Has Your CI Program FLATLINED?

It’s Time to Jolt Your Continuous Improvement Program Back to Life.

By Bob Dean

Are you satisfied with the performance of your Continuous Improvement (CI) program? Are the returns from the time and resources invested easy to justify both in terms of your customer-oriented metrics and your financial numbers?

If your P&L performance is at or below your industry average or your costs go up in lockstep with sales, it’s time to take a hard look at your operational improvement efforts and demand a better return. In this article, we’ll explore how you should be measuring the return on your CI investments, point out some of the indicators that your efforts have plateaued, and offer advice on what you can do about it.

Get Off the Plateau

When it comes to monitoring the health of your operational improvement program, you can’t do much better than operating profit margin. With some allowance for raw material price fluctuations and a few other factors, operating margin reveals how well a company is run. Cost savings—whether they take the form of productivity improvements, higher raw material yields, or other direct costs—will boost operating margins. Furthermore, companies that leverage (continued on page 3)

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The moment you think a critical area of your business is under control, and turn your focus elsewhere, is when it starts to fall apart. Your business improvement program and initiatives are no exception.

If you’re no longer getting a measurable and significant return from your improvement efforts, you have probably stopped paying close enough attention. It’s easy to do. As business leaders, something is always rising up that needs to be addressed immediately.

The daily management system that we help our clients implement is designed to help business leaders address today’s problems and maintain focus on their strategic projects and annual goals.

Lately, because their rate of improvement had plateaued, we’ve returned to a number of companies where we originally helped implement the management system years ago. It didn’t take long to see what had happened. Mostly because of management turnover, daily reviews of hour-by-hour and SQDC (safety, quality, delivery and cost) boards, tiered meeting structures and other key elements of the management system were no longer being used. As a result, managers weren’t focusing on the true issues that affect execution and performance. Without that daily discipline, it’s no wonder why the companies had lost their forward progress.

That discipline is a core element of how some of today’s most successful companies—Danaher comes immediately to mind—run their businesses every day. Think about it. If your business does not execute well at a day-to-day level, how likely will it be to execute well at a strategic level and achieve your annual objectives?

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productivity improvements to increase capacity or improve their competitive position can support revenue growth at higher margins.

A sustained operating margin advantage, which requires steady improvements over time, is a clear indicator of an effective operational improvement program, and strong leadership. Having a clear and measurable ROI easily justifies both dedicated Continuous Improvement resources and ongoing company-wide training and development.

When the financial returns aren’t or can’t be calculated, it’s easy to understand why business leaders would pare back both their operational improvement budgets and leadership attention. When costs need to be cut, and the CI program isn’t delivering clear or substantial benefits, it’s an easy line to cut.

Beyond flat operating margins, good plant-level indicators that a business has lost its way are visual management tools—5S, SQDC boards, hour-by-hour charts, standard work, etc.—that are no longer being updated or used. What often happens, as we’ve seen at many companies, is that the driven operations leader who implemented such practices has moved on or retired. Without strong leadership, the daily commitment and discipline required to use these tools—despite their demonstrated effectiveness—have faded.

Some companies have also moved away from using formal kaizen events as their operations began to improve. That’s fine, if the people doing the work are still directly involved in making changes. Unfortunately, in most cases, they’re not. Managers tend to revert back to the old way of making changes, channeling such responsibilities to a few experts in the engineering department, for example. And then they wonder why they’re having such a hard time sustaining changes and making significant forward progress today.

**Shock Your CI Programs Back To Life**

Reviving your CI program and regaining momentum starts with 1) daily discipline (reinforced by visual management tools), 2) engaging everyone in making improvements and 3) maintaining an over-riding strategic discipline.

The organizations that are most successful, those that are able to maintain a long-term operational advantage over their competitors, have some form of policy or strategy deployment process (also known as hoshin planning or hoshin kanri) to translate the business strategy into key performance metrics, specific actions and management responsibilities.

Finally, the operational improvement strategy of successful companies extends beyond cost reductions. They take advantage of their superior manufacturing flexibility, fast order-to-shipment lead times and other performance advantages to capture and grow market share. That focus, coming full circle, contributes to an expanding operating margin, and a robust and healthy business.

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**SET YOUR EXPECTATIONS HIGHER**

Here’s what a robust operational improvement program looks like.

- Business unit and functional leaders know exactly what they need to do this year and this month to support the company’s annual objectives.
- All improvement projects directly support the annual objectives, growth and profitability of the business.
- The improvement team plays a critical role in executing the company’s business strategy.
- Relevant key performance indicators at every level of the business roll up to the company’s strategic financial metrics.
- Executives frequently review the progress toward the objectives, and expect managers to take countermeasures when necessary.
- The financial benefits and ROI of improvement efforts are easily measured and significant.

Taking these attributes as the ideal, how does your company compare? How big is the gap between where you are and how you could be doing?

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1. The ratio of operating income (also known as earnings before interest and taxes, EBITDA) divided by total revenues.

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**Additional resources:**

- **TBM Blog - Demand Results from Your CI Program**
- **TBM Management Briefing - Path to the Lean Enterprise: The Continuous Improvement Office**
- **TBM Video - TBM Partner, Bob Dean, talks about how operations leaders can drive strategic growth and success by changing how they approach each day.**
Win-Win-Win: 
Anatomy of a Successful Private Equity Acquisition and Sale

The Firm
Since 1989, Baird Capital’s U.S. Private Equity group has invested in more than 285 growing and profitable lower-middle-market companies in the technology and services, healthcare, and industrial sectors.

The Acquisition
Baird Capital bought Digi-Star, Fort Atkinson, Wis., at the end of 2011. Digi-Star manufactures the sensors, control units and software to precisely capture and analyze farming data.

The Product
Incorporated into mobile farm equipment, Digi-Star’s customized weighing systems provide site- and animal-specific information that modern farmers need to measure and make on-the-fly adjustments to seed, fertilizer and feed ingredients. The primary components of Digi-Star’s electronic scales are a steel shaft, or load cell, and a tiny strain gauge that measures any changes in weight.

The Challenge
Digi-Star was a well-run, profitable and growing company when Baird Capital bought it, according to Roberto Ferranti, Principal, Portfolio Operations. “It was clean and high tech, and eerily quiet because all of the machines were sound protected,” he recalls. TBM performed the 2011 pre-purchase operational assessment of Digi-Star, and helped develop the pro-forma go forward plan with estimated savings and opportunities identified, including EBITDA and working capital improvements.
The Solution

As part of a comprehensive lean enterprise transformation, kaizen teams created standard work and eliminated all types of waste, including wasted motion, walking, unnecessary steps and rework. They evaluated workflow and created new work cells and assembly lines, reducing travel time by 50 to 85 percent. They shrank batch sizes by 50 percent, and WIP by up to 75 percent. Today, there are visual metrics everywhere that display current performance. The reporting of hourly and daily metrics is supported by weekly management board walks to review issues and countermeasures.

The Results

In April 2015, Baird Capital sold Digi-Star for undisclosed terms to Topcon Positioning, which markets similar products. During Baird’s ownership, implementation of lean manufacturing practices contributed over $700,000 in annual productivity gains, a 31 percent increase in sales per square foot, and a 25 percent increase in productivity. Company employees benefited directly from these performance improvements through a 77 percent increase in the company’s hourly incentive plan payout.

Cumulative Productivity Gains

Over a three-year period, Digi-Star revenues increased 31 percent, and direct labor per million dollars of revenue decreased 38 percent.

Go to the TBM website for a more detailed case study about Baird Capital’s ownership of Digi-Star.
In 2001, husband and wife entrepreneurs Dan and Angie Bastian started making kettle corn in their garage in North Mankato, Minn. Their snacks caught the attention of people at the nearby Minnesota Vikings training facility. Before long they were selling their kettle corn at the Metrodome in Minneapolis. The rest, as they say, is history.

Today, Angie’s Boomchickapop is a growing national brand offering a variety of snacks that feature whole grain, gluten-free and non-GMO ingredients. TPG Growth, part of private equity firm TPG Capital, acquired a significant stake in the company in October 2014.

Jon Fieldman, Senior VP of Operations, started working for the company this past January. He previously worked in manufacturing leadership and supply chain management roles for Shaklee, Schiff Nutrition, Clorox and General Mills.

Note: Jon’s comments have been edited for brevity and clarity. Go to the TBM podcast to listen to our conversation with Jon in its entirety.
Strategy keeps you tethered to a reasonable pace. My reasonable pace might be someone else’s unreasonable pace, but it’s not breakneck. There’ve been times in my career when I’ve gone breakneck and I’ve regretted it.

**What do you do as a leader to make people more comfortable with change?**

The biggest thing is approaching it with no ego, being non-judgmental about what happened in the past, and not worrying about assigning blame for where you’re at if it’s not a good place. If you enter the situation saying, “I’m here to help. I’m here to work for you. I’m here to make this better and here are the facts,” and treat people like business owners, it’s amazing how a lot of the barriers go away. I assume you look for that type of humility and low ego characteristics when you look for people to lead change efforts as well?

Absolutely. In the interview process it’s as simple as “I” or “we.” It really is. When people say, “We did this,” or “Let me talk about my people,” or “I’m proud of what my team did,” that’s very different from “I did this,” or “I did that.”

**What have been some of the most rewarding aspects for you over the course of your career in leading change in different organizations?**

There have been many times in my career when I’ve seen people make meaningful changes in their lives as a result of leading change at work. It doesn’t get better than that… I hope that I’ve made some people’s lives better. If you can leave this earth and say that, I think you’ve lived a pretty good life.

People hunger for good leadership. They want to feel part of a team. They want to feel like they’re changing for the positive and part of something exciting.”

—Jon Fieldman, Senior VP of Operations, Angie’s Boomchickapop

What are some of the challenges when it comes to managing change in both a relatively new company and a more mature business?

The biggest thing about managing change is inspiring people to do what they originally thought wasn’t possible. I think generally human beings get into routines and get scared with changing that. It’s a fear of failing, frankly. The important part of change management, the important part of leadership, is letting people know that nothing catastrophic will happen if we try to do something different.

**With the change in ownership I’m sure there are a lot of changes going on at Boomchickapop. How are you managing those changes and preserving the existing culture?**

Part of what we do is celebrate our past, our story. We celebrate Dan and Angie, who still come around from time to time and who are iconic to the organization. We respect everything they’ve done.

You have to enter any new workplace with humility. If you go in all guns-a-blazing, I’m-going-to-change-the-world, you’re going to have tissue rejection, even if you’re “right.”

People hunger for good leadership. They want to feel part of a team. They want to feel like they’re changing for the positive and part of something exciting. You create that atmosphere. My job as a leader is to be aspirational, to reach for things that are “ridiculous” but achievable.

**What else have you learned over the course of your career about implementing changes and making them stick, maybe from some things that didn’t go so well?**

How long do you have!? I have tons of stories I can tell you about things that didn’t go well. The danger is that you get so jazzed about what’s possible that you go too fast.

This is one of a series of conversations that TBM is having with business and operations leaders about the rewards and challenges of leading change in their organizations. For other articles in this series and other resources, go to podcasts under the events tab on the TBM website, www.tbmcg.com.
Smeal Fire Apparatus Co. custom builds fire trucks. It manufactures pumpers, tankers and units outfitted with aerial platforms and ladders that extend all the way up to 125 ft., which it sells through dealers across the United States and Canada.

The company got its start in 1963 when Don Smeal, a repair shop owner and volunteer fireman, built a fire truck with a water tank and hydraulic aerial ladder—the first of its kind—for a local fire board. Headquartered in Snyder, Neb., today the company has approximately 300 employees and remains a privately owned family business.

Smeal’s primary customers are municipal fire departments. City budgets were hit hard by reduced property values and tax revenues in the wake of the 2008-2009 Recession, and remain well below historic levels.

In this interview, President and CEO Mark Huber talks about the company’s operational improvement efforts and outlook for the future. Previously, Huber was a co-founder and chairman of PayFlex, a web-based provider of benefit administration services purchased by Aetna in 2011. Since his arrival at the company in the middle of 2013, Smeal has made several acquisitions and expanded its dealer network.

On the operational front, the company’s primary objectives are to prepare its 305,000-sq. ft. Snyder plant for rapid growth by improving throughput and eliminating 90 days out of the order-to-delivery cycle. To accommodate sales growth, they also want to reduce the labor hours in each truck by 20 percent and make dramatic reductions in the distance each unit travels during the assembly process, which used to add up to 11 miles.

Over the past 18-plus months, TBM has helped the factory make the transition from a bay build approach to a progressive assembly line, implemented supermarkets, line-side supply and visual management tools. Encouraged by the early results and the remaining opportunities, since TBM started working with Smeal the company has hired its first COO and a full-time Continuous Improvement manager.
What’s driving the current focus on operational improvement at Smeal?

I came here in July 2013 as a consultant, and started that September as President and CEO. The charge was to accelerate the growth of the company. When we conducted a SWOT analysis, we found many things that we could do to make a good company into a great one. And one of those things was increasing our throughput.

This is my first manufacturing gig, but as I walked around the plant it was easy for me to see that it could be better. If you stood there and watched the work, it seemed like our people were spending at least a third of their time walking. That had to go away.

What kind of preparation did the company do to ensure that the initial kaizen events were successful? How deeply were you involved as CEO?

Something I should say here is, “Hello, my name is Mark Huber, and I am a recovering control freak.” I have not personally participated in any of the kaizen events. The reason for that is because I don’t want it to be difficult for people, especially the floor-level people, to be able to say what they think.

I did kick off the management and supervisory lean training, helped select the first groups and worked with TBM to identify where our efforts could have the biggest impact. Other than that, I’ve tried to stay out of the way.

I sat in on the report outs for all of the early events. Since we started this push, the company has completed two acquisitions, and we’ve hired a chief operating officer. I have to let him do his job now.

How did you pick the first kaizen team members?

We basically followed TBM’s recommendations. We pulled in a third of the people from the area, a third who were their customers, and a third who were either upstream from it or had no idea what was going on there. I think that formula is good. The teams have missed some things, but the changes they’ve made are directionally correct.

We looked for people who were capable of working with others and open to ideas, and people who would go back to their departments and talk about what they’d accomplished. That opens the lines of communication and helps everyone understand that not only are their opinions tolerated, they’re actually expected to share them.

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Where exactly in your operations did you start?

We started with final assembly because it’s closest to our customers. Also, by the time the truck is in final, we’ve got a lot of money invested in it that we need to turn into cash. Anything we can do to accelerate the process at that point pays some pretty quick dividends.

At the other end of the order cycle, if we don’t get the engineering right, we can easily blow 60 days on handoffs and waiting for information to go back and forth. Like anything, if you start late, you end late. And, if we don’t engineer the product correctly, it causes us problems all the way until it goes out the door.

We knew we had some waste. What we learned was how much waste there was. It was really just seeing the before and after, and being able to reduce processes that used to take several days down to less than a day.

I don’t think we would have been successful if I’d first hired a Continuous Improvement person and sent them out with a mandate to change how we do business. It had to be bigger than that, and we had to demonstrate a clear commitment by the company that we’re going in a different direction and burning the bridges behind us. We needed TBM to provide the experience, impetus and accountability.

Your company’s stated values are: 1) Treat people with dignity. 2) Stand behind what the company builds. 3) Maintain the company’s honor. 4) Protect the company’s profitability to protect its mission. How do those values align with your operational improvement efforts?

One of the important parts of treating people with dignity and respect comes down to asking their opinion and listening to it. In terms of standing behind what we sell, the better quality product that we build, the easier it is to stand behind what we do. How do you maintain your honor if you’re letting substandard products go out the door, or missing your delivery commitments? And you’re not respecting your shareholders or mission if you’re not watching the profitability of the company. All of those things support our values.

What are your top priorities for 2015?

Is there anything that concerns you going forward?

We had a tremendous 2014. Our final output and sales were significantly higher than last year. We need to capture the operational improvements that we’ve made and make them drop to the bottom line. We need to improve our on-time performance. We need to fully assimilate the acquisitions that we’ve done.

Finally, we need to gear up for what I think is going to be fairly staggering organic growth. We need to improve productivity and free up capacity to handle that growth. We’re growing so rapidly, I’m confident we’ll be able to produce internally. The big question I have is whether our supply chain can keep up with us.
This is an excerpt from a recent TBM blog post.

Ghee is a type of clarified butter that’s used frequently in Indian cooking and religious ceremonies. Following traditional methods, boiled milk is turned into yogurt, which is churned to obtain the cultured butter, and then simmered over the right level of heat with controlled stirring and removal of any solids residue.

These carefully balanced conditioning, churning and heating processes are a good analogy for effective change management, specifically, how a good kaizen coach helps a team find optimal solutions. It also describes how senior managers should develop leadership capabilities.

When making ghee, if the milk is churned too fast or too slow, it won’t produce the cultured butter needed to move on to the next step. Similarly, the butter will not convert into ghee or will burn if the heating and stirring are not controlled during the simmering process.

Likewise, a kaizen event team has to be carefully stirred to identify and align on the root level of the problem they’re working on to maximize their creativity and find an optimal and sustainable solution. If the team is pushed too hard, as with any change management situation, they’ll falter and break down. If they aren’t pushed hard enough, they won’t find the best solution.

Of course some teams, often for cultural and organizational reasons, are much more sensitive to too much heat and falling apart than others. It takes a deft and gently manipulative coach to bring and keep everyone together.

It’s emotionally draining and frustrating to acknowledge chronic pains and waste, and ultimately find a sustainable solution during a kaizen event. But once the team reaches that point, and people feel and see the benefit of this controlled process, it generates the momentum needed for the solution to be fully implemented and sustained in subsequent weeks.

Managing change is always hard. That’s why it’s essential to control the heat and churn during your search for optimal solutions.

Other recent blog topics include:

- Be a Rebel WITH a Cause: 7 Steps for an Effective Gemba Walk
- Frustrated with Your Global Supply Chain? Join the Club
- Demand Results from Your Continuous Improvement Program: Is It Time to Reboot?
Important New Additions to our Resource Library

Optimizing Operational Leadership Teams
Operations leaders are so often bogged down by the day-to-day firefighting that they are unable to focus on more strategic, growth-oriented activities. TBM Principal, Bob Dean, discusses how to achieve greater success and growth by changing how you approach each day.

Watch Video at www.tbmcg.com/OperationalVideo
Read Article at www.tbmcg.com/OperationalArticle

Four Growth Strategy Failure Points to Avoid
Companies sometimes view operations as a necessary evil, something that’s a cost center, but not a vehicle for growth. The truth is that Operations is in a prime position to create growth within your company. TBM VP, Keith Yeater, discusses how an optimized operations strategy can boost your profits.

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