The 4 Pillars of the Theory Of Constraints

Rami Goldratt; Goldratt Group
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BREAKTHROUGH RESULTS FOR GOVERNMENT AND BUSINESS
The Four Pillars of TOC – A Mindset

The Four Pillars constitute the TOC mindset. The established set of attitudes held by those who practice TOC.

Each Pillar exemplifies a mental obstacle we need to overcome in our attempts to create breakthrough improvements.
The Four Pillars of TOC – A Mindset

Overcome the perception of reality as complex

Every situation is simple (governed by a few leverage points)

Avoid blaming

There is always a win-win solution; People are good

Don’t accept conflicts as given

Every conflict can be removed

Don’t think that you know

Every situation can be substantially improved
1st Pillar: Inherent Simplicity

> Confronting Complexity:
  – Our tendency is to try and improve anything that can be improved.
  – We tend to deal with symptoms rather than with the core problem.

> Management attention must be focused on the few governing factors which dictate the ability to achieve more of the Goal.

> Focusing on the constraint(s) is not always easy...
We know that we must focus to better exploit management attention, but... how can we focus when we are so overloaded and distracted with many pressing tasks???

FOCUS STARTS WITH WHAT NOT TO DO!

- The first step to obtain focus is to have the courage to decide what to stop doing!
1st Pillar: Inherent Simplicity

FOCUS STARTS WITH WHAT NOT TO DO!

Ok, I reduced the noise!
How do I find the constraint?

PHYSICAL CONSTRAINT

3/hr. → 5/hr. → 2/hr. → 3/hr.

POLICY CONSTRAINT
Example – Taxation

Current Reality:

- High Tax rate (and pressure to increase it further)
- Tax base gets narrower and narrower
- Insufficient tax revenue
- High administrative cost for government, businesses and individuals
- Tax code is very complicated and litigious
- Government is choosing winners and losers
- Trust in the system is eroding
**Vicious cycle**

- High tax rate
- Tax base gets narrower and narrower
- Increased pressure for exemptions and deductions
- Insufficient tax revenue

1st Pillar: Inherent Simplicity
Government is choosing winners and losers

Tax code is very complicated and litigious

Increased pressure for exemptions and deductions

High tax rate

Trust in the system is eroding

Tax base gets narrower and narrower

Insufficient tax revenue

1st Pillar: Inherent Simplicity
1st Pillar: Inherent Simplicity

- Government is not choosing winners and losers
- Tax code is getting simplified
- Trust in the system is growing
- Decoupling incentives from revenue collection
- Wider tax base
- Less pressure for exemptions and deductions
- Sufficient tax revenue
- Lower tax rate

- Government is not choosing winners and losers
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Yes, But......

- How are we going to compete with other states?
- How do we get pressure groups to give up their special deals?
- We will have to increase our budget with all the checks we will have to write.
The Four Pillars of TOC

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2\textsuperscript{nd} Pillar: Avoid Blaming – People are good

> Taxation example:
  – There is no shortage of who to blame: special interest groups, politicians, lobbyists, corporates, the wealthy, the subsidized...

> Blaming does not solve the problem (although it is a great relief of frustration).

> Blaming blocks solutions. It prevents collaboration, it raises defense mechanisms which mask gaps and mistakes.

> People want to have a better life and improve their environment. Most oppositions stem from conflicts driven by legitimate needs.
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> There must be a reason why a problem exists for a long time. There is likely a long lasting conflict.

> We often keep optimizing on a fundamental conflict rather than solving it in a win-win manner.

> Oscillating between the conflicting extremes erodes the system’s stability and enhances disharmony.
Example:
Branded Jewelry Company selling through “mom and pop” stores

How to create a fresh display at the retailer in a highly slow-turn industry? To address the challenge some brands agree to take back, after some time, non moving products. The entire discussions between the retailer and the brand is on the exchange terms.
3rd Pillar: Every Conflict Can Be Removed

Underlying Conflict in ‘slow-turn fashion business’

NEEDS

A
Successful Collaboration

B
Keep freshness without inflating inventory

C
Protect Sales

ACTIONS

D
Exchange rate of 1:1

D’
Exchange rate of 2 (or 3) : 1

Common Objective

Store Supplier
An unacceptable compromise is not a solution. We keep oscillating between the conflicting requirements dealing with fires caused by the compromise.

**3rd Pillar: Every Conflict Can Be Removed**
A real solution addresses the legitimate needs of both sides of the conflict.
Direction for Solution

How to increase sales and maintain freshness without inflating inventory?

- **Common Objective**: A Successful Collaboration
- **Needs**: B Keep freshness without inflating inventory, C Protect Sales
- **Solution**: 

3rd Pillar: Every Conflict Can Be Removed
A New Approach for Collaboration

1. Store gains access to the whole Brand’s multi million dollar inventory.

2. The store can replace any item any day from the entire Brand’s inventory.

3. The store holds a constant amount of inventory throughout the year.

4. The Brand will accommodate payment terms for the initial inventory to the store’s specific need.

5. Reorder items are “On the Brand”, the store doesn’t pay till it sells or at the end of the year!!!
### 3rd Pillar: Every Conflict Can Be Removed

<table>
<thead>
<tr>
<th>Current Practice</th>
<th>New Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>To sell more you need more inventory</td>
<td>Sell more with constant amount of inventory</td>
</tr>
<tr>
<td>At best, dead stock items are removed after a year of blocking sales</td>
<td>Slow moving items are replaced as early as identified, enabling more sales</td>
</tr>
<tr>
<td>Dead stock creates pressure on cash flow</td>
<td>No dead stock</td>
</tr>
<tr>
<td>Showcase has fragmented look</td>
<td>Whole, new, and fresh look</td>
</tr>
<tr>
<td>1 inventory cycle</td>
<td>2-3 inventory cycles</td>
</tr>
</tbody>
</table>
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> Continuing to behave in the same manner even when there is a need to change is inertia.

> Inertia is the enemy of innovation.

> Even the best professionals fall prey to inertia. We stop pushing the boundaries. We treat our assumptions as facts of life and do not challenge them.

> Inertia bring us to face problems when it is almost too late ("crisis is the mother of innovation").

> Every situation can be substantially improved – raise the bar.
Wish to reach a full life

Have enough meaningful successes

Have stamina to overcome failures

Have many opportunities

Be able to collaborate with people

Be able to think clearly
(Need to overcome 4 obstacles)

Overcome the perception of reality as complex
(1\textsuperscript{st} obstacle)

Avoid blaming
(2\textsuperscript{nd} obstacle)

Don’t accept conflicts as given
(3\textsuperscript{rd} obstacle)

Don’t think that you know
(4\textsuperscript{th} obstacle)

Every situation is simple
Every conflict can be removed
There is always a win-win solution
People are good
Every situation can be substantially improved