



Sigma Breakthrough Technologies, Inc.[®]

***Technology Corner:
Results, Results, Results...***

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If you are like me, each New Year brings on an evaluation of your investments, both good and bad in the previous year(s). More often the best investments are determined by financial results of the companies you have picked or your mutual fund managers have selected. These results can be found in the company's income statement and balance sheets.

Some of the more useful perspectives in a strategic Lean Six Sigma Deployment are also obtained from the company income statement and balance sheets. These may be analyzed for impact of a strategic deployment of Lean, Six Sigma or Lean Sigma. These documents are both the alpha and the omega when it comes to a strategic deployment! The as-is financial picture should be the starting point, the next step after analysis of these become the deployment goals in the to-be financial picture, and in the end the impact on the income statement and balance sheets should be substantial while approaching the goals defined in the to-be financial picture. Figure 1 illustrates some key line items affected on an Income Statement for a hypothetical \$500M revenue company.

Figure 1
Example with Operations & Transactional Deployment Focus

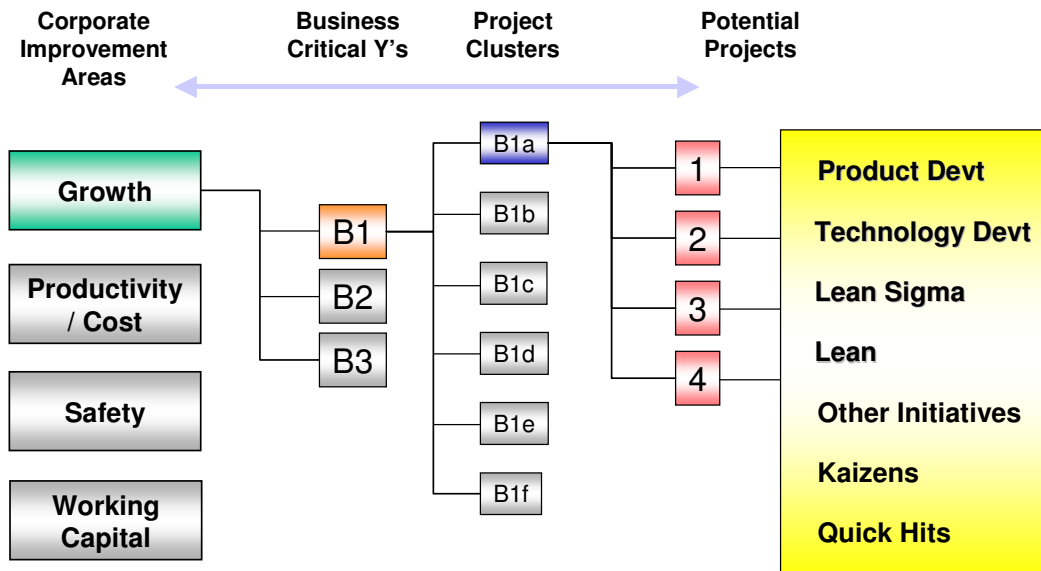
Income Statement		
Net Sales & Operating Revenues (Revenues)		\$ 500,000
Cost of Goods Sold		\$ 365,100
Factory Variation		\$ 335,000
Material	Ops	\$ 290,000
Labor & Load	Ops	\$ 45,000
Variation		\$ 30,100
Inventory shrinkage		\$ 10,500
Non-factory Inc. Cost		\$ 4,500
Non-factory Purchase Price		\$ 750
Factory Transfer pricing		\$ 750
Software Ammortization		\$ 1,100
Product Warranty		\$ 10,000
Other		\$ 2,500
Gross Margin		\$ 134,900
Expense		\$ 95,500
R&D		\$ 38,000
Marketing, Sales & G&A		\$ 17,500
General and Administrative	Trans	\$ 15,000
Distribution		\$ 10,000
Restructuring		\$ 1,200
Depreciation of Other Assets		\$ 7,500
Other Expense		\$ 1,300
Other Income		
Interest		\$ 5,000
Net income before income taxes & other items		\$ 39,400
Income taxes		\$ 293
Net Operating Profit After Tax (NOPAT)		\$ 39,107

Consider that in the beginning of any company-wide deployment, we evaluate weaknesses in both of these key financial documents that require great changes to be felt by all stakeholders; customers, executives, employees, and shareholders. Any leader stating their company is deploying Lean, Six-Sigma or Lean Sigma should be able to state which parts of the company financial picture are targeted for improvement. Once the weaknesses in the financial picture are analyzed, the Lean Sigma deployment planning is added to obtain the to-be financial picture. Each line in the income statement targeted becomes one or more Critical Y's. Each Critical Y generates its own goal tree, with project clusters focused upon improving it. Each project cluster is expanded with Core Process Assessments and/or Value Stream Mapping to find the specific

focus areas. Then the specific projects needed to impact each focus area are defined. A simplified illustration is shown in Figure 2.

If your company deployment focus this year is in delivery of services and products, then key parts of your income statement showing costs of services and goods should be highlighted. If the transactional areas of the company are targeted for improvement, then cost of goods sold and cost of services sold must be improved. The same goes for SG&A (Sales, General and Administrative) costs. In both cases, the company wide operating margins should be enhanced in a meaningful way as each projects results impact the bottom line profits. If this is being done faster and greater than competing companies in the same business areas, the results are unmistakable. Stock analysts take note of these results via key indicators like earnings per share, profit before taxes, NOPAT, EBITDA, etc.

Figure 2
Goal Tree Illustration Connecting to Strategic Growth



Today many strategic deployments are targeting growth of the company as illustrated in Figure 2, and with good reason. Top line revenue growth is a key indicator of overall company vitality. Without it, price erosion and market changes will surely diminish any business over the long term. Managing a growing company and working in it is much more enjoyable for all concerned. The career opportunities for all employees and managers grow, and these advantages in turn create more opportunities by attracting and retaining talented people. Owning stock of a growing company is a key strategy in most investment portfolios. Stock analysts evaluate every company from a revenue growth perspective to make predictions of future stock price movements.

To achieve sustainable top-line improvement, the strategy must develop and deploy key new products and services targeted at appropriate market segments and key customers. Marketing and Design for Six Sigma deployments focus specifically on these areas.

Customers expect services with new products before, during and after the purchase experience. Nowhere is that more apparent than in the purchase of a new automobile. In two different leading-brand automobile evaluations at different dealers, we were handed the keys to new

vehicles with instructions to return within a few hours, but no salesman accompanied us on the test drives. When we returned, our trade-in vehicle was appraised in both instances and a written statement was printed with the results. By contrast, three visits to dealers of another brand auto netted the usual haggling on trade-in value, with escorted test drives, being badgered by the salesmen in each case. The increased value in time saved and the services delivered before purchasing were immediately apparent at the leading brand auto dealers. A fair and efficient trade-in appraisal service and test drive experiences are both services that must be designed if they are to be effective in the eyes of customers. Service delivery and design must not be overlooked if the focus of your strategic deployment is on top-line growth.

In the end the impact on the income statement and balance sheets should be substantial and near the goals outlined in the to-be Lean Sigma deployment picture. In the final analysis the results are measured and rewarded by overall company value as measured by the stock market.

While stock prices are affected by many things, ultimately a strategic and proper deployment of Lean Sigma is company wide and has great and lasting impacts to the bottom and top lines of an income statement. Results like these are obtained only through hundreds to perhaps thousands of projects and thanks should be given to those team members, Green Belts, Black Belts, Lean Leaders and Champions that made it happen. These results are typically rewarded by increased stock values in a growing market and sustained stock prices in a declining market.

We took SBTI clients that have strategically and fully deployed Six-Sigma, Lean, and/or Lean-Sigma and created our own SBTI Client Index for customers listed on one of the American Exchanges (e.g. NYSE, NASDAQ). Inclusion into the SBTI Client Index requires a strategic and company wide deployment, begins after the first year and continues for 5 years thereafter. A composite number is obtained with weighting so the index is unchanged in the first month a new company is added or dropped. Figure 3 illustrates the index compared to the Dow Jones Industrial Average divided by 10 (DJIA) for the last 5 years. Since the DJIA has only the top 30 companies, this is a pretty fair comparison. However, if you believe that a different comparison is more in order, Figure 4 illustrates the same index versus the S&P 500. The S&P 500 is much easier to outperform because of the large number of companies included, but it does represent a more general view of the stock market.



Figure 3
SBTI Client Index versus Dow Jones Industrial Average (2001-2006)

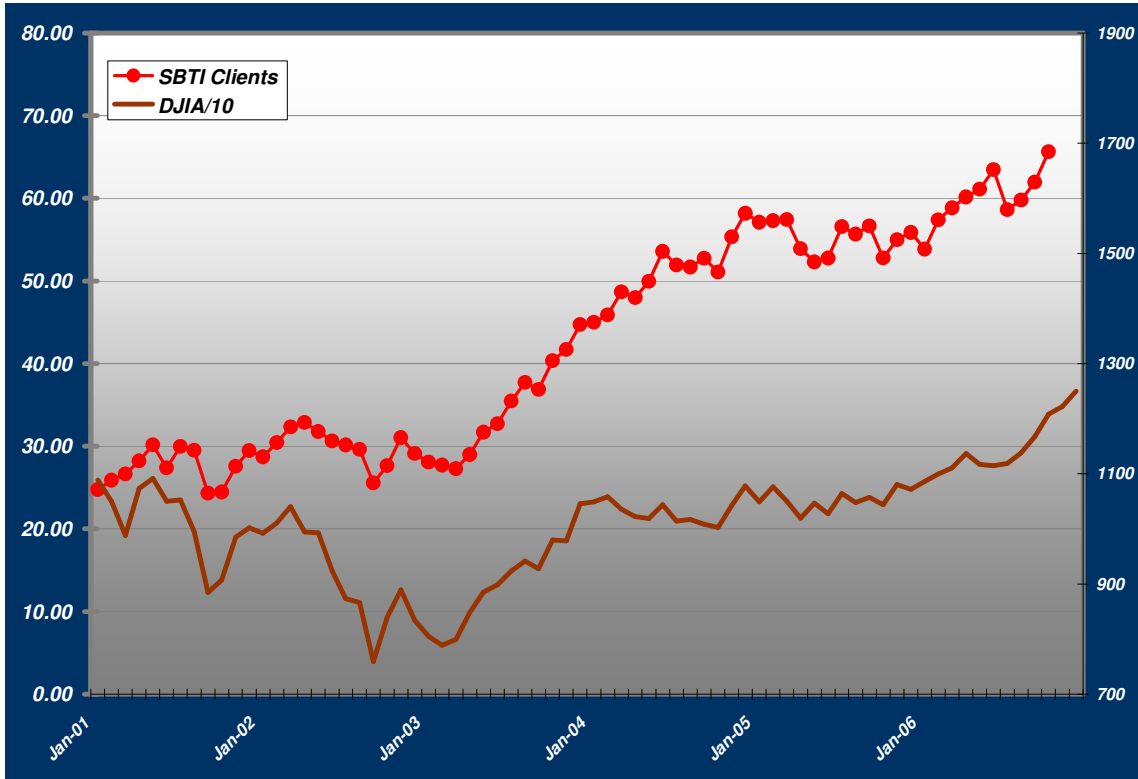
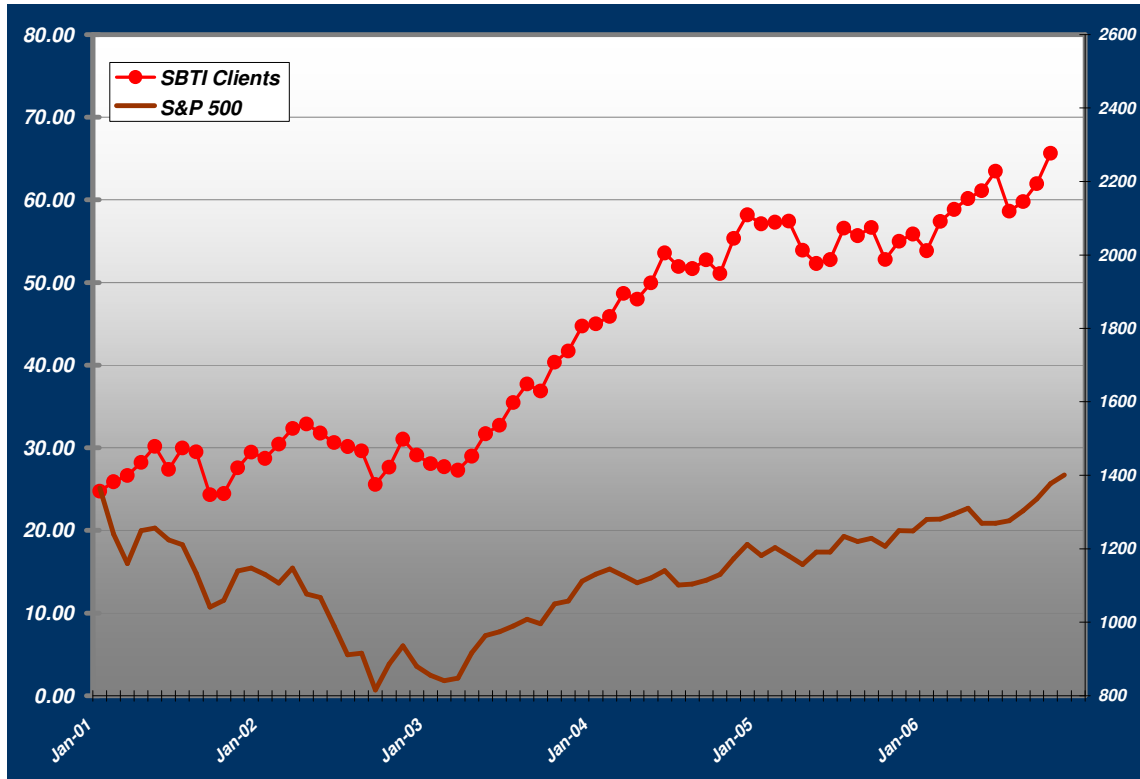


Figure 4
SBTI Client Index versus the S&P 500 (2001-2006)



Summary

It is no secret that many of the top executives from Motorola, AlliedSignal & GE began Six Sigma and/or Lean or Lean Sigma deployments into new leadership positions as they migrated to other companies. The fundamental reason is the same for each situation; these methods produce fundamental and long lasting results. These are the kind of results that are seen and felt by customers, employees and shareholders, and ultimately recognized by stock prices.

If you would like expert help with a Strategic Deployment of Lean, Lean Sigma or Six Sigma, please contact this author at JFicalora@sbtionline.com or SBTI through www.sbtionline.com .

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