

INNOVATIVE BUSINESS SOLUTIONS FOR PROFITABLE GROWTH

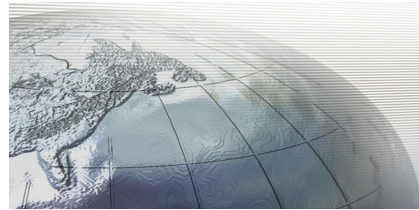


R. D. GARWOOD, INC.

New Year, New Terminology:
Take the Oath

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Communications are obviously critical to get thoughts and ideas across. Unfortunately, the words we use often cloud the picture. For example, if an American drops into a British pub and starts talking about football, confusion can easily reign! Odds are disagreements will quickly surface until the term football gets defined. One word, two separate sports. The same holds true in manufacturing business discussions.

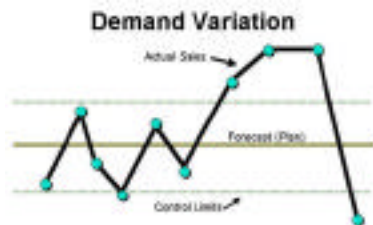
I am proposing that we all raise our right arm at midnight on December 31, 2002 and take an oath to never use these four terms again ...

1. Sales forecast accuracy
2. Standard product
3. Engineering and manufacturing bills of material
4. Engineering release

Allow me to elaborate on each and suggest new terms to help make 2003 a year in which we all communicate better.

Sales Forecast Accuracy

What is meant by forecast accuracy? Assume the forecast was 100 for the month and we actually sold 99 or 101. If given truth serum, most of us would say the forecast was not accurate. The chart below compares plan (expectation) to actual sales each period.



The traditional truth serum definition would mean all of the actual sales data points would have to be right on top of the forecast line if the forecast was “accurate.” This is never going to happen. When we ask sales people to accept responsibility for forecasting accurately, we are asking them to sign up for inevitable failure. Not a motivating thought! No wonder they disappear when the meeting topic is forecasting!

A zero variation expectation defies a fundamental quality principle. Dr. Edward Deming established a non-negotiable quality principle -- every process has variability. In other words, actual data will always vary around the expectation, we should expect that to happen and we should plan to compensate for the inevitable variability. The quality of the process is then measured by incidents of actual data within the upper and lower control limits as calculated for the process.

Think of sales forecasting as a process. Input to the process are many (history, quotes, market trends, etc.) and the output is a plan of demand, i.e. forecast. The process will have variability. Expect it. When actual sales are within the control limits, the forecast is “high quality.”

Improving the quality of the forecast is possible and can be motivating. Forecasting accurately is a no-win proposition. Better forecasts becomes an elusive goal because no one wants to be accountable for a goal that will never be achieved. The root cause of the problem is term forecast accuracy.

Let's take an oath. Raise your right arm at midnight and vow to no longer measure or use the term forecast accuracy. Let's vow to only discuss and measure forecast quality forever in the future.

Standard Product

What is a standard product? Most of us would say that standard products are the ones in the catalog. However, standard products are also expected to be readily available. In other words, when the customer orders a “standard product” they get quick delivery. Seems like a logical

expectation. In most cases, the definition of "quick delivery" is a lead time that is almost always less than the time it takes to buy material and produce the product (often called the time fence).

The only way a product can be available for quick delivery is for some of the material to already be available and maybe even on the shelf when the product is ordered. This means someone had to anticipate, i.e. forecast, the order and buy material, maybe even make the finished product or at least make some intermediate s or subassemblies prior to getting the sales orders.

Here's the problem -- there is seldom a connection between products in the catalog and someone forecasting them. In fact, most companies never forecast everything in the catalog. Unfortunately, sales people, especially those dealing directly with the customers, are not part of the forecasting process. This sets up inevitable disappointments. The product is considered standard because it is in the catalog. When the sales person sells the "standard product," both the customer and sales person expect quick delivery. When the product or material is not preplanned, i.e. forecasted, delivery is delayed. Frustration and disappointment are inevitable. The root cause of the problem is the term "standard product."

Here's what I propose -- let's again raise our right hand and vow to never again use the term "standard product." We only have preplanned and not preplanned products. Only preplanned products have short delivery times. Clearly identify them to all sales people and customers. Make them a different color in the product catalog.

A product can only be classified as preplanned if it meets these three conditions:

- A. A sales person is willing to assume responsibility for forecasting the demand**
- B. A minimum annual sales volume is required**
- C. A minimum frequency of orders occurs**

The same criteria and terminology applies to product accessories, options and attachments. This will eliminate confusion and surprises in delivery dates.

Engineering and Manufacturing Bills of Material

Finding a bill of material in a manufacturing company isn't a problem. In many companies, deciding on which one to use is the problem! Engineering often originates new bills, adds them to the engineering data base and tosses the "engineering bill" over the wall to manufacturing. Manufacturing decides that they need to promote a few items to higher levels in the bill, demote a few items and insert some subassemblies or rearrange parts for planning and then update their data base. The result is the birth of two bills of material -- an engineering bill and a manufacturing bill. In theory, the two data bases should match. In practice they never do. Unfortunately, the business gets comfortable living with the expense and confusion of two data bases. When we have two bills, which one is right? Confusing!

The bill of material is a company document, not a departmental document. Every company needs only one bill data base. All existing bills should be combined into a common company bill of material that meets every department's needs.

Now let's raise our right hand again and vow to never again use the terms engineering and manufacturing bills of material. This only encourages the use of two data bases. Let's replace these two terms with one -- a company bill of material.

Engineering Release

Time to market is widely recognized as a critical factor for company survival. Companies simply

cannot compete if they are slow to bring innovative new products to market.

The old paradigm was to design the product in engineering and then toss it over the wall to manufacturing. The toss was called "engineering release." Manufacturing then had to figure d out how to build the product, plan the materials, service the product, etc. While engineering was finished designing, many business processes had to be designed before the product could be delivered, delaying the introduction of the new product to the market.

Several years ago, a new process called MAP was introduced for developing new products. This concept was based on a series of phases and gates. Activities took place during the phases such as defining, designing and launching. Each phase is separated by gates where go/no go decisions are made. The new process allowed for parallel or concurrent development of product and business process. New ideas are molded into new products as they pass through the phases and gates. When the product is designed, tested and business processes to support the product are ready, it passes into the launch phase where it is introduced into the market place.

The term "engineering release" is not compatible with this new and improved process for getting new products to market faster. Engineering release implies all other departments are hidden from the new product until after engineering is finished designing. Only then can they begin developing the business processes. A lot of valuable time is lost. MAP provides the opportunity to do this work concurrently with design activities.

Raise your right hand one last time and vow to never again use the term "engineering release." The new term is passing the new product through the launch gate.

Let's make 2003 a fresh new start. Let's vow to use better terminology to communicate expectations!