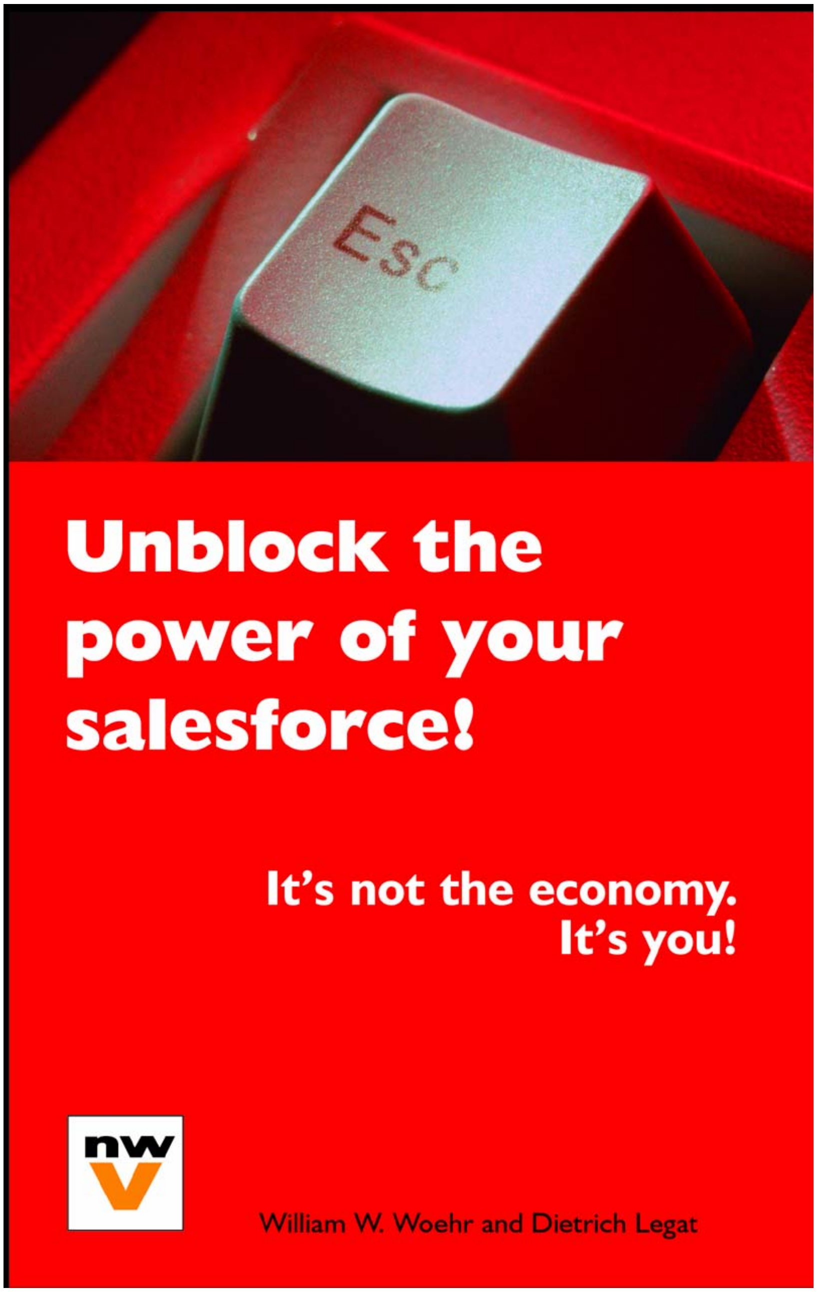
Excerpt from UNBLOCK THE POWER OF YOUR SALESFORCE!
W.A.Woehr, D.Legat
ISBN 3-7083-0082-3 (German: ISBN 3-7083-0166-8)



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TOC: a new frame of mind for sales

We thank Bill Dettmer for his permission to use material from his books. This chapter is a compilation of thoughts from Bill Dettmer's books and material. (see recommended reading at the back of the book for more information on his writings).

Theory of Constraint (TOC) can best be described as a scientific method applied to the challenges of managing a complex organization. Unless you have read The Goal, by Goldratt, this chapter will be new to you. We will spend some time acquainting you with a different view of your TOC world where the focus is to improve the flow of money from your customer's bank into yours. In TOC terms we call this flow Throughput (T). Wherever you see T, think of this as "money coming in". DELTA T-Selling is a sales system that improves your T.

Our principal claim for applying TOC to account selling is that sales managers often base their decisions on assumptions, which are no longer valid and therefore are wrong in today's business situation. These assumptions are hopelessly out of date and were valid during the times of an "agricultural economy". The wrong assumptions are the cause of much of the trouble that sales managers find themselves in trying to lead sales organizations. You make wrong decisions when you base them on the wrong assumptions - they bring you into more problems than out of them.

> "As we advance deeper into the knowledge economy, the basic assumptions underlying much of what is taught and practiced in the name of management are hopelessly out of date. Yet most of our assumptions about business, technology and organization are at least 50 years old. They have outlived their time… As a result, we are preaching, teaching and practicing policies that are increasingly at odds with the reality and therefore counterproductive… These assumptions that determine what we pay attention to and what we ignore are usually held subconsciously by the scholars, the writers, the teachers, the practitioners in the field. Thus, they are rarely analyzed, rarely studied, rarely challenged, and indeed rarely even made explicit."[1]

TOC shows you how to come out a winner. By adopting a different and more adequately modern set of assumptions you'll get out of the pattern of basing your decisions on the wrong assumptions. The illustration compares the two sets of assumptions: on the left, the "classical" assumptions by which we run our sales organizations today; and on the right, the TOC set of assumptions.

These "classical" assumptions seem to be rooted in the agricultural economy. You would organize farmers in a village by giving everyone their own fields and letting them figure it out. However, currently, we are in a knowledge economy. We no longer work individually in our own fields. Instead, we work in virtual collaboration networks. These networks span the globe and virtually align themselves to whatever project they engage in. It's no wonder that we keep running into the trouble that we are in and that our methods to solve our problems don't work anymore! The indicators below show that we are still attempting to apply an agricultural set of assumptions to a knowledge economy world:

– Commission splits and commission fights, double counting of orders, (or multiple counting).

[1] Peter Drucker, Forbes Magazine, 5 Oct 1998

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- Frequent re-organizations. A new organization chart every quarter.
- The eternal problem: the customer project is in Austria, Germany, Belgium, the U.K. and Japan. Who will get commission credit?
- Counting fractions of people, and sophisticated schemes to allocate cost.
- Frequent channel conflict.
- Sophisticated recognition and pay schemes, based on many criteria, perhaps even weighted

Do you recognize these in your sales organization? If so, you are ready for TOC.

New frame of mind

Many brilliant books have been written on the subject of TOC. We have no intention of re-writing any of them. We do, however, want to briefly illustrate how TOC could radically improve your sales results. In adopting TOC as the basic principle of managing your sales, you and your management team would work on the following five assumptions:

1. Our business is ONE system.
2. We have ONE clear goal.
3. We create the CONSTRAINTS.
4. We FIND and RESOLVE them.
5. We worry about THROUGHPUT.

Key assumption nr.1: our business is ONE system

In this section, we'll explore some of the classical assumptions that are based on an agricultural economy. You can start evaluating some of the principles that have lead sales organizations, and specifically yours, to this day.

TOC is a system philosophy that considers performance improvement from the system level, not the process level. Organizations live or die as complete systems not as individual components. TOC is a body of knowledge consisting of principles, tools and applications.

One key assumption in the classical framework of selling is that the whole system is better if each part does the best it can for itself. Therefore, in reality, sales consists of many sub-systems, which are funded from one source – the enterprise's cash – but then go off and each do their own thing: marketing markets, sales people sell, order processing processes orders, delivery delivers, and if you sell more than one product family you might even have different sales teams visiting the same customer. (We know of one extreme case, where these sales teams were selling competing products, trying to outsell each other – much to the amusement of their competitors). Also, sales management is not viewed as part of the sales system: sales reps sell and sales managers manage.

The TOC mind frame views selling as one whole sales system, with only one goal in mind: to win the opportunities for business that exist for the enterprise as a whole. Sales management owns and is responsible for the performance of a vital element of the system: setting the goal and resolving the constraints. Everybody in sales must focus on one goal. Everybody must focus on winning opportunities. Everybody. But the reality in sales organizations isn't necessarily so.

Optimized – not sub-optimized

In the agricultural economy, each farmer looks after his own fields. Account sales organizations fail to perform, if built on that principle. Systems function as whole, not as discrete processes. Improvement of output requires system optimization. Work flows functionally but we typically manage by the organizational chart. Every function does it's best to operate efficiently and effectively. However, the system is neither efficient nor effective. Why? Sub-optimization: enhancement of one part of a system at the expense of the other parts or the system as a whole. This is local vs. system optima.

How do you know your sales system is sub-optimized? There is one prime indicator to tell you: the face-to-face time of your account sales reps. We know of no indicator that shows so clearly the degree of sub-optimization and we know of none where so much cheating with numbers takes place.

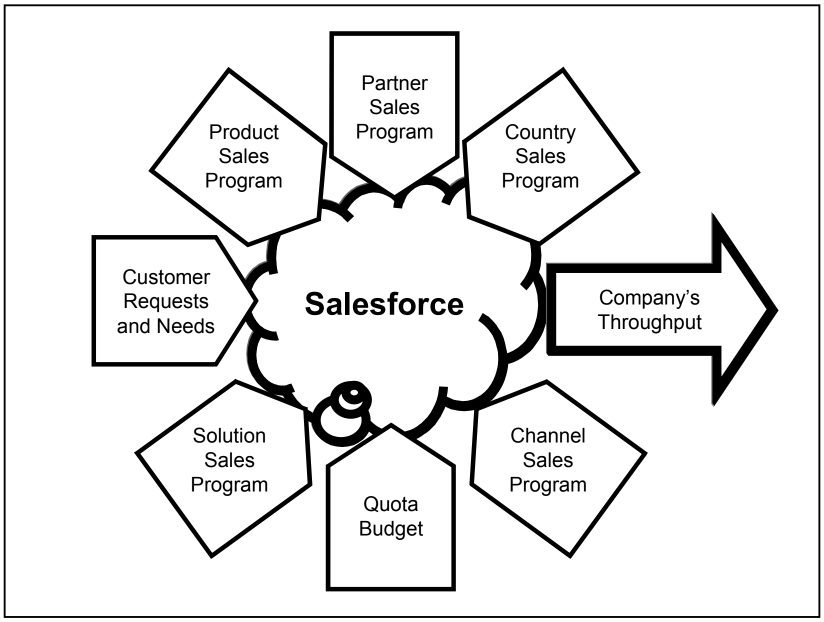
Every sales manager we know admits that the face-to-face time in their account sales organization is, in reality, a maximum of 40%. Many sales representatives cannot reach more than 20%. Why? Because all other functions sub-optimize at the expense of the sales force.

The impact? We would like to present the Woehr/Legat rule of thumb (empirically won from years of fighting sub-optimization): for every additional line of management (equal: sub-optimization) you reduce the capacity of your sales force by 20%. The sales professionals will not have the capacity to grow T.

> Centralizing Sales Secretaries
>
> A few years ago, the administrative folks decided to be more cost effective by reducing the secretary headcount by pooling secretaries in all the sales offices. Up to that point, each sales district had a secretary who worked with a set of customers, a group of SRs, the district manager, and the support group. This secretary knew the customers, the SR's, the products, etc. After the change, the SR had to go to the pool for secretarial help. He got someone who knew nothing of the products, did not know how to quote, did not know who was the customer, did not understand the SR's business. By the time the SR's tried to explain what they needed they gave up and did it themselves. So now we had expensive SR's playing secretary instead of selling. This is sub-optimizing at the expense of the system: compare the salary of an SR against paying one secretary.

By the way, the admin organization was praised for the significant increase in productivity they had achieved. Who had paid the price?

Another example of sub-optimization is the sales forced being pulled in so many directions. For example, one Account Sales Manager told us of 27 different people in his company who wanted him to align to their goals and plans. Who then, would come to review him? Or, in one company, they measured the blessings of e-mail: they found that each of their Sales Professionals received more than 3000 pages of material every month. What they did with it varied widely, although, most disposed of it quickly. In reality, the sales force is one of the most unfocused functions of many enterprises. It is a showcase of sub-optimization.



Sales – a showcase of sub-optimization

These examples show that you will be of little use to the actual selling effort if you work in a sub-optimized system. This is a system wherein everyone worries about his or her piece only and where everyone can tell the sales people what they are supposed to do. You will be forced to spend most of your time in meetings focusing on internal stuff (channel conflict, special exception rules, quota splits, order sharing, ownership battles, allocation of overhead discussions, etc.). In essence, you will be negotiating all the time to compromise among internal forces, which compete with each other in sub-optimization. One Sales Executive stated that “Channel conflict is actually healthy for a sales organization”, or another stated that “There will always be conflict between product teams and sales teams”. Does it have to be like this? We think not. TOC offers a way to radically reduce sub-optimization.

Significantly wider boundaries - not just selling

To understand a business as a system, first of all we must understand the system’s boundaries. Classically, in the reality of managing sales, we understand selling as the system which sales people use to sell. In agricultural terms, it is the

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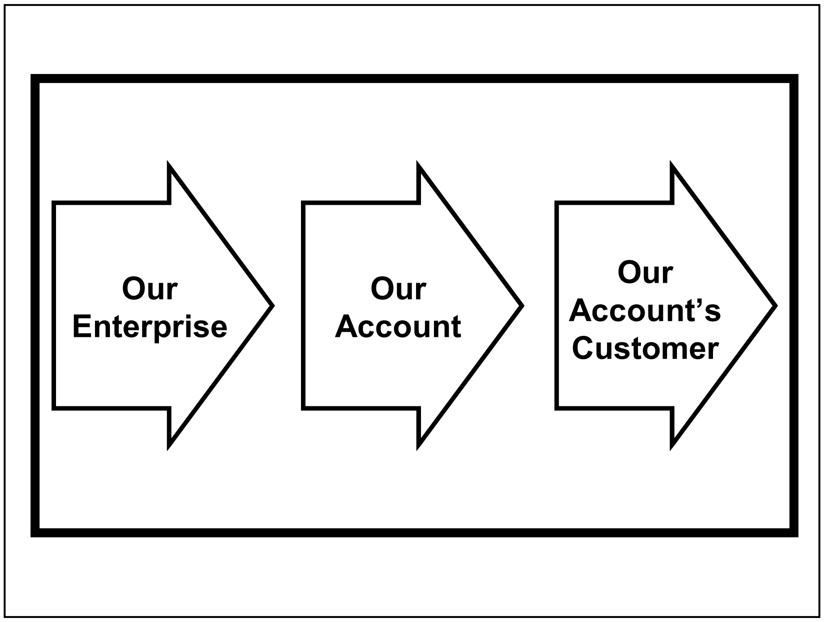
system with which they plant and harvest their fields (hence the term “customer cultivation”).

From the TOC point of view, your sales system’s chain extends much further out: to your customer's customer. You, your accounts and your account’s customers are all working in one system. Your part (your sales system) will work optimally if the whole works well.



The selling system’s boundaries

Classically, the “sales people” are the sales system. They get a sales goal, and then go out and sell. Where is the sales management in this view of selling? Their job is to set goals, control cost (you need to watch those sales reps very carefully, to ensure that they stay at the right hotels!) and send out paychecks. If sales are weak, what do they do? They fire the sales rep. If sales are strong what do they do? Give a bonus. In this classical view, the sales manager is not part of the selling system. The pervasive value system makes sure that it stays that way.

In classical sales, similar assumptions define the role of product management. Their job is to invent, design and deliver fantastic products. Introduce them to the market. Then go off and do the same again. This assumption says “if you throw a good product over the fence to the sales force, and if they fail to sell, it is their fault.”

Both assumptions lead to the wrong decisions being made in the knowledge economy market. Instead, we must base our leadership of the sales system on the following assumptions – that the sales system is:

– Performing to the capacity, which the policies allow it to reach. It is sales management’s job to ensure that the policies are not the problem – which they normally are. Sales fail because sales management does not play their part in the selling system.

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– Selling products that are "fit for selling". Making them fit for market introduction does not achieve this. Products fail in the market because product management has not acted as part of the selling system.

A virtual collaboration system – not a sequential process

In the agricultural economy, selling worked door-to-door. Prepare, knock, qualify, sell or leave. Clear, fast frog-kissing model. Most of our models about selling are still based on that stepwise approach. Five step selling. Ten Step Selling. You name it.

Account sales reps hate these systems. They will do anything to duck them, avoid them, and/or keep their work in them to a minimum (if you use a so-called sales force automation system you will know). There is a constant battle to make them fill in the data because selling to an account is not a sequential process. You cannot describe it step-by-step, one after the other.

Because the nature of the sales system is not sequential, you just cannot map selling on a step-by-step format – unless you sell insurance contracts door-to-door – which is selling in the agricultural economy.

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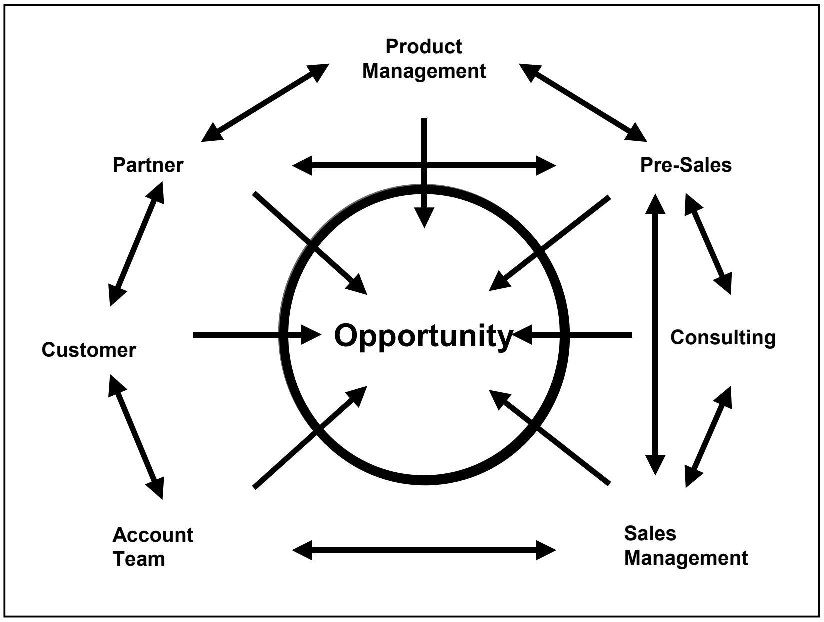

Selling is a virtual collaboration system

Key assumption nr.2: we have ONE clear goal

Most sales managers believe that their account teams have a clear goal. Many account teams we have met have no clue what they are truly supposed to achieve. We've found that to release the power of TOC, you need one clear goal for each account team. Do you have that in your company? Maybe you are the star we have been looking for but first, let's review a checklist. Ask yourself if your account teams have, for their account, multiple goals for:

- Quotas (sales goals) per product, per product group, per country, per channel, per industry, per segment, etc.?
- Budgets by cost type, cost location, etc.?
- Asset goals per type of inventory?
- Goals for headcount ratios (secretaries per sales rep)?
- Customer satisfaction?
- Quality?
- Training or other forms of competence?
- Speed, cycle time, etc.?

Take a look at your sales people. How many business fundamentals do they have to track? How many "Special performance goals" or "key success factors" are they asked to track? We knew a sales manager who received his "performance indicator table" at the beginning of the new fiscal year. It contained

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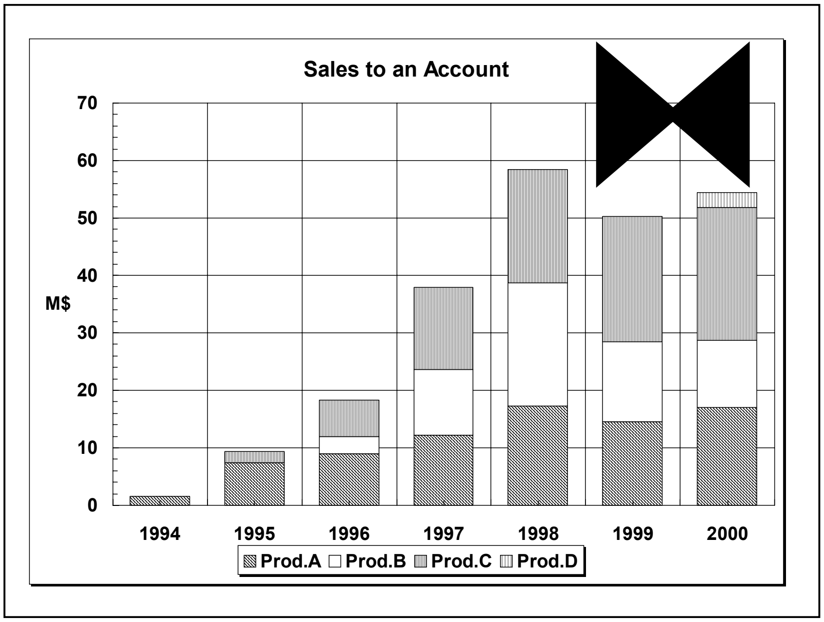
35 items, 18 of which he had no influence. He was country sales manager of a small European country, and one of his performance indictors was, for example, "total corporate profit". By the way, he commented: "what a complicated way to tell me that the company wants to reduce my salary."

The one goal needs to be stated. The simpler the better. Some definite examples are:

– 2X our business within two years from January 1, 2001.

– Grow our sales at 22% per annum over year 2001 base.

Key assumption nr.3: we create the constraints



A constraint is anything, which keeps us from reaching the goal

Let's look at an account. You've had four years of:

– outstanding business growth,

– improving the depth of your relationship,

– winning sales contests, and

– praises by the company CEO.

The account sales manager states "We are starting to understand, finally, what really worries our customer." Then, suddenly, it's over. There's even a reduction of the business volume.

In the classical sales management point of view or within the framework of the agricultural economy we would react with fewer potatoes equals cutting costs. Reduce the number of sales reps, secretaries, and eventually change the

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account manager. However, reacting in the TOC frame of mind we would instead state simply that when sales drop, the sales system is constrained.

Somewhere the system has run out of capacity. A bottleneck appeared and was caused by a lack of physical capacity or by a policy. That's all. No need to downsize! You need to find out what is limiting the system's ability to grow.

If this were one of your accounts, where would the account team have run out of capacity? Or where could they have run into a policy barrier which did not allow them to grow further?

In a real life scenario, this happened because the account team ran out of an administrative capacity to deal with the follow-up details on shipments, scheduling installation, etc. which piled up as a consequence of the success of the previous periods. The SRs became the managers of the delivery of the products they had successfully sold. They were on the phone instead of being in front of the customer looking for new business. This is a classic case of trying to save cost (acting out the agricultural scenario) instead of focusing on resolving the system's constraints). In this situation, the power of your sales force is blocked. By removing the constraint you free up the sales force to generate more. Let's look at some interesting aspects of constraints. First, what they are and what they look like, and second what needs to be done to remove them.

The constraint to reach the goal

No goal, no constraints. Big goals, big constraints. Let's plan a hike in the mountains. Which constraints will we have to overcome? Well, it depends on which mountain we want visit. Let's take, for example, the Mount Saleve near Geneva. We can drive up there with the car and then once at the top, have a nice comfortable walk with a beautiful view of the town. Or we can choose Mount Everest at about 9000 meters in altitude. A completely different set of constraints will appear. They all must be dealt with. Are you dealing with an obstacle, which could be eliminated or bypassed? Or are you dealing with a constraint that must be resolved?

For the sales system, our clearly stated goal is to increase T. Every task of every sub-system is to remove the constraints, which hinder the whole system to reach that goal. In sub-optimized systems each function will have their own goal, leading them towards their own purpose. In systems where many goals are stated, removal of their constraints will not improve the performance of the whole system. On the contrary, it will make the performance of the system worse.

One single constraint – not many

There are hundreds of problems in an organization. In your sales organization there are problems to be resolved in each opportunity, in each team, in each department, in each industry segment, in each Region, for the company as a whole – which of these should you solve? The classical assumption is that if everyone solves their problems, the system performance will be improved. The classical answer to someone who presents a constraint to win a deal is "you must take a more positive attitude", or "I want to hear solutions, not problems".

Which method do you use to decide? Some managers build lists of problems by brainstorming (BVI = brainstorm, vote, implement); or track process performance within control limits and act on the deviations; or review plans and conclude what

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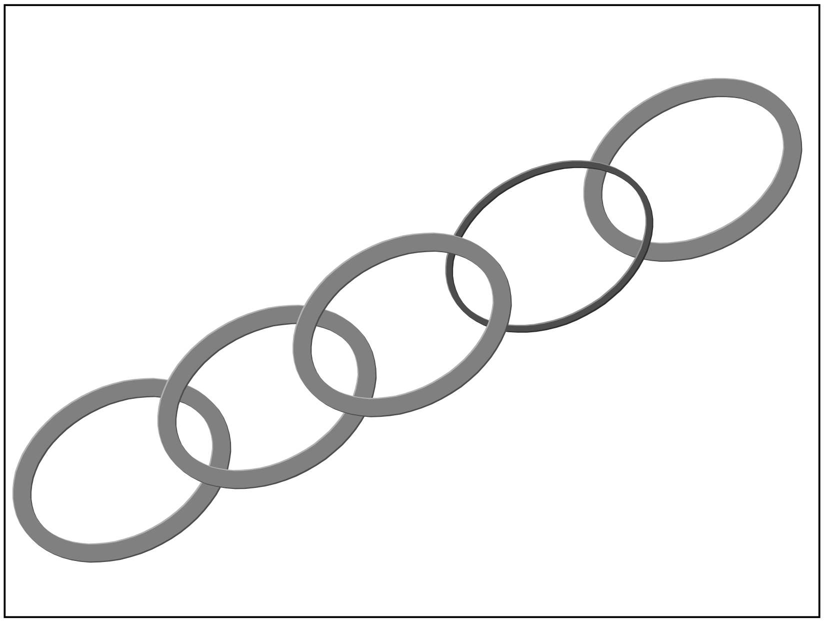
needs to be done to make them go better; or review financial results; and even still others use just pure intuition.

The TOC frame of mind takes a very different assumption as a basis for resolving constraints: at one point in time there is one and only one constraint that matters. Working on anything else is a waste of time and money, and could make things worse. We'll explore next some thoughts on why TOC takes that view.



The constraint is the weakest link

The weakest link

You must view your system as a chain; one that is only as strong as its weakest link. If the whole chain is supposed to pull 10 tons and only one link can carry 8 tons, then the whole chain's capacity to pull is constrained to that weight of 8 tons. Strengthening the other links to hold 11 tons will not improve the strength of the chain.

Unless you strengthen that weak link, the strength of the whole chain will not improve. "Strengthening anything by the weakest link produces no perceptible performance improvement of the overall chain. Strengthening the weakest link produces an immediate increase in the strength of the whole chain – but only up to the level of the next weakest link."[2]

That weakest link is the constraint for the whole system. All other "problems" are irrelevant for the whole. This insight for your sales system forces you to radically change the assumptions by which you manage your sales today.

Sales people are action people. Their genes are programmed to act and move. If they don't radiate this attitude they will not make it in the ranks. Faced with a problem they will solve it. Break through.

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However, we are now saying that this attitude (highly appreciated in the present social ranking system) may be more harmful than beneficial. That having an improvement project in each of your functions in sales and marketing may be a total waste of time and effort. Chances are that you will make things worse.[2]

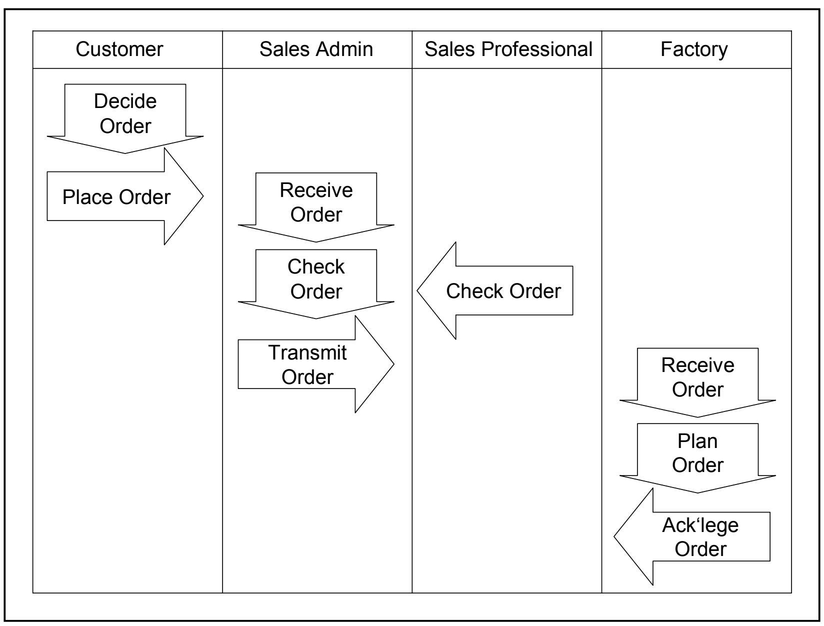
Every "classical" sales manager intuitively will oppose that view. We did, too, when we heard it the first time. Since then we have learned, practiced and understood that there is only one true constraint, which limits a sales systems capacity at any one time. This is difficult to find.

The sales rep always pays the price

Whenever something goes wrong in the sales system, it is always the sales rep who pays the price by compensating for the weakness of the system. Let's look at the process to book and confirm orders in the illustration below as an example.

Each link in this chain has a different set of measurements:

- How many times is the order "clean" (correct number of accessories, configuration, etc.)?
- How many times does your product group deliver to the original acknowledge date?
- How long does it take for admin to confirm credit worthiness for a new or small customer?



A simple order process

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[2] *Dettmer, H. William*. Breaking the Constraints to World-Class Performance. (see bibliography).

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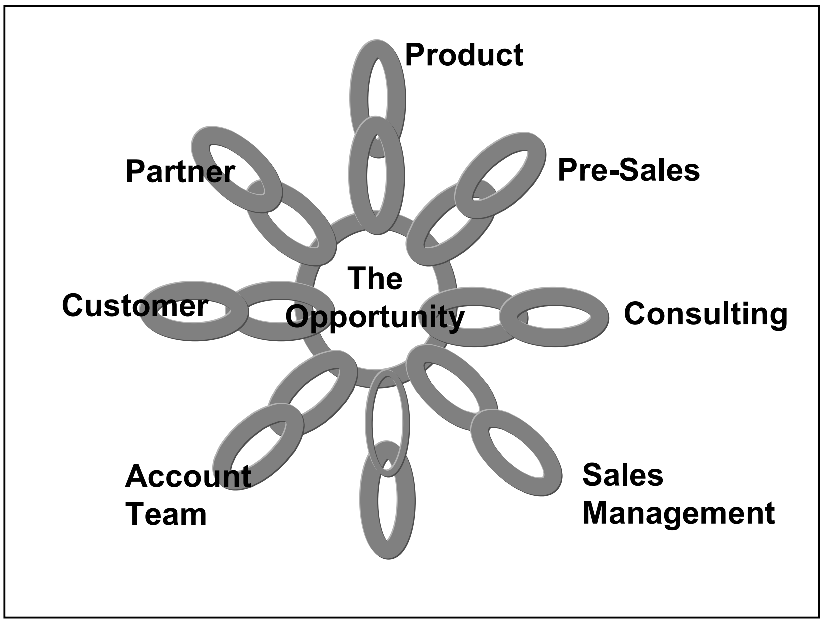
What happens when the order doesn't arrive on time, or there is something wrong with the invoice or when the installation goes wrong? Who does the customer call? The customer calls the SR. The SR is then spending their time fixing your system and not doing the selling. In this example, the weak link "constrains" the performance of your SR's.

The weakest link in a virtual chain

The "weakest link in the chain" is a useful representation of the constraint. Again, sales are more difficult than other processes. Selling is not a sequential process, so a sequential chain is not a good representation to illustrate the weakest link. The chain of selling looks more like several chains interwoven to build the solution and win the opportunity to do business.

If you sell technical equipment, for instance, your product features may be world class. However, if you do not have engineers who speak the local language, the orders for your equipment will remain low. Someone else's weak link in the chain will constrain all others including your brilliant product.

Originally, TOC found its main applications in supply chain areas like manufacturing and logistics. By its very nature, selling is a different kind of process – a non-sequential, virtual collaboration process.



Throughput is limited to the strength of the weakest link

Selling is not one single chain, but a network of links and chains, where each set of links must contribute to the strength of the whole. Each solution for the customer is "composed" of and sold by other combinations of links. Networks made up of links and chains. Every time you engage in the sales effort it is a new link in a new position in the chain. Other processes with this characteristic are top management and research (the R in R&D). Before we can apply TOC to

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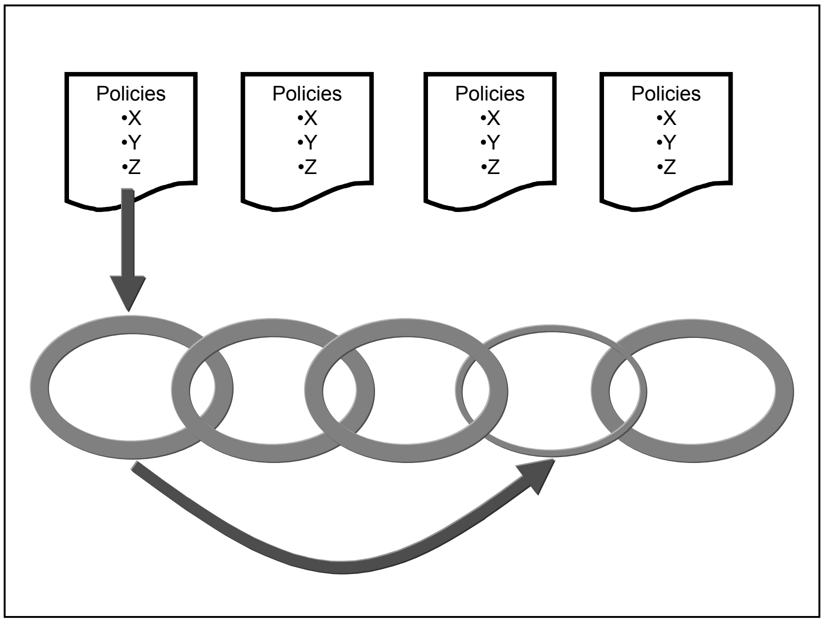
selling, we need to have a closer look at how constraints appear there and how we can make them visible.

All sales constraints are policy caused

There are several types of constraints (weak links). The physical ones are markets, resources, materials, vendor/suppliers, financial and knowledge/competence. The tough one is usually the policy constraint. Policy could be a written document or it could be your culture (we've always done it that way or it's not the way we do things around here).



Policy constraints: causes are NOT where they impact

Constraints, as we have learned from TOC, are either (physical) capacity or policy. In the sales systems we studied we have found many capacity constraints and many policy constraints. We also found, that all capacity constraints were caused by policy. Until we find the exception to our rule we therefore will claim that in sales systems all constraints are policy constraints.

We use the term policy here for any kind of rule that guides the sales system: sales goals, budgets, people ratios, training plans, staffing plans, market segmentation rules, industry definitions, organization reporting lines, account assignments, etc. For example, in Europe resources are decided annually and fixed. Two application engineers (AEs) will be assigned. There is no flexibility to

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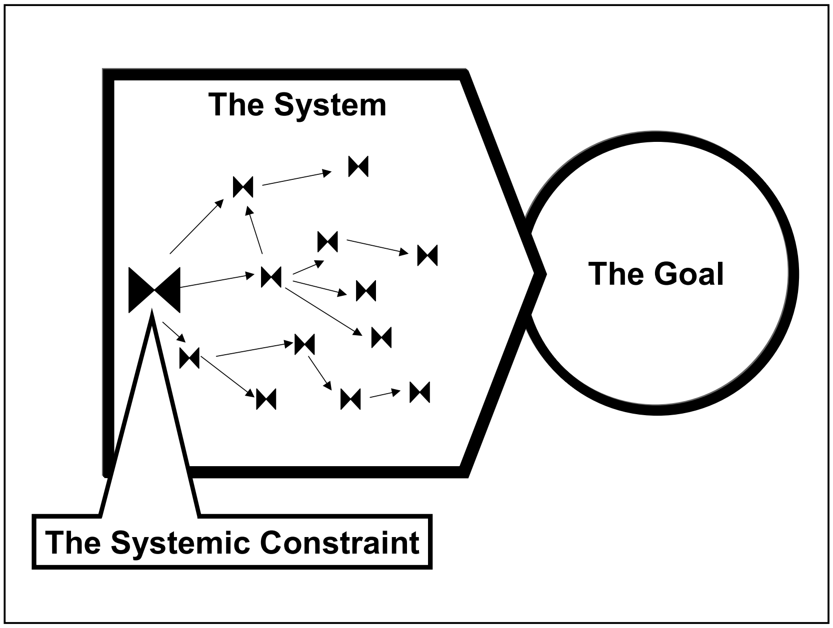
assign a third AE when there is an opportunity in Portugal. The other two AE's are busy in Germany.

Key assumption nr.4: we find and resolve the constraints

The systemic constraint is the one single constraint, which causes most or all of the unwanted situations we struggle with. It is difficult to find. It hides and lurks behind layers and layers of symptoms, which are all caused by the constraint. Finding and fixing the right constraint will result in immediate increase of T. Fixing the wrong constraint will result in nothing and time lost.



The systemic constraint is the root cause of our current reality

The history of failed enterprises is filled with decisions that fix the wrong systemic constraint. Here are three examples of systematic constraints:

– Company A believes that they do not have enough sales professionals. A hiring campaign is launched. 10% more sales reps are added. Orders go … down, not up.

– Company B believes that their Marketing needs re-engineering. Task forces are set up and a new Marketing organization is created. Some people are fired, so that cost saving could be shown. Market awareness and preference, however, go down, not up.

– Company C believes that their sales professionals do not work as hard as they should. The reason; commission scheme. It is announced that the "cap" (limitation of commission at a certain level of over-achievement) is removed. Everyone expects sales to jump, the controller is nervous that cost will go through the roof. Actually, nothing happens, sales stay at the level where they were before.

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The Copenhagen Meeting

It was a nice day in Copenhagen, Denmark, as far as the weather was concerned. However, the top sales management team that met to review the sales results was not in such a nice mood: frankly, they were a disaster.

And, so the team did, what teams do in such situations: acted. They held a brainstorming session, then created a list of issues, took a vote (every member had three votes), defined the priorities, set goals and assigned owners. The mood turned from gloom to pride: they felt proud that they had reacted quickly and fiercely to an issue at hand. Good top managers will act quickly when danger is near.

It just so happened that another sales management team (one level lower in the organization) met two days later. They went through the same process, for their area of responsibility. Again, they brainstormed, voted and decided. Yet, the issues they raised and the resulting decisions they arrived at were completely different from the top management's issues. They were not even subsets of the top management's issues: they had absolutely nothing to do with what the top management had arrived at.

If you have ever experienced a situation like this, you might wonder who had the right answer. Who understood the real problem? Who was able to identify the true constraint as the one piece in the chain, which was the weakest link?

Without understanding TOC principles, sales management has neither the understanding nor the experience to rapidly resolve systemic constraints. You end up continuously fixing symptoms, rather than the actual constraint. Meeting after meeting, with no end in sight.

Unfortunately, life is more complex than simply strengthening the weakest link (fixing the constraints). Constraints never really disappear. When one constraint is relieved, some other component of the system (or its environment) becomes the constraint. The constraint is named because it constraints further improvement in the performance of the system. It is difficult to find. Finding and fixing the right constraint will result in immediate increase of business. Fixing the wrong constraint will result in .. nothing – and time lost.

But that is only half of the story. The other half is that your organization will actively try to prevent you finding out the systemic constraint because you, the manager caused it, and nobody dares to tell you. Following are four such scenarios.

– You know little of what really goes on. How do you know what goes on? From anecdotes. Which anecdotes reach you? The ones your people decide to tell you. Anyone in their right mind will not tell a boss about systemic constraints caused by policies. We have all learned survival rule #1: "never spring a surprise on a VP". Don't tell top management what they don't know, tell them what they know. The whistle blower never gets rewarded in real life. Or perhaps you delegate when somebody tells you about a constraint?
– Your new policies cause constraints and no one will tell you. Who will tell their boss that the new policy doesn't make sense? The policy is actually a constraint, not the resolution of one? It causes massive sub-optimization? The new commission scheme creates more problems than we had before.

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The new organization scheme makes it harder than before to win opportunities. It forces the sales professionals to attend even more internal meetings, so their face-to-face time goes down even further. The policy has become the constraint, it has not resolved the problem.

- You are proud of the policies you put into the system. These policies also represent power. Your managers will rigorously object to any attempt to change or eliminate a policy; even when it is shown to be a constraint. The sales professionals who deal with this have learned to not even try to change policies from management, since it is impossible to change and it is a sin to try to do so.
- Yesterday's good policies become tomorrow's constraints. Who is going to tell management?

Steps to finding the constraint

In years of applying TOC methodology we have learned to resolve constraints in five steps:

1. *Identify the constraint.* Determine exactly what constitutes the weakest link. What needs changing?
2. *Decide how to exploit the constraint.* Exploiting means to wring maximum efficiency from the constraint in its existing configuration. Make it as efficient as possible without additional capital investment.
3. *Subordinate everything else.* Let the constraint set the pace. Synchronize all other system components with the constraint.
4. *Elevate the constraint.* Decision time. Did the first 3 steps break the constraint (system performance no longer limited?) If not, you need to elevate. Elevate means increase capacity at the constraint by spending more money; more equipment, more people. The distinction between exploiting and elevating is simply this; exploiting means we change how we use the constrained resource without spending more money. Elevating means that we invest more money to increase the constraint's capacity.
5. *Go back to step one.* Avoid inertia. The cycle never stops. Systems deteriorate over time due to variance and dependency. The constraint has moved. There is another weak link in the chain.

There are some fundamental ramifications of the five focusing steps. Only a few key nodes of our system need continual close attention (the constraint).

You are looking for information from your system. Our teacher Eli Goldratt defines information as "the answer to the question asked". Most of the data we collect today is "noise" rather than "signal".

Physical constraints are fairly easy to identify and break using the five focusing steps. But how can we identify an insidious policy that might be hurting us? When the constraint is a policy or when we can't easily compare capacity to demand, how do we go about finding and breaking the constraint?

We need to know:

- What to change?
- What to change to?

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– How to cause the change?

Goldratt realized the five focusing steps alone were not adequate to deal with "what to change", "what to change to" and "how to cause the change". Over a 7-year period Goldratt created and refined a logical “thinking process” to deal with problems presented by policy constraints.

The “thinking process” is applicable to any system as long as you can define the goal of the system. That is why it has successfully been applied across diverse organizations: steel plant; cancer research lab and a South African elementary school.

The TOC thinking process

The TOC thinking process is composed of 5 basic logical tools: the Current Reality Tree (CRT), the Conflict Resolution Diagram (CRD), the Future Reality Tree (FRT), the Prerequisite Tree (PRT) and the Transition Tree (TRT). Within the TOC, there is also one sub tool and some logic rules.

The 5 basic logical tools are:

1. Current Reality Tree (CRT) - a problem identification tool. It helps us work back to identify a few root causes or the single core problem. DELTA T-Selling uses the CRT in account analysis and constraint resolution.
2. The Conflict Resolution Diagram (CRD) - resolves those hidden conflicts that usually perpetuate chronic problems. The CRD is also used as a creative engine to invent new, breakthrough solutions to those nagging problems. DELTA T-Selling uses the CRD in systematic constraint resolution at the quarterly project review.
3. The Future Reality Tree (FRT) serves 2 purposes:
   - Tests and verifies that the action we would like to take to resolve the core problem will in fact produce the ultimate results we desire. Also known as a simulation engine. DELTA T-Selling uses the FRT to construct the “mafia offer” and to select the opportunity.
   - Identifies any adverse new consequences our action may have, using the negative branch (NB). In other words “a test to insure the cure doesn't kill the patient." DELTA T-Selling uses the NB to insure the removal of the constraint really works.
4. The prerequisite tree (PRT) helps execute our decision(s). DELTA T-Selling uses the PRT to build the win plan
5. The transition tree (TRT) is the detailed step-by-step instructions to implement our action.

The eight rules of logic or categories of legitimate reservation are used to govern the construction and validation of logic used to govern the construction and validation of the logic of the trees constructed above. DELTA T-Selling uses these tools to check the validity of the constraint and the proposed resolution.

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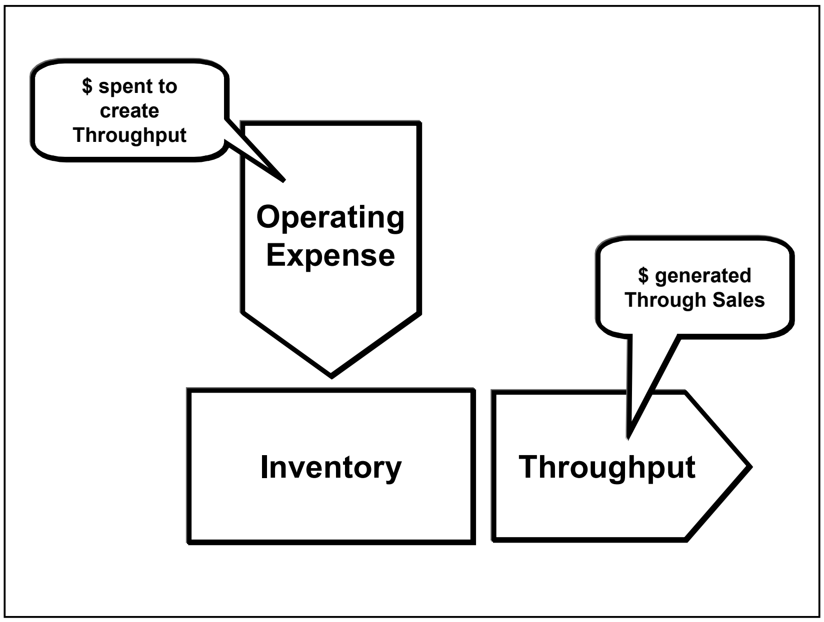
Key assumption nr.5: we worry about throughput

Global system measures

Your sales organization, your product groups, your customers and your customer's customer. How do you know if you have optimized, sub-optimized, exploited, elevated or just bogeyed a par 5? The traditional approach is the standard financial measures. The standard for most decisions is profit. A decision that produces higher profit is good. A decision that produces lower profit (or a loss) is bad. The two key measures to evaluate the "good" or the "bad" of a decision are Net Profit (NP) and Return on Investment (ROI). You, the CEO and the CFO all understand these, but can a customer engineer or an SR take an individual action directly linked to an increase in corporate net profit? Does he or she know when they do?

Goldratt came up with a simple way to evaluate (as well as speed up) an operating decision. In TOC we use Throughput (T), Inventory/Investment (I) and Operating Expense (OE). These measures are predicated on the assumption that the organization's goal is to “make money now and in the future." The emphasis is to make money not save money. No company ever "saved" their way up the Fortune 500 ladder!



The enterprise viewed as a system

The definitions of Throughput, Investment/Inventory and Operating Expense are included for clarity:

– Throughput (T) is the rate at which an organization generates money through sales of products or services. This is new money coming into the system. This

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is the difference between revenues and variable costs measured and assessed at the unit, product and organizational level.

T = sales revenue (total) minus variable costs (total)

- Variable costs could be materials, scrap, warranty cost, sales commissions etc. T is not left pocket to right pocket phony transfer pricing between product groups. This is real live customer money we are talking about.
- Investment or Inventory (I) is money tied up within the organization enabling it to function. Capital assets, facilities, equipment and raw material acquired for conversion and subsequent sale (generation of throughput).
- Operating Expense (OE) is money flowing out of the system. The money the organization spends to generate T.

Now, we'll look at how this all ties together in the traditional business measures of merit:

Net profit = T – OE

ROI = (T - OE) / I

We keep talking about constraints because the constraint limits the level of T! All of your decisions are now focused on improving T. It is very simple. If any positive change in T minus any change in OE is greater than one, do it!

Question: Which sales decision makes business sense? Answer: if any positive change in T minus any change in OE is greater than one, do it! (Yeah, we know we are repeating ourselves but this is important!) Easy? Definitely not how many account sales organizations are managed. Give an honest answer, to yourself: (we are not insisting on written replies):

A new sales opportunity comes up. Upfront investment is required to win the first "proof of concept". Is there really no doubt in your mind, and do you act accordingly? Keeping in mind that the Cost Per Order Dollar (CPOD) will definitely go down later, because it will be much lower in the add-on orders? You don't approve such cases every day? Why not?

A new sales opportunity comes up. The account team has not foreseen it. So, it is neither in their forecast for the year, nor in their cost budget. Is there really no issue in your sales organization to approve the additional budget?

In conclusion, you should base your frame of mind on the TOC assumption that it makes business sense to focus all your decisions on improving T.

What to do when sales get in trouble

Look back at the sales development of your account in trouble. In view of the dramatic order development, what does your experience, your "frame of mind", your "set of assumptions" tell you to do? (let us say, after the first 6 months of 1999 have gone by and no hope to increase the business is seen on the horizon?).

We all have been taught, programmed, to respond to such situation with a standard set of decisions:

1. Blame the economy
2. Blame the account sales manager

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3. Reduce the staff working on the account
4. Cut all other cost.

Which of the three performance indicators have you been programmed to focus on: OE, I, or T? The classical assumption is that you must focus on OE: "when sales drop, cut cost". Typical for the agricultural economy: when harvest return drops, cut the rations for the farm hands. How many sales organizations do you know where this principle has been applied? And how many of those have cost-saved themselves "up into the FORTUNE 500?"

You could also focus on your supply chain, and cut inventory, but let us go straight to the focus recommended by TOC: the focus on T.

Before we introduce some further thoughts – why don't you check your own focus? Take a look at your agenda of last week – how many hours did you spend on each of the three global business indicators?

OPERATING EXPENSE

- Cost budgets and reviews.
- Cutting marketing funds.
- Closing offices.
- Reducing overhead.
- Outsourcing.
- Other downsizing.
- General cost reduction programs.

INVENTORY

- Cutting staff (reduction of your inventory).
- People efficiency projects and programs (inventory utilization projects).
- Re-Organization (moving your inventory from one shelf into another one).
- Policies and decisions for commission credit and split (rules for how to account for inventory).

THROUGHPUT (resolving constraints for increase of T)

- Successful (!) resolution of opportunity constraints (quick fix and order won!).
- Successful (!) resolution of systemic constraints (radical policy revision at total sales organization level with strong, radical improvement of T as result).

How did your time-check come out? Today's typical Sales Executive spends most of her or his time on OE and I questions. Applying TOC means a radical shift to focus on T – worrying about increasing T first, and keeping cost just under control, as a third priority.

This is contrary to the present set of assumptions for sales organizations. Just read the papers – what do you read? Downsizing (OE), focusing on core competencies (OE), cleaning up the product portfolio (OE), closing factories (OE), and mergers to reduce cost (OE). The business world gives recognition to people who focus on OE. (It was not so long ago that your stock appreciated when you announced a lay-off program. Just the announcement was good enough, no one seemed to check anyways if you delivered on such an announcement).

Excerpt from UNBLOCK THE POWER OF YOUR SALESFORCE!
W.A.Woehr, D.Legat
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TOC simply states that a business has one and only one goal: to “make money now and in the future." The emphasis is to make money not save money -

TRADITIONAL MANAGEMENT	JAPANESE MANAGEMENT (“JIT”)	CONSTRAINT MANAGEMENT
1. OE ⬇	1. I ⬇	1. T ⬆
2. I ⬇	2. T ⬆	2. I ⬇
3. T ⬆	3. OE ⬇	3. OE ⬇

chasing cost is non-productive:

What should our priorities be?

The illustration below shows that the leverage on T is the highest. In a virtual chain it is practically impossible to find out where you have surplus capacity. Cutting cost blindly (“cut 10% of your budget”) will make a bottleneck worse, not better. If you do cut costs blindly you will observe that your sales drop, you then cut costs in sales, creating a bottleneck, which causes sales to drop further. You wise up and declare that you foresaw the drop in the market and reacted preventively by returning back to watching your sales drop again. The effect of the spiral is that you cost cut yourself out of the business. Chasing cost is non-productive because there is a limit to how much Inventory and OE (both mean sales force capacity) you can cut from the system.

You'll still need someone to answer the phone when a customer calls. It can’t be zero; there is a practical limit beyond which you cannot operate your business. In contrary to the potential for improvement in OE and I, the potential for improvement of T (sales potential-variable cost) could be infinite.

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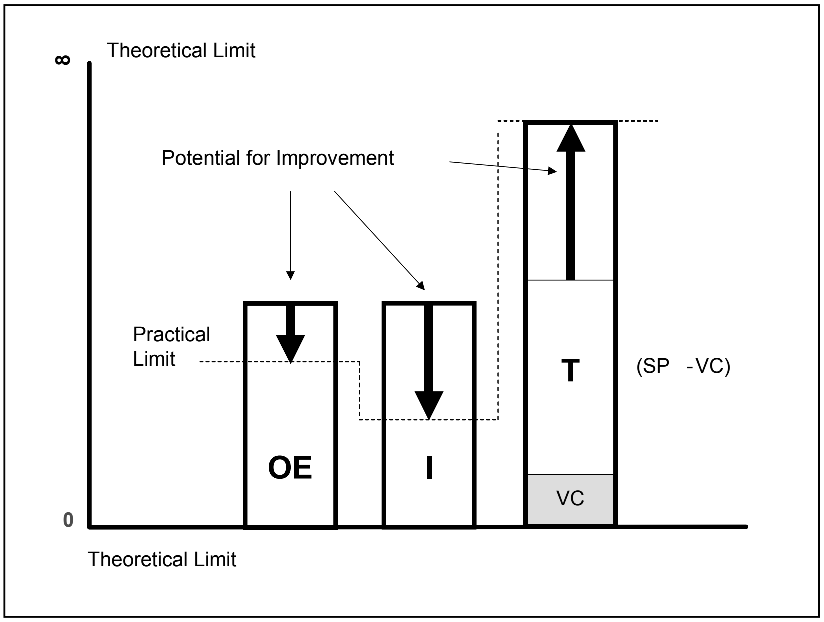

The leverage on T is highest

In the McKinsey Quarterly[3], there is a report on mergers: 160 acquisitions by 157 companies across 11 industry sectors in 1995 and 1996. Only 12% grew over the next three years. The report concludes that the "big threat is revenue shrinkage. Executive management focuses on cost cutting rather than growing revenue."[4]

It is all about T! TOC has taught us to realize that chasing cost in response to dropping sales is non-productive: do you want to make money or save money?

To sum it up

We sales managers have been taught and programmed to base our decisions on concepts that come from the agricultural economy. In today's knowledge economy those assumptions have become useless and often lead us to make wrong decisions.

1. You need to understand the meaning and impact of chains, weak links, variance, interdependency, sub optimization, constraints and T (throughput)
2. You must view your business as a system (you, the account, the account's customer)
3. You must state one clear goal. Make everyone contribute
4. You must worry about throughput. Stop worrying about cost

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[3] *McKinsey Quarterly*, Oct/Nov 2001 issue, report on mergers page 16

[4] *Diane Hess*, The Street.com, 4 Oct 2001

5. If you struggle to reach your goal, T is constrained
6. You must identify your two tasks; 1) encourage your team to raise valid constraints and 2) resolve those constraints fast

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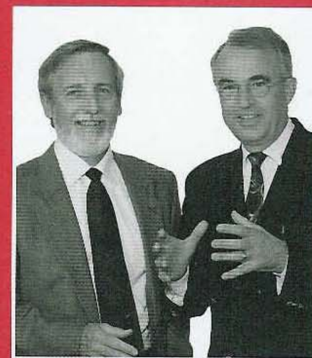
Food for thought: diagnose your sales system

Now with your newfound knowledge of TOC we want you to think about your present sales system and do this simple diagnosis:

	No clue	We talk – but we do not do it.	We do it.	We do it better than some of our competitors.	We are undisputed world leaders.
1. We view sales as ONE system.					
2. There is only minimal sub-optimization in our sales system.					
3. Our main worry is T. We manage cost, but it is not our prime worry.					
4. We know exactly where our sales system is constrained.					
5. We are very fast and successful to find and resolve our systemic constraints.					
6. Our management team has only one charter: to find and resolve the constraints in our sales system.					



This is a book for competitive and progressive-thinking sales managers. It has one key message: *It is not the economy. It is conventional sales managment thinking.*

Using the well-known Theory of Constraints (Goldratt, Dettmer), Bill Woehr and Dieter Legat show sales managers how their sales systems are blocked from reaching greater success in the sluggish economy.

Corporations drive radical and progressive transformation towards virtual collaboration networks for research & development, manufacturing and supply chains. At the same time, however, the models on which they base their sales organizations are firmly rooted in outdated agricultural economic models. The book shows why the two no can longer co-exist and how sales organizations can apply TOC as successfully as other corporate departments have done. By implementing the methodology presented in the book, sales managers no longer have to be victims of the economy.

"If you're a sales manager who wants to grow your business, particularly in tough times, you need to read this book. Alternatively, of course, you can continue to blame the economy!"

Bill Russell, Vice-President, Hewlett Packard Company.

"It is a tremendous addition to the constraint management literature. DELTA T-Selling fills, what I believe, is the last hole in the comprehensive profit oriented package."

John Caspari PhD CMA, Principal Constraint Accounting Measurements

"Over the years we implemented several Account Management tools with some times good, other times questionable results. In every case, the Account Managers rarely use those tools for real business management. We found DELTA T-Selling to be simple to use, to drive the right discussion and ultimately to help us deliver the right business results. DELTA T-Selling has now gained the status of our sales management system of choice, worldwide."

Sebastiano Tevarotto, Vice-President and General Manager, Hewlett Packard Company

"Selling more while the economy declines? Unblocking sales energy by getting rid of sophisticated internal fiefdoms? Sounds like just another magic trick, but the authors of DELTA-T-Selling have two strong points. Their concept is based on sound theory, the theory of constraints, and it works in practice. An inspiring book that is rich in direct advice, illustrative examples and appeals to start at the "constraints" we have created ourselves for our enterprises."

Prof. Dr. Ursula Schneider, Head of Institute of International Management, University of Graz, Austria

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economy