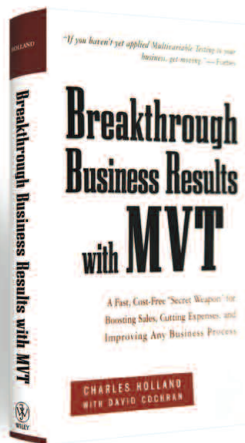


SOUNDVIEW Executive Book Summaries®



by Charles Holland
and David Cochran

A Fast, Cost-Free “Secret Weapon” for Improving Any Business Process

BREAKTHROUGH BUSINESS RESULTS WITH MVT

THE SUMMARY IN BRIEF

Every executive wants the same thing — improved results: more profit, less cost, better quality and higher customer satisfaction. But what business improvement ideas will produce these results, and how can you be sure that plans that look good on paper will actually work in the real world?

Testing ideas one at a time is too slow and too expensive — and it doesn't always give managers the direction they need. *Breakthrough Business Results With MVT* describes and details the one revolutionary method that offers a powerful, fast and inexpensive way to prove with certainty that ideas will have the biggest impact on your bottom line. Multivariable Testing (MVT®) uses advanced statistics to test the real-world effects of dozens of business improvement ideas, discover the synergies between them, and identify those ideas that are the most powerful and profitable under real-world conditions.

IN THIS SUMMARY, YOU WILL LEARN:

- How MVT creates practical, fast, cost-free solutions to any business problem.
- How MVT uses data to take the guesswork, politics and emotions out of major business decisions.
- The proven methodology for implementing an MVT business improvement project in your company.
- How leading companies like Lowe's and DuPont have achieved breakthrough MVT successes.
- How MVT improves corporate culture.
- The four-phase process for implementing MVT on an organization-wide basis.

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THE COMPLETE SUMMARY: BREAKTHROUGH BUSINESS RESULTS WITH MVT

by Charles Holland and David Cochran

The Power of MVT

Let's start with an outlandish claim: Multivariable Testing (MVT) is the greatest business improvement methodology ever devised. A lot of evidence will be required to prove that statement, but a strong case can be made for it. Clients who have implemented MVT will provide much of the evidence.

QualPro has tested the real-world impact of over 150,000 business improvement ideas over the past three decades and discovered that most business ideas do not work. The experience of over 1,000 companies shows that no matter the source, 75 percent of their ideas will not improve results, and nobody can accurately predict which 25 percent are the most powerful ideas.

The only way to avoid making seat-of-the-pants guesses at which ideas and solutions will make the biggest impact on your organization's performance is to test them. The only way most professionals know to test ideas and solutions is to test one idea at a time, measure the results, and hold all other conditions constant. Unfortunately, this method has some severe shortcomings in the real world:

- It is highly inefficient.
- It cannot identify synergies.
- Test results often cannot be consistently repeated in the real world.

The alternative is MVT, which offers a powerful, inexpensive, efficient way to use statistics to test dozens of business improvement ideas, discover the synergies between them, and prove with certainty which ones are the most powerful and profitable under real-world conditions. Businesses that use MVT regularly generate millions of dollars in cost savings or new revenues as a direct result.

MVT basically entails testing a lot of different variables/solutions/business improvement ideas all at the same time. When applied to a business problem, it is a 12-step process that starts with dozens of practical, fast, cost-free ideas for improvement and uses advanced statistics to quickly sort out the ideas that will help from the ideas that will hurt or make no difference. The

essence of an MVT improvement project is *rigorous, quantifiable, accelerated learning*.

Breakthrough Improvements

The MVT process begins with the idea that you can do better with the people, equipment and processes you already have; and you can do it quickly, without spending any money. In the MVT process, good ideas are just as likely to come from front-line employees as they are from experts, managers or senior managers.

The MVT process typically yields dramatic breakthrough improvements — often beyond what anyone imagines. In more than 13,000 projects involving more than 1,000 companies, MVT has never failed to identify actions that measurably improve results. MVT successes often can be generated in very short periods.

Twenty-two years of experience indicates that MVT does wonders for the morale of the organization. The fact that the process allows everyone who could possibly have worthwhile suggestions to make those suggestions is the key.

If everybody is allowed to make suggestions for

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The authors: Charles Holland, Ph.D., developed the MVT process in a nuclear weapons plant to solve critical problems using advanced statistics. In 1982, at the urging of quality guru W. Edwards Deming, Holland founded QualPro, an MVT training and consulting firm. Over the last two decades, QualPro consultants have assisted clients in implementing MVT at more than 1,000 companies, including many of the Fortune 500. Many clients have improved business results directly linked to MVT valued in the hundreds of millions of dollars. QualPro conducts seminars on MVT throughout the U.S., and its work has been profiled in most major business publications.

David Cochran is Vice President of Operations for QualPro.

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The Power of MVT

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improvement, results and the morale of the people in the organization always improve. Often surprising, counterintuitive suggestions provide the biggest sources of improved performance.

The MVT process has worked in every organization on every process encountered. Experience proves that the results of any process can be improved using MVT if two criteria are met: (1) the process has a measurable output and (2) the people in the organization have ideas about how to improve performance. ■

How MVT Works

QualPro — an MVT training and consulting firm — and its clients have tested over 150,000 ideas in over 13,000 MVT projects. Of all the business improvement ideas that were tested, only about 25 percent (one in four) actually produced improved results; 53 percent of the ideas tested made no difference; and 22 percent (that would have been implemented otherwise) actually hurt the results that they were intended to help.

The really amazing finding supported by QualPro's data is that there is no correlation between what people in the organization *think* will work and what actually *does* work. This does not mean that people in an organi-

zation are not knowledgeable about their processes or that they are unintelligent. It simply means that the business world is much more complicated than most people realize.

No one in a business can reliably predict which business ideas will work. MVT is powerful because it eliminates guesswork first. The outcome of an MVT project is an objective measure of the impact of each idea and combination of ideas on important business measures. Management can make key decisions based on statistically valid data and facts rather than on opinions, instincts and organizational clichés.

Just as important, MVT eliminates the emotions and politics often involved in decision making by measuring the impact of an idea, rather than its source. ■

Using MVT to Increase Sales, Cut Costs and Improve Customer Satisfaction

Companies often become consumed by issues that are urgent and that need to be addressed in the short term. These issues may not, however, be truly high priorities from a financial or strategic standpoint. MVT should not be utilized to address such issues. MVT is a very powerful tool that works best when directed toward large, important business problems that have a significant financial impact.

MVT is able to improve the financial performance of an organization in three major ways:

1. Increased sales
2. Reduced costs
3. Improved customer satisfaction.

Increased Sales

MVT has a long history of helping companies increase sales by improving retail store sales or sales-force effectiveness.

Citibank used MVT to improve call center effectiveness. They had hoped MVT would help them achieve a stretch goal of a 50- to 75-basis-point increase in net sales. By using MVT they actually achieved a 205-basis-point increase that translated into millions of dollars per year.

Actions identified by the MVT process showed Citibank how they could significantly increase their net sales rate and at the same time reduce call-handling time and increase employee satisfaction.

Ten improvement ideas, generated in part by call cen-

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Why MVT Is Much More Effective Than Other Methods

- MVT is fast.
- MVT makes the organization more efficient. MVT projects seek out improvements that the organization can make right away, using its same equipment and people.
 - MVT eliminates wasted effort. Eliminating wasted effort improves business results with less energy and money expended.
 - MVT is better science. The MVT method tests far more factors in a fraction of the time to obtain accurate, verifiable results.
 - MVT boosts organizational morale. There is no better team-building event than a successful MVT project.
 - MVT provides organizational focus. MVT provides focus for chaotic organizations by scientifically narrowing the range of business options to the few best ideas on which management needs to focus. Because of this, management can stop directing resources, organizational energy and time to other issues.

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Using MVT to Increase Sales, Cut Costs, and Improve Customer Satisfaction

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ter representatives themselves, were tested across several sites. The MVT tests showed that the most powerful factors leading to increased sales were attributed to five of these ideas.

Reduced Costs

MVT frequently has been used to improve the efficiency of things ranging from advertising to chemical processes to paper machines to labor. It also has been used frequently to reduce waste, to decrease defects and to reduce rework.

Deluxe Corporation is one of the largest check printers in the world; using MVT, it was able to reduce

waste by \$11 million as a result of changes in its production scheduling, staffing strategies and the type of paper stock it used.

Improved Customer Satisfaction

MVT improves customer satisfaction by enhancing product design and improving the quality of products. Additionally, MVT frequently has been used to optimize service levels and even to improve the ability of companies to react to service failures.

American Express used MVT to improve its process for preventing customer attrition. Using MVT, American Express tested potential solutions to credit card cancellations. These included using different call scripting, applying sales goals, and changing the type of questioning during calls. The changes to the process resulted in an 18 percent reduction in customer attrition, a 7 percent increase in credit card spending, a 12 percent increase in transaction volume, and a 5 percent increase in loyalty program participation.

Improved Organizational Culture

MVT raises morale because it involves the entire work force in finding solutions to important problems, and the process improves corporate culture by promoting innovation. When MVT is used in an organization, employees learn that there is no such thing as a bad idea. MVT enhances corporate culture by helping to establish a can-do attitude. ■

MVT Compared to Six Sigma and Other Popular Improvement Approaches

- **Six Sigma** has helped many companies, yet most top managers are not overwhelmed by their Six Sigma results. Companies commonly use the MVT process as their primary improvement approach. However, there are also many situations in which MVT has been used in conjunction with a Six Sigma effort. MVT has demonstrated the ability to take Six Sigma results to a whole new level.

- **Data mining** has been used by many companies to analyze historical data, to try to determine conditions to incorporate into their activities to immediately improve results. Used in this manner, data mining is unlikely to yield the types of breakthrough improvements achieved by MVT because most of the improvement ideas that are investigated in an MVT experiment have never been in place in the company's history.

- The basic idea of **lean manufacturing methods** is to speed up the process, to turn out more, and to reduce waste. Many manufacturing companies have adopted such methods. In every case where the MVT process was used in "lean" companies, it reduced setup times and increased throughput over and above what the company had accomplished with its lean manufacturing efforts.

Other improvement approaches include Total Quality Control (TQC), Total Quality Management (TQM), Statistical Process Control (SPC), reengineering, ISO benchmarking, and organizational psychology-based approaches. However, none of them have demonstrated over the long term that they have the consistent improvement power of the MVT process.

Implementing an MVT Business Improvement Project in Your Company

The MVT process involves 12 steps, regardless of the business, industry or process being tested for improvement.

Step 1: Choose a high-payoff goal and create the environment. The following actions are important to take at the beginning of every project:

- Select an important, high-payoff project.
- Get the right people involved.
- Provide training to allow people to execute their roles.
- Ensure that project participants are motivated to succeed.

Step 2: Define how you will measure success and validate your measurement system. In this step, key measures of success are identified. Choosing correct measurements, defining them properly, and assuring that the numbers are precisely accurate are critically impor-

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Implementing an MVT Business Improvement Project in Your Company

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tant steps to improving results. Never underestimate their importance.

Step 3: Use control charts to hunt for good ideas to test. Statistical Process Control (SPC) charts identify instances in which a process goes out of control. MVT process improvement factors developed using SPC charts have a significantly higher probability of helping results than do test factors developed through brainstorming. Test factors that are identified using SPC charts are helpful about 50 percent of the time.

First, you must construct the appropriate SPC chart for each key measure of success. The charts are used to identify instances of uncontrolled variation in historical data. Once these are identified, investigate each special cause to identify its source. Use suspected special causes as a basis for MVT test factors.

Step 4: Use data mining and other statistical techniques to find good ideas to test. Analyzing historical data can be very useful in identifying high-potential improvement ideas for MVT experimentation. However, reliance on data mining or other forms of historical data analysis for immediate implementation will rarely, if ever, provide breakthrough results.

Step 5: Brainstorm for improvement ideas with everyone who could have worthwhile suggestions. Brainstorming is valuable because it can generate ideas that have not been implemented previously or that have been implemented, but do not show up in historical data analysis. Brainstorming should include the local, front-line work force, management, technical personnel, customers or those who interact with customers, suppliers or those who interact with suppliers, and naïve observers who are not too close to the problem.

Step 6: Select improvement ideas that are practical, fast and cost-free. After steps 3, 4, and 5 have resulted in many dozens of suggestions for improving results, the next step is to categorize the ideas as: (1) practical, fast and cost-free, or (2) impractical, slow or costly. MVT experiments are done only with those ideas that met all three aforementioned criteria.

Step 7: Design an MVT Screening Experiment to Test Many Ideas with Only a Few Tests. It is strongly recommended that you do not attempt to design an MVT screening experiment without the aid of an experienced MVT consultant. Designing an MVT screening experiment involves defining the MVT test matrix, choosing the experimental units, randomly assigning the

experimental units to test recipes, determining the replication and reflection strategies, setting the size and duration, and playing the game (determining if each factor-pair combination can be tested).

Step 8: Execute the MVT screening experiment and measure test results. Two things should be expected while an MVT experiment is being executed: improved results and problems. Two types of execution problems commonly seen are: (1) lack of compliance (when factors or recipes are not executed as planned) and (2) situations in which it is not possible to execute a factor or combination of factors as those factors were defined.

Execution of an MVT experiment involves the following steps:

1. Develop an action plan.
2. Prepare factor materials and training.
3. Communicate the plans, roles, procedures, logistics and importance.
4. Create and execute a monitoring process to measure recipe compliance.
5. Act to remedy any execution flaws.
6. Collect data.

Step 9: Analyze screening test results to determine which ideas help, hurt or have no impact on performance. After executing the MVT screening experiment and gathering data for each recipe on the key measure(s), analyze the data to determine the impact of each test factor. Examine the measurements, calculate factor effects, calculate control limits and calculate effects on variability.

Step 10: Design and execute an MVT refining experiment to optimize results. One major purpose of a refining experiment is to increase confidence in the findings. Confidence increases 20-fold if a process change exceeds the control limit in a refining experiment as well as in a screening experiment.

Another major purpose of a refining experiment is to identify conditions even closer to the optimum. Approximately 70 percent of the improvement is revealed in the initial screening experiment, and another 30 percent of the possible improvement is revealed in the refining experiment.

A third purpose of the refining experiment is to determine useful synergies between factors. Refining estimates interaction effects with more confidence.

Step 11: Analyze the results and decide which ideas will make the biggest impact on your business. As the

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MVT refining experiment progresses, it's necessary to examine the data to confirm they represent what they should. Once the results of the MVT refining experiment are assessed, they can be consolidated into a predictive equation. This allows for the prediction of key measure improvement results based on the factors that will be implemented.

The company's managers should be shown the improvement factor effects from the screening and refining experiments. Review the effect of each improvement factor and help the managers, process experts, process owners and decision makers to buy into and make sense of the results. Help management decide what to do, and which process changes to implement.

Step 12: Carefully implement the most powerful ideas, calculate the bottom-line impact, and take the money to the bank. The steps used in implementing findings from MVT experiments are virtually identical to those used in the process of executing MVT experiments. (See Step 8.) The difference is that, during implementation, there is only one recipe, with only one set of conditions to be executed. The recipe represents the best conditions to achieve the company's objectives.

Flawless execution is just as important during implementation as it was in testing MVT recipes. During implementation, however, every percentage point of noncompliance may directly cost the company thousands or even millions of dollars. Therefore, it is vitally important to create and execute an effective monitoring process to measure factor execution and to identify shortcomings in compliance. The target for factor compliance is 100 percent.

If the results achieved are below the expectations that were indicated by the MVT, lack of compliance in implementing the factors is almost always the cause.

Time and time again, experience shows that additional improvement is almost always possible. Your organization is likely to surface more ideas for the second and third rounds of MVT than it did for the first one. Additional MVT experiments often achieve larger results and gain momentum, making even larger gains than those of the first round.

What It All Adds Up To

Proper, dedicated application of the MVT process will yield staggering improvements. The typical result of using the MVT process is a little bit of improvement

during the screening experiment, considerable improvement during the refining experiment, and dramatic improvement when the results are implemented.

Case Study: Implementing an MVT Project

A nationwide retailer with over a thousand locations had been experiencing falling sales. An MVT project was launched to identify actions which could turn around their sales decline. The plan was to test factors that included ideas from operations, advertising, merchandising and human resources.

After discussion, it became clear that there was actually another important objective — increasing profitability. To allow a valid comparison between large and small stores, “comp” sales and profits were used as the measures of success. Comp sales and profits were operationally defined as the difference between this year's sales or profit dollars and the sales or profit dollars for the same store for the same time period during the previous year.

More than 100 potential improvement ideas were narrowed to those that would be included in the MVT screening experiment. Only 23 ideas were then found to be practical, fast, and cost-free, so only these ideas were included.

A recipe matrix of 24 recipes was created. Each of the recipes would be executed in two different stores, so 48 of the company's 1,000 stores would be included in the MVT screening experiment. Specific stores and the specific recipe to be executed for each store were determined. Then an execution plan was created.

After analysis, six of the 23 factors had significant individual effects on sales. A predictive equation was constructed that would forecast the collective impact of the test factors on sales and profit. Management was extremely excited by the potential of a 10 percent comp sales impact.

Every one of the factors was implemented, but the rate of compliance was only 53 percent. When this was adjusted, improved comp sales increased revenue by more than \$20 million per month, or about \$250 million per year. The stock price doubled over the next quarter. ■

How Lowe's Reduced Advertising Expenses by \$50 Million While Increasing Sales

Dale Pond, executive vice president of marketing at Lowe's, the home improvement retailer, was looking for ways to improve the business. Pond wanted a reliable

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How Lowe's Reduced Advertising Expenses by \$50 Million While Increasing Sales

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method for measuring the impact of advertising on sales.

Pond was convinced that the MVT methodology could help him at Lowe's.

Lowe's decided to undertake two initial projects: the first involving the cover design and effectiveness of its newspaper circulars, and the second to determine the most effective media mix (television versus radio versus print ads) to fully exploit the \$100 million annual media buy. The key measure was defined: sales at each store — pure, raw, simple sales.

Twenty-nine design or process ideas made the cut, based on the criteria of practical, fast, and cost-free. The mathematics in the screening MVT provided most of the knowledge of the effects of each of the factors — with just 36 versions of the cover. Testing 36 different covers in different markets with local pricing with different product patches with multiple vendors was not easy to pull off, but the Lowe's project participants made it happen. The paring of the list of ideas for the media-mix project resulted in 16 factors to be tested.

Using sales data collected from each of the markets executing an MVT recipe, the analysis of the experiment made it clear which changes improved sales results and which changes hurt results. Lowe's performed MVT refining experimentation that further clarified which ideas made an impact on sales.

A key discovery that ultimately saved both prep time and printing costs was that more product pages in the circular did not sell additional products. Cutting the size of the circular from 72 pages to no more than 48 pages saved millions of dollars annually in printing and postage expenses and did not hurt sales.

The results of the MVT projects led to dramatic changes. In the next year, Lowe's saved millions of dollars in advertising and marketing expenses, and improvement in sales directly related to the MVT-acquired knowledge added millions of dollars in new revenue. ■

How DuPont Achieved \$26 Million in Increased Production With No Capital Investment

DuPont makes many different materials that consumers call "plastics" but which are actually far more specialized and differentiated than that term implies. One particular line of products is called *engineering polymers*; these are used

primarily to replace metal in applications in which rigidity, stress tolerance and weight reduction are key goals.

In the mid-1950s, DuPont developed a material that was a tough, heat-resistant metal substitute and patented it as Delrin®. Today, Delrin is a mainstay of DuPont's engineering polymers line.

DuPont had a problem in the Delrin production process, however. Over a very short production time (often a few days), the buildup of particulates in the pipelines caused the polymer to begin forming within the pipes that fed the gas to the polymerizer, and the company was forced to take the machine offline to clean the pipes. With the resulting loss of production, minimizing the time for the cleaning process was critical. The downtime was costing DuPont an estimated \$8 million annually.

DuPont had spent \$1 million on having four teams conduct 22 different plant tests, based on the traditional one-factor-at-a-time experimental method. The tests were not successful, and the problem was considered, at least informally, to be unsolvable.

DuPont eventually could not make enough Delrin. They were anxious to find a solution and enthusiastic about the opportunity to try MVT. A cross-functional project team was formed and a key measure was defined. The conclusion was that "run life" — the amount of time that a polymerizer could operate continuously between cleanings — was the key measure that had to be extended. The goal of the MVT project was to increase the amount of time the polymerizer could operate.

The project team collected over 300 valid ideas. As in all MVT projects, the ideas were subjected to the practical, fast, and cost-free criteria review. This cut the list to 23 testable ideas. A 23-variable, 24-run experiment would take four months to complete. Because a 12-run experiment would meet the time requirements, the team leader asked for each operator's input on the 23-item list, and from the results, he identified 11 items to test.

Of the 11 test factors, three had significant impact. After testing, the team changed seven factors — the three that had significant impact and four where the changed level was easier for the operators to perform. A few months into the effort, the run life was extended from an average of 72 hours to an average of 139 hours, almost double the starting point and well above the 120-hour goal the team had set.

The changes produced a 15-percent increase in the amount of Delrin produced, which generated an additional \$18 million annually in new revenue. With the additional revenue generated by this new level of production, the

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annual (and recurring) benefit of this project to DuPont was \$26 million — without any capital investment. ■

The Four Phases of Using MVT to Spread Breakthrough Results Throughout Your Company

Implementing the MVT process on a broad basis can transform an organization — competitively, financially and culturally. QualPro has constructed a standardized process to help clients implement MVT on an organization-wide basis.

Phase I: Complete two high-impact MVT projects with breakthrough results.

The purpose of Phase I is to prove to senior management and the rest of the organization that the MVT process will work in that particular organization. Phase I consists of the completion of two, high-priority MVT projects that will clearly demonstrate the benefits of the MVT process to the organization.

Project teams, guided by MVT consultants, apply the MVT process to financially significant opportunities. These initial successes pave the way for improvements on a broad scale. Often, the financial benefits from these Phase I projects more than fund the organization-wide MVT process efforts for the first several years.

Phase II: Commit to an organization-wide rollout — a senior management function.

The purpose of Phase II is to plan the organization-wide rollout of the MVT process. During Phase II, senior management creates and communicates an action plan that (1) prioritizes MVT projects to align with corporate objectives, (2) provides appropriate training, resources, and involvement to management, technical, and front-line personnel and (3) monitors process-improvement activities to ensure that success is rapid and quantifiable. MVT consultants support Phase II efforts through assessments and executive sessions.

Phase III: Execute MVT projects throughout the organization.

The purpose of Phase III is to expand the benefits of the MVT process across the entire organization. MVT projects are launched to address every major improvement opportunity. The objective is to produce results like those achieved in Phase I and to achieve dramatically improved results in all the organization's priority processes. Often, this broad application of MVT process-improvement techniques rapidly improves cor-

porate financial performance.

Phase IV: Maintain the Gains, Prioritize MVT Opportunities, and Continuously Improve.

The purpose of Phase IV is to involve all personnel in maintaining the gains made in Phases I and III while also working to further improve results. As new challenges and opportunities are identified, additional projects are initiated. New hires and promoted personnel are involved appropriately in new or existing MVT efforts. ■

The Payoff

The MVT process is an amazingly powerful tool. The following breakdown shows a quick look at exactly the benefits of its use.

- It yields big results.
- It works every time.
- It improves any process.
- It provides counterintuitive learning.
- It translates to the real world.
- It accomplishes fast improvement.
- It has a great track record.

An organization-wide rollout can generate incredible accomplishments for business. The use of MVT creates a can-do culture as well as greater satisfaction. Higher revenue can be generated, while reducing costs and improving profitability. Lastly, the use of MVT can result in increased shareholder value.

The greatest impacts of the MVT process have yet to be realized. The process is an underutilized resource due to the fact that very few people know of its existence, much less its power. MVT is a process that should be used in every business, no matter what its product or service.

Finally, MVT is a process that should be used for the public good. Many of the problems that affect society could be solved using the MVT process. As with business processes, every public-interest process could be made more effective. The bottom line is that all of our lives could be better. ■



If you liked *Breakthrough Business Results with MVT*, you'll also like:

1. ***Exceeding Customer Expectations*** by Kirk Kazanjian. Kazanjian provides a thorough case study of the success of Enterprise Rent-A-Car and offers an in-depth look into the practices that have boosted the company to the top of its industry.
2. ***Know-How*** by Ram Charan. The author presents eight skills that separate top performers from nonperformers in the corporate world.
3. ***Blueprint to a Billion*** by David G. Thomson. This is a valuable guide to the seven essentials that top companies need in order to achieve exponential growth.