

## Management Systems & Growth Solutions Group

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# Appendix: Results Details

(Additional Benefits Information/Validation)

### Leadership Case Study:

### Distribution Company

**What:** Shift from Entrepreneurial to Professionally Managed, with Exceptional ROI's, Fast

**How:** Leadership by Strategy & Implementation Expertise/Discipline (Not content or Industry Expertise)

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# Leadership Case Study: Distribution Company



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# Appendix – Results Details (Additional Benefits Information/Validation)

## Benefits - Balanced Scorecard Management

### Balanced Scorecard - Business Initiatives Management

#### Strategic Planning

Through a strategic planning process, senior management molds ideas, concepts and visions into a general direction for the organization. It is a method of working “on the business” to transfer the skills, knowledge and tools necessary to ensure implementation of excellent practices. The prioritization of these desired efforts is done through a portfolio management process.

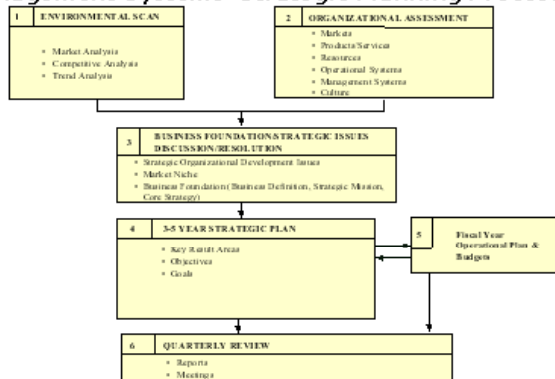
Strategy is the unique, yet integrated, courses of action that will be taken by the organization to compete effectively in its chosen markets in order to obtain its desired results.

It is a process of transforming the organization into one that uses customer-focused strategies, plans and processes. Through this senior management provides leadership, measures the company’s performance from a customer point of view, provides excellent support of all customers at all times, and creates a partnership environment for customers and suppliers.

The strategic plan is a written statement of the future direction and goals of an organization based upon assessment of its current strengths and limitations for each of its key result areas and the current and anticipated future environment in which it will operate.

Below are examples of the components of the company’s strategic plan.

Management Systems’ Strategic Planning Process<sup>SM</sup>



### Strategic Planning Process Overview



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### Business Foundation

The business foundation is the platform on which the strategic plan is built and consists of a business definition or concept, strategic mission statement and core strategy.

- ◆ Business Definition
  - ◇ The business definition is formatted as a broad statement of what business the organization is in and is a lens through which to view future strategies. It addresses the questions of: Who are the customers? What are their needs? How do they buy? What is value to them?
- ◆ Strategic Mission
  - ◇ Strategic mission is a broad, measurable, time-related statement of what the organization wants to, or needs to, become by the end of the planning period.
- ◆ Core Strategy
  - ◇ Core strategy defines where and how the organization will play the game. It is the overall concept of how the firm or business unit will compete in its chosen markets and describes how the organization will achieve its mission.

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### Key Result Areas

Key result areas are those areas of the business where performance has a critical impact on the achievement of the mission. It is really a category and not a specific course of action. The Management Systems Organizational Development Model provided an effective categorization and became the basis for identifying the key result areas.

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### Objectives

Objectives are overall definitions of what is to be achieved in each key result area over a period of time, typically several years. Each key result area must have at least one stated objective that is derived from the mission statement. Generally there are between three and six objectives for each key result area.

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### Goals

Goals are realistic, time-dated and measurable sub-objectives for which the responsibility is assigned to a specific individual. It defines the scope and timing of the outcome of each objective. One or more goals must be established for each objective.

- ◆ Executives
  - ◇ Executives met as a group to define the goals of the organization. Approximately 40 goals were established for the organization for the next few years.
- ◆ Managers
  - ◇ The executives then met with their management team and had the managers create goals to support the overall goals of the organization. This cascading of planning resulted in establishing more than 200 goals for the organization. These goals are tracked on a monthly and quarterly basis and become the framework for performance evaluation of the managers and their functional areas.



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### Strategic Portfolio Management

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Prioritization of the project portfolio based upon their ultimate value and contribution to the strategic interests of the business is essential. Management of projects, and aligning them with the strategic plan, is becoming a significant role for most executives. Operationalizing a successful management of projects environment requires a holistic approach that provides real visibility and value to all users. Establishing an executive supported management by projects approach allows the science of the effort to become more automatic and gives each individual project manager more time for the art of the effort.

**In the final analysis, portfolio management is the executive vehicle for achieving the strategies of the enterprise**

Many of the goals of the organization are achieved through best practice project management on individual projects. It is the discipline that allows effective and efficient implementation of the strategic plans of the organization, via specific projects. Through these disciplines of strategic portfolio management and project management, all levels of the organization have a consistent and clear picture of the activities leading to improved operations.

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### Portfolio Segments

It is necessary for management to formalize the business decision criteria to be applied in a consistent manner across the strategic portfolio to determine the major work efforts of the organization. To accomplish this, portfolio segments should be established that reflect the key service areas of the organization. Within each of these portfolio segments, elements of consideration are established to represent the factors that bring value to the organization. By giving weight to these elements, executive staff can evaluate the ranking of importance to the organization of each significant work effort. These portfolio segments can be the key result areas of the organization, or major functional segmentation, or strategic focus areas.

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### Ranking Criteria

Within each portfolio segment, elements of importance are identified and each element is given a weight factor to use in establishing its overall importance to the well being of the organization and the meeting of the strategies of the organization.

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### Linkage to Strategy

A individual project is any temporary, organized effort that creates a unique product, service, process, or plan. Temporary means that every project has a definite beginning and a definite ending. Unique means that the product or service is different in some distinguishing way from all similar products or services. In the business world, most work efforts are either operations or projects. Major initiatives are usually high level critical objectives comprised of complex integration's of multiple programs and/or projects.

In general, individual projects in the strategic portfolio are created to support the goals of the organization. Some projects, however, may be required by the organization, but will not be linked to any goal. Normally though, projects are linked to a specific goal (via the Strategic control and Implementation control software applications, in this case Rapid-X) which is already linked to a specific objective above it.

**This linkage activity is the key mechanism of how implementation (projects) are linked to strategy (goals, the objectives above them, the key result areas above them, and the high level strategy above them).**



It should be noted that some goals may be strictly operational in nature, and will not be a unique effort as required by the definition of a project. Such goals will not have a project linked to them, but will nevertheless be linked to specific strategies.

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### Prioritization

All active projects are ranked by the executive staff, or portfolio management team, within each portfolio segment according to the ranking criteria established for the segments. Cut lines are established based on the budget, resource constraints, etc. for each segment. This then presents a prioritization of the organization's projects. These prioritized projects are reviewed routinely by the executive staff to ensure that key goals of the organization are met in a timely manner.

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### Strategic Milestones

Through the prioritization of projects and alignment of operations activities, high level executive focused milestones can be established for key steps along the path of improvement projects and operationally focused projects. These high level strategic milestones can be incorporated in a corporate calendar that provides meaningful checkpoints during the course of the period being measured, providing much improved executive control over implementation efforts. More detailed milestones are reflected in the individual project plans.

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### Critical Implementation Controls

These strategic level checkpoints (goals/projects/milestones) not only support the entire organization in more effectively aligning to the direction of the company strategy, but they also provide a key mechanism to manage the linked projects in a significantly more timely and effective monthly and/or weekly fashion (as appropriate).

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### Linkage to Projects

Strategic executive level milestones are generated for individual projects to populate the strategic milestone calendar and therefore are a natural linkage (but aligned towards executive use) to the more detailed plans of the project managers. Also, other executive level strategic milestones can be added to allow visibility over the operational activities outside of projects (i.e. some operational milestones can have major strategic impact). Once again, these high level milestones then provide clear linkage to the specific projects, goals, objectives, key result areas and strategies above them.



## Benefits - Strategic ROI's

### Concept of Strategic Return on Investment

When an organization invests in a coordinated approach of managing its' growth with sound Organizational Development principles (balancing focus on strategy, implementation and scalability) it expects to achieve potential key financial metric improvements. However, this approach also provides the likelihood of generating significant values in four additional key strategic categories;

- ◆ Organizational Control
- ◆ Communications
- ◆ Real Time Status
- ◆ Performance Management

Directly below are examples in these areas for the company over 2004 and the first half of 2005. It should be noted that the improvement in key balanced scorecard metrics (see the case study for details) were significantly impacted and/or are interdependent with the ROI's below.

### ROI's - Organizational Control Examples

#### Strategic Initiatives Control

Implementing a Strategic Plan Management system in 2004 allowed executives and managers to clearly define and communicate key result areas, objectives, and goals for the entire organization (at the executive staff and management team levels) and subsequently manage their implementation so the vast majority were completed.

#### Strategic Project Portfolio Control

With a simple excel based system initially, and then through an online Portfolio Plan Management system in 2004-2005, executives and managers were able to achieve extensive, centralized and easy to use control of the organizations' portfolio of projects. The ability to add, remove, evaluate and reprioritize projects real time, or at management team meetings, as well as quickly view the portfolio by a variety of different formats, provided considerable value to the implementation of the companies strategy.

#### Branch and Operational Management Controls

As the individual branches were the primary revenue producing mechanisms of the organization, achieving much more effective management of them was key.

New operational and management models, recognizing different criteria for a new categorization of branches, branch manager development programs, new metrics points, increasing bench strength and fielding quick response operational SWAT teams all allowed significantly greater control of these vital corporate assets.

Also, a new ERP system was successfully deployed (a huge, long, risk strewn effort) which allow many new controls of operations in all departments of the organization.





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#### **Business Process Controls**

As a result of a Business Process Reengineering project, a clear matrix of existing company processes was mapped to the newly developed strategic business model for the organization. Instead of the traditional silo behavior of the organization, this allowed precise understanding of the cross functional relationships required by each department to collaboratively work together to successfully achieve each step of this new business model in succession. This matrix also allowed the identification and leverage of other critical types of information, such as customer touch points, new ERP system impacts, supply chain management considerations, etc.

Additional levels of control were achieved by more easily identifying the most effective metric points, putting measurement/monitoring systems in place, and enabling operations to respond more quickly and effectively accordingly.

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#### **Critical Pricing Controls**

A new Pricing Department, which developed sophisticated yet flexible pricing models as well as monitored and compared costs versus market conditions, had a significant impact on the margin levels of the organization. This substantial finer and more timely control was also able to respond much faster than traditionally to ensure a steady positive impact on margins, and routinely head off costly situations.

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#### **Asset Management Controls**

Being a distribution focused company, inventory management and tighter control of the total supply chain was focused on with a variety of systemic changes/improvements in operations (bulk storage facilities, more effective quantity on hand control per branch, surplus/obsolete/slow moving stock controls, etc.). This focus was specifically targeted at improving inventory turns and gross margins.

From a financial asset approach, significant effort was systematically applied to the credit department to leverage its' traditional control of outstanding accounts receivable and bad debt write-offs, and banking relationships were specifically expanded to achieve a lower interest rates on working capital.

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#### **Expenses Controls**

A systematic approach at the company to strategic, implementation and operations concentration on costs resulted in much tighter controls over expenses (via mechanisms such as branch manager accountability, corporate productivity, etc), which provided significantly lowered expenses in 2004 and through the first half of 2005 versus 2003.

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#### **Regaining Control of Information Technology Risks**

The organization faced a need to drastically and quickly minimize the Information Technology risks it was positioned with in 2003. Projects to replace most of the IT infrastructure (drastically improving stability and scalability), migration to a new disaster recovery foundation (geographically dispersed and with layered redundant contingency mechanisms), deployment of a new Voice Over IP telecom system (VOIP), and restructuring IT operations into the most effective balance of internal and out-sourced resources were completed.

This result in extensive improvements in control of Information Technology assets.



### ROI's - Communication Examples

#### Strategic Direction Alignment

Using a centralized Strategic Plan Management system enabled all employees, but mainly the Executive Staff and Management Team, to see how the activities they were focusing on supported their goals, and the strategic objectives linked above them. Many employees who used this system stated that this was very valuable by ultimately providing them with a clear understanding of how what they were doing was linked to achieving the high level strategic initiatives of the company.

#### Portfolio Implementation, Integration and Flexibility

The ability provided by the Portfolio Plan Management system for employees to see what projects have been prioritized, in what time frames, and what strategic objectives they were supporting fostered the capacity of management to focus the organization on the priorities it needed, when it was needed, as well as rapidly change direction as needed.

#### Crucial Internal Culture Improvements

##### Company Values

After an extensive, cross-functional and multi-level internal project was completed to clearly define the company values (with attention to the new strategic vision of the organization, and in significant detail) these values were deployed in a myriad of different ways, both internally and externally. In addition, these values were routinely used in decisions at all levels of the company, and were a foundation of employee interaction.

- ◆ Vision Statement
  - ◇ We are in the building supply solutions business focusing upon the residential Tier II (optimum value) market place.
- ◆ Mission Statement
  - ◇ To supply our customers anytime, anywhere with construction materials and business services that sharpen their competitive edge.
- ◆ The Company's Values
  - ◇ Customer First - We build success one customer at a time
    - Example of an individual values detail: "We believe that the customer should always come first. We must have a customer-focused, can-do attitude. It's important to remember that the customer is THE priority. Everything else can wait. We recognize that we should do whatever it takes (within ethical boundaries) to exceed the customer's expectations. If we make a mistake or a customer has a complaint, then we need to quickly and decisively address the issue. This is so important, because handling a complaint right the first time is an opportunity to create a "customer for life". We also understand the importance of making realistic promises and delivering what we promised without exception. The cornerstone of this value is understanding that serving customers is a privilege, not a right. They have a choice to shop wherever they want and we want them to buy from us".
  - ◇ People Count - We treat our people as our most precious asset
  - ◇ Integrity All-ways - We take great pride in our integrity and ethics
  - ◇ Play To Win - Every day we play like champions



#### **Normalizing Cultural Structures**

Many new cultural and management structures were put into place (and consistently used) to provide new norms of behavior and expectations for the organization. These included staff meetings at all levels of the organization (weekly executive staff, quarterly management team, regional operational staff, quarterly sales staff, etc.), project management for all critical projects, a company wide recognition program (complete with a significant rewards component), and an “I OPT” survey and resultant profile process (“Input - Output Processing Template” Survey, a non-evasive survey that measures a persons information processing strategy).

#### **Internal Employee Communications**

Several different systemic internal communications mechanisms were developed from scratch or improved upon, and many individual programs were deployed periodically also. These included a newsletter that was migrated to an online version for access by all employees no matter where they were.

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#### **Wide Impact of Corporate Re-branding**

One of the most successful communication outcomes in 2004 was a complete corporate re-branding effort that had a huge positive impact with employees, clients, partners and vendors.

This re-branding included all marketing materials, branch décor and signage, all information systems, as well as internal communications and a new line of online gift shop items.

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#### **Improved Partnership Communications**

The company sought out best of class partners for special high impact programs (for example an anniversary awards system, a performance recognition and rewards system, a pay roll card capability, etc.) and managed the development, roll out, and communication of these projects (many of which were designed to resell to other customers) with sophisticated program management. The communications resulting with these partners was so well managed that several of them stated that, even though they had been in business for a while, they had never seen such timely and effective communication and support.

Additionally, negotiations with potential key partners was greatly improved. As the vision, mission and strategies of the company were very well documented and clear, the effectiveness of exploratory meetings with partners (based on collaborate idea generation from the partners on how they could help execute the company's vision) was very high, and provided a perceived competitive advantage.

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#### **Supplier Communication Impacts**

A new communication program with vendors that had a significant impact was a vendor information and recognition program. Comprehensive videos from the CEO on the new direction of the company were sent out to key vendors. Additionally, key performing vendors were spotlighted for recognition, and videos that spotlighted them were also produced and distributed.

At the branches, very successful open houses were held with considerable entertainment events, at which vendors were invited to setup booths and meet with customers.

A traditional series of well-received golf outings with vendors was also continued.



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### ROI's - Real Time Status Examples

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#### Strategic Initiatives Progress

The Strategic Plan Management system allowed many different standard views for all levels of the Executive Staff and Management Team to quickly determine the status of progress being made against both strategic objectives and corporate goals, and to drill down and solve problems proactively.

It also provide very clear indication of the cross functional dependencies that many corporate goals had, allowing both executives to see all the resources they needed to work with outside their departments to achieve their goals, and for managers to see all of the executives they were supporting that were in addition to their direct reports.

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#### Strategic Project Portfolio Progress

The Portfolio Plan Management system provided many different reports in for viewing and statusing projects, including by function, corporate objective, by sponsors and project managers, and by the state of the project.

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#### New ERP Metrics

The new ERP system in 2005 provide much more real time status capability, which was also more accurate, and with an underlying confidence factor that the data was current (not batch processed as much as a day later with the 20 year old previous system).

A powerful reporting and business intelligence tool was deployed that worked closely with the ERP system to provide expanded reporting capabilities not available before.

One measurement of clearer, more effective real time status was that the number of reports dropped from 1200 from the old system (which was unmanageable) to about a 100 with the new ERP system

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#### Daily Revenue/Margin Monitoring

The entire financial metrics monitoring process was upgraded (including what was measured, how it was measured, and how it was disseminated).

Key employees shifted to having the appropriate reports pushed out to them on key metrics on a daily basis automatically, instead of having to pull it out of the old system.

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#### IT Monitoring and Management Systems

New online, automated, sophisticated monitoring and alert capabilities were deployed with the new Information Technology projects of infrastructure overhaul, disaster recovery, ERP system support, resource reorganization and Voice Over IP (VOIP) telecom. Many of these monitoring systems were available online from any location, and significantly improved proactive limitation of problem impacts, as well as provided faster response and more effective recovery from problems.

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#### Commodity Marketing Intelligence System

A Purchase Catalog for commodity type products sold by the company was developed, which provide high impact marketing intelligence for all the company's employees. This system included market analysis



of critical commodities, vendor input leverage and a calendar view of the data so company employees could plan accordingly

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### ROI's - Performance Management Examples

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#### Performance against Strategic Objectives and Goals

A very powerful way to "level the playing field" for employee performance evaluations was to consistently, evenly, and fairly relate it to progress on corporate goals and their linked strategic objectives. The Strategic Plan Management system enabled the CEO to routinely both quickly and easily status with his direct reports the progress of their objectives. The members of the Executive Staff were then able to use the same status ability with their direct reports.

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#### Performance Against Strategic Portfolio Projects

Providing employees comprehensive visibility into exactly what projects they have responsibility for (as either a core or extended team member), as well as the corporate objectives that the projects are supporting, enabled both executives and managers to set crystal clear performance management expectations.

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#### Work Force Development - Clearly Defined Position Roles and Responsibilities

A comprehensive Workforce Force Development system was put in place, which included:

##### Placement

Developed a clear understanding of what each jobs' role and responsibility was, and defined a clear profile for hiring against for that position, as well as the plan for filling the position.

##### Rewards

Significant research and attention was paid to how the compensation package was developed for each position, and how it mapped against critical industry norms. A quarterly compensation review of each employee was established. Additionally, an anniversary recognition program was put in place together with a performance rewards program.

##### Retention

After the significant investment in bringing onboard, training and supporting a resource, retention of employees was considered, but special attention was paid to key individuals and high level performers.

##### Development

New hires were evaluated to ensure alignment of their skills and behaviors with the needs of the particular job, and any gap was identified and targeted for improvement via training. Career pathing was developed for each position and succession plans put in place for key management positions.

##### Training

For each critical job training was identified and resources pursued to provide training in the areas of:

- ◆ Current job skills needed
- ◆ Advancement skills
- ◆ Personal self development



#### Artifacts

Knowledge Management was developed for key job “tools” (with the goal of identifying steady performers and subsequently accelerating their translation to super stars). These included:

- ◆ Job descriptions
- ◆ Position objectives
- ◆ Skills and behavior
- ◆ Standard Operating Procedures
- ◆ “I OPT” survey results
- ◆ Learning management system

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#### **Managing Against Clear Operational Metrics**

For many job descriptions, but especially at the branches, key operational metrics were identified, and employees were managed against these to ensure that employee focus (and compensation) was tied to the critical metrics that could have a positive impact on the business.

### Benefits – Business Process Management

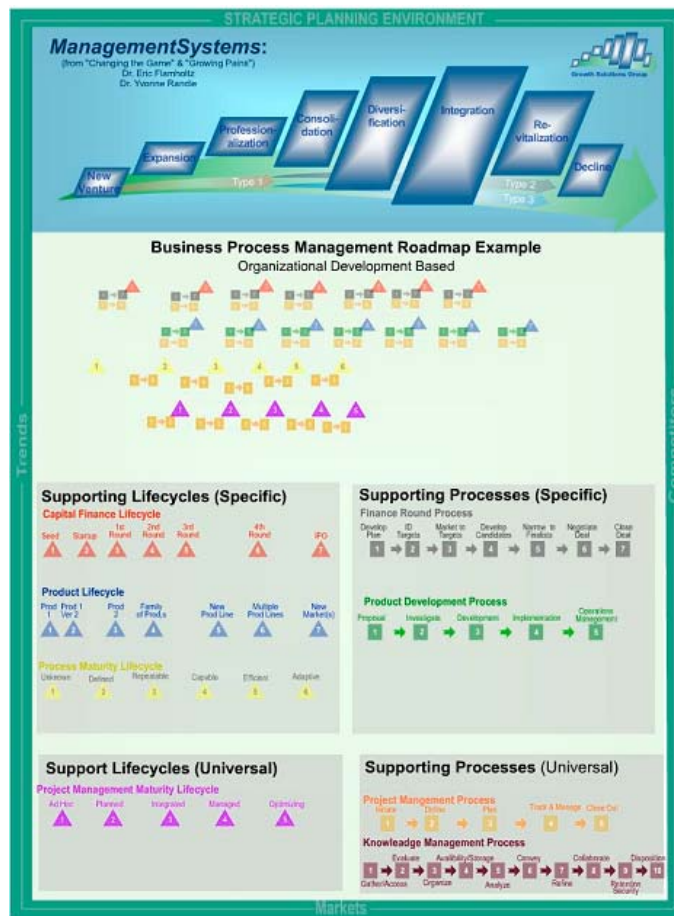
The most effective way of achieving predictable and measurable results is through strong business process management. The alignment is possible by systematically, and in an integrated manner, managing all of the company’s business processes to support:

- ◆ Best practices in Total Quality Management in general
- ◆ The Organizational Development Framework (Flamholtz Model) in general
- ◆ The Executive vision, objectives and goals in specific

The components of this methodology can be grouped in the following three categories:

- ◆ Foundational - Basic structure for Life Cycles and Processes
- ◆ Life Cycles - Logical flow of basic capabilities of the organization
- ◆ Processes - The necessary steps to take that will enable/generate the Life Cycle capabilities

Obviously each of the elements of the groupings must be developed using industry best practices.



### Foundational Methodologies and Frameworks

The foundational methodologies and frameworks used in this case study are listed below. They are supported with a number of elements developed for the specific needs of the organization. They are foundational in that they set the framework and guidelines for development of the other categories of business process management.

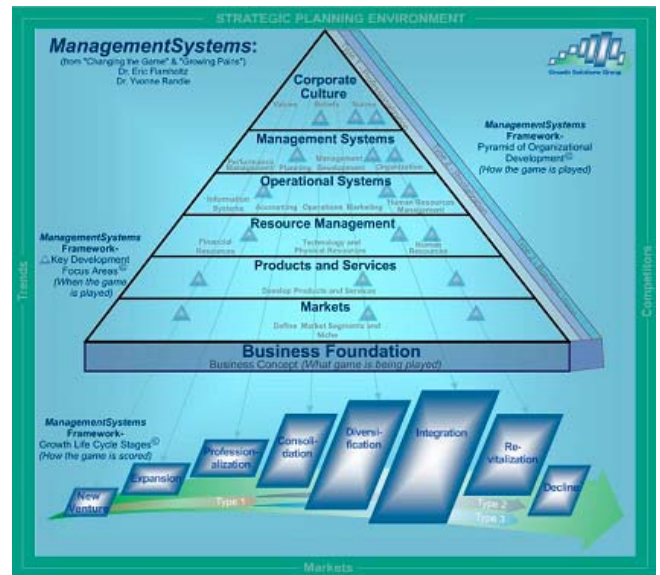
### Organizational Development Model

Organizational Development Model:

Dr. Eric Flamholtz developed his model for organizational effectiveness that reflects seven stages of organizational growth.

In viewing these stages of growth, the organization must address seven key areas beginning with the business foundation and building to the corporate culture.

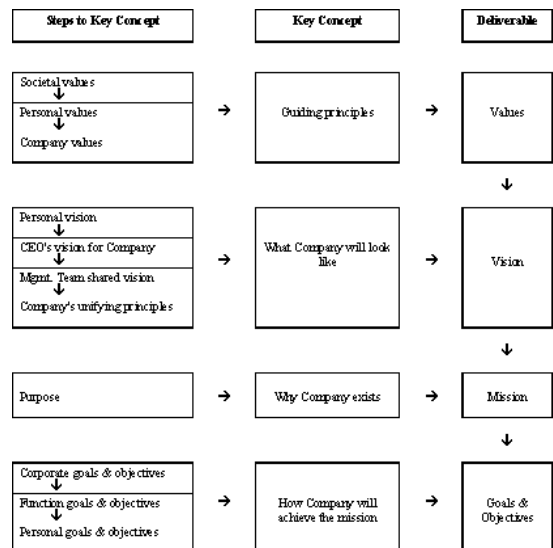
The elements of each key area must consider preceding and succeeding stages of growth and each key area must be kept in harmony with all other key areas.



### Framework for Total Quality

This is the guide for establishing the guiding principles of the Company and becomes the foundation for strategic planning.

- ◇ Values – Position statement of the Company's stand.
- ◇ Vision – A statement of what the Company will ultimately look like.
- ◇ Mission – A statement of purpose of the Company.
- ◇ Goals & Objectives – This is a cascading of the Company's strategies to goals and action plans of individuals.



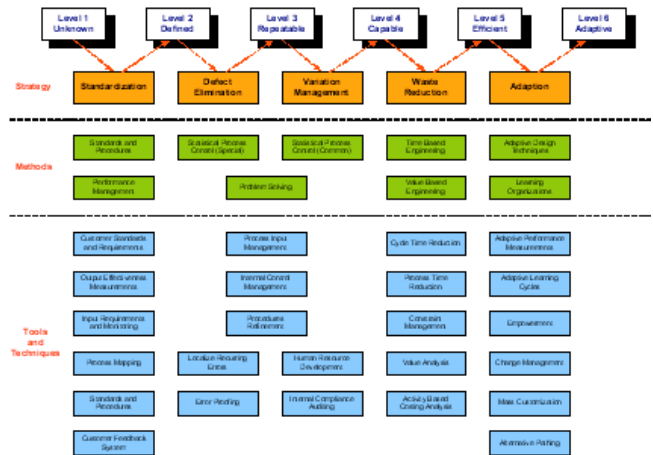


### Process Improvement Maturity Map

The 6 levels of improvement move from Unknown, to Defined, to Repeatable, to Capable, to Efficient, to Adaptive.

There is a strategy established for moving from one level to the next.

Each strategy comes with a standard set of methodologies, techniques and tools.

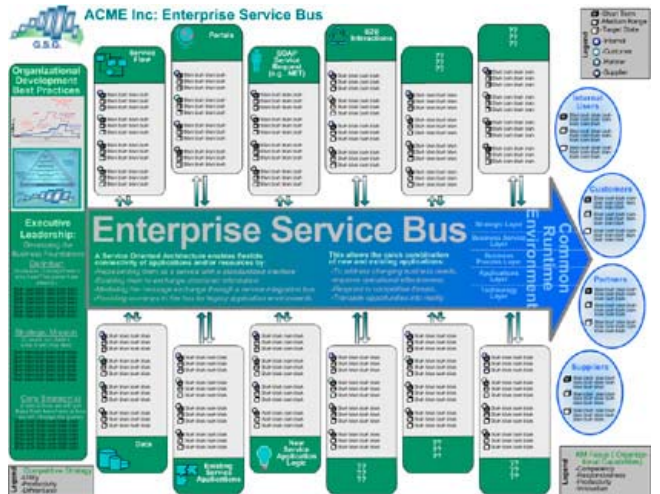


### Infrastructure Roadmap

This is the vision of the IT infrastructure that allows for the legacy integration of continuing applications, relationship linkage of packaged applications, and harmonious selection of potential new applications.

This defines the foundational platform, enabling utilities and key applications and capabilities.

It encompasses data mapping and process mapping which defines database development and true sourcing of data.



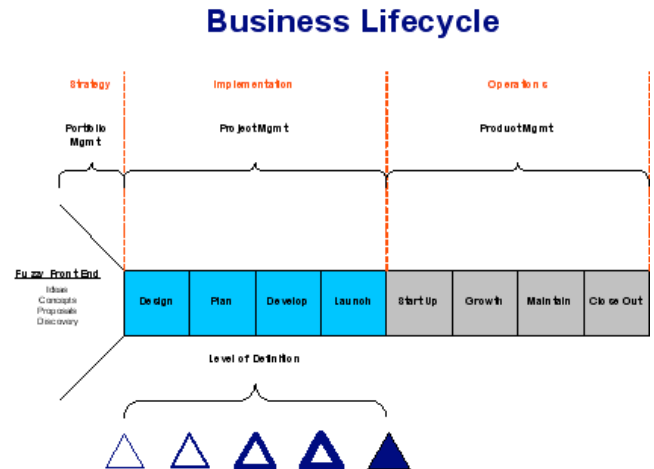
### Lifecycles

Life cycles of the many aspects of doing business provide segmentation, or phases, of the total effort in a manner that allows effective tracking of progress. The lifecycle methodologies used in this case study are as follows:

### Business Life Cycle (Stages of Organizational Growth)

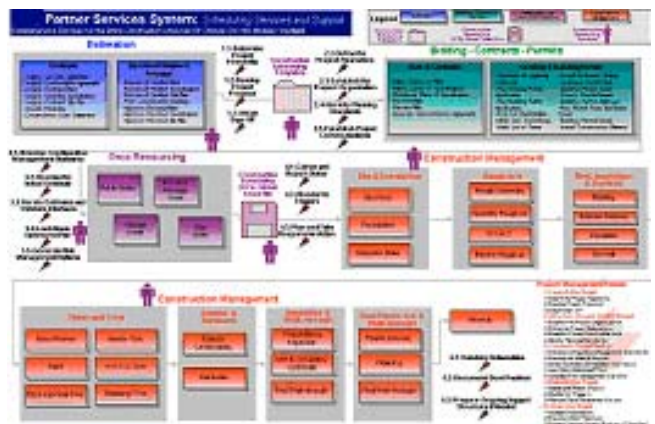
The major elements of the Business Life Cycle are as follows:

- ◇ Strategizing – The molding of ideas, concepts and visions into a general direction for the Company.
- ◇ Implementation – The task of converting strategy into consistently workable operations.
- ◇ Operations – Through an appropriately applied implementation effort, properly skilled people and effectively developed tools are combined with efficiently designed processes to obtain excellence in execution.



### Residential Construction Life Cycle

A generic life cycle for the residential construction industry was developed. Opportunities for company servicing specific stages of the life cycle were identified. Product and service offerings were evaluated and matched to the industry life cycle.

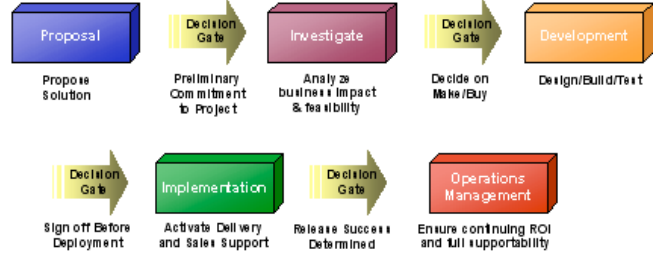


### Product Development Life Cycle

The Product Development Life Cycle has five phases: Propose, Investigate, Develop, Implement, and Transition.

Each phase has defined tasks to be accomplished and specific deliverables to be generated. Also a decision gate is established for moving to the next phase. This is supported by a project template.

Ranking criteria is established for major elements of consideration and evaluated before accepting any ideas for product development.

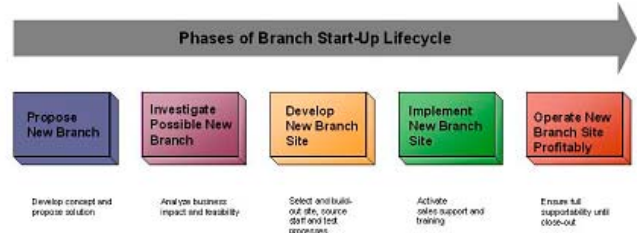


### Branch Start-Up Life Cycle

The Branch Start-Up Life Cycle has five phases very similar to the New Product Life Cycle.

Ranking criteria are established for opening new locations and this is voted on by the Executive Team. The priority of the ranking then determines the order of preference for opening new locations.

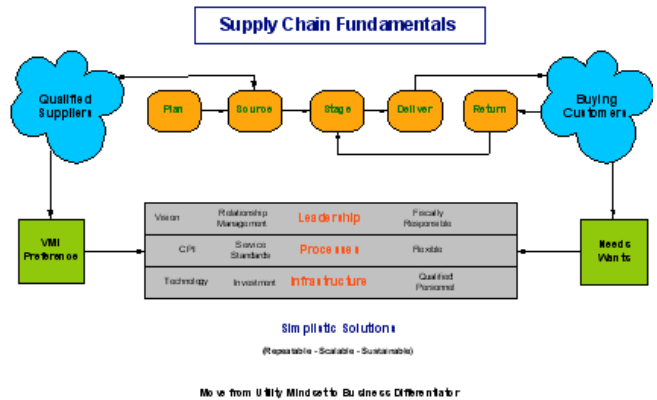
A project template is used to establish the tasks and define the deliverables.



### Supply Chain Life Cycle

The basic life cycle of supply chain management for the construction distribution industry has been developed and is the basis for continual improvement. From this the following support materials are available:

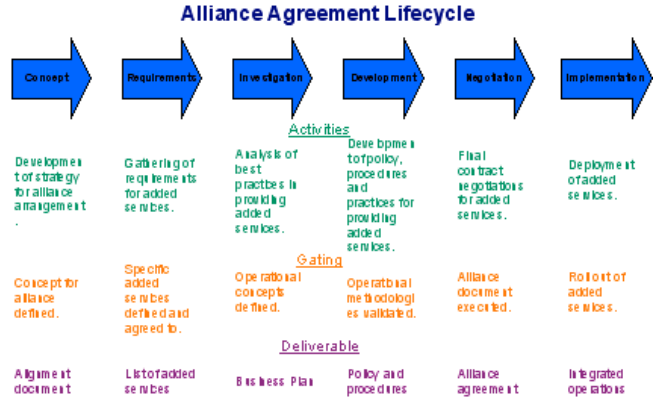
- ◇ Supply Chain Management function description
- ◇ VP of Supply Chain job description
- ◇ Supply Chain Strategy & Improvement Plan



### Alliance Agreement Life Cycle

This is the high level plan to engage major prospective customers and vendors in a joint alliance agreement. The life cycle includes the following phases: Concept, Requirements, Investigation, Development, Negotiation, and Implementation.

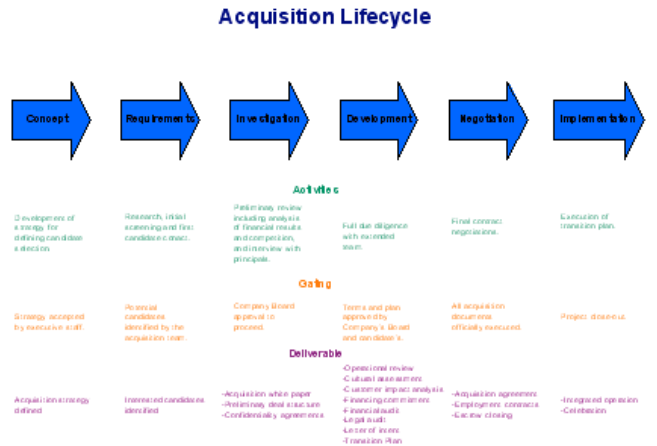
Each phase reflects tasks that must be accomplished and the deliverables required. A gating process is used to pass to the next phase.



### Acquisition Life Cycle

The Acquisition Life Cycle is much like the Alliance Agreement Life Cycle in phases but has many additional tasks. It is supported by the following:

- ◇ Acquisition Criteria
- ◇ Acquisition Team Charter
- ◇ Acquisition Project Plan Template
- ◇ Preliminary Fact Finding Checklist



The tasks to accomplish each phase, deliverables from each phase, and success criteria for completing each phase are defined in these lifecycles.

### Processes

Process methodologies define how tasks are performed in the lifecycles. These are quality processes that have an over-riding concept of continuous quality improvement to bring ever increasing effectiveness and efficiencies to the operations.

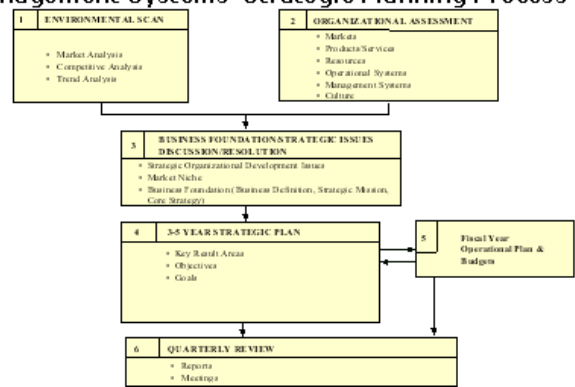
Following world class processes allows for consistent, high-quality results in the work efforts of the organization. The process methodologies used in this case study are as follows:

### Strategic Planning

Strategic planning is the springboard for directing accomplishment and creating change in an organization. Supporting elements of this are:

- ◇ Corporate Values
- ◇ Vision / Mission Statements
- ◇ Goals & Objectives Procedures and Database
- ◇ Business Plan
- ◇ Operating Budget
- ◇ Cold, Frost, Freeze Process
- ◇ Risk Management

#### Management Systems' Strategic Planning Process<sup>SM</sup>



### Strategic Profit Model

This is the measurement of the progress of the Company against the objectives in key results areas. Included are:

- ◇ Monthly Key Indicators reporting
- ◇ Executive Team Performance Metrics
- ◇ Functional Dashboards

#### Strategic Profit Model

Against Prior = Recognize change  
Against Budget = Recognize planning  
Against Target = Recognize Expectation

Key:  
Investor Level  
Employee Efficiency  
Managed Funding

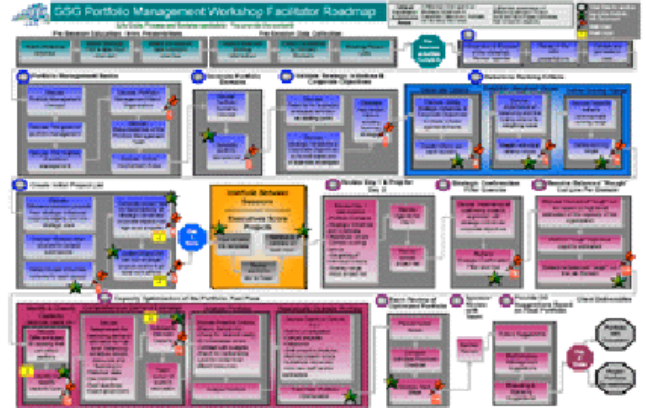
Measure	Profit Margin	Asset Turnover	Return on Assets	Financial Leverage	Return on Net Worth
Formula	$\frac{\text{Pre-Tax Profit}}{\text{Net Sales}} \times$	$\frac{\text{Net Sales}}{\text{Total Assets}} =$	$\frac{\text{Pre-Tax Profit}}{\text{Total Assets}} \times$	$\frac{\text{Total Assets}}{\text{Net Worth}} =$	$\frac{\text{Pre-Tax Profit}}{\text{Net Worth}} =$
Other Measures	EE productivity	Current Ratio Quick Ratio AP to Inv. Ratio	EBITDA to Assets Interest Return	Debt to Equity Growth Index	Cash Cycle
Comments	Sales growth GM mgmt. Op. Exp. Control	Asset efficiency	Equal or exceed cost of capital	Target 2:1+	10% to 15% LTSA Annual 15+ % SA Profit Leade 30+ % Top product 40+ % Investor

### Portfolio Management

The Executive Team periodically reviews all internal projects to assess priority and align with corporate objectives.

Criteria is established for the ranking of the projects within defined portfolio segments of the Company.

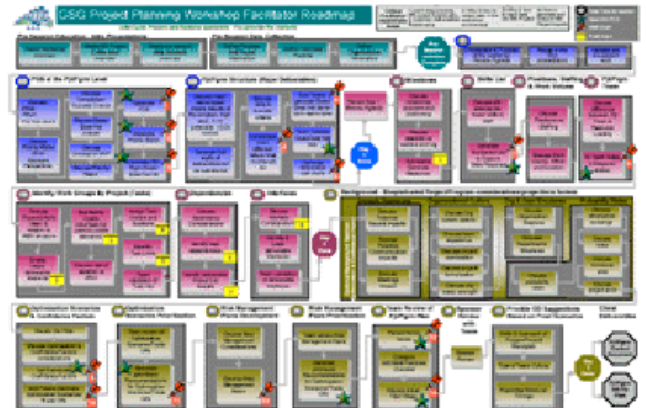
An executive level portfolio project list is maintained for the tracking of key projects.



### Program/Project Management

The key discipline in the conversion of strategy to operations is a world class project management process. This includes the following:

- ◇ Project Authorization & Initiation
- ◇ Project Management Process
- ◇ Project Templates
- ◇ Project Initiation Workshops

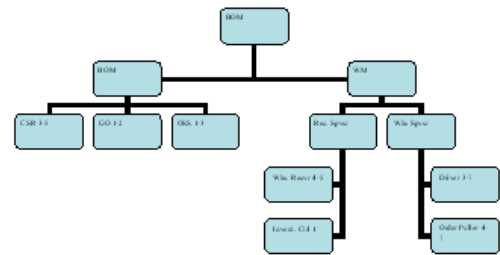


### Branch Evaluations

Management of branch operations is based on a high level structure that is then monitored in the Operations function. It is supported with the following:

- ◇ Operations function description
- ◇ Operations and Branch Management job descriptions
- ◇ Ranking criteria for management personnel
- ◇ Branch ranking for staffing models
- ◇ Branch appearance and operating standards
- ◇ Branch management monthly evaluation

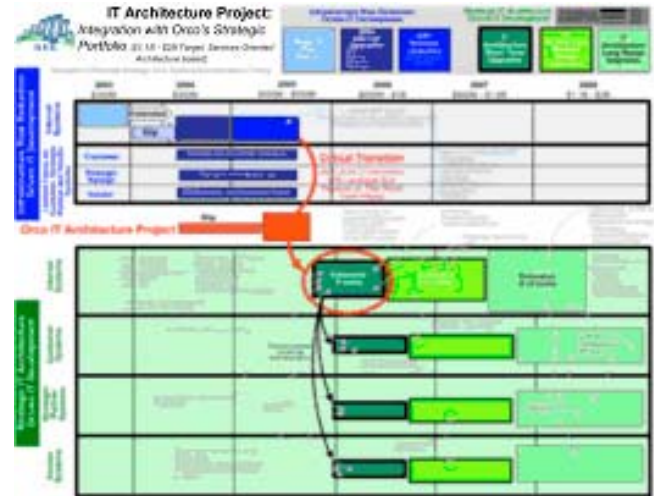
“A” Branch Organization Model



### Business Services Management

Senior management must be involved in defining the needs of their functions. These needs must be aligned with the strategic direction of the company. This alignment results in a general prioritization of the needs.

Following the alignment and prioritization of the needs, they must be matched to existing, or planned, technology capability. This results in an integration of functional needs, technological capability and strategic focus.



### Business Process Improvement/Management

Quality practices require the on-going review of business processes to bring improvement in effectiveness and efficiency. The following support this effort:

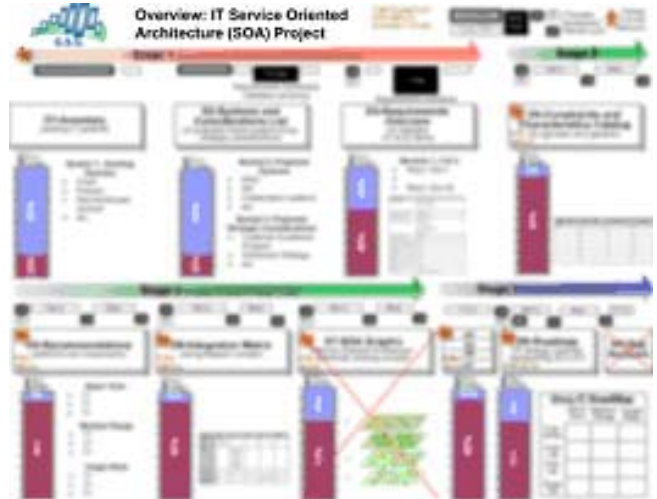
- ◇ Business Process Development template
- ◇ Value Creation Stream
- ◇ Business Function Value Matrix
- ◇ Branch Process Model
- ◇ Customer Touch Points Model
- ◇ Roadmap to branch operations improvement



### Information Technology Architecture Development

Based on an established infrastructure roadmap, the IT architecture development must then define the foundational platform. For the company this was MicroSoft with the addition of an outsource based middleware.

From that the enabling utilities are established and include active directory, Sharepoint, Exchange, and the like. Then the major applications are identified. This could be ERP supported by EDI, EIM, cataloging, bar coding, etc. Core applications package could include, B2B, B2C, POS, CRM, SFA, GPS, BI, and the like. Communications would include messaging, collaboration, document control, E-Learning, E-Meetings, and the like. Support systems such as accounting, credit and HRIS would comprise another group. Customer system would include inquiry, on-line ordering and the like. The vendor system would include VMI.



### Work Force Development

Process for developing a work force founded on superior performance and ensuring that superior performance by offering and supplying developmental opportunities through needs assessments, effective sourcing and hiring, succession planning, established career paths, performance measurement and training.

- ◇ Job descriptions
- ◇ Skills and behavior analysis
- ◇ Organizational Engineering (Team building)
- ◇ Quarterly reviews

