



Frequent questions regarding personnel incentive in implementation of TOC logistical solutions

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She has authored numerous articles on TOC concepts and implementation, and has contributed to and edited several TOC books.

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Motivation system

Note: many companies in the post-soviet area use “motivation system” as equal to “A set of measurements to determine the size of employee pay”.

Using Local Operational Indicators (LOI) to determine the size of employee pay might be a necessary condition to build a motivation system but often it is not sufficient.

In this presentation we are offering our views on creating a system of local operational indicators to align employees’ actions with the primary measurements of TOC logistical solutions.



Frequent questions

We are frequently asked the following questions:

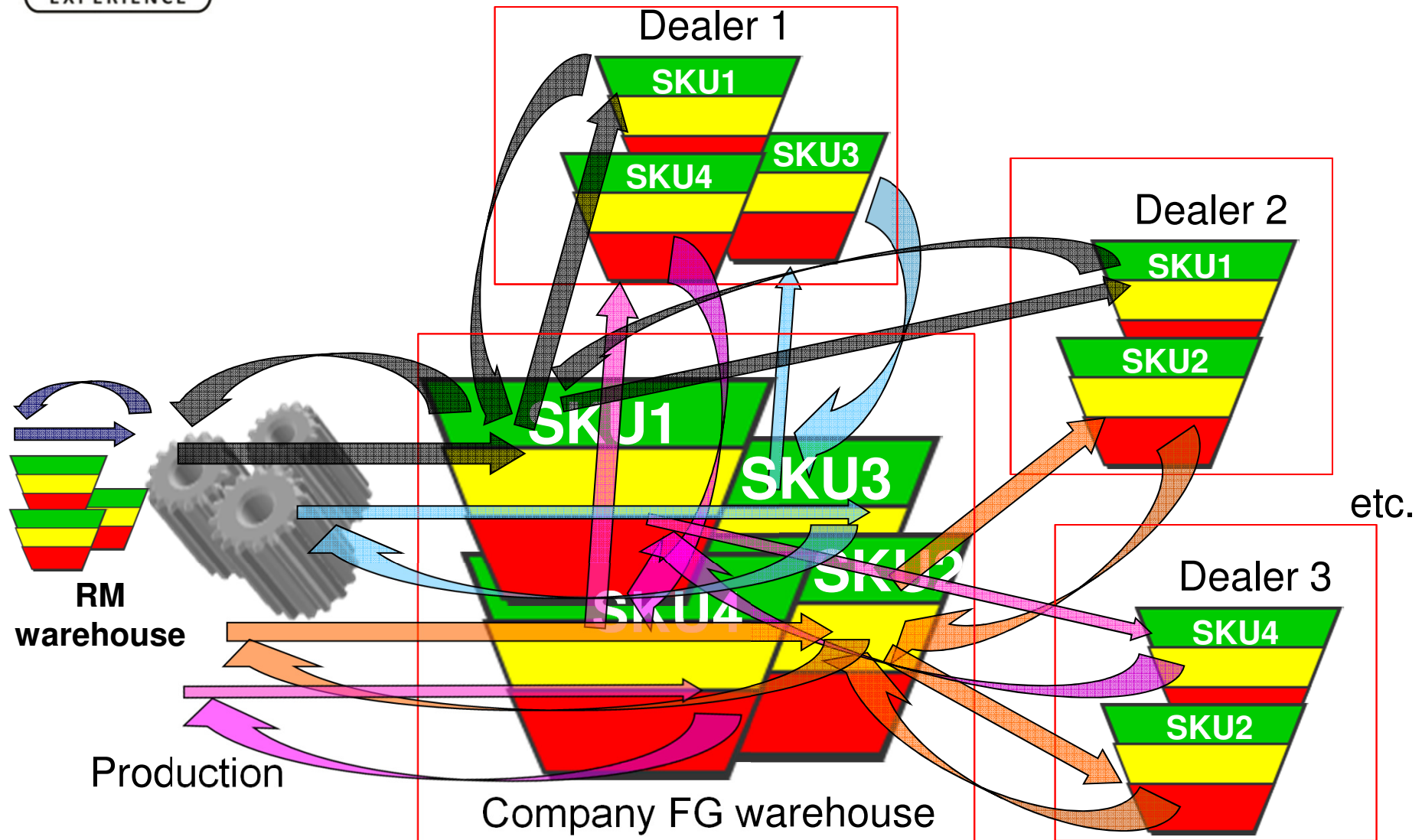
- What local operational indicators to measure the outcome of employee work should the company introduce so that these indicators will ensure functioning of the implemented TOC logistical solution(s)?
- How detailed should these LOI be = how many measurements to introduce for every function?
- What "weight" should the company assign to each indicator in calculating the pay?

General recommendation:

The answer to all three questions depends on the mechanics of the logistical solution and on what the employees should do to ensure that the solution works correctly, and also on what elements of the solution mechanics they impact and what elements they do not impact.



Example – an MTA company that sells to an external dealers network





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Primary measurements for MTA:

- Availability
- Inventory turns



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Main elements of the MTA solution mechanics – INTERNALLY:

- Determine which SKUs will go on MTA regime, and which on MTO.
- Calculate the initial target level per each SKU in the company FG warehouse.
- Create and maintain the system that will allow daily monitoring of each SKU buffer status and quantities on hand, in orders and on the way, and will allow adjusting target levels.
- Create and maintain the system that will generate production orders based on consumption from the buffers in FG warehouse.
- Create and maintain the system of production planning on the basis of daily consumption from the buffers in FG warehouse.
- Create and maintain the system of color coding (G-Y-R-B) for prioritizing production WOs.



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Main elements of the MTA solution mechanics – AT THE DEALERS:

- Determine dealers and SKUs which will be moved to work on the new replenishment model.
- Develop the new financial model of working with dealers.
- Get from the dealers conceptual agreement and sign contracts with the dealers.
- Calculate the initial target level per each dealer's SKU that will be managed the MTA.
- Monitor each SKU buffer status and quantities on hand, in orders and on the way.
- Adjust the target level for buffers at the dealer.



Example – an MTA company that sells to an external dealers network

Key functions:

For the MTA Solution to work internally:

- Production Planning and Control
- Purchasing department
- Production managers/foremen
- Workers

For selling the solution to the dealers and for calculating and maintaining buffers at the dealers:

- Salespeople
- Sometimes, Production Planning and Control



Example – an MTA company that sells to an external dealers network

LOI for Production Planning and Control

1. Availability in buffers in own FG warehouse and at the dealers (% of buffers without stockouts) – with the target measurement of 95-97% SKU availability (not 100%)
2. Rate of the product flow through buffers in own FG warehouse (**SKU turns in the buffers**)
3. Production adherence to the color system
4. Involvement in suggesting to production and purchasing the recovery actions when the buffers are red or black
5. Initiation and monitoring of improvement initiatives based on the buffer management statistics
6. Rate of adding new buffers to the system (monitoring activities of sales people to add buffers – new clients or new SKUs with existing clients)
7. Number of buffers



Example – an MTA company that sells to an external dealers network

LOI for Purchasers

1. Availability in RM buffers (% of buffers without stockouts) – with the target measurement of 95-57% SKU availability (not 100%)
2. Rate of the product flow through buffers (**SKU turns in the buffers**)
3. Decrease in number of red and black buffers
4. No delays in production because of material availability
5. Involvement in suggesting and carrying out recovery actions when the buffers are red and black
6. Initiation and monitoring of improvement initiatives based on the buffer management statistics
7. Number of buffers



Example – an MTA company that sells to an external dealers network

LOI for Production Managers/Foremen

1. Production adherence to the color system
2. Decrease in number of red and black buffers
3. Speed of response to taking recovery actions when the buffers are red or black
4. No overproduction of what is not needed (what exceeds target buffers – except for the absolutely necessary minimum batch determined by planning)
5. Initiation and participation in improvement initiatives based on the buffer management statistics

DO NOT PAY EXTRA FOR WORK ON RED ORDERS!

Otherwise you will soon see everything red.



Example – an MTA company that sells to an external dealers network

LOI for Workers

1. Adherence to the color system/sequence of work dictated by the foreman
2. Decrease in number of red and black buffers
3. Initiation of actions to improve flow

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LOI – Sales People

Stop paying for the amount of sales – it is the MTA system (replenishment) that “does” the sales now. → Pay for expanding business and for retention of existing business.

1. Rate of the product flow through buffers (SKU turns in the buffers)
2. Number of attracted new dealers and their business value (number of SKUs and volumes of 3 first months of sales – while monitoring through BM that the initial target level was not inflated).

In establishing new business with new dealers the pay to the sales person should be for the sales of the first 3 months since the first delivery. Sales for these 3 months are calculated as the sum of the initial target level and replenishments within this period.

3. Expanding assortment from existing dealers (number of new SKUs and volumes with no excess in initial targets)
4. Retention of existing dealers
5. Retention of existing assortment of existing dealers
6. Rate of conversion of leads to buying dealers