

# Focus Right

Not everything that can be improved should be, says Rami Goldratt *By Priyanka Sangani*

**H**is father, the late Eliyahu Goldratt shot into the global spotlight with *Goal*, a book that launched the theory of constraints (TOC) into the world. Rami Goldratt continues his father's work by helping companies improve their response time to the market using TOC as a systems management tool. India is the second biggest centre for Goldratt Consulting and he makes sure he keeps his finger on the pulse of the country, coming down once every few months. Goldratt was in Pune recently to conduct a session on breakthrough innovation using TOC at the Tata Management and Training Centre. In a conversation with CD, he spoke of the new challenges companies are facing and using TOC in a VUCA (volatile, uncertain, complex and ambiguous) world. **Edited excerpts:**

**How would you explain TOC to someone who is new to the concept?**

If I need to summarise TOC in one word it would be focus. There are always many areas that can be improved, however not everything that can be improved should be improved. Focus starts with what not to do. Usually when we think about focus it's about what to do but TOC is about what to stop doing. Many of our improvement efforts aren't aimed at the constraints of the business – what limits the business from doing more. If you are not improving something that's limiting the business from doing more, the business will not do more. TOC is about how to identify the right constraint and then giving you the right set of tools to open it.

Fast Responses  
Continued on **pg 3**>



# Fast Responses

> **Focus Right Continued**  
from pg 1

## How is TOC relevant in a VUCA world?

Let's take the consumer goods industry and uncertainty. We need to forecast the sales of a certain product in a certain place in a certain time. Based on this we would know how much to produce. One would expect that over time our ability to make an accurate forecast would improve with more information on recorded consumption and more sophisticated IT tools but reality shows us it's exactly the opposite—it's getting worse. We have more and more surpluses and shortages. This is because there are three dynamics in consumer behaviour that makes it almost impossible to predict accurately. The first is that consumers are becoming more sensitive to get the products they want and this puts pressure on retailers to work with wider assortments else they will lose sales. The wider the assortment, the harder it is to have a good forecast of what you will sell because you'll stock more units and managing the depth of this inventory becomes difficult. The second is consumer tolerance. Consumers are willing to wait less and less for the product to become available which means that retailers need to have it in the stores not in the warehouse. Finally, product life is becoming shorter

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with new products constantly being introduced and retailers needing to offer discounts to sell the older version. This puts a lot of pressure on brands. Unless the new launch is a star product like the iPhone, there will be a clash between your old and new offerings. All this makes our ability to forecast and have the right inventory impossible.

So the only way for companies to survive is to reduce the reaction time to market since it's impossible to have an accurate forecast. You need to capture signals from reality of what is selling and react to it as fast as possible. Companies that can't dramatically improve response times will not exist in the future. Earlier having a fast response time was a luxury; now it's a necessity. In TOC we remove operational constraints that block the flow and improve response times, whether in marketing, operations or production.

## What are the typical constraints you come across?

The main constraint is often policy driven. What typically increases response times is working with bigger batches. In procurement if you wait longer before placing an order, response time would naturally increase. However, companies want to accumulate all orders to get a good deal. What they don't notice is that every such incident increases their response time. This is one major constraint that is hurting the flow.

## How do you manage the constraints once you identify them?

One major obstacle to flow causing project delays happens not in the execution, but the planning stage. When setting timelines, people will give an extended buffer—typically 50%—to be reliable. The problem is that people end up using this buffer period whether they need it or not, and are likely to overshoot it as issues crop up towards the end. A project is a chain of tasks and to ensure that it finishes on time, the project manager needs to make sure each task finishes on time. As the manager, you have to take the individual 'safety' out of the equation and use it as part of the overall project buffer. In engineering companies, the important thing is how you provide better value to your clients by delivering the project on time. Due date perfor-

mance in engineering companies is very poor and clients tolerate it because everybody is the same. So can we manage projects in a different way that can give value and on-time delivery? One of the fundamental mistakes we make in project management that causes major obstacles to flow is bad multi-tasking. This is when you are forced to switch from one task to another without completing any of it. You have to realise that by doing this you are losing capacity and quality will be impacted. You have to prioritise and queue them up, moving to the next one only after the first is done.

## How can TOC aid innovation?

Many companies have good ideas for business innovation but they will work only if you have the right structured process to decipher what value to bring to what clients. In TOC, value is defined as removing a significant limitation to an extent that no other alternative can. So if you understand the limitation you are removing and then building the business model around that it would translate into more business. You then understand development and execution in the right way. May times we fail in execution because we invest too much in the wrong direction and then continue to invest because are already invested in it. You need to clearly understand the core assumptions underlying the business and you need to validate these as soon as possible. This is TOC for business innovation.

## Have the external constraints that business has to deal with changed?

Time is becoming of essence and business innovation is becoming more crucial. Companies typically tend to compromise on the value they provide their clients during a downturn. The key is even during a downturn, or rather, precisely during downturns to crystallise the value you are providing the market and remove any constraints that prevents you from delivering more of this value.

## What advice do you give leaders on how to do it?

Start with analysing the value and competitive edge you are aiming to give and what you want to deliver to which segments. Then analyse the major constraints that prevent you from delivering more value and then work to remove them.

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