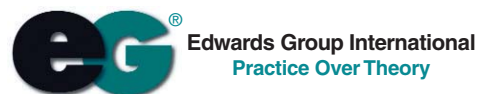


# Independent Distributors Transforming the Playing Field



## Through Customer Driven Continuous Improvement

By Bob Werner

Five years ago, one US distributor of gas and welding supplies, as part of their strategic planning, decided to examine the potential value of Continuous Improvement (CI) to increase operating income, gain higher margins and market share in an already saturated and exponentially competitive price-driven industry, and differentiate themselves from competitors. The distributor considered it imperative to drive CI from a culturally sustainable, strategic approach.

### EG International

To help them with the task at hand, this distributor selected EG International (EGI) ([www.edwardsgrp.com](http://www.edwardsgrp.com)), the consulting firm I head up, which has over 25 years of CI experience in various business sectors including automotive, business aviation, and aerospace. Subsequently other distributors and suppliers in the industrial, medical, and specialty supply chain have become clients of EGI and today, EGI's primary focus is on improving competitiveness in this business sector.

As EGI's President, I have more than 30 years of practical, hands on experience in quality and process improvement and have implemented and conducted hundreds of in-depth assessments for ISO 9000 in the manufacturing and service sectors. EGI's Senior Associate Consultant, Jonda Vance, has over 12 years of experience in CI. Her core strength is anchored in her street smart, hands on, and practical approach to the process. Collectively, we have a total of over forty years direct experience in CI.

The firm emphasizes "cultural change" over "tools" in its approach to CI. This means that we learn the distinct characteristics of each company and base our recommendations for improvement on those characteristics, as opposed to presenting clients with a boxed set of tools from a one-size fits all program. With this approach, EGI finds that clients enjoy dramatic breakthroughs in cost reduction, higher morale, increased customer satisfaction, and an ergonomically safer work

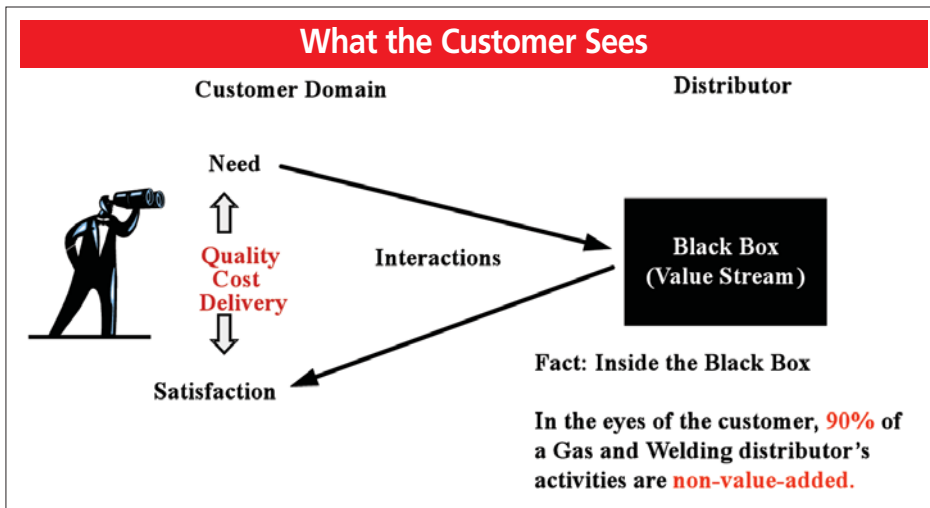


Figure 1

Source: EGI

environment. By making CI easy to learn, apply, and execute, everyone in the organization, regardless of education or previous experience, can participate. Most importantly, EGI works hand in hand with distributors to leverage their most sustainable competitive advantage—their people.

### The Black Box

Manufacturing and distribution business segments have known for years that end users of goods and services are unwilling to pay for waste anywhere along the supply channel (also known as the "value creation stream"). Waste in this supply channel is estimated to be 35–40 percent of the gas and welding supply chain. Waste is defined as anything that does not add value to the product or service for the customer and that the customer is not willing to pay for. Subsequently the elimination of waste and creating more value for the customer is the focus of CI. CI begins and ends with the customer and all changes being made are in alignment with customer needs and expectations. This is important; otherwise there is the risk of improving the value stream with something other than what's really needed.

EGI is finding that in the eyes of the customer, 90 percent of a gas and welding distributors' activities (technology included) are non-value added, which means the customer does not see these activities as adding value to

the product or service they are paying for. This is typical in any industry. Inside the Black Box shown in Figure 1 is every touch point, including supplier interface, not just operations, from the time the customer places an order until the distributor collects the cash. EGI's focus is on helping the distributor see what in that 90 percent is pure waste, and how to eliminate it. This yields improved efficiency in every process that creates value for the customer.

### Solutions

As a result of EGI's systematic approach, gas and welding distributors spend less time being reactive to daily events (firefighting) and performing work-arounds. They are able to spend more time on long-term, standardized work where they can make significant improvements in areas such as safety, customer satisfaction, employee satisfaction, productivity improvement, and profitability. For example, using CI, one distributor improved its receiving process from sixteen to six steps and reduced warehouse picking errors from 180,000 parts per million (ppm) to 2,000 ppm. Parts per million, sometimes called errors per million, is the common measure used today to measure performance. To be competitive, the benchmark is to achieve 3.4 ppm and many world class processes run close to that.

Error rates and ppm numbers look very different. For example, an activity might be documented as having an error rate of 1.75 percent. To many this seems like a small number and not a statistic that signals the need for improvement. When converted to ppm however, 1.75 percent equals 18,000 ppm in this example, and represents only the industry average. To be better than average and more competitive, improvements need to be made. One of the goals of CI is to have every process error free.

One distributor we worked with was able to improve welding machine repair times by 50 percent. Another reduced their order entry error rates from 543,478 ppm to fewer than 1,000. Other distributors are seeing improvements like missed deliveries decreasing from 8,000 ppm to 1,000 ppm, and cylinder maintenance turn times going from six to two weeks. These results, which were achieved by front-line workers empowered to make change, are directly related to listening to and deeply understanding owners' current business states, what pains them, and helping them to create a new culture where the management teams themselves have become CI transformational frontrunners, living it day-in, day-out.

A key element of CI includes being brutally honest about the current business situation, creating a sense of urgency, developing values at all levels, and providing a mission and a vision that is anchored in a strategically driven plan. Distributors must also focus on solutions that take them from their current business state to a desired future business state. This is done by leveraging your employees. Putting the right people on the right problems with the right skills improves bottom-line results. This is an important realization.

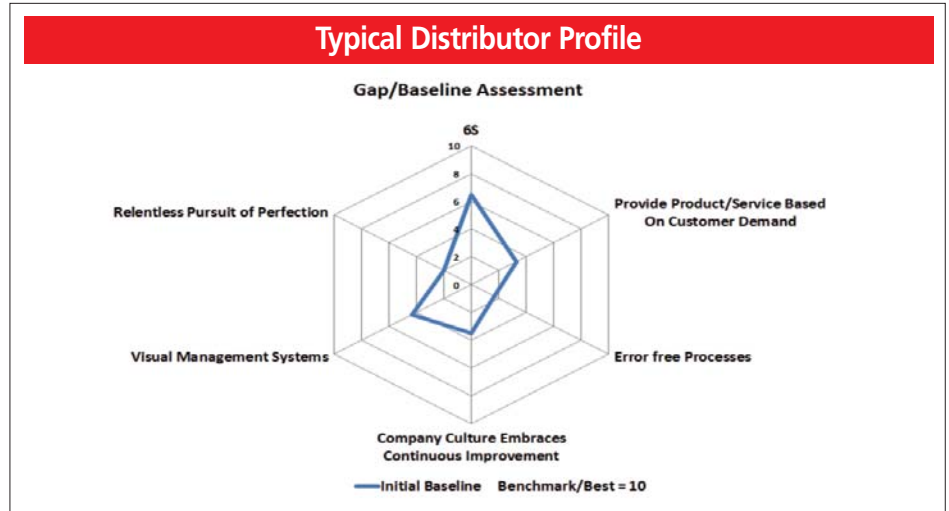


Figure 2

Source: EGI

### Some Observations

EGI has conducted several GAP/Baseline Assessments of gas and welding distributors' business. A GAP/Baseline Assessment shows the "gap" between a distributor's current business environment when measured against a higher set of recognized performance criteria and best practices established over the last twenty-five years. These assessments provide a baseline for establishing the distributor's long-term improvement goals and objectives. It should be noted that the distributors we have assessed are all well-managed companies. However, when measured against this higher criteria and best practices, they have found significant opportunities for improvement.

Distributors were assessed relative to six categories that are divided into a total of twenty-nine criteria. Each criterion is assessed against three dimensions: Traditional (reactive, functionally driven), Beginning Continuous Improvement (the basics of

CI understood with some process orientation in place), and World Class Performance (waste-free, error-free processes and results).

From our observations and assessments, a typical distributor profile emerges (Figure 2) in which employees are working with outdated or broken processes and technology, creating the need for numerous work-arounds. There is little to no knowledge of CI or of managing the business as a set of interrelated and interdependent processes, leading to a lack of standardized work and higher error rates. In terms of overall direction, very few employees can explain or understand how their work fits into the "bigger picture" or supports the overall company goals and objectives. While there is a strong customer focus, there is usually no quantifiable assessment/verification of customer satisfaction that results in actions that drive improvement. Where accountability is very weak, responses to problems tend to be reactive rather than preventative.



Seeing first-hand how the process works is an important aspect of CI.

### The Future

Distributors in the US face significant challenges. Only the strongest will be able to compete aggressively in future markets where the requirements for providing goods and services are increasing in both size and sophistication. Distributors and suppliers must understand that removing waste, reducing costs, and becoming more efficient are all critical to the end user. Doing more with less is imperative, as is developing and nurturing the type of culture required to reach the next plateau in your business. You need more than a "hit list" of one time projects aimed at fixing an isolated problem. The distributor business has seen a significant shrinkage in the

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Front-line employees engaged in process improvement teams learn basic concepts to solve real client issues.

number of independent companies and suppliers over the past several years. Only the leanest and fittest will survive, so distributors must constantly work to improve. Too often we hear, "We were okay yesterday, are okay

today, and we will be okay tomorrow." This is a death wish.

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In upcoming issues of CryoGas, EGI will trace its customer-driven, systematic approach to gaining competitive advantage. Articles will be based on actual experiences with both small (20 people) and large companies (300+ people) in the US gas and welding distributor space and will focus on how these companies are strengthening their competitive advantage by establishing a culture and foundation for CI. We will explain how using periodic assessments to achieve desired results, along with integrating cutting edge technology into your business, can significantly reduce costs and improve efficiency. We welcome your feedback.

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