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ABC Company 4/15 Findings

John Smith Interview

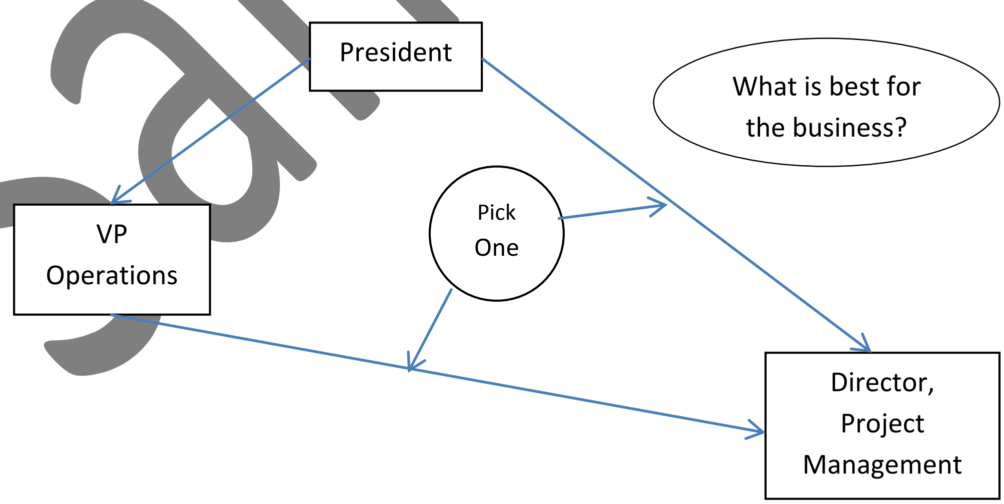
Organization Chart in its current form is the culmination of a five year old issue: Nebulous definition of who does what . . . more importantly, who SHOULD do what? Despite the effort and commitment the need is, as yet, unresolved.

Objective: Get Rodger out of operations.

Symptom: Who is really in charge of operations . . . VP of Operations (John Smith) or Director, Project Management (Louis Daniels)? Supposedly, the President told the Director of Project Management that the VP of Operations is in charge; but, this was done in a private meeting between the President and Director of Project Management. (John indicated they are placating Dan's self image.)

Consequences: The VP of Operations and Director of Project Management are left to feel out their respective positions, authorities, responsibilities, accountabilities. Everyone else in the organization is left wondering too . . . . Decisions are delayed or conflicts arise. Rodger gets involved to arbitrate. John questions whether he is really capable of fulfilling the role of VP of Operations.

Question to John Smith: What if an outside party determined that the best thing for the company was to have the Director of Project Management in charge of operations. Could you accept that? Answer: No.



What individuals want personally ≠ What the business needs.

John's Observation #1: John indicated that the same things are true in Finance where Rodger has attempted to step away from day to day decisions. John observes that Rodger still involves himself in deciding on what checks, capital expenditures and a myriad of other financial decisions. Rodger has openly questioned with John whether Ana can handle the requirements of the job. Confessing this to John reinforces John's own uncertainty about his own ability to fulfill his role.

John's Observation #2: John stated that organizations take on the character of the leader. He seemed to agree that the business processes or lack of business processes in use at ABC Company are a reflection of Rodger. I asked John if that were true and the organization needed to change, it implies that the leader needs to be able to change. He agreed with that concept.

I asked John when in the last 11 years had Rodger demonstrated the ability to change? He indicated that 11 years ago Rodger did everything and John was a glorified assistant to Rodger. Sometimes Rodger would have John do something. Other times Rodger would do it himself. John was left in a quandary, should he or shouldn't he the next time.

John's example of how Rodger had changed was that Rodger had let go of operations. This observation lead to the discussion above which I think demonstrates that Rodger has not effectively delegated the operational role.

Question: Has Rodger really changed? What will get Rodger to want to change?

Answer: An argument, an idea, a plan that Rodger can understand.

Andy Peters' Observation:

In an earlier conversation Rodger shared with me that his Director of Fabrication, Arnold Adams, had once come to Rodger and asked him to walk out on the floor and yell at him about something. The objective was to legitimize that management method with regard to other employees.

Without divulging this prior exchange with John, I asked John to describe Arnold's management method with regard to the employees; John described Arnold as a "task master."

My general, long held belief, one that is shared by experienced human resources professionals, is that the methods in use at ABC Company are ineffective and will not result in an engaged, proactive workforce.

Rodger stated unequivocally to me that he was going to stand by Arnold no matter what due to Arnold's loyalty toward him.

In anticipation of an engagement with ABC Company, I am concerned that my expectations of what constitutes good and acceptable management may not be supported by Rodger and will not be easily accepted by Arnold.

John's Observation #3: Items fall through the cracks between departments due to lack of business processes:

Sales -> Graphics -> Operations -> Installation

Consequences: I suggested that the following would be the likely results. John concurred that the company experiences all of these.

- Rework,
- Rush Jobs,
- Poor Performance for Customer,
- Employee Dissatisfaction,
- Complacency,
- Lack of Ownership

John's Observation #4: The company has had two production planning and scheduling systems since 2008. E2 which is good for the shop floor but terrible for accounting. They currently track approximately 1200 active jobs for 600 customers in Excel with an average dwell time of 3-4 weeks in the system.

Consequences: I can only imagine . . .

Shop Walk

Real Estate:

Rodger stated that he is looking at 20,000 square foot facilities.

Question: Does the company really need to double in facility size to accommodate the business and its growth prospects?

Observations:

Shop Space: According to the shop diagram total current shop space is about 6,200 square feet which is chopped up and therefore cannot be laid out efficiently. There appears to be plenty of junk that needs to be tossed.

Office space: 4,200 square feet. There appears to be plenty of trapesing between facilities which probably contributes to things falling through the cracks between departments.

Concern: If the current space utilization practices are not addressed in the current facility, the same bad practices will merely explode into a larger facility.

Challenge: 20,000 square feet may be overkill although growth may make it useful. 10,000 square feet of open concept shop space with 5,000 square feet of coordinated office space increases shop space by 60% and office space by 20%. Why should you incur 25% more rent in order to exceed this amount of space? My belief would be that the business would merely fill the extra space with more unproductive assets. Distances between equipment would likely be increased because the space was available to do so. This would increase travel and wait time between operations which are strictly speaking wasted time and resources.

Remnants:

The company has a habit of saving remnants from prior jobs for use on subsequent jobs. This can be a virtue or a curse. There appears to be no standard in place for the dollar value of a piece that is worth saving. I picked a piece of 1/8" acrylic about the size of a 8-1/2x11 piece of paper from the remnant rack. I asked John the approximate value of the piece . . . $1.25. I asked how much time a $20/hour employee should spend looking for and assessing how to use that piece before their time value exceeded the value of the piece. John and I figured about 5 minutes. Actual answer: 3.75 minutes.

Now consider the fact that the pieces were a jumbled mess and that many of the pieces had obvious damage and that many others were likely damaged in one way or another.

Consequences:

- Employee inspects multiple pieces each time the look.
- Over time, employees find it is easier and actually more productive to use a new piece.
- Because there is an expectation that remnants are to be kept, they continue to add pieces to the pile.
- Accumulation causes more damage to the parts and/or creates demand for more storage space to house the low value items.
- More storage space is created. The facility becomes more crowded. Productivity declines.

I call this the **silting up of the river effect**. In order to maintain the flow of materials through the facility, work has to pass faster and faster over and around the accumulated junk. My observation of this facility is that the point of diminishing returns was past a long time ago.

If you are going to retain remnants a standard needs to be established. In some cases the standard can be based on dollar value (high value materials). In others it should be based on usable square inches.

I also suggested that a log be established and a reward system for employees who actually figure out a way to utilize the remnants on jobs.

Labor Productivity & New Hiring versus Overtime

Rodger mentioned to me that in order to avoid a burgeoning amount of overtime (see silting up of the river consequences above) that they recently hired 3-4 additional employees.

I was informed by John that the company loses between 30-45 minutes at the beginning and end of every day to bring equipment and vehicles out of and into the facility for overnight storage. We also agreed that other inefficient labor utilization results an additional 1 hour per day in lost work time.

If consider 2.5 hours per day per employee (25) at an average wage of $20 per hour five days per week for 50 weeks a year the total excess labor cost is $312,500. This equates to 7.5 full time equivalents of extra labor for a year. Tack on the potential workers comp savings . . . wow.

In this environment should the company hire new employees or run planned overtime?

Each employee is scheduled for a 9 hour day 7:30AM-4:30PM. Break times are 1:10 minutes. That means actual work time available is 7 hrs, 50 mins. Deduct the 2.5 hours of lost time and the total work time you gain by hiring a new employee is 5 hrs, 20 mins. But you are going to pay for 8 hours at $20 per hour. So the effective labor rate per hour is $30 per hour.

Other factors to consider include:

- New hires are low skilled, require training, are probably a drag on the productivity of the skilled long-term workforce and therefore get underutilized.
- Underutilized employees are dissatisfied and subject to high turnover rates making the time invested in training a complete waste.
- To the extent new hires are effective, they become more silt in the river since the regular workforce has to find room for them and work around them in the already crowded facility.

The alternative is to have the trained workforce with an average hourly rate of $20 per hour work time and a half at $30 per hour.

Andy Talley Comment: Add in lost productivity and the impact on GP is staggering.

Objectively, financially the tradeoff between hiring new and working overtime is a wash. Intuitively, I would say it is better to work selective overtime.

Labor versus Capital

We observed an employee doing a repetitive job on 34 pieces of material. Dimensions were about 3”x5”. According to John the job would take about 1 hour. We concluded that a machine could do the work in 1/17 the time. Initially, John stated that these jobs were typically in very low volumes and that the 34 piece job was unusual. The conclusion would be that the capital equipment to do the job would not be used frequently. When he reflected on that comment he realized that as the company has taken on larger jobs higher unit jobs are becoming more common place.

It is important that as the company business model changes that someone is taking stock of how customer demand changes along with it and the company not get stuck in the, “this is the way we do this mentality.”

Time and motion studies that assess how we can do things differently could be useful to ABC Company.

Any activities that are undertaken should be in service to a larger strategic objective.

Strategic Objective

Develop business process to allow ABC Company to profitably deliver end to end services to customers on everything from very small jobs to very large jobs.

This model will provide long term stability relative to the competition because the company will not be susceptible to economic swings from any one customer or market.

What’s missing?

We have not yet reviewed any financial statements which would likely be revealing as it relates to COGS.

We have not reviewed the costing system. Rodger shared with me some examples of really high profit jobs but these don’t appear to be showing up at the bottom line. This needs to be investigated.

Examples of jobs that fall through the cracks might provide insight into why margins are so low. Rework, overtime, late deliveries, etc.

Engagement Reservations

A move is necessary since the current facility structure is not optimal at the current revenue level and particularly problematic if there is continued growth.

Piling on a consulting engagement on an already overwhelmed management team that is also attempting to move facilities may stretch this company to the breaking point.

I question whether there is a good cultural fit between my management style and the existing management methods. I fundamentally disagree with what seems to be the prevailing “kick ‘em in the ass mentality.” I have successfully worked with other operations personnel to get them to see the inadequacy of this method and trained them to “work through” their employees instead of “working them over.” Should the company wish to adopt new methods it will take leadership, time, training and retraining.

There are obvious, fixable operational deficiencies at ABC Company, however, as John Smith points out, some of them may originate (sales or graphics) or terminate (installation) in other departments which means that successfully addressing those problems may require a company-wide effort.

Engagement Suggestion

One Hour per week onsite with Rodger Batt, CEO – Focus on what’s most important. Assist with effective delegation & decision making. Identify resource deficiencies. Strategize organizational change.

Two Hours per week onsite with John Smith, VP Operations – Identify improvement opportunities. Develop leadership skill set. Implement cost saving opportunities.

Three hours per week offsite planning and documentation email and telephone communications.