

# 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

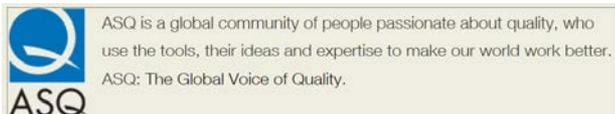
- Continuous Improvement
  - What is it?
  - Why pursue it?
    - What is “quality customer service”?
  - How is it done?
  - How is it measured?

## Continuous Improvement: What is it?

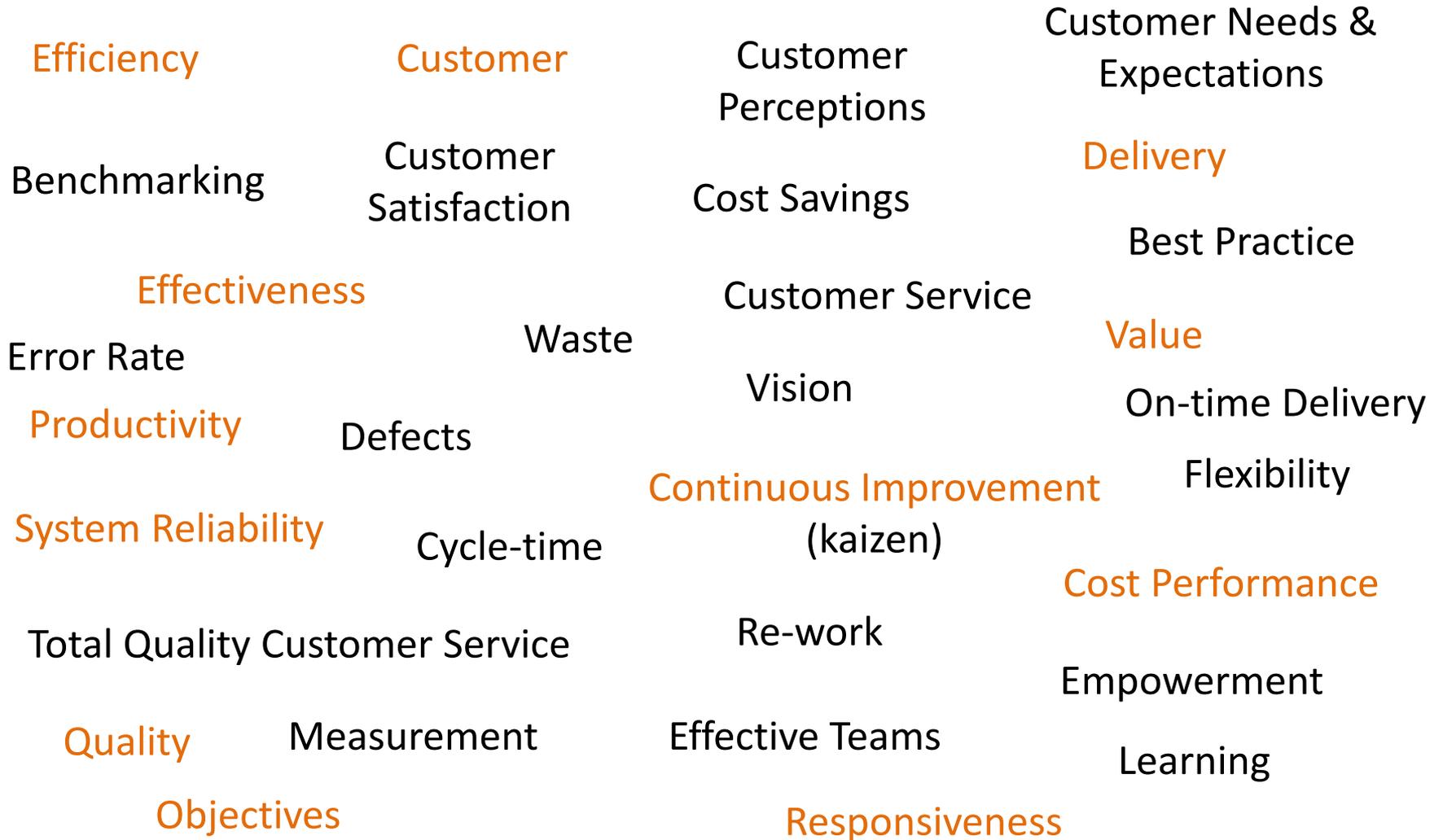
Continuous improvement is an ongoing effort to improve products, services or **processes**. These efforts can seek “incremental” improvement over time or “breakthrough” improvement all at once.

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.



# Language Used



## Continuous Improvement: Why pursue it?

Customers	Competition	Change	Cost of Poor Quality
<ul style="list-style-type: none"> <li>• Who are your customers (internal &amp; external)?</li> <li>• How do they define Quality?</li> <li>• How to they drive the need for Service / Quality?</li> </ul>	<ul style="list-style-type: none"> <li>• What impact is competition having on you?</li> </ul>	<ul style="list-style-type: none"> <li>• What changes are occurring?                             <ul style="list-style-type: none"> <li>• Society?</li> <li>• Your industry?</li> <li>• Your organization?</li> </ul> </li> <li>• How do they drive the need for Service / Quality?</li> </ul>	<ul style="list-style-type: none"> <li>• Where are your areas of greatest waste, rework, and unnecessary complexity?</li> <li>• What is the cost?                             <ul style="list-style-type: none"> <li>• Dollars?</li> <li>• Time?</li> <li>• People?</li> <li>• Customer defection?</li> </ul> </li> </ul>

from Achieve's Service/Quality System, Achieve International, 1991.

# 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?

from Achieve's Service/Quality System, Achieve International, 1991.

## 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.

Examples of costs of getting it right	Examples of costs of doing it wrong
<ul style="list-style-type: none"> <li>• Inspection &amp; testing</li> <li>• Training</li> <li>• Market research</li> <li>• Standardizing procedures</li> <li>• Preventative maintenance</li> <li>• Quality &amp; process audits</li> <li>• Clarifying customer expectations</li> <li>• Supplier management programs</li> <li>• Reward &amp; recognition programs</li> <li>• System &amp; process re-design</li> <li>• Hiring &amp; orienting programs</li> <li>• Competitive &amp; key process benchmarking</li> </ul>	<ul style="list-style-type: none"> <li>• Re-work</li> <li>• Re-design</li> <li>• Scrap</li> <li>• Warranty costs</li> <li>• Back-orders</li> <li>• Absenteeism</li> <li>• Staff turnover</li> <li>• Safety &amp; health costs</li> <li>• Excess receivables</li> <li>• Excess inventory</li> <li>• Excess overtime</li> <li>• Excess managerial &amp; professional staff</li> <li>• Excess marketing costs</li> <li>• Excess services or product features</li> <li>• Heroic efforts</li> <li>• Lawsuits</li> </ul>

from Achieve's Service/Quality System, Achieve International, 1991.

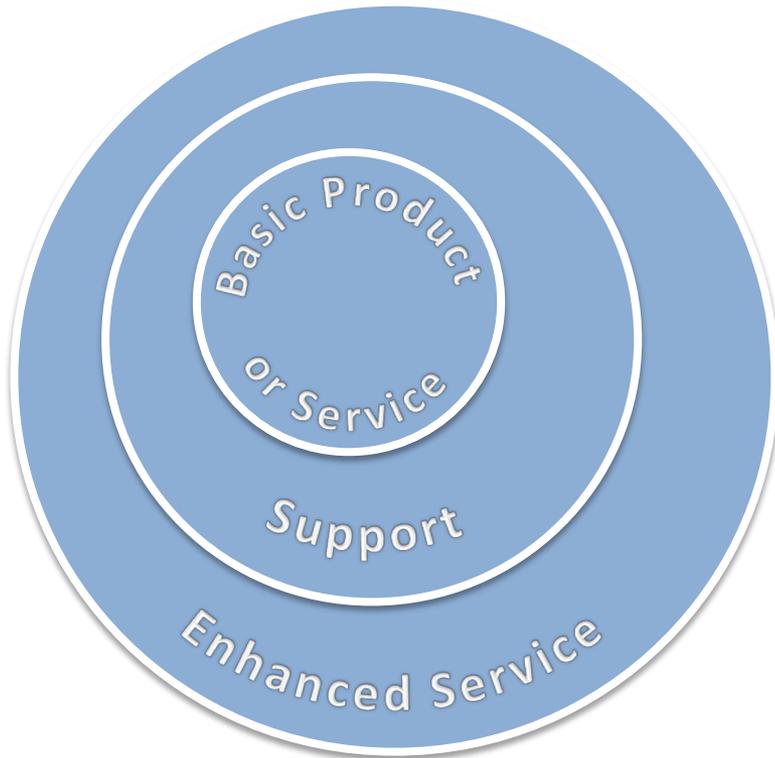
## Continuous Improvement: How is it done?

- 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

from PSQ International's Advanced Total Quality Service, 1991.

# 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.

from Achieve's Service/Quality System, Achieve International, 1991.

## Continuous Improvement: How it's done?

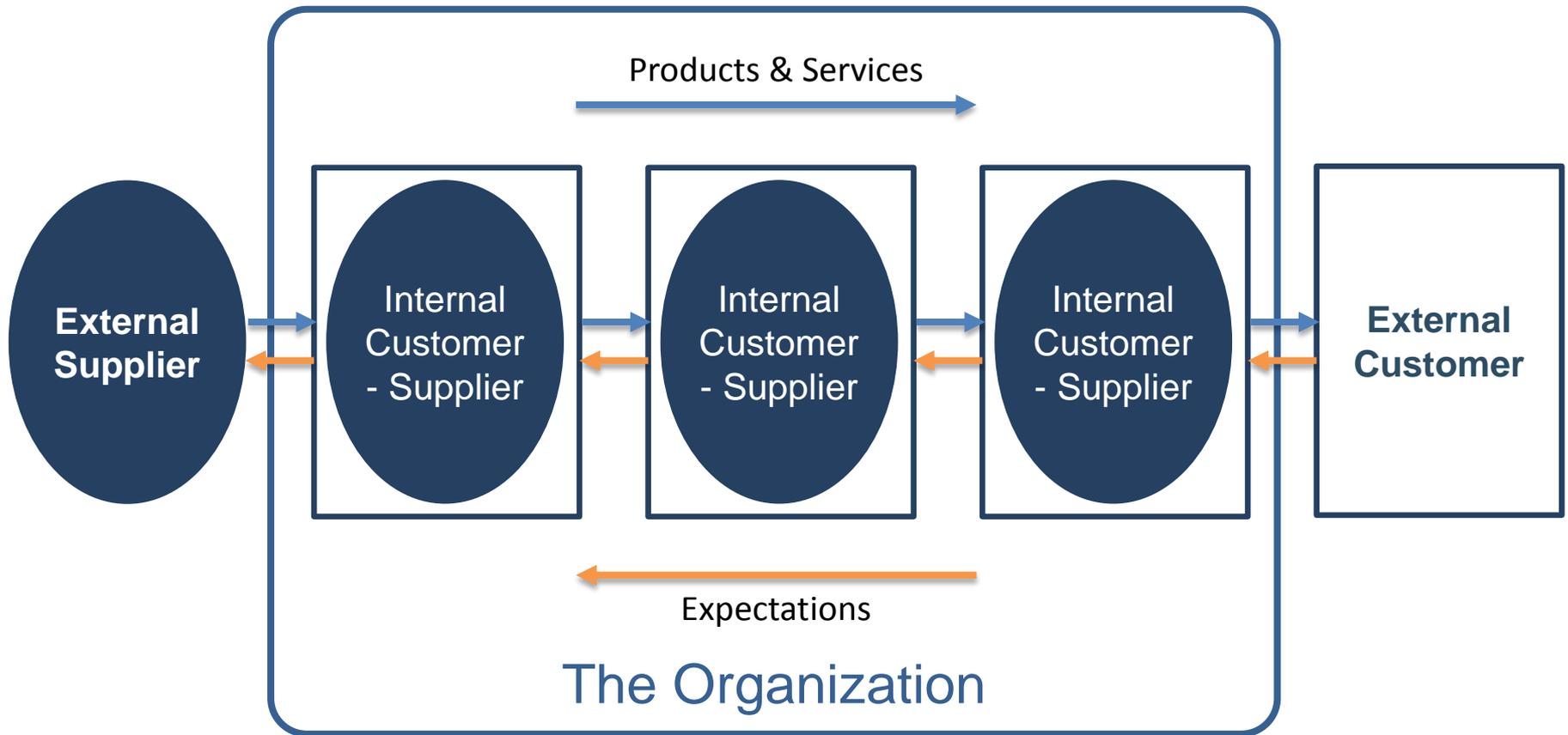
### More on creating the “Total Quality Customer Service” culture

- 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 2<sup>nd</sup> 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

from Achieve's Service/Quality System, Achieve International, 1991.

# Continuous Improvement: How's it done?

## Need to Understand the Customer-Supplier Chain



--- "Quest": Zenger-Miller Inc.

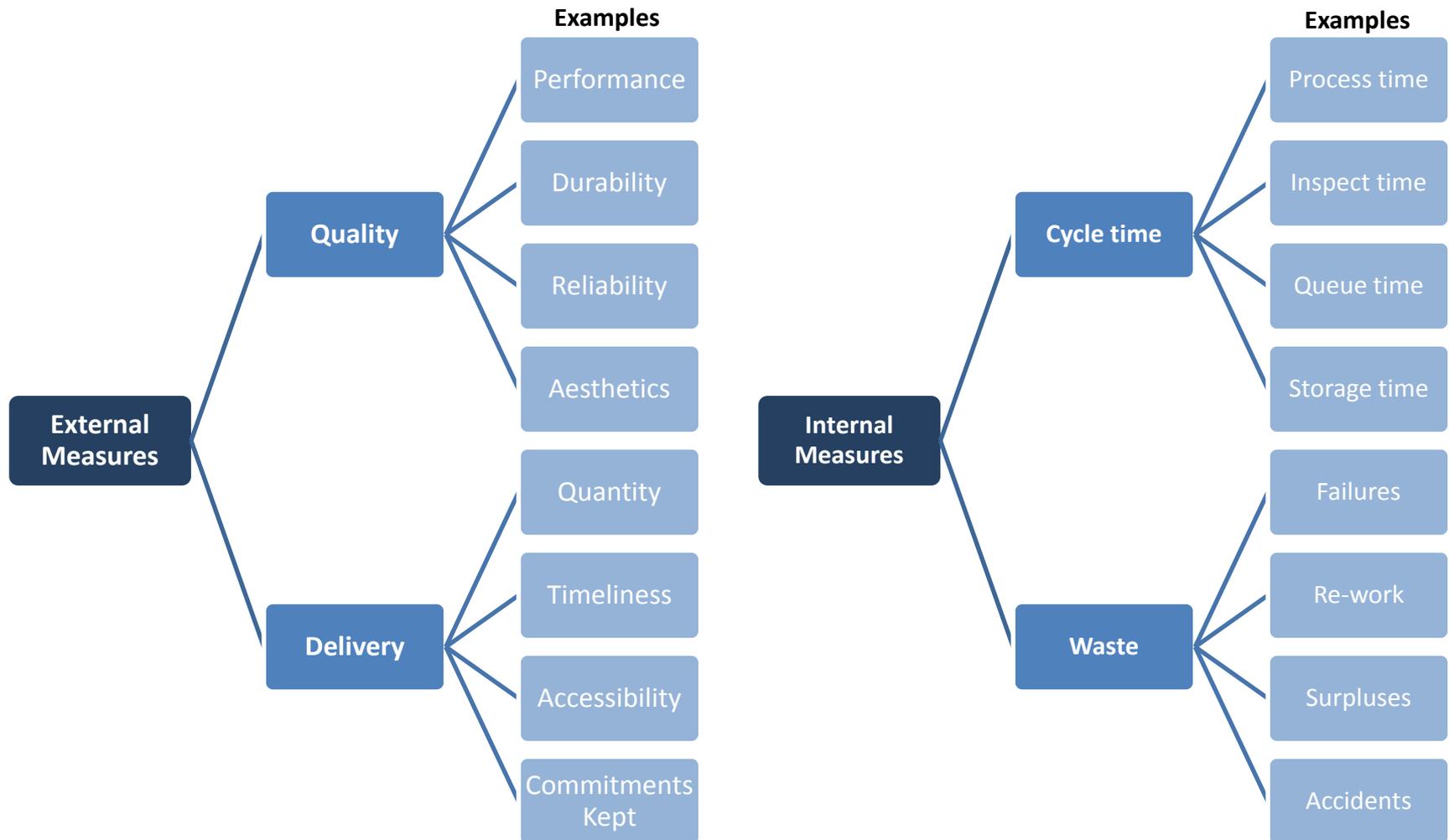
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## Continuous Improvement: How is it Measured?

- 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).

from Richard L. Lynch and Kelvin F. Cross, Measure Up! Yardsticks for Continuous Improvement. 1991.

# Continuous Improvement: How is it Measured?



from Richard L. Lynch and Kelvin F. Cross, Measure Up! Yardsticks for Continuous Improvement. 1991.

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