



## TOOLKIT 28 – FIXING SYSTEM SLIPPAGE

- ❖ **Boost profits, customer service and the efficiency of your business.**
- ❖ **Find the hidden profits within your business.**
- ❖ **Renew the entrepreneurial spirit and energy within your business.**

System slippage is the gap between systems, rules or guidelines that businesses establish and their lack of consistent use in practice over time.

Fixing it is a very cost effective way to get significant improvements in performance and profit.

*E.g., our policy is that all customer complaints are logged and dealt with within 24 hours... but in practice only one diligent person complies with this rule and the rest don't so 90% of customers get appalling service.*

Consequently, businesses are not as effective as they might be if the rules or systems were used consistently. The impact on customers therefore can be; they don't care about us; they don't treat us seriously when we complain, we will take our business elsewhere next time.

Fixing any system slippages provides the opportunity to revitalise the business by boosting profits, service levels and efficiency. In practice many businesses have been surprised to find that they are haemorrhaging costs with the slippages often equating to at least the annual net profits of the business.

***'Fixing system slippage helped us to quadruple our profits in one year. It also got us out of the doldrums and got us going again.'***

**Simon Keats, Managing Director, North Staffs Caravans.**

**TIP: THE EASIEST WAY TO MAKE MONEY IS TO STOP LOSING IT**

## WHY DOES SYSTEM SLIPPAGE OCCUR?

Here are some of the main reasons why the system slips:

- 'We never properly monitored or audited our credit control system.'
- 'Our new recruits were not trained to use our system.'
- Different people have their 'own unique way' of doing things.
- 'We (the management) believed the system was being used when it wasn't.'
- No apparent consequences of using or not using the system.
- Inevitable gaps between policy and practice at the sharp end.
- We are too busy with other priorities.....

## THE BENEFITS OF FIXING SYSTEM SLIPPAGE

In order to get your juices flowing here are some of the real benefits in terms of cost reduction or profit improvement business people have actually enjoyed by fixing system slippage:

	<u>Value</u>
• Not following the process for the selection of suppliers (suppliers inflated their quotations) – <i>a retailer</i>	£410,000
• Not following procedures for purchasing stationery – <i>a consultancy business.</i>	£37,000
• Not following the order entry process properly, causing major customer service problems – <i>a regional newspaper group.</i>	App. £1m
• Not completing risk management at commencement of a project (3 projects went off track) – <i>a civil engineering contractor.</i>	£760,000
• Not taking up references for a senior appointment (candidate lied about experience and qualifications) – <i>a bank.</i>	£21,000

- Not following process for 'cross-selling' extras to customers – a caravan retailer. £485,000
- Not following established production planning system (resulting in conflict between sales and production) – a lintel manufacturer. £250,000

It is obvious that the benefits are worth having. Let's look at an example in more detail.

### **STORY – A BUILDING SUPPLIES RETAILER**

A small team of four people was established by a family owned building supplies retailer. They had 10 outlets covering the North of England.

They reviewed the systems which they felt had opportunities for system slippage. Here is what they discovered:

- Nobody gathered from new customers where they had heard of them, so they were throwing money at marketing with no understanding of what really worked. This was costing the business £100k.
- They had 13,000 stock items but profitable sales came from less than 2,000. Some of the stock had been held for over 5 years with no sales. Cost to business - £4m.
- Although they had a pricing policy a number of staff were manually discounting at the counter when they did not need to. Cost - £900k.
- They had a process for staff to ask each customer 'Have you got everything you came for today?' 60% of staff failed to ask the question. Cost estimated at £200k.
- They built in 4% for 'waste'. When calculated it was nearer to 7%. Cost £700k.

The team worked at reducing the slippages and reinstalling the systems, re-training and establishing some new indicators to monitor performance. It took six months but the CEO said "It was a brilliant exercise, very worthwhile as it actually doubled our net profit in year one".

# HOW TO FIX SYSTEM SLIPPAGE

## STAGE 1

- Select your level of investigation e.g. companywide or departmental etc. See levels of system slippage.
- Select a cross section of your people to work as a team on fixing system slippage.

### TEAM SELECTION HINTS:

- Maximum 4 people
- Different functions e.g. sales/production
- Different levels e.g. Managers/Staff
- Ensure users of the system are included
- Pick people who are keen and up for it

### LEVELS OF SYSTEM SLIPPAGE

#### **Whole business**

Often small businesses look at their business overall

#### **Department**

i.e., Production or Sales

#### **Process flow**

i.e., Customer service or new product development

#### **Sub process**

i.e., Credit management as part of the customer service process

#### **High cost or problem areas**

- Tell them you want to improve the profits, efficiency and service levels in the business. Say, 'We can either bring consultants in to do it or we can be consultants to ourselves,' which do you want? Most sane teams opt for the latter choice.
- The first meeting takes ½ day.
- Establish the ground rules with the team (see example). Get them to come up with their own ground rules in order to get their buy in and ownership.

### GROUND RULES – AN EXAMPLE

- No finger pointing
- Treat each other with respect
- Be really honest
- Take the actions you agree to
- Get the facts – no guessing
- Positive can-do attitudes
- Make it fun and exciting, an adventure not a trauma

## STAGE 2

- Get the team to list the systems, processes and guidelines, both formal and informal, in place to control your business.

### CHECKLIST

Typical system processes and guidelines.

Level of system slippage – whole business example

- Recording the source of new customer enquiries
- Recording customer details accurately
- Terms and conditions communicated to customers
- Customer expectations of you
- Taking an order
- Dealing with complaints
- Controlling quality
- Process for cross selling
- Sales effectiveness
- Productivity
- Waste management
- Cost control
- Product profitability
- Buying effectively
- Obtaining customer feedback
- Controlling costs
- Recruiting people
- Risk management processes
- Marketing effectiveness
- Database quality control
- Etc. etc.

Q. What are some of your key processes?

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List the systems and processes that you use in your business onto a flipchart. Do not reinterpret at this stage; record their words verbatim.

## STAGE 3

- Ask individuals to investigate which systems are being used effectively and consistently and which are not used or are used inconsistently. *E.g., there is a system for recording sources of new enquiries, but in practice people don't fill the details in.*

The consequence is – there is no way of assessing the effectiveness of your marketing i.e., cost of marketing is high.

- They can have help from anybody in the business to do this. You should clear this with people.
- If the system is complicated it may be helpful to map it as a process flowchart. This helps identify blockages, disconnects and problems. The caravan retailer mapped their processes and found lots of gaps, so they re-mapped them as part of fixing the slippages.
- Divide up the work amongst the team. Try to get them to work as singles or in pairs.
- Make sure you personally commit to an action – you are an important role model – make sure you take it!
- The brief is to investigate the systems to see if they are being used properly 100% of the time. They need to be creative by asking people, sampling, watching and doing analysis of data where appropriate.

**TIP:** Make sure you don't get people with vested interests evaluating themselves i.e., buyers looking at buying.

- Agree a timeframe – one month to report back on the slippages to the systems.

**TIPS:**

1. If the benefit is big enough consider making the project leader a full-time role.
2. Put your best people onto projects, not just those that are available.

## STAGE 4

### 1<sup>st</sup> Review Meeting

- List slippages and causes onto a flipchart including those where further analysis might be required.
- Make sure you have completed your personal actions – this is critical.

#### TIPS:

1. Show interest between the meetings by asking people how they are doing investigating slippages. Inform them of your progress. Try to get momentum into the process.
2. Remove any blockages that people find e.g. accounts department too busy to provide information required. Remember the prize is worth it.

## STAGE 5

Calculate the financial consequences of the slippages i.e., not using the systems effectively. This creates a priority on the order in which you might deal with the slippages. See example:

<b>System Slippage costs – example</b>	<b>£</b>
<i>Marketing spend</i>	<i>100k</i>
<i>Buying effectiveness</i>	<i>200k</i>
<i>Cost control process</i>	<i>50k</i>
<i>Waste</i>	<i>12k</i>
<i>Lack of planning</i>	<i>10k</i>
<i>Staff costs</i>	<i>20k</i>

*E.g., We are spending £100k on marketing but if the recording system for new customers was used properly and consistently then we could reduce that to £10k, because we would know where new leads come from.*

## STAGE 6

- Prioritise the systems you are going to re-install by the cost benefit analysis in stage 5. Keep this to an estimate on an annual basis e.g.; *waste costs £1k per month that equates to £12k per annum.*

**TIP:** Keep the accountants and bean counters out of the process, this is a management job.

## STAGE 7

- Allocate individuals and teams to re-establish the system, train people in it, set up a monitoring process and make someone personally responsible for it on an ongoing basis.
- If necessary reset new standards and produce a new process map.

## STAGE 8

- Review and share progress on a regular basis until the job is completed.

Meet monthly as a whole team and report progress, lessons and problems to each other as the system slippages get fixed. Keep the momentum. Some can be done immediately, others, like the newspaper story, can take up to six or nine months. Celebrate success and share lessons around the business. Take the team out to dinner to celebrate!

**TIP:** Keep going, be persistent. Success often comes just as you are about to give up.



# TROUBLESHOOTER

## POTENTIAL PROBLEMS

## SUGGESTED REMEDIES

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| People 'too busy' to attend meetings   | - <i>Work with those people who have the energy to change things, threaten with external consultants or ask the CEO for support!</i>   |
| A command and control culture means people find it difficult to be open and honest | - <i>Make sure you overdo the agreeing ground rules and the setting up process right at the start. Spend time on this stage. Reinforce the ground rules by giving your personal pledge that you support the process.</i>   |
| Difficulty in tracing cause of slippage  | - <i>Consider mapping the process in detail.</i><br>- <i>Keep asking why things happen, get into the detail and probe until you really do find the cause.</i>  |
| People do not complete their actions   | - <i>Remind people of the ground rules.</i><br>- <i>Act as a role model by completing your actions.</i><br>- <i>Keep an action-ometer i.e., calculate % actions completed on an ongoing basis and circulate to all team members weekly as a barometer of progress.</i> |