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Why Delphi Is Important

One more sad story out of Detroit really doesn't mean much. The Delphi bankruptcy is actually one of the auto industry's lesser crises at the moment, although they seem to think it is the end of the world. But Jim Womack, co-author of *The Machine That Changed The World* and one of the leading lean 'gurus' stating that Delphi is one of the leanest places outside of Toyota City, a founding sponsor of the Lean Enterprise Institute, and the recipient of the knowledge of "the very best Toyota sensei" - in effect saying that Delphi was as lean as it gets - and concluding that success might require Chinese labor costs *and* lean manufacturing, is very important.

I misstated the facts in my knee jerk response to Kevin Meyer's blog post yesterday, but not the essence of the issue. In fact, after a little research and a good night's sleep, I have found that Delphi turns inventory 13-14 times - better than 7, but hardly anything to knock anyone's socks off. I also learned that GM has been a steadily declining percentage of Delphi's business, from 90% in 2000 to slightly less than 50% now. GM's woes have had a smaller impact on Delphi every year. I also learned that Delphi's Cost of Sales has held pretty steady at around 90% of sales for at least 8 years.

So what are we to make of Womack stating that Delphi is so lean? 13 or 14 inventory turns certainly does not support the assertion that Delphi comes very close to 'just in time'.

Where are the "billions" of dollars of operating costs that have been taken out? The Cost of Sales does not reflect any such improvement.

This really gets at the heart of what all of us who take the time to read *Superfactory*, and look in every other corner for the tools and knowledge needed to duplicate Toyota-like manufacturing results, are seeking.

I cannot doubt Womack's views. He, as well as anyone, knows what lean *looks* like. He certainly believes that operating costs were reduced and that Delphi has good throughput. When I blasted Delphi a few months back for hiring a lawyer to fix their problems, a number of readers responded directly to me or to the blog that they had personal knowledge of Delphi's lean factory practices, validating Womack's assertions.

The lesson from Delphi is not Womack's conclusion that lean is not enough, and that companies still may have to run off to some third world country. The lesson is that *looking* lean is not the same as *being* lean. Delphi apparently was lean by every internal look; but was just another failing Detroit manufacturer by every relevant external measure.

Shingo tried hard in his poorly translated words to make the point that Knowing How to do lean - simply imitating Toyota's shop floor practices - was not enough. It was essential to "Know Why". Everything Womack said, and everything written to me by *Superfactory* readers, indicates that Delphi had the 'Know How' nailed down pretty well. It seems apparent that they missed something big, however, that prevented them

from turning shop floor techniques into bottom line results. They seem to have completely missed the "Know Why".

We need to dig deep into this question. We need to be assured that all of our lean efforts aren't for naught and the whole thing is going to Malaysia anyway. Ten percent per year in cost reductions at Delphi would have put \$10 billion + to their bottom line over the past few years. Doubling their inventory turns would have put another billion into the bank. Mediocre lean financial results would have been the difference between one of Detroit's shining stars, and bankruptcy.

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