

# **Back to Basics:**

# **The Key to Future Performance**



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# **Back to Basics: The Key to Future Performance**

*by John E. Boyer, President, J. E. Boyer Company, Inc.*

## **Introduction**

The objective of this paper IS NOT to treat or assess the long list of improvement paths, awards, and certifications that we already know about (JIT, Lean, ERP, ISO, Six Sigma, the Shingo Prize, and so on). I'm sure you have your own perspective and don't need any help making sense of what is good about these and what isn't.

The objective of this paper IS to point out fundamentally basic principles and practices that this author feels have been overlooked in many popular improvement strategies. These "back-to-basics" concepts, as I will call them, provide the fundamental underpinning for significantly increasing the chance that other improvement strategies ... no matter which ones you choose ... will result in a more competitive and profitable company.

Much of the content in the following paragraphs and in the presentation will seem obvious ... simple ... matter-of-fact. You may wonder why even mention these things ... they are so obvious! Actually, my hope is that you do view these basics as simple ... uncomplicated ... common sense ... straight forward ... and in the spirit of 'why in world wouldn't a company do these things?' That's a wonderful first step.

Don't get me wrong. What I have written in this paper is not all you need to survive, grow, and dominate your market. Far from it. There are many many things a company must do with regard to strategy, products, markets, customers, finances, labor and benefits, technology, and other issues that aren't addressed at all in this paper. But in my experience, the presence of these back-to-basic principles significantly complements other things that you are doing to compete. The absence of these back-to-basics puts the others at risk!

## **Six Back-to-Basics Principles**

### **1. Date Management**

Normally, the most popular question asked by customers every day is 'when?' When can we get delivery? When is the product going to be shipped? When is the quote going to be ready? When ... when ... when??!!! The way we articulate the answer to this question is by telling them a date ... a calendar date. For example, we will tell them: 'your product will be shipped on Wednesday, March 9<sup>th</sup> and you should have it by Friday, March 11<sup>th</sup>.

This sounds easy, but there are some noteworthy assumptions here. First, all of the dates are captured in the business system: request, promise, and current. In this example, the customer may have requested it on March 1<sup>st</sup>, we promised it on March 9<sup>th</sup>, but the current schedule says it will not ship until March 10<sup>th</sup>. Check and see if you capture all of the dates!

Second, all of the current date must be valid. That means minimally that there are no current dates in our system earlier than today. To better understand, consider this example. At the time of order entry, four dates are entered in our system for sales orders as independent data elements: 1) the order entry date, 2) the date the customer is requesting shipment, 3) the date that we are originally promising shipment, and 4) the current estimated shipping date. #3 and #4 are always the same at the time of order entry. #4 is the date that must always be kept up-to-date as situations change. #2 and #3 are never changed unless a change is requested by the customer.

Once the actual shipment date is known (date #5), three questions can be easily answered in terms of on-time shipment performance metrics:

- What portion of the time do we do what the customer requested?
- What portion of the time do we do what we said we would do?
- What portion of the time are our system dates valid?

To take a quick sanity check on your command of date basics, do these three things:

- See if you are correctly capturing dates 1-5 in your system by order line item.
- Sort all of you open sales order lines by current estimated shipping date and see if all are today or some date in the future.
- See if on-time shipment performance is measured and well understood by all of the management team, and that all three measures are in place.

If you answered 'no' to any of these, you are not in command of date management basics and have a major opportunity for improving your customer service and resource management!

## **2. Flawless Data**

For decades companies, system providers, experts, and users have been saying the system needs accurate data do work correctly. But most places I go ... in the 21<sup>st</sup> century ... having spent huge sums of money on software ... still have data that are not accurate. Inventory records that have to be checked before a customer is told what they want is available. Bills of materials that sort of describe how the product is (or was) made. Routings that show some picture of how a product goes together. How about all of the inventory parameters, data elements that we use for reporting (product codes of various ilks, buyer/planner codes, source codes, ABC, and so on ...), GL information used in accounting, and all of the vendor master data. PLUS one of the big initiatives recently is CRM (Customer Relationship Management). This presents another "chunk" of data that should be perfect ... contact info, buying info, follow-up notes, company data, and so on ...

Let's get one thing straight .... ALL OF THIS INFORMATION AND DATA MUST BE FLAWLESS!

For example .....

- All physical inventory balances should match what the computer says.
- All BOM's should reflect what really goes into the product.
- All of the suppliers should match the parts that they really supply.
- All of the product codes should be applied to end items correctly.
- All of our customers' names in the CRM system should be spelled right.
- All of our customers should have the correct account manager assigned.

Some of you are probably thinking I'm crazy. How is this possible? Well, why in the world wouldn't it be right? After all, we just spent a mega buck or two on a new system. Are we too lazy to feed it accurate data? Plus we eventually run around on the "sneaker net" to find out the real numbers when we really want to know.

But it IS POSSIBLE! I'll prove it. You have one system right now that has essentially flawless data. You guessed it ... the payroll system. Why? The users just simply will not tolerate inaccuracies. And when one is found the feedback is immediate, directed at the person who can fix it, and is forceful! Errors aren't allowed. So a system has been created with the right processes to provide flawless data.

Once data and information are absolutely valid and accurate, all people in the organization can focus 100% of their time and energy in improving performance rather than chasing bad data! In the presentation, I'll give you some ideas on how to get this done.

### **3. Financial Accountability**

In the organization there are many people who have the authority to spend money. Production managers staff the factory, maintenance supervisors buy replacement parts, sales people travel, inventory planners have suppliers ship material, the mail room person orders office supplies, the VP of human resources negotiates the annual health care plan, and so on. Many people spend money. And for the most part, everyone intuitively tries to spend wisely and not spend too much. But do they really know how much they can authorize and spend? Do they know how much they have spent? Do they know how their decisions affect the bottom line? Do they have a plan to ensure spending is in line with expectations?

Sorting out these questions forms the basics of financial accountability. Each person in the organization who is authorized to spend or approve spending money must have a good grip on these questions. Only then will the business have predictable financial performance. Without knowing who is spending in the manner described, financial performance is likely out of control and profit/loss levels will quite often be a surprise.

## 4. Inventory Fundamentals

No matter how lean an organization becomes, there is going to be some inventory to deal with ... finished goods, work-in-process, purchased components, and raw material. The challenge is to make sure that this inventory is managed correctly using proven fundamental back-to-basics principles. In today's day and age, there are still many ... too many ... people in materials and purchasing positions who don't have command of the fundamentals. They can't do a simple ABC analysis (some have never heard of it), don't know an order point from a safety stock, and/or don't understand the difference between a stock item and a non-stock item. "Really?" you ask! Yes ... really. The percentage is high. No wonder we have problems with our high priced software not working right. We don't know the fundamentals of how it works!

In a high performance organization today, every person in any materials, scheduling, purchasing, or related position MUST have an absolutely precise and complete understanding of inventory basics. Here they are: stock/non-stock, stratification, charter-part-accountability, ABC analysis, order triggering method, planning data elements, reporting actuals vs. plan, conformity, and performance review. The presentation will include specific detail on these principles.

By successfully implanting these basic inventory principles, there is a good chance that you can cut your inventory up to 50% without doing anything else!

## 5. Planning vs. Execution

Many times, people have said to me, 'we're not going to use ERP anymore, we are going Lean'. That statement troubled me for a long time. Intuitively I felt it there was something wrong. For example, a supplier asks the question 'how much steel will you need during the next six months?' This is a planning question and is best handled by ERP. A shop supervisor wonders 'what am I going to run today?' This is an execution question and can be handled by ERP or preferably Lean Manufacturing techniques. Differentiating the questions can help a company understand the role of ERP and Lean. Planning and execution ... ERP for planning and Lean for execution ... that's the key.

Your job is to clearly understand the difference and know the role of each. This knowledge is a huge step toward ensuring that your company is productive and successful in implementing/using Lean and ERP. If you don't, you run the risk of throwing out one or the other, or of attempting to have one trying to do the other's job. It can really get messed up. Or it can be done strategically smart. It's your choice.

## 6. The Two-Hour Rule

One of the most challenging aspects of business today is communication. Specifically, getting in touch with the right people at the right time to trade information, make

decisions, or provide feedback. Let's face it ... we are all challenging to contact! And it's not for a lack of ways to do it: phone, voice-mail, e-mail, fax, page, and others. With many of my clients, I insist that a strategic selling advantage is simply returning phone calls and responding to e-mail. This sounds elementary and simple to the point of almost sounding stupid to even bring it up. But some insightful thinkers and strategist have come to the same conclusion and know that getting back to people removes an element of "hassle" in day-to-day business activity. We know that the "hassle-free" environment attracts customers like a magnet!

So, to help create the "hassle-free" experience (for both internal and external customers), we recommend the two-hour rule. This rule simply means that any and all voice mails and e-mails will get a response within two hours. The issue does not need to be resolved, but the contactor must know that the message was received and that action is being taken to provide the desired resolution. Two hours. No more. And that does not mean a boiler-plate automated response either. We are talking about a response that specifically addresses the person's need.

If you think about it, a Lean Manufacturing principle is at work here. We are processing smaller lots more frequently. A few e-mails get done every hour or so, rather than going through dozens (or hundreds) of them once a week!

I absolutely believe that the application of the simple two-hour rule will provide your business a strategic competitive advantage. And it won't cost you a dime!

## **Assessment**

Here is a short assessment that will help you understand your company's mastery of the basics. Let's make the response simple:

3 = absolutely being done to perfection – world class.

2 = partially being done – some good things and some room for improvement.

1 = this area really needs attention – lots of room for improvement.

Give yourself a score for each question. 1, 2, or 3. Then add the total:

Over 50: I want to visit you to learn about how you are doing things!

30 – 50: Let's figure out the missing pieces and get to the next level.

Under 30: Better get started now, tomorrow is at risk!

### Date Management

\_\_\_ The three key dates for sales orders (request, promise, current) are all understood and captured at the time of order entry.

\_\_\_ All customer order current dates are valid (are updated daily and are never allowed to show past due).

- \_\_\_ All work orders (or manufacturing schedules) have valid dates (are updated daily and never allowed to show past due).
- \_\_\_ Precise performance measurements are available daily to show shipment performance in terms of request vs. actual, promise vs. actual, and current vs. actual.

#### Flawless Data

- \_\_\_ The business system contains accurate data for making decisions ... data is seldom questioned (i.e. inventory balances, open sales orders, open work orders, open purchase orders, bills of material, codes used for data mining).
- \_\_\_ Data flaws are reported and fixed by the accountable person within four hours of discovery.
- \_\_\_ Your customers and prospects would be proud of their data that exists in your CRM database.

#### Financial Accountability

- \_\_\_ A meaningful operational budget exists in monthly buckets and is reviewed at least monthly for performance by the President and staff.
- \_\_\_ Each person who has spending authority and who makes spending decisions has budget line-item accountability.
- \_\_\_ Fit-for-use budget vs. actual information is available as needed by each person having budget line-item accountability.
- \_\_\_ Each person having budget line-item accountability must report monthly on performance to budget along with corrective action as required.

#### Inventory Fundamentals

- \_\_\_ The concept of stock vs. non-stock is clearly understood and each item has been designated in the system.
- \_\_\_ Each stock item has its entire related inventory parameters engineered using ABC inventory principles.
- \_\_\_ Each person making inventory decisions knows the conformity of their inventory and knows where their actual dollars are vs. plan.

#### Planning vs. Execution

- \_\_\_ The concepts of planning and execution clearly understood.
- \_\_\_ The practices and tools of ERP and Lean Manufacturing are correctly applied to planning or execution as appropriate.
- \_\_\_ For each item that is purchased or produced, the planning and execution method has been identified and recorded in the system.

#### The Two Hour Rule

- \_\_\_ All e-mails have a response within two hours.
- \_\_\_ All phone messages have a response within two hours.
- \_\_\_ Customers are absolutely delighted with the response speed to their calls and e-mails.



## What Next?

Having worked with hundreds of companies, it is my conclusion that the highest performers will execute these six back-to-basics principles to perfection. But there probably is not one company that has a full grip on all of these equally well. But some companies do some of them nearly to perfection. These are the high performers.

Here is your challenge: decide to master the back-to-basics principles and then go do it! It's that simple. But if it is so simple, then why don't all companies have the basics mastered? Because they are so simple, many believe the answer has to be in one of the latest buzzwords and they ignore the basics. Another reason is denial. Companies believe that all of these are being done, when in reality they are not being done at all.

It's your choice. All I ask is that you take a good hard and honest look at what you are doing, and give a fair estimate to how much better your company would be if the basis discussed here were absolutely mastered. There is a good chance that the successful companies of the future will see this path as one of their keys to future performance!

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