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Putting Muscle into Operations:

Questions that Reveal Harmful Levels of Frailty in a Critical Corporate Function

Articles designed to help CEOs identify and close performance gaps in their organizations.

"One of the tests of leadership is the ability to recognize a problem before it becomes an emergency."

The late businessman Arnold H. Glasow was also a humorist, but most CEOs would likely agree that there is nothing humorous about his statement. Of course, recognizing its inherent truth and honing that ability are two different things. Company leaders who possess that ability do so based on experience – and help. At Cerius Interim Executive Solutions, we know that proactive assistance can go a long way to preventing costly emergencies. That's why we asked our operations warriors – interim Chief Operation Officers (COOs) – to lift the veil off some common scenarios that could be hiding or masking potential emergencies.

We know that COO job descriptions can be broad, or narrowly defined. Our interviewed executives addressed the broader aspect of a COO's job description. They brought to light questions CEOs should ask to assess if their Operations function is strong or weak.

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1. How does your company's revenue and growth compare with your peer group? What about the ratio of revenue per employee?

Comparing your revenue per employee and revenue growth rate with peers will tell you if you are leading, treading water or slowly sinking. There are industry standards by which problems can be identified based on where you fall within that standard. Often, your second-line managers can get "hung up" on what they are paying employees, versus what those employees are contributing. Make sure your COO researches industry data on profitability to see where you fit vis-à-vis the competition, and then analyze your employee loads to see where you can improve productivity.

Why it's important and what it suggests:
If your revenue per employee ratio is higher than the industry standard, you could have an enviable advantage in productivity, or you may be overloading your employees at an unsustainable level. A lower ratio suggests just the opposite

2. Are material variances eating your lunch – affecting your profit per product and gross profit?

Industry standards and your performance against them will signal whether you need to take action on your pricing and cost control. Again, there are industry standards for profit margins by which you can gauge your performance. A monthly profitability run can help your COO keep a handle on costs by product.

Why it's important and what it suggests:
Staying on top of material costs helps you stay on top of production and pricing. You cannot afford to poorly manage your company's costs, especially for a "cash cow" product that contributes the most gross margin for your business.

3. How does Operations calculate overhead for all manufacturing processes?

One of our COOs says "guessing" how much time is spent on each product is unfortunately too common. So, too, is applying a flat overhead rate across the factory, without regard to differences in processes, such as welding, versus assembly.

Why it's important and what it suggests:
Make sure your COO factors each process separately in order to have an accurate view of manufacturing costs by product or product line.

4. Is the company using market requirements to drive innovation?

"Too often," says one COO, "manufacturing and engineering give the sales team a product to sell that does not fit the needs of the customer. The sales guys understand the customer and what the customer wants to buy." Why? Because the sales people are talking to the customer.

One of our COOs feels that CEOs should also make time to "get in the field" and talk to the customer. "It doesn't need to be a formal survey," he says. "Talk on the telephone once a quarter – you'll get a wealth of information." That feedback, as well as sales and marketing feedback, needs to go back into operations to keep your pulse on what is and isn't working, and be reflected in your product roadmap.

Why it's important and what it suggests:
Don't expect customers to keep buying a product simply because it's one you make, or one you've always made. This type of thinking leaves you vulnerable to the competition. Your COO needs to be looking at whether you are meeting your customer needs. You also need to avoid the "but-we've-always-done-it-that-way" syndrome. If there's a step, process, product, or feature that doesn't matter to your customer, why are you spending your resources on it?

5.Do you understand your supply chain and how well it's working for you?

Your COO should be providing you with information on how your inventory is managed. Do you know what your inventory turn rate is? Or whether customers who order an out-of-stock item are typically willing to wait for it – or will they turn to another supplier? "A four-week delivery time was acceptable 20 years ago," one COO points out. "But it's not now."

How efficiently do information and goods flow throughout your supply chain? Sharp COOs know that there is time and money at stake at every stage. Profitability and competitiveness can be gained by scrutinizing and optimizing the supply chain.

A Self-Assessment Tool to Aid Strategic Planning

Taking only 15 minutes to complete and without costly consultant fees, Cerius' online, confidential Snapshot allows companies to evaluate their strengths and weaknesses in today's market and identify areas for improvement to both the bottom line and growth potential.

View the short video and access the tool.

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Why it's important and what it suggests:
While good inventory management and supply chain management are most often seen as contributing to margin, one cannot overlook the impact on customer satisfaction and loyalty. Being able to deliver the product or service when expected is vital to keeping customers happy.

6. Are you leveraging current technology to maximize performance – and reduce waste – in each department?

Manufacturing companies frequently evaluate new technology for the factory when gains in productivity, assembly rates, quality, and waste reduction can be justified. However, is your head of operations also working closely with IT to bring technology-driven advantages to all the other departments? Are computer systems so old they can no longer run the latest software? Do employees have difficulty collaborating efficiently on projects? Can remote offices and employees access files and databases as easily and securely as HQ staff? Are you connecting and communicating with your customers and suppliers in ways they prefer, or are you forcing them to do business your way? Is your company spending more on IT and IT support than your competitors? Is this extra investment paying off?

One of our COOs even looks at Marketing to see if they are leveraging Web-based technologies, such as web analytics and search engine optimization (SEO) that can provide a competitive edge. Your COO needs to embrace advances and be open to their implementation if it makes sense to the performance of the company.

Why it's important and what it suggests:
Not taking advantage of what current technology has to offer is wasting valuable time in operations. Technology is vital for quality control, to maximize production, and many other valuable business functions, and each department should present a business case to the COO for how a technology upgrade or implementation will benefit the company.

7. Are there missing links in your strategic planning process?

Done correctly, your strategic planning process will reveal your strengths, weaknesses, opportunities, and threats (SWOT), from which strategies, tasks, and performance indicators are set for each department. Companies who have utilized Cerius's Exclusive Company Snapshot™ are often unpleasantly surprised to find that their planning process scores low. But even if you feel good about your process, our interim COOs point out that it is all-too common for organizations to view the resulting plan as a conclusion, rather than the first step in driving your operations. Your COO must follow up with managers to make sure necessary elements are understood, to help them stay motivated, and accountable. Employees need to make and see the connection between their initiatives, and how it relates to the company's key performance indicators, for example.

Why it's important and what it suggests:
A properly executed and monitored strategic plan helps you stay on track with your goals. Every employee in your organization should know what drives your company's performance and growth so that they keep it at the forefront of their daily decision-making.

8. How much time is spent on sales prospecting versus handling existing customers?

"The [sales prospect mechanism] isn't just about your sales people," says one COO. "There should be a lead generation mechanism for sales people to use to sell. Companies cannot just advertise and wait for calls – they need to be prospecting." An analysis of how much time the sales people are spending on getting appointments with prospects, versus managing existing accounts, will tell the COO how much effort is going into growth.

Managing your third-party representatives and distributors is also part of this process, and goes beyond just paying them a commission. A COO overseeing sales must find ways to maximize your outside force's existing strengths to benefit the company. For example, do you include them in ongoing technical support sessions that you offer your internal staff?

Why it's important and what it suggests:
Sales drives your company, with prospecting integrated as a continuous process. Extend that integration to your sales force, allowing company employees and outside reps and distributors to be complementary team members. Attention paid to managing – and paying – your outside reps as though they are


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an integral part of your sales team is beneficial to your company's growth.

10. Are you spending too much of each day on operational issues that should, or could, be handled by others?

If your company is running efficiently – meaning there are adequate systems in place and top talent at your right hand to guide management and growth – one of our COOs believes a CEO's time should be spent about equally both in- and outside the company. Internally you may be overseeing several functions, such as sales and marketing, client relations, finance, operations, product development and more, but externally, "your top priorities are maintaining existing customers, expanding sales within those customers, and exploring new opportunities," he says.

If you started your company, you may need to consider another issue: Startup CEOs are used to wearing different hats – it comes with the territory. Many start it as a family business. If that applies to you, you need to ask yourself if Uncle Bill the CPA is prepared to handle a $30 million dollar company; or if Cousin Vickie is really a customer service person, as opposed to a VP of sales. And the hardest question of all: Are you better at product development than leading the company into its next growth phase; are you in the business, as opposed to leading the business?

Why it's important and what it suggests:
If you put a dollar value on it, the reason becomes fiscally clear: Assign a dollar-per-hour rate on your time as CEO, versus your manager's rate. Your company's growth mandates that you look at it from a higher level – you need to lead the business, or find someone who can. "A CEO needs to look for that champion – such as a top-tier COO – or he will have a hard time executing that long-term strategy," warns our COO.

Conclusion

We have some additional observations from our expert COOs:

1. Do you know what you would do with an extra $1 million to put into your company? This is a question one of our COOs likes to pose to every CEO. "Each CEO should know that if they invest another few hundred thousand into X, it will increase sales by Y," he says.
2. Holding regular meetings with department heads – rather than just when something is wrong – can cultivate a team dynamic to help motivate and improve accountability. It will help you as the CEO avoid the pitfall of sacrificing long-term growth due to internal organizational problems.
3. Consider an operational assessment to examine these and other operations functions and identify possible pitfalls. While many answers to our questions can be found in your financial reports, such as trends, profit and ratios, finance cannot talk about what the numbers mean – that's an operational function; and, while a financial audit talks about the past, operational experts can make projections.
4. Finally, take action to assure you have right people doing the right job. "I ask CEOs to rate their staff and designate them as A, B, or C," says one executive. "What they discover is that when they hired these people, they considered them to be all As and Bs. After a rating, they end up with a lot of Bs and Cs. The C people need to be removed, and you need to honestly assess whether your B people will ever be As – which should be the top 10 percent in your industry in the world." Another of our executives notes that as a company grows, current employees often get promoted – and often the jobs get over their heads. "The top management team may not reach the company's growth," he notes. "The skill level is just not there, no matter how much training you give to them." He points out Paul Russell's of Google oft-quoted point on developing employees: "Development can help great people get even better – but if I had a dollar to spend, I'd spend 70 cents getting the right person in the door."

If your frank answers to the questions in this paper have left you feeling uneasy, it means one of two things: Either you need more from your Operations function than what you're currently receiving, or you're overdue to create the role of a VP Operations or Chief Operations Officer.

In both cases the solution need not necessitate the recruiting and hiring of a full-time executive. Smart CEOs and their Boards will seriously consider the advantages of an interim COO to close the performance gaps quickly.

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Cerius Interim Executive Solutions is the leader in delivering interim executive management solutions with the innovation and speed that small to medium business needs to tackle their business opportunities or to mitigate risk.

Cerius leverages the skill and experience of its deep pool of Interim Executives, who bring the broadest array of industry and functional experience, to deliver best-in-class leadership on-demand to our customers.

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