
SPEED TO MARKET

A Newsletter for
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Coaching for Fun and Profit



Why is it that every team you can think of has a coach, except a management team? Is it because it's not really a team, merely a collection of individuals using "team" as a metaphor because it's a popular, trendy term? Or is it that managers don't believe they need coaching? Or perhaps it's just a lack of knowledge about coaching. What is a coach? What does he or she do? How do they work? What can you expect? This article will attempt to shed some light on these questions, and the increasingly popular use of coaches for management teams

A good place to start an investigation of a subject is with a dictionary where we find *coach* defined as: *one who instructs or trains a performer or a team of performers: specifically, one who instructs players in the fundamentals of a competitive sport and directs team strategy (e.g., football coach). Another definition is: to train intensively as by instruction and demonstration.* Whether you see business as a sport or not is arguable, but it certainly is competitive, and it certainly does involve training and strategy, so the main elements of coaching would appear to be applicable.

When you Google "management coach" on the internet, you find yourself immediately overwhelmed by the sheer diversity of coaching...over 145,000 entries!. There are career coaches, time management coaches, conflict management coaches, mentoring coaches, sales coaches, motivational coaches, leadership coaches, team building coaches, productivity coaches, stress coaches, project management coaches, practice management coaches, growth coaches (for senior managers who want to remove barriers to growth), self-management coaches, group coaches, personal "branding" coaches, anger management coaches, workforce management coaches, life and career coaches, tantra coaches, leadership coaches, organizing coaches, ADD (attention deficit disorder) coaches, strength performance coaches, CFO coaches, small business coaches, call center coaches,...you get the picture. So, even if you thought a coach could be helpful to your organization and management team, how do you wade through this morass?

One of the characteristics common to most of these variations on coaching is the focus on the individual. Although some coaching involves teams and small groups, the large majority appears to be oriented towards building individual skills and capabilities, solving individual's problems, or giving them some advantage or another.

The Organization as Client: In developing our approach to coaching at Delta Dynamics, we asked a simple question: Who is the client? Is it the CEO or owner? The management team? The key people in an organization? We determined the client is really *the organization itself*. In addition, even though we may coach any number of individuals and groups, the objective is to make the organization work better. Individual and group development is carried out in the context of the organization, which means it is practical and applicable to the main task of improving organization competitiveness, performance and profitability. This understanding of “organization as client” is not intuitively obvious. However, once it is clear, a coaching program can be undertaken that will benefit both the organization and its members.

One difference between coaching and consulting is the expectation that key people in the organization will participate in designing and executing the program. This is different from the “consultant as expert” who comes already equipped with solutions, and sets about implementing them.

This does not mean the coach has no expertise. Rather, this expertise works in the background rather than the foreground. For example, let’s say the objective is to manage inventory more effectively. The coach may be very familiar with methods such as those outlined in the next article, and so would suggest individual things to do as appropriate. Once the methods are determined, the focus shifts to developing the strategy and implementation plan so results can be realized.

However, recognize that coaching may take longer because the players also have to run the business on a day-to-day basis. They have to learn to balance the demands of running the business with the time it takes to plan and carry out improvements. This is another dimension of the coach’s role...to instill the discipline required to get things done combined with continuous follow-up.

Two benefits accrue when this approach is employed. One is that organizational strengths are developed (e.g., the ability to produce short runs economically). The other is that people learn new concepts and methods, as well as develop their skills by actively planning and implementing the strategies for improvement (i.e., learn by doing).

Summary: Coaching is becoming increasingly popular as executives and managers recognize the important role a coach can play in improving their business. We believe the most effective approach is to work with individuals as “agents of change”. This active involvement makes skills building more practical, as well as more profitable as improvements are implemented. What difference can coaching make? A study by Manchester, Inc. shows 7 out of 10 organizations currently offer coaching or other developmental counseling to their managers and executives, and the average return on investment is 5.7 times the initial investment in a typical executive coaching program. Isn’t it time for you to consider how coaching can help your company?

Free Coaching Session: It’s one thing to read about coaching and another to experience it. If you are trying to work through a difficult problem, or formulate a new strategy, or have an operational or HR issue, or a complex decision, you can see how coaching can work for you by calling Vince Bozzone at 248-961-1380; Don Utter at 614-596-9690; or Frank Baker at 630-231-9077 for a free coaching session (see [About Us](#) for bios). If you are in a responsible management position, call today to experience this new service from Delta Dynamics Incorporated.

News & Notes



Vincent Bozzone, Delta Dynamics Incorporated, will present *Lean for Tool Shops* in **Windsor (October 17th) and Toronto, (October 18th)** sponsored by Export Development Canada (EDC). EDC is Canada's official Export Credit Agency helping Canadian companies grow their exports by providing various financing and credit insurance programs. EDC and PricewaterhouseCoopers invite different industry experts to present topics of interest to the Automotive Tool, Die, and Mold sector at this half-day seminar for Canadian companies. For more information on the agenda check back to www.edc.ca/events after September 18th, 2006.

Managing Mixed Models



Many job shops (which are part of the broader category of order-driven businesses) also incorporate build-to-stock operations. This combination is typically referred to as a *mixed model*. Examples of mixed-model businesses would be a specialty machine manufacturer that also stocks spare parts, or a contract manufacturer that is required to stock certain items for quick delivery on order, or a shop that also produces a line of proprietary items it sells off the shelf.

This article presents a mental model that will enable you to think more clearly about how a build-to-stock business works, and how to manage it more effectively. A list of things you can do to improve performance and profitability is included, and this provides a good place to start.

The Model: Imagine a post office lobby where each mailbox represents a different item or SKU (stock keeping unit). There are four possibilities:

1. A customer comes into the lobby and opens the box containing the item they wish to purchase. They remove the item, pay for it, and go on their way. This is a completed sale with a satisfied customer.

2. Another customer comes in, opens the box for the SKU they want, only to find the box empty. This is a lost sale, and even though the item may be back-ordered, the customer is not satisfied, and may go elsewhere to purchase it.
3. A third possibility is that customers do not open boxes that contain SKU's. There is no demand for these items, and so they are waste. Inventory built in anticipation of demand that does not materialize is an expensive form of waste that lean manufacturing seeks to reduce or eliminate.
4. The fourth possibility is a theoretical box that does not exist. It represents an SKU for which there is potential demand. However, the company has not recognized this demand exists, so the item is not being produced or stocked. These lost potential sales are difficult to recognize, and will generally go undetected.

As a manager in this company, you are on the other side of the wall trying to figure out how many of which SKUs to produce and when, in order to satisfy demand and minimize lost sales. You are also trying to determine which items not to make because there is little or no demand for them. If you have a market research department, they should be trying to figure out if there is demand for additional items your company is not producing or stocking (making theoretical boxes actual).

Where does lean come in? One of the objectives of lean manufacturing is to align production more closely with actual demand. This is done through a variety of techniques such as flexible manufacturing, dedicated cells, kan-ban systems, SMED (single minute exchange of dies/quick changeovers), small lot sizes, just-in-time scheduling, supply chain rationalization, e-commerce links, and more. In effect, the ideal lean system looks very much like a job shop that only produces when actual demand exists, as opposed to building to an inventory position (anticipated or forecasted demand).

In traditional manufacturing, longer product runs were necessary to absorb set-up or changeover costs. One of the great benefits of lean is that it enables smaller lot sizes to be produced economically (i.e., reduces the set up costs so it takes fewer units to absorb). Making fewer items per run also has the effect of shortening the forecasting horizon and makes predicting demand easier and more accurate. It's much easier to predict demand for the next six weeks than it is for the next six months.

Being able to forecast demand more accurately and produce smaller lot sizes economically reduces stock outs (lost sales), as well as reduces the amount of inventory that may not sell. That is, we can resupply those boxes where demand exists more quickly, and reducing longer runs reduces unnecessary inventory when we miscalculate demand (reduces the amount of product in boxes that no one opens).

Of course, the ideal system would be to produce parts to order with no inventory at all. However, depending upon the items and the nature of market demand, this is often impractical and only represents an ideal. For example, customers who purchased your specialized equipment cannot wait for you to produce a part when their production is down because your machine failed.

Measuring Performance: How can you tell if using this model in concert with lean thinking and lean techniques actually improves performance?

A typical measure of performance in managing inventory is the number of “turns.” Inventory turns are a measure of how rapidly things are used or sold. It is assumed that every time an item is sold, an excess of revenue over cost is achieved, so the more turns the better. However, measuring inventory turns is a very gross measure of performance as some items turn quickly, some may not turn at all, and averages can be deceiving. Inventory turnover is calculated with the following formula:

$$\frac{\text{Cost of Goods Sold from Stock Sales during the Past 12 Months}}{\text{Average Inventory Investment during the Past 12 Months}}$$

Nevertheless, it is a traditional measure and is calculated by dividing cost of goods sold by the average inventory value. For example, assume sales (from parts) are \$2,000,000 per year and the average inventory is \$500,000. We divide sales by inventory to get inventory turns of 4 times per year. In other words, the company maintains an average of three months inventory on hand. Inventory turnover is based on the cost of items (what you paid for them) not sales dollars (what you sold them for).

Another measure is to look at the return on investment of inventory dollars (ROI). This would be the profit earned after direct and overhead inventory expenses are subtracted, and then divided by the average inventory investment. If the company earns a \$50,000 profit on an average inventory investment of \$500,000, the ROI would be 10%.

Another measure would be lost sales (include backorders that may be sold later). Reducing lost sales without increasing inventory investment would be an indication that you are managing inventory more effectively. (It's even better to reduce lost sales and reduce total inventory.)

Another measure can be calculated by dividing the inventory into 4 groups based on turns. Group A would be the fastest turning items, and Group D the slowest. You can calculate the total dollars invested in each category, and then work to move the percentage of dollars from the lowest to the highest turning items. As more dollars “migrate” from slower to faster turning SKUs, and the total inventory investment is reduced, you know you are getting better at managing your inventory.

Yet another measure would be the absolute reduction in inventory investment, recognizing that the cost of carrying inventory can amount to 15-25%. This includes warehousing, material handling, taxes, insurance, depreciation, interest, and obsolescence. In other words, reducing the amount of inventory by \$500,000 could save you some \$125,000 per year.

Things You Can Do to Improve Performance:

Increase demand forecasting accuracy. This can be accomplished by using a better forecasting algorithm, as well as by reducing the amount produced during each run. This enables a shorter forecasting horizon, and makes prediction easier and generally more accurate.

Increase manufacturing cycle efficiency. This means you can produce shorter runs more frequently without increasing costs compared to traditional longer production runs. This is accomplished with various lean techniques mentioned previously.

Increase supply chain turns. Increasing the number of times purchases are made is similar to producing smaller lot sizes. Look for ways to streamline the acquisition process and reduce the cost per acquisition. You will benefit by increasing your cash flow and eliminating the carrying cost of the inventory (warehousing, material handling, taxes, insurance, depreciation, interest and obsolescence).

Reduce or eliminate safety stock. Safety stock is really just a buffer for forecasting miscalculations and variances. Although many safety stock levels are set arbitrarily in automated MRP systems, you can override these manually. Safety stock levels can be reduced when improvements are made in demand forecasting accuracy, manufacturing cycle efficiency, and supply chain turns.

Reduce purchasing errors. Examine purchasing errors that have occurred in the past, and build a histogram of errors by reason or cause code. Then attack the most frequent or most expensive causes of errors and work your way down. This should be part of improving and streamlining the acquisition process mentioned previously. Minimizing stock outs that result in expensive expedited purchases can be a significant source of savings. Sell excess and obsolete inventory, or return it to your vendor, because it only costs you more to carry it.

Work with your suppliers. Provide suppliers with forecasts of future needs, and modify these when necessary. Communicate...let them know what is going on in your business, and make sure the delivered quantity does not vary from the order quantity. When more is delivered than required, this increases inventory and costs unnecessarily.

Train purchasing personnel. Provide your purchasing and material management personnel with formal training. This will arm them with better negotiating skills that will result in better prices and terms.

Summary: Managing a company that includes both a job shop and a build-to-stock business is more complex than managing either one separately. Each is based on a different business model or system, which can cause confusion, especially when they are muddled together and share the same shop floor. Performance in a job shop or make-to-order business is improved by cutting lead time; performance in a build-to-stock business is improved by managing inventory more effectively. The “post office box” imagery describe in this article is intended to help managers conceptualize a build-to-stock business in a straightforward way so it can be managed more effectively. The list of things you can do to improve performance is a good place to start.

Could This Be You?

I am really glad to see that Delta Dynamics is moving forward. I feel very strongly that many companies can really benefit from your expertise and guidance. I did push one of my clients to get in touch with you. They had many problems. Unfortunately they tried to fix the problems themselves and closed their doors !!

M. Nawar, Former Chief Engineer, Robert Mitchell Company