

# PIP SPEAK

THE NEWSLETTER OF  
Partners in Performance

Issue 13

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Crystallising the improvement opportunity and aligning your people behind it

## Crystallising the improvement opportunity and aligning your people behind it

Just inherited a new site? Not sure what it is capable of? Thinking of buying a new business and want to assess the improvement potential? Does your management team not feel the same need for rapid change that you do? Or is it time for your management team to step back and crystallise where the improvement lies on site, what the priorities are and how to align people to achieving those targets? PIP's Diagnostic methodology may be the answer.

### Purpose:

The Diagnostic will provide you with:

- A better understanding of your business
- Consensus amongst your team of what can be done
- Targets and a plan and resourcing requirements to move forward
- Ownership of that plan

The Diagnostic can assist business leaders to quickly determine what the potential improvement is for a site and establish a plan and alignment amongst the managers to capture those improvements rapidly and sustainably. It will help you determine the magnitude of operational improvement (\$ size of the prize), what levers to pull in order to deliver that improvement, the order in which to pull those levers (prioritisation), the approach to use for each and the resources required in order to deliver them in a particular timeframe (typically 12 month delivery).

More importantly still, the Diagnostic is designed to be done with management involvement so they own the answers and are prepared to commit to targets and to the process needed to deliver the results.

It is therefore a powerful tool for:

- a) clarifying the improvement potential for a site or business
- b) aligning management behind those targets for the journey ahead

You can then use this plan to drive performance improvement going forward with or without PIP's support.

After a recent diagnostic, Julian Veitch, the CEO of Loders Croklaan USA (a key refinery operator supplying specialist oils, fats and nutritional ingredients) commented:

*"I commend you for getting so far in less than 2 weeks and with such clarity around the business, its economics and how it works. It's highlighted things that we knew were important, but hadn't been able to properly pinpoint and quantify. It's also come up with some new, important ideas. I am really impressed by how far you got in such a short space of time."*

### Process:

PIP's interaction with your management and staff underpins the success of the Diagnostic. A team comprising PIP staff and your people will be established to complete the required review and will have working sessions with the management team every 2 days.

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The Diagnostic identifies and quantifies the improvement potential for the site by:

- determining the value drivers for the site (how do we make money?)
- determining the technical limit or maximum potential for the main levers;
- understanding how the organisational wiring (processes, skills, systems, procedures, habits and norms) might need to change to capture the opportunities;
- understanding current improvements going on at the site;
- introducing managers and key staff to PIP's Diagnostic and improvement approaches;
- sharing previous client's experience and learnings on how to deliver rapid operational change.

The scope of each Diagnostic is tailored to your specific needs and is agreed before the PIP team arrives on site. There are, however, five broad activities involved.

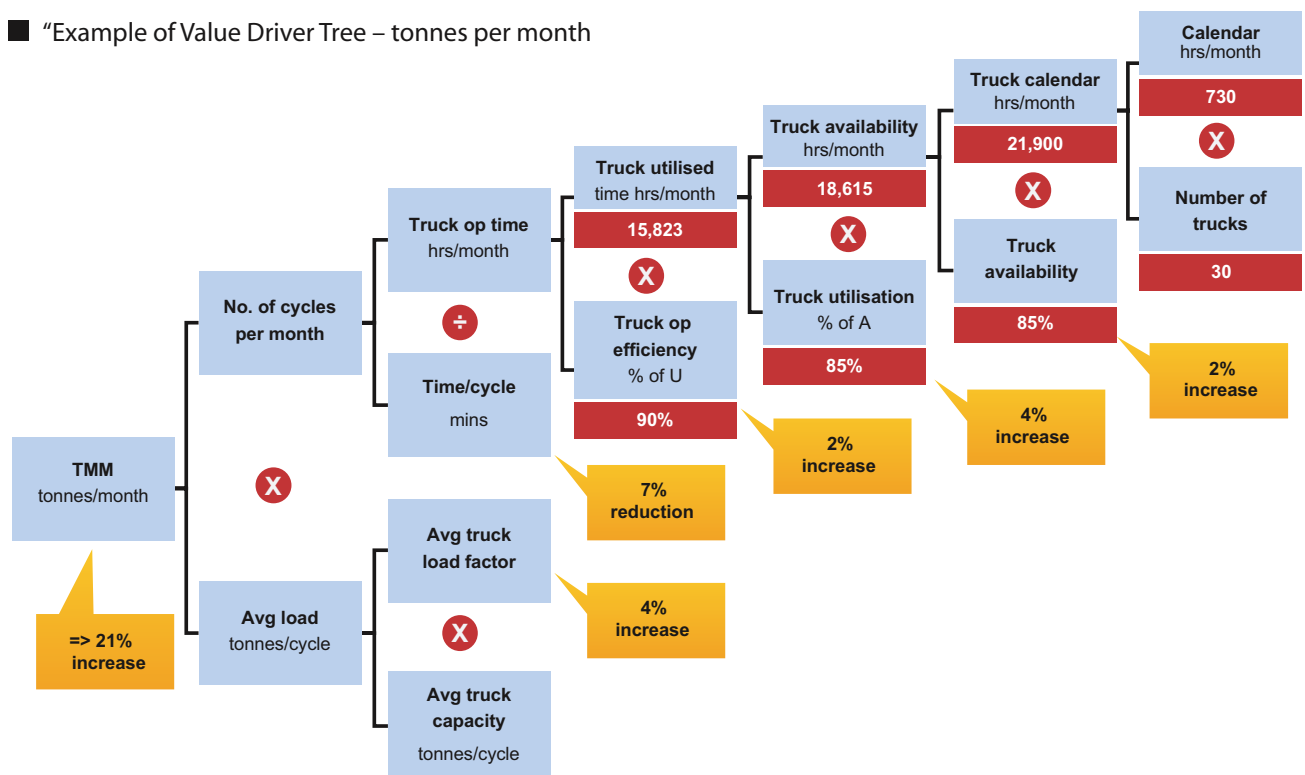
The **first activity** is to determine what is driving current performance and **identify improvement potential**. PIP has found that the ideal tool to understand the critical levers that drove historical results and will drive future improvement is the Value Driver Tree.

Value Driver Trees provide a picture of the gears that power a business - linking the financial performance of a business to its underlying operational levers. During the Diagnostic PIP along with your staff will develop driver trees for key elements of your business.

The Value Driver Tree helps answer a range of important questions for your business going forward:

- What is the safety and environmental performance?
- What is driving the economics?:
  - Revenue:
    - Volume:
      - Where are the bottlenecks?
      - What is the opportunity?
        - Rate, percent defects, availabilities and utilisation (historical, benchmark, technical limits, design limits, best day, best week, best month)
    - Pricing:
      - What are the trends? What is driving them and which are controllable?
      - What is the market structure and conduct? Can we change it?
      - What is our pocket price versus ticket price (discounts, warehousing costs, who pays for transport, what rebates, debtors days)?
      - What opportunities are there on short, medium and long term basis (daily sales force tactics, monthly pricing, changing the market pricing (new product, new positioning, new channel...)?
  - Costs:
    - Unit costs (fixed and variable):
      - Usage and efficiency

## ■ "Example of Value Driver Tree – tonnes per month



- What is driving usage? How does it compare to technical limits, benchmarks, historic use?
- What trends are there?
- What are the root causes of the highest spend elements? Given what PIP has seen in the past and what management know, can these root causes be addressed and for what impact?
- What savings has PIP historically made on each cost area? Pulling what levers? Do these apply here? What actions have been taken to date?
- Which of the bigger cost items are truly variable and what is their marginal cost
- Overheads
  - Historical trends of components
  - What is driving the large and/or growing components
  - How do these compare with other companies?
  - What actions have been taken?
  - Is this a big enough lever to warrant further focus?
- Procured spend
  - Historical trends of component costs? How do they compare with other businesses?
  - What is driving the large and/or growing components?
  - What methods does the department use to source categories?
  - How much is purchased off catalogue?
  - Which of the top 20 items are technically able to be renegotiated in the next period?
  - What actions have been taken to date and are planned?
- Funds Employed (to be targeted as deemed appropriate by the organisation):
  - Fixed Assets:
    - Trends
    - Utilisation/technical limits
    - Remaining life/ future capex
  - Working capital:
    - Work in progress/Inventories in financial terms & days
    - Receivables in financial terms & days
    - Payables in financial terms & days

Once the improvement opportunities have been identified, PIP will work with your staff to prioritise the opportunities based on expected value and ease of implementation, and to develop actions for high priority opportunities. This prioritisation process is essential to ensure success going forward as the organisation will need to focus on the 'precious few' areas, rather than 'all levers in all departments'.

The **second activity** is to assess organisational 'wiring' and the **organisation's ability to deliver and sustain the identified improvements.**

PIP has found that how an organisation is "wired" up through its systems, procedures, skills, strategies and the behaviours they do and do not accept will drive its performance relative to its competitors and its ability to continuously improve its performance. It will also affect the pace at which the organisation can capture the benefits identified in the Diagnostic and how long these changes can be expected to be sustained. (Please refer to PIP Speak Issue 4 for additional background on Wiring).

An assessment of the wiring is therefore an important part of the Diagnostic – not only to determine wiring priorities and what is possible to deliver in the next year, but also to start the awareness process on the site about how the wiring can affect performance and to put the spotlight on it.

Working with your managers, PIP will review the organisation's wiring to identify what you currently do well and what can be improved. Based on these results PIP will work with your staff to prioritise the potential wiring improvements and develop actions for high priority opportunities.

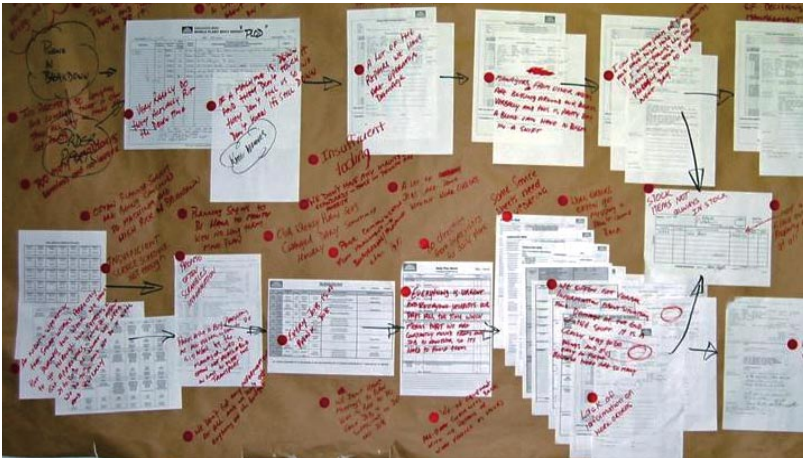
This wiring Diagnostic will be completed using a mixture of tools including interviews, surveys, attendance at meetings, day-in-the-life studies of pivotal roles and reviews of existing systems and documentation. For example:

- Does the organisation know how to be successful? Do you **understand and focus on the right input and output measures and objectives** that actually drive improved results? Does each element in the process have a robust operating strategy to deliver the right output KPIs given the inputs received?
- Do you have the **basic disciplines** that enable you to consistently deliver on your Measures and Objectives? For example are Standard Operating Procedures in place and followed? Will they deliver the Operating Strategy? Is the schedule of meetings appropriate and are the meetings effective? Are pivotal roles effectively completed e.g. what activities are undertaken and what tools are available?
- Are **individual accountabilities** NONG (No Overlaps and No Gaps) and are they linked to KPIs? Are the KPIs known and understood throughout the organisation? Are regular individual performance reviews completed and improvement actions identified? Are incentives mapped against priority KPIs and of a meaningful magnitude? Can a supervisor quote current and target performance for the KPIs they are accountable for? Can they tell you what they need to do to deliver these?
- Do you have the **disciplines to 'close the loop'**, address key variances effectively and sustain performance? Are KPI results reviewed regularly with reasons for variances systematically identified and

corrective actions identified and completed? Are root causes identified and eliminated? Do clear actions (by whom/by when) come out of the reviews and are these actions closed out?

- Do you have a consistent and regular process to **target, report and prioritise continuous improvements**? Are monthly stretch targets set for each KPI based on initiatives that are underway? Does the organisation have the skills down to supervisor level to determine the highest value/impact areas to work on, carry out root cause analysis, develop ownership and plans, deliver the results and lock them in? Does the organisation have the habit and tools to track and review improvements on KPIs?
- Is **visible leadership formalised** to sustain performance & drive improvements? Are priorities communicated, resources assigned in line with priorities, and standards reinforced? Do managers communicate progress vs. targets, problem-solve, coach & give recognition? Do managers have a view of what they should be spending their time on and broadly deliver on that?

## ■ Critique of a management operating system



A key part of the PIP improvement process is to provide coaching and training to management and staff during an assignment. The **third activity**, therefore, is to conduct **training sessions** with management and staff to introduce your organisation to key methodologies (e.g. value driver trees and wiring) being used to assist them to participate in the Diagnostic.

The **fourth activity** during the Diagnostic will be to **review commentaries from previous sites** where PIP has worked. The commentaries provided by client managers focus on their lessons learned and tips and tricks for delivering rapid operational change in organisations. Our clients find these reviews informative, providing insights on what they might focus on to deliver improved results in their organisation.

The **final activity** pulls these strands together to summarise the operational improvement possible in an organisation:

- key levers and types of initiatives likely to deliver this value on these levers
- wiring priorities for the site and what improved wiring might look like
- the methodologies, processes and overall plan that might be appropriate by lever and overall to deliver these results
- the timing and resources needed to deliver these.

Our joint team would also work to identify key risks to delivering the potential improvement and how to mitigate or manage these. Where appropriate this is then carried forward into an agreed charter and 'way we will work' for delivering these results as a team, and key messages or themes the management team will communicate in the months ahead.

## End Products

The Diagnostic provides a plan to move forward that has been developed and syndicated, with your team. It will:

- Identify the size of the opportunity and where the money will come from
- Assess the organisation's current ability to capture the money (wiring)
- Prioritise which opportunities should be pursued first
- Recommend how to attack the high priority opportunities including required resources and timing of benefits

The Diagnostic process also provides you with a low cost/low risk way to understand PIP and assess how well PIP and your organisation work together. Combining this experience and the plan to move forward, your business is ready to start capturing the money from day one.

## Partners in Performance

Partners in Performance is a firm that builds better businesses. We deliver rapid performance improvements in industrial, resource, manufacturing and service companies, using specialist teams and a hands-on approach to lower costs and increase revenues.

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