

Building a 'Petter' Mousetrap

An optimization project using cross-functional teams helped Petter Supply Company boost performance, reduce inventory, and cut costs.

Founded in Paducah, Ky., in 1890, Petter Supply Company is an industrial wholesaler that provides maintenance, repair and operating supplies, industrial belts, and related services to manufacturers, inland marine operations, and mining companies. A family-run business, Petter has three branches in Kentucky, and one each in Illinois and North Carolina.

Over the years, Petter has made its 125,000-square-foot distribution center in Paducah the primary distribution hub. This process included "whittling down the branches' inventories to critical spares and products that are specific to the customer base in that area," says

Petter President John Sircy.

As part of that strategy, in 2001, Petter installed a warehouse management system in its DC. "When we went live with the WMS, several issues bubbled up to the surface," Sircy reports.

To assess operations in the facility, and identify opportunities for improvement, Petter hired performance management consultant Jimmy Benefield, now the practice leader of engineered standards and incentives for Kom International, Inc., Montreal. "He identified roughly 20 different major areas of opportunity," Sircy recalls. Tackling those areas was the next step.

Benefield suggested a team-based continuous improvement process to



Petter Supply Company uses a team-based continuous improvement process to address specific issues and opportunities surrounding its primary distribution hub in Paducah, Ky.



CROSS-FUNCTIONAL TEAMS

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— **JOHN SIRCY**
President
Petter Supply Company



address potential areas of opportunity. CEO Robert Petter and Sircy, who was then chief operating officer, embraced the idea and decided to implement it.

Petter and Sircy introduced the concept of cross-functional teams to the company’s supervisory group, and explained the team-based continuous improvement process, including the team charter. A core component of the process, the formal team charter spells out the specific issue to be addressed, and lays out a timetable for doing so. The charter serves, in effect, as a team’s road map, documenting milestones, goals, and objectives.

Teams come together to address a specific issue, and are disbanded once the issue is resolved. A team may finish its work in as little as six weeks, or as long as one year or more, depending upon the initiative.

TEAM SPIRIT

The team concept was enthusiastically received by Petter’s supervisory team. Petter and Sircy identified several priority issues, each to be addressed by a specific team. The team tasked with tackling communications, for example, had high-level involvement and representation from across the company. The team worked on its assignment for about three months, and “focused on how employees interact with one another, and how to make sure that the right information gets into the right hands,” Sircy says.

The other teams focused on issues related to performance in the distribution center. One team addressed quality topics, such as documenting error rates, identifying key performance indicators, and developing ways to address potential problems. This team, led by the head of the company’s quality area, worked together for several months.

Another team was the Location Optimization and Tactical Slotting, or LOTS, team. “They focused on the DC, and the location of our items,” Sircy explains. “They tackled questions such as, ‘Are items in prime real estate? Are the fast movers in the optimum picking zone? Do certain products need to be re-located?’” This team worked together for about one year.

Members of each team varied, depending on the particular situation. The LOTS team, for example, included the DC manager, inventory control specialists, material handlers, and an employee from the IT department.

Petter may have several teams operating at one time. Since the initial three teams, another 10 teams were chartered and have completed their work. Another chartered team begins work in early 2005. Teams have addressed a broad range of topics, including purchasing, cost integrity, replenishment optimization, and transportation.

The transportation team played a unique role, working with a consultant to implement recommendations to improve private fleet, LTL, and small shipment operations. Led by the company’s vice president of quality, the team included the traffic manager, representatives from accounting, and employees from inside and outside sales. Petter realized significant savings in its transportation costs, and streamlined its private fleet operations, as a result of the team’s work.

Other teams also achieved significant results. For example, the number of credits issued by Petter and the number of errors coming out of the distribution center have dropped dramatically, Sircy reports.

Top management buy-in is crucial to the success of a team-based continuous improvement program. “It was es-



CROSS-FUNCTIONAL TEAMS

Secrets to success of a team-based continuous improvement program include **an effective team charter, having the right team members, and ensuring effective participation.** Top management buy-in also is crucial.

essential that Robert Petter buy into it, and he did, 100 percent," Sircy recalls. Petter stated his strong commitment to the new approach in a letter sent to every company employee.

Having an effective team charter is another critical success factor. Sircy and Petter put a new team's charter together, and distribute it to team members who review it and suggest changes.

Making sure each team is comprised of the right people is also crucial for success. Sircy has found six to eight members to be the optimum number for an effective team. It's also important that team members all participate in the process. While the team leader sets the agenda for the weekly meetings, team members share responsibility for taking minutes.

Team leaders meet every Friday at 7:30 a.m., reporting on their team's activities. Team members meet once a week for an hour, with a specific agenda. A lot of work has to take place outside of the team meeting, with team members also responsible for completing their regular workload.

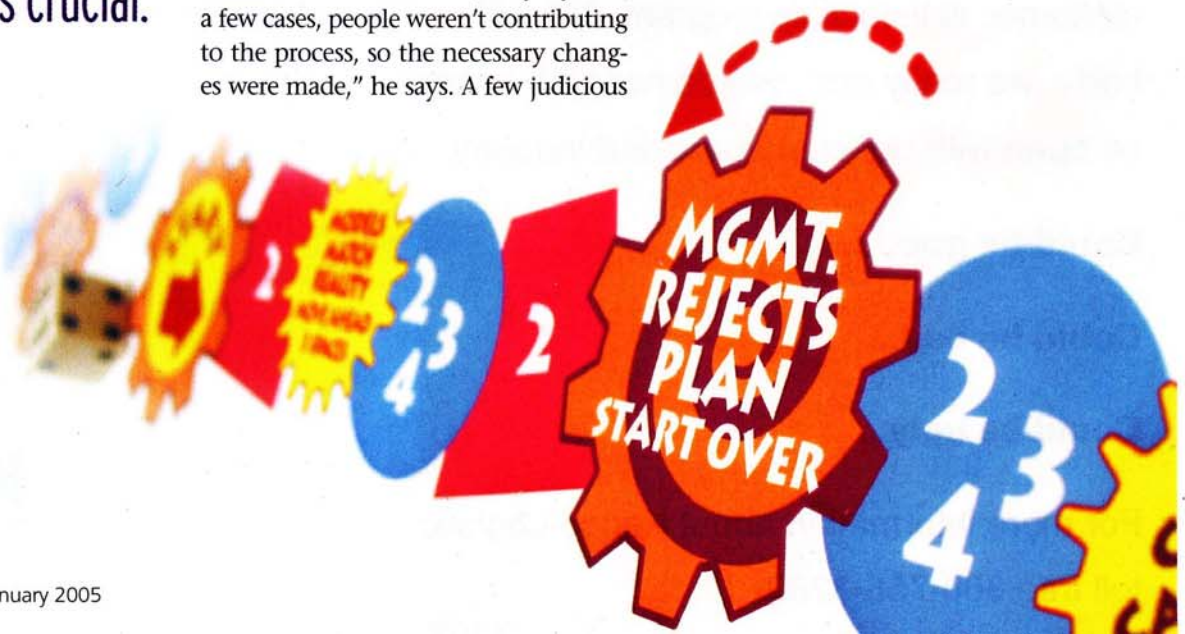
It can be necessary to change a team member from time to time, Sircy says. "In a few cases, people weren't contributing to the process, so the necessary changes were made," he says. A few judicious

changes in team membership also injects new energy into a team that has been operational for an extended period of time.

Enthusiasm and company-wide support are also important. "It takes word of mouth from people involved in the process who are excited about it, and willing to share that excitement with their colleagues," Sircy says. Communicating and recognizing team results is part of his responsibility.

In addition, Sircy says, an employee's work on a team may result in that person's nomination for the corporate-wide recognition program, called Petter Star Performer. Another indicator of the initiative's success: 25 percent of the workforce has participated on a team since the process was introduced in 2002, and many have volunteered to participate on additional teams.

The teams have delivered solid results. "We're talking basic blocking and tackling, not rocket science," Sircy says. "Doing ordinary things consistently well, however, creates extraordinary performance. That's what this team process enables us to do."



Teaming for Excellence

Creating empowered teams can help optimize any performance management initiative, while increasing customer service, improving overall operations, and fostering cooperation company-wide.



Teaming is the foundation of performance management, according to Jimmy Benefield, practice leader of engineered standards and incentives for Kom International Inc., a global logistics and supply chain management firm based in Montreal. The ultimate goal of performance management is improving performance or other factors such as throughput and morale. The components of performance management include teaming, the development and implementation of work methods and standards, incentives, plus supporting technology.

Three levels of teams – a steering team, an improvement team, and an empowered work team – are integral to performance management.

“The steering team is extremely important, and enables you to gain management buy-in, which is crucial to the success of the performance management effort,” Benefield says. The steering team establishes the overall direction of the teaming process, and provides planning, guidance, coordination, resources, and accountability.

The improvement team is a cross-functional team that works within the direction provided by the steering team. The improvement team’s mission is “to develop more effective methods of serving customers, improving operations, and enabling teamwork,” Benefield notes.

The methods identified by the improvement team are implemented by the empowered work team, a group of individuals who run the daily operations of

When optimizing performance management, three levels of teams are crucial to success: a steering team, an improvement team, and an empowered work team.



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— **JIMMY BENEFIELD**,
Practice Leader of Engineered
Standards and Incentives,
Kom International

an area, such as a distribution center or a freight dock.

According to Benefield, the team focus leads to:

- Aggressive questioning of all business practices.
- The unflinching elimination of all non-value-added activities.
- Elimination of barriers that prohibit the success of total customer satisfaction for both internal and external customers.

WORK MEASUREMENT

Work measurement involves methods and standards. “Poor methods should not be optimized,” Benefield says. As such, the first step is to define the optimal method for performing an operation. Once this step is completed, engineering standards must be developed for each of the work methods.

“There is a big difference between engineered work standards and using historical numbers to measure performance,” Benefield says. “You can set goals based on historical performance and hold people accountable for meeting those goals, but until you develop engineered work

standards, you don’t know what your true capabilities are. You only know what you’ve been able to do historically.”

INCENTIVES

It’s not uncommon for individuals to work at less than their potential. “Most people, until you give them some type of incentive, are not going to work at greater than 85 percent of their potential,” Benefield says.

Incentives can be for individuals – where employees are rewarded based solely on their performance within the team – or for groups, where a functional team is rewarded based on team performance and an agreed-upon set of metrics. Incentives can also be structured as a blend of the two approaches, where individuals are rewarded based on their performance within the team, as long as a specific team metric is met.

PUTTING A PLAN INTO ACTION

Performance management can be implemented in phases. “Start with one cross-functional team,” Benefield suggests. Train the steering committee and the members of the cross-functional team in the concept of what Benefield calls “teaming for excellence.”

Have the team do its work, then slowly expand the use of teams. The results can be significant. The use of engineered standards, coupled with incentives, can boost team performance by 10 percent to 30 percent, Benefield says.

