Delos

Looking at your business
another way

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VALUE STREAM MANAGER ROLE

As part of the process of developing a Lean organisation, it is clear that a traditional functional style organisation just will not work.

In a traditional "functional" organisation, Sales will work to maximise their sales, manufacturing will work to recover overheads, and therefore build up inventory. They will want to make what is most efficient, operating to the strange requirements forced on them by standard costing.

Research and Development will develop according to their priorities, and are not driven directly by customer wants and needs.

The development of a Lean philosophy in principle requires managers to take a holistic view of their business. In practical terms it may make a lot of sense to take that large order, even though it may cause overtime, because the incremental value added drops straight to the bottom line.

It may make sense to increase the amount of capacity available through Lean activities, and increase the ability to respond flexibly, even though this may not appear to be the most "efficient" use of assets.

This has forced the idea that a more entrepreneurial spirit is required in the form of a "Value Stream Manager" and this article lays out a suggested description for such a role.

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JOB DESCRIPTION FOR A VALUE STREAM MANAGER

Definition of Value Stream

The definition of a Value stream is going to vary company by company. However, in principle a value stream represents a family of products and or services supplied to customers, which can be identified as a an area of focus for the company, and a series of activities that are carried out along that value stream.

In a large organisation it could represent a business unit. It could also represent a family of products [eg a Toyota Avensis].

The key, however, is to be clear that a value stream represents a different dimension along which to view a company, when compared with a functional or process view.

A functional view looks at the company from the perspective of operating departments which are based around key skills, thus :

- Sales - skill related to getting the order from the customer
- Marketing - skill related to creating the awareness of the company amongst potential customers, and creating the environment in which customers will buy
- Finance - skill related to the accounting and cash management aspects of the company
- Manufacturing - skill related to the production of goods and services
- Procurement/Purchasing - skill related to acquiring goods and services from external suppliers
- Logistics – skill related to managing the distribution of goods and services
- Technical development – skill related to the invention of new ideas and methods
- Human Ressources – management of the people skills and behaviours

A process view might look at the organisation around a series of discrete but linked processes, thus :

- Order to Cash – the process of receiving orders from customers through to delivering the product to customers, through to receiving the cash from the customer
- Procure to Pay – acquisition of goods and services from external suppliers, through to sending cash to the supplier
- Winning Business – The process of taking ideas through to getting customers to place an order
- Idea to Launch – The process of technical innovation, which results in a final product ready to launch to customers.

In a functional organisation there are typically Sales and Marketing Directors, Finance Directors, Manufacturing directors and so on, and corresponding managers and team, with defined areas of responsibility.

This kind of functional management typically suffers from “silo” management, and each department operating to its own agendas and goals. This is supported by typically inappropriate performance measures.

A process organisation is based around a series of process owners, which manage and improve the individual processes.

However a value stream – a group of products and services – will need the effective management of Information, Cash and Goods and Services with support from each of the processes – thus from idea through to collection of cash from the customer.

In a small organisation dedicated to the delivery of a single product or service, then the company will normally be run by an “entrepreneurial” managing director, who will be responsible for the co-ordination and development of the whole organisation from innovation through to the delivery of the product to the customer, and collection and payment of cash. Their clear focus should be and will be on the customer, and how to maximise value from his or her customers. It is their decision around the normal “conflicting” priorities that naturally occur within the business.

In a large organisation made up of departments, functions and processes this focus is lacking, and hence a Value Stream Manager is the person who will take a “holistic” view of a product or group of products, with the aim of maximising the value gained by the company from that group of products or services. In effect they are the “entrepreneurial managers” of the business, who take the decisions and risks that an MD in a small organisation will take.

OBJECTIVE OF VALUE STREAM MANAGER

- **To grow and maximise the value earned from customers**. This value represents the difference between the Revenue earned from customers in any time period [month, year, strategic horizon], and the raw material inputs required to deliver that value. Their responsibility therefore covers not only the nominal profit earned, but also the assets involved within that group of products and services.

  Clearly the focus of the Value Stream manager should be on the longer-term development of the family of products and services. It might be a short-term option to eliminate product development; however this will have a detrimental effect on the longer-term survival of the value stream.

- **To improve the performance of the entire company in delivering value to customers of that value stream**.

  There is a need to measure the performance of the entire value stream from a number of perspectives, and the value stream manager is responsible for delivering improvements to the operational, capacity and financial measures.

Operational measures will include :

- Forecast accuracy
- Delivery on time and in-full to customers to the Right quality
- Manufacturing delivery performance [On time in full to right quality]
- Suppler Delivery Performance [On time in full to right quality]
- Lead Time Reduction
- Improvement in Velocity
- Introduction of New Products in time in full to customer requirements

Capacity measures will include :

- Productive capacity
- Non-productive capacity
- Available capacity

Capacity availability and effectiveness should be managed for manufacturing resources, and where appropriate non-manufacturing resources such as Engineering/Product Development and Quality Assurance.

Financial Measures will include

- Annual, monthly and strategic Value Stream profit and cash flow [the focus should be on cash flow and not profit, as usually defined]
- Annual, monthly and long-term revenue growth, and reduction in material costs, and conversion costs [taking raw materials and converting them through internal manufacturing and external manufacturing processes]

In calculating the costs of the Value Stream, then the Value Stream manager should take into account the Total costs of the supply Chain.

DECISION MAKING AREAS OF RESPONSIBILITY

A functional view of an organisation will take a local parochial view of the management of costs and associated activities. Thus a manufacturing director may take the view that they should make product in large batches, in order to minimise the cost per unit. However, if – say this is made in a batch which lasts three months on a piece of equipment – then any other product may need to wait three months before it can take its place in the schedule for that piece of equipment. This could have a detrimental effect on the availability of product for customers, leading to lost sales.

It is the Value Stream manager's responsibility to decide on making 4 or 10 batches a year in the interests of customer service.

From the point of view of minimising the costs of inventory, it might – from a cost point of view – make sense to locate inventory in a central location. However, from the point of view of providing flexible response to a customer it might improve customer service to locate inventory close to the customer.

From a cost point of view, it might make sense to procure product from the lowest cost supplier. However, from the point of view of maximising value to be earned from a customer, it might make sense to source product from a supplier close to the market.

In the development of products, it might make sense to continue to develop a product until it is technically perfect. However, in the interests of time to market, and maximising revenue it might make sense to launch a product earlier rather than later.

All of these decisions come within the scope of the responsibility for a Value Stream manager.

INTERACTION WITH OTHER PEOPLE

The Value Stream manager is going to act as a team leader, effectively co-ordinating and managing the efforts of a number of functional skills, principally in the interests of adding value to the organisation and the customer, in such a way that the organisation maximises the long-term development of value for the organisation.