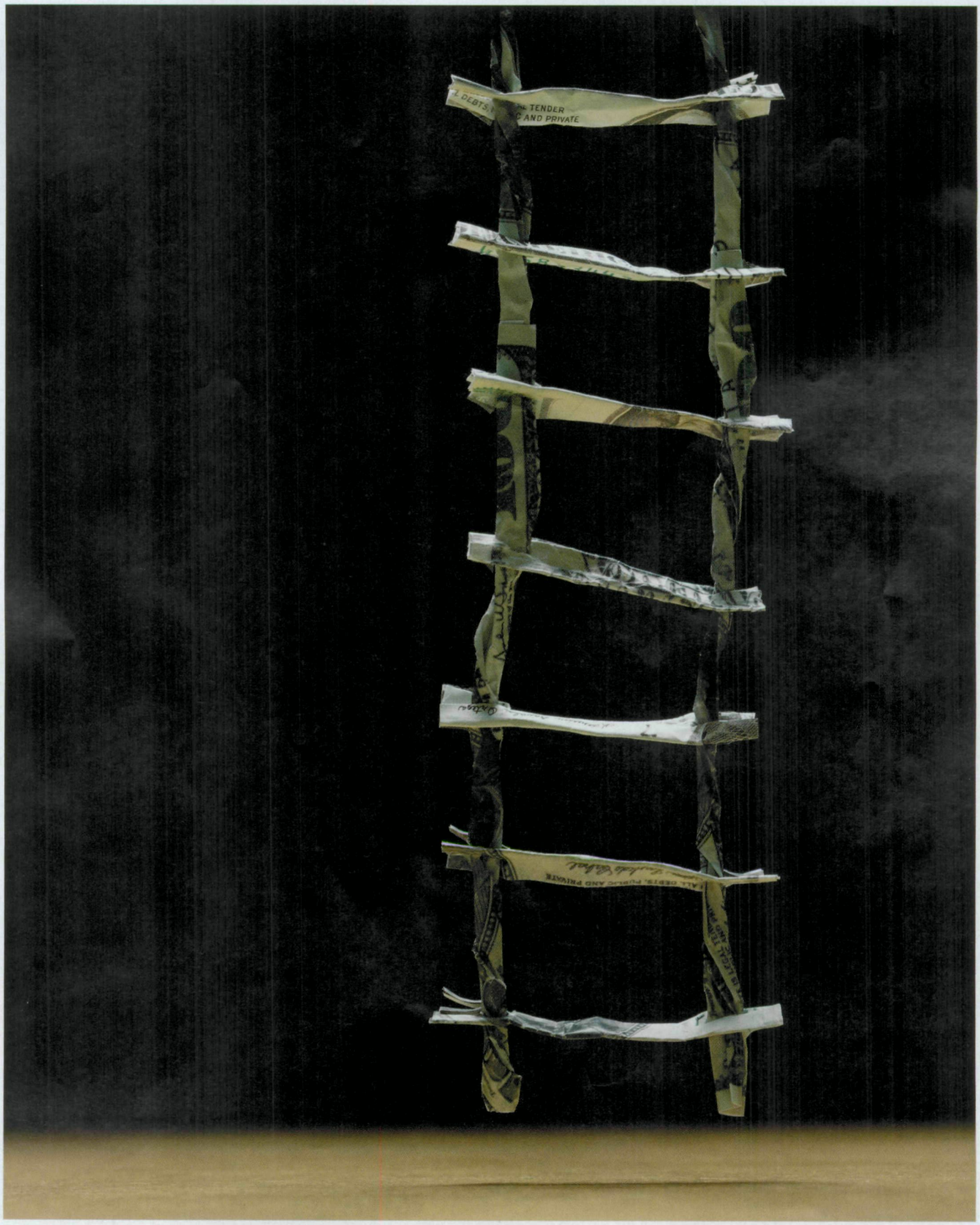

Make Money Now & More in the Future

By remaining on the watch for improvement opportunities throughout your operation, it's likely you will also come across a number of ways to save money. Continuous improvement can't wait. By John Kasarda

Imagine a world in which very little changed over time. This year's products are the same as last year's products, and they'll be the same as next year's products, too. The same with production methods, management techniques, employee training – you name it.

Don't forget your history lessons – there was a time in human history when the world functioned this way. During the "dark ages," knowledge was shunned, and people with new ideas were exiled – or worse. Nothing much really changed for centuries.

Then came the light of the Renaissance. Long-standing ideas were challenged. New ways of conducting business evolved. Innovative ideas were not only allowed, they were encouraged. And life changed for the better.

Using this analogy, look at your business. Is it stuck in the Dark Ages? Or is it committed to the notion that the business can change – that it can and should get a little better every day?

This is what continuous improvement is all about. If senior executives are not committed to the continuous improvement of every aspect of the business operation, the business stands to go the way of the fire-breathing dragon and knights in shining armor, instead of becoming a 21st-century legend.

Continuous Improvement Defined

Continuous improvement is a mindset, not a methodology or a system. Its mantra is that change can be good, and it fosters a way of thinking to find better methods. In a nutshell, a continuous improvement approach represents a strategy of making small, incremental improvements every day, rather than trying to find a monumental improvement once or twice a year. And it starts with managers and employees challenging themselves to make today and every day a little bit better than yesterday.

Continuous improvement grew out of the statistical process control work of Dr. Edwards Deming. Instead of inspecting products at the end of the manufacturing line, Deming believed that when each action performed in the manufacturing process was done correctly, the end-product would not be flawed and therefore would represent the quality the company intended.

The quality initiatives started by Deming and others were used to help Japan rebuild its industrial base after World War II, and the successes there are now well known.

It's an unfortunate footnote to history that Deming's initial overtures to the American car industry in the 1950s were spurned due to a prevailing attitude that Americans, with their pent-up demand for cars, would buy whatever Detroit could make. Why waste any energy on making cars well?

Benefits of Improvement

There are many benefits that come from continuous improvement initiatives. These include:

> **Reduced inventory:** This means less cash is tied up; less physical space is needed, and that there is less damage, loss and obsolescence.

> **Reduced lead time:** Products can be manufactured more quickly and in response to customer demands as well as those of suppliers.

> **Substantial quality improvements:** Companies can realize reductions in errors and fewer reruns. Quality issues are easier to spot without launching formal initiatives.

> **Increased morale:** Employees know their contributions matter and take pride in making a difference. This results in significantly less contention on the shop floor. Jobs flow more smoothly, customer service is heightened, and everyone benefits from the results: happy and satisfied customers.

> **Higher profits:** An increased bottom line is the ultimate goal. Companies are able to plan their profit rather than accept what comes down the pipeline.

> **Stronger cash flow:** Companies will enjoy more cash coming in and less cash going out. Those extra trips to the bank to make additional and larger deposits are certainly more rewarding than the old days of trudging to the bank repeatedly trying to get a loan or increase the company's revolving line of credit.

> **Higher ROI:** Above all, companies will see more return for their hard work and time.

Identify Goals

When starting a continuous improvement process, it is important for the company to identify its primary goal. This is a focusing mechanism against which the company can measure its decision-making process. What's the company's reason for being in business? While this may seem obvious, many companies have not taken the time to identify their particular goal, and when management is asked, it may provide answers like: to be a good member of the community; to be a good employer; to provide good customer service; and to provide the best product available.

However, when asked if making money might be a reasonable goal, top brass often replies, "Of course. I didn't think I needed to say that." The problem here is that if it's not the first goal expressed, then it's probably not part of the corporate culture of the company. When making money is the top goal, a furniture manufacturer doesn't make furniture as its primary function. Making furniture is the just the means it uses to go about making money.

The mantra for any company that is serious about both making money and getting better at it ought to be "make money now and more in the future." This phrasing is important because it balances the needs of the present with the company's long-term needs, as well. For example, a company could make a lot more money right now if it didn't buy any more materials. Its cash flow would be a lot better for a while; however, it would run out of materials at some point, and that would jeopardize its future. It could also make investments for the future, only to go out of business because it ran out of cash right now. This goal addresses both timeframes in one statement.

Running a business requires a series of decisions. Having a stated goal is very important because all business decisions need to be measured against the goal. If they aren't, how else does management know if they're good decisions? If the decision takes the company toward the goal, it goes on the list of options to consider. If the decision does not take the company toward the goal or seems to be irrelevant to the goal, then it should be ignored. Making decisions and taking steps that do not advance the company toward the goal are absolutely counterproductive.

Begin by creating the list of tasks and decisions that takes the company toward the goal. Then prioritize them, based on benefit and cost. Low-cost/high-benefit activities get done first, while high-cost/marginal-benefit items come later. New items are added to the list every day – as part of the new constant improvement methodology – and the list gets reevaluated regularly.

> Companies need to make an 'extraordinary guarantee' – a promise daring enough to get the attention of clients and employees.

Focused Efforts

Many companies have a tendency to focus their continuous improvement efforts in those areas with which employees are the most familiar and feel the most comfortable. This is the classic "looking for car keys under the street lamp where the lighting is better rather than in the dark bushes where they were actually dropped" syndrome. This existing approach does not focus on the issues and tasks that are currently limiting sales, production, and success.

Instead, management needs to answer the question, "Where can we potentially get the best return on our efforts?" to determine where to begin continuous improvement.

Eli Goldratt's Theory of Constraints is a useful tool to help identify areas for improvement because it looks at a company as a system of interrelated parts, similar to a chain. If one strengthens a strong link, the chain gets no stronger. If, however, one finds the weakest link and strengthens it, the entire chain immediately becomes stronger. Goldratt proposes to find the biggest constraint in a company, determine a way to exploit that constraint, subordinate all other resources in the company to improving the utilization of the constraint, and then cycle back to find what has become the new constraint once the system is operating at a higher level of effectiveness.

The Improvement Mindset

When implementing continuous improvement, practically every process in the critical flow of the business needs to be understood and documented. Then, work with every employee to develop the best methods or practices of doing those tasks on the critical path and eliminate useless tasks that do not add to the bottom line. Best practices are simply any methodology that gets the company closer to its goal. Be ruthless in this approach because we all are creatures of habit and do way too many tasks simply because we did them that way yesterday, without any real knowledge of why we do them at all or how they bring profits/cash to the bottom line. The most successful companies make sure their employees know how they contribute to the company's success and have a culture of involvement. They soon develop a culture in which every employee comes to work with a goal of making what they do better and more effective. This approach and mindset are reflected in frequent employee performance discussions, which need to replace the anachronistic annual employee performance/pay review.

The role of direct managers in implementing the continuous improvement process is one of a guide who trains and mentors employees to think in terms of how to make the business work better. The role of upper management is to free up the resources and funding to make their direct managers successful. All levels of management have to be willing to

tolerate some failure along the way because the only people making mistakes are the ones making efforts to improve.

Trying to implement continuous improvement as a top-down directive, rather than bringing in everyone with a dog in the hunt, simply won't work. It's imperative that everyone in the company makes the improvements "their idea" to create ownership. Otherwise, managers will only get results when employees think they're watching.

Measuring Improvement

Continuous improvement initiatives need be measured to determine if they are actually taking place and having a positive impact on the company. To accomplish this, it is important for managers to utilize metrics and a dashboard. Timeliness is essential. Some information is worthless if it's dated. For example, it's not unrealistic for management to measure P&L every single day. This helps to drive home the notion that every day is about making money, and not just when monthly or quarterly P&L statements are run.

Managers need to know the material content of each product they make as well as any other expense items directly related to sales of the product including commissions, subcontractors, brokerage fees, credit card fees, the cost of money for extended payment terms and other routine costs. Another key metric is the company's daily fixed operating expense (OE), which is determined by taking last year's total expenses for everything except material/direct purchases and dividing by the number of days the company operates each year (typically 250). When generating that daily P&L report, bear in mind that today's sales less direct purchases gives throughput, and when one subtracts OE, one is left with profit. Companies now have a tool to verify their goal of making money every day, not just at the end of the month. If they come up short, they only have to look at what happened yesterday to analyze what they missed or did incorrectly. It's certainly easier to remember and put into context what they did yesterday, instead of trying to remember how the actions of all the days of an entire month created the end-of-month result.

A Renaissance in Manufacturing

The history of global business since World War II is ripe with examples of companies that have succeeded in the continuous improvement process as well as those that have not. Consider the success of Japanese manufacturers from the 1950s through the latter half of the 20th century or that of South Korean manufacturers in the past 20 years. Names like Sony, Toyota and Honda have come to stand for quality, as do Samsung, Hyundai, Kia and LG.

In contrast, the perception is that U.S. manufacturing quality has dipped. However, there can be a Renaissance in manufacturing if every company commits itself to a culture of continuous improvement. Companies need to take the advice of Christopher W. Hart, Ph.D., and make an "extraordinary guarantee" – a promise bold and daring enough to command the attention of customers and employees, but not so large that the company can't deliver on that promise. This guarantee should represent the ultimate expression of the company's commitment to continuous improvement. Only then will the entire company recognize that continuous improvement is more than a one-time training or a best practice, but a thread woven into the fiber of the company's culture that demands constant innovation. **mt**

John Kasarda, CFPIM, Jonah, is a senior business consultant for GPS and a graduate of MIT in electrical engineering. Located in Deerfield, Ill., GPS and its related companies provide comprehensive business consulting services and business valuation services to companies in the United States and Canada. For further information, call 877 269-0821 or visit www.gps-business.net.

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