

Applications of TOC That Result In Significant Gains

Theory of Constraints (TOC) has been applied in different companies, environments and applications. In the last two newsletters, we focused on the fundamental steps of TOC and the need for organizational buy-in, in order to have a sustainable implementation of TOC. Having covered the fundamentals and the need for organizational buy-in, we are going to present some of the applications of TOC that typically result in significant gains. Key areas of applications are Inventory Reduction, Project Management, Metrics for Selection of Projects and for depicting Savings. These three articles, in the newsletters, are a good pre-cursor to the upcoming TOC seminar scheduled for July 13th.

Applying TOC to Inventory issues has rippling benefits. The first question one should ask is: Do we have too much inventory or too much of the wrong inventory and not enough of the correct inventory? Almost all of our consulting experience has had some connection, either directly or indirectly, to issues with inventory. Excessive inventory, is difficult to manage, causes clutter and negatively affects the efficient flow of product. In addition, the piles of inventory lying around have been paid for which means the organization has an excessive amount of capital invested in materials that may never sell. One of the first things TOC does is to address the inventory issues which frees up capital and reduces processing time.

Another application with significant benefits is to apply TOC to managing projects. Today nothing gets done without some sort of project team being established to oversee its development or resolution. As a result, today's senior managers are spending more of their time focused on the lead times associated with all their projects. This is supported by the 2004 CHAOS survey that revealed an average of 56% cost overrun across projects. This is huge, just imagine a million dollar project needing a million and a half instead, and proportionately more time as well!! TOC's approach to projects has produced, on average, a sizable (30+ percent) reduction in lead time without increasing the budget. Imagine getting done earlier at the same price – quite a concept. It does this by understanding the true dependencies among tasks and more effectively managing the few resources that are critical to successful completion of the project.

Are you constantly arguing about the validity or importance of the measures being used to evaluate and track performance? How often have you been in a meeting and someone offers an argument that is based on a measure / criteria that is not important to you or your individual set of performance measures? How many people have left their positions because they did not understand or could not accept the measures used to evaluate their performance? We often see people frustrated by the accounting metrics that do not drive the right behavior or focus on the right issues to address. In these difficult times, it is particularly important to manage resources appropriately. TOC recognizes that if you measure anyone illogically, they will behave in an illogical manner. To that end, it offers a simple set of metrics that can be used at all organizational levels to align the decision-making criteria.

How many times have you developed a project proposal, seen it approved and successfully implemented and never seen the increase in performance the plan was based upon? This issue led me to pursue my Ph.D. in search of this answer. As I began to study TOC and other systems-based business processes and practices, I began to realize where all the projected savings I had calculated for my projects went. By having more clarity on projected costs and savings one can make better decisions.

In summary, the successful application of TOC can produce significant benefits with a minimal investment. TOC is relatively easy to understand, but, its successful implementation is not. It requires training and doing-with-guidance until the organization develops TOC expertise within itself.