Managing Data for Continuous Improvement

You can't improve what you don't measure and

you can't measure what you don't know

Measuring data activity for any period (monthly, quarterly, annually etc.) is essential and the necessary element that drives improvement for organizations and managers. This is data profiling. Managing that data, when you need to improve your financial and/or operational performance is equally important. You need to know what areas need improvement and what steps to take to improve. Executing on your findings is the most important function. Anyone can look at reports and the data, but those that execute on their actions get the job done. Sports team do it. Remember "Hack-a-Shaq". Intentionally foul the person with the worst free throw percent. At the end of the game do you want to foul Kobe or Shaq? Chris Paul or Andre Jordan? When you need a field goal with 3-seconds left in the game, who do you want as your kicker; Justin Tucker (90% success rate) or Ray Finkel (laces out). If statistics are not tracked, how would you know who to foul or which kicker you would rather have putting the ball through the uprights? The point is, you don't know. Good managers have a "gut feel" of their business and that is a start. But only when you have the actual data, can you begin to improve. There is a difference between looking at the information and execution. So, let's take it from here and look at your company Profit and Loss Statement ("P/L") and other performance tracking options that you have.

Profit and Loss in Summary Form

Let's start with your investors. They see a condensed (or summary) version of the P/L. There are many line items (or operating accounts) from the General Ledger ("GL"), but to condense the P/L, multiple (detail) line items are summarized into one (1) line. For example, Sales Expenses may include salary, commission, benefits, expenses etc. The investors don't need to see the detail, and they don't care that Ted the Sales Rep spent $843.00 entertaining customers. They just want to know how the areas of the business are operating (in this example, Sales Expenses). What they really want to know is the overall health of the business and what are the Earnings Before Interest, Taxes, Depreciation & Amortization ("EBITDA"). That is how they buy and sell companies. It's not that they don't care about detail, they just care more about the bottom line number. Think of EBITDA as a "bucket" filled with money. That "bucket" gets filled from multiple smaller "buckets" such as, increases in sales and profits, decreases in expenses, cost avoidances, etc. Each of the savings from these smaller "buckets" fills the EBITDA "bucket". The investor sees that "bucket" filling and thinks, this is going very well.

A summarized P/L looks good and easy to read (especially for upper management and the investors), but *are there some underlying problems that may exist that get masked by summarizing*? Yes, there are. As a department head or division manager you need to get to the root of any problem. This is the way to create improvements. You will need to rationalize, is this a one-time anomaly, or a trend? You won't always find out this information from a summary line on the P/L, unless it is so glaring that it can't get missed. Get out the shovel because it's time to dig. You can be certain that others will. In your business, what you do not want, is for the Board Chairman, the CEO or your VP ask you a question where you do not know the answer. *You can't improve what you don't measure and you can't measure what you don't know!* It is important to make sure you know.

Measuring and Finding Trends

To improve, you will need to create a process to find and evaluate trends in your business. Without seeing trends (based on real data), you will have no basis in which to compare and will be shooting in the dark. Here is the exercise. Get a DETAIL version of the P/L (even if it is only for your area of responsibility). If you don't have a copy of one, ask for one. Your CFO or Accounting manager has one. I doubt that you will not be given the opportunity to review and improve your department or reduce operating expenses. Take apart the P/L at the G/L account line level.

Take the time to create a spreadsheet (if you are not given one) with the G/L line item expenses. Note the periods (usually months or quarters). Create a column so that the numbers are represented (as a percentage of sales (and/or profit). For this article, I will reference all as a percentage of Sales (you can do what is best for your organization). This is a very important exercise in creating a trending analysis. Why compare this way? It is a very basic way to review trends and assurance that your line items are scaling consistently, seasonality is accounted for, and Year over Year ("YoY") performance is compared.

You should be cognizant that your expenses scale with sales. Otherwise your EBITDA will change with changes in your business and you won't be aware or even know how to repair the affected area. Here is an example. Suppose your sales for the quarter for Branch #2 are $2.81 mm, and warehouse payroll for the quarter is $90,000 (3.2% of sales). The next quarter, the sales drop to $1.91 mm and your payroll is still at $90,000; the payroll (as a percentage of sales) will be 4.7%. This is a 50% increase (as a percent of sales). If your payroll is scalable (and you maintain the percentage of sales), your payroll should be $61,300. Now let's assume that because of the reduced sales, you cut other expenses such as packaging, shipping and a few other expenses by $30,000. In the summary version of the P/L, the warehouse expense line will look flat and everyone thinks it's good; no need to investigate. But, when you decided to dig a bit deeper, you realized that you had the higher expense in payroll. So, I am sure you are thinking, "I just can't fire and hire every quarter?" That is true but it also makes you recognize inconsistencies in the business and forces you to be proactive and dig. Maybe it is because of seasonality and you could have hired temp labor. You can review and possibly create other operational improvements to gain efficiencies. But more important, if you are not tracking the trends, you will have no clue as to why, or your next move. My point here is if you don't take out the shovel and dig, you won't find the opportunities to improve. Are you satisfied with being flat? Complacency will eventually catch up with you. Rest assured, you should expect to be questioned. If you are not already performing this exercise, then I suggest that you go back and do this for the past 8 quarters. The reason to go back this far is to capture any seasonality in your business and Year over Year performance. In reviewing, compare each line item (over the 8-quarters) as a percentage of sales and not at the dollar level. It is a pain, but worth the sweat.

Where to Start Digging

Visibility into the trends is important but understanding them is more important. You need to compare consecutive periods to provide insight. Reviewing those trends and how they relate to your business, represented as a percentage of sales will provide a consistent analysis.

Now, before you go through the process of digging, you need to know where to dig. This may have been the exercise that you did first but if you didn't know where you had issues (i.e. finding the trends), this would not have helped you. Why? Because this exercise only will compare the current period against the previous period (or prior year period). Once you have performed the initial trend analysis, you will only perform the following exercise each period. Here is what I suggest. Create a column that compares the dollars spent in the current period versus the prior period. That will reveal the dollar difference (+/-). Next to that column record the ***dollar difference*** against the prior period but, represented as a percent difference (+/-). This is just the percent difference between the periods (***not as a percent of sales***). Now you know both the dollar and percentage difference of each line item for the compared periods. Next you should create two (2) additional columns and a formula that will return a result to see what expenses you will need to review. The formula (in Excel) should read something like this; (=if(E12>"x", "REVIEW"). This basically states if cell "E12" (where "E12" is your difference) is greater than "X" then insert the word "REVIEW". Do this for both the dollar and the percentage. You may also choose to input a range in your formula. I am not going to tell you what dollar level, percentage level you should use for "X". That is determined by the characteristics of your business. What this does for you is give you a quick insight as to which expenses in which you will need to take a deeper dive. You may find that the formula for a specific line item returns a REVIEW for dollars and not for the PERCENT (or vice-versa). My suggestion is that if either of the formulae returns a REVIEW, take the deeper dive and investigate. It can only help. Eventually you will have the insight to make the necessary changes in your formulae.

Is this a lot of work? Absolutely. However, the first part of the exercise (trending) and the second part (comparing periods) are necessary to do so you can create a continuous improvement practice in your organization. You cannot achieve continuous improvement if you don't continuously evaluate. I can tell you the exercise will be worthwhile and enlightening, and I can guarantee that you will find out things that will surprise you. Plus, you will only need to do it (the 8-quarter review) once and then continue with adding the current period to your trend analysis. Take your time and do it correctly, even if it takes a few days to complete.

Improving efficiencies in your operations

Continuous improvement in the financial portion of your business is only dictated by the efficiencies that you get in your operations. You can have a huge increase in sales but if you cannot perform (and scale) efficiently, and you continue to add labor, rent more equipment, increase your transportation costs, all the financial gains in sales may be lost to an inefficient (and probably ineffective) operation. Just as your company produces a P/L for the financial performance, you will also need to have a scorecard for your operational performance. There are many ways to increase efficiencies in your operations, some you can view at a macro level and others at the quantum level. I am not going to get into each area of your business and determine which gets viewed and how. That is your exercise. But to start; you guessed it…. ***You can't improve what you don't measure and you can't measure what you don't know!*** Make sure you ***know*** and create a score card. When you create a scorecard for your operation, you will need to get a bit more granular and look at the performance every month. You may even want to take a macro view on a weekly basis. At the branch level, you will need to compare employee productivity and, in a multi-branch company, you should compare branches against other branches. However, be cognizant of what/who you are comparing. For example, if John, picks all your bulk items and transfers, his stats may be way different than Fred, who picks broken case parcel orders (i.e. UPS/FedEx). Don't compare John to Fred because it is an incorrect comparison. Similarly, do not compare Branch #1 to Branch #3 if they perform different operations. But I tell you this; if multiple employees or multiple branches have similar characteristics COMPARE THEM! If you find that a location is doing something right, you want to make sure that other locations are doing the same thing.

Conversely, you may find mistakes are taking place and simply one (1) fix may improve multiple branches. Years ago, I had a branch that every time I visited it was always clean. Pallet locations never had hanging shrink wrap, piece pick locations never had more than one (1) carton opened, boxes stood at attention. At the end of every aisle there was a trash bin. What I found out was the manager had a rule; no one leaves the aisle they are in without taking trash out with them. What a concept! The workers learned to create trash by cleaning up as they went along. It was not hard and it didn't cost a dime. This is "bin integrity" and it too has a positive effect on the operation. We took his rule and every manager and employee learned it. My point here is that when you continuously improve, one (1) improvement or idea can produce multiple returns.

You should create your own scorecard. You can get as creative as you want here as I am not going to tell you what criteria you should use and how to create your scorecard. Just make sure that your ERP system can provide the necessary data. I have put some suggestions below for which data to track. However, be careful of "paralysis by analysis". Get enough information to make improvements. If you have not already done this, start at the macro level and work your way to the quantum level. You decide what to do. I would make certain that you concentrate on areas that have real impact on the operation and the business, especially those that improve efficiency, reduce costs and deliver better service. Continuous improvement should never end. Remember that you should always share this information with your employees. They love the opportunity to improve and the will enjoy the competition between co-workers and even other branch locations. Here are some items to track.

- Sales and GP per Employee and each branch location
- #Orders, #Lines and Dollars per Employee and Branch location
- Sales and GP per Order, Line
- Cost per Order, Line (include all costs of the operation not product costs)
- Cost per Delivery (include all transportation and employee costs)
- Sales and GP per delivery by delivery method (LTL, Company Truck, Parcel)

I hope this is helpful. If you want to take a deeper dive into any of this feel free to contact me
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