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The Customer / Supplier Relationship: Understanding Your Customers

Key points in this chapter:

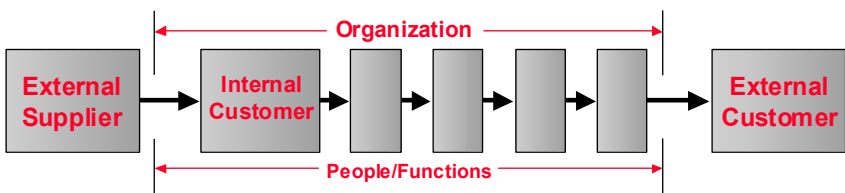
- What the customer/supplier relationship is
- The two kinds of customers
- Determining customer requirements

Satisfied and delighted customers are the lifeblood of any organization. Work is fun and rewarding when customers love what you do or provide for them. Providing customers with the highest quality goods or services at the best possible price starts with clearly understanding the customers' needs and requirements and then designing and implementing processes that consistently deliver value.

There are two types of customers: external customers and internal customers. Both are important and have needs that must be met. External customers are the people who pay for your products and services. As Dr. Deming said: "No customers, no orders, no jobs!" Paying attention to the external customers' requirements is essential and focuses the entire organization on doing value added work.

To effectively meet the external customers' needs, you must often work with many internal customers. Understanding and meeting your internal customers' needs and requirements helps the process of producing your product or service to flow smoothly, be problem-free and deliver the highest quality at the lowest total cost.

This customer-supplier relationship extends to your external suppliers as well. From your external customer's point of view, you are responsible for what they buy from you; your suppliers are part of your system. It is increasingly important to build strong supplier partnerships that ensure that you get exactly what you need, in the right quantity, at the right price to be able to meet your customers' needs.



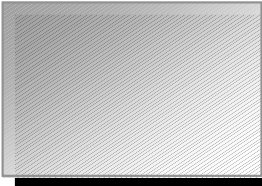
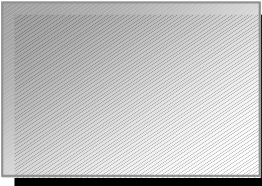
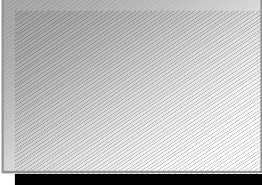
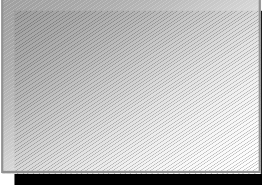
Getting Started: Baseline Information

Some of the questions facing you as you embark on a course of continuous improvement are:

- What are the 3-5 “must-have” requirements for your top customers?

As requirements are identified, it helps to understand their relative importance to the customer. What requirements does the customer consider “musts”? What are “wants”? Keep in mind that customer requirements are constantly changing. Yesterday’s bells and whistles may become tomorrow’s “musts”.

Know Your Customer

	External Customer	Internal Customer
Musts		
Wants		

Use this chart to fill in the “musts” and “wants” of your internal and external customers.

- What measures could you track to determine how well you are meeting the customer’s requirements?

Every process has one or more key measures that tell you how well it is performing and whether you are improving. Because measuring can be expensive and time-consuming, choose measurements carefully.

Check Sheet

Reasons Customers Don't Pay On Time	Jan	Feb	Mar	Apr	May
<i>Wrong packaging</i>	 				
<i>Wrong invoice</i>					
<i>Delivery not as specified</i>					
<i>Inadequate documentation</i>					
<i>Other</i>					

Waste of Time — This is the form of waste with which sales people identify most readily. There are two types of wasted time. One is cycle time (how long it takes to do something from start to finish) and the other is people's time. What time do you spend doing things you shouldn't have to do at all?

Time is a precious resource and wasted time of sales people translates directly to lost gross margin for the organization. Processes that take too long such as developing proposals, obtaining credit approval, and other internal processes, can lead to lost or reduced sales. Time spent on thing such as handling complaints, attending unnecessary meetings, or calling on unqualified leads, reduce the time available for value added sales activities.

Waste From Lost Opportunities - Lost opportunities represent the largest source of waste in any organization. What are all of the things you could or should have done, products or services you could or should have sold, customers you could or should have converted but did not, because of problems with marketing, sales promotion materials, pricing, poor market positioning, lack of communication with the customer, or other reasons?

Basically you want to collect the facts and data about why customers buy or don't buy from you, prioritize them and decide where to work to increase sales and gross margin.

One way to identify this data is with **lost order reports**, which are covered in more detail later in this book. The people who know best

How The Methodology Increases Sales

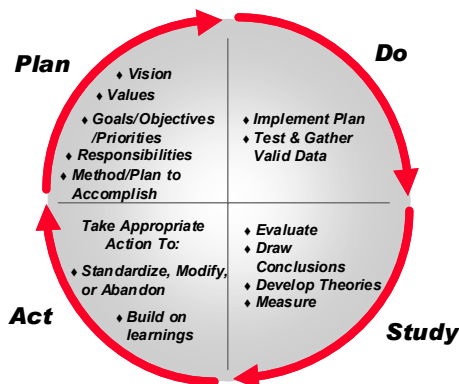
You can use the process improvement methodology both to improve processes within the sales department and to increase sales.

Some of the most important processes in need of improvement include the process of selecting target markets, identifying prospects, closing sales, and retaining customers. All of these can be systematically studied and dramatically improved.

The methodology trains you to operate in a continuous learning mode. For every action you take, you are constantly getting the facts, analyzing causes where appropriate, exploring the options, selecting a course of action, measuring the effect and making changes as necessary. Applied to sales, it ensures that when a sale is closed, you continue to monitor the account and do not lose your gains. The next time you are given your sales goals, you won't ask, "How will I ever make these numbers?" Instead, you will study the current situation. Who are your accounts? What are they producing? What is the market? Who is going to your competition and why? How much prospecting is necessary to close the gap between current accounts and where you need to be? You will target specific accounts and set a plan to eliminate the waste of lost opportunity. You will also compile data about what is working, what is not working so well and why, and use that information to make more informed decisions.

The Conway Process Improvement Methodology

The methodology is based on the Deming Cycle:



Step 2: Clearly Define The Project; Select The Project Team

Key points in this chapter:

- The objectives of Step 2
- Creating a team charter
- Developing effective problem statements
- Developing key performance measures
- The approach

The objective of Step 2 is to create shared understanding of the expectations of the project, to ensure you have the right people on the team and to build commitment for the improvement effort. When defining your project, **specificity** is the watchword.

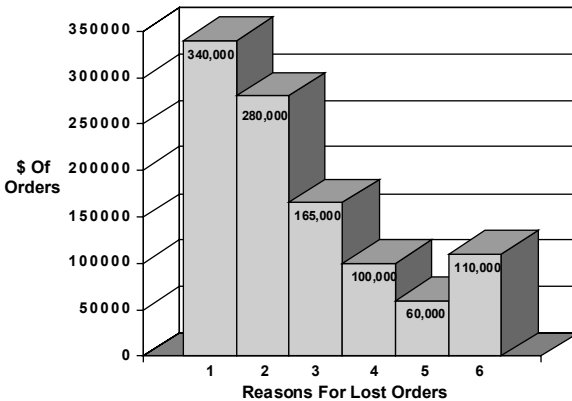
Your objectives are to:

- Clearly communicate the problem and the objective
- Quantify the waste
- Clearly communicate the purpose, benefits, scope, and constraints of the project
- Identify key performance measures
- Select appropriate team members
- Contract with your sponsor for deliverables, timelines, help and support

Team Charter

The Team Charter describes what is being worked on and the expected outcome. It is a written document that defines the project and the contract between management and the team. The charter describes:

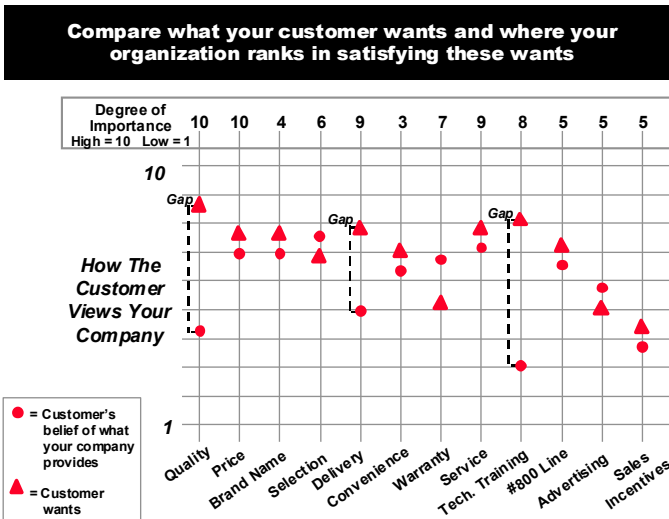
- Problem, task, issue, or project
- Objective
- Scope of the project
- Customers and suppliers of the process
- People involved
- Final products



Reasons For Lost Orders

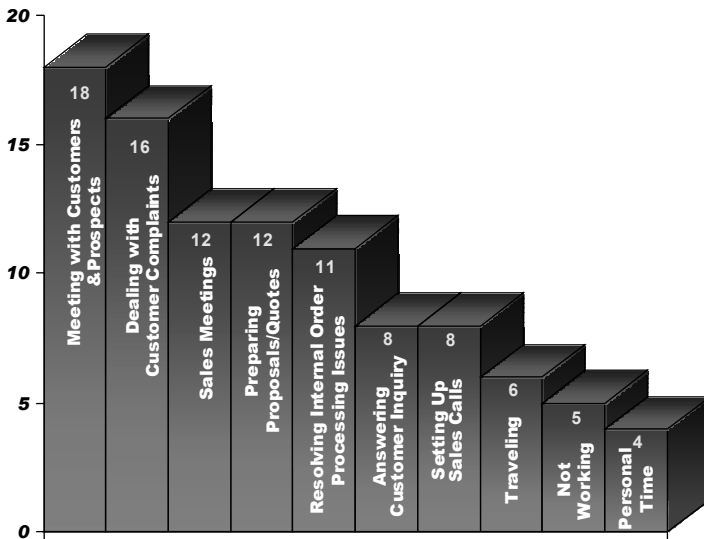
- 1 Can't meet delivery date
- 2 Competitor product size can be easily adapted to their machines
- 3 Price too high
- 4 Don't like our documentation
- 5 Didn't know we were in that market
- 6 Other

Another helpful tool is gap analysis. First you need to know which characteristics/qualities the customer views as important and how important. Then you need to know how your product, service or organization compares to what the customer is looking for. The following chart shows this information.



The characteristics with the largest gaps and the highest degree of importance provide real opportunities for improving customer satisfaction.

To get the results of the study, add up the number of observations for each activity. Convert this number to a percentage by dividing it by the total number of observations. After the results are accumulated, make a Pareto chart of the work categories. This will give you an initial idea of how people's time is spent. Ask these questions: "Do I like what the Pareto tells me? What percentage of the time is spent on value-added work?" "If everything were right, what would this Pareto chart look like?" Then make a Pareto chart of the specific activities to help determine your priorities for eliminating waste.



The breakdown of work for salespeople can be a real eye-opener. People typically assume that most of a salesperson's day is spent on value-added work. Once you study the work, you find that much of it does not add value at all! You'll find that too high of a percentage of your time is spent on activities that do not add value to the customer, nor contribute to the overall success of the business.

A good place to start is to look at the time spent on rework and unnecessary work. What obvious activities can be eliminated immediately? Select a specific activity in the category of rework or unnecessary work as the focus for an improvement project. You may need additional work sampling studies to understand the work more fully.

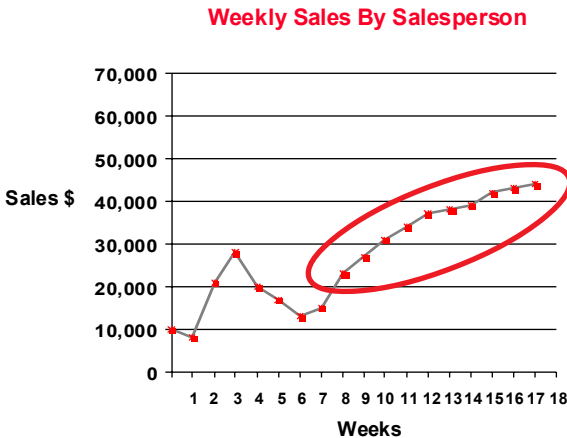
Using A Run Chart

A run chart is an excellent way to express data in context. In analyzing the data, look for overall patterns rather than reacting to individual data points, unless a truly special cause of variation has occurred. Special causes may be present if you see the following patterns:

- A shift in the process average, when you have 9 or more points in a row on one side of the center line or average.



- A trend, when you have 6 or more points in a row increasing or decreasing

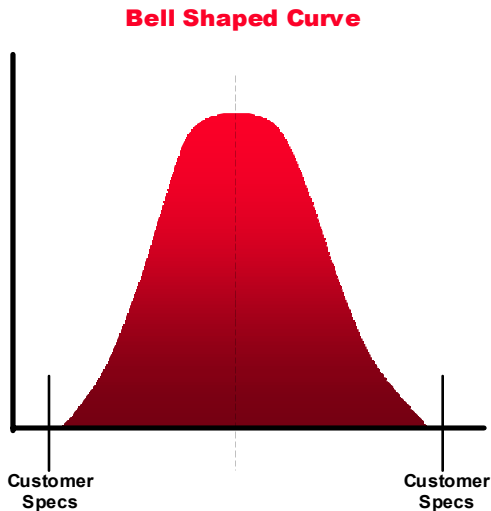


- An unusual event, when you have a data point that falls more than 3 standard deviations from the center line.

Using A Histogram

The histogram gives a good picture of the central tendency (average) of the data and the dispersion (variation). It also shows the range of the measurements and the level of performance that the process is capable of delivering (process capability). You can add customer specifications to the histogram. This will allow you to compare the specifications to your process performance to determine whether it is capable of satisfying them 100% of the time. The histogram also shows where the process is centered. Is the process correctly aimed to deliver the results that customers expect?

The shape of the histogram provides additional clues about what is happening in the process. Most processes tend to exhibit a “normal” distribution or a bell-shaped curve.

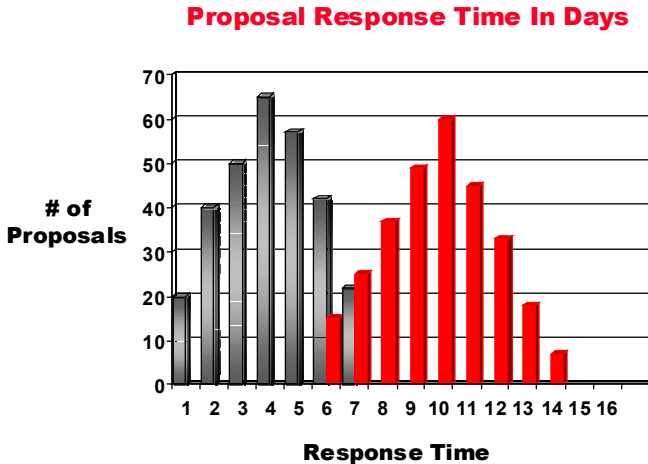


Example of a normal distribution where all of the data points fall within customer specifications

When the histogram appears to end abruptly on one side, it is sometimes called cliff-like. This may be caused when the minimum value at the “cliff” is zero. In manufacturing processes, when the minimum is not zero and there are few if any data points outside specification limits, it is likely that some of the items below the “cliff” have been removed by inspection because they did not meet specifications. This kind of distribution from a supplier indicates the

supplier's process is not capable of meeting specifications and is generating waste. If the supplier's item is important, it may be worthwhile to help the supplier to improve the process and reduce the waste, or to examine your specifications to see if they can be altered. You may have a "cliff" on either or both sides of a distribution.

A histogram might also show two peaks instead of just one. This type of histogram reflects two different processes, such as sales from two different territories or time to resolve customer issues in two different locations. In order to effectively use the information, you should segregate the data by process and make two histograms. Then investigate the causes for the differences and improve one or both of the processes.



The key questions to ask about a histogram are usually:

- What are all of the reasons for the variation?
- What are all of the reasons the average is where it is versus the ideal?

Brainstorm all the reasons for excessive variation in the process or for the process not being aimed correctly and show them on a fishbone chart. Then collect data and identify what must be improved to reduce the spread of the variation or change the aim of the process permanently.

Moving Into Action

Chasing the waste out of sales is essential for success in today's competitive global economy. Only by eliminating waste—waste from lost opportunities, waste of time, waste of money, and waste of material—can you add value for customers and increase sales and gross margin dollars while reducing direct costs and expenses.

You may be uncertain about where to start but keep in mind the saying, “A long journey begins with the first step.” Use this handbook as your guide, referring to the methodology as your roadmap and the concepts and tools as your vehicle. The worksheets can provide excellent starting points for moving you and your organization into action. You'll find it useful to refer back to this book throughout your continuous improvement efforts.

Remember that the keys to successfully applying the concepts of continuous improvement to sales and gross margin \$ are:

- Work on the right things
- Base your decisions on facts and data
 - Data from in-depth knowledge about your work, your customers, your market, and your competitors
 - Data that tells you what the causes of problems are so you can eliminate them
 - Data that enables you to uncover opportunities for increased sales and gross margin
- Involve the people who do the work in identifying and exploiting opportunities
- Keep your focus on adding value for customers as a means to growing and improving your business
- Attack the waste with urgency!

As with any worthwhile endeavor, continuous improvement requires commitment, patience, and perseverance. But the rewards outweigh the effort. You'll find that by managing causes, you'll better manage results—results you'll be able to see on the bottom line.