SUCCESS THROUGH QUALITY MANAGEMENT
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Who are we

• Your name
• Position in the company
• Number of years in this field of work
System Thinking

A system is a whole that derives its characteristics (good or bad) from the interactions of its essential parts.....and none taken separately.

All are essential, none are sufficient
A House Is a System

A house is a system that derives its characteristics (good or bad) from the interactions of its essential parts.....and none taken separately.

All are essential, none are sufficient.
Quality Is a System

Quality is a system that derives its characteristics (good or bad) from the interactions of its essential parts.....and none taken separately.

Quality Management Plan (QMP)

Quality Improvement

Quality Control

Quality Assurance

All are essential, none are sufficient
“QMP is a ballet, not hockey. A ballet is deliberately designed, discussed, planned, examined, and programmed in detail before it is performed.”

Philip Crosby, Quality is Free
The DNA of Success

✓ DNA of maximizing profits
   1) Cost control
   2) Value creation investment
   3) Advocate production
Language is key to knowledge.
Knowledge is key to understanding.
Understanding is key to finding a common language.
Common Language
What is quality?

• 3X5 Cards – what is quality?
• Quality is doing agreed upon requirements and standards
  – Either you did or your did not
• Not high quality, not low quality, not good quality, not bad quality
The only meaningful definition for quality is that which the customer defines.

The definition of quality is "Conformance to requirements".

The definition of quality is products and services that are "Fit for Use".
The **quality** of a person's life is in direct proportion to their commitment to **excellence**, regardless of their chosen field of endeavor.

- Vince Lombardi
• **Quality**: Doing work to agreed-upon standards and requirements.

• **Quality Control (QC)**: A process for maintaining standards and requirements that prevents and corrects variance so that the output meets customers’ wants, needs, and expectations.

• **Quality Assurance**: A process that provides confidence that standards and requirements have been fulfilled to the extent that customers’ wants, needs, and expectations are being met.

"Without a standard there is no logical basis for making a decision or taking action." — Joseph Juran
Creating A Quality Culture - Common Language

- **Quality** definition - Conformance to agreed upon requirements and standards
- **Quality** culture - Prevention
- **Quality** performance standard - Zero defects
- **Quality** measurement - Cost of nonconformance and waste
- **Waste** - Anything that consumes resources and does not directly add value to the end product
- **Value** - Is what the customer wants and is willing to pay for
Sincerity Is Never Enough
“Winning is not a sometime thing; it’s an all time thing. You don’t win once in a while, you don’t do things right once in a while, you do them right all the time. Winning is a habit. Unfortunately, so is losing.”

Vince Lombardi
The DNA of Success

✓ DNA of maximizing profits
  1) **Cost** control (80/20)
  2) Value investment
  3) Advocate production
80/20 Rule

The 80/20 rule was discovered 115 years ago, by Italian economist Vilfredo Pareto (1848–1923). His discovery has since been called many names, including the Pareto Principle, the Pareto Law, the 80/20 Rule, the Principle of Least Effort and the Principle of Imbalance.
80/20 Thinking

• 80% of results come from 20% of effort
• 80% of outputs result from 20% of inputs
• 80% of consequences flow from 20% of causes
• 80% of value is produced with 20% of resources
• 80% of defects can be eliminated by correcting 20% of causes
Quality Improvement Path to The Bottom Line

- Improve Quality (Effective Work)
- Improve Productivity (Efficient Work)
- Stay In Business
- Decreased Cost
- Increase Market Share
- Provide Employment
- Return on Investment

E.W. Deming
<table>
<thead>
<tr>
<th>Cost Area</th>
<th>Billing Rate</th>
<th>$/Month</th>
<th>$/Day</th>
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<tr>
<td>Labor - Management</td>
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<td>Labor - Office</td>
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<td>Labor - Scheduling</td>
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What is the level of our quality?

• The level of quality in any company is its acceptance to non-conformance to its own standards.

• What is the Cost of Poor Quality (COPQ)?
The obvious and “visible” costs are a small portion of the overall cost.

The bottom of the iceberg represents the majority of the cost and are not easily identified and measured.
$1.00 Spent on Prevention Saves

Prevention Cost
Installer

Correction Cost
Work Quality Verifier

Failure Cost
Homeowner

Source: Total Quality Management, Joel E. Ross
Cost of Poor Quality

1. Cost of nonconformities
2. Cost of inefficient processes
3. Cost of lost opportunities for sales revenue
Advantages to Cost Control

- Improves profits
- Improves financial position
- Improves competitive capabilities
- Serves as an index of efficiency
- Company serves as a trend setter for other companies
- Efficient utilization of scarce resources
House of cards
Areas of Waste

**Waste:** Anything that consumes resources and does not add direct value to the end product

1. **Processing** - Process variation
2. **Rework** - Any repair
3. **Transport** – People, materials
4. **Waiting** - Waiting on materials or people
5. **Intellect** - Failure to fully utilize the time and talents of people
“If I had to reduce my message for management to just a few words, I’d say it all had to do with reducing variation.”
- W. E. Deming

VARIATION
Building a Successful Future

Before Success

OUT OF CONTROL

Chronic Variation & Waste

ROI

After Success

IN CONTROL

Gains
Controlled Variation Must Equal Profit
Let's Invest

$10,000

Variability
Airline Industry Data

Higher, Faster, Farther
Network Carrier
Hub & Spoke Networks
Wide Body Planes

Better, Faster, Cheaper
Low-Fare Carrier
Point to Point
Networks
Narrow Body Planes
Let’s Invest another $10,000

Variability
Auto Industry Data
Source: The Machine That Changed The World

Auto Production (millions)

US Production

Japanese Production

Anorexic Bulimic

Do it right the first time
Top Automakers: Warranty Claims

- Daimler AG: $860.00 per car, 1 car per minute, $51,600 per hour
- GM: $400.00 per car, 1 car per minute, $24,000 per hour
- Ford: $240.00 per car, 1 car per minute, $14,400 per hour

Toyota: $800.00 per car, 1 car per minute, $48,000 per hour
Perceived Quality

Mainstream Brands, % Change between Spring and Fall 2009 Editions

- Ford
- Ford Trucks
- Mercury
- Kia
- Suzuki
- Isuzu
- Mazda
- Volkswagen
- Buick
- GMC Trucks
- Jeep
- Mitsubishi
- Scion
- Pontiac
- Subaru
- Hyundai
- Honda
- Toyota
- Nissan
- Chevrolet Trucks
- Saturn
- Chevrolet
- Dodge Trucks
- Mini
- Dodge
- Chrysler

FORD

$1,000,000,000 Settlement

TOYOTA

-3%
Let’s invest one more time

$10,000

Variability
Cost of Poor Quality % of Sale Price

New Home Warranty Claims & Accrual Rates
First Quarter 2003 - Second Quarter 2005

Accrual Rate

Claims Rate

Average $2,600.00

Security Exchange Data
US Based Homebuilders
Average Warranty Claims & Accrual Rates
(as a % of product sales, 2003-2010)

$3,500.00
Per House
Cost of an Inadequate Process

$2,200.00 Per House
Cost of an Inadequate Process

Quarterly Claims ($ Millions)

Accrual Rate (%)
Claims Rate (%)

$10,500.00 Per House

Security Exchange Data
Security Exchange Data

8 Builder’s Warranty Claims
First Quarter 2003 – 2 Quarter 2005

Post Closing
Security Exchange Data

2 Lowest Builder’s Warranty Claims

First Quarter 2003 – 2 Quarter 2005
Two Types of Variation

• **Common cause variation:**
  – Always occurs and cannot be traced to a specific cause (e.g., location, time of day, day of week)
  – Reduction requires fundamental change in the process

• **Special cause variation:**
  – Assignable cause is outside of common variation. It can easily be traced to a specific cause, usually relating to the six key elements: people, environment, material, method, machinery, and measurement

Count the “Es”
How Do We Control Variation?

• Through a capable process
Let’s Improve a Home!

• 1,840 white beads = basic home components, including combustion appliances, air sealing, insulation, etc.

• 50 red beads = retrofit processes or subsystems that have complex relationships with the home and can cause failure.

• Filling the scoop represents the retrofit of a home. The components, processes, and subsystems mix together for the final result.
Scope of Work

• Scoop all the way to the bottom of the bucket.
• Use only one hand and the scoop to remove beads.
• Fill the scoop completely.
• There cannot be any red beads in 3 consecutive scoops.
Probability of Scooping One Red Bead

- 50 Red Beads: 99%
- 35 Red Beads: 96%
- 20 Red Beads: 84%
What Did They Rely On?

• Luck!
4 Acts of Futility

1. Blame workers for process problems that are beyond their control.
2. Try to improve a process that produces the wrong outcome.
3. To inspect a flawed process expecting quality.
4. To inspect a process without the objective being prevention of defects.

All work is a process.
ATTENTION!
All work is a Process

• Process fails more than people
• Blame should fall on the process not people
• All defects are caused, all causes can be prevented
A Quality Culture Must Be Blame Free
“We must drive fear out of the workplace.”

W. Edwards Deming

Fourteen Obligations of Management, point 8
“Creating a strategic plan that is customer-focused requires that leaders become coaches and teachers, personally involved, consistent, **eliminate the atmosphere of blame**, and make their decisions on the best available data.” Juran (1988)

*Juran’s Quality Handbook*, Freedom From Fear, pg., 15.5
“To blame another for a nonconformance problem is naive at best.”

Philip Crosby
A Workplace With Blame

• Drives out honesty
• Drives out improvement
• Stifles learning
• Drives out innovation
Accountability and Responsibility

• A blame free workplace *never* dismisses assignment of accountability and responsibility.

• We need both at the table in order to solve the problem and improve the process.
How do most inefficiencies and defects happen?

1. Process

2. Mistakes
Distribution of Defect Cause

- Process and Procedures
- Mistakes
- Material Fault
Examples of Mistakes at Home

- To run out of gas
- Locking your keys in your car
- Failing to stop at a stop sign
- Forgetting to turn off the coffee pot or sprinklers
- Forgetting to unplug the iron

Mistakes are inevitable, we all make them
We make mistakes because of......

• Forgetfulness
• Lack of experience/skills
• Laziness
• Taking short cuts
• Lack of Training

• Misunderstanding
• Lack of concentration
• Lack of standards
• Busy-ness/Rushing
Mistakes

- The majority of workers do not come to work with the intention of doing work wrong
Understanding Mistakes and Error

- **Intentional Wrong Doing**: The issue of volition is fundamental to the notion of doing wrong; therefore, **the term error can only be applied to intentional actions**.

- **Unintentional Wrong Doing**: Failure of work to go as intended (slips or lapses of attention) or failure of work to achieve its desired objective (mistakes) are action with no intent to do wrong.
Name some times when blame must fall on people

- Stealing from customer(s) or company
- Constant lying
- Intentionally doing work wrong
- Insolence towards customers
- Drinking on the job
- Misrepresenting product or service
- Repeated bullying
We Must Build Quality In - Not Bolt It On

Maximizing Waste Reduction
Quality Interactions

Process converts input into output
QUALITY ASSURANCE
Monitoring, Measuring and Building Confidence

Input
Requirements and Standards
Includes resources
* People
* Materials
* Tools/equipment

Process
Interrelated or Interacting Activities and Control Methods

Output
Desired Outcomes and Objectives
Result of processes

EFFECTIVENESS OF PROCESS
Ability to achieve desired results

EFFICIENCY OF PROCESS
Results achieved vs. resources used

Monitoring, Measuring and Building Confidence
- High performance standards
- People
  - Trade Ally
  - Non-Trade Ally
  - Air Sealer
  - HVAC Contractor
  - Insulator
  - Electrician
- Material needs
- Tools/equipment
Input

Process

• Training
• Coaching
• Mistake Proofing
• Critical Details
• Quality verification

Output
- Increased value
- Reduced cost
- Fewer defects
- Fewer callbacks
- Reduced cycle time
- Satisfied homeowners
- Loyal Customers and employees
**80/20 Rule**

Simple flow plan

1. **PLAN**: What is the goal and path to achieve?
   - Identify Wants, Needs, and Expectations of Customer(s)

2. **2.**
   - Statement of Specifications, Standards and Requirements needed to satisfy #1. above

3. **3.**
   - Work Plan

4. **4.**
   - Work

5. **5.**
   - Check Work

6. **6.**
   - Conforms
     - Yes
     - No
     - Remedial Action and Process Improvement

7a. **7a.**

7b. **7b.**
   - Customer(s) Evaluation

**DO**: What meets the goal?

**CHECK**: Did it work?

**ACT**: Standardize and stabilize work and try again.
It’s All About the Process

"Inspection with the aim of finding the bad ones and throwing them out is too late, ineffective, costly. Quality comes not from inspection but from improvement of the process."

- Dr. W. E. Deming
Three Approaches To Inspection

Discovers defects but does not reduce them

Reduces defects by informing the process after it happens

Eliminates defects by catching and fixing their cause

3 Inspection Types
1. Self
2. Success
3. Sampling (QA)

Source: Zero Quality Control: Source Inspection and the Poka-Yoke System, Shigeo Shingo
Quality Verification
Judgment Inspection Detection

Inspection after the work is done
Costly delays and rework
Inspection at the point of work
little to no cost to fix
## BENEFITS OF EARLY DETECTION

<table>
<thead>
<tr>
<th>Defects Found At:</th>
<th>Self Inspection</th>
<th>Successive Inspections</th>
<th>Judgment Inspection</th>
<th>Homeowner Dissatisfaction</th>
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<tbody>
<tr>
<td>Cost To The Company</td>
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<tr>
<td>Impact To The Company</td>
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- **Very Minor**
- **Minor delay**
- **Significant rework**
- **Reschedule of work**
- **Additional inspection**
- **Warranty cost**
- **Administrative cost**
- **Reputation loss**
- **Loss of market**
Successive Inspection
Prevention

Work Process
Self Check

Inspection
feedback

Work Process
Self Check

Inspection
feedback

Work Process
Self Check

Job Ready – Job Complete
Source Inspection
Prevention

*Inspection before the work process*

*MISTAKE PROOFING*
Source Inspection

• Prevention
• Elimination
Fire Fighting Does not Improve a Home
Want to win?

Focus on Prevention of Mistakes
More Than Detecting Them
Unintentional Wrong Doing: Failure of work to go as intended (slips or lapses of attention) or failure of work to achieve its desired objective (mistakes) are actions with no intent to do wrong.
Prevention Costs Less Than Detection

Mistake Proofing
Mistake-proofing for tailgaters
Which dial turns on the burner?

Stove A

Stove B
Fins inside that prevent the glass from nesting all the way down
# Check Lists are Essential

## Pilot Check List

### Before Start
- CUSTOMSCANPASS: UPDATED
- PREFLIGHT: COMPLETE
- LOG BOOK: NAV PUES: ON BOARD
- OXYGEN SYSTEM: PLUGGED & CHECKED
- OXYGEN CONTROL VALVES: NORMAL
- CBS IN: ON
- ALL SWITCHES: OFF/NORM AUTO
- STANDBY ATT: CHECKED & ON
- BATT METER: CHECKED
- BATTERY ON: CHECKED
- PARKING BRAKE: CHECKED
- GEARMAN: DOWN & 3 GREENING RED
- GPUS: CONNECTED
- FLIGHT ADVISORY: ON
- ADVIONS: ON
- WARNING SYS: CHECKED
- CROSS FEED: CHECKED
- PRESS/ENVO: ON
- CYR: CHECKED
- AUTOPilot: TESTED
- ATC & CLEARANCE: OBTAINED
- GPS CHECKED/SET: COMPLETED
- DATA/T.C BRIEF: COMPLETED
- CLOCKS/BUGS: SET
- PAPER/COFFEE: ON
- COFFEE: ON
- FUEL: SUFF/BAL
- DOORS: CLOSED
- BEACON: OFF
- ADVIONS/INVERTER: OFF
- R/T: ON
- ENG INST: CHECKED
- START: 1 OR 2
- SPEED BRAKES: CHECKED
- BRAKES: CHECKED

### Taxi
- BRAKES/NGS: CHECKED
- ANTI-ICE/W S BLEED: AS REO
- CONTROLS: SET
- TRIMS: SET 3 WAYS
- FLAPS 15: SET
- THRUST REVERSET: TESTED
- FLIGHT DIRECTOR: ON
- ALT: 100-103

### Transition
- ALT: 100-103
- TRANSISTOR OXIDATION: CHECKED
- BEACON: ON
- REC/SG LHTS: ON
- ALTIMETERS: SET
- OXY M: OFF
- ANEMOMETERS: CHECKED
- IGNITION: OFF
- REC/SG LHTS: ON

### Cruise
- ANNUNCIATOR PANEL: ON
- ENGINE INSTRUMENTS: ON
- FUEL: SUFF/BAL
- DATA/T.C BRIEF: COMPLETE
- TCAS: ON

### Descent
- IGNITION: ON
- PIT MAN: ON
- ANTIMIGRANT: ON

### Simplified to Data
- RUNWAY AVAILABLE: 4800 ft
- WT: 12000
- PRESS: 2000
- TEMP: -20-70
- V1: 105-106
- Vr: 106-101
- V2: 118-116
- YN: 149-147

### Approach
- ALTIMETERS: R/L: SET
- REC/SG LHTS: ON/TAIL
- FLAPS 15: NO TAILWIND
- FLIGHT RUNWAY/NO GRADIENT

### Before Landing
- FLAPS: APPROACH
- GEAR: DOWN/3 GREEN/NO RED
- LIGHTS: ON
- ANEMOMETERS: CHECKED
- IGNITION: ON
- REC/SG LHTS: ON

### Shut Down
- RADAR: OFF
- FREN AIR: OFF
- STAY ATT: CAGED
- LEFT THROATLE: OFF
- ADVIONS/INVERTER: OFF
- RIGHT THROTTLE: OFF
- CHECKS: AS REO
- GENERATORS: ON
- BATTERIES: ON
- CONTROLS SECURE: AS REO
- HEADSETS: OFF
- OXYGEN MASKS: UNPLUGGED

### Landing Data
- WT: 14,000
- 20KT FLAPS APPROACH
- 10KT FLAPS FULL

### After Landing
- ALTIMETERS: R/L: SET
- REC/SG LHTS: ON/TAIL
- FLAPS 15: NO TAILWIND
- FLIGHT RUNWAY/NO GRADIENT
- IGNITION: ON

**In CNG Conditions Increase VREF by 20 KTS**
Sticks and stones may break your bones—but if you need surgery, the right words used in the operating room can be more powerful than many drugs. New research published today in the *New England Journal of Medicine* found that when surgical teams heeded a simple checklist—as pilots do before takeoff—patient mortality rates were cut nearly in half and complications fell by more than a third.
### EXISTING HOMES

#### ATTIC INSULATION COMPLETE MEASURE CHECKLIST

All work shall meet Energy Trust of Oregon requirements. The checklist may serve as a reference guide only. Please refer to the manual for any clarification.

<table>
<thead>
<tr>
<th>Step</th>
<th>Completed</th>
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<tbody>
<tr>
<td>Determine ventilation strategy and requirements for Free Area of ventilation. AT 1.2 and AT 1.3</td>
<td>✔</td>
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<tr>
<td>Determine if storage or human contact areas are present. IN 1.8</td>
<td>✔</td>
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<td>Install baffles at eave vents, heat-producing fixtures, flues and chimneys. AT 1.3 and 1.5</td>
<td>✔</td>
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<tr>
<td>Dams shall be installed at interior access and where insulation is at different levels to prevent loose-fill falling out of attic. AT 1.4 and AT 1.10</td>
<td>✔</td>
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<tr>
<td>Interior ceiling accesses shall be insulated to a minimum of R-30 and Knee wall access doors shall be insulated to a minimum of R-15. Interior accesses shall have permanent weatherstripping. AT 1.10 and AT 2.6</td>
<td>✔</td>
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<tr>
<td>Verify all exhaust fans are vented completely to the exterior with no gaps. AT 1.6, 1.7, and 1.8</td>
<td>✔</td>
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<tr>
<td>Washington customers shall insulate all exhaust fan ducts in unconditioned spaces to a minimum of R-4</td>
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<tr>
<td>Insulate water lines in attic space. AT 1.9</td>
<td>✔</td>
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<tr>
<td>Insulate and weatherstrip access panel or pull-down stairs. AT 1.10, 1.11, and 1.12</td>
<td>✔</td>
</tr>
<tr>
<td>Insulate vertical walls and cover with air barrier, install blocking in floor under Knee wall. AT 2.6</td>
<td>✔</td>
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<tr>
<td>Verify R-value and condition of installation of insulation. Appendix B</td>
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Quality Check: All work was quality checked to ensure it was completed and defect free.

____________________   ____________________   ___________
Print Name                      Signature                                     Date
Mistake Proofing Check List

- Increases accountability
- Is a strategy for preventing mistakes
- Makes it impossible for defects to pass unnoticed
- Corrects problems as soon as they are detected
- Prevents defects from being covered up
- Stabilizes our processes
- Escalates effectiveness and efficiency
- Eliminates waste
- Creates a safer work environment
- Makes quality problems more visible
- Produces pride of work
- Increases profit
Quality Tool Kit
Infield Training Tools
How are products and services priced?
The DNA of Success

✓ DNA of maximizing profits
  1) Cost control
  2) Value creation investment
  3) Advocate production
What is value?

- Value is what the customer(s) wants and will pay for.
• Sell them what they want not what they need, causing no harm to the customer or home.
How Do You Define Customer Success?
1. Delivering what the customer(s) wants
2. Identify what the customer calls success
3. What will cause the customer to high five when I leave?

**PUSH:**
I have the best made tires at the best prices

**PULL:**
I know that's why I'm here, I found you on the internet
What are we selling?

Solutions
Solutions
Solutions

Value - Is what the customer wants and is willing to pay for
Repeat Sales
Sales contract and
document of concerns...

Wants

Needs
Document of concern...
Repeat Sales

Generates
1. Diagnostic needs
2. Relationships
3 Things People Buy

1. Good Feelings
2. Solutions to Problems
3. What They Value
The DNA of Success

✓ DNA of maximizing profits
   1) Cost control
   2) Value creation - investment
   3) Advocate production
A quality culture must produce loyalty
CUSTOMER
A customer is the most important visitor on our premises.

He is not dependent upon us. We are dependent on him.

He is not an interruption in our work. He is the purpose of it.

He is not an outsider in our business. He is part of it.

We are not doing him a favor by serving him.

He is doing us a favor by giving us an opportunity to do so.

-Gandhi
Loyalty Based Business System

• Loyal customers are critical, however, they are not the first step

• Loyal employees are
Loyalty

Employees who are not loyal are not likely to build an inventory of customers that are
We need to build employee loyalty and use it to improve customer retention
Loyal customers are advocates for your company (Sales Staff)

REAL FINANCIAL CONSEQUENCES!
“Profit in business comes from repeat customers, customers that boast about your project or service, and that bring friends with them.”

-W. Edwards Deming
Advocate Production

- Customer satisfaction is a feeling
- Customer loyalty is a behavior
One call back can cause other call backs
Overall Satisfaction Declines Dramatically When Problems Require Repeated Attempts To Fix

Source: 2002 J.D. Power and Associates
New Home Builder Customer Satisfaction Study
A homeowner had a beautiful view of the mountains, until a new neighbor purchased the lot below his house and built a new home.

The new home was 18 inches higher than the ordinances would allow, so the homeowner with a view got mad about his lost view, went to the city to make sure they enforced the lower roof line ordinance.

The new neighbor had to drop the roof line, at great expense.

Recently, the first homeowner called the city again, and informed them that his new neighbor had installed some vents on the side of his home and he did not like them.

When the city went to see what the vents looked like, this is what they found ...
Increased Word of Mouth
Decline in Word of Mouth Based on Decline in Customer Satisfaction

% Definitely will Recommend Home Performance Company

Overall Satisfaction with Contractor

89% Outstanding
64% Average
30% 9% Unacceptable
With an increase in positive recommendations, Home Performance Contractors have the potential to significantly increase retrofit sales.

Average Homes per Contractor × 100 = 56

+ .56 Additional Recommendations per satisfied customer

Average Sale Price × $5,000 = $3,500 Additional Revenue

Per advocate Loyal Customer

= 7 Additional Sales
Loyal customers are advocates for your company

REAL FINANCIAL CONSEQUENCES!
Review

3 Major areas we will master together
1. Cost control
2. Value Creation
3. Advocate production
What must I do to join the pilot?

- Good Faith Payment $2000.00
- Adopt the common language
- Join in Cost and Quality Control
- Devotion to value creation
- Dedication to Production of Loyal Customers
What’s in it for me?

- Training
- Coaching 20+ hours
- Mentoring at the place of work
- Quality Tool Kit
- Lower Costs
- Greater Presence and Market Share
Is the view worth the climb?
QUESTIONS ?