WELCOME!

Cary Moreth

Advocate of the "Real World Business"

Business Leader-Mentor-Strategy Driven

Career with Extraordinary Organizations

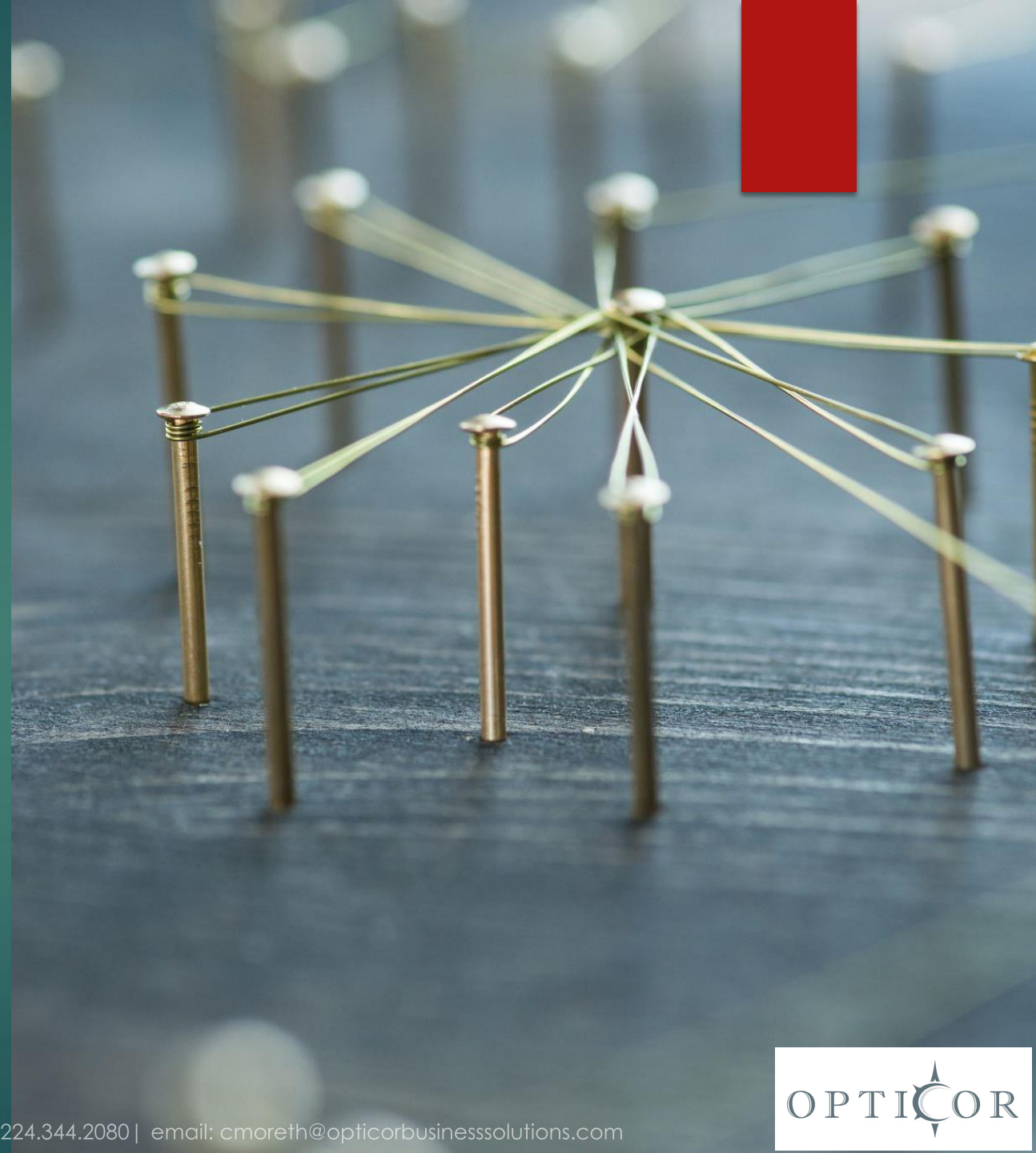Founder of Opticor Business Solutions, LLC

STRATEGIC EFFICIENCY UNLEASHED.

MEP National Network™
IMEC
Plan. Implement. Excel.

Mastering the 80/20 Principle

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Opticor Business Solutions, LLC

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Key Discussion Points

- ▶ Introduction to the 80/20 Principle

- ▶ Indicators your business can benefit from 80/20

- ▶ Skillful Deployment of the 80/20 Business Optimization Process

- ▶ Recent 80/20 Deployments & Results

- ▶ The Toolbox

- ▶ ***How to put the 80/20 Optimization Process to Work for Your Business?***

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Mastering the 80/20 Principle

INTRODUCTION TO THE 80/20 PRINCIPLE

PARETO PRINCIPLE
THE 80/20 RULE

20%
EFFORT

80%
RESULTS

✓ Revenue
✓ Products
✓ Processes
✓ Innovation
✓ Quality
✓ Suppliers
✓ Most Anything!

The inverse:
80% of Effort = 20% of Results

"There is nothing quite so useless, as doing with great efficiency, something that should not be done at all."
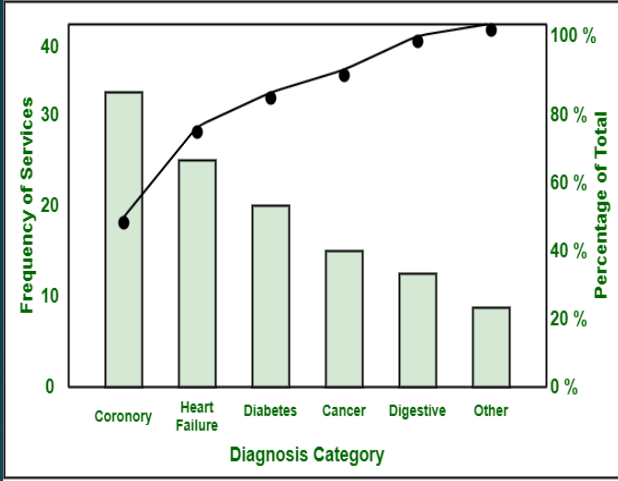Peter Drucker

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Are You Already Familiar With the 80/20 Principle?

Yes 80/20 Applies to EVERYTHING

Mastering the 80/20 Principle

INDICATORS YOUR BUSINESS CAN BENEFIT FROM 80/20

Indicators your business can benefit from 80/20 Optimization

- ❖ **Financial Performance** Lagging Expectations
- ❖ Team **Morale** Faltering
- ❖ **Innovation** Efforts Not Meeting Expectations
- ❖ **Sales Growth** Below Industry Average
- ❖ **Customer Experience** Issues
- ❖ Operational **Inefficiencies** Prevalent
- ❖ **Succession Planning** in Horizon
- ❖ ERP **System Deployment** Planned
- ❖ Others…

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Mastering the 80/20 Principle

SKILLFUL DEPLOYMENT OF THE 80/20 BUSINESS OPTIMIZATION PROCESS

Focus brings impact to the most important Relationships, Customers, Products and Processes

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80/20 Is….

- A Math Problem!
- An Analytical Tool
- Critically Important and Flexible Tool
- An Awareness Tool
  - Identifies the Current State of Affairs in any Number of Target Areas
- The Start Point for Optimizing Facets of Your Business Identified as Critical to YOUR Success! :

Success is Determined on Your Response to the Data

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Data Rules!

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Identify the Critical Few

Simplification

AA	AB
BA	BB

80/20 RULE

Strategy in The Making

ALIGNMENT
Strategy Clarification
Roles and Expectations
Competitive Advantage

80%
20%

CAPABILITY
Value Proposition
Differentiation
Talent Management

ACCOUNTABILITY
Goals and Metrics
Performance
Management
Rewards and
Recognition

Execution Continuous Improvement

B-I-C RESULTS

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Deep Dive

Identify
the
Critical
Few

- ***Customers***
- ***Products***
- ***Innovation Efforts***
- ***Processes***
- ***Supply Base***
- ***Talent***

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Declutter - Remove the Noise

Simplification

AA	AB
BA	BB

- Recognize the Critical Few & the Trivial Many
- Focus on What You Do Best
- What Makes You Successful?
- Team Collaboration Around the Core
- "Clean Thinking"

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Strategy in the Making

Build Your Plan Around What Matters Most
The "Critical Few"

Strategy

Vision
Clarity of Purpose
Collaboration
Resource Alignment
Goals

**Trust
Discipline
B.I.C.**

CAPABILITY

Excellence
Value Proposition
Differentiation
Talent Management

ACCOUNTABILITY

Roles and Expectations
Measuring Momentum
Rewards and Recognition
Leadership

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Flawless/Focused Execution

Execution
Continuous
Improvement

B-I-C RESULTS

- Demand Best in Class Performance
- Tomorrow Can Always be Better than Today
- Apply ALL the Tools to the Core
  - Sales Strategy-Who/What/Why
  - Customer Back Innovation
  - LEAN
  - One Piece Flow
  - Talent Development
- What Gets Measured Gets Done
- CELEBRATE THE WINS!

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Mastering the 80/20 Principle

RECENT DEPLOYMENTS & RESULTS

Focus Brings Impact!

▶ "Deciding what not to do is as important as deciding what to do" Steve Jobs

Challenge – Scaling Revenue/Earnings

Key Challenges

- "Company is too big to be small and not big enough to be big"

- Limited Resources-People & Materials

- Large "residual" product portfolio

- Numerous transactions/minimal output=Complexity

- Pricing policy = cost plus for all

- No means to measure performance

Tools Deployed

- Quadrant Analysis

- Revenue Stream Analysis

- Key Performance Indicators

- Plan to Win

Results

- ✓ *1st Year Revenue up 20%*

- ✓ *1st Year Net Income up 50%*

- ✓ Reduced P/N's by 165 in 6 mo

- ✓ Realigned ALL resources to the Core

- ✓ Created the "ultimate experience" for 9 Customers

- ✓ Policy Updates to reward HVC

- ✓ All others -YES But…

- ✓ Secured and directed limited R/M to the 38 Core Products

- ✓ Introduced KPI's

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Challenge - Sales Growth/Earnings Decline

Key Challenges

- Company invested in hiring sales staff to increase revenue

- Limited Internal Support Resources-People/Systems

- 3 YR Financial Review Shows:
  - Overhead Cost growing disproportionately to sales gains
  - Significant increase in transactions
  - CAGR ramped to 10%
  - Net Earnings 8% from 11%

- Pricing policy = cost plus for all

- Team Morale is poor

Tools Deployed

- Quartile Analysis

- Quadrant Analysis

- Direct Costing

- Zero Up Budgeting

- Product line Segmentation

- LEAN Manufacturing

- Value Stream Mapping

Results

- ✓ *YoY Revenue Flat*

- ✓ *YoY Net Income up 2X*

- ✓ *Improvements Seen in 3-24 Mo*

- ✓ Reduced Complexity

- ✓ Aligned resources to the Critical Few

- ✓ Revised RFQ Process
  - ✓ No longer inviting LV Jobs
  - ✓ 24 Hour For HVC

- ✓ Policy Updates to reward HVC

- ✓ Introduced "Short Run/Long Run" Cell structure

- ✓ Introduced KPI's

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Key Challenges

- Company has desire to grow their newly acquired Solid State Lighting offering
- Limited experienced technical staff in place
- Cost of development is costly and never ending
- Technology is advancing at a rate of Moore's Law (2x per 2 years)
- Customer needs are changing rapidly
- Lighting solutions are application specific vs broad based
- 3 YR Financial Review Shows: New Product Sales are <3% of total revenue
- ROI on Innovation Effort is underwater

Tools Deployed

- Revenue Stream Analysis
- SWOT Analysis
- ROI Calculator
- Scaled Innovation Framework
- Key Performance Indicators
- Plan to Win

Results

- ✓ *New Product Revenues = 10% of Total (2 Yrs)& Growing*
- ✓ "We can do anything, but we can't do everything"
- ✓ Defined a WIN – Hit Rate, Speed to Mkt, NPD % of Sales, How often we said NO
- ✓ Created Pick our spot filters
- ✓ Launched a Scalable Innovation Charter
- ✓ Reduced# of active projects
- ✓ Hit Rates on commercial success increased to 58%
- ✓ Understand **REAL**/*Perceived* Value brought to Market
  - ✓ Past commercial Successes/Market Intelligence
  - ✓ SWOT
  - ✓ Customer Back Innovation Methodology
- ✓ Introduced KPI's to Communicate momentum

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Mastering the 80/20 Principle

THE TOOLBOX

Revenue Stream Quartile Analysis

Quartile	# of Customers (or Products)	Revenue $$$	% Of Total Revenues	Allocated Support Cost	Profitability Gauge
Total	**100**	**$1,000**	**100%**	**100%**	**$$$**
Q1	25	$890	89%	25%	$$$$$
Q2	25	$70	7%	25%	$
Q3	25	$30	3%	25%	---
Q4	25	$10	1%	25%	------

How do you control your application of overburdened support services?

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Quad Analysis (example)

PRODUCT

	HIGH VOLUME	LOW VOLUME
HIGH VOLUME — HVC/HVP	Quad 1 $11,914 Sales 67% of Sales 44% GPM 21 Customers 32 Products	Quad 3 $2,123 Sales 12% of Sales 36% GPM 20 Customers 90 Products
LOW VOLUME — LVC/HVP	Quad 2 $2,358 Sales 13% of Sales 40% GPM 26 Customers 30 Products	Quad 4 $1,430 Sales 8% of Sales 34% GPM 58 Customers 280 Products

CUSTOMER

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Plan to Win (Example)

Key Objective/Owner	Business Impact	Actions Necessary	Measurement of Success
Protect & Grow Base Business Owner:	• Maintain Relevance with '80 Customers to reach sales growth of 10% annually with net profit of 14%+ thru 2027 • Increase hit rates from current 9% • Increased support and OBJECTIVE feedback for Bid preparation on complex projects	• Increase proactive outreach to core customers as a team • Team evaluation and agreement of core customer targets • Develop an introductory company presentation • Training to improve bid process • Define margin expectations • Customer visits – Lunch/Learn both on-site and/or customer	• Track incoming sales by customer – Focus on the core • Report sales activity in Daily team meeting • Shipment activity per day • Identify labor hours scheduled with 4-week horizon • Measure level of in-person events • Measure close rate of 13% by year end 2023
New Account Development Owner:	• Identify new desirable clients to add new and desirable client accounts to add 5% of profitable sales per year beginning 2024	• Team evaluation and agreement of new customer targets • Develop an introductory company presentation • Expand Territories - 2024	• Measure level of in-person events • Actual new orders received from new prospects
Operational Excellence Owner:	• Reduce variances • Improved profitability to 14% • Scheduled team check-ins • More efficient process flow • Improve workflow	• Perform Postmortem reviews as a whole • Develop training program • Progressive skill development • Proactive CapX plans with ROI	Daily All Team meeting • Shipment activity per day • Identify labor hours scheduled – 4 week horizon • Measure/Report variances on materials and productivity each day • Track retention and advancement of personnel
Communication Strategy Owner:	• Knowledge sharing • Team Building – Company wide not just departmental • Objective vs personal problem resolution	• Scheduled team meetings • Review Strategic Objectives • Create Feedback mechanisms	• Employee satisfaction survey • 90 day "ask" of each Team member

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Key Performance Indicators

Are we having a good day or a bad day?

▶ Data is King

▶ Measures Momentum

▶ Everyone Has a Number

▶ Keeps the Plan Moving Forward

▶ Become Predictive

▶ Source for Tactical Adjustments to Strategy

▶ Real Time/Visible Communications

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SCALING INNOVATION

Purpose

- Sustainable & Profitable Growth – 30% Annual Revenues derived from NPD launches within last 36 months
- Maintain & Gain Market Relevance – Planned "refresh" NPD/Marketing Initiatives for the "80's"
- Personal Opportunities – Provide Targeted Learning Opportunities and Exposure for Innovation Team Members

Team Structure

- Who's on the Bus – *Names Removed*
- Roles & Responsibilities – *Details Removed*

Development

- Value Proposition – Benefits to be seen/Costs to Business ($$$, Time, Opportunity Costs)
- Scope of Initiative – Tiers of Development (1-4). Deliverables, Defined Roles & Responsibilities, Timing
- Speed – "Pit Stop" Culture, Speed/Quality are One. Development, Testing, Soft Launch, Promotional Initiative

Measuring Success

- Value Proposition/Deliverables/ROI – New Product Proposal
- Report Out Tools – New Product Proposal. Project Tracker. Product Development Roadmap
- Venue – Regularly scheduled. Advance Agenda. Operations. Invite Finance/others as required.
- Communications – Using TEAMS for on-going Cascading Communications with Leadership & Project team
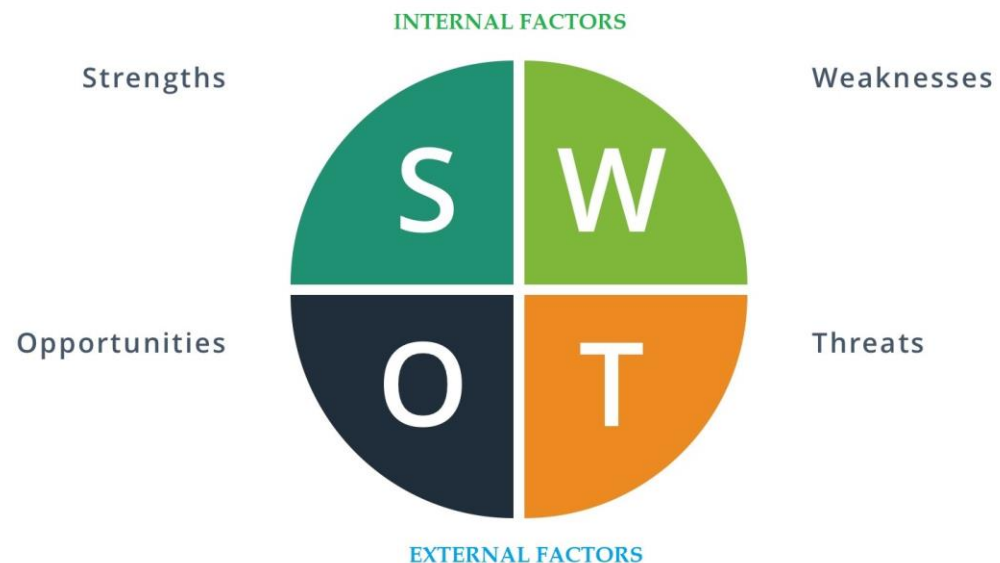
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Cost Allocations - Like Spreading Peanut Butter
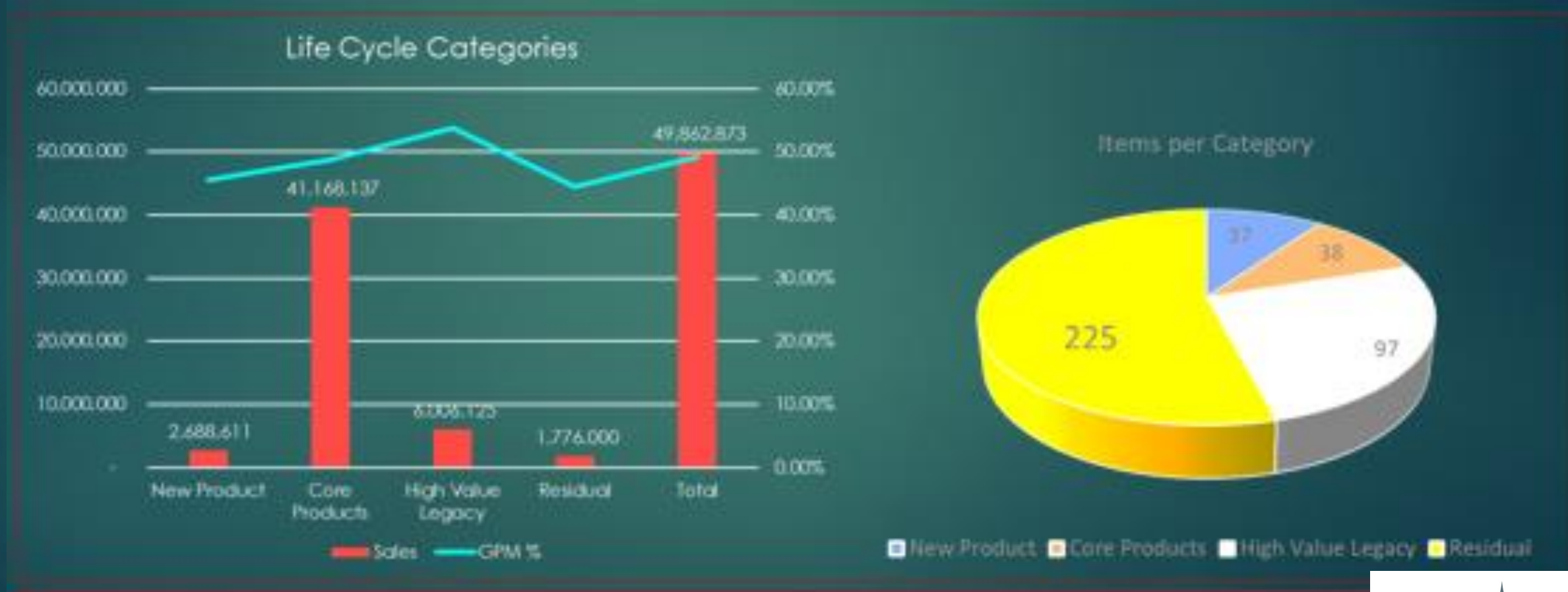

NEVER applied evenly

Some get more cost…

Others less…

Result:

❖Ineffective Cost Management

❖Poor Assessment of REAL Contribution Margins

❖Good Business/Bad Business?

SWOT (Outside-In Perspective)

Revenue Stream Analysis

Elements of a Purposeful innovation program

Knowledge	Critical Thinking	Creativity
Collaboration	**Market Centric**	**Results**
"Safe space"	Customer Driven	Commitment
	Scalable	**Accountability**

- Pick Your Spots – Who/Why/What/When
- Hit Rate for Wins – Do You Need to Pivot?
- Saying No is an Art
- Define Success – What Does a WIN Look Like ?
- Cost/Benefit Analysis
- Differentiation – Incremental vs. Transformative
- Customer Back Innovation – Address REAL Needs
- Fail Fast mentality
- Speed to market

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S	**M**	**A**	**R**	**T**
Specific	**Measurable**	**Attainable**	**Relevant**	**Time-Bound**
Add in as many details as possible. What will you do? Why and by when?	Make sure your goal is trackable. How will you measure your goal?	Take time to reflect. Can you realistically accomplish this goal within a certain timeline?	Think about what is important to you. Does this goal align with your values and larger objectives and goals?	Keep yourself accountable. By when do you want to accomplish this goal? How long will it take?

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HOW TO PUT THE 80/20 OPTIMIZATION PROCESS TO WORK FOR YOUR BUSINESS?

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CUSTOMER

HIGH VOLUME

HVC/HVP

Quad 1
$11,914 Sales
67% of Sales
44% GPM
21 Customers
32 Products

HVC/LVP

Quad 3
$2,123 Sales
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LOW VOLUME

LVC/HVP

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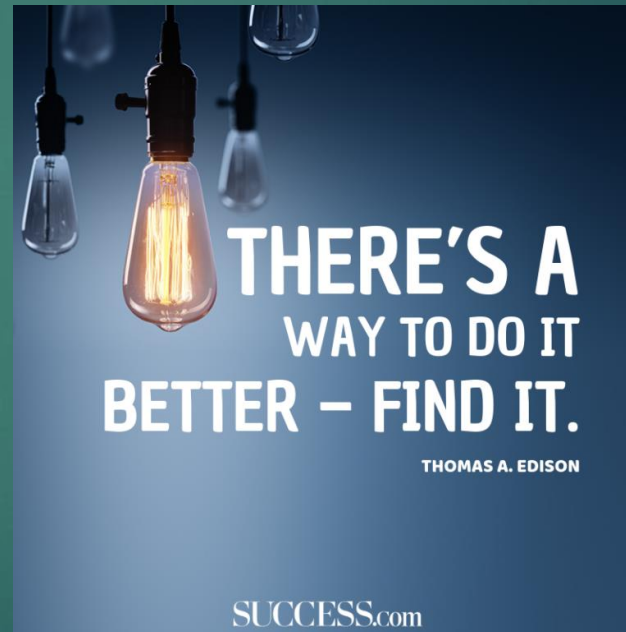58 Customers
280 Products

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80/20 Business Optimization
- ✓ **Drives "Clean Thinking"**
- ✓ **"Simple" Allows you to do more with less**
- ✓ **Frees up precious & few resources to bring your business added impact!**

Sales/Marketing

Ownership/Investors

Operations

80/20

Clean Thinking
Clarity of Purpose
Common Vision
Team Alignment

Procurement

Engineering/Innovation

Finance

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QUESTIONS

THERE'S A WAY TO DO IT BETTER – FIND IT.

THOMAS A. EDISON

SUCCESS.com

We Will Help You Find It!

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Thank You!!!

IMEC

Plan. Implement. Excel.

Want to Deploy the 80/20 Business Optimization Process?
Contact Us Today!

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Bringing organizations proven tools, positive leadership and time-tested experience making them BIGGER-BETTER-STRONGER