Unleashing Enterprise Value

Improvement isn't mandatory…but neither is survival

John Bell

Good enough in the past will not be good enough for the future. Merely maintaining the status quo in a competitive world is tantamount to going out of business one day at a time. All organizations delivering a product or service must continually improve the value delivered to their customers in the form of new and improved products, higher service levels, higher performance levels, or more convenience. In for-profit organizations, the owners/shareholders/investors require improving levels of profit, return on investment, and growth or they may elect to take their money elsewhere.

How does the business leader realize these higher levels of performance? The convention over the last several years has been to roll out a program like TQM, Six Sigma, Lean, 5S or some combination or variation. All are good programs, but have a mixed track record of success. Such programs, and similar systems like ERP software, are tools, and like any tool they must be applied appropriately to be effective. They cannot be successful if simply thrown into the organization with the mandate to "do great things." All improvements are not equal in terms of impact on the organizational objectives. Cleaning and organizing the factory with a 5S program will not be beneficial if the burning issue for the enterprise is lack of top line growth stemming from a dearth of new product introductions. Strategic direction is required for maximum benefit. Raising the performance level of an organization does not require implementation of exotic programs. The most frequently used tools are quite straightforward and within the grasp of everyone in the organization. Improvement is a journey. Like any journey from point A to point B, some forethought is required and a map is extremely beneficial.

Begin With the End Point in Mind

"If you don't know where you are going, any road will take you there." Lewis Carroll

Like a journey to another location, we need to know where we intend to be at the conclusion if we hope to arrive at all. Call it the goal or the objective, it is the desired outcome. The more specifically the outcome is defined; the easier it will be to focus efforts to achieve it. Some examples are:

- Improve on time delivery to y%
- Reduce new product development time to y months
- Reduce warranty expenses to y% of sales
- Increase profit margin of xyz product line to x%
- Reduce the wait time for service to x minutes

How do you determine the appropriate level for wait time, on time delivery, etc? The answer will lie with your customers, stakeholders, and competition. Improvement is a continuous activity, so it is not necessary to move from an occasional jogger to a world class marathon runner in one step, but if you are going to make an investment of time, energy, and money, the end point should be at least a stretch.

Know Where You Are

"A bad beginning makes a bad ending." Euripides

Where you are starting is just as important as where you want to be at the end. Imagine having San Francisco as your destination and just deciding to head west. There are quite a few starting points in the US from which you will accomplish your objective. But if you are in Seattle (and don't realize it) and head west, you are going to get wet and not reach your objective. That is the obvious reason for knowing the starting point. The less obvious reason is that the larger the gap between your starting and ending point, from a performance point of view, the more valuable accomplishing the change is likely to be. If you are travelling from New York to San Francisco, the value of reducing travel time by 50% is higher than the same reduction in travel time between San Jose and San Francisco. Likewise, reducing time to market for a new product by 2% is an improvement, but not likely to be as valuable as a 50% reduction. A change of that magnitude has the possibility of altering your position in the competitive landscape. If possible, use existing data to assess the present state. If data doesn't exist, and there is reason to believe that performance is less than desired (e.g. customers are complaining that deliveries are always late), take some time to establish the baseline.

Understand the Value

"Price is what you pay. Value is what you get." Warren Buffett

If the first two tasks have been accomplished, then the distance the organization must move is known. Another dimension of this concept is what such a change would mean to the organization. This is the value, and is the basis of judging the return you can expect for your investment. Without this knowledge any energy, money, and time expended can only be viewed as a cost. Building on the time to market example from above, what value may accrue from a 50% reduction in time to market? Here are a few that come to mind.

- If product development labor costs are $1M per year, current time to market is one year, and one product is released per year, the cost per product is $1M. A 50% reduction in time to market is worth $500K.
- A 50% reduction in time to market gains an additional year of revenue from new product sales. If first year revenue is $2M per product, $1M in revenue will be realized a year earlier.
- The number of products that can be developed for the same labor investment doubles, compounding the revenue from new product sales. Using the same first year revenue, an additional $2M will be realized in the first year alone.
- Depending on the competitive environment, a faster time to market could translate into a competitive advantage is your competition is slower.
- Depending on the customer environment, a faster time to market could make the difference in hitting or missing a purchase window, or a design-in cycle.

It is easy to see that a change of this magnitude is worth a few million dollars, and the investment to get there should be made accordingly. This type of analysis also provides a common basis for deciding if improving on time delivery might be more valuable than improving time to market, or vice versa.

Determine the Resources Available for Investment

"There are risks and costs to any course of action. But they are far less than the long-range risks and costs of comfortable inaction." John F. Kennedy

Any improvement activity will require some investment in the form of time, money, material, or all of the above. The investment should be evaluated in the context of the value to be realized. Time investment is not only the actual hours spent by the improvement team, but the relative priority of the improvement activity to other activities of the team members (starting with the assumption that all team members are gainfully employed and not sitting around waiting for an assignment). The risks associated with different investment options should also be evaluated. For example, if a member of the new product development team is assigned to reduce time to market, product development may slow down temporarily. The risk of that impact should be weighed against the benefit of reducing time to market. In addition to internal staff, it may be appropriate to engage outside resources to bring expertise, a new point of view, or just bolster internal staff.

Align the Team

"'Management' means, in the last analysis, the substitution of thought for brawn and muscle, of knowledge for folklore and superstition, and of cooperation for force…" Peter Drucker, People and Performance

The preceding analysis has already accomplished the alignment of the improvement objective to business needs. When the team is convened, it is worthwhile to explore why the improvement is in the self interest of the individual team member. In extreme cases, the very survival of the company may be at stake. Future employment is usually in the self interest of the individual. A common financial reward may serve to align the interests of the team. But, frequently there are many individual needs that will be met by accomplishing the business objective. An example comes from a company that had struggled for years to accommodate customer requested variations to their standard products. The company would benefit from improved margin, better delivery performance, and improved customer responsiveness. But in the ensuing discussion it became apparent that marketing was frustrated because customers were displeased with performance, engineering was frustrated with commitments made by sales, production was frustrated because they had incomplete instructions, logistics was frustrated because on time deliveries were impacted. In other words, life would directly improve for everyone if a solution was developed. This is the basis for cooperation and compromise. Without it, turf battles tend to be the norm.

Engage the Right People

*"To succeed as a team is to hold all of the members accountable for their expertise" Mitchell Caplan, CEO, E*Trade Group, Inc.*

When assembling a team for the purpose of driving improvement, it is crucial to engage the major stakeholders in the process. This does not mean everyone who touches a product from beginning to end, but should include representatives from all of the major functions involved. With all interests represented, appropriate compromise can be made and buy-in is automatic.

Develop a Solution

"It is so much easier to suggest solutions when you don't know too much about the problem." Malcolm Forbes

Now that that the What, Why, and Who have been clearly delineated, the How must be developed by the team. This is where the toolbox of choice is employed. For example, the Define, Measure, Analyze, Improve, and Control (DMAIC) flow of Six Sigma is applied, or the more common TQM tools. Whatever is chosen, the analysis should be based on fact and not opinion and anecdote. It is also an opportune time to eliminate waste which is frequently uncovered in the process of developing a solution to the primary issue.

Execute the Plan

"Plans are only good intentions unless they immediately degenerate into hard work." Peter Drucker

This seems obvious, but once the solution and plan have been developed, the payback comes only after it is executed. Many initiatives fail because they stop short of actual implementation. The reasons range from short management attention span, something "more urgent" arose, someone's "sacred cow" was molested, and so on. This is why the strategic framework from the first few steps is so critical. That framework captures the context of the improvement activity and the importance of the results to the organization.

Move On

"Don't polish the brick." John Bell

When the improved processes have been implemented and verified, move to the new number one issue. There is no doubt that there are further improvements that could be made. But in all likelihood, the improved state is dramatically better than the old state, and as a result, further improvement will have much less value. There will be a new top priority for the organization with higher value.

The journey of continuous improvement never ends, and as long as there is strategic direction to the improvement, the profitability and competitiveness will continue to progress, and the longevity of your organization will be enhanced. The value is there in your enterprise. Unleash it!

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