TOM INGRAM & ASSOCIATES, Inc.

High Impact Projects

A Newsletter About Getting Important Things Done.

$32 per hour Improvement in Gross Margins for Services Firm

Getting Past the Symptoms to the Real Problems

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The vice president pounded his desk and said, "My guys can't estimate. I need you to look into my department's processes and figure out how we can estimate better."

The hair on the back of my neck was standing up. I knew enough about the department to know that the problem was probably not as simple as bad estimating. I also knew that this particular vice president would not be too pleased with being told that he had misdiagnosed the problem.

Over a two-year period, partially with my help, this vice president and his team made substantial improvements. The $32 per hour improvement in gross margin was perhaps the most visible and measurable improvement, but many other improvements were accomplished as well.

Following is a summary of ideas and tips that worked in this situation. Hopefully, when you face a similar situation, these ideas will be useful to you.

Background: This vice president headed a department of 40 people. His team consisted of two administrators, six managers and about 30 technical personnel. Their main business was providing programming and support services on an "outsource" basis for a satellite TV company.

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Get past the symptoms to root problems: We pulled together the managers who were directly responsible for doing the work. We conducted several exercises and a good bit of analysis to examine the problem of how to estimate better. As discussed below, it turned out that his managers were able to estimate things under their control very well.

The department's projects consistently exceeded estimates because of factors outside of their control. These included sales department promises, performance (or nonperformance) of other departments within the company, performance (or nonperformance) of third party firms involved in the projects and the conduct and behaviors of the customer.

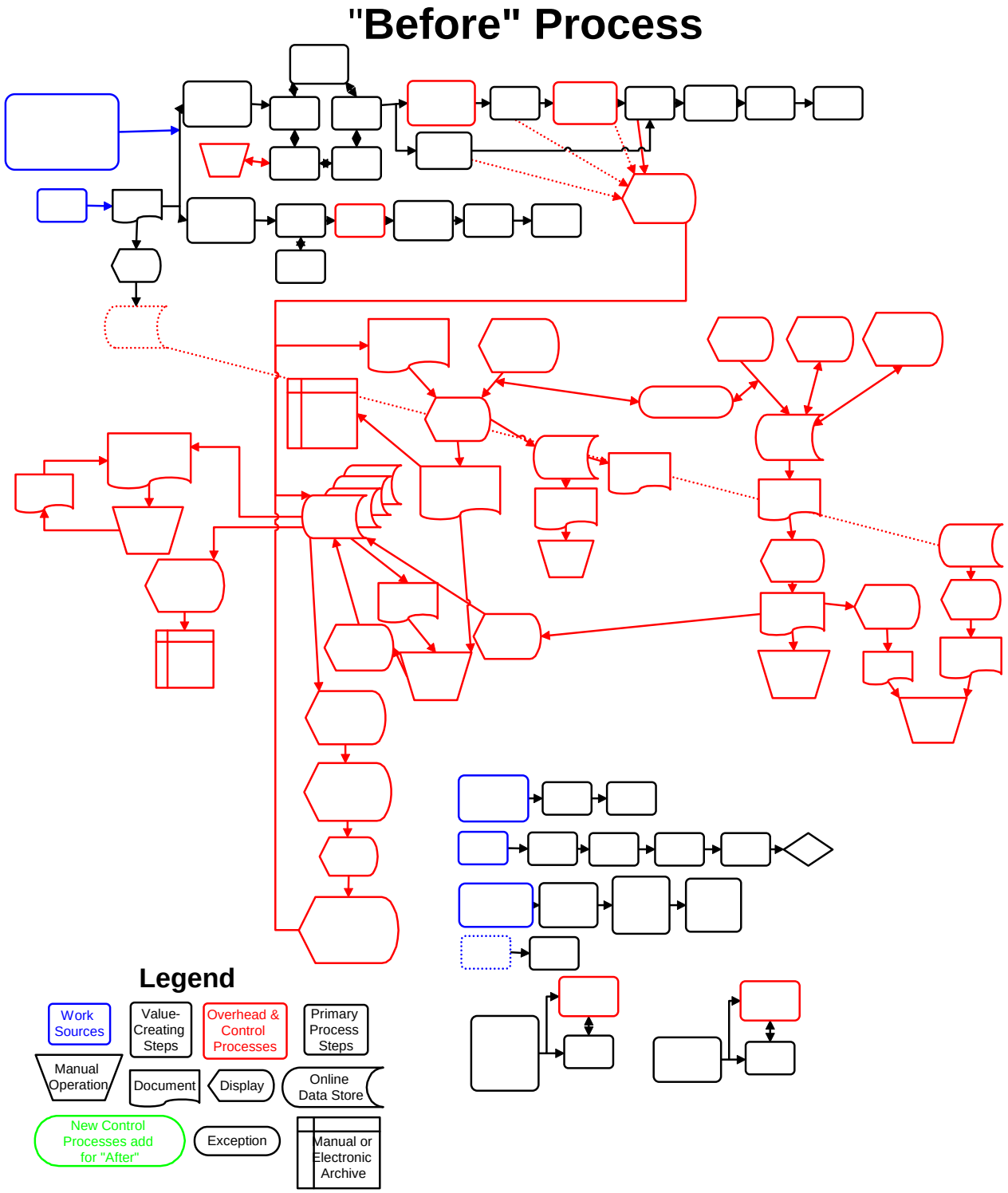
As we began to understand that the root issues lie outside of the department, the executive began to realize that beating on his own people was not the answer. He significantly altered his focus to improving the formal and informal "contracts" between his department and these other groups of people.

We increased the value-added tasks by 19%.

Understand the sources of work: One of our first exercises was to identify how work came to the department and the different types of work. It turned out that there was billable work, non-billable work, project work, maintenance work and "upon-request" work. Each of these types of work flowed through the department in different paths, as shown by the "Before" drawing.

Decompose previous projects to find problems: We took 13 projects that were executed by the department over the previous

several years. We lined the conference room with butcher paper and examined every attribute that we could think of regarding these projects. This is where the patterns of root problems began to emerge.



We began to see that problems were consistently caused by the sales department, the customers, third parties and other departments within the company. This detailed investigation gave the vice president the ammunition he needed to argue for change with these other groups of people.

Understand value added vs. overhead tasks: A main purpose of the "Before" and "After" drawings you see in this newsletter was to clearly identify where the department was adding value and where the department was expending energy on overhead and control functions. Peter Drucker has described control systems as the "scar tissue of past mistakes." This was certainly the case in this department.

In the "Before" drawing, you will note that the red overhead tasks almost overwhelmed the black value added tasks. It turned out that the value added tasks (such as defining customer requirements, writing specifications, designing systems, programming and testing) were being done quite well.

The control and overhead tasks however, were stepchildren. The administrators were forced to execute these tasks with antiquated tools and manual workarounds. In addition, they had to use duplicate systems and enter the data twice. Reconciling the data in the two systems accounts for a significant number of the overhead and control steps.

If you look at the "After" drawing you will note significant changes.

Reduce control and overhead tasks: You will notice in the "After" drawing that we reduced the overhead and control steps necessary by 15 steps or 31%.

Increase the value added tasks and steps: Note that the "After" drawing contains substantially more value added tasks. We increased the value added tasks by 6 tasks or 19%. The mission of the department was changing and we knew it had to be equipped to be generating value in new areas.

Use process flow charts as executive communication tool: I still remember the vice president's face the first time he saw how many overhead tasks it took for each piece of work to be conducted in the department. He realized in less than two minutes that he had required his people to work with substandard tools and was, in part, creating his own bottlenecks. I believe it was that moment that he committed himself to implementing a new system to reduce this overhead and obvious source of bottlenecks.

Conduct Management Peer Review meetings: We established a weekly meeting of the department's managers called the "Peer Review" meeting. Notice the green ovals in the "After" picture. These were the specific areas of accountability that were developed and overseen by the management peer review group.

During the meetings we established standards for resolving our problems and agreed to hold each other accountable for performing to those standards. It is important to note that some of the problems in this department would be addressed by a new project management software tracking system.

In my view, however, the larger issues would be addressed through the vehicle of the management peer review meeting. New technology is all well and good, but what really counts is management wherewithal and commitment to improvement. These peer review meetings were our primary vehicle for actually executing change.

Use quality assurance checklists rather than cumbersome methodologies: One of the most positive outcomes of the peer review meetings was the development of a set of some 20 checklists for each value added task. The checklist required the manager's signature that the task was completed and the signature of an independent quality assurance person (the role I played.)

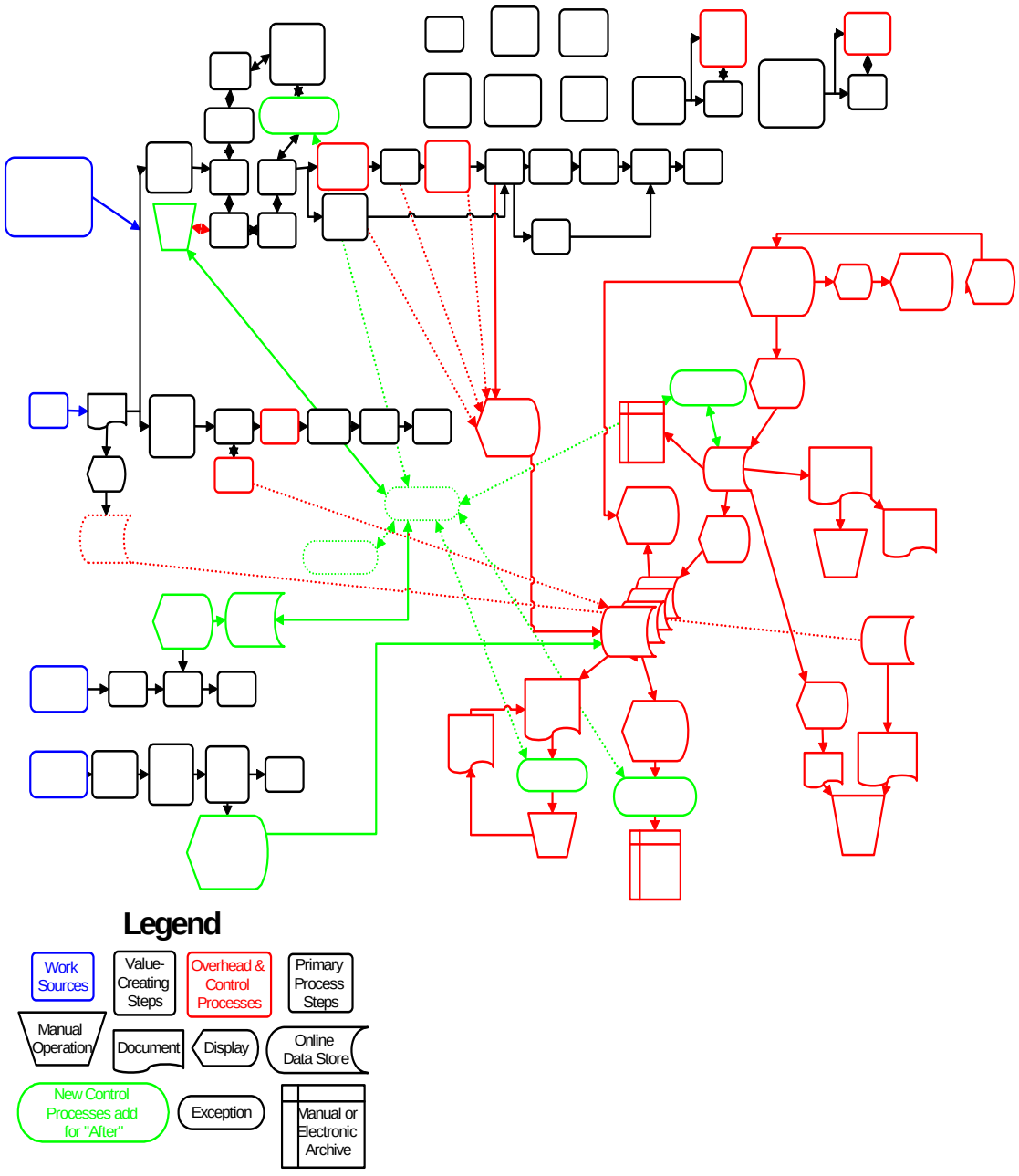
This freed the managers from the "make work" of generating tons of paper with cumbersome, redundant methodologies. It did provide, however, for the necessary quality control and exercise of judgment on the part of the managers. In some cases the manager would need to produce

a lengthy document to complete a task. In other cases a one-page memo or a verbal agreement that the issue was not applicable was sufficient.

The only thing required was that the manager and the quality assurance signoff person had to agree that the manager had met the standard we had agreed to in the peer review group. (We had an escalation process to the vice president in the event the manager and process QA person could not agree.)

Understand the costs of your processes: When the vice president took over the department initially, he realized that it was operating at a loss and successfully lobbied the customers for higher rates.

"After" Process



The flow drawings, the analysis of previous projects, the standards established and the cost analysis all contributed to his ongoing efforts to improve the performance of the department.

The $32 per hour improvement in gross margins came from moving the department from a net loss per billable hour to a net profit. It is important to note that having these processes well defined, having a clear understanding of the value added tasks and a clear understanding of the costs enabled this vice president to lobby for what he needed with confidence. He knew that no competitor could conduct the work for substantially less money.

Results summary: In addition to the $32 per hour improvement in gross margins, this department came to a clear understanding of the value added tasks it would focus on and the standards it would hold itself accountable for. Using the quality assurance checklist method, rather than methodologies, allowed the department to operate more effectively than a competitor would if the competitor was using a traditional methodology approach - or no quality assurance whatsoever.

The department understood its costs. It was able to focus on doing the right things and continually strive for reducing bottlenecks. The establishment of the management peer group was, in my view, the most important step in sustaining effective change. The peers decided how they would solve the problems and held themselves accountable for performing as promised.

On the downside, we only got to implement the solution partially. While we implemented the manual changes through the peer review group, it became clear that it would cost $100,000 or more to purchase and implement the new project tracking software. The vice president got wind of another effort in another department of the company and believed that he could "piggyback" on the budget being allocated to that department (rather than having to spend the money himself.) This other effort, which was a grandiose attempt to implement a company wide project tracking system, failed miserably. While some of the improvements from these efforts have remained in place, the full benefit was never realized.

Let me stress that the majority of the credit for the dramatic improvements in this project was due to the vice president, his team of managers and an excellent administrator. My role was to assist and extend the improvement of a department that was already performing very well.

Need further information?

Call us if you have questions or would like more information. This case is written as a teaching tool and is not intended to fully describe exact details or dialog.

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