Productivity REPORTS

www.productivityreports.com

Volume 11, Number 2 • Spring 2001

The Waste That Restrains Organizations

By Tom McBride
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Our last issue discussed the urgent need for many businesses to go through a lean transformation to strengthen their competitiveness. A critical step is identifying the waste that needs to be eliminated. This article continues the theme by describing the most common forms of waste found in organizations.

Waste can be defined as the use of any equipment, materials, space, or activity that does not add value to a product or service. A *value-added* activity is defined as something for which a customer would be willing to pay. Anything that is not clearly value-added should be scrutinized as a suspect for waste. Many estimates indicate that organizations harbor a staggering 85-95% waste when using "perfection" as the benchmark.

The following list of eight wastes is adapted from the works of Taiichi Ohno of Toyota and other authors.

- **Lost opportunities** Sales, profits, or other opportunities lost due to ineffectiveness or working on the wrong things often overshadow all other wastes. A day invested to ensure you are offering the right products at competitive prices will

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Measuring Performance for Incentives

By John A. Haas, Ph.D.
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Performance-based incentive compensation remains a valuable tool to help employees better focus their efforts. That means identifying good performance measures and goals, and rewarding participants based on actual results.

Measure-Setting Hints

- **Criteria for good measures:** Quantified or quantifiable; strategically important; credible; under participants' direct control or influence; easily tracked and reported; limited in number to 4 or 5; weighted to reflect relative importance; and relevant in the current performance period.
- Use and track only **key indicators,** the ones most important in running the business.
- **Measure results, not processes.** For example, measure "number of new customers" rather than "% of time sales reps' paperwork is in on time."
- Set common goals and measures to encourage teamwork or joint effort. E.g. pay both sales and A/R staff based on collected revenues.
- Don't ignore important subjective performance indicators just because they are not directly measurable. For these, consider:

Using Checklists to Quantify Judgment

It's relatively easy to track and report on dollars of revenue or cost, gross margin, units produced, productivity, etc. But "customer satisfaction" and "service quality" are two important performance elements that cannot be directly measured. A checklist not only communicates what you and customers feel is important, but also can be "scored" to produce quantifiable measures for use in a performance-based pay plan.

We developed checklists for several clients, to get both outside and internal customer feedback. Results were used to improve transaction quality with outside customers (e.g. access to product information, ease of ordering, product quality, delivery accuracy), and the quality of service provided by internal staff departments (e.g. finance, human resources, marketing).

Establish weighted scoring keys for all important factors, e.g. a 5-point Quality rating scale multiplied by a 3-point Importance scale. Thus, for each item the possible score can range from 1 (1 x 1) to 15 (5 x 3). An example follows:

Factor	Q	I	Score	Comments
Ease of ordering	5	2	10	
Timely delivery	2	3	6	
Product Quality	5	3	15	
Etc.				
Total Score=				

Allow respondents to add factors. Their comments can suggest improvement areas; and improvement goals for individuals or teams can become a partial basis for incentive earnings.

Also in this issue...

Focus on Branding

By Heather C. Conover
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Not long ago, branding was associated primarily with commercial companies, such as McDonalds and Pepsi, that sold products. Today, we see companies of all sizes and types, including service companies, spending considerable resources on branding. With the ever-growing choices that confront customers, branding is essential if a company–no matter the type or size– is to succeed in standing out from the crowd.

A brand encompasses everything about a company. It's a company's products and services, as well as its financial performance, associations, management, employees, and reputation as an employer and corporate citizen. When a customer–defined in the broadest sense to include consumers, other businesses, employees, and shareholders–is making a choice about a brand, it's not based entirely on logic, but on emotion, as well. Nor is the choice based entirely on a customer's direct experience, but also on a company's, product's, or service's reputation and overall image.

In short, a brand is a promise that a company makes to its customers. A successful brand is one that delivers on that promise. Clearly, a brand can't possibly be all things to all people. It needs to stand for something, have a distinct and well-defined position that differentiates it from others in its category, and ideally, create a category unique to itself. Once created, it shouldn't be changed. If a company decides to change what it stands for, it breaks its promise to its customers, destroying the trust it has built.

Finally, a brand must have high awareness. A brand isn't built overnight, but over years and decades. The unique selling proposition must be repeated consistently and frequently through multiple channels. An integrated marketing program is key to effective brand building and maintenance. Advertising traditionally has played a primary role in branding and should continue to do so. Advertising can communicate a brand's distinct position and create high awareness by reaching millions of customers through such vehicles as print, radio, television, billboards, and the Internet. It can also help maintain that position by continuing to market the brand and communicate the image. However, advertising is also limited in its role because customers know that a company has paid for the ad.

Public relations builds brands through publicity–third party endorsements that build credibility for the brand. Public relations encompasses strategies to communicate with all of a company's "customers." Newsletters to employees, sponsorship of a high profile event, letters to shareholders, e-mails and gifts to valued customers create and maintain a relationship with the customer and maintain the brand image.

In a crowded and competitive marketplace, how your customers perceive and feel about your brand matters.

The Waste That Restrains Organizations

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usually do more to strengthen your business than a day spent cutting costs.

- **Overproduction** Producing something before the customer wants it is often the next largest waste. It sets up conditions that cause many of the other wastes and may result in obsolete products.
- **Waiting** People often lose time when waiting for something to happen. Examples would be when something goes wrong upstream, when there are bottlenecks in a process, or when people wait for a piece of equipment to finish its task.
- **Transportation** Excess movement of an item or material that supports the production of a good or service is waste. Causes include double handling associated with storage, as well as poor layouts, scheduling, coordination, housekeeping, or organization.
- **Processing** Even work that is usually considered "value-added" may contain waste. Although *processing* usually represents a fraction of the total cost, many make the mistake of focusing on this area first.
- **Inventory** Too much inventory complicates production, absorbs valuable resources, hides real problems, and extends deliveries. In looking for waste we need to think beyond the traditional definition of inventory and include all of the material or work required to produce any product or service.
- **Motion** People often go through motions that do not add value. Workspace disorganization, poor factory or office layouts, and bad habits can accentuate this waste.
- **Product defects** Defects found anywhere in the process disrupt flow, cause delays, add cost, and reduce capacity. Worse yet, defects found by the customer damage loyalty.

Future articles will present some methods of finding and eliminating waste and describe how an organization can initiate a transformation program.

The Realities of the Business Automobile

By Sandra LeDuc, CPA, CVA
LeDuc and Sikowitz

One would think that providing an automobile to an employee to use for business purposes might be a relatively straightforward endeavor. Enter the IRS and the proposition takes on all new proportions.

Congress has constructed a tax code that reflects an assumption that the business automobiles of owners and employees of businesses are nothing more than additional compensation until proven otherwise. Obtaining legitimate, bulletproof deductions requires an inordinate amount of time and attention to detail. Logs, odometer readings, and expense reports add to an already over complicated record keeping system. Compliance is low and we have yet another law that creates an unreasonable burden with little hope of enforcement.

Businesses use a number of different methods to provide transportation to its employees:

- company car
- auto allowance
- reimbursement programs using actual expenses or standard mileage rates.

Each method requires record keeping to minimize the income tax of either the employer or the employee or both. The IRS specifies disallowance of the expense if a taxpayer fails to keep the records.

Where a company car is provided the employer is required to allocate the personal portion of the expenses of owning and operating the auto to the employee as compensation on the W-2 form. Both the employer and the employee must share the record keeping requirement under this method.

An auto allowance is considered compensation to the employee who may then be able to deduct some portion of expenses as a miscellaneous itemized deduction. Record keeping requirements are shifted to the employee. The worst of this method is that the employee will get limited or no benefit from these expenses because of the way itemized deductions are computed.

Reimbursement of specific expenses or an amount based on the number of business miles is about the most straightforward method. The standard mileage rate for 2001 is $.345 per mile. Again, the record keeping is the responsibility of the employee.

Most companies use one or more of these methods and, in some cases, blend the methods. Regardless of which best fits each situation, one thing is for sure—the intent should be understood at the beginning of the arrangement. A clear, written explanation of each arrangement will minimize misunderstandings and tax planning difficulties.

E-mail Tips: The Bloated InBox

By Rich Eichacker
Vibrance Technology Corporation

Is your InBox filling up with junk? Here are a few tips on reducing the clutter.

Don't reply to spam. Typically, e-mail marketers use this tactic to verify your e-mail address. Instead, use some of the strategies below.

Make sure you opt out of marketing e-mail when you register at a web site. When you "opt out", it means that you decline to receive marketing e-mails from the company. The trick is to make sure you read and understand the opt out statement. Sometimes you have to check the box, sometimes un-check it. Usually, you can count on the fact that the default is to opt in. If you forget, and later find you are receiving marketing e-mails, most sites will let you edit your account profile to opt out. Amazon.com, for example, has an entire section devoted to e-mail subscriptions in the account maintenance area.

Use different e-mail addresses or mail boxes. *This is one of the best ways to segregate commerce e-mail from personal or business-related correspondence.* When I purchase products on the net, I use my (free) MSN hotmail account as the e-mail address, eliminating the possibility of receiving junk mail at my regular e-mail account (Yahoo! and Lycos also offer free e-mail accounts). You can retrieve messages from these accounts through their web sites (www.hotmail.com or mail.yahoo.com) or by creating a new identity/account in your e-mail package.

Another strategy is to create additional mailboxes within your domain or ISP account. You can do this if you control the e-mail accounts for your domain or if your ISP account has multiple mailboxes. For example, staples@yourdomain.com or purchases@yourdomain.com, will allow you to route those messages to a separate inbox using a filter.

Creating filters is an effective way to reduce the spam you're already receiving. Filters allow you to take an e-mail message that meets certain criteria and then do something with it, such as delete it or move it to a mail folder. Filters are easy to create, but sometimes must be constructed to check for variations in their criteria. For example, the filtering for a diet program e-mail may need to examine the subject and message text for phrases such as "lose weight", "loose weight" or "lose weight" (2 spaces). E-mail marketers know all the tricks.

Contact your ISP. In the worst case, you may need to notify your ISP or the spammer's ISP about the continued spam. Some ISPs are actually able to implement filtering on their servers, eliminating messages before they reach you.

For additional information on opting out of marketing databases and privacy issues, visit www.ftc.gov/privacy.

Freight Savings - Step 1

By Harry Blakeslee
HBA Enterprises

As entrepreneurs and business executives we continually look to grow our top line and get more of it to the bottom. An aggressive freight expense management program can improve our price competitiveness and find hidden dollars.

Do we really look at our freight expenses? Closely? Consider a professional logistics, transportation, or traffic firm. They can be your full traffic department or provide only selected services like trailer load moves.

Guest Column

Smaller companies frequently like getting a professional traffic department without adding to their payroll. Medium and larger companies use their services as an adjunct to their internal management.

A logistics firm has broad knowledge of logistics and freight rates to save you in rate negotiations with existing carrier(s) or to replace your existing carrier(s) with others offering comparable service and better rates. Some firms can help with private fleet utilization or distribution and regional warehouse location planning, but that is another article.

Outbound freight expenses are identified, accumulated, and a no-cost-to-you review performed to quantify your potential expense reduction. Expect to share your "savings" for their ongoing efforts when you engage them. The split can sometimes be 50-50, but this is all found money. Expect the logistics firm to document and prove the savings.

When engaged they should audit the freight bills AND monitor your lane usage for competitive rates. Many firms stop at auditing and vouching of freight bills. Though saving you the administrative cost of bill vouching, the potentially larger savings - freight expense reduction - is left unnoticed.

Phase 2 is to investigate inbound freight on purchases. This is frequently buried in material or inventory costs. Even if you buy on a delivered basis, explore "unbundling" the costs - isolating the included freight cost or allowance. Even if your supplier uses her/his own trucks to deliver, shop around.

How much? and When do you see the savings? Eight to twenty percent savings are not uncommon and could begin immediately. Remember all savings fall to the bottom line if you are paying the freight charges. For a small to medium sized company spending a moderate $300,000 a year on commercial carrier freight , even splitting the savings, your half of $24-60,000 is a significant savings.

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