

SPEED TO MARKET

The Newsletter for Job Shops and Order-Driven Companies

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Feature Article

Do You Have More than One Business Under the Same Roof?

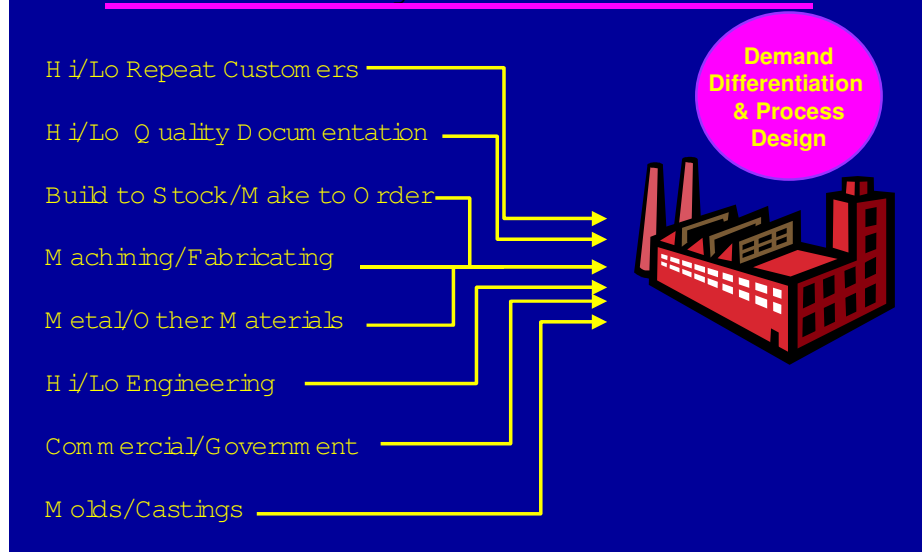


We have written extensively in [Speed to Market](#) and elsewhere about the need to examine your business to determine whether you have more than one business (value stream) under the same roof. This is not uncommon in job shops. However, the failure to recognize multiple value streams, and manage them appropriately, can be a significant source of problems and poor performance. This is especially true when they share common manufacturing processes since there is a tendency for them to get muddled together. One of the most important steps you can take to position your company for profitable growth is to ensure your business is properly aligned with its markets and customers. This article will show you how.

Sorting out separate value streams in your company is not difficult. In fact, it's likely that many people in your organization already know that different businesses exist. For example, some shops have a large volume of repeat orders with customers who demand very short lead times. It makes sense to handle this value stream differently from first-time orders. Other examples may be government sales vs. commercial sales; quoted work vs. time and materials work; fabrication vs. machining; machine building vs. machine repair. Each has a somewhat different set of requirements, and each goes through (or should go through) a somewhat different series of steps in the "quotes to cash" conversion process. Misalignments can show up as unnecessary delays, poor customer service, a lack of control, and inefficiencies on the shop floor. But the problem is not recognition—it's differentiation. That is, it's the separation and redesign of these value streams, along with the reinstallation and training required to make them operational, that is most difficult.

The first step in identifying separate value streams is to take a step or two back from your company in order to gain perspective. This can be difficult to do when you are involved in the day-to-day management of the business, and cannot "see the forest for the trees", as the saying goes. Nevertheless, it is necessary to view your organization in the context of its environment in order to determine sources of demand and differences among them. The following diagram illustrates this perspective along with some examples of differences in value streams.

Understanding the Nature of Demand



Note: This exercise should not be confused with value stream mapping, the purpose of which is to identify and eliminate non-value added activities and waste. Typically the scope of value stream mapping is limited to the shop, or at best is internal to the organization. Differentiating among sources of demand, on the other hand, is an organization design methodology which views the organization in the context of its environment, and is externally oriented. Whereas value stream mapping seeks to improve existing processes, demand differentiation seeks to design processes that align organizations more directly with markets and customers.

Although value stream mapping can be a valuable technique, it suffers from overuse, and being in the hands of too many tool-oriented consultants who rush to apply it because this is what they know how to do. Why map a process and seek to improve it when it needs to be radically redesigned? This is like mapping a cow path, then paving it over to make a superhighway when the real need is just to design the superhighway in the first place. In the last issue of the *Speed to Market Newsletter*, we published a quote by J. M. Juran, a pioneer in the quality movement, that bears repeating. "Tool-oriented people approach problems with so heavy a bias they should not be given the sole responsibility of choosing where they are to direct their efforts."

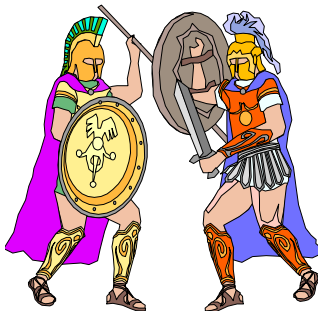
Juran, J. M., *Managerial Breakthrough*, McGraw-Hill, New York: 1964 pp 88-89

The Next Step: Once you have clearly identified the value streams running through your business, the next step is to design throughput processes to convert these sources of demand into supply. This involves detailing the step-by-step "quotes to cash" conversion process, as well as the systems and organization infrastructure required to manage each process effectively. A good method is to include everyone involved in a particular value stream in a design process. Facilitate dialogue and problem-solving discussions among members of this group. As the design unfolds, it can be documented on a long white paper on the wall, or on flip chart pages. Designing throughput processes is crafting the foundation for your business. It's not a task to complete as quickly as possible, so take your time and don't rush through it.

Howmydoin? Ed Koch, a former Mayor of New York, had the habit of asking people on the street, “Howmydoin?” in an attempt to elicit feedback on his performance in Office. The same need for performance feedback exists for each value stream, and is best captured by designing and installing a *Weekly Performance Report*, not asking your co-workers, “Howmydoin?”. This is such an important topic it requires a separate discussion, and so is addressed in detail in the next issue of the *Speed to Market Newsletter*.

Recap: The existence of more than one value stream in the same company is not uncommon. The failure to recognize and differentiate among various sources of demand can be a significant source of problems and poor performance, especially since there is a tendency for them to get muddled together. This article outlines an approach for ensuring your business is properly aligned with its markets and customers. Putting this foundation in place is one of the most important things you can do to position your company for profitable growth.

When Customers Try to Run Your Business Let the Games Continue...



In the [April issue](#) of the *Speed to Market Newsletter*, we published a report from one of our colleagues in the field who described attempts by one of their customers to impose lean manufacturing on his shop. Here's the latest in this ongoing saga.

The customer is sending in their Lean Guru to have training sessions with our setup machinists to teach them how to reduce setup time and apply mistake-proofing. This is on a product that is symmetrical with no recorded scrap or rework generated from loading a part incorrectly. I could not stop them. The cost of the new tooling which is required to reduce set-up time (SMED—single minute exchange of dies in lean terminology) easily exceeds the value of the job. Of course the customer will not pay for the tooling up front, but we have to do it under the threat of losing their business. So what do we do? We opt for the "smile & nod" technique. (The Guru and I have had a couple of sessions together on what they are doing, but he's "got religion" and is definitely not listening.)

Another thing this customer does not understand (nor does management) is the reality of the learning curve in a job shop. Seventy-seven percent (77%) of this customer's jobs are first runs. Our plant has a total scrap rate of 3.7% (new and repeat jobs), but this customer's jobs have 16.7% scrap due to the first run jobs. Total scrap and rework cost for our company for the year is \$925,000 (material plus burdened labor, but does not include lost revenues from diverted labor), and this customer's part of that is roughly \$250,000. Total sales from them last year were \$1.5MM or about 6% of our total. So 6% of our sales generated 16.7% of the scrap and rework costs, and this effectively wipes out our margin on this business.

Then to add insult to injury, the customer places orders for 15-20 items to get discounted pricing, and only takes in the neighborhood of 3 per year. Deliveries stretch out to 2011. We make the parts in lots of 15-20 or the cost would be prohibitive, and then stock them for future delivery. Cash flow is a disaster.

And on top of all this, the customer demanded...and got...a 7% DECREASE in pricing. We cannot afford to keep them as a customer, but management can't seem to face turning away business, and is having a hard time dealing with it. Any suggestions?

The Need for Speed Part II

Kurek Tool, Inc.

This is the second in a series of articles describing how Speed to Market is being implemented in a job shop.



Recap: At the conclusion of the first two weeks of this project, readers may recall we had acquired a fairly good understanding of this business with its two primary value streams of quoted and time & materials work, had defined the steps in its “quotes to cash” business processes using the brown paper technique, reviewed the computer system and had a good idea of its capabilities (and what was lacking), trained the management team in the basic concepts and methods of *Speed to Market*, and had a good start on designing and implementing a Weekly Performance Report.

Preliminary System and Organization Design: Once a basic understanding of the business was achieved, the next major challenge we faced was to redefine the organization and align it with the business process. This was accomplished by working from the brown paper which made the process visible. We identified key steps and major tasks, determined task assignments, grouped these tasks into jobs, and wrote brief job descriptions and performance measures for each. As a result, one layer of supervision on the floor was eliminated, and a new position of General Manager was established.

At this point we also developed an overall project schedule, and a “To Do” list with assignments for each member of the team that included:

- Develop a marketing plan
- Clean up computer records
- Clarify the quoting process
- Ensure time & materials job hours were estimated and entered into the system (an essential activity for an accurate shop workload and realistic capacity planning)
- Redesign the rework capture form to include hours, scrap costs. and cause code
- Analyze the pros and cons of giving operators goals (see *To Tell or Not to Tell* in the April Issue of *Speed to Market*)
- Create a skills matrix which is the basis for operator training and assignments
- Determine a method for identifying negative variances when comparing estimated to actual costs on shipped orders (“closing the loop”)

Finalize System and Organization Design: As we worked through our To Do list, we adjusted items and assignments as required. We introduced the idea of a *Job Status Board* as a way to track the progress of work on the floor so we could reprioritize as required, and thereby improve on-time ship performance. However, as we got into it, we found that maintaining the board required more time than we thought sensible, so we decided to try another method. This is a good example of the non-dogmatic approach we generally followed—ideas were allowed to “percolate” and, if they did not take hold, were discarded and replaced with something new.

Jennifer Kurek-Clor comments on the feeling at the time:

At this point there was a lot of excitement and anticipation about everything that was happening. We also experienced a bit of anxiety about the work that needed to be done since so many issues surfaced after looking at the big picture. However, we seemed to be much clearer on understanding the needs and processes of the business. That clarity certainly bred the confidence and enthusiasm needed to tackle the issues that at one time seemed overwhelming.

The discipline required to publish the Weekly Performance Report became a natural habit. The next major push was to manage the chaotic nature of the shop floor. We recognized the need to develop a systematic way to manage the shop workload, and improve on-time delivery performance, since these were essential in our ability to market the company's ability to deliver fast turn-around work.

Everyone always has their opinion about what is wrong, what needs to be fixed, and what should be done, but the data provided by the Weekly Performance Report eliminated much of the guesswork, and enabled us to focus more clearly on a shared set of objectives. It's easy to offer opinions about what is wrong and what should be done, but few people have the patience, will power, and courage to make change happen. To be continued...

Note: We decided early on not to try and schedule the shop because there are too many orders on the floor at one time (100-150 on average). The floor is dynamic, so any schedule produced would be obsolete before it was printed. Rather, we decided to use the pull system that is inherent in a job shop environment. This involved moving work through the various production processes based on promised ship dates, and managing the queues behind each work center to reflect these priorities. Capacity planning became a critical function, and is a subject for a future Newsletter.

Most important, the author not only identifies the everyday problems a job shop manager faces, but details how to overcome these problems with effective straightforward solutions. Any job shop manager who has a sincere interest in speeding his products to market with an eye on increased profits is well served by Speed to Market.

[Review by Donald A. Keal, Principal, Joshua-Jordan Associates](#)

News and Notes

Update on Job Shop Management 101... We delivered an introductory *Speed to Market* presentation at Saginaw Valley State University on June 3rd which was attended by 22 people from 14 companies. It was very gratifying to discover that people came from as far away as central Ohio (about 300 miles). Many thanks to ***Kurek Tool, Inc.*** and ***Schmald Tool & Die*** for their sponsorship and encouragement. Here is what participants had to say:

It was truly refreshing to listen to someone who understands the issues associated with custom manufacturing as opposed to the standard "lean for mass production" strategies that most consultants are promoting. Joe Kumpf, Director of Operations, Minster Machine Company

Overall you did a great job conveying the message. Your message, by the way, is right on. I have owned three job shops and I once considered myself an ardent student of the Toyota Production System. At the end of the day, it is speed that is critical for the job shop. Gary Soloway, Pinpoint Manufacturing Solutions

We are looking forward to working with members of this group to co-create the first version of this unique program that combines classroom education in job shop management and performance improvement with implementation "back home," thus ensuring learning is put to practical use and results are achieved.

Summer Session is scheduled for July 16,23,30 and August 7.

Fall Session scheduled for September 2,9,16,23.

Call Jennifer Kurek-Clor at Kurek Tool, Inc. 989-777-5300 to register.

Speed to Market presents good, sound step-by-step instructions on how to reduce lead time and improve a company's competitive position. Any job shop or custom manufacturing business would benefit by following Bozzone's advice.

James A.F. Stoner, Professor of Management Systems, Graduate School of Business, Fordham University, New York City

Clear step-by-step approach that will help a lot of suppliers improve performance and profits. Donald F. Utter, Senior Organization Design Consultant, Lucent Technologies

**Delta Dynamics Inc. PO Box 912 Bloomfield Hills, Michigan 48303
Phone 248-333-0482 Fax 248-333-1916 e-mail ddilink@aol.com www.deltadynamicsinc.com**