

WARNING:

Critical Resource Shortage Expected

Be a Successful Survivor

Imagine you own a company where a critical raw material determines your success or failure. Usually it is abundant but shortages do occur. Nonetheless, the experts predict a severe scarcity in about five years. What would you do today to insure that your company is not only a survivor but also a successful one?

Background to Problem

A closer look at the problem reveals that the raw material comes in three basic grades—premium, average, and inferior. As expected, the premium quality is rare but allows a Company to make four times the profit than the average grade. Not only does the inferior material cause performance problems but also it results in hidden economic losses. Inexplicably, the common belief is that the negative impact is only a fraction of the acquisition price but in fact, the losses are quadruple that cost.

The method for obtaining the various grades has been the same for about 50 years. The Internet adds another element but it is still archaic. Even with the advent of ISO9000 systems, the quality is not properly monitored. Amazingly, a Company is just as likely to buy the premium as the inferior grade. In this unregulated endeavor, companies typically obtain equal amounts of the higher and the lower grades—around 20%. Primarily, the absence of a systematic approach causes the incorrect choices. Yet, businesses everywhere follow this practice with little deviation.

Acquisition Pitfalls

Examining the acquisition phase reveals some odd behaviors. Some of your competitors are under the false belief that limiting suppliers somehow gives them the edge. Not only are they signing binding contracts with one supplier but also they under the illusion that the supplier will happily accept a discounted price for this exclusive agreement. What they fail to realize is that supplier can take the premium grade and sell it to another competitor for a bigger profit. Unbeknownst to your competitor, they have locked into receiving mostly average material and may at times, pay more for the inferior grade.

As you would expect, when a shortage exists, a wise company will have many suppliers. In contrast, the Fortune 500 presently has a

different objective—reducing vendors. In this particular area, more is better. Contrary to popular opinion, the current system is very ineffective. For example, even during shortages, the time between recognizing a need to purchase is too slow. Consequently, many companies miss the opportunity to acquire some premium material. Therefore, increasing suppliers might solve one problem but create a bigger one with even slower responses. For that reason, the procurement system needs to be completely revamped.

Quality Issues More Important

The quality aspect is probably more important than the acquisition phase. As mentioned earlier, a typical Company buys approximately this mix of the various grades: 20% premium, 60% average, and 20% inferior. Ironically, the cost for the various grades is not substantially that much different. Even with these mistakes, a Company can be profitable. However, in the future, those errors may be deadly since the availability of quality material may be scarce. Possibly, only the inferior grade will be readily available. Fortunately, the economic reward for implementing a more effective system is unbelievable. If a Company does not increase its percentage of buying the premium grade, but rather focuses on avoiding any inferior material, the improved profit potential is better than 60%. Even without the prospect of a shortage, a Company would be foolish not to implement a different strategy in this area.

What is even more surprising is this:

Your company probably has this problem!

The critical resource is employees. A work force will grow or shrink but the need for talent will never waver. Yet, 99% of most companies do not have an active, organized, and structured hiring program.

Several opposing forces are at work here. A Company's best asset is its people. Yet, an industry standard is that 20% (premium grade) is performing 80% of the work. Putting the two together:

Our Company's best asset is its people but only 20% do any work!

The recommended systematic approach is nothing more than what is being done now in other critical functions. For example, imagine a Payroll department where standard procedures are completely ignored and new people are not trained. The main guiding principle is to do what is considered best for the Company. As ridiculous as that sounds, it describes most hiring functions! With little guidance or

training, people are asked to acquire a Company's most important resource. Obviously, that is why the 80/20 rule is the norm.

It makes Sense

Therefore, since the economic impact is more critical than any other business function, doesn't it make sense to treat Hiring the same as Payroll? Today's hiring determines tomorrow's success.

A very specific hiring manual would instruct every employee the proper procedures for acquiring quality personnel. This includes standardize question sets that makes the process not only consistent but also focuses on performance. Chemistry is still important but having friendly folks that are unproductive is not acceptable.

Shortages are Expected

We do not know exactly when the shortage of quality people will occur but it is coming. Baby boomers are retiring with a smaller core of replacements available.

To drive home this point, a recent article in Workforce quotes two sources that report a "looming leadership crisis." Development Dimensions International Inc. predicts that one-fifth of the largest companies will lose 40 percent of their top-level talent in the next five years. In addition, Tom Saporito of RHR International foresees a 15 percent decline in the 35-44 age bracket over the next 15 years. Lean and mean may take on a whole different meaning—failing.

To be a successful survivor in the near future means companies must insure a steady supply of its most critical resource—quality people. That means having a systematic approach—an active, organized and structured hiring system.

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