

# Independent Distributors Transforming the Playing Field

## Linking Strategy and Continuous Improvement to Achieve Superior Performance

By Bob Werner

*Don't just do it! Eighty to ninety percent of the business of CI is planning.*

Distributors must focus on solutions that take them from their current business state to a desired future business state. As discussed in my previous article, this is done “Through Customer Driven Continuous Improvement.” (See “Independent Distributors Transforming the Playing Field,” CGI, March 2011, pp. 44–46.) There are many elements of the Continuous Improvement (CI) planning process and in this report, I examine ways distributors can link business strategy to that process by focusing on Visual Policy Deployment (VPD), the process of establishing the visual workplace, sometimes called management by sight.

### A Review of the Problem

The overwhelming majority—90 percent—of a gas and welding distributor’s activities (technology included) are non-value added, meaning the customer does not see these activities as adding value to the product or service they are paying for. Conservative estimates put these non-valued added activities at between 25–35 percent of a distributor’s operating costs. From a CI perspective, these activities are considered “waste” and are an area of concern. Using the principal of CI, the solution to the waste problem is not cost cutting, but cost management. Cost management oversees the processes of

developing, producing, and selling products or services of good quality while striving to lower costs and speed delivery to the customer. For example, every dollar that Honda invests in CI, they receive eight dollars in productivity improvement, subsequently driving down costs, bringing more value to the marketplace.

To be effective, CI must be a business strategy and a daily way of life, not an adjunct activity. It must be aligned and directly linked to the distributor’s key performance objectives. According to Industry Week’s annual census (October 2007), 70 percent of respondents use CI as a business improvement strategy but only two percent of these fully achieved “world class” status. The majority, 74 percent, responded that they made “no progress to some progress.” “Significant progress” was made by 24 percent of respondents. Why the low performance? Many businesses are unable or unwilling to close the loop between business strategies, business planning, and CI, which is necessary to make this process effective. With Industry Week’s results in mind, our approach to CI planning with distributors is very deliberate, carefully thought out, disciplined, and based on the best practices according to each distributor’s unique DNA. We consider this our core strength.

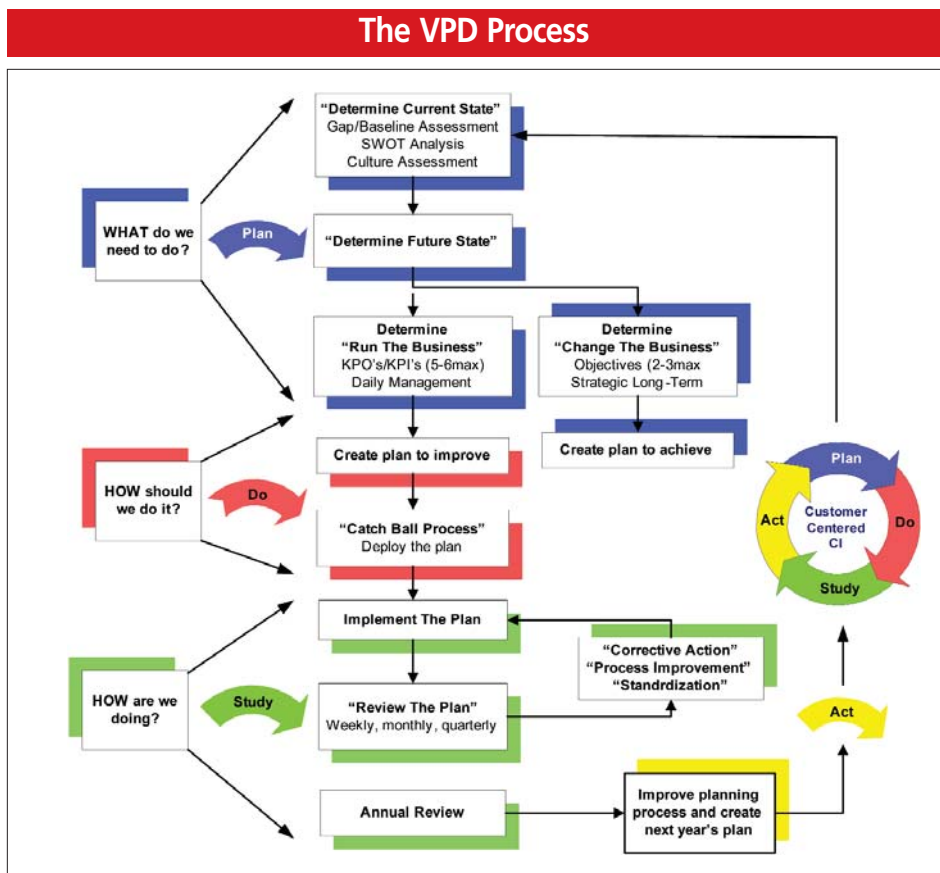


Figure 1

Source: EG International

### Visual Policy Deployment

Visual Policy Deployment (VPD) (a Western term) originated in Japan where it is known as Hoshin Kanri. Hoshin means direction and Kanri means map or plan. Specifically, it is a systems approach to the management of change in critical business processes. A system, in this sense, is a set of coordinated, interdependent and interrelated processes that accomplish the core objectives of the business. VPD relies on visual methods for quick information transfer, a key element of

CI. Policies are communicated and shared openly, allowing employees to act like owners with a direct stake in both potential successes and failures. VPD goes beyond financials and draws on the energy of the senior management team to develop a strong and supportive culture that is essential to achieve the distributor’s objectives. It establishes the infrastructure necessary to make CI the business strategy that drives improved performance. VPD is our starting point with a distributor.

**Planning**

Historically, Western organizations spend 20 percent of their time on planning and 80 percent trying to get execution of the plan right. World class organizations such as Honda, Milliken, Toyota, and Harley Davidson do the opposite. They spend 80–90 percent of their time on planning, which is critical to learning, and the remaining 10–20 percent executing the plan, getting it right the first time. They fully understand the current situation before taking action.

Experience shows us that initial attempts at implementing CI by US distributors of gas and welding supplies have not been strategically driven and have had little staying power. With EG International’s (EGI) approach, however, some distributors have met with success with CI implementation that is strategically driven and begun with VPD. Our first visual is the Plan, Do, Study, Act (PDSA) cycle, the foundation of CI. The PDSA cycle (*see illustration on right of Figure 1*) requires discipline and patience, is comprehensive, based on facts and objective information, and questions everything to more deeply understand the current state of a distributor’s business. Careful planning is essential to the success of VPD, so that implementation of plans can be swift and accurate.

Why is up-front planning so important? To begin, very few employees can explain or understand how their work fits into the “bigger picture” or supports the distributors’ goals and objectives. In addition, while there may be a strong customer focus, there is usually no quantifiable assessment/verification of customer satisfaction that results in actions that drive improvement. And where accountability is weak, responses to problems tend to be reactive rather than preventative. For these reasons, 80–90 percent of the business of CI is planning.

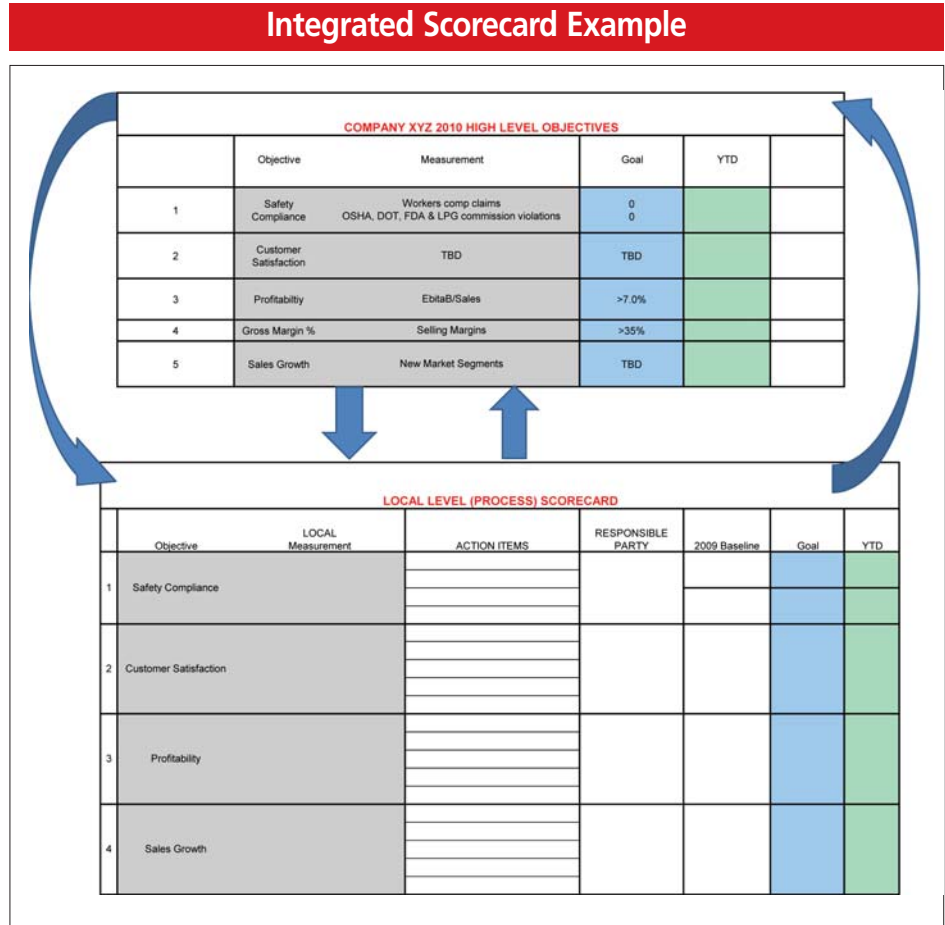


Figure 2

Source: EGI

**VPD Components**

Let’s look at the components of the VPD process and examples of activities that are conducted with the distributor at each step to assure CI is strategically aligned and linked to the business plan.

The VPD planning phase is used to develop the distributor’s objectives, identify what is critically important, provide employees with clear direction, and demonstrate how their daily actions contribute to the success of the organization. The process begins with senior management’s review of the GAP/ Baseline Assessment (the gap between current performance versus a higher standard) EGI conducts along with the distributor’s Vision, Mission, and core Values (VMV). If no VMV exists, we work to develop one at this stage.

Concurrently, an analysis of current Strengths, Weaknesses, Opportunities, and Threats (SWOT) is conducted throughout the company, led by senior management. This can take anywhere from a few weeks to a few months depending on distributor size and provides comprehensive and often times eye-

opening information for the planning process.

During this phase, teamwork is used to encourage employee collaboration to change cultural paradigms that may be counter-productive to CI, and to build the new foundation. All these activities—VMW, SWOT, and collaboration—can present interesting challenges, especially for senior management, as they require the articulation of a future vision for the organization. These steps take time, careful thought, and require looking objectively for the real purpose of the organization that goes beyond financial gains. Ultimately, this up-front planning provides the direction and accountability for CI.

The output of the VPD process has two components. The first, “run the business” goals, are goals that must be achieved day-in, day-out for the distributor to survive. The scorecard typically includes metrics and goals for safety and for customer and employee satisfaction, in addition to financial goals. The second, “change the business” goals (5–10 years), are goals that typically

require a major investment in capital and/or resources. The “run the business” goals establish accountability across the company, as lack of accountability for CI is one of the most significant reasons it fails. The setting of these goals is an important expression of a commitment, and therefore accountability.

Once high-level objectives are identified and a plan has been created, it is time to take action. The process of “catch-ball” begins. This phase focuses on cascading established goals down through the organization. This is a back and forth process and continues until there is consensus on which goals can realistically be achieved based on current levels of capacity and capability. It also helps the distributor identify areas where additional skills or expertise may be needed. The process of collaborative teamwork, employee buy-in (getting employees to accept a new idea, philosophy, or direction), changing cultural dimensions, and setting the new foundation, continue as they are vital to the long-term success of the distributors’ CI process. Senior management then formalizes the “living” plan, communicates it to the group, and rolls the plan out at the start of the fiscal year.

The benefits of VPD are many. It provides the distributor with a standardized planning methodology, ensures everyone is working toward the same goals, and links core objectives and implementation strategies. Accountability and responsibility for the successful achievement of these strategies is driven down throughout the organization, because VPD provides the ability to translate qualitative, executive-level goals into quantitative, achievable actions directly linked to the distributor’s CI process. Progress is carefully

monitored and plans changed as required. Additionally, VPD provides the necessary vehicle for organizational learning and helps employees understand how their work relates to the strategic and tactical operations of the distributor.

### An Example of Success

Jeff Kearns, Chief Information Officer of Gas and Supply, a distributor of gases and welding equipment headquartered in Baton Rouge, LA, had this to say about the CI process and working with EGI:

“When we first started the planning process, I figured it would take us two, maybe three months. It’s been twelve months. And we’re still not finished. But we’ve made lots of progress and are in a good position to begin 2012 with a fully cooked plan.

“To get to our plan, first we attacked our goals. While we already had established goals, they were somewhat vague and we did not know how we were doing in terms of achieving these goals. This was my first clue that this process wasn’t going to be easy or happen overnight. We toiled away and eventually came up with Key Performance Objectives that, as Bob explained, we needed to follow every day to stay in business.

“During our first go-around, we didn’t play catch-ball with our managers. We were more interested in just getting something out there. This year, we’re going through the full policy deployment process of working with our managers to come up with numbers they think they can really hit. Because we’re negotiating the goals, there’s more buy-in. But the best part of this process has been that by simply discussing the goals, our people now have

a deeper understanding of not only what the goals are, but also what they mean, why they were chosen, how to get there, and how CI contributes to and supports our goals.

“Before CI, we had little focus. We went in as many directions as our people had opinions, which is to say, a lot. We were working hard but forward progress was slow. By giving our people small, incremental targets, we found the focus we were looking for, and our people became empowered to make the changes they wanted. This is the power of VPD.”

In this example, the VPD process integrates CI into the heart of the distributor’s business. It takes the owner’s vision all the way through the organization and into every process, from the time the customer order is taken until the distributor collects the cash.

### Winning the Battle

The Gases and Welding Supply Industry will continue to be a struggle between the Goliaths who attempt to crush opponents with their size, and the Davids, who are agile, smaller, and smarter competitors that find a way to be in too many places in the arena to be cornered. With VPD and CI, manageable goals are made visible to all employees; this empowers them to make meaningful contributions to the company in order to strengthen its position against their Goliaths in the marketplace. ■

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