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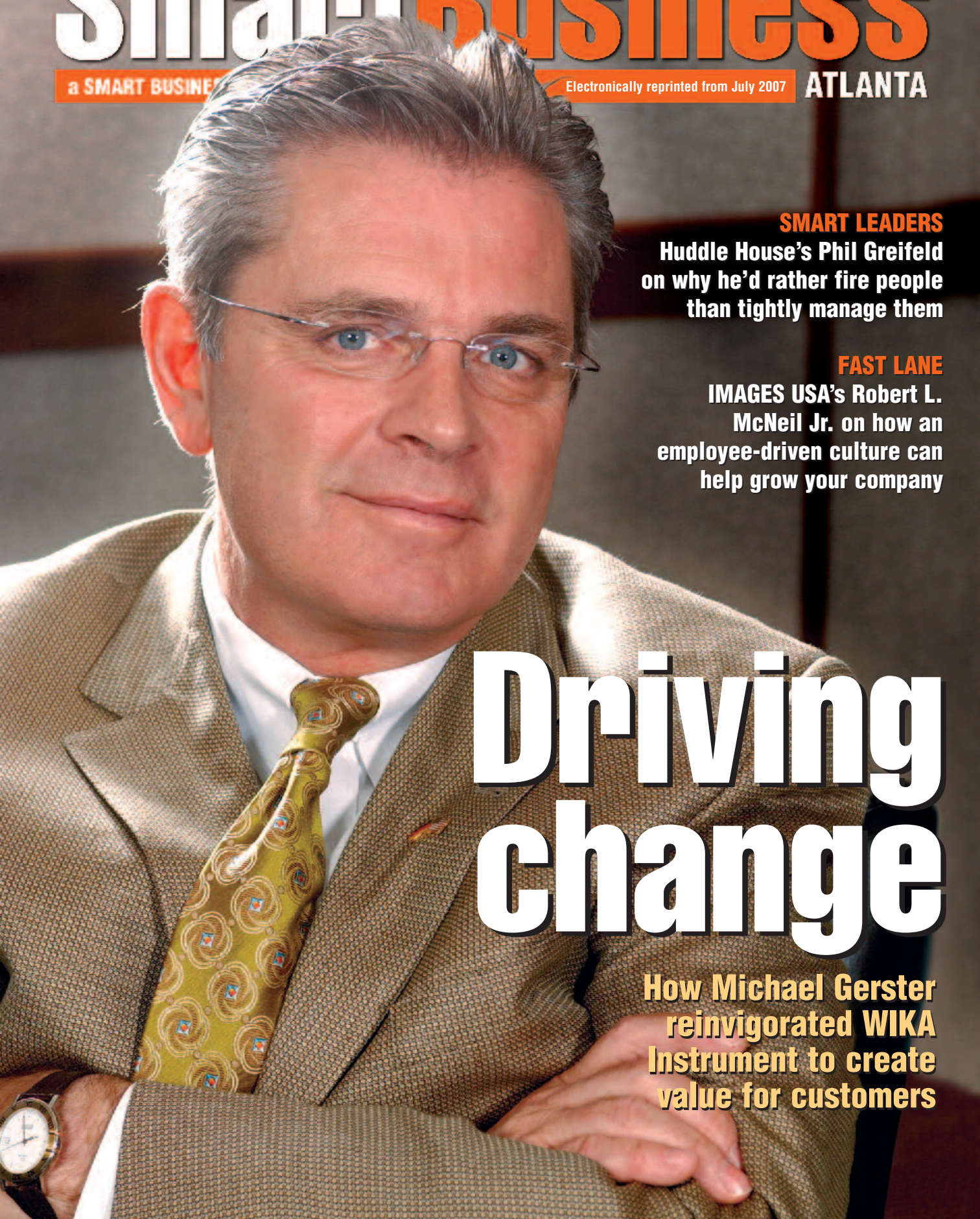
Huddle House's Phil Greifeld on why he'd rather fire people than tightly manage them

FAST LANE

IMAGES USA's Robert L. McNeil Jr. on how an employee-driven culture can help grow your company

Driving change

How Michael Gerster reinvigorated WIKA Instrument to create value for customers



Driving change

**How Michael Gerster reinvigorated
WIKA Instrument to create value for customers**

BY KRISTY J. O'HARA

Five years ago, Michael Gerster realized the old business model at WIKA Instrument Corp. had clearly expired. It was losing market share to Chinese manufacturers, was failing to efficiently meet customer demands and was wasting money with large amounts of obsolete inventory. “The Chinese and other low cost manufacturers ... are eating our lunch and the bag it comes in,” says Gerster, president of the company. He clearly needed to make some changes if his company wanted to compete. His prior company had been in the process of exploring lean manufacturing, so when he left in 1998 to come to WIKA, a pressure and temperature instrumentation manufacturer, he brought a basic curiosity about it with him. Upon starting at the company’s U.S. headquarters in Atlanta, he started sending his people to lean manufacturing seminars, but they always came back with the same response. “I don’t know what’s in it for us, Michael.” But in 2001, that finally changed. WIKA worked with one particular company called TBM Consulting Group that was able to really explain the benefits it would experience from going lean.

“The results were so earth-rocking that everybody was instantly convinced that this is going to be the future for us, and the way we wanted to do business,” Gerster says.

So he and management began working

with the outside company to make changes, but even with people on board, implementation is much more difficult. The entire plant was rearranged so everybody had to do things differently and embrace a different thought process.

“Two or three years followed where we moved the furniture,” Gerster says. “We broke all of these departments apart and created manufacturing cells.”

But after all of that, he realized the new layout wasn’t very efficient, so after 18 months, they finished moving everything again to optimize efficiency.

His patience and persistence have paid off. As a result of all the changes that have taken place during last five years, productivity increased by double digits, market share doubled, and they’ve saved 20 to 30 percent of space. WIKA’s lead time has also dropped from about six weeks to just five to 10 days. That all yields real results — the U.S. headquarters’ profits and revenue doubled in the last five years, bringing the entire global revenue to \$480 million and the Atlanta plant’s revenue to \$100 million last year.

“We are well-conditioned for the future,” Gerster says. “There are things that are under our control and there are things that are not under our control, and even the things that are not under our control, we have a level of agility that we can react to those real quick.”

Making major changes in a company

requires a lot of planning, communication and work to succeed. Here’s how Gerster conquered some of the challenges of driving change through an organization.

Customer relations

The first stage of any change is having a reason to do so, which starts with knowing how your company competes.

“Clearly understand the value proposition to the customer,” Gerster says. “When you compete in a batch world with other customers, same lead times, same quality service, etc., the only thing you have to differentiate yourself is price. Then if you have a competitor coming through globalization that brutally undercuts you in price, you lose your value proposition to your customer.”

He spends about one-third of his time with customers and says to ask questions, “then shut up and let him talk” to learn their needs.

Gerster asks about what challenges they face, their biggest expenses, how WIKA can help their profitability beyond lowering price, and what they expect from suppliers.

While these questions help surface spoken demands, sometimes you have to dive deeper to find needs they don’t even think about.

“If you ask the right questions, you’re going to find, hopefully, unarticulated demands that the customer would have never told or asked you to do,” Gerster says. “If you offer that to the customer, all of a sudden the light bulb

goes on and they say, 'Yeah, that would be important for us.'

After listening, WIKA made some changes. To start, it changed its methodology in pricing to be customer-friendly.

"If you tell a customer, 'Here's a price for five pieces, and here's a price for 50 pieces, and here's a price for 500 pieces,' you are enticing the customer to do the wrong thing because he's going to have one eye on the low price," Gerster says. "Then he's buying more than he actually needs and puts the rest in his inventory."

Inventory costs a company a lot of money to maintain, often negating the lower price it paid, so whether a customer needs five pieces or 500, WIKA charges the same price. WIKA also realized it could save customers time, money and manpower by monitoring their inventories for them by linking their IT systems and automatically shipping when a product was low.

None of this would have happened if Gerster hadn't tried to create a true partnership, which he says many companies don't understand.

"Nobody ever really understood what partnership means," Gerster says. "In the past, it was who had the lowest price. If there's no dependency between the customer and the supplier, and the supplier and the customer, then you don't have a relationship."

Real relationships are key to a successful business.

"The customer must, at some level, depend on WIKA — in a good sense, not in a black-mailing sense — to meet their goals while leveraging the capabilities of an agile supplier," Gerster says. "That creates a dependency, and that dependency cannot be thrown out or competed with just because somebody walks in there with a lower price because we offer more than a lower price."

Communication

When making changes within an organization, leaders must get buy-in from everyone in the company, otherwise the changes won't yield success.

"The top management support is the oxygen that is blown into the candle all the time to keep it alive," Gerster says. "At the same time, the whole organization has to become more self-sustained. In other words, the employees have to pick up the DNA and the way we want to do business."

Doing that is pretty straightforward.

"You must be honest, and you must give people a reason why change is imminent," Gerster says. "In order to do that, you should have some urgency."

But that's not enough. Top management has to follow up with the low-level employees. He

attributes Toyota's success to this.

"Those guys know what they are talking about because they know what's going on, on the shop floor, and they make sure things are right on the shop floor," Gerster says. "If you make sure things are right on the shop floor, everything else will fall together. Don't start at the top — start at the bottom."

It's also important to keep the senior team excited and focused. That will filter down the organization and help employees buy in to changes.

"People on the shop floor have seen many different programs over the years, and they know, management says yeah, yeah, yeah, and then six months later, nobody talks about



it anymore," Gerster says. "It needs constant nurturing through top management, and top management needs to be excited about it, and they should be because it brings you the results you're looking for, but they don't trust it, and they let it go too quick."

Leaders need to get and keep everyone on board through continuous training and mentoring, and if they don't like those activities, let them go. He also keeps them in the loop by standing in front of everyone each quarter and giving a state of the company address. He both looks back at what the company has accomplished and also spells out the top five issues needing work as they move forward.

"That's a certain set of information that I repeat over and over again," he says. "Then you just need to engage with people. You need to tell people that while they are changing, mistakes are going to happen, and it is OK to fail."

Continuous improvement

Most people have had a moment where they look at a policy or procedure and say, "That's complete nonsense. Why do we do it that way?"

Around WIKA, Gerster rewards people for asking that question because it shows they're paying attention and looking for improvement. He calls it the "Utter nonsense" award, and it comes with a \$100 reward. It's a way of getting people to con-

tinuously improve the company.

"Sometimes you set up business processes and never look at them again until they kick you in your rear end," Gerster says. "What we're trying to do is set up a process that looks at everything and anything continuously and try to capture opportunities for improvement."

Offering incentives to those who choose to get involved and offer ideas motivates and ignites enthusiasm. For example, Gerster's lean transition completely re-energized his people and propelled WIKA forward.

"It's an employee-driven process, and it puts people on steroids," he says. "The morale is totally different than what it was years ago.

Give the people responsibility. ... Just trust them, and they will deliver for you."

It's also crucial to watch what you reward.

"Often, people get a bonus for increasing sales or increasing profitability, but they only measure the sales or only measure the profitability, so at the end, you either have it or you don't, or you're somewhere in between," Gerster says. "You need to focus on the internal activities that drive sales and drive profit, so you know much earlier if you are on track or not.

"If you focus on these activities, you don't worry about sales or profitability because you know it's going to come together anyway, because you're doing the right thing. You're looking through the windshield and not through the rear mirror."

WIKA also sets benchmarks for employees by averaging the previous two years' performances and then raising that number slightly. If they hit the new goal, the company splits its profits 50-50 with employees, so they reap the benefits of their hard work.

"You need to define an expected outcome for a certain business process, and you need to make sure you raise the expectation every now and then in order to push the limit and start people thinking, 'How do I do better?'" he says.

When they get a cut, they'll look at how to be more efficient to increase their share of the prize.

"If people want to make more money here, it's not about working harder, it's about working smarter," Gerster says. "You can't get it done if you work harder. You need to do it differently."

While change can often seem slow and people can be skeptical, Gerster says to plunge forward and let success get people on board.

"If the changes work, and they see that it works, and they get a share of it, why would they get frustrated with it?" Gerster says. "They must be part of the success, and we make them part of that success."



WIKA Instrument Corporation, located just outside Atlanta is the world's leading manufacturer of temperature and pressure instrumentation. Celebrating the sixth anniversary of its journey, WIKA continues to use the LeanSigma approach to extensively innovate, develop and launch new products and has leveraged its competitive advantages into growth in sales and earnings. From 2001 to 2007 the company has executed more than 700 kaizen events worldwide with the following results:

- Sales revenue up 23%
- 5x increase in profit before taxes
- Rework and scrap reduced 13%
- External quality complaints reduced 60%
- Lead-times decreased from 4-6 weeks to 1-3 weeks

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