

A misconception about Lean is that it's too expensive and the "little guys" can't afford it.

Size doesn't matter when implementing Lean



The flow rate board at the end of this sticking line is used to determine how workers do each day. Every hour the lead employee writes down how many cuttings were stuck.

AS LEAN BECOMES A MORE COMMONLY used word in the green industry, there is a misconception among smaller horticultural companies that Lean is just for the "big guys." If that were the case, one might expect bigger operations to be less efficient, less productive and have a lot of waste in their processes. Does this mean that smaller companies are more efficient and productive and don't need to improve? Probably not.

No matter how big or small your business is, Lean is for everyone.

We first implemented Lean at Kerry's Nursery in Homestead, Fla. We redesigned the company's packing and shipping area. After our first two-day onsite visit, Kerry's realized a 25-percent improvement

in productivity and a better-quality product. You're probably saying, "But Kerry's is a big operation." And you're right. But Kerry's was the catalyst for other horticulture companies to consider implementing Lean.

Since that initial implementation, we have worked with many green businesses with annual sales as low as \$2 million. Does this still seem too large? The issues facing large growers are also prevalent with small ones.

Mounting grower issues

If your company is like many in the industry, your profit margins are shrinking from pricing pressure, and sales are flat or on the decline. There are two ways to improve your

margins. The first is to reduce your costs while maintaining the same price. The second is to increase your prices to offset higher costs.

You can try to raise prices, but you may see some decline in sales as customers seek out new suppliers. The alternative is to focus on cost reductions. These cost reductions are the one thing that will allow you to do more with less.

Reduce cost of goods sold

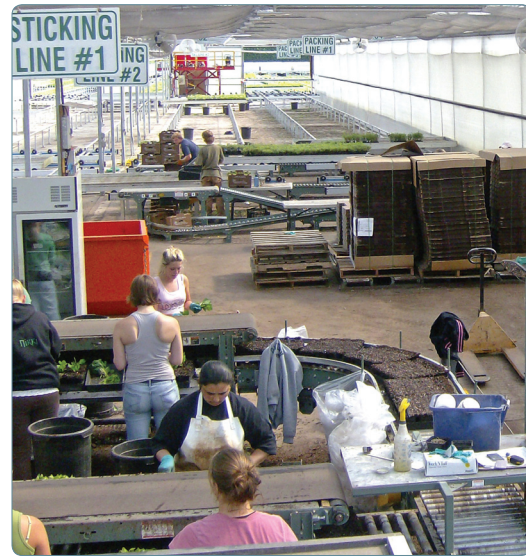
Typically, for both large and small greenhouse operations looking to implement Lean, labor represents 20-45 percent of cost of goods sold. Cost of goods sold for a company is comprised of materials, labor and overhead.

The less automated a business,

the higher the labor portion usually is. However, automation is not for everyone. A small propagator or a finishing grower may not spend much money on automated equipment, so the labor portion of cost of goods sold may be on the high side.

If labor is a significant portion

of your products' cost, let's look at how you can reduce labor cost of goods sold while at the same time increasing sales. A key Lean principle is to go after the waste in your company processes. Waste is work that your employees do that does not add any value to the product



Lean Flow sticking and packing lines at Van Belle Nursery in Abbotsford, British Columbia, Canada, resulted in a 33-percent improvement in sticking productivity and a 30-percent improvement in shipping productivity.

or that a customer is not willing to pay for.

Labor productivity

Let's say your company has annual sales of \$2.5 million and total cost of goods sold is \$1.25 million. Labor is 25 percent of cost of goods sold or \$312,500 annually. By implementing Lean you are able to improve your company's labor productivity by 25 percent. The annual labor cost reduction is \$78,125. The



Lean flow allows growers to reduce labor cost of goods sold while increasing sales.

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cost of goods sold decreased 6.25 percent, which means more profit to the bottom line.

The larger the business, the larger the savings in dollars, but the improvement percentages will be about the same. Saving \$78,125 is compelling for any company.

Reducing shrink

Are you dumping a large amount of product because it never sold at retail stores? Are your shrink rates in the double digits? If you have \$2.5 million in sales, a 10-percent shrink rate translates to \$250,000. Lean focuses not only on labor productivity, it also improves the materials and supply-chain side of your business.

Shrink rates can be reduced using a kanban (Japanese word for signal) technique, where inventory (about one-half to one day's worth of product) is stored on the shipping dock. This Lean inventory location is called a dock supermarket.

As product is sold at retail outlets, a kanban is sent back to the greenhouse "supermarket" to replenish what was consumed at the store. When this product is pulled from the dock supermarket to replenish the retail outlets, another kanban signal is sent back to the greenhouse to pull product to

replenish the dock supermarket.

Kanban is similar to the milkman who used to provide home delivery of dairy products. When the milk bottle was empty, the consumer placed the bottle out in front of the house and the milkman would exchange it for a full bottle. This is


an example of kanban -- replenish based on consumption.

Using the dock supermarket kanban technique, you can reduce plant shrink at the store level by 50 percent. The reasons for the reduction in shrink are:

1. The product is touched only




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Employees at Elzinga & Hoeksema Greenhouses in Kalamazoo, Mich., load chrysanthemums in the company's dock "supermarket."

when it sells. Otherwise, it stays in its lowest-cost, best-controlled environment (your greenhouse).

2. You strategically plan how much of each product will be in each store and in the dock supermarket. In this example, a 50 percent reduction in shrink yields an annual savings of \$125,000. More importantly, sell-through revenue increases, store inventory decreases and you save on labor through reduced overtime.

Total savings

In this example you now have an additional \$125,000 savings in shrink plus the labor cost reduction of \$78,125 for a total annual savings of \$203,125. Still think this is not enough savings to justify implementing Lean for a small company? Remember, the difference between a small and big company is the dollar amount. Percentagewise it's about the same.

In my experience, there is no other way to reduce your cost without spending a lot of money. The majority of the changes in Lean flow require little capital investment. You use what you have.

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