions. While no one knows for sure how long consumers will stay on the sidelines, the smart companies are preparing detailed cash flow assumptions based on the fact that the economy will stay soft at least through 2010. Those companies that do not properly manage their cash flows over the next 6-18 months will find themselves out of options if the economic slowdown and credit crunch are prolonged.

### Where do you see the industry headed in the future?

I am confident that there will be fewer restaurants and brands three years from now than there are today. Over the long run, this is good news for the surviving companies and brands. There will be more opportunities to pick up good future real estate locations as well as gain market share for the survivors. The flip side to the restaurant industry being one of the first sectors to go in the tank when the economy heads south is that the restaurant industry is also a leading indicator for when the economy is pulling out of a recession. There will be a lot of pent up demand when consumers start dining out again and the surviving strong brands and their shareholders will benefit nicely when that happens.

### What does BBK, a household name in automotive restructuring, do in the restaurant/hospitality space?

BBK's core strengths of financial restructuring, operational improvement, interim management and distress/bankruptcy advisory are all extremely timely and needed in the restaurant and hospitality industries right now. BBK's functional expertise combined with the industry focus and talent offer significant growth opportunities. ■

**BBK CHINA**

# The Future of Sourcing in China

by Mike Thomas, Managing Director

Chinese manufacturers will have to make dramatic improvements in order to remain competitive, and in some cases - stay viable. No longer can Chinese manufacturers rely on year-over-year sales growth and low labor costs to offset omissions of best practices in manufacturing and supply chain management. These are adjustments that need to be made in order to remain competitive and sustainable. However, there are some local companies who have already started to implement the necessary best practices to differentiate themselves. A focus on improving cash flow, inventory and capacity management, supply risk management, Lean principles and global quality practices will be essential.

An effective Supply Risk Management process can identify potential problems early on when more cost effective options are available. The earlier the problem is identified, the more time to find a solution or look to a new source to protect the customer from substantial revenue loss due to production interruptions or delays. A customer needs to evaluate its suppliers' financial and operational capabilities prior to awarding the contract and on a regular basis thereafter. This requires understanding aspects of the supplier's business that they might be hesitant to share, such as profitability levels.

In China, automotive exports have

increased significantly as American and European manufacturers take advantage of China's increasingly capable supply base.

However, the recent concern over China's competitiveness within the global automotive landscape begs the question is China still a good country to source to? The answer really depends on the nature of a company's business and the efficiency of its operations.

It does remain a competitive location for sourcing of certain products and industries that are not export-oriented. As with any decision of sourcing from a country, it must make sense. China's large and growing domestic market, supply base, IT infrastructure, pro-business government and high quality labor keep it attractive to certain companies who wish to primarily focus on the domestic market.

However, there are still a few select products that are good candidates for primary exporting. Some raw materials such as aluminum and magnesium are better to source in China due to its low cost and value-added machining of a finished product, like aluminum wheels. Rubber tires and machined (not raw) castings are also good to source and export from China due to its regulatory climate.

In addition, China is experiencing expansion into new industries and new products, including high-tech. Rolls

Royce is making aircraft engines in China, and heavy construction equipment manufacturers are beginning to build new factories for products, an industry currently dominated by the U.S., Japan and Korea.

With American and European manufacturers increasingly seeking to take advantage of China's supply base, engineers - especially European engineers - who investigate suppliers need to ensure that these companies understand the technical aspects of the sourced products.

The expansion of sourcing activities for both domestic consumption and export has also created the need to qualify the Chinese supply base in terms of financial viability prior to the initial sourcing decision. This is especially important when many potential suppliers have untested capabilities, making it difficult to understand ownership structures.

China's manufacturing industry is going through a transition period, like the rest of the world, requiring adjustments to remain competitive and stay alive. Those adjustments will include implementing best practices as I've outlined. Companies must also pay careful attention to the stability of their supply chain and take preventative measures, especially in a time when China's automotive competitiveness has diminished on the global landscape. ■

## BBK in the News

[Obama's Tax Plan to Hit Private Equity, Investment Dealers' Digest](#)

[Hidden Opportunities in Stress Tests? Or More Pain?, GlobeSt.com](#)

[Challenges And Opportunities In The European Manufacturing Sector, Financier Worldwide](#)

[The Price is Right: Home Buyers are Testing the Market Again, CNBC.com](#)

[Supply Risk Management in China - The Money Lender's Perspective, Global Supply Chain Council](#)

[Carmakers Saving Cash, Cutting Inventory, and Reducing Cost, HULIQ](#)

[Manufacturing Execs See More Regional Approach, Reuters](#)

featuring:

[Jim Connor](#)

[Mike Goldsmith](#)

[Manfred Schoenleber](#)

[Mike Goldsmith, Jim LeBaron](#)

[Duane Bolinger](#)

[Duane Bolinger](#)

[Bill Diehl](#)

## NEW FACES AT BBK

## People on the Move

Michael Goldsmith

**Michael Goldsmith is a senior executive with 30 years experience working with troubled companies and their stakeholders in technology, manufacturing, real estate and commercial finance industries.**

Mike's areas of expertise include financial restructuring, distressed investments, turnaround management, corporate strategy, loan workouts, commercial real estate and securitization. He is also well regarded for his ability to establish strategic business partnerships and translate strategy into operational success.

His accomplishments throughout his career include counseling financial institutions on the management of their distressed loan portfolios; forming a hedge fund backed venture that acquired distressed loans and operating companies; initiating a financial company's entry into the capital markets with high quality CMBS offerings

that specialized in manufactured home communities and self-storage facilities; and establishing joint venture relationships with Morgan Stanley and Prudential that made investment in the development and acquisition of hotels, offices, retail centers, mobile home communities, and residential development.

Mike obtained his MBA from the University of Michigan, and his bachelor's degree from the University of Rochester. He is also an active member of the Turnaround Management Association. ■

*For more information, contact Mike at 312.893.5718 or [mgoldsmith@e-bbk.com](mailto:mgoldsmith@e-bbk.com).*

## BBK ON THE WEB

## Inventory Management &amp; Control

*How much money do your clients have tied up in excess inventory?*

*Why should you be concerned? In an economic slow-down, inventory costs real money!*

*How can you reduce your exposure without impacting your client's ability to maintain adequate inventory?*

On April 22, Guy Morgan presented a webinar that answered these timely questions – critical for lenders that want to reduce their exposure by helping their borrower's free-up cash, and for manufacturers that have realized the best way to increase cash flow in today's economy is through cost reduction, not sales.

Many enterprises are struggling to adapt because the old approach to doing things cannot handle today's market volatility. As the market changes, the systems to manage a business must change with it.

Please [click here to view this 30 minute webinar](#), or contact Steve Abbott at 248.603.6487 for more information. ■

## BBK PE POWERTRAK

Top Five International Private Equity Firms in Automotive Related Deals:

CURRENT EQUITY INVESTOR	# OF AUTO INVESTMENTS
3I GROUP PLC	24
COFIDES, S.A.	16
SUN CAPITAL PARTNERS	11
BAYBG	9
CARLYLE GROUP	9

*BBK PE PowerTrak identifies monthly changes and activities relative to private equity firms with significant automotive related investments.*

*Source: Capital IQ as of June 2009*

## INDUSTRY EVENTS

*BBK voiced its thought leadership at the following industry events:*

**January 15, 2009** CFA Distressed Investing Conference, William G. Diehl, President and CEO, presented "Surviving in Today's Automotive Industry".

**March 12, 2009** Capital Roundtable's "How to Buy and Fixed Distressed Companies During the Recession", Guy Morgan, Managing Director and Global Operations Advisory Group Lead, participated on the panel "So You Bought the Company ... Now What? How Do You Help It Survive the Recession?"

**March 18, 2009** Aerospace Manufacturing and Design 2009 Innovation and Design, Alex Craig, Managing Director, presented "Leveraging the Automotive Industry Supply Chain to Meet Aerospace Demands".

**March 25, 2009** TMA Automotive Spring Conference, William G. Diehl, President and CEO, participated on the panel "Insolvency & Restructuring - Views from the Trenches".

**March 25, 2009** ABI Annual Spring Meeting, Jim Connor, Managing Director, presented "The Great Debates - Bailout vs. Bankruptcy".

**April 22, 2009** Eastern Michigan CSCMP, Steve Abbott, Senior Director, presented "The State of the Industry".

**April 28, 2009** Industry Week Best Plants, Doug Olander, Senior Director and Dave Hess, Director, presented "Building the Value Stream".

*For information on upcoming events, contact [marketing@e-bbk.com](mailto:marketing@e-bbk.com).*