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How To Build A Sustainable Business

This manual is an effort to document and layout an approach to building a business that raises the level of success for all stakeholders and prioritizes survival over growth or profits.

All sections may not be applicable to all businesses. For example, receiving instructions for a logistics department won't be needed in a software development firm. However, where a section is applicable, it is our best understanding of how accomplish that task or processes.

Sustainability as our measure

There are times in any business, when it is a wiser long-term decision to take action that reduces profits or growth. In these times, you may be building for a future growth expansion, or preparing for a tough external environment. Our intent has always been to build business that are sustainable and survive over long term as a higher priority than achieving excessive levels of growth or performance. In fact, we find that whenever performance is optimized for, survival suffers.

Beyond the survival of the firm, a sustainable business is one that ensures the survival and even thriving of all stakeholders. This includes making decisions that enhance the ability for the following parties to thrive in any and all environments:

- Employees
- Suppliers
- Customers
- Investors and Lenders
- Owners
- Community Participants
- Industry Participants
- Industry Knowledge Base

We consider every business to exist within an ecosystem of businesses, communities, families, governments, industries, technologies, and other interacting forces. Every business should promote and contribute to the sustainability of all of these entities, and none at the cost of the other.

Profit maximzation as destabilizing

Profits often come at the loss of profit for other parties in the supply chain. This raises risk for suppliers, customers, or other firms in the supply chain, and endangering your ability to operate if pushed too far. As profits are taken from suppliers lets say, they have less margin to deal with downturns, quality issues, or future unforeseen events. Unable to absorb any surprise costs and customer charge-backs, a company with extremely thin margins may be at risk of bankruptcy with just one major unforeseen event. A healthy supply chain will be able to absorb costs related to variation and quality. Without this ability, there is a decrease in stability of various firms in the supply chain and thus the sustainability of your business.

Its not just the ability to absorb costs. They can't innovate, invest in their process, or hire great people. They become brittle, weak, noncompetitive, or at times, fraudulant.

Maximizing your profits can strip others in your supply or value chain from innovating and creating a better environment for you to thrive. Ideally you want all companies before and after you to have the ability to invest in their people, their operations, and their value propositions. This increases the total value created on the chain which you exist, and will create a more sustainable market to be part of. ## Quality and excellence

Sustainability is achieved not only by focusing on the right things, but by doing the right things. Quality is to be prized over speed and cost in order to build a sustainable business.

Cost focused businesses tend to compete in low margin high volume businesses, and price themselves out of access to capital and resources needed to stay for the long term.

Speed tends to produce high-performance results that are tuned to the the current environment, but not usable once a regime shift occurs. A supply chain setup based on short term strategies like tax or tariff arbitrage, social media marketing based on optimizing for a Google search algorithm, or proudcts based on hot trends are not sustainable business practices.

When cost or speed is prioritized, you end up redoing work and reforging relationships. If we can make a decision once, build a feature once, or ship a product once, that is ultimately preferred to doing a thing three or four times. That time and investment in the 2nd, 3rd, and 4th iteration could be invested into a new task or service which could build on the 1st. Rework is expensive.

It is expensive because you are wasting resource redoing a thing which was already done, and it is expensive because you are not doing a thing which could compound and grow over time.

Quality is to be the focus.

- Quality of product
- Quality of decision
- Quality of information
- Quality of communication
- Quality of operations
- Quality of process
- Quality of people
- Quality in all things

Quality considers all stakeholders

For quality to really take hold, you will need to focus on all stakeholders. Stakeholders to consider include:

- Suppliers
- Customers
- Partners
- Industry
- Community
- Sub Groups
- Employees
- Investors
- Owners
- Governments
- Environment

Quality breeds excellence

Evolutionary nature

For a thing to survive over a long period of time, it must be evolutionary. It must be able to adjust to changing external factors and environements. Biology is an excellent model here. There are mechanisms built in to adjust and adapt. Your business needs the same. This is the second key aspect of building a sustainable

Most business are based on a specific business model, and a specific target customer, and a specific sales process. Fine tuning these can explode your business in sales and popularity. However, this is not sustainability. Ask yourself, will this all still hold true 100 years from now?

If you want to build a sustainable business, you will slow your growth a bit. You won't be primed for 100% maximization of the current environment, but you will be around longer. You will need to divert some time, some money, and some resources to evolutionary processes. You will need to build the ability to adapt and change into every part of the business.

Revise and review

While specific processes and methods are discussed elsewhere in this manual, a general outline can be found below. You must build in regular and scheduled reviews and revisions. Some things to build in include:

1. Review and revise the organizational context.
   1. Who are the stakeholders?
   2. What are their needs and expectations?
   3. How can each contribute to the organization?
2. Review and revise the company purpose.
   1. Mission
   2. Vision
   3. Values
   4. Culture
3. What are short and long term risks and opportunities?
4. What are the current strategies, policies, and objectives?
5. What are the critical processes that support the above? Are they achieving or should they be adjusted, changed, removed, added?
6. Review and revise resource use
   1. How are resources being deployed?
   2. Are they getting a return?
   3. Are they being wasted?
   4. Consider time, money, equipment, assets, skills, capabilities, capacity, networks, product reach, brand
7. Review firm performance (conscience capitalism)
   1. Financial
   2. Environmental
   3. bjective achievement
   4. Social good
8. Make sure all areas of business have learning and improvement process built in.

In short, what is working, what is not, and why?

Evolution as a process

Documentation

This brings us to the third key aspect of building a sustainable business, documenation. Documenting work, decisions, and outcomes is one of those things that can have a 10x effect on your business. Some of the elements which should be documented in any business include:

- work instructions
- processes and procedures
- decisions
- exceptions
- changes
- strategies
- issues
- performance metrics
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The importance of documentation

Documentation allows a business to do a number of things that an undocumented one cannot do.

- If all of your work instructions are documented, then new hires require little to no training, allowing your company to grow faster, with less mistakes, and less time / money invested per new hire.
- If you document decisions and review outcomes, you are able to isolate inputs for good decisions and strategies versus poor decisions. In turn, your strategies will become refined, your processes will increase in output, and achieve outcomes with less wasted resources.
- If you document changes youwill spend less time answering repetitive questions concerning the change, the reason, and the affected processes.
- If you document strategies you will have something to hold your people accountable to, to measure against, and to focus on.
- If you document issues, you will have a running history of every problem you incurred, what caused it, and how it was fixed. This can then be used to assist new hires with correct problem resolution without draining managers time or reproducing already made mistakes.

It is impossible to created an organizationt that continues to develop, adapt, and improve if there is no documented text on where it currently is, how it operates, and where it is going. Like DNA, proper documentation encodes the business in a way that is reviewable. Depending on what is documented, the text might give piles of data to help shift or even completely change company policies, strategies, or processes.

Methods of documentation

Operation Manual

The smoother information transfer is between various business divisions, partners, and employees, the higher quality the outcomes of various decisions and tasks during the day.

In order to keep information flowing smoothly and readily available, we adhere to a policy that, as much as possible, all systems should be setup to facilitate remote, asynchronous work.

We believe that being physically together has many benefits. In fact it is our preference that all are working in on of our facilities. However, by building a communication and information system for remote and async work - it ensures that in the most chaotic times, communication will not break down.

Some of the tools that make this possible include: * email * slack * trello * knowledge base * file sync * collaborative documents

Employees

Hiring

Culture

Tailoring Culture

Each and every employee is different. While there are universals in communicating and working with people, there are also specifics.

The question that matters for each person that works for you is this: "Under what conditions does this person thrive?"

What conditions?

Conditions inlcude a number of aspects to their work and personal lives including

- Job Role
- Work Responsibilities
- Work Area Layout
- Control over work
- Compensation
- Benefits
- Communication Tools
- Advancement opportunities
- Learning opportunities

Some indivudals work better uninterrupted, able to focus on their work. Others thrive on social interaction. There is no right or wrong, only different people on a spectrum of choices. For example, I prefer to

- be incentived financially, and don't care about other perks
- work in the dark with a lamp on

- communicate through digital platforms (it allows me to search, re-read, and better help coworkers)

Others I work with prefer everything face to face, to have lots of paid for services, and to work in open, bright spaces.

Conditions are important to people. Individuals spend 8 or more hours a day in an environment that you control. Make it a place they can thrive!

Thrive?

We want people to thrive.

What do we mean?

To be

- happy
- engaged
- fullfilled
- taken care of
- invested in

We need to remember that what creates this in you, may not create it in others. So first find out who each individual person is, and create a way for them to thrive.

Some examples for each person:

- Do they want lots of benefits and services or little help with high incentives?
- Do they work better alone or in groups?
- What drives them?
- What creates a sense of well being, contributing work or contributing to the conversation?

These questions are essentailly endless, but you get the idea.

Personality Tests

I find that using some tests help understand who is working with you and how you can help them thrive.

I am against using them for hiring as it creates biases and can lower diversity as you fill a company with a large number of your favorite "type". However, once hired, using them to help create an environment they can thrive in is extremely helpful!

I personally like the Gallup Clifton Strengths Finder. There are many oither great tests and quizzes though.

Service and Retention

The closer your business is to a commodity, the easier it is for both customers and employees to switch to competitors.

The truth is, most traditional businesses are not running anything proprietary. Most small and medium sized businesses are trying to do what others do, just better. Think about law offices, financial advisors, plumbing distributors, restaurant supply companies, or even a local manufacturer. Similar products create competition for your customers; similar skills create competition for your employees.

This means you need to purposefully build in retention on both sides of the field.

As far employees are concerned, most commodity type businesses have a paradox. Turnover is high, and training can be expensive. It becomes much to expensive to train workers as turnover is high. Think of restaurants with turnover from 50% to 90%, some leaving in the first month.

Beyond this as you train them, it increases how quickly they leave to use their new skills somewhere else.

The answer to this can be found by providing advancement opportunities and incentives. Someone who is trained and has an opportunity to use that skill for internal advancement will stay longer. This will result in more experiences personnel. In turn, you'll have much better decisions being made at the fringe, near the customers, given the increased experience. Combine this with more fulfilled employees, and you have a service that competitors can't match; a fulfilled and 10x knowledgeable team helping customers with each and every transaction. That is compounding value.

USHG did this in the restaurant business - a very low margin and high turnover business. Low margin, high turnover businesses can't afford to invest in employees. However, USHG has a number of restaurant, from fast casual to fine dining, which allow room for advancement. You can move up class, become a manager, co-own, or possibly even buy one of the groups restaurants. This creates an extremely high retention, happy employees, the best service in the industry, and amazing returns on investment.

The key is to set up advancement opportunities. Beyond this, having a business model which can support this type of behavior is key. Increasing margins / employee gives you a larger amount of money for investment. Levers which help this is sales efficiency, operational efficiency, and employee productivity.

https://kwokchain.com/2019/02/22/aligning-business-models-to-markets/ # Information Management

Business activities generate data, and this data needs to be communicated to parties both internally and externally. Having proper systems that ensure recording, checking, and sharing this informaiton effeciently and accurately can mean the difference between a business that is floundering and one that is thriving.

In most small businesses, 30% - 50% of time is spent searching or communicating information. This can be drastically reduced by standardizing how this takes place. For this reason, many companies have standard processes and documents used for just the purpose.

Below are a list of documents, records, and procedures that you should consider in order to setup a streamlined operation. Documents are usually more static documents on how or why, whereas records tend to be more dynamic in recording informaiton as it is occuring. These terms are used, even as we move more and more of this to digital records and digital documents.

Documents

- Company Vision / Mission / Values
- Company Objectives
- Plan to achieve company objectives
- Company Policies
- Company Story / Sales Talk
- Key Procedures
  - Delivering product / service
  - Producing product / service
  - Managing suppliers
  - Running warehouse
  - Invoicing / Payments
  - Sales strategies
  - Managing quality of product or service
- Work Instructions
- Employee Manual
- Supplier Manual

Records

- Maintenance and Calibration of monitoring and measuring equipment
- Competence Records
- Product / Service Requirements Review Record
- Record of New Requirements for Product Service
- Design and Development Inputs Record
- Record of Design and Development Controls
- Design and Development Output Records
- Record of Design and Development Changes
- Record of Evaluation of External Provider (Supplier)
- Record of Product/Service Characteristics

- Record of changes on customer's Property
- Record of Changes in Production/Services Provision
- Evidence of Product/Service Conformity
- Record of Nonconformity
- Monitoring Performance Information
- Internal Audit Program Results
- Nonconformities and Corrective Actions

Procedures

- Determining Context of the Organization and Interested Parties
- Procedure for Addressing Risks and Opportunities
- Competence, Training and Awareness Procedure
- Procedure for Control of Documents and Records
- Sales Procedure
- Procedure for Design and Development
- Procedure for Production and Service Provision
- Warehousing Procedure
- Procedure for Measuring Customer Satisfaction
- Procedure for Internal Audit
- Procedure for management Review
- Procedure for Nonconformity and Corrective Action

Dissemination

Proper access to information is essential. For this occur the following aspects should be considered:

- access
- context
- auditability
- asynch interaction
- remote viewability

When setting up on how information is captured and interacted with, consider the above above points.

Access

You want to make sure the everyone, or at least those who may need it, have access to information. For this reason, in many companies I have been involved with, we have restricted any information being saved to desktops or hard drives.

There are many tools to allow workers to share and access all information being created and analyzed across the entire company. Some of these include:

- Dropbox
- Private Syncs like Nextcloud
- Office 365
- Google Docs
- Quip
- Trello

Context

Having the right information is not good enough, you must have it at the right time. Understanding the contextual importance of information is key; especially in reducing search and retreival time (a huge time waste for knowledge workers).

An example might be customer specific shipping requirements. Let's assume you have 200 customers, and 6 have specific and unique instructions. You want to document this information in a way that no matter who is shipping, they will ship correctly.

You could have a document with all specific customer shipping requirements posted on the online manual. You could then have as part of the shipping instructions to reference that document before each shipping is prepped. However, this would result in wasted time for 196 customer's shipments. Shippers would most likely stop checking.

So how do you make this information available, only when it is needed, and in a way where a new shipper will come across it? This is the importance of information context.

[One method on the above is to place the instructions on a last page of packing slips that print for those customers only. It requires custom software, but something that has proved simple and effective.

Another method we have used when digital screens are used for dashboards, is to show the instructions, or some badge next the shipment when it is loaded on the display screen in the waerhouse to be packed up.

Basically you are looking for some trigger in the normal course of packing to either give the instructions, or point the shipper to look them up.]

Auditability

As small companies do business in more geographic places, I have found auditability to be of growing importance. As owners, operators, engineers, and sales staff travel, there are some activities that they want to keep abreast on.

In lieu of company meetings full of updates, you can create methods by which activities and information is logged. Then, at any point, and from anywhere in the world, a person can scan the history and see all updates, data, and activities on certain issues.

- Owners can see sales activities across a spectrum of verticals
- Engineers can view software or hardware updates
- Sales staff can see updates from the quality department on inspections and product documentation

One of my favorite free-and-easy implementations of this, is a combination of Trello and Slack.

You can integrate Trello with a number of applications, using its Kanban-like system to move things like sales, quality inspections, or shipping through a pipeline. All updates then get pushed to a channel in Slack. This allows anyone traveling to scan the slack channel and be up-to-date on all activities and updates in a certain area.

There are much better ways to do this, however, that is a quick one and free method that works surprising well for small, resource-strapped companies.

Asynch Interaction

We have found that the more information relies on synchronous communication, the more bottlenecks and hold ups there are in carrying out the many decisions needed to run a business. As teams grow, locations disperse, and time zones get involved, finding one time to share key info gets harder. This results in information being held up for days, or sharing the same thing multiple times. For this reason (and many others), you should set up asynchronous was to share information and interact.

Again, comments on Trello allow for this, and is a great free tool to use. Others include Slack, email, software with comment functionality, and intranet social networks.

Remote Viewability

While this tends to go hand in hand with Auditability and Asynch Interaction, it is a different need. You could post post-its on peoples desks with things you need and it would be asynch info. However, with travel and dispersion growing as small companies compete in a global world, remote access to information, communication, and decisions is key. # Risk Mitigation Policies

Product Prequalification

Whenever delivering a product or service, there is both a pre and post delivery time frame.

The pre delivery time frame for a product may consist of

- search times
- lead times
- production times
- inspection times
- delivery and logistics times

The pre delivery time frame for a service may consist of

- research time
- strategy time
- production & development time
- launch time

Regardless, there is an investment up front before delivery of a product or service. Any dislike or rejection of a delivered product or service will result in a restart of the pre delivery time frame activities. While this is sometimes ok, it is often not acceptable. A better practice to implement is to make sure that when delivery occurs, it will not be rejected.

In practice, risk is lowered substantially by pushing all questions on acceptability as soon as possible, leaving a window between possible rejection and need for delivery as large as possible.

This could mean:

- submitting deliverable bullets before initiating pre delivery time frame activities
- sending samples before starting production
- agreeing on acceptance criteria before accepting an order

Below are some practices to employ depending on your deliverable and product or service status.

Acceptance Criteria

In manufacturing you will want a full list of what your product will be measured against. The common points to consider and agree on are:

- Acceptable materials and element structure
- Dimensions that will measured
- Acceptable tolerances on dimensions that will be meausured
- Inspection Plan

- The number of parts that must be measured to ensure approval
- The types, templates, or categories of documents that must be submitted
- Regulatory approvals that must be obtained, either for your company, your line, or the specific product

An example of the above might be an agreement to meet an engineering print and submit the following documents: * Customer Order for the parts, or a stocking agreement * Bubbled Blueprint (with acceptable materials and dimensions to be measured with tolerances) * A dimensional inspection sheet mapping measurements of 5 parts to the bubbled print

Pre Qualification

This one has saved numerous companies I have been involved in. If you are ordering parts for stock and distributing that part over time, then parts sit in your warehouse for weeks or months until getting delivered. This is common with distributors.

Let's assume you have a part that has a 15 week lead time to produce from your suppliers, and you have to buy 24 months at a time to get prices that make it worth you stocking. You place order 1 and get in 24 months of stock in. 18 months later, you place a new order for 24 months as you only have 6 months left of stock. It comes in within 12 weeks, ahead of schedule. You inspect it, pass it, and place it in stock. You now have 12 weeks left of the original order, plus the new lot you just received.

Normal operations use a first in, first out for inventory. This is wise and prevents stale stock and keeps the inventory up to date. In using FIFO inventory pulling, you will use up the original lot before moving to the new lot. After shipping all of the original lot, you ship the first shipment of the 2nd lot (just recieved in 12 weeks ago) and it fails at the customer.

Now you are stuck. You approved it, they are rejecting it, and they won't use it on the line. You are 15 weeks away from getting more at best and now you face weeks of shutdowns, backcharges, and a barage of customer calls, meetings, questioning, etc.

A better practice is to

- re-order parts when your stock level in terms of weeks reaches 2x your lead time for that part in weeks.
- bring all new lots to the customer for immediate qualification

The benefits of this are obvious. If the new lot fails, you still have a full standard lead time to get new parts. This gives you time to get new parts, work things out with the customer over time on the existing lot, all without shutdowns or pressure.

This can be adapted to services and deliveries as well. By bringing concepts or drafts early to customers and working in a collaborative setting, you can find mistakes or aspects that the customer is not happy with early. You will then not have to restart the entire pre delivery time frame activities from scratch.

While a "big reveal" is attractive in concept, it is unessecarily risky for companies.

There is no additional cost in sharing current project updates, or bringing parts over early (they will be brought over to the customer eventually anyway), but there is massive cost to waiting. The risk - reward skew here is quite large and in favor of pushing all deliveries for qualification as early as possible. # Finance

Expenses

When an expense is an investment

Cutting expenses is good for business and opens up cash flow for improvements and opportunities. Cutting investment lowers your capability, competitiveness, and future value. It is extremely important to understand the difference.

These two are hard to differentiate for many businesses given they both show up in similar places on the income statement, under *expenses*. The difference is crucial since removing investments has a compounding negative effect on your business while removing expenses has a compounding positive improvement. Muddling the differentation even more is that fact that they can be tied together in one category, in one invoice, in one line item.

> Company A and Z both ship products to their business customers. Their parts sit on their customer's shelves and in their customer's warehouses for weeks or even months at a time. The boxes that these parts ship in are eventually discarded when the parts are used. Spending money on the boxes is a neccessary spend in order to move the parts from supplier to customer. Their purpose is purley utilitarian. These boxes are an expense for both companies. Company A decides that they wish to spend a little more on their boxes. Rather than corregated brown, they purchase a two color themed box with a white base which will stand out amongst the many other boxes and bins at the customer facilities. They believe this will differentiate them from other companies, keep their name and brand top of mind to the customer and subtly improve the customer's opinion of Company A.

While Company A is simply buying a more expensive box, the reality is that there are two components to their box spend. They have an *expense* portion which is the cost of the most basic option that gets the job done correctly.

However, above this, they have an *investment* portion which is used for sales and marketing. Almost all companies classify these in the same category.

Becuase of how muddled this can get, there is often a purely analytical view of expenses that gets targeted which creates short-term improvements, while simoultaneously realizing a negative compounding effect over time.

note: this above sentence highlights a theme in this book, that poor decisions made purely on analytics can have short term positive effects while eroding your companies long term success. This is the enemy of sustainability.

When every outflow of funds is viewed as an expense, it is easy to take a "spreadsheet" approach and start optimzing, modeling *what-if scenarios*, and cutting out the waste. This view ignores strategy. Marketing strategy, business model strategy, international strategy, all of them. Many expenses are an investment.

Service is an excellent example. Customer service is a major differentiator for many local, small, or commodity type businesses. When what you are selling (or more appropriately, the outcome you are selling) can be bought elsewhere at a low search or travel cost, service is important. However, service is expensive. Service requires time and people, two of the most scarce and expensive expenses a company has.

From an analytical view, service can be thought of as resolving a customer iqnuiry at some level relative to the customer's expectation. So the components are the

- inquiry
- resolution
- level of service

If upon a review of customer service data, you find 80% of inquiries are simple questions with the answer sitting in a database field - you can imagine a great expense reduction tactic. Automate the capture of the inquiry and resolution for all of those inquiries. You will free up 80% of your customer service labor cost while increasing time and effeciency. You can also scale customer service much easier. This the the thought behin the phone queue - "Push 4 if you want to speak to someone about travel...."

What is missed is customer service strategy. Customers call or engage in service only when there is uncertainty or a problem. Most customers never choose to engage with customer service unless neccessary. This creates an initial mood of neccessesity, a "get it over with" mentality. When this mentality hits a phone queue, there is frustration and a rise in anxiety. You may get stuck in loops, or it doesn't find your account based on the numbers you enter. This only adds to the frustration. The negative customer reaction grows worse as you move right down the uncertainty <--> problem spectrum. I have personally switched companies that quickly and personally resolved issues or questions I had.

Customer service needs to be, by definition and need, personal and high-touch. Not understanding this can lead to lost customers, slower growth due to retention, and overall bad satisfaction scores.

> Automation can reduce expenses, or it can reduce customers. It is important to understand the difference.

Knowing where to apply effeciency principles is a key differentiator between sustainable businesses and everyone else. Not all outflows are expenses, some are investments. # Receiving Goods

It is said that great companies nail two important aspects of their business

1. product
2. distribution

Distribution is how our customer gets our product or service.

One of the foundations to any well-run distribution service is the receiving operation. It is the procedure that sets up the rest of the product delivery service for success.

A proper receiving process will reduce the risk of

- shipping the wrong part
- shipping a bad part
- shipping late
- not being able to ship
- wrong inventory numbers

Many of the common inventory problems experienced, stem from an improper receiving process.

If your business is small, you might leave your items in a box or original shipment packaging until you need to pull an item for sale. As your business grows, or you employ help in this process (known as picking), others who do not know the product as well as you may pick the wrong item. They may not be able to find the item and thus not ship an item which is readily available. Inventory counts might be off since it is not clear from the packaging how many items are left.

All of this can be avoided with a few policies and a proper receiving procedure.

Policies to implement that save from a host of troubles mentioned here and others inlcude:

1. All packages received are processed same day
2. Nothing goes into the warehouse that can not be shiped as-is to a customer
3. All parts received are packaged in the manner they will be shipped upon being received.

These policies implicity imply a few processes such as:

- The need for a pending or rejected area. That is, goods not ready to ship out for any reason including
  - Waiting for customer approval
  - Quality defect
  - Need secondary processes
  - Require internal review
- What can and cannot be shipped to a customer is documented and known
- How parts are to be shipped is known at time of receiving and made available (whether a standard process or custom customer order)

A proper receiving process will include:

1. Inspection of shipment before delivery personnel leave the site
2. Packing List Retreival
3. Count of packages to the packing list before delivery personnel leave the site
4. Close inspection that the contents of the delivery match the packing slip in
   1. item
   2. configuration
   3. quantity
5. Quality inspection of all parts
6. Proper Information Record if this is a new part
   1. Add photo
7. Repackage of all parts
   1. Shippable container
   2. Properly labeled with neccessary information such as
      1. Part Number
      2. Lot Number
      3. Description
8. Placement in the appropriate/assigned area in the warehouse
9. Proper system receiving in any inventory and/or accounting systems. # Restructuring Operations

Operations, even the most modern, evenutally become dated. Often times a company is bought, or a new leader comes aboard and needs to "refresh" the firm, it's strategies, and its operations.

I have been involved in a few of these, what I call, restructurings. Operations can become ineffecient over time for many reasons including:

- Leaders using dated strategies
- Managers not keeping up with technology
- Becoming complacent with what is working, and riding the decline
- Industry distruptions and innovations
- Legal and regulation changes

I have seen these operation overhauls go extremely well, and extremely poorly. I have seen incredible margin expansion and sales explosions, as well as bankruptcies.

In order to help myself and you experience a more successful restructuring, I've inlcuded what I have found to be a basic checklist or procedural walkthrough.

Understand the resources

One of the most important things that you can do when first looking to revamp a company and its operations, is to really understand its resources and its people. Restructuring is more about correct allocation of what is there, than acquisition of new resources to place. So it is crucial to review what the company has, and how it is using it.

This review process has a number of side benefits as well. The most important resource of any company is its people. Spending time with each person will allow you to find great people and potentially misplaced people, all while building trust. Most teams will not like having an outsider come in to tell them how to work at something that they may have spent decades doing before you got their. Because of this, walking and making changes day one is often not the best approach. Doing a personnel review is a great way to build understanding on the current state of the company, while also building trust with those who work there. Asking questions shows them you are looking to learn from them, and acknowledges their skills and knowledge.

Don't underestimate what's already being done

Another reason to hold back on changes when first showing up is hubris. Every industry is different, and every company within that industry is different. So it is crucial that you understand the small details of *why* things are done a certain way.

I cannot tell you how many times I have redesigned a process, or changed a procedure to a much more effecient or automated system - only to find out that there were small 3rd order consequences that I never thought of.

Walking in thinking that you have the best way, without first getting to know what is being done and why, is a dangerous move.

The goal of a restructure

For our purposes, we are going to assume that you are restructuring for

- Higher sales
- Higher margines
- Higher productivity

- Higher cash flow
- Higher value

We can take these metrics and break them down into focal points to work on.

Take a look at the below breakdown...

We assume **Value** is **EBITDA** (or SDE) and a **multiple**...

- There are two levers for increased EBITDA:
  - Revenue, which comes down to:
    - More customers which comes from:
      - New Customers
      - New Markets
    - More $ per customer which can be seen as a result of:
      - Better availability
      - Better service
      - More Market Share
      - Better Pricing
  - Expenses, which can be reduced by
    - Lowering current cost
      - Better bidding
      - Optimizing Inventory
    - Keeping costs steady as revenue increases (productivity)
      - Resource Allocation
      - Culture
      - Process Improvement
      - Customer Service & Satisfaction
- There are two levers for multiple expansion
  - Growth - covered above
  - Technology Enablement -
    - Information platforms
    - Automated planning and action
    - Assisted Decision making
    - ERP / MRP systems
    - Communication Systems

Now that we have created a generalized breakdown of value encompassing all of our points including revenue, margin, and cash flow, we can create an approach to carrying this out with a current operating business.

Generalized Restructure Approach

1. What resources do we have and how are they allocated?
   1. Get to know every single personal one by one. These insights are often the best for later on. Record everything since you wont know what to document during this phase.

        1. Who is each person (personality, desires, strength, weakness)?
        2. What does each person do?
        3. What do they use to do that?
        4. What are they frustrated with?
        5. What are they proud of?
    2. What are the financial resources and expectations?
    3. What is the asset/equipment list?
    4. What the capabilities and skills available in house?
    5. Any special relationships, directions, ideas half pursued, partners, etc?
2. Where can we re-allocate
    1. What are the real value centers for the business?
    2. Which could improve with more?
    3. Which is stressed with too much?
    4. Which don't we have that we should?
    5. What are we focusing on that we aren't good at and don't need internally?
3. Where can culture be better?
    1. Does every person feel they are cared for and matter to the company?
    2. Does the company care for the people in a legitimate way?
    3. Are they excited for excellence to hiding from community?
    4. Do they share mistakes in order to work together or hide them?
    5. Do people feel under-challenged, overworked, ignored, or suppressed?
4. Where can we streamline
    1. Are they using best practices where applicable (ex. ISO)
    2. Are there documented processes and expectations?
        1. Where can we eliminate uneeded steps which don't impact service or quality
        2. Where can we automate steps or parts of processes (like contract reviews)
    3. Is there a continuous improvement mechanism?
        1. How are ideas collected? The entire company or just a few that have input to the top?
        2. How are they vetted?
        3. Who is approached with solutions, only management or the actual users?
    4. Restructure inventory and optimize (minimize inventory $ given availability metric)
    5. Restructure bidding and optimize (minimize total cost of ownership given need metric)
    6. Restructure logistics and optimize (introduce novel distribution to customer programs to meet customer metrics while helping our own)
    7. Continually focus on customer issues/complaints, internal frustrations, things that take too long, have a poor completed percent, etc.
5. Is there a predictable sales process / pipeline?
    1. What channels work for this market?

2. Which are we using? Which have we tried?
    1. What are the rough numbers for various pipelines?
    2. Where are the improvement opportunities?
3. Where are the opportunities?
    1. Geographic
    2. Markets
    3. Customers
6. What can we create, reinvent, or fix?
7. What would make someone pay more to do business with us or stay with us (increase the savings needed to switch)?
    1. Reduce search and information friction
    2. Reduce communication friction
    3. Make all info available for easy decisions
    4. Innovate tools, market knowledge, inventory models, etc
    5. Other (Not being submersed in the business, I'm sure there are more) # Employee Manual

Types of Employees

We have created 3 characteristics for all employees. These characteristics help set expectations and limits. We try to only set limits where neccessary, and the ones we do set have specific reasons. This said, expectations are different for different types of employees, and thus comparing can lead to some issues.

We therefore have the following characteristcis for employees

- Work
- Available
- Onsite

Work

A *work* employee is someone who is really hired to accomplish something specific for us. Sometimes this will not have to be done at a certain time or place, but it does need to be done.

Examples might be * software engineers * demand planners * sales personnel

Available

An *available* employee is someone who needs to be available between certain hours as part of their role.

Examples might be * phone reception * customer service

Onsite

An *onsite* employee is someone who needs to be onsite in order to properly accomplish their role.

Examples might be

- shipping / receiving
- facility maintainence.

These characteristics are not mutual exclusive.

- A quality engineer is both *work* and *onsite*. They are hired to complete inspections and, due to the nature of that job, they must be done onsite. However, the timing of the those inspections do not matter.
- The CEO must be onsite to instill leadership, and is required to do certain work, but the timing is not precise and mandatory.

These characteristics may be dynamic. There are times when emergency inspections are required. For this reason you may have one quality engineer always ready during normal production hours. In this case that particular person would be *work*, *onsite*, and *available* and thus held to all three standards during that day or time period. # Supplier Manual

Logistics

Having a supplier request a shipment to you

After suppliers are done with an order, they will often request "how they should ship" to you.

Regardless of your business, you will want to know a few pieces of information in order to set something like this up. You should request:

- The address of the finished good
- The contact at the supplier for setting up shipment
- Incoterms of the shipment
- What the date it will be ready for pick up is
- A packing list with the following information
    - Each item being shipped by its part number
    - A description
    - Quantity for each item
    - Size of carton for each item
    - Quantity of each carton
    - How many total cartons the shipment is
    - What is the total volume (CBM is the used globally)
    - What is the total weight (KG is used globally) # Appendicies

Appendix 1 - Perspectives

Long Term Focus

Experimental

Compounding

Appendix 2 - Questions to ask

Strategy

1. Will this still be applicable 100 years from now?

Process

1. What if this grows 100x, can the system handle it?

Appendix 3 - Policies

- All systems and workflows should be setup for remote, asynchronous work
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