

The Revised Focusing Steps of TOC: a Value Creation Approach

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Case study 1

The Law Courts System

- **A District Court**

- A one-year pilot in civil cases
- Lead time of the hearing stage reduced by 50%

- **A Magistrate Court**

- A one-year pilot in car accidents civil disputes
- Throughput increased by 24%
- Lead time reduced by 50%

- **Could we get similar results using the traditional 5-focusing steps?**



Case study 2

An IT department of a large telecommunication company

- **Throughput increased by 40% within 6 months**
- **Could we get such results using the traditional 5-focusing steps?**



Case study 3

A cellular services provider

- **Company gross profit increased by \$40M within one year**

- **Could we get similar results using the traditional 5-focusing steps?**



TOC current components

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- **The 5 focusing steps**
- **The thinking processes**
- **Critical Chain Project Management (CCPM)**
- **Throughput accounting and measurements**
- **Drum- Buffer-Rope (DBR)**
- **Logistics and distribution**
- **Viable Vision (VV)**



The breakthrough of the 5 focusing steps of TOC (Goldratt, 1984)

- 1. Identify**
 - 2. Exploit**
 - 3. Subordinate**
 - 4. Elevate**
 - 5. Go back**
- **Simple**
 - **Focusing on the constraints**
 - **Global view**

The breakthrough of the 5 focusing steps of TOC

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- **Created in the framework of Production Management**
- **Made a significant impact on this area**
- **Changed paradigms:**
 - **Increasing throughput using the existing resources**
 - **“Efficiencies” syndrome**
 - **Measurement**
 - **From “Cost World” to “Throughput World”**



But it may not be enough...

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- **The VFM methodology**



The Value Focused Management (VFM) Methodology

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- 1. Determine the Goal**
- 2. Define measures of performance**
- 3. Identify the significant Value Drivers**
- 4. Decide how to exploit and improve the Value Drivers**
- 5. Execute and control**



The Goal

- **The goal of a business firm is to increase its Shareholders' Value.**
- **Shareholders' Value – the Discounted Cash Flow (DCF)**

Example:

	2010	2011	2012	2013	...
Cash Flow	\$40M	\$50M	\$55M	\$70M	...

DCF= \$450M



Define Measures of Performance

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- **The main measure of performance is Company's Value**
- **In addition:**
 - **EVA – Economic Value Added**
 - **Other relevant performance measures**



Identify the significant Value Drivers

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- **A Value Driver: any performance variable that can significantly increase shareholders' value**
 - **Financial Value Drivers**
 - **Capital structure**
 - **Tax considerations**
 - **Managerial (non-financial) Value Drivers**



Managerial (non-financial) Value Drivers

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- **Organization strategy**
- **Performance measurement**
- **Strategic Gating of projects, customers and products**
- **25/25**
- **Increasing Throughput**
- **Increasing sales**
- **Cost Accounting**
- **Pricing**



Strategy as a value driver

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- **Core competences reinforcement strategy**
- **Core problems defense strategy**
- **Growth strategy**
 - **Organic growth strategy (e.g. pricing, exploitation of bottlenecks)**
 - **Mergers and Acquisitions (M&A) strategy**
 - **Breakthrough strategies**
 - **Viable Vision strategies**
 - **Blue Ocean strategies**



Decide how to improve Value Drivers

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- **Throughput (T) enhancement and lead-time (LT) reduction by the revised focusing steps**
- **Improve pricing and decision making using Global Decision Making (GDM), for example:**
 - Tender management
 - Reduction of the Pocket-Price Waterfall (PPW)
 - Make/buy decisions
- **Reduce project lead-time using the revised CCPM**



Execute and control

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- **Planned implementation**
- **Management commitment and involvement**
- **Value-oriented execution and follow-up**



The revised TOC focusing steps: a tool for T and LT enhancement

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The 7 focusing steps:

- 1. Determine system's goal**
- 2. Establish global performance measures**
- 3. Identify system's constraint**
- 4. Decide how to exploit the constraint and break dummy and policy constraints**
- 5. Subordinate the rest of the system to the above decision**
- 6. Elevate and "break" the constraint**
- 7. If a constraint was broken, return to step 3. Do not let inertia become the system constraint**

Determine system's goal

- **The goal of a business firm is to increase its Shareholders' Value.**
- **Shareholders' Value – the Discounted Cash Flow (DCF)**

Example:

	2010	2011	2012	2013	...
Cash Flow	\$40M	\$50M	\$55M	\$70M	...

DCF= \$450M



The Goal of a sub-system

- **The goal of a sub-system should be well-defined by management**
 - **What is the goal of a project?**
 - **Is the goal of a project “to complete the project within the time frame, within the budget and within the scope”?**
 - **The goal of any project should be “to increase the value of the organization through its life-cycle”**



The Goal for non-profit organizations

- **The goal of a non-profit organization should be well-defined by the organizations owners**
 - **What is the goal of the Law Courts system?**
 - **The goal of the adjudication system is twofold: to provide a mechanism for the settlement or decision in disputes, and to provide information regarding the interpretation of legal rules**
 - **This definition dictates short and timely trials with brief verdicts**



Define Measures of Performance

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- **The main measure of performance is Company's Value**
- **In addition:**
 - **T – Throughput (from margins and fees)**
 - **OE – Operating Expenses**
 - **I – Inventory**
 - **LT – Lead Time/Response Time/TTM**
 - **Q – Quality**
 - **DDP – Due-Date Performance**
 - **EVA – Economic Value Added**



Identify the system constraint

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5 types of constraints:

- Resource constraint
- Market constraint
- **Cash constraint**
- “Dummy” constraint
- “Policy” constraint



Resource constraint

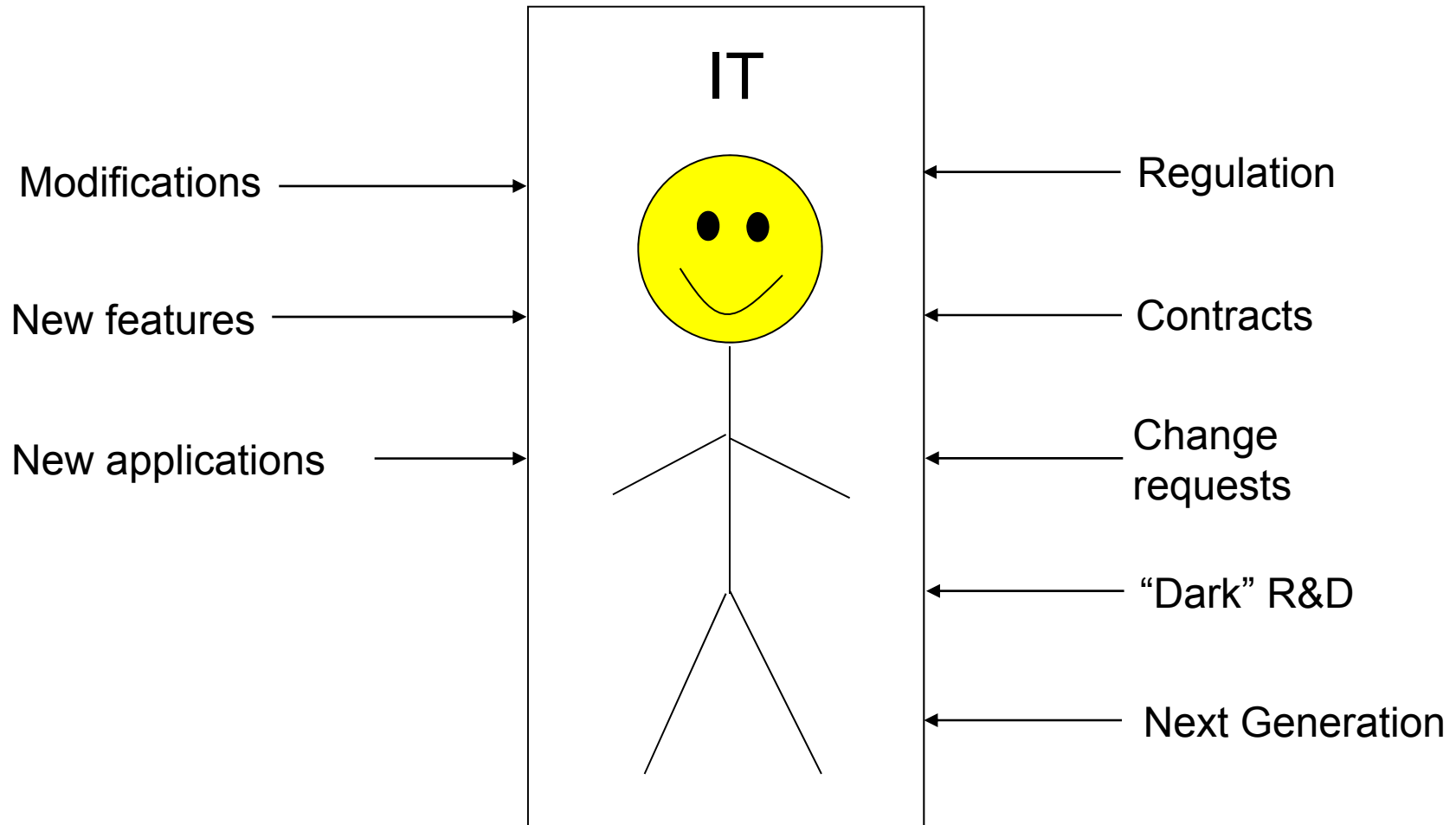
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- **Permanent Bottleneck**
- **Bottleneck**
- **Capacity-Constrained Resource (CCR)**



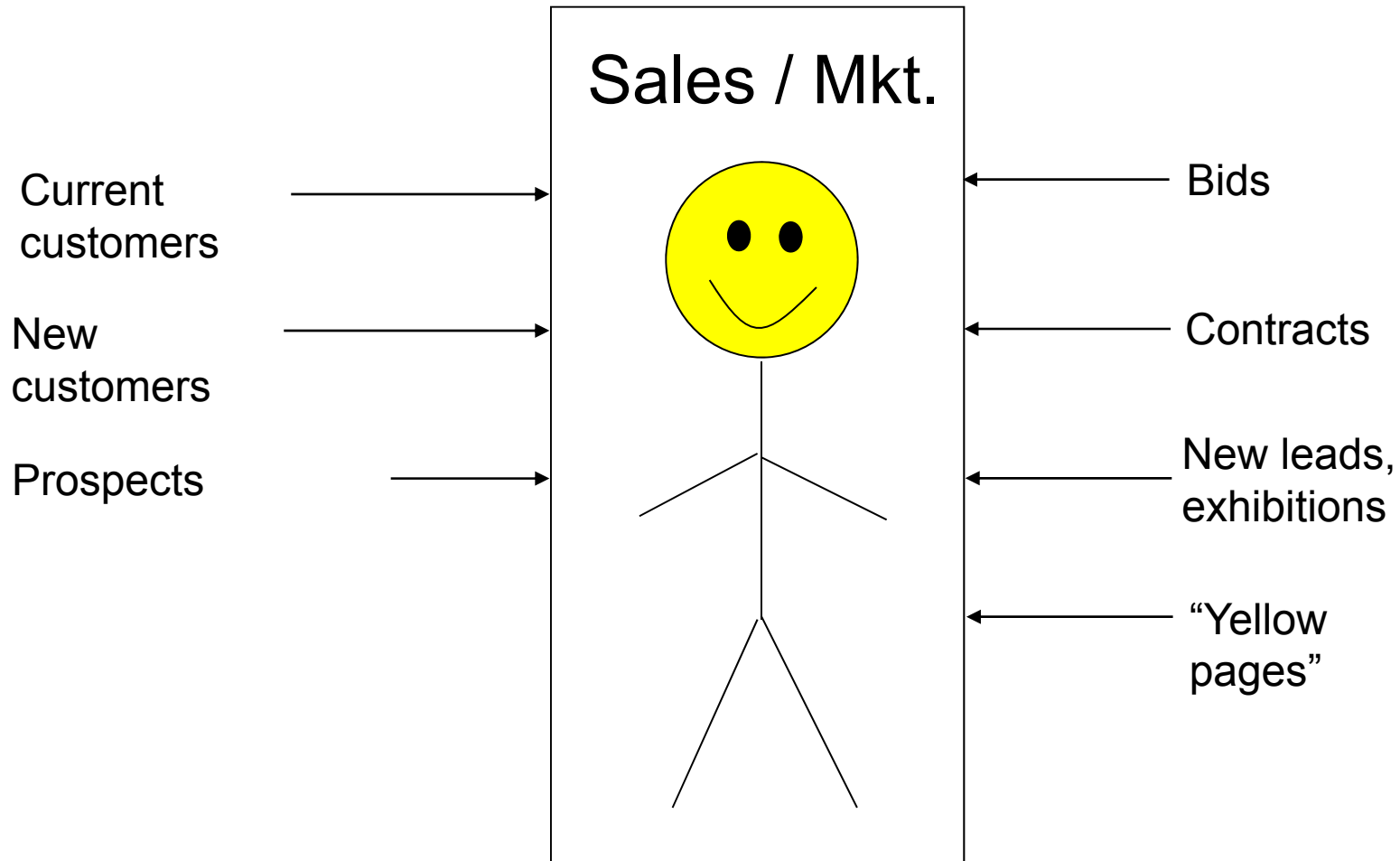
IT Developers as Permanent Bottlenecks

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24/7
24

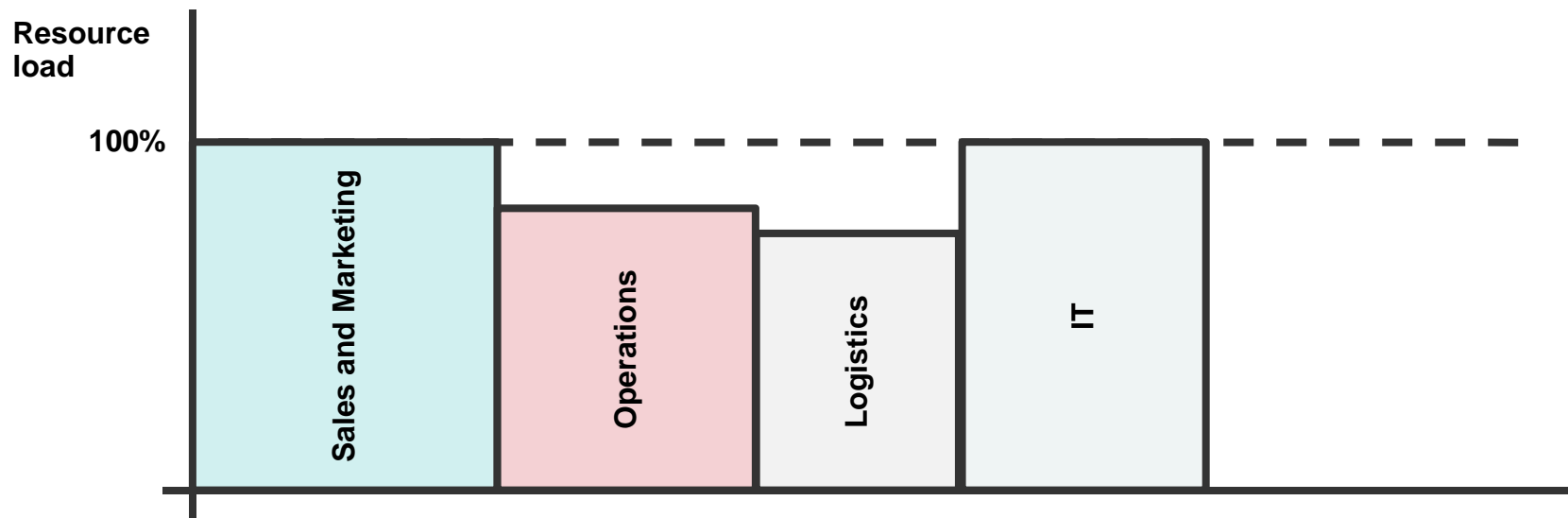
Sales/Mkt. as a Permanent Bottleneck



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25

Market constraint

- **Defined as excess operations/production capacity**



- **Two main ways to deal with the market constraint:**
 - dealing with the internal Permanent Bottlenecks in IT, R&D and S&M
 - Improved pricing



Cash constraint

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- **Company's health factor**
- **It's either THE CONSTRAINT or a non-issue**



Dummy constraint

- **A very, very inexpensive resource**



Policy constraint

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Examples:

- **“Cost+” pricing**
- **Local measures of performance**



Decide how to exploit the system constraint

- **Efficiency**
 - Reduction of “garbage time”
- **Effectiveness**
 - Strategic gating
 - Especially important in Permanent Bottlenecks management



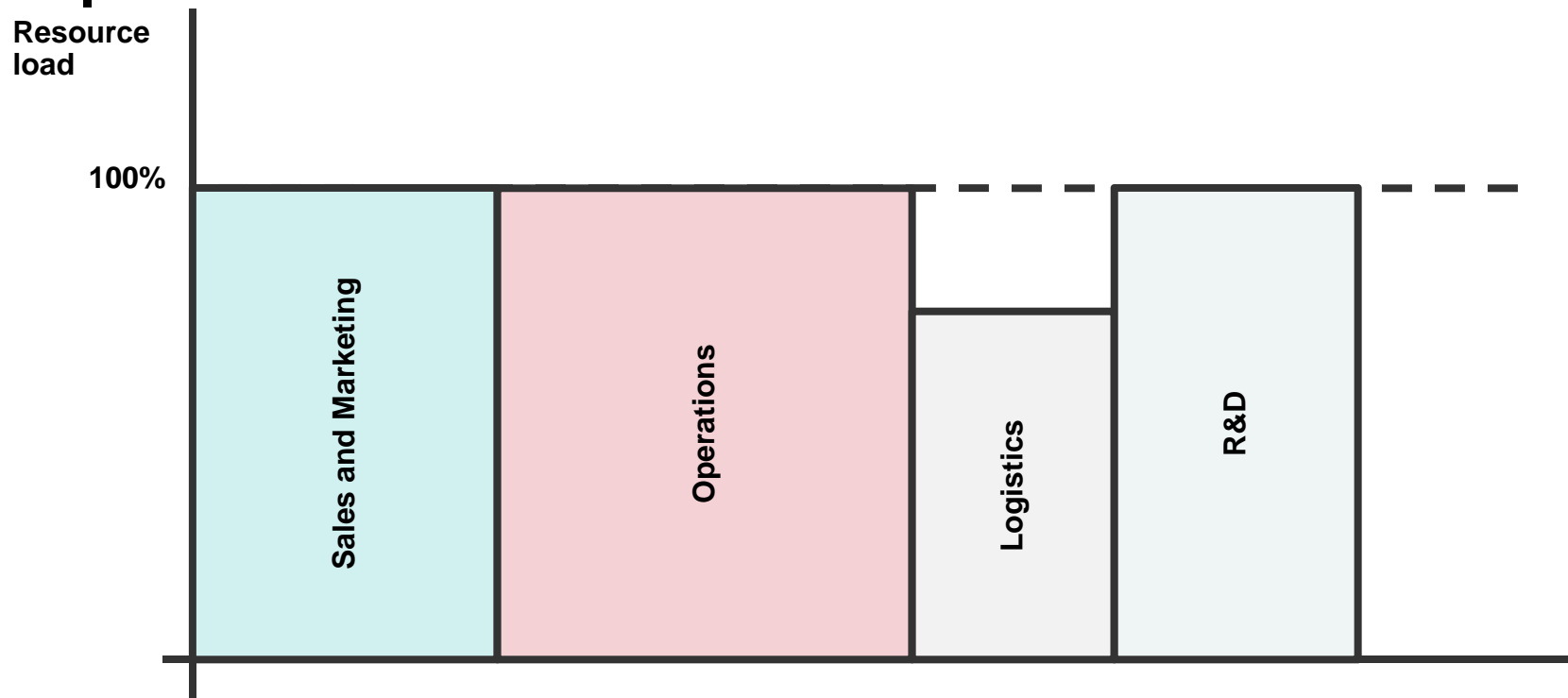
Strategic Gating

- **Permanent Bottlenecks cannot execute all desired missions**
- **Use Global Decision Making Methodology (GDM):**
 1. **Make an economic decision from the CEO's perspective**
 - a. **The CUT-diagram**
 - b. **The measurements profile**
 - c. **The Focusing Matrix and the Focusing Table**
 2. **Consider Strategic considerations**
 3. **Change, if necessary, local performance measures**



The CUT diagram

- An example CUT diagram of a resource constraint in operations



The measurements profile

	Current situation	Alternative # 1	Alternative # 2
T – Throughput			
OE – Operating Expenses			
I – Inventory			
LT – Lead Time			
Q – Quality			
DDP – Due Date Performance			



IT Strategic Gating

1. The focusing table

Project no.	Project name	Importance (\$value)	Ease of implementation =1/EE (person-years)
1	Application for retail dept.	\$ 50M	2
2	“Patch” for the 460 program	\$ 50M	6
3	ERP implementation in HR	\$ 20M	2
4	Improving sales interface	\$ 30M	4
5	Credit scoring	\$ 20M	6



The Focusing Matrix

Value (\$)

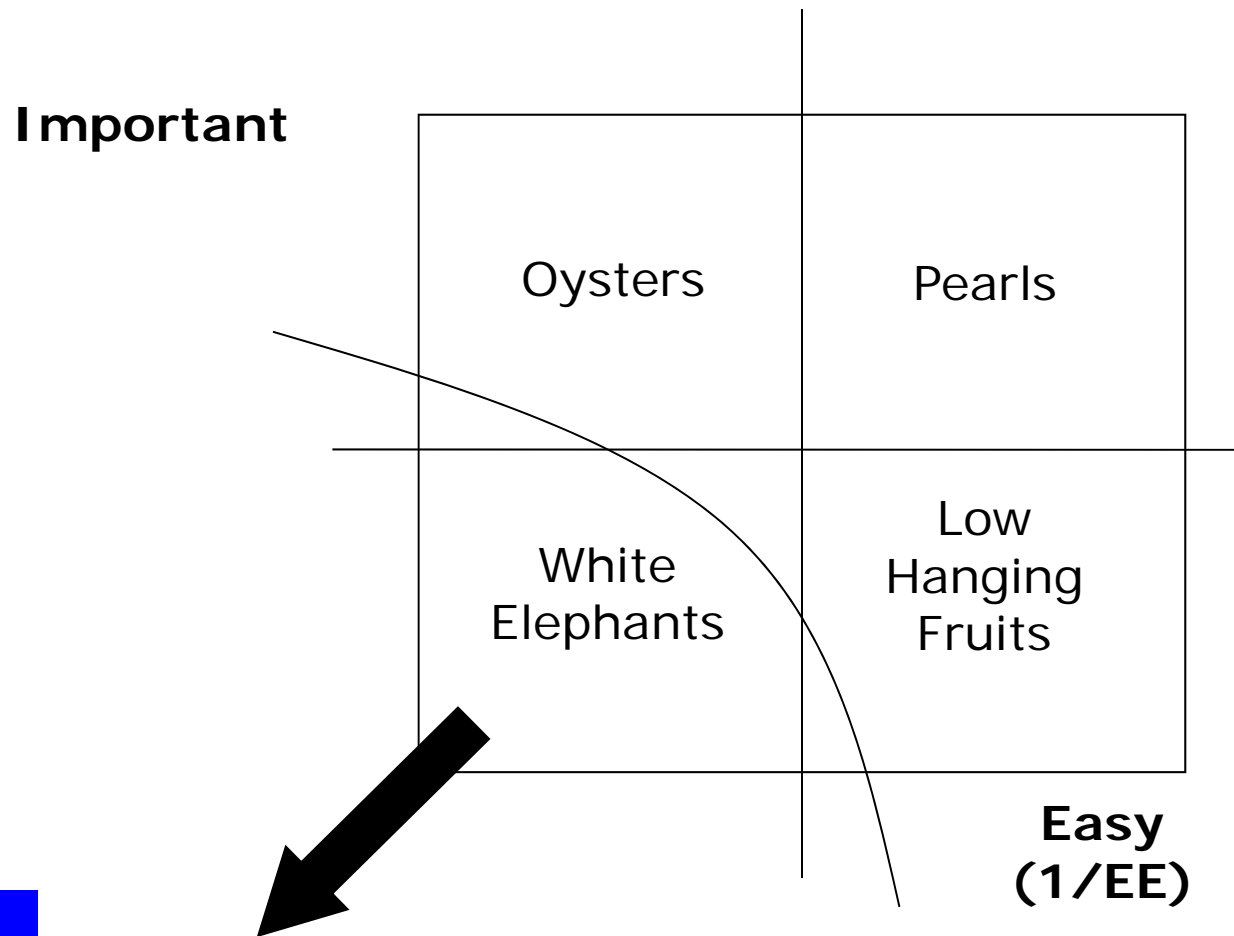
50M		2		1
40M			4	
30M		5		3
20M				
10M				
	8	6	4	2

1/BN-MY



IT Strategic Gating

2. The focusing matrix



Strategic consideration in GDM

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The 25/25 Principle

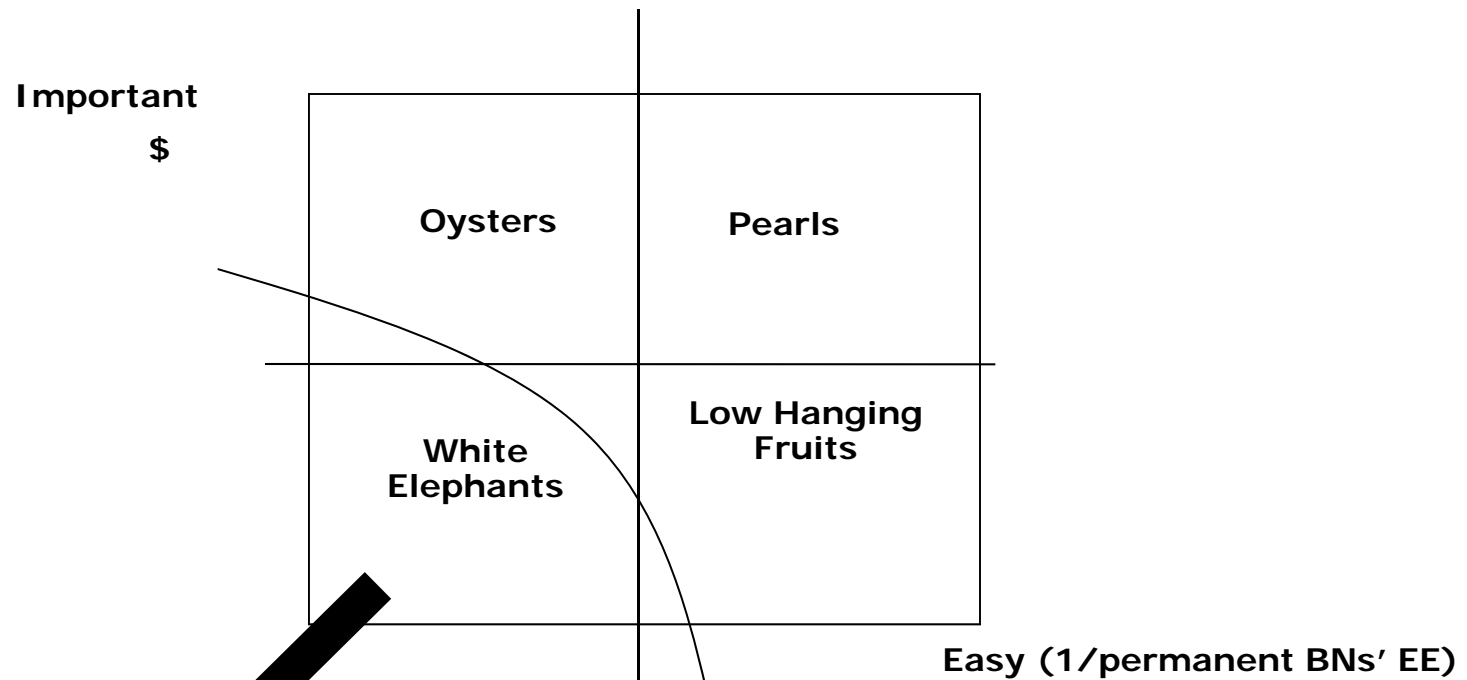
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- **25% of projects in pipeline should be discontinued and terminated**
- **25% of the scope of remaining projects should be eliminated:**
 - **Over-specification**
 - **Over-design**
 - **Loss of relevance / need**



The 25/25 Principle

1. The 25/25 principle (part I) Bid/No-Bid – Strategic Gating



The 25/25 Principle

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1. The 25/25 principle (part II)

25% of features eliminated due to:

- Over-specified
- Over-designed
- Reduced relevance



Subordinate the rest of the system to the above decision

- **Tactical gating:**
 - **The Complete Kit (CK) concept**
 - **Drum-Buffer-Rope (DBR)**
 - **Small batch concept**
 - **Queue/line discipline (SPT, DD)**
- **Conflict: to which Permanent Bottleneck should we subordinate the system IT/R&D or Sales&Marketing?**



Elevate the system's constraint

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- **Offload**



If the constraint was broken return to stage 3



Case study 1

- **A District Court**

- **Lead time of the hearing stage reduced by 50%**
- **The goal, Continuous Hearing, the small batch concept, Double DBR, offload**
- **Leadership**

- **A Magistrate Court**

- **Throughput increased by 24%**
- **Lead time reduced by 50%**
- **The goal, Tactical Gating, measures, the Complete Kit concept, offload**
- **Leadership**



What's new

- **Structured value creation approach**
- **Value-Focused Management (VFM) methodology**
- **The 7 focusing steps**
- **Strategic gating**
- **Tactical gating**
- **CUT diagram**
- **Measurements profile**
- **The Focusing Table and the Focusing Matrix**
- **The Complete Kit (CK) concept**



What's new (2)

- **Global Decision-Making (GDM) methodology**
- **Applications in business and non-profit organizations**
- **25/25**
- **The Pocket-Price Waterfall (PPW)**
- **Strategy as Value drive**
 - Reinforcement strategies
 - Defense strategies
 - Growth strategies



About Boaz Ronen

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Professor of Business Administration and Value Creation, Faculty of Management, Tel Aviv University

Over 120 successful value creation projects

7 books and 100 papers

The book – “Focused Management” published last week by Wiley

The “Focused Management for Health Services Organizations” book is taught in Harvard and other leading universities



About Shimeon Pass

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