

# Developing an Operations Plan

by Paul E. Matlock

You are successfully producing cylinder gases and selling them to a variety of customers and have been for some time, but you want to improve efficiency and increase profits. You ask, "What can I do differently?" A proven way to bring your operations to the next level and keep it there is to develop an Operations Plan.

The managing of operations focuses on managing the processes and procedures to manufacture and distribute cylinders and related equipment. Some producers do not call it "operations management" but everyone does it in order to make day-to-day delivery of their products and services.

Fundamental to achieving superior performance and competing successfully in this time of rapid change is superior operations management: planning; production; inventory control; asset management; scheduling; delivery; safety; compliance with regulations; quality; security.

To be successful, Operations Management must integrate and take into account a company's financial issues, the internal and external factors which influence operational efficiency within the company, and the wider context of business strategy and competitive advantage. It must also prepare for future technology and the demands it will place on your operations.

It is imperative to have the necessary skills and tools, such as a continuous improvement process, and an understanding of how implementing improvements creates other demands on operations management. The successful suppliers of today and tomorrow are those that truly embrace these fundamentals of the business. However, a knowledge and understanding of production and operations management may not be enough.

## Developing an Operations Plan

Key to achieving success will be the development of an operations plan that addresses all of these issues. You may ask "Why do I

need an operations plan? I have been doing this for a long time and I know what needs to be done."

Poor planning has been the demise of many undertakings. In some cases, we may not even know why we are being successful. A team can have the best players but it can be defeated by players with a better plan. A good operations plan is central to success. It forces you to look at the big picture. The planning process is the vehicle that allows you to think productively about what your workplace needs in order to be efficient and serve your customers.

## What is an Operations Plan?

An operations plan is a schedule of events, programs, and responsibilities that details the actions necessary to accomplish the goals and objectives of the organization. But a results oriented plan does not start with activities. It starts with a well-thought out plan that forms the foundation for managing your operations. With a plan you can ask and get answers to the question, "How do you measure processes and which ones are the most important to your success?" Today there is a great deal of focus on efficiency and effectiveness of processes. Therefore, operations management and planning should include measurement and analysis of internal processes

## The Need for an Operations Plan

Creating a plan forces you to consider your company's needs and strategic priorities. Marketplace success provides positive feed-

back for your operations plan is aligned with your customer and business needs. This feedback reinforces the message that meaningful outcomes are more likely achieved if they are linked to business priorities. The plan forces you to look at the "Bigger Picture." All too often we become a slave to the activities we are performing and never consider the real impact they have on the ser-

MEASURES FOR AN OPERATIONS PLAN						
	Base Yr.	Targets				Bench- marks
	2004A	2005	2006	2007	2008	
<b>SAFETY</b>						
1. Recordable Injury Rate - OSHA						0.6
2. Vehicle Preventable Accidents						1.5
3. Safety Process Improvement		100%	100%	100%	100%	100%
<b>EMPLOYEE VALUE</b>						
4. Performance Plans Developed & Measured		100%	100%	100%	100%	100%
<b>CUSTOMER SERVICE</b>						
5. Transfill Loc. On-Time/Complete Del.		98%	98%	98%	98%	98%
6. Billing Adjustment						2%
7. Operational Non-Conformance						2%
<b>PRODUCTIVITY</b>						
8. DSF						7
9. Accounts Receivable						85%
10. Average Delivered Cost Per Cylinder						\$8-\$10.00

vice we provide and the profits that are delivered.

An operations plan communicates your priorities to everyone. It communicates to all your employees, supervisors, sales representatives, drivers and ultimately to your customers through improved service. An operations plan gives your program continuity through the inevitable day-to-day crises as well as personnel changes in your organization. Without written documents, a lot of hard work can be lost and progress stalled.

Operations plans serve as a means to measure - and prove effectiveness - and ultimately to continue to improve the operations process. A plan that details both your present position and where you want to be in the future, serves as an important tool for measuring change. The plan articulates your specific goals and objectives - things you need to get done. It holds everyone accountable for their actions. The accountability created by developing the goals and objectives serve as a source of energy for everyone.

### The Elements of an Operations Plan

It is essential that your plan address several important elements. It should begin with a Vision - a statement that describes the future you are trying to achieve. It must be concrete, viable, and real. It has to be something that everyone can relate to because it serves as your program's base and conveys what you are trying to accomplish.

Goals need to be established and communicated. Goals allow you to articulate precisely when you will "declare victory." Goals need to be given careful consideration because they are the landmarks toward which you will direct all of your efforts.

Objectives must be specific, measurable, achievable, realistic, and time sensitive. They should not be soft and feel good. The task of writing good objectives is very challenging and you should not hesitate to involve others. It is very important that everyone understand an objective, the need to achieve it, and what will be really be accomplished when it is achieved.

You will need programs to achieve your objectives. Trying hard is not enough. Programs may require training and evaluation. They will require careful and introspective planning. This is where you put your experience and knowledge to work. The programs must drive you to achieve your specific objectives.

An important part of your operations plan is a timeline for implementation. This part of the plan provides detailed information highlighting the execution times in days or months of a specific program. The timeline should address your method of accountability and measurement along with individual responsibilities.

"How will you know if you have been successful?" To answer this question you will need to keep score. You keep score by measuring your progress as you move toward your objectives and

goals. You need to decide which measurements you need to make and how you are going to obtain the information required. Be careful. In many cases, many measurements do not tell you if a program is heading in the right direction. Try to determine which measurement tells you the most about your objective and use it to measure your progress. Too many measurements can confuse rather than enlighten. Too many measurements make the task of retrieving the data into a chore. The secret is selecting a limited number of measurements that are key to your success.

Remember a good operations plan communicates effectively to all your employees and, in some cases, to your customers. It is not enough to do this on a one-time basis. You should regularly communicate your progress by objective and with the initiatives that support them. A part of your operations plan should detail the methods and the nature of this communication process.



### Characteristics of an Effective Operations Plan

There are really three key characteristics in a good operations plan. You should start with a structure that mirrors your company's strategic plan. The goals and objectives of your operations plan must support the strategic plan of your company.

Your operations plan should have a format that provides for periodic reports on progress toward your goals and specific objectives and it should prioritize what is most important. The format, along with the type of measurement, should be understandable to anyone in the organization that sees the scorecard. Keep it simple but meaningful.

Too much is too much. Your operations plan and resulting scorecard should have an appropriate level of detail. You want enough detail to guide the activities but not so much as to be overwhelming and confusing.

### Steps in the Development of Your Operations Plan

While you begin with a plan that supports the strategic direction of your company, you must be sure that your operations plan has prioritized programs that lead you to operational success. You should decide which courses of action have an immediate impact on your service and productivity while providing for long term improvement and sustainability.

"The Big Picture" includes more than the strategic plan and direction of your company. It must include your current levels of cost and performance. Then you need to establish a vision of where you want to be in the future. So start by determining your current costs for production, delivery, and your current service levels. Now review this information with bench-marked statistics for companies that are in a similar business. Find out where you are and determine where you want to be. Then you can begin to create a meaningful scorecard to measure your success and will know when to declare victory.

**Establishing Goals** that are achievable is paramount to a

Example of Vision	
<b>Objective :</b>	<b>To Achieve World Class Operating Performance</b>
<b>Means:</b>	Error Free Service
	Lower Cost Production
	Lower Cost Distribution
	Maximize Utilization of Assets
	Reduction in Accounts Receivable

successful operations plan. The goals are not necessarily easy to accomplish, just achievable. You need to establish the long term goals that will be the drivers over the next 3 to 5 years. You should assess the potential for improvement in costs and service through an audit of your operations, an analysis of the potential for improvement against bench-marked goals from world-class producers. You need to develop high levels goals that support your vision. This is where you prioritize your goals so you can develop objectives and programs to support your goals. The goals must be measurable so that they provide for the development of a metrics- based culture.

**Establishing Objectives** is an annual event. Your objectives need to support your operations plan goals and you need to prioritize these objectives so that they have the greatest impact on your success. That means you should be establishing objectives that provide for continuous improvement and then select the right program to implement in order to achieve those objectives. You probably will not be successful if you do not provide for programs that assist you in meeting individual objectives. It is also very important to establish a timeline for program implementation. If you do not, you could find yourself at the end of the year with too much to do.

A good way to prioritize your objectives in the cost area is to look at your cost stack. Determine which part of the cost stack has the greatest potential to improve your overall costs and put it at the head of the list. Shown on this page is a typical distributor cost stack. Review your cost stack to determine programs that can have the largest impact on your success.

Finally, the most important concept in setting an objective is to establish accountability. Who is going to do what and when? Remember many programs may be interdependent. Establish what these interdependencies are and make sure that everyone is on the same page.

**Measurements** that reflect the actual work environment, that can be easily produced and that are translatable to all of your employees are another key to your plan. Use your assessed potential for improvement and develop meaningful measures. Use these individual measures and create a scorecard that you can use to communicate your progress. Be sure to provide for periodic review and evaluation in your timeline. A typical scorecard with Key Performance Indicators should include long term goals, current levels and objectives for this year and the future.

**Communication** of your operations plan with its long term goals and annual objectives is essential to gaining acceptance and the enthusiastic cooperation of everyone in the organization. A kick-off meeting can be effective in generating feedback and is a powerful motivational tool. The on-going communication of your scorecard will provide evidence that you are serious about the plan and the result

**Implementation** of your annual objectives and long term goals can take place at any time during the year but it is recommended that you establish an annual process that coincides with your fiscal year. If you already have an operations plan in place, you may want to review it to determine if you could make it more effective. But do not wait until next year. Do it now.

When you have completed these steps, you will have a focused operations plan with prioritized programs that supports the strategic plan for your company. After you do this the first time, it becomes easier to update your plan annually and establish programs to support your objectives. It is your business - plan for success!

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Prioritize Programs to Improve Results	
<p><b>Income Statement</b></p> <p><b><u>Increase Profits</u></b></p> <p><b>Improve Gross Margin 55%</b> work on</p> <ul style="list-style-type: none"> <li>•Spec Gas Sales/Production</li> <li>•Cylinder Asset Mgt</li> </ul> <p>-----</p> <p><b>Decrease Costs</b></p> <p>-----</p> <p><b>Personnel 25%</b></p> <ul style="list-style-type: none"> <li>•Order to Cash/Productivity</li> </ul> <p><b>Other 20%</b></p> <ul style="list-style-type: none"> <li>•Safety/Security</li> <li>•Quality</li> </ul>	<p><b>Balance Sheet</b></p> <p><b><u>Increase Return on Assets</u></b></p> <p><b>Fixed Assets 40%</b> work on</p> <ul style="list-style-type: none"> <li>•Cylinder Asset Mgt</li> </ul> <p>-----</p> <p><b>Accts Rec 30%</b></p> <ul style="list-style-type: none"> <li>•A/R Mgt</li> </ul> <p>-----</p> <p><b>Inventory 15%</b></p> <ul style="list-style-type: none"> <li>•Cylinder Asset Mgt</li> </ul> <p>-----</p> <p><b>Cash &amp; Other</b></p>