

Create Your Own Stimulus Plan

By Jay Arthur

Businesses seem to be waiting for government stimulus money to trickle down into their cash flow. Unfortunately, few people seem aware of the glacial slowness of big government. Rather than wait on the Fed, businesses can create their own stimulus plan.

While in this economy it's hard to increase sales, it's easy to focus on reducing costs. Every dollar saved goes straight to the bottom line. And employees love finding ways to simplify, streamline and optimize the business to better serve customers.

According to the July-August 2009 Harvard Business Review survey (*How Bleak is the Landscape?*):

- 27 percent of businesses are streamlining product or service offerings
- 34 percent are reengineering processes
- 37 percent are improving products, services or customer support.

Shouldn't your business be using this opportunity to improve the value chain?

Stimulus Plan Step 1 - Simplify

Every business collects clutter over the years in offices, factory floors, inventory, product or service lines. Now is a perfect time to put employees to work on eliminating the flotsam and jetsam of the past. When the clutter is gone, it's easier to see where to focus on the next step: streamlining.

Stimulus Plan Step 2 - Streamline

Far too many businesses make stuff and then try to sell it. Instead of trying to *push* products or services onto the customer, change the business to let customers *pull* products or services when they need them. Any business can employ the principles of Lean Thinking to deliver what customers want when they want it.

Pushing products or services on customers results in excess inventory, both finished goods and raw materials. *Pull* companies only make the product or deliver the service when the customer requests it. Think of it this way: **Inventory is fundamentally evil.** It has to be stored, managed, moved, and so on. It eats up time and money that could be employed elsewhere.

Pushing causes the ordering of large batches of raw materials and the production of large batches of product. Using a *Pull* system results in ordering and production of as small a batch as possible. The ultimate form of this is called "one-piece flow."

When people hear this, they often ask: "What about economies of scale?" GM and Chrysler are examples of the problems that result from economies of scale thinking: too much inventory. Consider a better alternative: *economies of speed.*

Pushing products or services results in delays between steps in the value stream that slow the delivery of the product or service. Even though employees seem to be working hard, if you watch the product or service, it spends a lot of time waiting on the next step in production. Even if the production line is fast, the delays between an order, scheduling, production, delivery, invoicing and payment are often excessive.

The 3-57 Rule: Employees work on the product or service as little as 3 minutes out of every hour resulting in 57 minutes of delay. Most people doubt this, but when

managers shift their attention from the employees to the product, they discover that this holds true in all processes: office, backroom, billing, purchasing, etc.

Now for the good news: every 15 minute per hour reduction in delay will:

- Double productivity
- Increase profit margins by 20 percent!

How is that for stimulus! Having worked on many projects to reduce delays, it's often easy to reduce delays by 75 percent or more (45 minutes/hour) which can increase profit margins by 60 percent! Instead of having to work harder, employees discover that they have more time to do it right the first time. Why? Because they aren't constantly picking up and putting down the product or service. In true *one-piece flow*, the product is worked nonstop which results in far fewer errors and faster delivery, which delights customers.

Many service business owners think that they can't apply the principles of Lean Manufacturing, but nothing could be farther from the truth. Hospital emergency rooms are a service, aren't they? Press Ganey, which monitors emergency room turnaround times, recently reported that the average emergency room stay is four hours! Robert Wood Johnson Hospital (winner of the 2005 Baldrige Award for Quality) turns discharged patients in *38 minutes* and admitted patients in *90 minutes*. Healthcare professionals gasp when they hear these turnaround times. And the hospital has had a double digit growth rate and had to build a new wing onto the hospital to handle the load coming out of the emergency room.

Opportunity: Companies that reduce cycle times by eliminating delay grow three times faster than their competition.

The business that employees the *economies of speed* by reducing delays will garner more customers and more profits than their competition. Encourage employees to start streamlining their process today.

Stimulus Plan Step 3 - Optimize

Once businesses remove the slack from their value chain by switching to a pull system, it's time to start optimizing the process to eliminate defects and deviation.

Every business makes mistakes. Every product or service process varies slightly. Finding and fixing mistakes, errors and variation in the finished product can eat up 25-40 percent of the total budget. And as little as four percent of the business produces over 50 percent of the defects and deviation (**The 4-50 Rule**).

Eliminating defects is easy:

- Count the number of mistakes, errors or defects in a process (e.g., order errors, product defects, billing errors, etc.)
- Categorize the defects by process step (e.g., order entry, packaging error, etc.)
- Change the process so that it is *impossible* to make that mistake.

Too many businesses get caught up in blaming employees for mistakes. Systems and processes *let* employees make mistakes. When the system or process gets changed so that it is impossible to make the mistake, employees stop making them.

Tip: Blame the process, not the people.

Eliminating deviation is a little bit more challenging, but not that difficult:

- Measure the variation in the product or service (usually some plus-or-minus, over/under variation of length, weight, time, etc.)

- Evaluate the root causes of deviation from the customer's target value (e.g., machine setup, maintenance, etc.).
- Change the process to minimize deviation.
- Implement a measurement and monitoring process to make sure the machines or process don't drift from the target value. This usually involves some form of statistical process control (SPC). Hospitals, for example, measure infection rates; manufacturing plants measure dimensions; banks measure customer wait times; and so on. Inexpensive Excel-based SPC software can do this easily.

Employee Stimulus Plan

Each of these steps – simplify, streamline and optimize -- can engage employees in the quest for excellence. They've grown tired of serving customers badly and they've also grown tired of trying to get anyone to listen to their improvement ideas.

By engaging employees in each of these three steps, they become renewed rather than burned out. It's a simple way to break the angst over the economy.

Jump Start Your Stimulus Plan

Businesses can wait on the government to throw some money their way or they can start finding ways to simplify, streamline and optimize the business to squeeze more profit out of the existing revenue stream. Engage employees in:

- Getting rid of the clutter.
- Eliminating unnecessary inventory and delays
- Reducing or eliminating defects and deviation

Set BHAGs (Big Hairy Audacious Goals) to reduce delay, defects and deviation by 50 percent in six months or less. It will stimulate your business, your employees and, most importantly, your customers.

Jay Arthur, the KnowWare Man, is author of "Double Your Profits: Plug the Leaks in Your Cash Flow." He has spent the last 20 years helping companies maximize revenue through the "Lean Six Sigma System," a collection of audio, video, books and software. Jay is also the author of "Lean Six Sigma Demystified" and created the "QI Macros SPC Software" for Excel. To plug the leaks in your cash flow, sign up for free Lean Six Sigma lessons online at: <http://www.qimacros.com/freestuff.html> or call (888)468-1537.