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LEAN THOUGHTS

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[A Global Intelligence Briefing for CEOs](#)

An interesting abstract written by Kevin Meyer from Superfactory.

There's an article flying around the internet titled [A Global Intelligence Briefing for CEOs](#) by Herbert Meyer (no relation). The original source publication can't immediately be found, so I've temporarily copied it [here](#) so you won't have to search for it.

The article is though-provoking, intentionally controversial, and perhaps even inflammatory in some regards. But it is an excellent read and I'm guessing you'll want to send the link around to several of your friends and colleagues.

Herbert Meyer has held several high level positions in federal and private intelligence organizations and is now making the print and lecture circuit rounds. The reason the article is being emailed and forwarded is because it is a very direct analytical assessment of four major transformations currently occurring around the world. He begins by describing those transformations, then he discusses their implications and impact.

The first transformation has to do with the overall impact of the war in Iraq. It is pretty apolitical in that he brings up issues both with the rationale to go to war as well as the significant short-sighted consequences of abandoning the country too soon, especially the impact on some of the former Soviet republics and Iran.

But this first transformation isn't why I'm bringing this article to your attention. I know better than to discuss that situation in this blog!
The second transformation has to do with the emergence of China. He starts right off by describing why China loves manufacturing.

In the last 20 years, China has moved 250 million people from the farms and villages into the cities. Their plan is to move another 300 million in the next 20 years. When you put that many people into the cities, you have to find work for them. That's why China is addicted to manufacturing; they have to put all the relocated people to work. When we decide to manufacture something in the U.S., it's based on market needs and the opportunity to make a profit. In China, they make the decision because they want the jobs, which is a very different calculation.

He then describes why the relationship between U.S. and China is so important.
While China is addicted to manufacturing, Americans are addicted to low prices. As a result, a unique kind of economic codependency has developed between the two countries. If we ever stop buying from China, they will explode politically. If China stops selling to us, our economy will take a huge hit because prices will jump.

Herbert Meyer goes on to discuss how this burgeoning Chinese manufacturing base is impacting raw material prices now, and what will happen in the future. There are also some interesting thoughts on what the Chinese government will do with regards to Taiwan before the mainland inevitably morphs into a more democratic and capitalistic society.... and the impact that could have on foreign manufacturers currently in China. Now there's a supply chain risk.
The third transformation deals with shifting demographics, particularly in the western world. As he puts it,

LEAN CONSORTIUM MEMBERS:

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- CTS Canada
- EATON Cutler Hammer
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- MORRISON LAMOTHE
- ORENDA
- NESTLE WATERS CANADA
- STACKPOLE



Where "Lean Thoughts" Become Reality



Most countries in the Western world have stopped breeding. For a civilization obsessed with sex, this is remarkable.

He goes on to describe how the birth rate of western Europe now stands at 1.5, or 30% below replacement... which if sustained will lead to 70 million fewer Europeans than today. This is already creating shortages of certain critical work skills, and is leading to dramatic demographic shifts. For example it is projected that within 10 years half of all births in some European countries will be non-European. Japan has the same problem, but due to cultural issues they are not importing labor, therefore the overall population is aging rapidly. 300 schools are closing per year, and by 2020 one out of five Japanese will be over 70, creating a huge support cost. And Russia is in the worst shape: the birth rate is so low that by 2050 it will have a population smaller than Yemen.

Europe and Japan are dying because their populations are aging and shrinking. These trends can be reversed if the young people start breeding. However, the birth rates in these areas are so low it will take two generations to turn things around. No economic model exists that permits 50 years to turn things around.

The impact is already starting to be felt.

The European economy is beginning to fracture. The Euro is down. Countries like Italy are starting to talk about pulling out of the European Union because it is killing them. When things get bad economically in Europe, they tend to get very nasty politically. Germany won't launch another war, but Europe will likely get shabbier, more dangerous and less pleasant to live in.

He provides some interesting data that ties lower birth rates to secularization, and how religious societies are the only ones truly growing. The U.S. is a little better at just barely below replacement, but we are growing due to immigration. This is creating the unique situation where business tends to be conservative, but at the same time they are embracing immigration. The most effective birth control method also happens to be what impacts, positively and negatively, western society. Money.

As society creates a middle class and women move into the workforce, birth rates drop. Having large families is incompatible with middle class living. The quickest way to drop the birth rate is through rapid economic development.

He ends the discussion of this transformation with the following advice.

Make sure the demographics of your business are attuned to where the action is. For example, you don't want to be a baby food company in Europe or Japan. Demographics are much underrated as an indicator of where the opportunities are. Businesses need customers. Go where the customers are.

The fourth transformation is the restructuring of American business. Herbert Meyer describes how business is becoming increasingly "fractured"... companies are outsourcing (onshore and offshore) services and subassemblies, and those fractures are fracturing themselves. This is creating two new types of businesses: the "integrator" and the "complementor." A company at the top of the fractured pyramid, like IBM, is an integrator. Microsoft, Intel, and the other companies that support them in some way become complementors. But each of those is an integrator for the complementors underneath it. One interesting quote:

Another implication of this massive restructuring is that because companies are getting rid of units and people that used to work for them, the entity is smaller. As the companies get smaller and more efficient, revenues are going down but profits are going up. As a result, the old notion that 'revenues are up and we're doing great' isn't always the case anymore.

GM apparently [doesn't know that](#) yet. So what are the implications for this transformation of business? One hint: it requires a supply of workers and a highly dynamic society, and there are only a few of those.

The U.S. is in the process of building the world's first 21st century model economy. The only other countries doing this are U.K. and Australia. The model is fast, flexible, highly productive and unstable in that it is always fracturing and re-fracturing. This will increase the economic gap between the U.S. and everybody else, especially Europe and Japan.

Definitely a potentially stressful environment to work in, but perhaps one we can get used to.

The [article is good reading](#) and definitely thought-provoking. Obviously much of it is controversial, perhaps downright inflammatory, but in a way that forces us to think. With these transformations in mind, where will you put your next factory? What population will you market to? How will you develop your organization to maximize the opportunity and reduce the risk that these transformations will create over the next half century? Isn't that what we're paid to do?

Consortium Event Schedule



Tour Workshop Conference

January	February	March	April	May	June
<p>T</p> <p>Wednesday 24 <u>Eaton Electrical</u>, contact Joe Fisher, JoeRFisher@eaton.com</p> <p>W</p> <p>La-Z-Boy Corporate Monroe MI February 14 & 15 <u>Enterprise Value Stream Mapping</u> How to use the VSM tools to map admin processes. Contact Richard Kunst for info. Richard.kunst@la-z-boy.com Register at www.ame.org</p>	<p>T</p> <p>Wednesday 14, <u>CFN Precision</u>, contact Paul Kaulback, pkaulback@cfn-inc.com</p>	<p>T</p> <p>Wednesday 21, <u>Nestle Waters</u>, contact Mariela Castano mcastano@perriergroup.com</p>	<p>T</p> <p>Wednesday 18, <u>CTS Corp.</u>, contact Bob Garces, Bob.Garces@ac.ctscorp.com</p> <p>C</p> <p>Lean Design & Development Conference Wed 18 to Fri 20 Chicago Contact www.iirusa.com/lean</p>	<p>T</p> <p>Wednesday 16, <u>Stackpole CSD</u>, contact Don Barber Don.Barber@stackpole.ca</p> <p>Consortium Shareshowcase</p> <p>Saturday 05 <u>CGL Guelph</u>, Contact Cindy Grolleman Grolleman@canada.com or Dave Deskur daved@cglmfg.com</p>	<p>T</p> <p>Wednesday 20, <u>Morrison LaMothe</u>, contact Tony Vita tvita@morrisonlamthe.com</p> <p>C</p> <p>AME Regional Conference Mon 18 to Thur 21 Edmonton, Alberta Contact www.measureupforsuccess.com</p>
July	August	September	October	November	December
		<p>T</p> <p>Wednesday 26, <u>Kraft Foods</u>, contact Hanif Jivraj hjivraj@Kraft.com</p>	<p>T</p> <p>Wednesday 10, <u>CGL Manufacturing</u> contact Dave Deskur daved@cglmfg.com</p> <p>C</p> <p>AME National Conference Mon 29 to Friday Nov 2 Chicago Contact www.ame.org</p>	<p>T</p> <p>Wednesday 14, <u>Messier-Dowty</u>, contact Mike Smith Mike.Smith@Messier-dowty.on.ca</p>	<p>T</p> <p>Wednesday 12, <u>Orenda</u>, contact Brenda McIntosh brendamcintosh@orenda.com</p>