



## Lean Fox Solutions

Health Care  
Manufacturing  
Services, Technology & Sales

## A3 Approach - Identifying Potential Clients and Improving Customer Relationships

### Problem or Opportunity Statement:

The opportunity to address is to apply Lean Six sigma methods and tools to our Identifying Potential Clients and Customers processes to eliminate waste and improve flow. To simplify, make uniform, and get better results.

### Objective and Scope:

The scope of this work is our Identifying Potential Clients and Customers processes. The objective is to apply Lean Six sigma methods and tools to this area to eliminate waste and improve flow of identifying new customers, as well as supporting the overall sales growth rate and profit improvement objectives. The bottom line is we want to be able to identify potential new customers faster and at a lower cost.

### Current State:

The team decided to address the improvement from an analytical approach and determine what the “ideal” customer looks like in terms of key parameters such as size, location, ordering method, distribution, special requirements, and profit. To develop this current state a great deal of data needed to be identified, collected and analyzed. The action items from the kick-off session focused on acquiring the data.

### Ideas and Opportunities:

The following notes were taken in the Ideas and opportunities section of the draft A3.

- Standard and measurable approach to this activity.
- Standard work methods around sales best practices.
- An analytical approach is needed. The team recalled the film “Moneyball\*” 2011 film, starring Brad Pitt, where the baseball team’s ownership did everything based on statistics, and improved their teams performance. The team believed that they too could benefit from an analytical approach. (\**Wikipedia: Moneyball: The Art of Winning an Unfair Game* is a book by Michael Lewis, published in 2003, about the Oakland Athletics baseball team and its general manager Billy Beane. Its focus is the team's analytical, evidence-based, sabermetric approach to assembling a competitive baseball team, despite Oakland's disadvantaged revenue situation. A film based on the book starring Brad Pitt was released in 2011.)

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### **Future State:**

At the kick-off session the concept of the Future State was not very clear, but the team felt strongly that it centered on a targeted analytical approach to getting new customers.

### **Future Ideas and Opportunities:**

None identified

### **Action Plan and Timeline:**

Each member took responsibility for gathering specific data needs, and the team agreed to meet on a weekly basis until something different was needed.

### **Key Measures of Success:**

The team wanted to align with the Macro A3 metrics, so they developed the supporting team metrics and measures as follows.

- 1 New sales \$ per sales resource \$
  - a. Profit percent of a new account/customer
- 2 New Customers per sales resource \$
  - a. Same
- 3 New sales \$ with existing customers per sales resource \$
  - a. Profitability by account/customer average

### **Initiative Actions and Outcomes:**

The team collected and analyzed data regarding the idea customer. To do this they gathered information about each customer's account such as size, location, ordering method, distribution, special requirements, and profit. Once this data was obtained the team ran a series of scatter diagrams to determine if there was any correlation between the variables. The scatter diagrams below clearly show a strong correlation between profit and a couple other variables.

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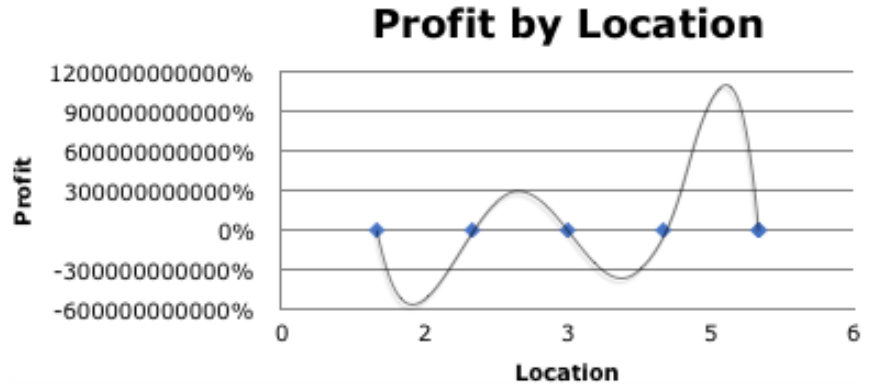


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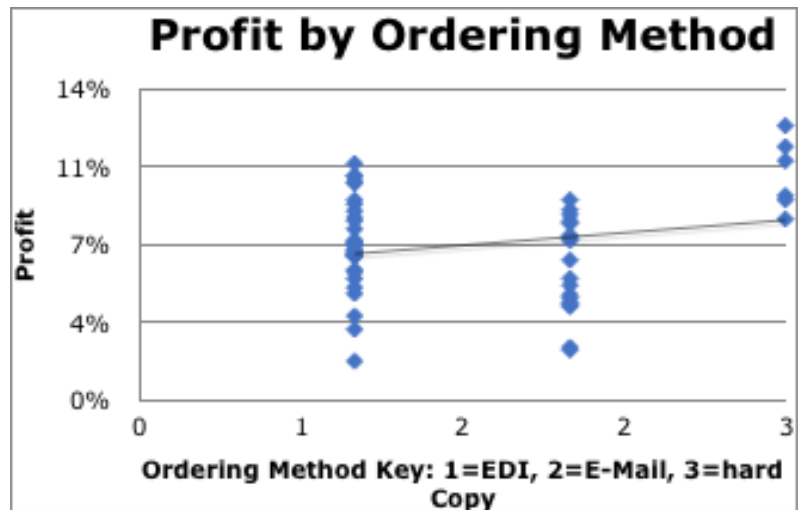
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Location Key: 1=MTN, 2=MW, 3=NE, 4=NW, 5=SE

The Profit by Location scatter diagram shows a slight increase in profit for the accounts in the Midwest. The team speculated that this may be the case as rapid line is in the Midwest and has stronger relationships with more local clients. This prompted the team to discuss the structure of the organization including sales reps and direct sale people in the field. The structure was felt by the team to be outside of their scope, so they made a Future Idea note, and moved on to the Profit by Ordering method scatter diagram below.



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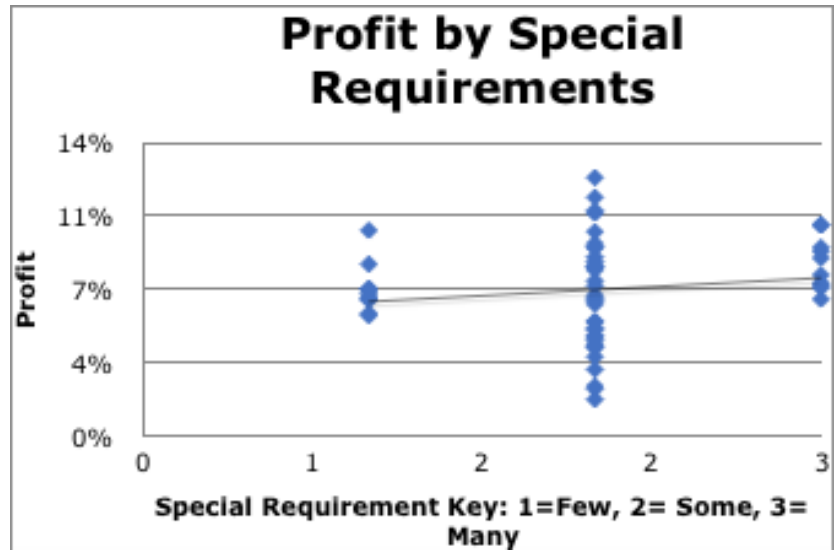


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The team felt that the majority of their largest customers had Electronic Data Exchange (EDI) technology, and that many of their smaller customers did not. The team wasn't sure if this was a direct correlation (cause and effect) or not, but the scatter diagram seemed to show that they were able to make an average profit of ~ 10% with EDI customers, ~6% with E-mail customers, and ~6.5% with hard copy accounts. The team concluded that the customers and Rapid Line were better off using EDI methods to eliminate potential wastes.

The team moved on to review the Profit by Special Requirements scatter diagram shown below. The team drew no specific conclusion from this plot. It seemed that a typical profit around 8% could be achieved with customers with all ranges of special requirements. The key was to serve the customer. As Bill like to say, "The customer may not always be right, but they are always the customer! "



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Moving on to the Profit by Sales scatter diagram below; the team observed that the plot almost looks like a histogram turned on its side. They did however conclude that their seemed to be more profit potential with smaller customers. Even though the average profits of smaller customers may be similar to average profits of larger customers, some small customer profit exceeded 11%. There was however risk in pursuing smaller customers in that some smaller customer profits turned out to be very low. The team agreed that smaller accounts were definitely worth pursuing, as long as Rapid Products could protect themselves on the bottom end of profits with perhaps a new pricing model. The team also recommended that the sales team review all smaller accounts with profits less than 6% for price increases.

The team too examined the one \$1,000,000 account with a profit percent only around 2%, for reasons of assignable cause for low profits. The team found assignable cause in last years numbers in the fact of a large return for defective motors.



With the correlations shown, the team determined that to maximize profit Rapid Products should target customers with the following attributes:

- Sales volume < \$500,000
- In the Midwest
- EDI ordering methods

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Also, Rapid Products should review all smaller accounts with profits less than 6% for price increases.

The team determined that the scatter diagram analysis should be conducted on an annual basis during the strategic planning process, and adjustments made accordingly with regard to target markets or customers, or products.

Also with the data, the team determined that certain customers pricing should be addressed. Some customers were clearly out of line with pricing norms, and the organization was losing money. The analytical review account by account was built into the sales team's semi-annual standard work. By conducting the review semi-annually, the team believed that they could have an overall positive impact on organization profitability. Standard work documents with step by step procedures were drafted and appropriate training provided to the sales teams.

The measurable results from the first review and adjustments yielded an overall profit improvement of 2.5% for the customers impacted. The results summary is shown below.

	Before Initiative	After Initiative
Profit % per new account	15.6%	20.5%
New Customers per sales resource	5 per \$100K	7 per \$100K
Profitability by account/customer average	18.9%	23.9%

This effort alone would have a significant overall impact on the organizations' bottom-line. The team celebrated their success by attending an afternoon game of the local minor league baseball team.

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