

RE-ENGINEERING YOUR BUSINESS PROCESSES ?

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Re-engineering - is it just rhetoric or is it a way to fundamentally improve business processes? Will re-engineering improve your competitiveness and provide customers the service they demand - service you have committed to provide? Or will it be a drain on management, operatives and other company resources? The brutally honest answer: *It depends upon the state of your company!*

Re-engineering is a continual process. It often begins with Kaizen - taking small incremental steps toward continuous improvement. Sometimes it requires comprehensive process analyses to fully understand and improve operations. Or, it may demand the radical re-design and re-structuring of processes too broken to mend. In the latter case, re-engineering means 'starting over' with a clean sheet of paper. The question is, 'How do you decide what processes need re-engineering?' The answer is often found by evaluating processes to determine whether or not they fulfil customer needs and expectations.

To find out how customers feel there are several fundamental questions you can ask. But these questions must consider the perceptions of both internal (management and employees) and external customers. If you don't take care of the internal customers, external customers will become the unwitting victims of their dis-satisfaction. These questions, if answered objectively, will provide an unbiased view of how customers see your business. To simplify data gathering, questions should be divided into two classes:

1. Internal questions for management and employees
2. Questions that must be put to customers in surveys or face-to-face interviews.

Some examples of internal questions might include:

- Do you understand what your customers mean by 'on-time delivery', 'value', 'convenience'?
- Do you track and report on-time delivery, lost orders, customer complaints, and is someone responsible for taking corrective/preventative action?
- Do sales people feel the company is 'easy' to do business with?
- Can manufacturing live with the given lead times?
- Is there an authorised build up of inventory, a high level of scrap or waste?
- Do all concerned understand the importance of the customer/supplier interface or are they bogged down in the system? For example is there a 'sales prevention team' which frustrates the field sales force - a sure sign for the need for re-engineering.
- Do you lead the market or can you quickly and effectively counter challenges or strategies put forth by competitors?
- Do you make money?

External data comes from customer surveys and customer interviews.

Responses to the following kinds of questions will tell you what processes you need to re-engineer.

- Do products/services meet customer needs and expectations?
- Are products/services delivered on-time?
- Is the company responsive to customer complaints/ problems?
- Do customers feel served?
- Do they know your sales force?
- Are products/services competitively priced?
- How do customers rate the quality of your products/services?

Three kinds of companies can be characterised:

- the good performer
- the foresight performer
- the lame duck.

Generally speaking, the 'voice of the customer' and 'business process analysis' will identify the kind of company. The good performer may or may not be a candidate for re-engineering. This type of company typically practices continuous improvement. This process allows the company to identify problems and solutions, often without the trauma of re-engineering. However, it is certain that good performers manufacturing gas lanterns were blase and satisfied just prior to the introduction of the electric light bulb.

The foresight performer is the successful company whose management is determined to be successful and grow. Certainly continuous improvement will be providing significant benefits in many areas of the company, but there are processes that need re-engineering. This type of company can use re-engineering to leap ahead of the competition in new product development, time-based competition, and the introduction of new processes. The dictum that 'if nothing changes every six months then someone is not thinking', applies to all business processes. Re-engineering both manufacturing and non-manufacturing processes will reap many rewards.

The third company type, the lame duck, has no choice except to close its doors. This type of company plods along day-after-week-after-month-after-year doing things the way they've always done them. Eventually, profit margins and market share erode, people are laid off and its brightest employees seek jobs with the good and foresight performers. The lame duck must either take a comprehensive (but quick) look at itself - or become another entry in the lexicon of failure. For the lame duck, re-engineering is a life raft which may or may not arrive in time.

The formal definition of re-engineering is:

'Fundamentally re-thinking and radical design of business processes to achieve dramatic improvement in critical contemporary measures of performance, such as cost, quality, service and speed' [1].

A summarised definition may be

'Re-design of business processes to achieve major gains in cost, service or time'.

Re-engineering can give the company, whose market, manufacturing or service environment suffers a radical change, a method for retaining or regaining market share.

A notable Missouri company embarking on a significant re-engineering process is YELLOW Corporation [2]. YELLOW is a national carrier in the US and has sales of about \$3 billion. YELLOW is meeting the threat of non-union carriers, cycle times and waste by re-engineering their business processes. YTS's project IMPACT is re-engineering its information processes to dramatically increase the speed of development and maintenance of their information systems.

Re-engineering is not, therefore, an academic exercise. Nationally recognised companies see the technique as a way of maintaining and increasing market share. They also see re-engineering as a tool for continuous improvement and furthering their quest for excellence in their products and services.

Even small companies can benefit. A \$20 million custom printing company in Kansas City responded to customer demands for reduced lead times by re-engineering their order entry system. By reducing lead time from four weeks to seven working days the company was able to regain lost market share.

A common criticism of the re-engineering process is that there is a danger of 'throwing the baby out with the bath water'. This is true; re-engineering is not a process to be taken lightly. But if it is essential to survival, or to avoid the storm clouds that prudent management sees gathering on the horizon, then re-engineering business processes can provide a new lease on life. To the ailing company re-engineering can be a 'vaccine' against future problems - if management is wise enough to look ahead.

REFERENCES

- [1] M. Hammer and J. Champy, "Re-engineering The Corporation", Harper Collins, 1993.
- [2] YTS On-Line, Winter 1993.

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SIMON SAYS

Dear Simon

Our company is engaged in a major exercise to introduce ABC costing having flirted with a pilot study last year which purported to show that our existing costing system gave very misleading information on product profitability. The inference is that if we had 'more accurate' information on product costs and profitability, we would then be able to make large improvements in our company's profits. For some years the company have been very concerned at the declining profit levels and there have been a number of initiatives seeking the help of external consultants.

Over recent years we have looked at a number of different techniques in the hope that they would solve our profitability problems. The last one was to rationalise our product ranges by removing the low selling tail end items as they could not be produced efficiently; we lost the sales revenue from these but have not been able to quantify the reduction in our costs (there any?) and have received complaints from the customer about our reduced product offer. We fear that the next step will be to remove some of the product ranges altogether with very serious consequences to company viability.

Can you please comment on this and give us some guidance on how we should proceed if we really are going to improve the company's profits.

Simon Says

I can fully understand your concerns and indeed this type of situation occurs quite frequently.

The first benefit which can come from an ABC pilot study is a clearer understanding of what activities give rise to what costs; much of the value of this is to establish the major effects and to correct any previous misunderstandings. It should also give some indication of where there is most potential for reducing costs - without significant threats to sales revenue and contributions to profit of course.

At this stage it is important to include these findings in an overall appraisal to identify the changes or actions which have the most potential for the business and to discuss them fully with those concerned.

The removal of the low selling items from the tails of the product ranges will reduce the number of size changes and small production runs and stocks and the risk of obsolescence - but by how much? It will also reduce the sales revenue and contribution to profit - but by how much? The overall consequences need to be assessed and it is easy to miss important factors which can have much more serious consequences to business performance than shortcomings in the formal costing system. At a very general level if you are not short of capacity think very carefully before killing off products.

Invariably such systems are not sufficient on their own to determine the major actions to improve business performance. In the above situation one needs to know if additional sales volume will replace that which is lost - was there already a shortage of capacity? Do you really know the cost benefit of the reduced size changes - when evaluated they can be very small. Does the change allow an expensive inefficient process to be stopped with a major cost reduction?

It is advisable to identify the actions or changes which appear to have the most potential and to then investigate them as fully as possible from first principles, rather than accepting measures from the routine monitoring systems. If you cannot really understand how the actions you propose will yield the benefits you seek, then you should not proceed until you do; you need improvements and so you must keep searching.