

***Next Generation Value Creation  
at ADVO***

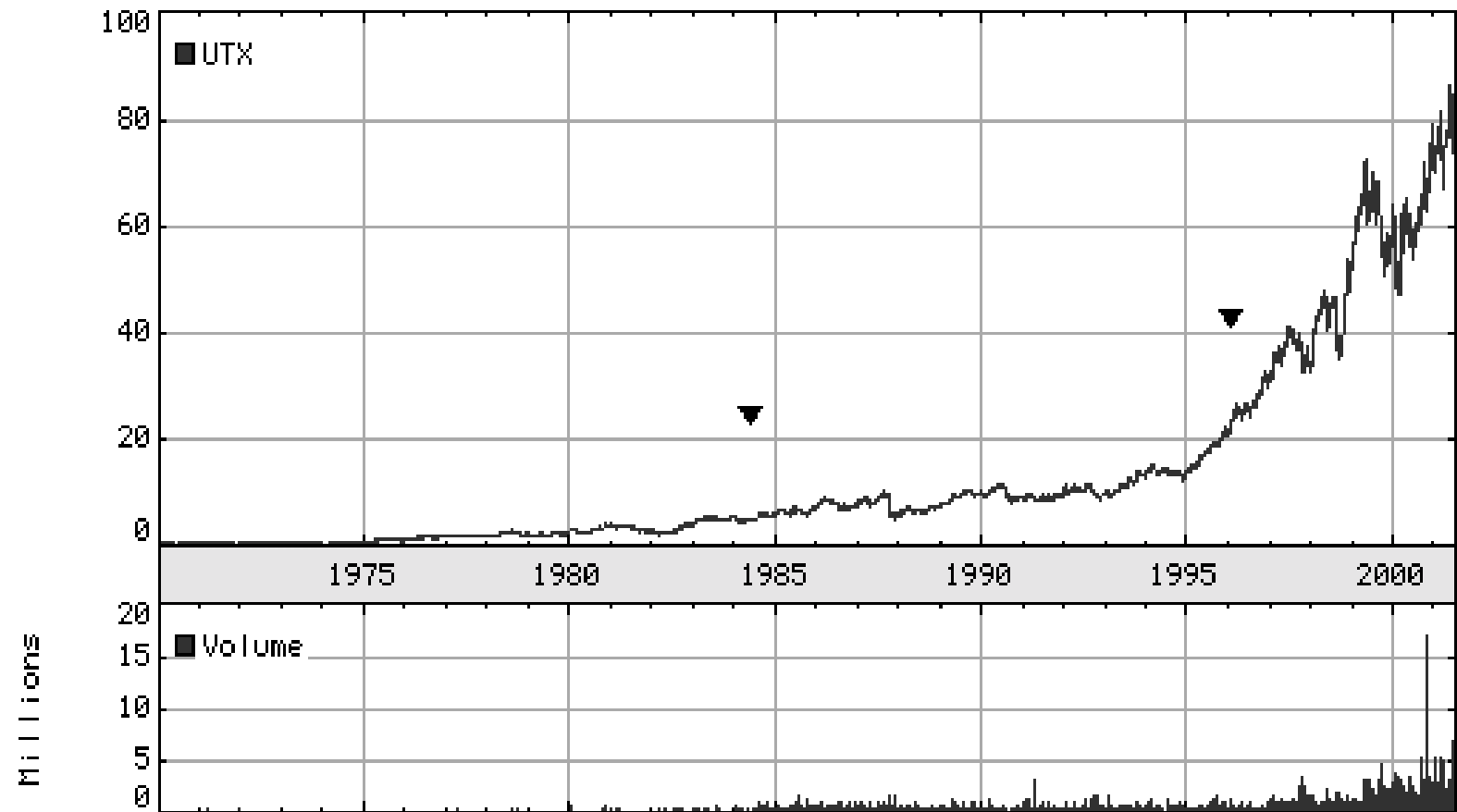
***28 June 2001***

***with Alden B. Davis***

# Repeatable Process?

United Technologies Corp  
as of 26-Jun-2001

Splits: ▼



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Splits: 19-May-76 [2:1] 11-Jun-84 [2:1], 11-Dec-96 [2:1], 18-May-99 [2:1]

# *Improvements Possible*

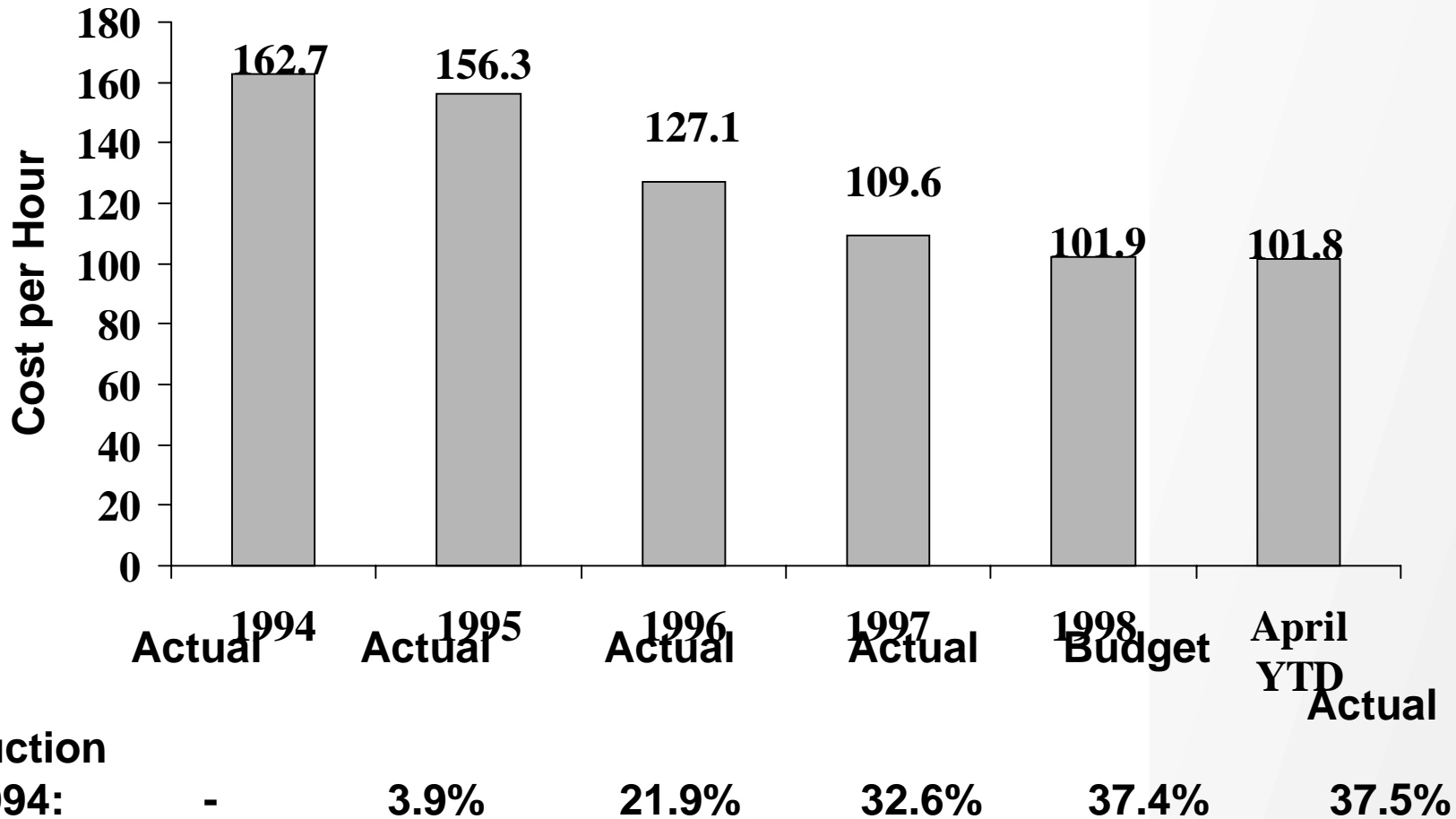
Key results to be expected with a soundly implemented and well maintained "kaizen."

Immediately:

- 20% - 30% Increase in productive capacity
- 30% - 40% Increased equipment uptime
- 30% - 50% Reduction in space rqmts.
- 10% - 20% Reduction in purchased costs
- 50% - 60% Improvement in product quality
- 10% - 20% Reduction in WrkComp Accrual
- 70% - 90% Reduction in WIP inventory

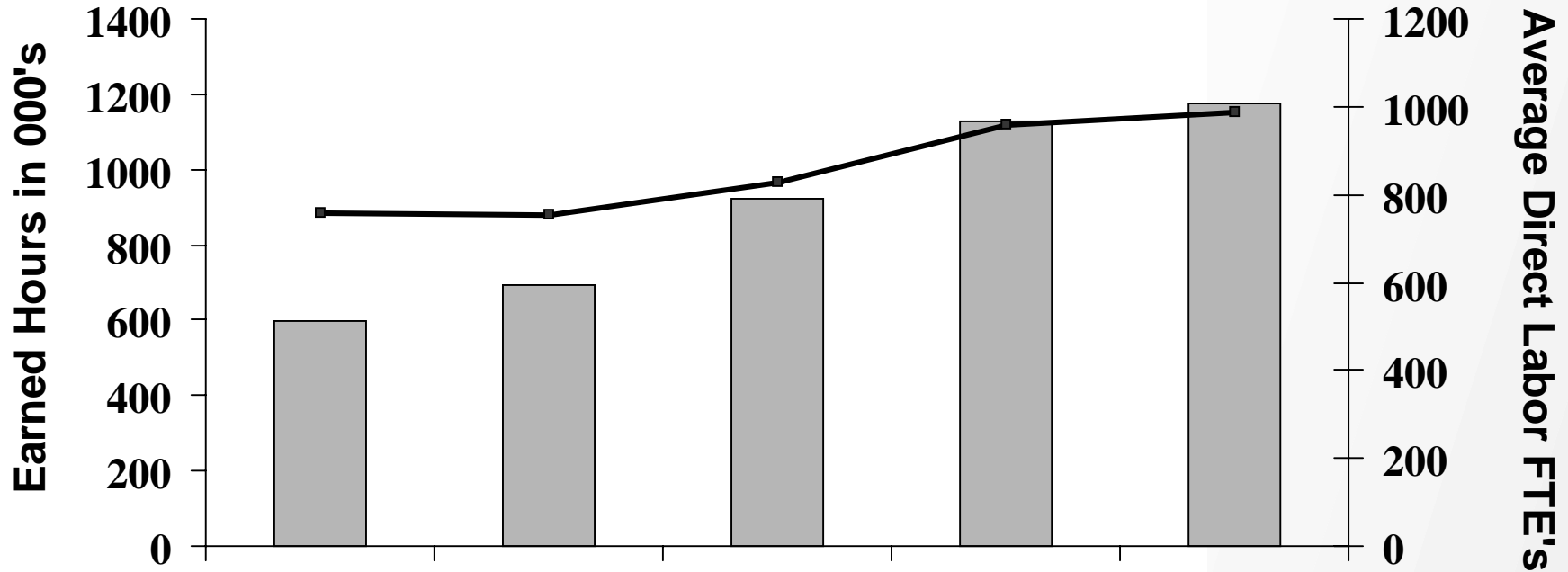
# Cost Per Hour Analysis (1994 - 1998)

(1998 Stnd Hrs and Then Year \$)

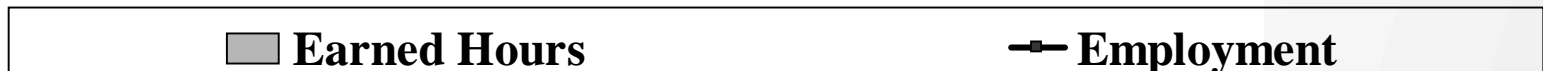


# Direct Labor Productivity 1994-1998

## Volume vs. Direct Labor

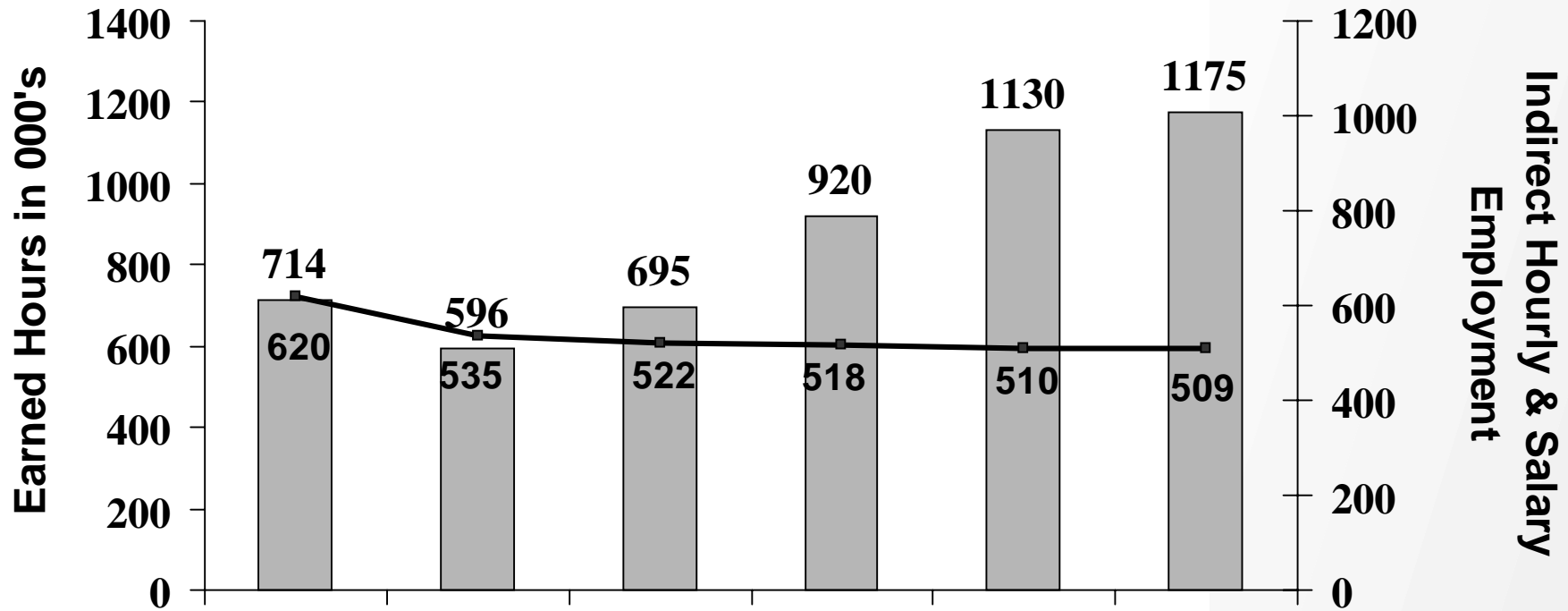


	1994	1995	1996	1997	1998
<b>EARNED HOURS PER DIRECT EMPLOYEE:</b>	<b>787</b>	<b>923</b>	<b>1109</b>	<b>1177</b>	<b>1192</b>
<b>% IMPROVEMENT FROM 1994:</b>	<b>-</b>	<b>17.3%</b>	<b>40.9%</b>	<b>49.6%</b>	<b>51.5%</b>

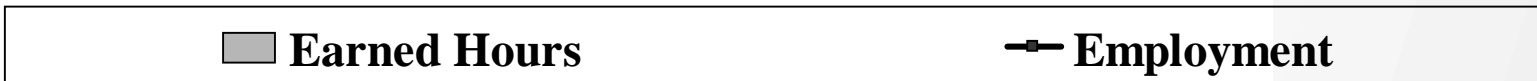


# Indirect Labor Productivity 1993-1998

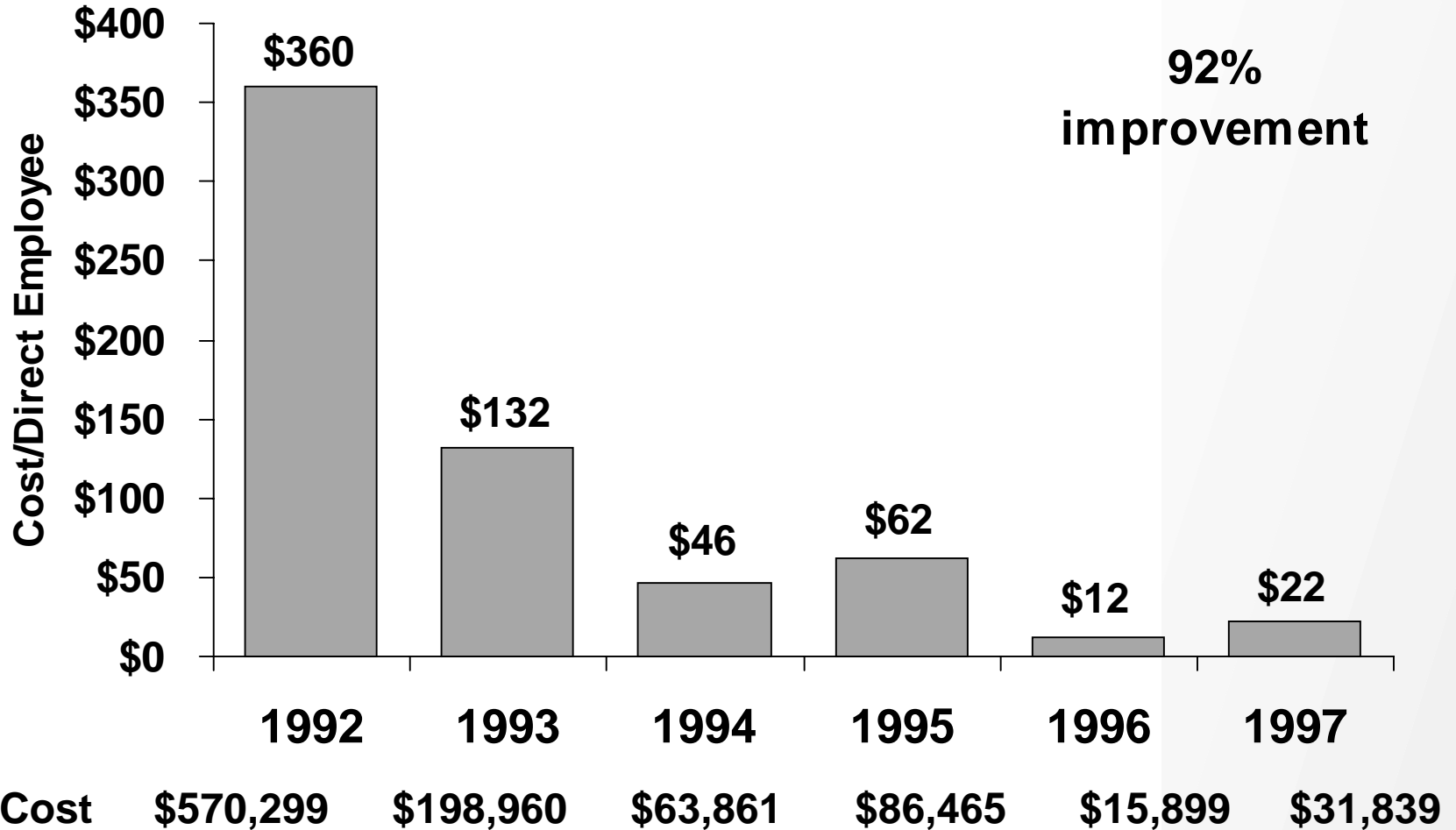
## Volume vs. Indirect Employment



	1993	1994	1995	1996	1997	1998
<b>% CHANGE FROM 1993:</b>						
<b>EMPLOYMENT</b>	-	-13.7%	-15.8%	-16.5%	-17.7%	-18.0%
<b>HOURS</b>	-	-16.5%	-2.7%	28.9%	58.3%	65.5%



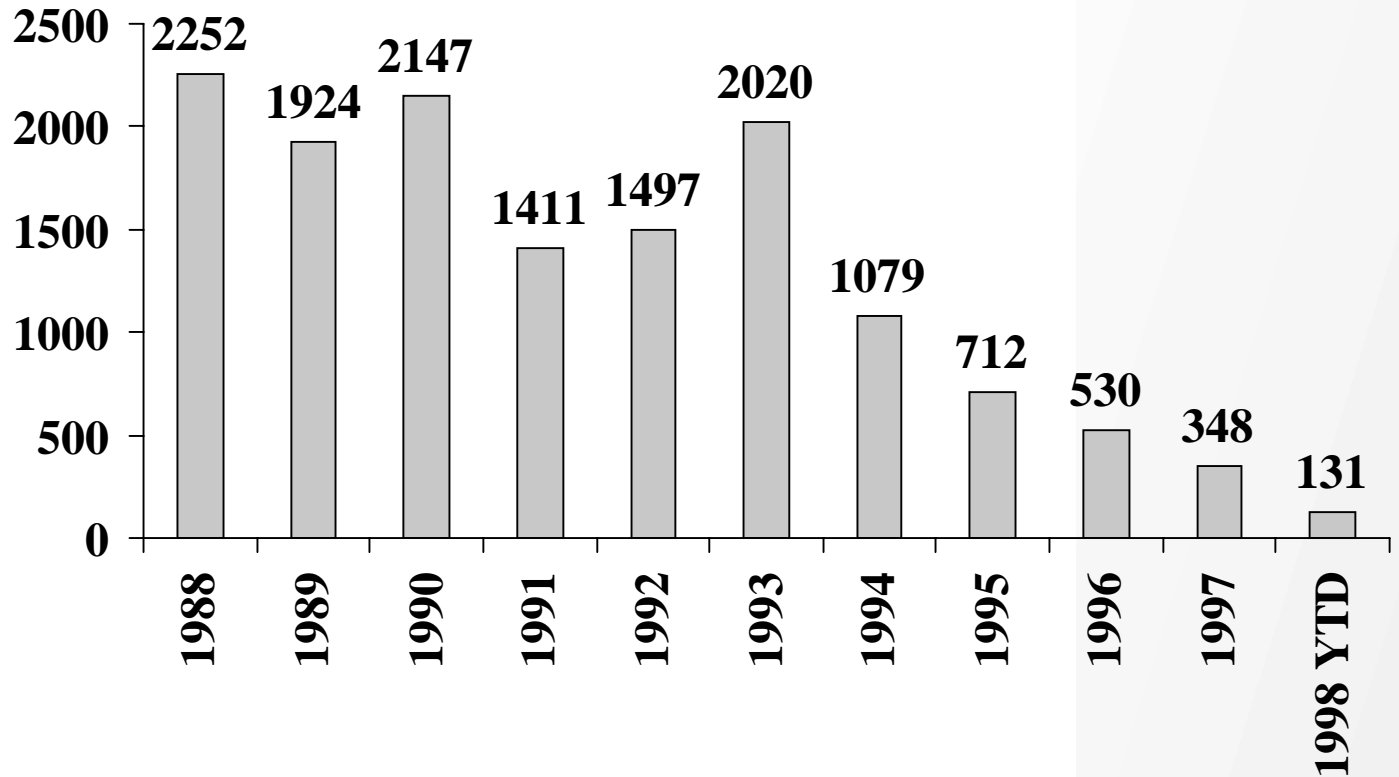
# WORKERS' COMPENSATION COST



# ENVIRONMENTAL PERFORMANCE

1000'S lbs/year

**HAZARDOUS  
WASTE**

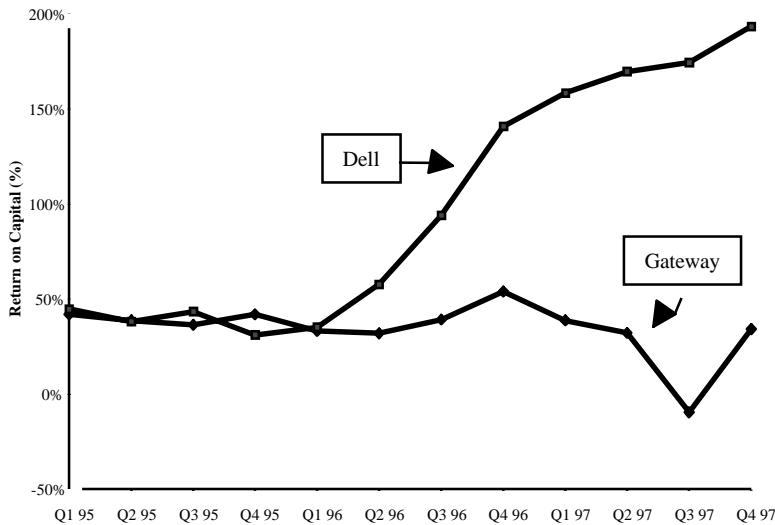




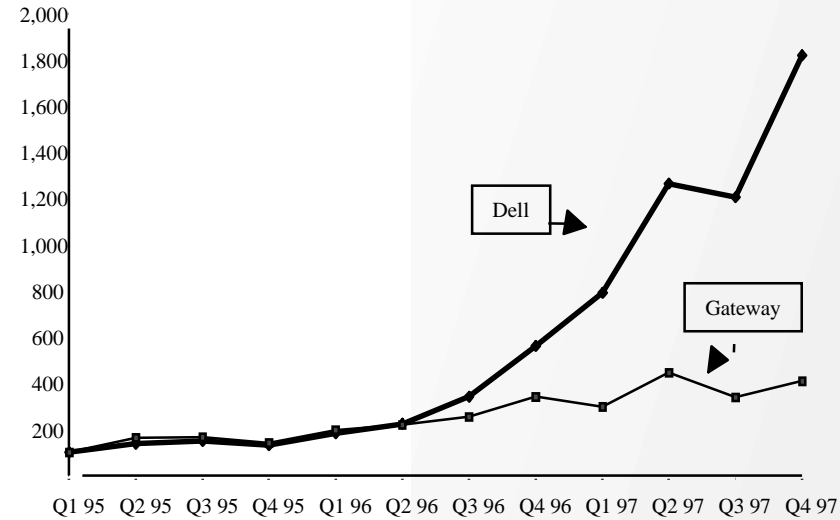
# Key Principles - Examples

## *Capital Efficiency – Gateway vs Dell*

### Return On Invested Capital



### Stock Price



# Strategic Integration Model

**Breadth & Means of Integration  
along Customer-Supplier chain**

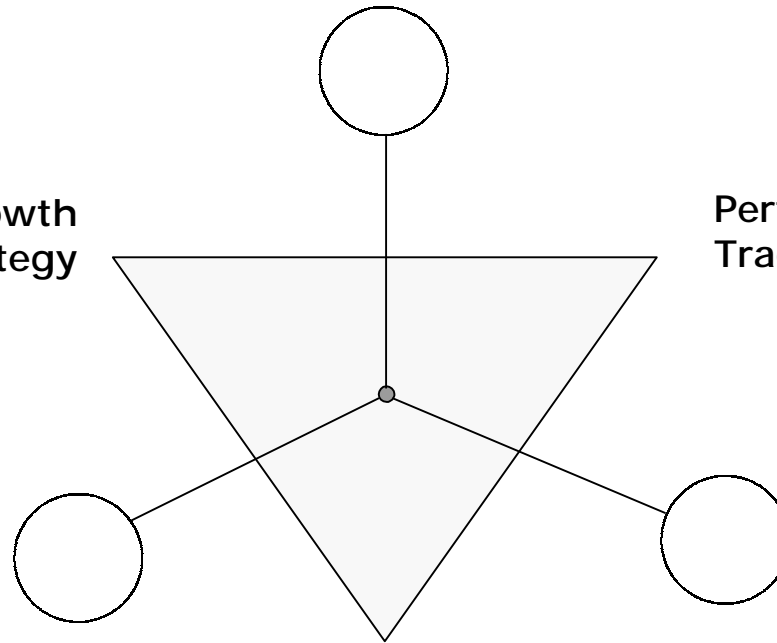
**Organic Growth  
Strategy**

**Performance  
Track-record**

**Approach to Valuetree  
improvements from  
current operations**

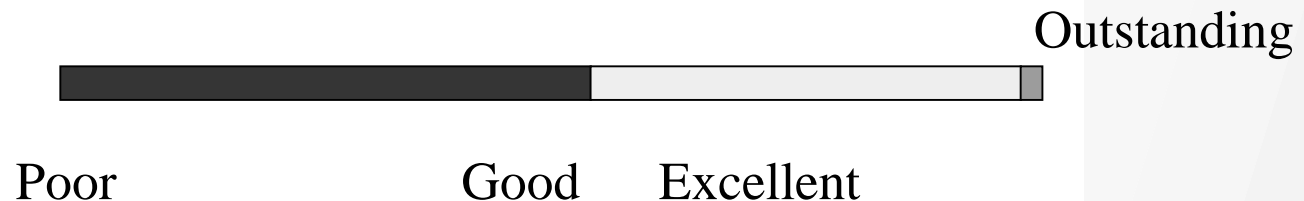
**Culture in Action  
within the Business**

**Relation to  
Controlling Industry Paradigm**



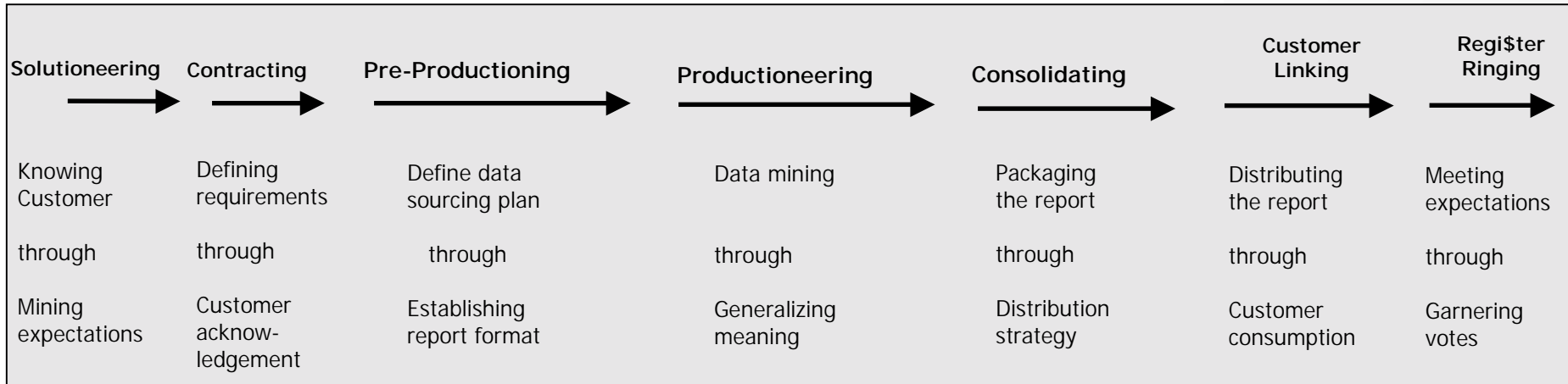
# Our Choice

- Poor standards deliver Ugly results/rewards
- Good standards deliver Poor results/rewards
- Excellent standards deliver Good results/rewards
- Outstanding standards **Take** all the rewards



# Dimension: Work Flow

- The enterprise process called “Order-to-Cash” is our foundation.



- Targeted, customized training strengthens analyst skills to meet customer needs

# Purpose and Products

## **Purpose:**

To use the visit to Pratt & Whitney North Berwick as a thought and possibility stimulator

In a way that creates a broader perspective about change and improvement

So that at an individual and group level there will be greater clarity about direction and intention for improvement of ADVO.

## **Products:**

- **Expanded perspective on change approaches**
- **Greater sense of possibility for process and outcomes**
- **Increased unity to act**
- **Appreciation for the question that the day is intended to answer**

## Topics covered

- **World Class Manufacturing...concepts and factory application**
- **Self-initiated work systems**
- **Compensation structure**
- **Maintaining healthy workforce relations**
- **Centrality of IR**
- **Financial implications of World Class Manufacturing and work design**

- No comp. schemes without work design
- No work-design without Kaizen
- No Kaizen without inclusion
- No inclusion without clarity and constancy of purpose

## What is the Unanswered Question that Brings Us Together?

- Some thinking, belief, issue, challenge has brought us together since the visit to North Berwick. This is not a random event.
- What is the question that we are trying to answer?



## Understanding the Specifics of What We Want to Leave With

- What is it that you want to learn?
- What beliefs do you want to challenge in your own thinking?
- What beliefs do you want to challenge in the approach that is being taken by ADVVO today?

## Business Imperative

- What are the business challenges/imperatives facing you?

## Overriding Governing Beliefs

### **ALL EFFORT SHOULD BE DEVOTED TO**

- **IMPROVING THE RELATIVE COMPETITIVE POSITION OF THE ORGANIZATION**
- **ASSURING THAT EMPLOYEES ARE TRULY IN A POSITION TO MAKE A PERSONAL CHOICE ABOUT WHETHER THEY STAY WITH OR LEAVE THE ORGANIZATION... Really being employers of choice.**

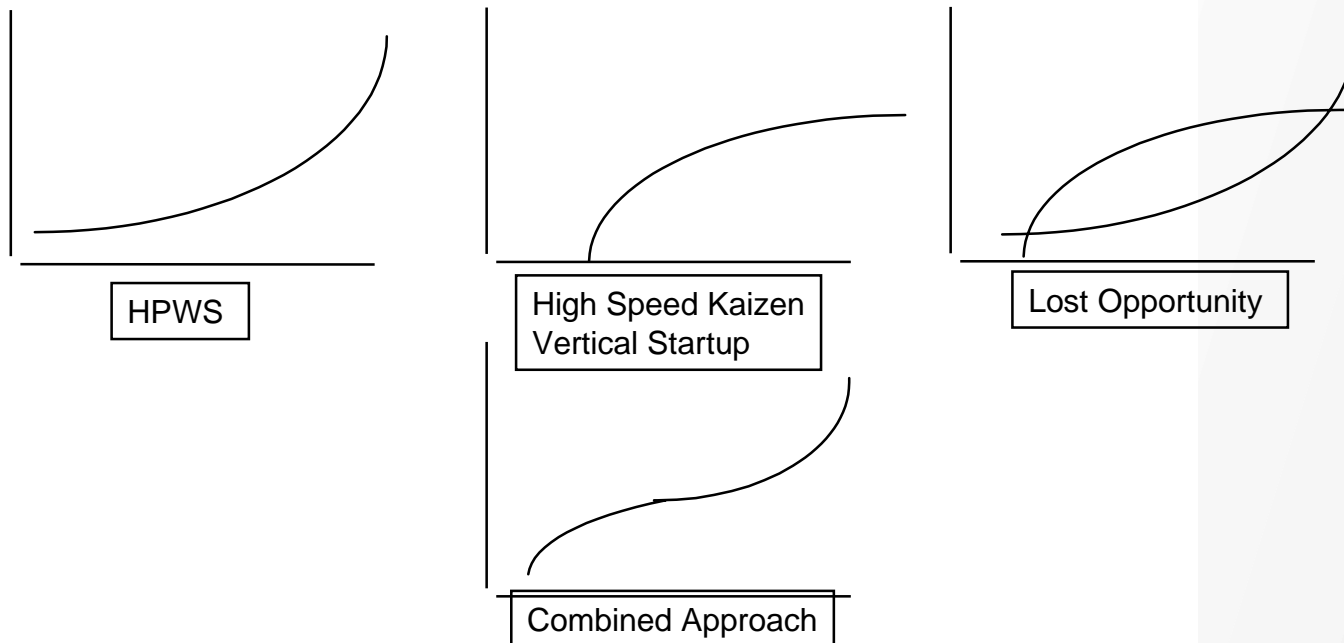
### Belief

- Pursuing best in class concepts increases the value of the business and helps people have more choice because the skills are highly marketable.
- All that a person carries out of the organization is in their heads--this is where true personal value resides.
- Being an employer of choice implies creating conditions for employees in which they have true choice.
- We employ people in our organizations to improve the way work is done, not to do the work itself.

# Shifting the Improvement : Time Relationship

Challenge 1: Get a HPWS foundation in place that demonstrates attention to performance, capability and sustainability.

Challenge 2: Get results quickly to build return and confidence.



## Our Mantras

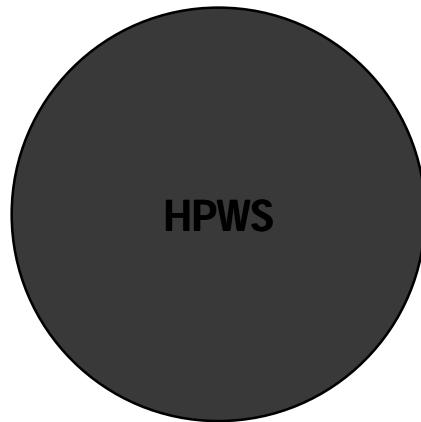
- 1) Develop a process that is as big as the organization can tolerate without breaking and as fast as it can go without braking.**
- 2) Be principle based and have the process model the end state we want to create.**

# The Formula in N. Berwick

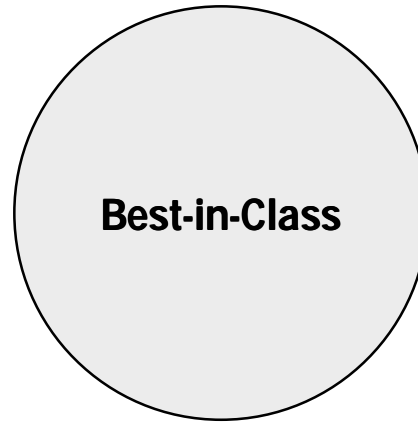
$$\begin{array}{ccccccc} \text{Management} & & \text{Sound} & & \text{Accelerated} & & \text{Sustainable,} \\ \text{Stability} & + & \text{Business} & + & \text{Change} & + & \text{High} \\ & & \text{Case} & & \text{Process} & & \text{Performance} \\ & & & & \text{(aka kaizen)} & & \text{Results} \\ & & & & & = & \end{array}$$

## Linking HPWS and Best-in-Class Concepts and Processes

TO ACHIEVE THE GREATEST SYNERGY IN ANY CHANGE  
EFFORT IT IS ESSENTIAL THAT HIGH POTENTIAL  
ORGANIZATION PROCESSES AND THINKING ARE LINKED  
TO THE PURSUIT OF BEST-IN-CLASS OPERATING AND  
BUSINESS CONCEPTS



**Separate and different**



**Each needs the other**



## A Few Key HPWS and Best-in-Class Operating Concepts

### ***world class operating concepts***

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- jit (takt, pull, flow)
- one piece flow,
- cellular production,
- set-up reduction,
- worker flexibility,
- kanban
- automation
- poka-yoke
- 5S
- standard work
- visual control

### ***HPWS/technician system***

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- thinking drives behavior drives results
- hierarchical processes--  
focused accountability
- teaming
- pay for work and demonstrated performance
- disciplined thinking
- continuous development

continuous improvement

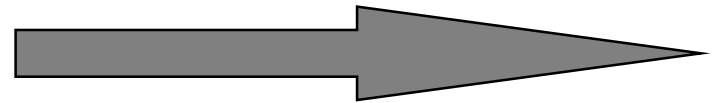
## A Few Examples of Our Guiding Principles

- Only use processes and approaches which we could look back on and honestly say were “high performance”
- Create a high level of stake in and stewardship by the entire work force for the approach
- Develop complete control over personal behavior and manufacturing processes to insure long-term discipline to processes
- Develop a progression and reward system that will be in place to support new work systems when the demand for it becomes manifest
- Secure results as fast as possible so that the improvements pay for themselves; balance creating and doing as close in time as possible
- Remove some element of personal pain for every individual-- every individual will experience at least one real benefit

# A Brief History

- There was assembly line *flow*.....

- And we had *functional departments*.....



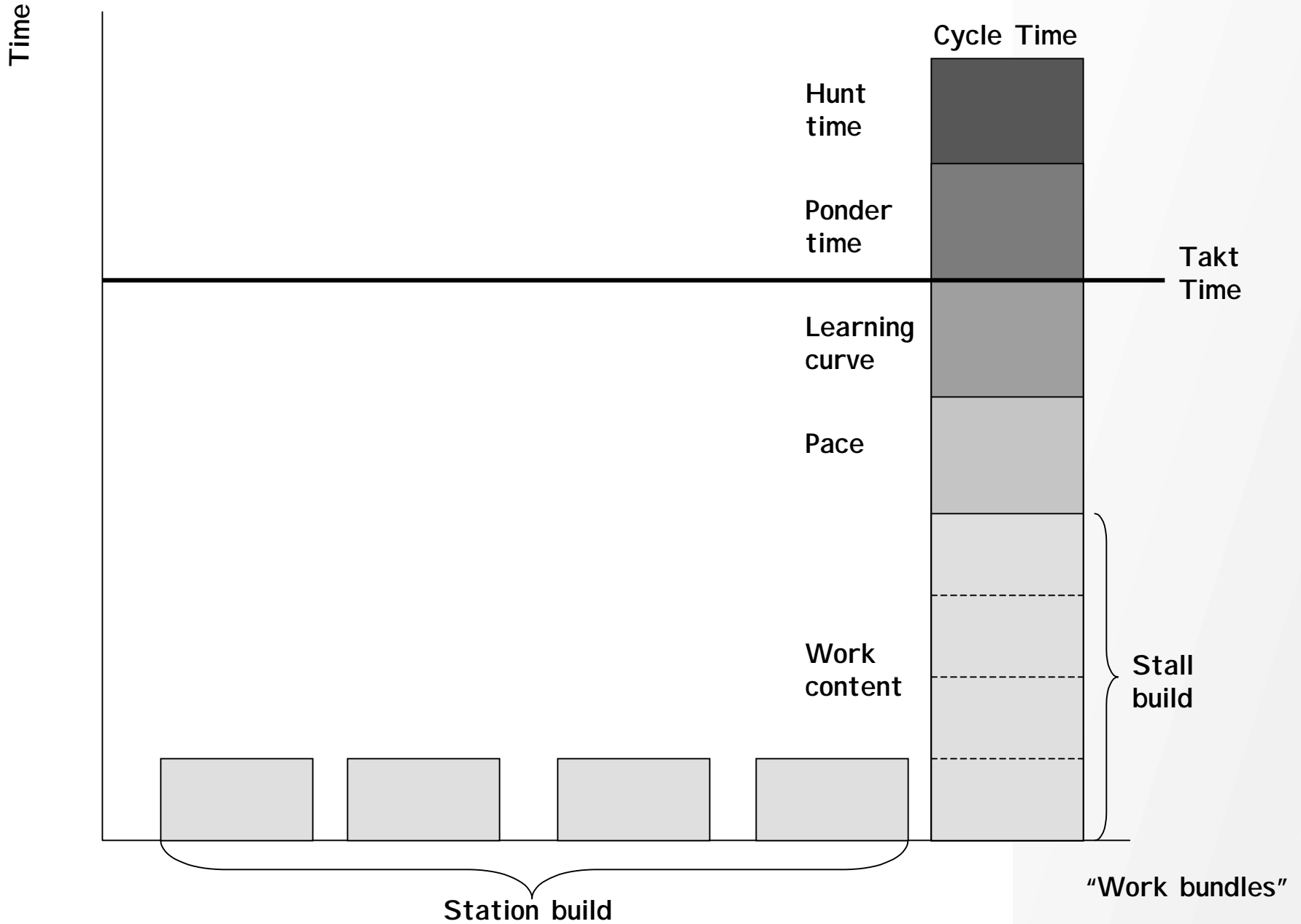
Tutorial: Best-in-Class Operating Concepts

***Takt***

***Flow***

***Pull***

# %-Load Chart Basics



# Tutorial: Flow

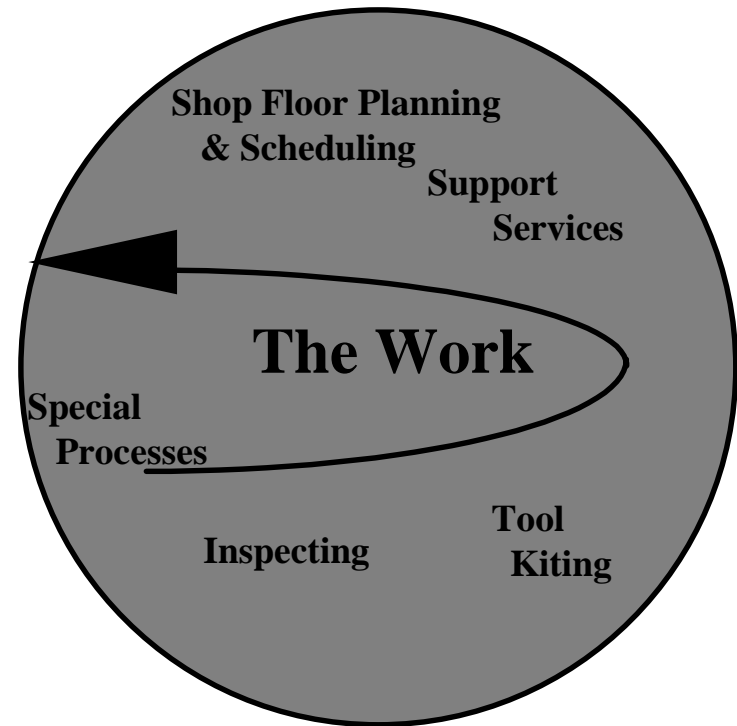
## Assignment #2

- Described
- Spaghetti vs. co-located
  - Begin Kaizen-
- Mapping exercise
  - Kinesthetic rep. walks the flow and gathers symbols
    - Visual and auditory reps create spaghetti chart
  - Sequence the symbols on your table for a picture of flow
- Match cycle-times to flow map for graphical representation of flow...gray side up

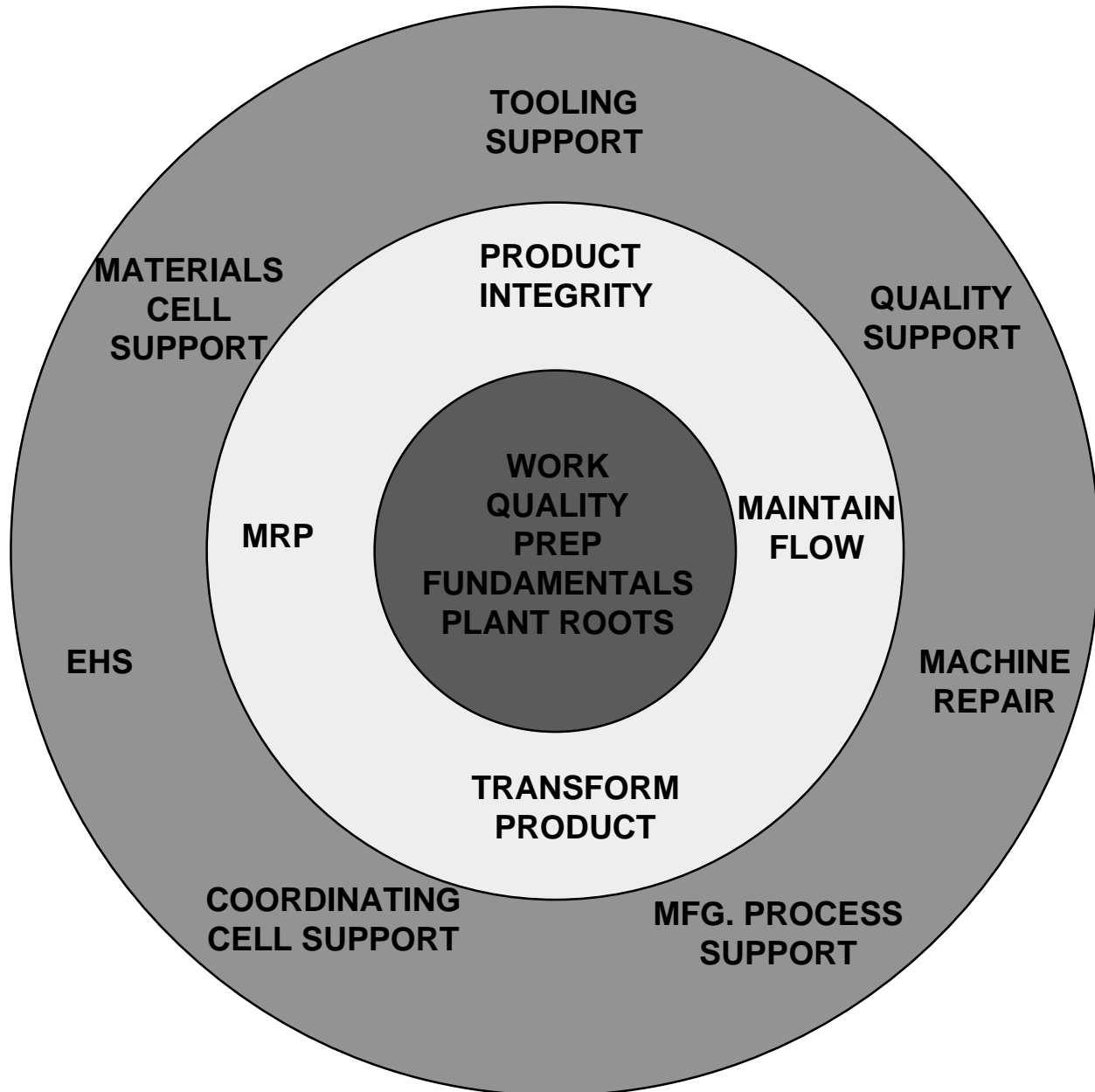
# A Brief History

- Now we are adding supporting tasks required to *maintain* “daily flow of material”
- And also beginning to produce with attention given to continuous *improvement*

## Production Work Cell



# Grinding Work System

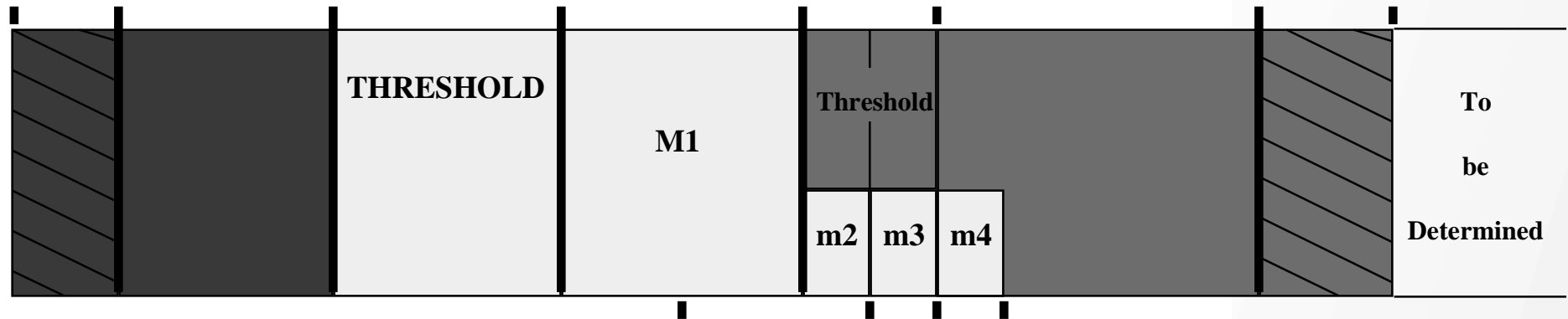




## Progression Based On Demonstration

- **Criteria Based Objectives - generic for each “work system”**
- **Checklists, portfolios and projects - cell/work community specific**
- **Multi-Purpose Tools**
  - \* **Training**
  - \* **Demonstrating skills**
  - \* **Evaluating performance**

# R - 2



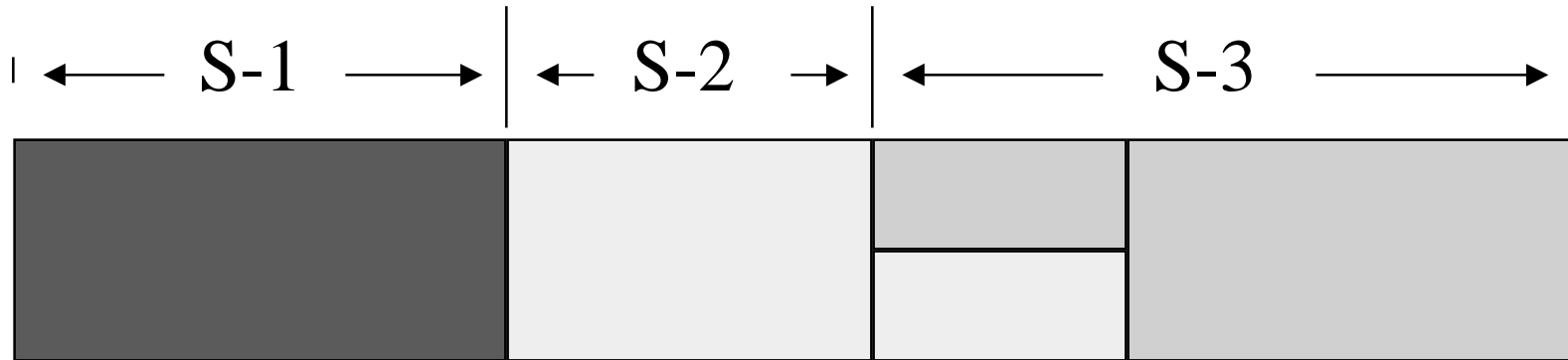
## Production Work Systems

- \* Grinding
- \* Thermal Spraying
- \* Machining
- \* Welding
- \* Heat Treating
- \* Plating
- \* Assembling, Application, Bonding

## Support Work Systems

- \* Industrial Waste Treatment Services
- \* Steam & Power Site Support
- \* Protective Services
- \* Administrative Support

# Layoff Security Zone

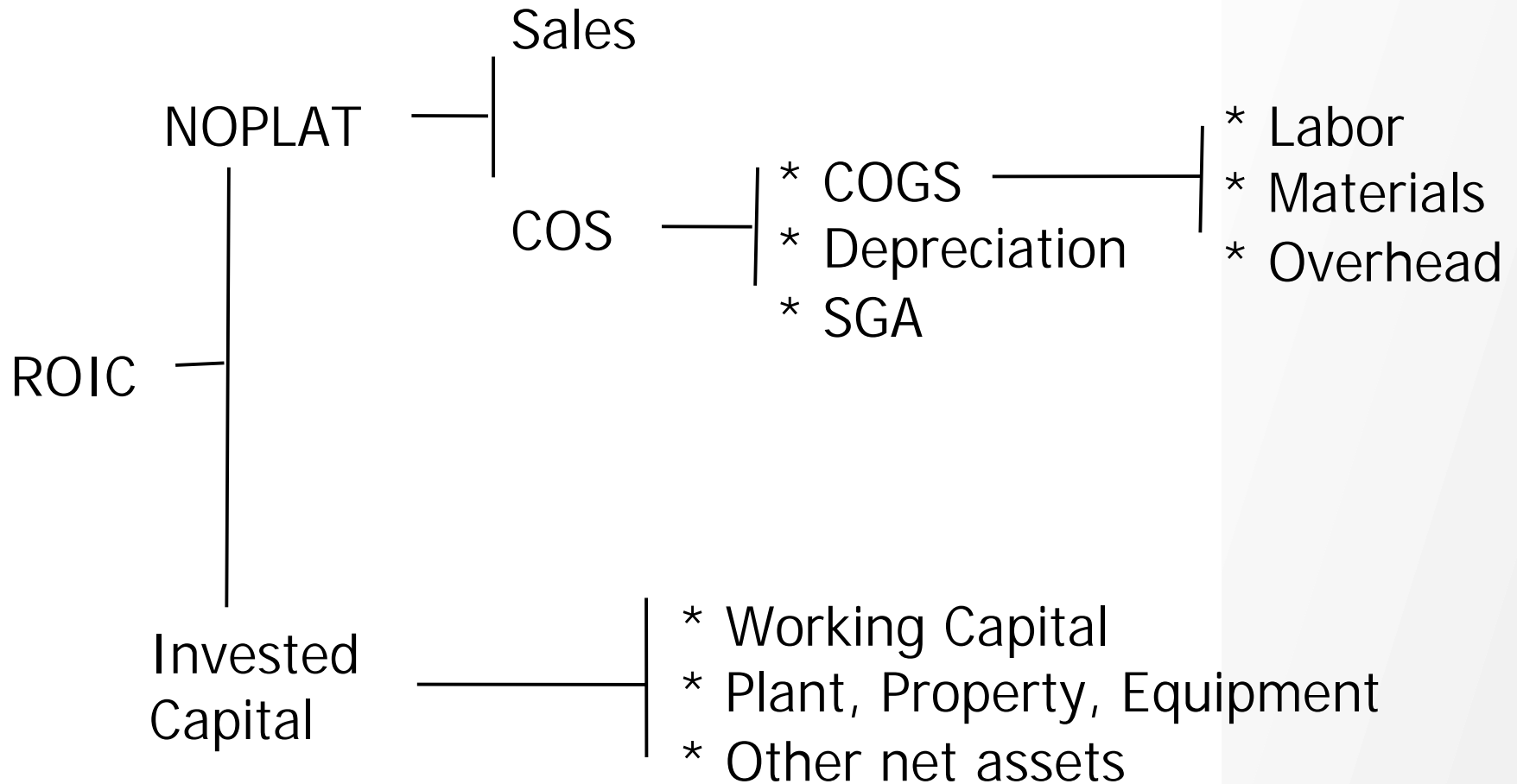


Seniority within a *security* zone.

## Beliefs:

- Ultimately our efforts must impact margin and / or cash flow.
- Making direct connections between change efforts and the value tree gives the work a sustainable context.
- Greater the understanding and focus on value tree at all organization levels, the greater the potential for positive change.

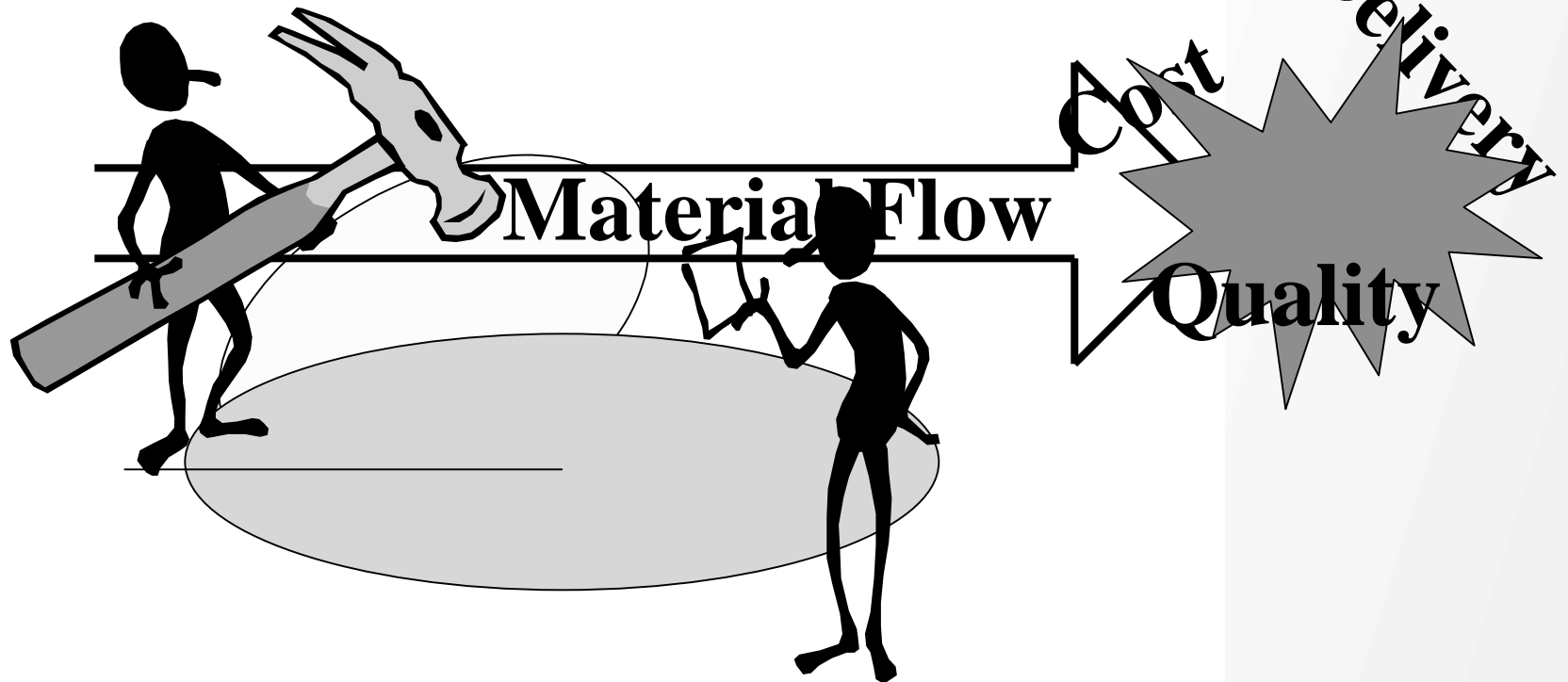
# The Value Tree Summary

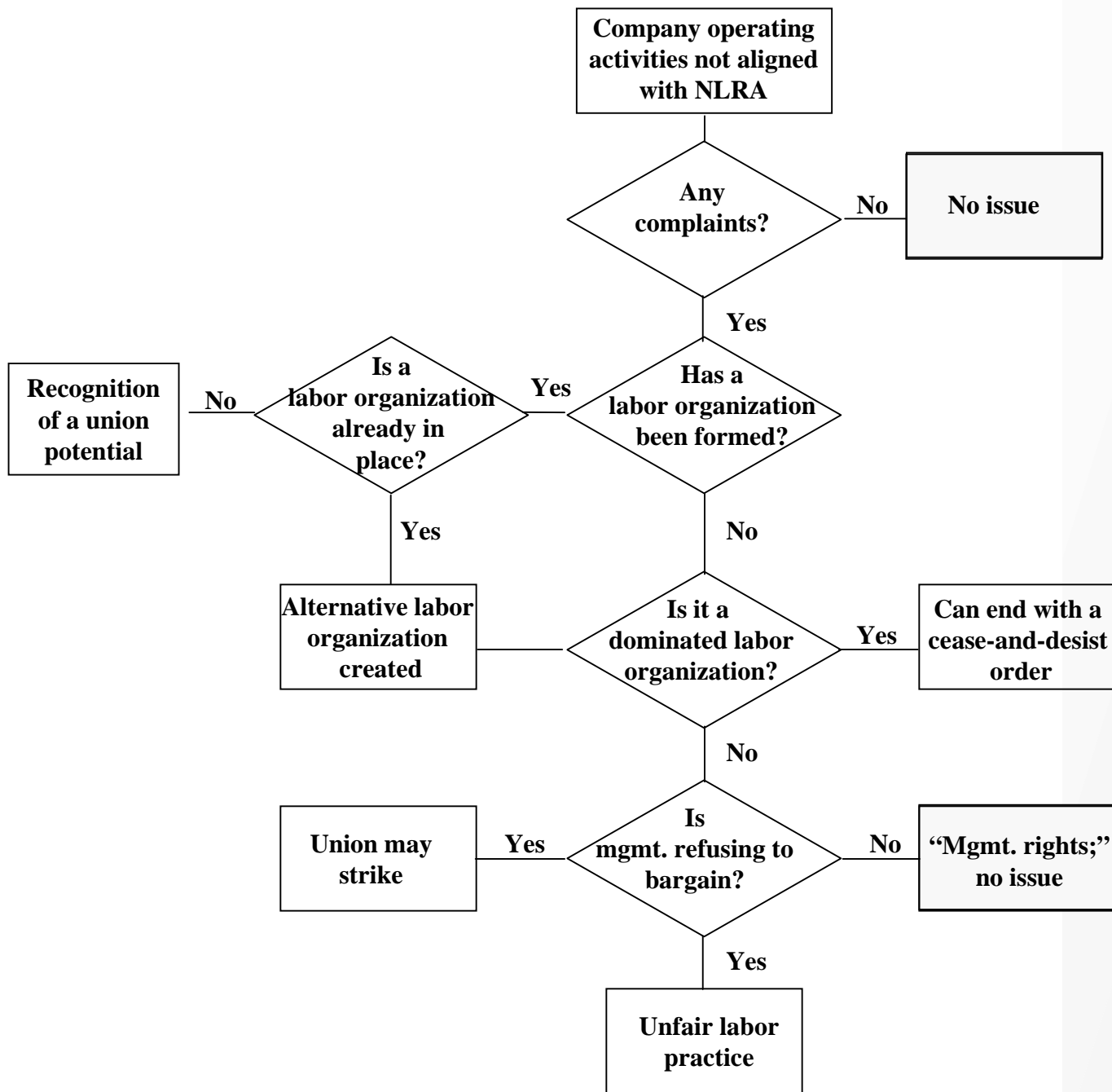


**IRB**

# Why IR is Important

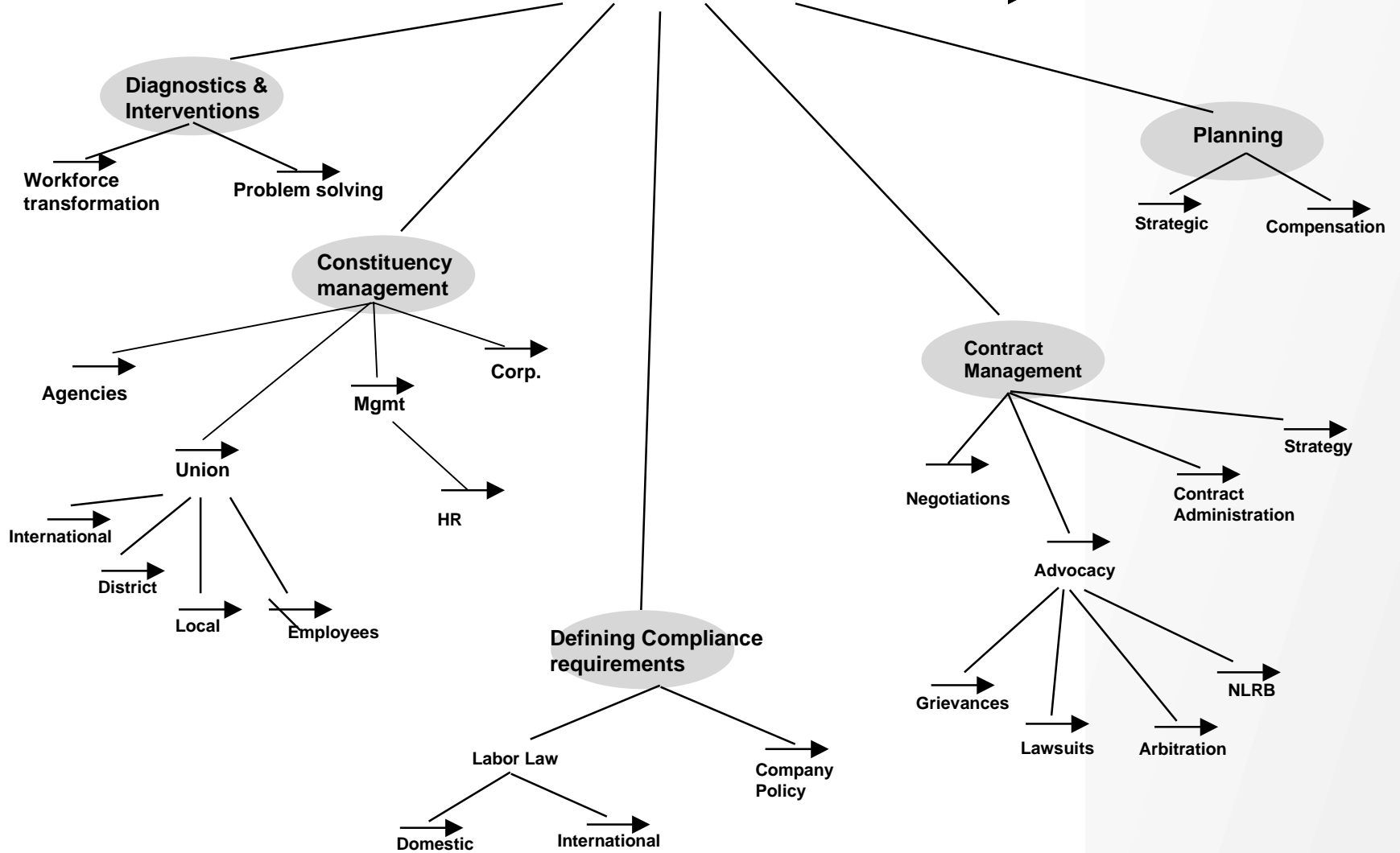
**Outcomes**



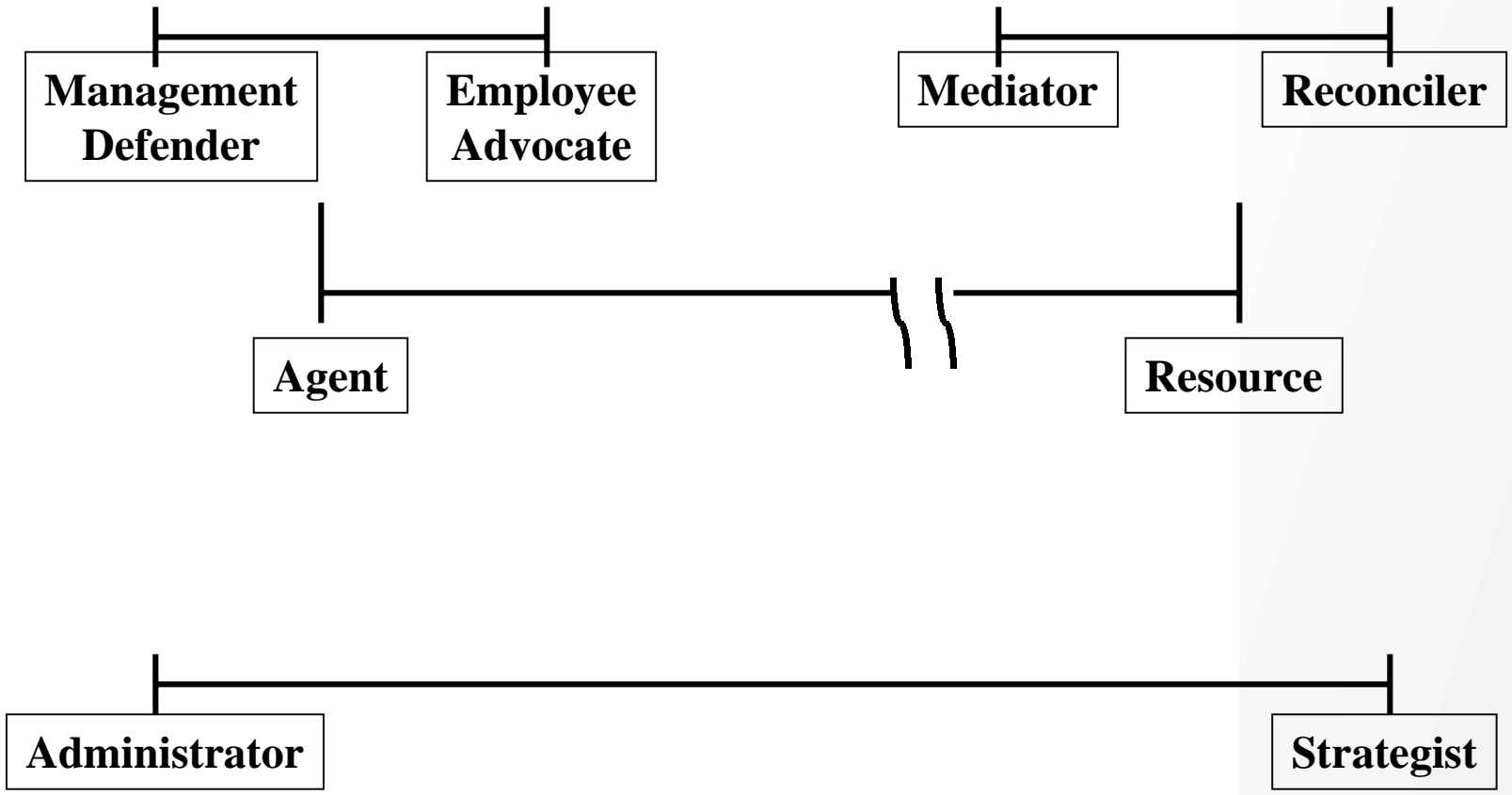




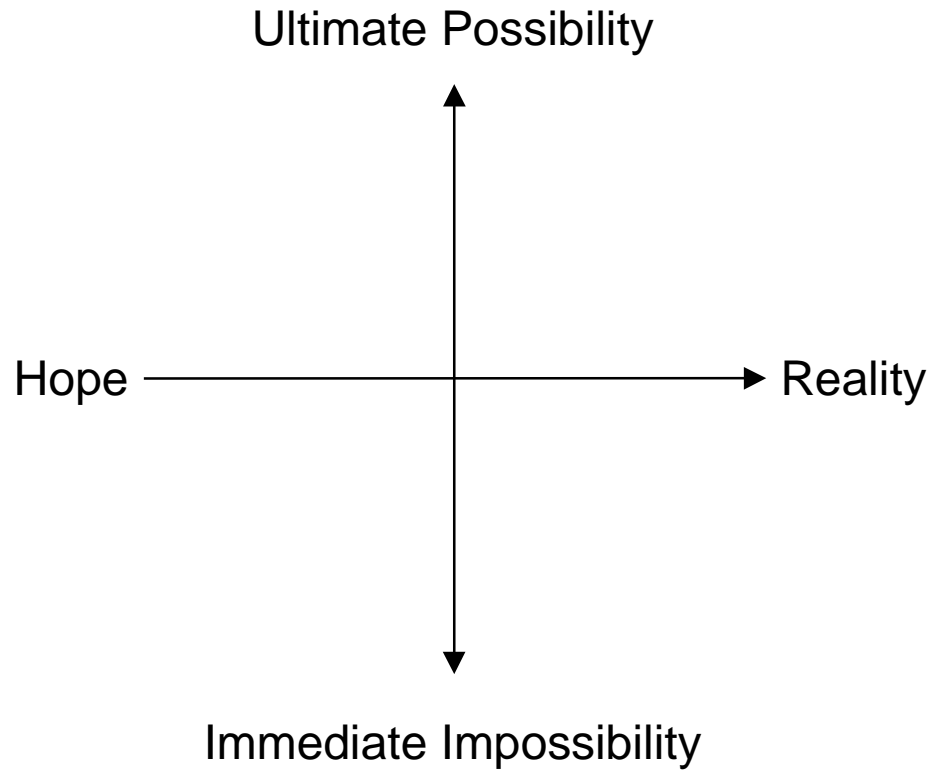
# Industrial Relations



# Range of Roles



# The Domain of Possibility



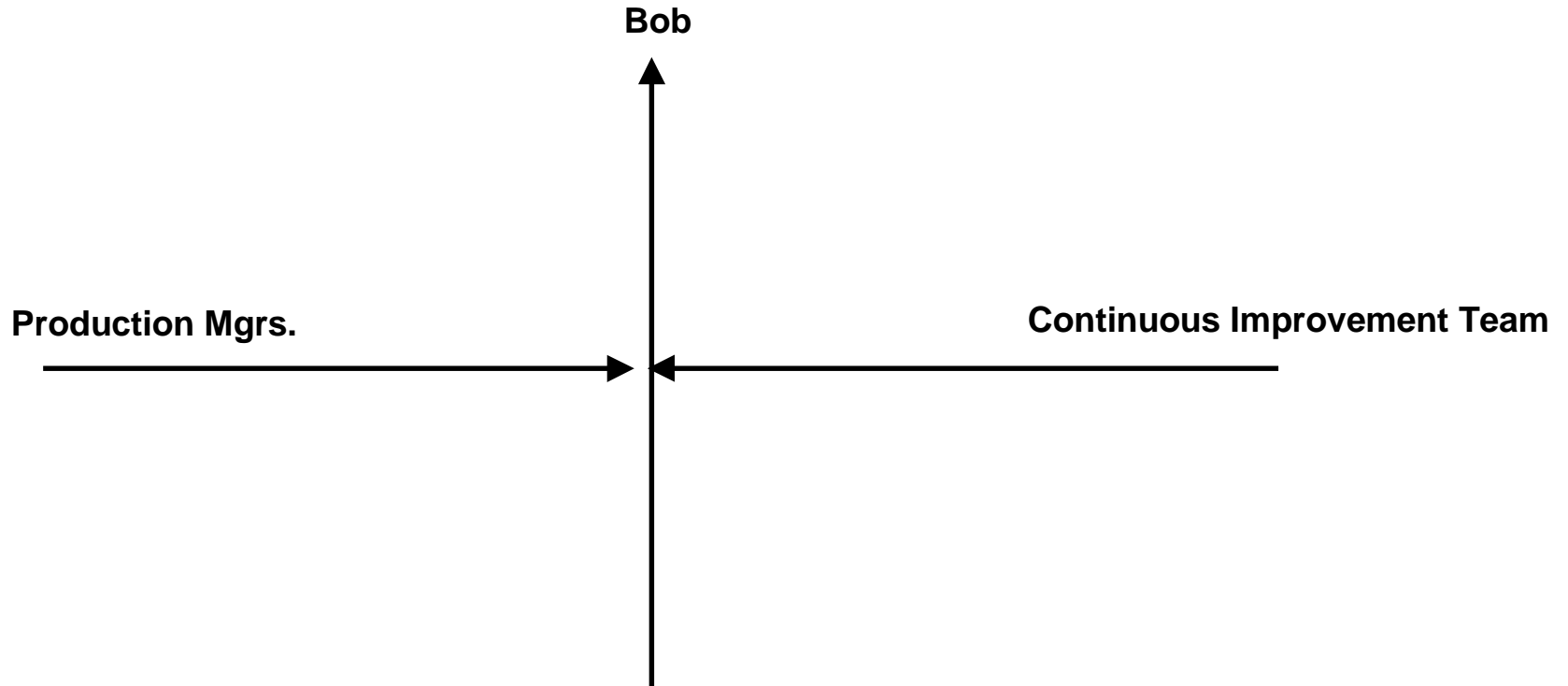
In closing, lessons learned  
by the Plant Manager

# **Lesson 1**

**Adopt a “nothing to lose”  
attitude. The crisis is already  
there...whether you recognize it  
or not.**

# Lesson 2

## Design tension into your leadership team.

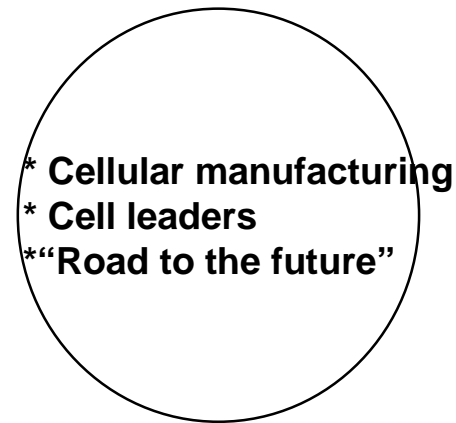


# Lesson 3

**Clearly separate yourself from  
practices not suited for the future.**



**Past**



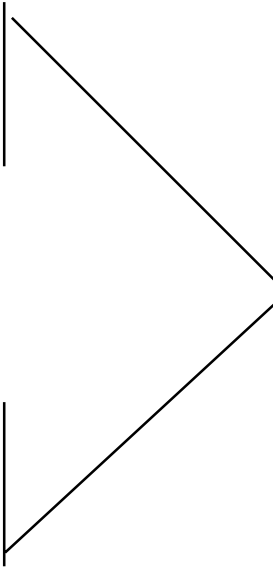
# Lesson 4

**Use an “inclusive” process to make changes.**

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**Everything we must do to get to the vision is negotiable.**

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**Vision or direction is non-negotiable.**



# **Lesson 5**

**Learn from others and create  
“models” so people can see the  
vision.**

# Lesson 6

**Renounce the past. “The old way is gone.” Create “one-way” gates.**

- **Flow is in**
- **Cells are in**
- **5-s is in**
- **Visual is in**
- **TPM is in**
- **Flexibility is in**
- **Teaming is in**
- **Doing “white collar” tasks is in**
- **Self-funding your increase\$ is in**
- **Best-players play is in**

# **Lesson 7**

**Relentlessly pursue performance  
and deliver results.**

And Now...??

# Possible Next Steps

Leadership session describing 2005 end-state

