Chapter 1

Business Efficiency 101

In This Chapter

- Defining business efficiency
- Looking at the basics of the most popular efficiency-enhancing methodologies
- Thinking about ways to start enhancing your business efficiency *right now*

Lots of people talk about running an efficient business, but just what does that mean, exactly? In this chapter, I share my definition of business efficiency and how that definition applies to your particular organization.

For as long as people have been doing business, they've been uncovering ways to do business more efficiently. Producing a higher-quality result in less time and at a lower expense is one of the key tenets of business competition. Some of these strategies have been codified into formal methodologies such as Six Sigma, Lean, Kaizen, and Total Quality Management.

In this chapter, I give you the lowdown on the basics of (and differences between) some of the most common methodologies. I'll be drawing upon some of the best practices from each throughout the book, so knowing the gist of how each one works will help you narrow down which may make the most sense for your situation.

Of course, if you're reading this book, you're probably itching for a way to improve your business efficiency *today*. Don't worry. I cover some changes you can implement relatively quickly to get you started before you embark on a larger-scale efficiency project.

Understanding Business Efficiency

If we're going to talk about increasing your efficiency, it helps to get on the same page regarding what efficiency actually looks like.

In essence, business efficiency means making the choices and adopting the tools and processes that generate the *best* results at the *least* cost. By cost, I'm not referring to just dollars and cents, but also impacts on all other resources, including time and employee happiness. Too often, people focus on the financial aspects of efficiency while ignoring or underestimating the effects on other areas. Trust me, you do not want to run or work at a business that focuses on cost savings above all else.

I like to consider efficiency through the lens of a *Pareto Improvement*, named after Vilfredo Pareto. When you make a Pareto Improvement, you improve the situation of one person without negatively impacting anyone else. Giving John a higher salary without reducing anyone else's salary *or* sacrificing someone else's raise is a Pareto Improvement. If, however, you only had enough money to give either John or Mary a raise — so John's raise comes at Mary's expense — it is *not* a Pareto Improvement.

More broadly, business efficiency is the application of Pareto Improvements in a way that considers not just individuals but also sectors of the business. A change is efficient if it increases customer service satisfaction *without* negatively impacting the IT or Finance departments.

This is in opposition to the idea of a zero-sum game, wherein there is a finite resource and adding some to Person A by definition means taking some away from Person B. Some people view world safety as a zero-sum game — when the United States gains four nuclear missiles, it is four missiles safer, and every other country is relatively less safe.

The terms *efficiency* and *effectiveness* are often used interchangeably, but they do not mean the same thing. A terribly inefficient process can still be quite effective. Effectiveness is how often a process gets to its stated end result. Walking and running are two effective ways to get to the store, but running may be more efficient given the circumstances.

Understanding that Efficiency is different for everyone

In light of the definition I just gave, it's important to understand that there is no mathematical equation for efficiency that applies universally. Your organization's specific goals, values, experiences, and resources all color whether a given choice is efficient or not.

For example, if you run an organic dairy farm, it would never be efficient to give your cows daily antibiotics en masse. This would make your milk non-organic, and effectively lower your output to zero no matter how much actual milk was produced. If you are a non-organic dairy farm, however, then antibiotics may make perfect sense to lower your healthcare costs and bovine fatality rates.

Additionally, resource costs are relative. Adopting the very latest technology is usually *not* the most efficient option for a low-tech business when it doesn't have the employee skills to use it correctly or the in-house technical support to maintain it.

Similarly, making one change that saves 30 minutes per employee per month may not make that much of a difference in a four-person firm, but would free up the equivalent of multiple additional employees if a 1,000-person firm made the same decision.

Sharing knowledge with others

Efficiency enhancements rarely happen in a vacuum. Even enhancements that seem straightforward, such as reviewing a bank statement and realizing you are paying "too much" on equipment maintenance, rely on outside factors. There is no set correct amount to pay for equipment maintenance — what matters is what everyone *else* is paying for it, and how your business and its needs fall on that scale.

There are always improvements to be had, new skills to learn, and new efficiency-enhancing technologies entering the market. I've been thinking about efficiency nonstop for over a decade and I still learn new things every day.

The business world is generally a secretive one. There is much concern about competitors gaining access to your customer base, stealing your best employees, or digging the secret sauce recipe out of the garbage can. (I have actually, literally seen that happen.) But when it comes to efficiency improvements, there's much to gain from sharing. In fact, if Motorola hadn't shared its internal process for improving quality and cutting costs, Six Sigma would never exist. Same with Toyota and Total Quality Management.

So the next time you're at a Chamber of Commerce meeting or an industry trade show, don't be shy about talking efficiency shop. Not only can sharing tips help build strong bonds with vendors and potential clients, but you'll likely be surprised at the value of the ideas you hear in return.

Looking at Efficiency-Enhancing Methodologies

We cover a number of established business improvement processes like Six Sigma, Lean, and Total Quality Management throughout the book. Here's the crib sheet on the major ones to get you up to speed.

Six Sigma: Mathematical efficiency

Originally codified at Motorola in the 1980s, Six Sigma is a business improvement process that relies on quantified performance measurements and a strong managerial team and buy-in. The term *Six Sigma* is often used interchangeably with a *Six Sigma performance* (3.4 or fewer defects per million opportunities) or a *Six Sigma improvement* (efficiency gains of 70 percent or greater).

Six Sigma in a nutshell

The key differentiations of the Six Sigma approach include:

- **Setting a mathematical focus:** If you cannot measure it numerically, it's not a Six Sigma project.
- **Saving, not avoiding, costs:** Six Sigma calculations don't account for avoiding costs in the future, only for lowering existing costs.
- **Having big ambitions:** A "Six Sigma improvement" is an improvement of at least 70 percent. Six Sigma is not designed for small gains here and there.
- **Focusing on quality:** At its base, Six Sigma is focused on the ruthless elimination of defects and variation throughout a production process and in a final result.
- **Bringing everyone on board:** More than other methodologies, Six Sigma has many clearly defined roles for employees across an organization, ranging from Yellow, Green, and Black Belts to Champions, functional representatives, and deployment leaders.
- **Believing in determinism:** Six Sigma relies on the belief that your organization is responsible for its own defects, which is great — because then your organization is fully capable of remedying them!

The Six Sigma formula

The basis of Six Sigma is the following formula:

$$y = f(x) + \varepsilon$$

In this equation, y is your end result (such as the finished product you sell). The x refers to your original inputs, which you transform or otherwise manipulate to turn into the finished product. (You may have more than one x in your process.) The function $f()$ *is* the transformational process. Finally, the ε refers to the errors throughout the process. Six Sigma is all about eliminating or minimizing the ε.

Six Sigma is best for organizations that are fully committed to improvement, manufacturing companies, Type-A personalities, large companies, and organizations that communicate well.

Agile: Rapid movement from within

Originally developed to address the pitfalls of traditional project management when applied to software development projects, Agile is now an approach you can adopt for projects in most any industry. Instead of putting the majority of effort into one long-range plan, Agile operates on a succession of tiny "sprints" with significant measuring and re-evaluation between (and during) each sprint.

Agile in a nutshell

The key differentiations of Agile Project Management include:

- **Short delivery times:** The faster, the better! Milestones are rarely more than a few weeks out.
- **Focusing on customer needs:** The desires of the customer take front and center in determining the order of projects, product releases, new features, and related decisions.
- **Customer involvement:** Instead of just involving customers at the start and end of a project, Agile teams communicate with them throughout the entire creation process.
- **Minimal documentation:** If the document does not directly enable the creation of results, an Agile environment usually foregoes it.

The Agile manifesto

The Agile movement actually has its own manifesto, which is as follows:

> We are uncovering better ways of developing software by doing it and helping others do it. Through this work we have come to value:
>
> **Individuals and interactions** over processes and tools
> **Working software** over comprehensive documentation
> **Customer collaboration** over contract negotiation
> **Responding to change** over following a plan
>
> That is, while there is value in the items on the right, we value the items on the left more.

Even though the manifesto specifically references software development, there's no reason you cannot replace the term with your own industry or product.

Agile is best for technology companies, smaller teams, companies that are (or can become) comfortable with a rapid pace, and companies with products that constantly change, as opposed to a relatively standard product line that is constantly reproduced.

Lean: Seeking to do more with less

Born at Toyota, Lean is what it sounds like — a lighter, leaner way to achieve results. A Lean process is ruthless about getting rid of not just errors, but also steps, processes, and people that don't ultimately add value to your end product or service. Less structured and mathematical than Six Sigma, but with a similar focus on customer needs and reducing defects, Lean is all about getting as close as possible to a waste-free process that results in maximum customer value.

Lean in a Nutshell

The key differentiations of Lean include the following:

- **Focus on the customer:** Lean is almost religious about listening to the voice of the customer, or VOC. If a step doesn't add value to the end product from the customer's point of view, Lean strips it out.
- **Weeding out waste:** There are seven types of waste, or *muda*, in Lean, and much attention is paid to eliminating them.
- **Just-in-time attitude:** In Lean, it's a waste to produce anything in anticipation of customers' desires. Instead, you produce only when you have orders in hand.
- **Visual representations:** As opposed to the mathematical approach of Six Sigma, Lean uses value-stream maps to visually draw out processes. While a right-brained, list-oriented person can construct a value-stream map with basic text, it's also possible to draw *beautiful* value-stream maps if they help to communicate better.

The seven wastes of Lean

There are seven kinds of waste that Lean focuses on eliminating. They are defined in Chapter 4.

Lean is best for incremental improvements, organizations that focus on their people and culture, companies that want a less mathematical and more flexible approach than Six Sigma.

There's also a blended methodology known as Lean Six Sigma, though it is not necessarily a perfect marriage of the two processes. In fact, many professionals argue that by trying to use both simultaneously, you lose the best of both. I believe that this is true if you are using a strict Six Sigma or Lean approach, but if you are like many organizations and only using a portion of one or the other, then it can be beneficial to see what the other has to offer. For example, you can strive for a breakthrough Six Sigma improvement by eliminating waste Lean-style.

Balanced Scorecard: Four key areas

While methodologies like Six Sigma and Agile may have mutually exclusive viewpoints on the right way to manage a project, Balanced Scorecard plays nicely with most other systems. It was developed to move the trend of focusing on financial measurements into a more holistic system of metrics across four equally weighted quadrants.

Balanced Scorecard in a nutshell

The key differentiations of Balanced Scorecard strategy include:

- **Focus on knowledge growth:** Few organizations measure, let alone give balanced weight to, internal knowledge and growth — but Balanced Scorecard brings these metrics front and center.
- **Multi-level viewpoints:** Scorecards look at the same data on three levels: long-term, short-term (3–5 years), and immediate (today) to keep your eye simultaneously on the big picture and the here and now.
- **Compatibility with other methodologies:** You can use scorecards to measure progress towards goals when using any (or no) formal efficiency-enhancing methodology.

The four scorecard quadrants

A balanced scorecord includes measurements across four key areas:

- **Financial:** Revenue, net profits, expenses, payroll, and other routine monetary metrics.
- **Knowledge and Growth:** How are your employees growing in their skills and knowledge? This question is carefully considered and answered by a knowledge scorecard.
- **Productivity:** In effect, how efficient is your internal organization? This scorecard measures productivity in hard numbers.
- **Customers:** Not just how many customers you have, but retention rates, satisfaction numbers, and other customer-focused figures.

Balanced Scorecard is best for every organization that measures itself and companies primarily composed of knowledge workers.

Kaizen: Incremental improvement

Kaizen is not a one-time planned process but rather an *approach* to work that places the focus on greater efficiency. A Kaizen workplace puts people first — in pursuit of eliminating waste (à la Lean), it focuses on eliminating the hardest and least-pleasant work from a production process. In practice, Kaizen is a series of constant, small improvements.

Kaizen in a nutshell

The key differentiations of Kaizen include the following:

- **Putting employees first:** A Kaizen improvement would never add difficulty or unpleasantness to an employee's workload. Employees are highly involved in the improvement process.
- **Constant process:** While it's possible to have Kaizen projects, it exists mostly as a way of life in which waste is constantly identified and eliminated as it surfaces.
- **Individual responsibility:** Kaizen expects that if a particular employee encounters waste, she will address it. It doesn't wait for a top-down approach or a suggestion box.

Kaizen events

A *Kaizen event* is a group activity, lasting between a day and multiple days, in which a team identifies and implements a significant improvement in a process. Commonly a Kaizen event is kicked off with a *Waste walk*. A Waste walk is almost a game in which the most amount of waste is eliminated in the least amount of time. A team gets together and runs through a process over the course of a few hours or a day, trying to identify every possible waste: waiting, communication lags, product defects, and so on. Each waste is remedied where possible and then the process run through again, until either time runs out or all identified wastes are removed. This activity is also often referred to as "picking the low hanging fruit."

Get people that don't know the process involved in the Waste walk, as they come in with open minds and are more likely to ask critical questions.

Kaizen is best for Lean organizations, small teams, and organizations that give employees some degree of autonomy and responsibility.

5S: The Japanese path to efficiency

Unlike the other methodologies that can be applied to a variety of scenarios within an organization, 5S is only concerned with your physical workspace. The drive behind 5S is the belief that a clean, well-laid-out office contributes to increasing employee well-being, reducing defects and saving time.

5S in a nutshell

The key differentiations of 5S include the following:

- **Focus on physical space:** 5S is about making your actual office more efficient. In 5S, even the placement of a plant can be relevant (and improved upon).
- **Freeing up space:** It's a success by 5S standards if you reclaim 100 square feet previously lost to excess inventory or even garbage cans. "Cleared space" is a key metric.
- **Communications board:** Almost like a scrapbook for cleanliness, 5S relies on bulletin boards with employee photographs, floor plans, and before/after photos. Teams can actually have fun with this board, which encourages ongoing participation.

The 5S's

Originally based on five Japanese words beginning with "s" (when translated into English, anyway), equivalent English "s" words have since been massaged into the process. These are defined in detail in Chapter 13.

5S is best for manufacturing plants, large offices, and neat freaks.

Total Quality Management

Total Quality Management (TQM) actually preceded Lean, and much of its focus on waste-reduction, continuous improvement, and the elimination of defects has since been rolled into Lean. However, TQM by itself can provide significant efficiency gains even if you don't adopt a fully Lean approach. As the name implies, TQM is, well, *totally* focused on quality.

The key differentiations of Total Quality Management include:

- **Obsession with quality:** In a TQM environment, everyone talks about quality, thinks about quality, and measures quality at every turn.
- **Employee empowerment:** Under TQM, if an employee notices something that's causing defects, he has the power to remedy it directly. No need to assemble a team or write a project plan first (although for more systemic problems, a more extensive solution may be necessary).
- **Small improvements add up:** Often improvements made in the spirit of TQM are small — not Six Sigma improvements of 70 percent or greater. However, in the aggregate, these gains can really add up.

Total Quality Management is best for businesses that produce products that must meet high quality standards; not for organizations that currently produce low-quality or highly variable-quality results.

Considering Other Ways to Be More Efficient

This whole book is about ways to make yourself and your organization more efficient — but I understand that most people want to dive right in and start making changes. The following sections suggest a few places to start:

Buying time with Time management

Time is often an organization's most precious resource, because lost time can never be restored and the amount of time any given person is available — no matter how much caffeine she may consume — is quite finite. The following ideas can help shave *hours* off not only your own work day, but also the days of all employees, leaving more time free for more important, more meaningful work:

- **Keyboard shortcuts:** Mastering keyboard shortcuts for the computer programs and websites you use often can save minutes on every single computing task you perform. (It also reduces your risk of repetitive-motion injuries by reducing mouse/trackpad use.) For example, I can open, label, and archive an e-mail in Gmail by hitting just four keys in succession.

  You can also use keyboard shortcuts to insert standard blocks of text, ranging from an e-mail signature to a sales pitch, or even to launch particular Web pages or software programs. Check out ActiveWords for Windows (`www.activewords.com`) or TextExpander for Mac (`www.textexpander.com`) for more.

- **Macros:** If you ever use Microsoft Office for repeat tasks, such as mass find/replace in a supplier spreadsheet or performing certain calculations, you can usually write a macro to record the process *once* and then apply it to the entire document. This saves time *and* boredom (because the most boring tasks are often best suited for a macro). Macros can even be used to guide end users through filling out a form in a particular manner.
- **Scheduling apps:** Trading five e-mails back and forth to decide on a meeting time is a pet peeve of mine. It is a huge time suck. You can skirt around this dance entirely by using a scheduling service like TimeBridge (`www.timebridge.com`) or, for a group, Doodle (`www.doodle.com`) to show others when you're available and let them book appointments directly.

Getting human resources involved

Functional departments like human resources are often left out of efficiency-enhancing discussions and brainstorming, because they seem like a static resource as opposed to an internal team made up of human beings who can make errors or use inefficient processes. However, there's usually as much room for improvement in human resources as there is in other areas of the organization.

One place HR can improve efficiency is by avoiding firing poor employees by not hiring them in the first place. No one likes to fire an employee, even if that person is truly lousy at what she does and makes everyone else in the office miserable. (Well, okay, I don't mind firing those folks.) Much has been written on ways to fire kindly, diplomatically, and/or without putting yourself at risk legally. What people discuss less is how to *avoid hiring in the first place*.

Almost as if they're on auto-pilot, most human resources departments post new job offerings and begin the process of filling a position as soon as that position's previous occupant departs. This is *not* efficient, as an employee's departure is the ideal time to reevaluate that role from a number of perspectives.

Do we even need this role? Can we reduce this full-time role to part-time or switch to a contractor or outside vendor? Do we need someone with a slightly (or drastically) different skillset? What if the replacement had less experience (and a commensurately lower salary)?

Managing more efficiently

Efficient management means every task is executed on time, the first time, and with no duplication. Getting a team to this point requires clear communication tools and a dedication to giving your team members the resources they need to perform their best.

Set up clear communication tools

Managers have varying degrees of comfort with not knowing what their reports are doing at any given moment. Some are more trusting (or simply less concerned) and can go weeks without even an informal update. Others try to assuage their own discomfort by calling four meetings a day, paying surprise desk-side visits, and reminding everyone of upcoming deadlines like a broken record.

Micromanaging is the very height of inefficiency. It wastes your time, it wastes the employees' time, and it erodes trust. I feel very strongly that micromanaging creates a sense of resentment on the part of employees to the point that they are far less motivated to complete work on time, to par, or at all.

You can gain a great deal of transparency into team members' progress without being a constant source of interruption by implementing the right communication tools. Namely, a granular task management tool that everyone updates and has access to can help you see exactly which tasks remain open and which have been tackled.

Protect your team members

One often-overlooked role of a manager is to shield her team members from outside influences that can interfere with or prohibit their productivity. An efficient manager is a guard protecting her team's resources, one of which is *time*. No employee should be expected to drop what he's doing and handle tasks assigned to him randomly by outside employees or upper management (unless this *is* his role in the company, such as an IT support rep). The feeling that your time is constantly at risk of being co-opted by unknown forces can make it impossible to concentrate on bigger tasks at hand.

You can, and should, also protect your employees from unnecessary meetings. (More on this in Chapter 18.) Where possible, it's also more efficient to corral meetings into particular days or parts of the day (such as the morning) so team members have blocks of time long enough to complete their actual assignments.

Give clear assignments

It sounds obvious enough, but I've almost never seen it done consistently. A well-oiled team needs to know exactly what to do, when to do it by, and what to do immediately after finishing. Getting in the habit of communicating and delegating tasks clearly is probably *the best* skill of an efficient manager.

Finding technological resources

Aside from the technology tools mentioned in the other sections, there are some overarching resources that most any business can benefit from exploring, including:

- **A content management system (CMS):** Gone are the days when you need to pay a Web developer an hour's wage to swap out a sentence on your company website or bold some text. Most websites now integrate a CMS to some degree, which allows users with no HTML or programming experience to edit written content on the website just as they would in a word processor. Popular CMS platforms include WordPress (`www.wordpress.com`), Drupal (`www.drupal.com`), and Joomla (`www.joomla.com`).
- **A customer relationship manager (CRM):** Originally little more than fancy address books, today's CRMs are powerhouses of efficiency. You can use them to send and track e-mail marketing campaigns, print mailing labels, track customer support cases, send product warranty reminders, sync with your order fulfillment department, and much more. I've even helped psychiatrists customize their CRMs to track patient medication schedules, getting alerts when high-risk patients didn't refill by a particular date.

  Top CRM platforms include Salesforce.com (`www.salesforce.com`), SugarCRM (`www.sugarcrm.com`), and BatchBook (`www.batchblue.com`).
- **A central file server:** E-mailing multiple versions of a document around to employees gets complicate and inefficient really fast. Instead, use a central file storage repository to make it easy for anyone to find the document they're looking for and to handle version control for often-revised files.

  Aside from running your own server in the office, which usually requires on-site IT resources, check out Google Drive (`www.google.com/drive`) or Dropbox (`www.dropbox.com`).

Discovering why money matters

So many people (and organizations) sign up for recurring services and then forget about them — never noticing the small credit card charges here and there — that most vendors actually *bank* on a revenue stream from inactive customers.

Root out unnecessary costs with the 5 Whys

If you want to start increasing efficiency at your company, take a look at your bank statement. (If you're at a large organization, an expense sheet for your

department may be a more manageable start.) Go through each line item and follow the "5 Whys" exercise. At the first expense, ask "Why?" Then ask "Why?" in response to that answer, and so on, until you have asked "Why?" five times. It can feel silly at first, especially for expenses that may seem perfectly obvious (like property tax), but you'd be surprised by the cost-savings ideas that this simple act can generate. At the very least, I can guarantee you'll find some expenses that you don't need to be paying *at all* or that you haven't comparison-shopped in a long time.

Ask for savings

Finding a more affordable rate for supplies, utilities, or even credit card interest rates doesn't have to be a large project. Often, all you have to do is call and ask! I'm not suggesting calling up your main supplier and threatening to jump ship for his competitor if he can't give you a better rate. Just ask: How can I lower my costs? There may be a number of savings avenues you didn't even think to explore, such as a discount for electronic billing or automated payments, volume discounts, or the opportunity to switch to an equivalent (for your needs) but more affordable item.