

# NEWS RELEASE



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## **DTE ENERGY APPLIES LEAN PRINCIPLES TO THE UTILITY INDUSTRY: REAPS MILLIONS IN SAVINGS**

**Novi, Michigan, May 20, 2005** – As a result of lean transformation and the development of the DTE Operating System, documented cost savings to DTE Energy (NYSE: DTE) are in excess of \$150,000,000. The improvements come from numerous initiatives throughout the organization. Examples include:

- Small transformer repair time down from an average of 31 days to less than two. This increased throughput allowed the company to bring additional repair work into the organization, representing a \$3 million improvement;
- Reduction of time between invoice receipt and check-cutting from 45-60 down to six days, allowing the company to take advantage of prompt-pay opportunities;
- Accuracy improvement at an inventory warehouse from below 80% up to 96% in less than two months and 30 days ahead of schedule, saving the supply chain organization almost \$400,000;
- Fifty percent improvement in diagnosis and minor vehicle repair at a transportation garage and \$32,000 savings through renegotiating of prices for parts and materials; plus
- Numerous intangibles such as improved employee engagement and morale as well as quality improvements.

DTE Energy became committed to improving its cost-competitiveness and customer satisfaction, including both service and delivery soon after its merger with MCN Energy.

The company hired management consultant Andy Carlino of Achievement Dynamics to assist with the initiative. Carlino stressed the importance of applying *lean principles* in order to take DTE Energy to a more ideal state.

After Carlino ran a series of successful kaizen workshops, the company assembled a continuous improvement group of 12 – 15 people, which evolved into the Operating Systems Strategy Group. The group was a blend of existing staff and newcomers including Shawn Patterson, named as the Director of the Operating System Strategy Group, and Jamie Flinchbaugh, appointed as DTE Energy’s Operating System Manager. This group became the force behind DTE Energy’s journey toward lean transformation. “Having looked across a broad range of business metrics, it became clear that we were solid, but not spectacular,” according to Patterson.

In conjunction with Carlino, a lean transformation program was tailored to meet the company’s needs.

DTE’s lean transformation began with five-day kaizen workshops comprised of 5-15 people each. To date, over 100 kaizen workshops have been run in every area of the business, from accounts payable to corporate communications.

It was after the kaizen action plans were in place that the DTE Energy team began developing the framework of the company’s lean transformation. Flinchbaugh was assigned the task of taking the improvement effort beyond the kaizen workshops to an organization-wide lean-based system, which became known as the DTE Energy Operating System -- a set of principles and tools used to build the infrastructure necessary for the company’s continuous improvement. It is the ‘lens’ through which employees should view their everyday work.

Around the core guide of developing people, DTE Energy’s continuous improvement cycle is based upon four principles. First, start with careful planning to help reach goals and objectives. Next, follow up with consistent (standardized) and effective action. Results of this action must then be measured and analyzed. Then, if necessary, take corrective actions, which leads the cycle back into planning and goal setting.

These methods apply to DTE Energy's specific objectives and the company's anticipated results in four key areas: people, financial, customer/stakeholder; and competitive position. Developing an Operating System for DTE Energy has been an ongoing process with several iterations. An enterprise-wide rollout occurred in late 2003, after 24 months of development and implementation.

While working on with DTE, Carlino and Flinchbaugh decided to join forces, formalize their lean training process, and offer lean learning to other companies. Together, with ex-DaimlerChrysler exec Dennis Pawley, they founded the Lean Learning Center (Novi, Mich.), a business dedicated to developing leaders and learners for lean transformation.

Carlino and Flinchbaugh continue to assist DTE Energy today. While the Operating System is a single document, "...the system is not what exists on a piece of paper but is how DTE Energy thinks together and works together to improve its systems," according to Flinchbaugh.

Where does DTE Energy go from here? Onward and upward is the plan as the company's goal is to create substantial business improvements in quality, cost and delivery through Operating System Demonstration Projects.

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