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World-Class Contingency Planning

Don't forgo this essential practice

In previous departments, we have focused on a variety of operational tactics intended to sustain a business, including innovation, operational excellence, and continuous improvement, as well as its more dramatic partner, reengineering. We've discussed the evolution of mass customization and its incorporation of postponement strategies as a cost-effective way to accomplish postponement. We've even connected all of this to what the customer wants using voice-of-the-customer tools. Dell, Ford, Toyota, and many others have helped us illustrate these points. However, with the economy in a downward spiral, maybe it's time to talk about the overriding operational characteristic and mainstay of most successful businesses: operational vigilance.

Don't go running to your *APICS Dictionary*. It's not there. However, *Webster's* defines vigilant as keeping watch, staying awake; alertly watchful to avoid danger. From an operations perspective, this means many things: making sure the execution of a plan is done successfully; ensuring the

properly structured. Our measurement system is keeping us well-informed. Everybody knows his or her job and is motivated to keep improving. Then, it all blows up in our faces.

What can you do?

This isn't about the ongoing need for continuous improvement; nor the process-reengineering commonly seen in turnaround efforts. This is about highly disruptive events or upheavals often brought on by external forces out of our control, which threaten even well-run companies. There are three ways to cope: Do nothing, be reactive, or be proactive.

Many company leaders are so busy executing business plans that they make no allowances for operational contingencies. While they know that simply hoping the problem goes away is not the answer, they do nothing—at least, for a while.


The second approach is to be reactive. When a disruptive event happens, these managers marshal their forces and respond quickly and energetically. The problem is, the reaction often is poorly considered and may have little positive impact on bottom-line performance. Look at how many companies are laying off significant segments of their workforces as a first response to decreased profits, even though labor is a relatively small part of total costs. Consider the proposed merger of Chrysler and General Motors, along with the government assistance they requested. That may be one of the best examples of being reactive, following years of doing nothing.

In the third approach, the planning is done proactively as a “what if” instead of a “what now.” Managers use

contingency planning to fully leverage operational capabilities. Even though operational decisions are resource-intensive, are difficult to change, and can require long planning horizons, world-class companies still leverage these capabilities.

If your business lost 20 percent of its volume overnight, what would you do? Do you have a plan to replace that portion of your business? Do you really need to reduce capacity, or are there other, more cost-effective steps to be taken? Does moving production to a lower-cost, offshore supplier help you become more competitive, or do the extra freight costs and potential quality issues dig a deeper hole?

In other words, plan ahead, and exercise those plans. Business leaders at General Electric, Caterpillar, and others extend their contingency planning process throughout their operations. Decision makers at small and mid-sized businesses can do the same. One leader at a small manufacturer of cast parts recognized that 30 percent of the business was coming from the automotive industry. Using operational capabilities as a differentiation, managers actively pursued business from other industries and avoided a significant downturn.

Take the time to determine which of these operational approaches your company uses. You'll be glad you did. 

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connectivity of sales and operations planning to the master schedule and to the execution and control of operations; and, foremost, ensuring operational efforts support the strategic direction of the business.

In manufacturing, things can change in a nanosecond. One day, we're meeting schedules, being productive, satisfying customers, and making money. Our operations system is