

Private Advice

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FROM THE WORLDWIDE MANAGEMENT CONSULTANCY OF

**KEPNER
TREGOE**

**Project
management
is more
about values
than just
deliverables**

BY NEVILLE PINKHAM



*Neville Pinkham,
A senior consultant with
Kepner-Tregoe Australia
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Royal Military College
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and Staff College.*

Too often we see commercial projects whose original grand ideas produce outcomes far below expectations. Invariably the cause turns out to have been a failure to understand relationships between the true values expected and project execution costs.

There are two common manifestations of the problem and one clearly-defined solution. First the scenarios:

Example 1: A strategic decision is taken to make an acquisition but the realised outcome is far below expectations and the board says: "We anticipated more from this resource investment."

Example 2: A strategic decision is taken to enter the market with a new product, but the outcome is a cost blow-out resulting in scope being limited or the project scrapped. The MD comments: "You didn't tell me it would cost that much."

In the first example, problems arise because implementation managers have not understood strategic values sought in the decision. Instead, they focused on deliverables, not realising that the board was talking about creating value NOT simply new operational solutions.

A typical case history might involve a company deciding to acquire the next-door factory with an objective of raising bottom line for the combined business. Yet when amalgamation is complete, the new company structure has simply doubled capacity with no add-on value.

Why? Because project team focus was on a communication link joining the two properties and not on added value that could be achieved.

In the same way, new product developments that go wrong often result from the project manager being distracted from a focus on value goals by immediate production issues.

Why? Because project executives lack precise data on work to be done and planned cost. The project is open to scope creep and our strategic decision changes into an extensive operational project consuming extra dollars.

If management gets the message in time they stop the escalation and limit project scope; if not they get a completed project which is so unacceptable the product is scrapped.

THE SOLUTION is for those making the original decision to:

- A** Clearly communicate their strategic intent in terms which include unequivocal statements of values: NPV increases, numbers of tonnes, numbers of items produced etc. If implementation design is not clearly focused on these values, then the project is off-track from the start.
- B** Design the project with its focus on measurable outcomes and NOT just on deliverables. Ask what needs to be done to generate the desired value, go back to the project work package list and rigorously check how each item will generate that value.
- C** Demand that project managers have lifetime monitoring systems to track progress of both the objectives in A and the work described in B, to ensure they result in project success.

That meeting point is where all the value lies!

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How to stop your job getting on top of you

BY JIM EDSON



*Jim Edson, B Ec, Dip Ed
Managing director of
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Does your work control you? Do your management priorities seem to change almost daily? Are unforeseen issues the rule rather than the exception?

Relax, it's a common situation, particularly for managers in small organisations and there is a simple approach to regaining control of your job and here it is ...

- Write down your strategic long-term objectives.
- Identify issues that need to be addressed to achieve these objectives.
- Add any other issues that your boss or owner has.
- Prioritise your list
- Create action plans for the top-priority items.
- Continually monitor your progress in dealing with your listed items.
- Prioritise and action-plan new issues as they arise.

LONG TERM OBJECTIVES are about defining what you want your business to be in 3-5 years.

So list what products or services you are going to offer and what you are NOT going to offer. Make another list of markets or customers you are going to go after or serve and whom you are NOT.

Draw up a matrix with your products on one axis and customers on the other. In each cell determine the priority for that piece of business - High (H), medium (M) or low (L). Think 3-5 years out. If you think only one year out, you may find things you should have done to position yourself long-term haven't been done.

Do the matrix yourself and then get others to input. This is quicker than getting them involved from the start and providing thought leadership is your role.

IDENTIFYING THE ISSUES means thinking about key capabilities you may need to develop in areas such as staffing, size, people skills and experience, marketing, financial resources, operational capability, administration, technology and customer support.

Just write the issues as they come to you but word them specifically, not just headings. NOT "Market the business" BUT "Select someone to help design and implement a marketing plan".

PRIORITISING means assessing each item's Seriousness, Urgency, and Growth. Try to do it all and nothing will get done properly. Begin with Seriousness and classify each item as High, Medium, Low. Repeat for Urgency and Growth.

THE ACTION PLAN should identify the ONE person responsible for resolving each issue, who will help them, and a specific date for resolution of the issue. And there you have your business plan for the next 12 months.

MONITOR it all at least monthly. You must be extremely disciplined to make sure resolution is controlled and happens.

NEW ISSUES need to be prioritised only for the attention they deserve when stacked up against your business plan priorities. When your boss drops a new big request on you, ask him where it fits into the priorities list.

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Excellence in Critical Thinking

Two case histories show how some long-standing problems were permanently resolved

BY CHRIS GERAGHTY



Chris Geraghty,
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Building critical thinking excellence in our clients is something of a mission at Kepner-Tregoe.

So we present here two case histories showing how one of our clients – Boral Plasterboard – used our critical thinking process of Problem Analysis to resolve a couple of long standing problems.

The problem in CASE 1 was with one of our client's forming lines. An inconsistent feed rate of a key raw material was resulting in waste from both underweight and overflowing product together with excessive amounts of unscheduled downtime.

This problem had been ongoing for more than two years with maintenance personnel and engineers unable to resolve the problem despite several fixes being unsuccessfully implemented. Before Kepner-Tregoe's involvement, the most favoured possible cause of the problem was an under-capacity feed system and capital had been set aside to upgrade this capacity.

Together with a team of key client employees we began to apply KT Problem Analysis methodology.

The first step was to collect and analyse data from log books covering the two-year period in question. This analysis identified the problem as being associated with the manufacturing of a specific product. Before this analysis, it had been believed that the problem was associated with all products.

The next time this product was scheduled for production, several key trends were observed from output graphics of equipment in the feed system. Relevant data was collected and observations recorded using digital

photography and during this production run the actual problem was witnessed first hand. Its cause was revealed as an out-of-control data feed loop between two pieces of equipment in the feed system.

Total time from beginning implementation of the Problem Analysis process to identification of the most probable cause was two weeks! A programming change was made to the feed system and a brief monitoring period confirmed that the problem had been solved.

At time of writing, this process has been running for six months with no evidence of the problem recurring. Significant savings have been made through the reduction in waste and unscheduled downtime. Plus the capital budget was spared the expense of an unnecessary equipment upgrade.

The problem in CASE 2 was with one of our client's low volume, high-margin products. The kiln was continually jamming during the drying process resulting in excessive downtime clearing the jam and high waste from damaged product.

This problem had been ongoing for more than a year and while maintenance personnel had tried to solve the problem several hopeful-for-fixes had been unsuccessful.

Our first step to solve the problem was to identify the key people to involve in our investigation. Information was then collected from them with historical data from shift log books. Analysis of this identified several possible causes.

So when the product was next scheduled for manufacture a team was positioned along the production line to make observations and record specific data. This data was to be used to confirm information collected from the initial analysis and also to help confirm the true cause of the problem.

During this specific production run the actual problem was observed and the run stopped immediately so a kiln jam was averted. The jams were found to be the result of the product slipping on the kiln in-feed belts. This slippage created a misalignment of the convey of product moving into the kiln, which resulted in a collision with the convey of product immediately in front.

More checks showed the slippage was caused by the kiln's in-feed belts being at different tensions and therefore different heights, resulting in uneven contact with the product.

After identification of the true cause a detailed pre-run checklist was developed for this product. Six months later and this disciplined approach has completely eliminated the problem, reduced material waste by more than 70 per cent and achieved significant product savings.

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The Manufacturer's Diet ...

"Weight and shape in manufacturing is determined by suppliers, products, and customer base."

BY KEVIN DUFFY



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partner with Kegan-
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Mankind and most manufacturing organisations share a common set of concerns: Both want to be leaner, meaner and in better physical shape. Both will go to extraordinary lengths to achieve their goals.

Lean and responsive is the pinnacle and manufacturers devote huge expenditure to gain advantage in an increasingly competitive market or to extend longevity in the face of global competition.

The human group has dabbled in egg, fruit, protein, calorie counting and other diets. The manufacturing entity has tried its own range of weight-loss programs beginning in the 80s with TQM and continuing through TFM, JIT, Kanban and Lean Manufacturing to today's diet of the moment, Six Sigma.

When diet in human life does not produce results, personal trainers are sought for direction and motivation. When the organisational diet is not producing results, a consulting company or guru is engaged.

If results remain slow their program is often put aside. Then just as we become resigned to being fat forever a new miracle cure is presented and once again we are inspired to commence a new journey to our goal.

Here are some learnings which can help make your journey a success...

In Manufacturing weight and shape - i.e. cost base and organisational structure - is not of course determined by caloric value but rather by the range of suppliers, products, and customer base.

Unless significant changes are made to the activities carried out in these areas no major reduction in the mass (cost structure) of the organisation will result.

To do this effectively requires rigorous analysis. Organisations, particularly in economic down-cycles, are sometimes forced to quickly reduce their cost base (low weight) through across-the-board reductions in labour. These often produce the desired weight loss but deplete the organisational body's resources (people) leaving weaknesses that hinder longer term market recovery.

Because no fundamental lifestyle changes have occurred the weight (cost) eventually creeps back and the process begins its next cycle. For long-term cost reduction a business style change is required and it is best to begin with a detailed assessment of the current state of affairs.

Organisations often carry excessive cost structures simply because they have too much Complexity - a condition that exists when a business performs too many low-value activities. Low-value activities have a cost-value relationship that is in dis-equilibrium and is responsible for a significant part of the company's costs but contributes little or nothing to its profit.

The good news is that the symptoms of Complexity are easily recognised: Increasing SKUs, falling margins, loss of high-volume products to competition, increasing set up times and falling customer service KPIs.

To view your organisation's level of complexity ask your accounts department to run a profile of product SKU sales High to Low by sales \$ with a cumulative column. Draw a line halfway down the products list. What value do products below this line contribute to your business? Our research shows it is often around only 5 percent. If you are not sufficiently concerned, repeat the exercise with product and customer margins.

Why do organisations continue to manufacture products and deal with suppliers and customers that contribute little value and often drive down profit?

Root cause of this problem is of course the standard cost system which prevents the company knowing the true cost of manufacturing its products or servicing its customers.

The standard cost system treats all products equally when allocating overheads. This makes low-volume, often complex products and customers seem far more attractive than they really are and punishes higher volume items with overheads between 100 per cent and 1000 per cent more than they should be.

Recent programs such as Activity Based Costing have tried to establish true cost of product manufacture. While robust in principle they consume huge resources and often fail to produce results within an acceptable time.

This has led us to develop a rigorous analysis process we call Volume Adjusted Costing to

provide accurate product and activity costs much more quickly.

Steps must be taken to improve the contributions low value activities make to the business or they must be cut along with the cost structures that support them.

We all know products and customers that are 'muds' in order to retain other business or which will be profitable some day'. These and other long-standing organisational paradigms and perceived sources of competitive advantage should be carefully challenged eg 'every order is a good order', 'if we do not manufacture this item our customer will take all his business away'.

Imagine the cost structure and profit level of your organisation without its low-value products and the engineering, technical and sales support they demand. Imagine if these costs were refocused on enhancing higher-margin goods and developing new products.

Like all effective programs this one does not come easy. It needs effort, focus, robust data and processes. And three basic guidelines for success:

- Do it because you need to do it and not because it is in vogue with some corporate or consulting guru.
- Results will come only with consistent daily discipline and lifestyle (business system) changes.
- Choose a coach you can work with and trust.

Risk assessment: Murphy was right - if something can go wrong, it will

BY ANDREW SLIMMING



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Tregoe Australia*

How can you protect yourself against risks to your business and how do you assess the risk? It's a popular topic and one on which I am generally far more pessimistic than my clients.

There are two reasons for this pessimism. Firstly, as an outsider I have no ownership of the plans and strategies that are in place, therefore it is not challenging to find areas where they could fail. Because my experiences are different I sometimes see potential problems that clients overlook and this enables us to modify the contingency plans accordingly.

Secondly, my pessimism has to do with the nature of risk itself - the probability of its materialising, the severity of the event if it does, and the fact there are two ways to deal with it - Trying to prevent or minimise its chance of happening, and dealing with the consequences if it does!

In considering operational risk, I am almost unconcerned about probability because I believe Murphy was right and that if something can go wrong, it will. So if there are risks with the potential to seriously interrupt my operation, I always have effective plans to deal with them - irrespective of their probability.

The most common thought in dealing with risk is to develop contingency plans. Although that is important, it is usually more effective to develop actions which minimise the probability of the problem occurring. This is a more demanding thinking process and

requires organisational discipline to put time and effort into preventing occurrences that, by definition, may not have happened anyway.

In a manufacturing environment, the set of planned activities with the most potential to cause high impact problems are maintenance periods. Typically, plant and equipment is torn down, rebuilt and restarted in a short time frame with lots of people involved. The potential for disaster is high, but rarely do we devote the effort to risk prevention that it deserves.

I have seen \$100,000 bearings damaged by the installation process. I have seen a change in parts supplier cause three days downtime plus \$50,000 damage. I have seen a motor wired in reverse cause 18 hours downtime plus \$70,000 damage to a pump.

Before you all say "That could never happen here", maybe these examples couldn't. The concern is not about what couldn't happen here, but about what could happen and what we're doing to prevent it!

The solution is a disciplined approach to risk assessment around planned and unplanned changes. What could go wrong? What could cause it? How could we prevent it? And what will we do if it still happens?

Disciplined risk assessment should be part of any approval process for maintenance, process improvements and capital upgrades.

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