Primer on Continuous Improvement Concepts
Overview

• This presentation provides an overview of basic Continuous Improvement concepts

• It is not intended to be a comprehensive text or reference on the subject

• It is intended to facilitate discussion with the working group on the basic concepts, how they might be adapted in a monopoly business context, and how they might inform measurement of performance in the Renewed Regulatory Framework
Outline

• Continuous Improvement
  – What is it?
  – Why pursue it?
    • What is “quality customer service”?
  – How is it done?
  – How is it measured?
Continuous improvement is an ongoing effort to improve products, services or **processes**. These efforts can seek “incremental” improvement over time or “breakthrough” improvement all at once.

Among the most widely used tools for continuous improvement is a four-step quality model—the **plan-do-check-act (PDCA) cycle**, also known as Deming Cycle.

Other widely used methods of continuous improvement — such as **Six Sigma**, **Lean**, and **Total Quality Management** — emphasize employee involvement and teamwork; measuring and systematizing processes; and reducing variation, defects and cycle times.
## Continuous Improvement: Why pursue it?

<table>
<thead>
<tr>
<th>Customers</th>
<th>Competition</th>
<th>Change</th>
<th>Cost of Poor Quality</th>
</tr>
</thead>
</table>
| • Who are your customers (internal & external)? | • What impact is competition having on you? | • What changes are occurring?  
• Society?  
• Your industry?  
• Your organization?  
  • How do they drive the need for Service / Quality? | • Where are your areas of greatest waste, rework, and unnecessary complexity?  
  • What is the cost?  
  • Dollars?  
  • Time?  
  • People?  
  • Customer defection? |
| • How do they define Quality?                    |                                      |                                             |                                               |
| • How to they drive the need for Service / Quality? |                                      |                                             |                                               |

Continuous Improvement: More on why

The Potential Cost of Making A Customer Unhappy

• Unhappy customers tell at least 10 other people.

• Happy customers tell 5 other people.

• Therefore, potential cost of making a customer unhappy = 16 lost opportunities:
  
  1 (original, unhappy & telling people)
  
  + 10 (negatively influenced from hearing a horror story)
  
  + 5 (indifferent from not hearing a happy story)
  
  16

• What are the costs associated with reaching 16 customers?

Continuous Improvement: Even more on why

- **The Cost of Quality** (CoQ) is a measure of how much it costs a company to achieve its present level of quality performance.

- In general, the goal is to drive up quality while driving down the CoQ.

- Two components of CoQ:  
  - cost of getting it right; and  
  - cost of doing it wrong.

<table>
<thead>
<tr>
<th>Examples of costs of getting it right</th>
<th>Examples of costs of doing it wrong</th>
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<tbody>
<tr>
<td>Inspection &amp; testing</td>
<td>Re-work</td>
</tr>
<tr>
<td>Training</td>
<td>Re-design</td>
</tr>
<tr>
<td>Market research</td>
<td>Scrap</td>
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<td>Standardizing procedures</td>
<td>Warranty costs</td>
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<td>Preventative maintenance</td>
<td>Back-orders</td>
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<td>Quality &amp; process audits</td>
<td>Absenteeism</td>
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<tr>
<td>Clarifying customer expectations</td>
<td>Staff turnover</td>
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<td>Supplier management programs</td>
<td>Safety &amp; health costs</td>
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<td>Reward &amp; recognition programs</td>
<td>Excess receivables</td>
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<tr>
<td>System &amp; process redesign</td>
<td>Excess inventory</td>
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<tr>
<td>Hiring &amp; orienting programs</td>
<td>Excess overtime</td>
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<tr>
<td>Competitive &amp; key process benchmarking</td>
<td>Excess managerial &amp; professional staff</td>
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<td></td>
<td>Excess marketing costs</td>
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<td>Excess services or product features</td>
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<td>Heroic efforts</td>
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<td>Lawsuits</td>
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Continuous Improvement: How is it done?

• Creating the “Total Quality Customer Service” culture

  – strategy for the development of a business that puts customers first

  – structured system for creating organization-wide participation in planning, implementing and executing a continuous improvement process in order to meet and/or exceed the needs of customers

  – connects the customer to the business processes

Backgrounder: What is “Quality Customer Service”?

Three Rings of Perceived Value

- Inner ring is the basic, bare product, service or core offering to meet customer needs.

- Support ring includes broad array of services/factors that make the basic offering more reliable, accessible, usable, enjoyable, convenient, dependable, accurate and useful. These services also meet customers needs.

- Enhanced Service ring includes approaches to customer service that exceed customer expectations in areas valued by the customer.

Continuous Improvement: How it’s done?

More on creating the “Total Quality Customer Service” culture

• Accepting that failures happen and acting to correct and preserve the customer’s perception of value

  – A pre-impact recovery is any action taken to prevent a service failure from hitting the customer

  – A post-impact recovery is any action taken to do it right the 2nd time after a failure hits a customer in order to reverse the customer’s shrinking perception of value

  – Systematic investigations into the root cause of failures to determine how processes or systems can be improved to prevent future failures

Continuous Improvement: How’s it done?

Need to Understand the Customer-Supplier Chain

The Organization

Products & Services

Expectations

--- “Quest”: Zenger-Miller Inc.

Continuous Improvement: How is it Measured?

• Performance measures are either:

  – External measures, important to the customer (quality and delivery)

  – Internal measures, not directly perceived by the customer, but critical to the business’s ultimate success (cycle time and waste).

Continuous Improvement: How is it Measured?

External Measures
- Quality
  - Performance
  - Durability
  - Reliability
  - Aesthetics
- Delivery
  - Quantity
  - Timeliness
  - Accessibility
  - Commitments Kept

Internal Measures
- Cycle time
  - Process time
  - Inspect time
  - Queue time
  - Storage time
  - Failures
  - Re-work
  - Surpluses
  - Accidents

Examples
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