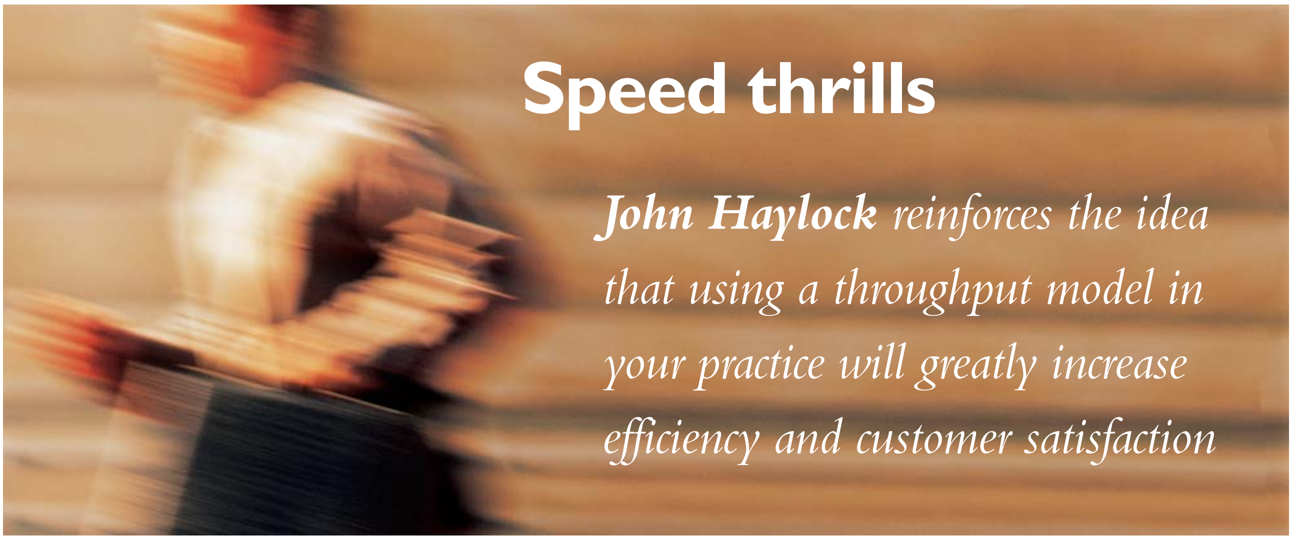

Speed thrills

***John Haylock** reinforces the idea that using a throughput model in your practice will greatly increase efficiency and customer satisfaction*

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DELL Computer is a widely admired and fast-growing company. Its global success is based on a business system that works just as well running accountancy practices as it does building and marketing computers.

Michael Dell founded the company in 1984 with a simple insight – sell computers direct to the consumer and build them to order. By selling direct, Dell gets rid of the reseller's mark up. By building to order, it slashes the cost of carrying inventory.

The danger with building to order is slow delivery, resulting in frustrated customers. So Dell has developed a manufacturing and distribution system focused on throughput, or "velocity" as Dell terms it. This is about getting production through the business as quickly as possible. Speed of production ensures happy customers as well as an efficient business.

During the past year, in a series of *Journal* articles, I have argued that Chartered Accountants should change from the traditional "productivity-based" model of practice management that focuses on keeping people as busy as possible, to a new "throughput-based" model focused on turning work around quickly. This throughput-based model for accountants has many similarities to how Dell operates, as well as some important differences that reflect the consistent annual work cycle that occurs in accountancy firms.

Most accountants in New Zealand already know where around 80% of their turnover will come from in the next financial year – the annual compliance work for existing clients. That's a remarkable degree of certainty that most businesses, including Dell, would love to have. This certainty and consistency of work means that throughput-based management is easy for accountants to introduce, compared to most other business sectors.

Here are the key components of throughput-based management for accountants:

- Allocate each annual accounting job to a specific team member at the beginning of the year
- Schedule each job while taking into account the relative importance of the client and the capacity of the team member to complete the job
- Then complete the job inside a guaranteed turnaround timeframe (we recommend four weeks)
- To complete each job quickly, identify and relieve bottlenecks so work flows quickly through the firm. For example, helping clients improve the quality of the records they provide through the use of records folders minimises queries, which is a major hold-up in most firms

As shown in the benchmarking survey in the *Journal*'s February issue, p38, throughput-based management leads to many improvements in the financial performance of accountancy firms:

- Greater profit
- Reduced lock-up
- Reduced write-offs

These are logical outcomes from throughput-based management because jobs are completed more quickly, there is less work-in-progress sitting in people's in-trays, and clients are happier because of a quicker and more certain turnaround of their work.

Team members also benefit and are more productive because they know what they're expected to do and by when. Though it is an effective management system, it can always be improved. One of the best places to look for improvements is other industries that operate broadly similar management models. That's why Dell is so fascinating.

"In the Dell business model, the key issues are orders, touches, time and high velocity… " said John Egan, a Dell senior manager, in an article published in *Industry Week* in 2001. "Our goal is always to take out the touches and time, and deliver a better, higher quality, faster customer experience."

By taking out the "touches", Egan is referring to minimising the number of times each order is handled from the moment it is received until it is dispatched. That's because each time the order is handled, time is wasted in two key ways:

1. While the order sits in an in-tray or inbox awaiting the next person to pick it up
2. While the person becomes familiar with the job once they pick it up

Exactly the same time wasting and opportunities for improvement occur in accountancy firms. For example, time is wasted when there is a slow turnaround on reviews or a client query occurs. If a query or review is turned around quickly (say within two days), the accounting team member preparing the job will still be familiar with it when it resumes. However, if the query or review takes three weeks to turn around, the team member will spend anywhere from 15 to 45 minutes getting familiar with the job again before they can continue it.

A three-week delay at query or review also means the job will be three weeks late being completed for the client and three weeks or more later being billed. These delays have a big impact on client satisfaction and firm cash flow.

Mr Egan likens Dell's system "to a continuous pipe where the flow from order placement to delivery is only as fast as the most constricted piece permits. Our challenge is to open it up and let it flow". In other words, Dell is focused on getting rid of bottlenecks so each job flows quickly through the system. The system is described as a continuous-flow manufacturing environment "where the dock doors at one end of the building receive components and the dock doors at the other end ship completed units to customers".

The analogy for accountants is that jobs are being started at the same rate other jobs are being finished. There is no build-up of work-in-progress. Accountants can do this by scheduling jobs and eliminating bottlenecks to ensure jobs flow at the required rate.

So successful is Dell's strategy that the company is now worth around US$90 billion. Not bad for a business founded in 1984. It has also had a big impact on the profitability of its rivals with their traditional batch production systems, and intensive distribution and marketing infrastructure.

Getting work out the door as quickly as possible is a strategy that leads to an efficient business and happy customers

Manufacturing and marketing are separate functions in these traditional manufacturers. The marketers forecast demand, request production volume, and then have to go out and sell it. The focus of this type of manufacturing system is on keeping people and machines as busy as possible to make efficient use of resources, and reduce the cost of production. This type of system requires big inventories of both components and finished goods.

In contrast, Dell only orders components and produces a computer after the customer's order is received. Manufacturing and marketing are fully integrated. The focus of the business system is on velocity or throughput, and most customers receive their computer within five days of placing their order.

Larry Bossidy and Ram Charan, in their book *Execution: The Discipline of Getting Things Done* (2002), commented on Dell: "Build-to-order improves inventory turnover, which increases asset velocity, one of the most underappreciated components of making money. Velocity is the ratio of sales dollars to net assets deployed in the business, which in the most common definition includes plant and equipment, inventories and accounts receivable minus accounts payable. It also improves cash flow – the life blood of any business – and can help improve margins as well as revenue and market share." ▸

Michael Dell, in a 1998 *Harvard Business Review* article, described the key challenge for Dell Computer as "changing the focus from how much inventory there is to how fast it's moving". He says that most of the managerial challenges at Dell Computer have to do with speeding the pace of every element of its business "because what we're all about is shrinking the time and the resources it takes to meet customers' needs". The success of his company is the best endorsement for the success of this approach.

Throughput-based management works so well in accountants' offices in public practice because there is so little focus on genuinely quick turnaround of work in most firms. The average set of annual accounts for a SME takes around 20 hours of work in total, yet typically takes eight to 12 weeks to be completed from when the client delivers their records. That means the job is only worked on for around 5% of the time it is with the firm. The rest of the time the job is sitting doing nothing. A six-week turnaround target, which many firms have put in place, is not a genuinely quick turnaround for a job that only takes 20 hours. Even a four-week turnaround, which currently seems exceptional, means the average job is sitting doing nothing for more than 85% of the time.

Ron Baker[1] and Paul Dunn describe it brilliantly in *The Firm of the Future* (2003), p241-242: "Imagine installing 360-degree webcams everywhere in your firm. Also imagine your customers could log on to your secure website, type in their name and password, and the appropriate web camera would find their file and give them a real-time picture of it, probably lying on a partner's floor or credenza awaiting review. Would this change the way work moved through your firm? Would this hold the firm accountable for results, not merely efforts?

"If we had to commit to only one KPI for a firm, we would select turnaround time. It will bring to light – quickly – a lot of the reasons customers become dissatisfied with their professionals."

Throughput, quick turnaround, velocity – call it what you like – getting work out the door as quickly as possible is a strategy that leads to an efficient business and happy customers. It's a business model that has made Dell a global success and is a key to improving the performance of the business of being an accountant in public practice.

Footnotes

1. Ron Baker will deliver a series of Continuing Professional Developments seminars on "Value Pricing for Public Practice" for the Institute in early April 2004 ■

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