Organizational Profile
P1 Organizational Description
P1a Organizational Environment

P1a(1) Main Products Stoner Incorporated, with **48** full- and part-time team members, is a ***very small***, privately owned, chemical specialty manufacturing and sales company located near Quarryville in southern Pennsylvania. A farmer and chemist, Paul Stoner, founded the company more than 60 years ago to manufacture and sell ink. Upon Paul's death in 1986, his grandson, Rob Ecklin bought the company. Rob personally managed the business throughout the 1980s. However, by 1990, he transformed Stoner from a personally run family business into a professionally managed corporation structured around Baldrige business excellence principles. Although Rob continues to be the sole owner, he fully empowered the six-member senior leadership team to manage and lead the company. Stoner is run with only two (2) operational levels, the Leadership Team and Functional Teams.

Today, Stoner manufactures specialized lubricants, cleaners, coatings, and related products, which are packaged in aerosol cans and 1-, 5-, 55-, or 275-gallon bulk liquid containers. These products are primarily sold factory direct to businesses as well as to small and large retail accounts. Stoner uses factory-direct marketing techniques, which include direct mail, catalogs, and telemarketing.

Stoner's key product lines include:

- **Release Agents**: Stoner is the largest domestic manufacturer of *aerosol mold release agents for the plastic molding industry*. This market consists of plastic processors throughout the United States. Stoner mold release agents prevent molded plastic parts from sticking to the molds, make extraction easier, and improve the surface finish of molded parts. Molders also choose Stoner to improve their productivity with Stoner aerosol and bulk liquid release agents. Molders typically spray these products on their molds to ease the release of molded products.
- **Cleaners and Lubricants:** Electronic service and repair technicians use Stoner products to clean and repair computerized equipment. Stoner products for the electronics industry include: *aerosol dusters* which blow away dust and lint without leaving oil or moisture residue; *plastic surface cleaners* to remove fingerprints, ink, and carbon; and *delicate cleaning solvents* which can be sprayed into electronic devices to restore malfunctioning components without disassembly.
- **Auto and Tire Products:** Automotive detailers restore dirty, faded finishes faster with Stoner *automotive cleaners* specially formulated to clean automobile interiors, exteriors, engines, and windows. Stoner also manufactures a line of products that professionals and car enthusiasts use to restore and shine faded plastic, vinyl, and rubber trim. For the truck tire and retreading industry,

Stoner manufactures a heavy-duty *penetrating lubricant* that loosens rusty nuts, bolts, and breaks the bead on mounted tires, saving significant amounts of manual labor for our truck tire repair customers. Stoner also manufactures *paints and tire mounting lubricants* for tire retreaders.

P1a(2) Vision, Mission, and Values

Stoner's **vision** is:

> **To enjoy exceptional business results and personal fulfillment with a highly effective team that provides high-value solutions to lifetime customers.**

Stoner's work involves providing "solutions" (of a chemical nature) to help its customers find "solutions" (of a problem solving nature) to help them be successful in their businesses. The company's **mission** reflects this dual principle:

> **Stoner is in the business of providing *solutions* to help customers save time, increase productivity, and improve the quality of their work.**

To achieve the mission and vision, we work as a team to address challenges such as growing the company; maintaining an outstanding workforce; and providing world-class customer satisfaction. For the past ten years, our core values have served as a simple and consistent foundation for our success. Our **core values** taken together reflect our culture:

- **Exceed Customer Expectations** is key to the primary objective in Stoner's quest to achieve its vision. It is based on the belief that customer satisfaction begins with a clear understanding of customer needs and expectations. It recognizes the fact that "expectations" are very personal, complex, and sometimes difficult to quantify. The fulfillment of these expectations, however, will ultimately determine the length and strength of our relationships with our customers. Today's customer wants quality, in both products and service. Our customers will judge our product quality primarily by performance. Customers will judge our service quality based on our competence, courtesy, and fast response. (See Customer Market Requirements for further identification of these attributes.)
- **Motivated Team** focuses us on creating an inspired group of responsible, well-trained, and performance-driven individuals who effectively combine and make the most of their talents to achieve the company's vision. Our team is the company's greatest asset, and the success of the company is directly related to the team's motivation. Motivation, a loosely defined term, is used intentionally because it recognizes that not everyone is motivated in the same way. Stoner senior leaders identify each team member's motivations through weekly and bi-weekly one-on-one and functional team meetings. (At Stoner, team members are rewarded for achieving performance objectives through an *incentive* pay system. As a result,

everyone works to optimize the performance of Team Stoner.)

In addition to incentives, Stoner leaders strive to ensure that team members are fulfilled both personally and professionally. Personal fulfillment at Stoner may come from a sense of self-worth, belonging, contribution, learning, challenge, appreciation, recognition, fun, and compensation. Interpersonal fulfillment, which comes from working within a synergistic group, includes camaraderie, cooperation, teamwork, and the ability to leverage effort with the skills and abilities of others. Career fulfillment is achieved through job experience, training, customer interaction, vendor interaction, exposure to automation and technology, and the ability to work with other professionals.

- **Safety/Health/Environment** values help Stoner consistently and systematically take action to ensure public hazards are prevented or eliminated through responsible product design, development, manufacturing, and delivery. This discipline ensures that Stoner does not cause harm to the general public, its neighbors, or its team members. Safety in the workplace is a key requirement of our team members and our customers. This requires a coordinated effort of Team Stoner, suppliers, and customers. Our safety goal is zero lost-time accidents and all team members are responsible for preventing injuries. Accordingly, we focus on the following principles: working safely is a condition of employment, all operating exposures are safeguarded, team members are trained to work safely, and prevention of injuries and environmental contamination is good business.
- **Innovation** encourages all team members to systematically implement new and better ideas that continuously improve our products, services, and work methods. As a result of this value, innovative ideas come from all team members, not just senior leaders or our team members dedicated to research and development. Innovation forces us to challenge our current practices and paradigms. It requires us to implement new ideas, understand their inherent risks, and adapt accordingly. By accepting and embracing new ideas, change, and risk, we have been able to advance to new levels of performance and fulfillment, both personally and in our business.
- **Continuous Improvement** is an embedded Stoner value. It took us about two years in the mid-1990's to create an environment in which evaluation and refinement became a common behavior throughout the organization. To optimize our business, we work to systematically evaluate and refine almost everything we do. Through incentives, by maintaining a level of comfortable dissatisfaction, and continually raising the bar of expectations, we promote proactive improvement, rather than reactive responses to our competitors and the marketplace.

P1a(3) Team member Profile The strength of Stoner's team cannot be adequately expressed in words. A robust team spirit permeates every corner of our rural plant. Educational backgrounds range from high school graduates to graduate school degrees.

Team Stoner is not represented by organized labor nor has the team requested such representation.

Stoner team members are representative of the ethnic and racial diversity of the community. However, this diversity is limited because we operate in a community widely populated by German descendents (many of which are Amish farmers) who settled the area three hundred years ago. We are twenty miles from the nearest town: Lancaster, PA.

P1a(4) Technologies, Equipment, and Facilities Stoner operates from a facility surrounded by lush farmland, south of Quarryville, Pennsylvania, which is a two-hour drive northwest of Philadelphia. The facility houses manufacturing, warehousing, laboratory, team member meeting rooms, and office areas. Stoner's facility is networked using personal computers. This network facilitates the flow of information to all Team Stoner members. Stoner uses a telephone system and customer database to track and monitor customer activities. Stoner's manufacturing operations include both automated and manual chemical processing and packaging. Much of Stoner's manufacturing consists of batch mixing of chemical raw materials, which are then pumped and packaged into containers. Over the past eight years, the most tedious and hazardous manufacturing operations have been automated to reduce team member risk (as reflected by near zero lost time accidents and increased production efficiency and consistency).

P1a(5) Regulatory Environment As a chemical specialty manufacturer, Stoner products and facilities are closely regulated. The United States Consumer Product Safety Commission, Occupational Safety and Health Administration, Environmental Protection Agency, as well as the Pennsylvania Department of Environmental Resources have regulatory authority over Stoner's products and work environment. Stoner goes beyond mere compliance with many requirements and designs products to help customers avoid safety and environmental problems of their own. For example, Stoner has a broad line of aerosol and bulk liquid cleaning products that utilize water-based chemistry, which has numerous safety and environmental advantages over competing petroleum-based products. With this approach, Stoner fosters the use of products that are effective, safe, and environmentally friendly.

Special Safety Requirements. Team members who work in Stoner's manufacturing operation all use prescribed safety equipment that includes: safety glasses, hearing protection, and protective work shoes. An extensive ventilation system provides clean air flow and vapor exhaust to maintain safe air quality. Team members are trained and checked-out on the safe use of chemical raw materials.

P1b Organizational Relationships

P1b(1) Organizational Structure and Governance System Stoner has an Advisory Board of Directors which formally reviews Stoner's financial performance, strategic planning, and objectives development, and other key business activities each quarter. The president and owner vests daily operational decision making with the general manager and the six-member leadership team. The Board of Directors serves in an advisory capacity and provides input to ensure the strategy for future success is properly focused.

P1b(2) Customer Groups and Market Segments Stoner products are sold throughout the United States and Canada. Included among Stoner's customers are businesses that range in size from individuals and single proprietors to Fortune 100 companies.

Based on customer preference and requirements analysis, Stoner's customers have the following requirements, regardless of product segment:

- Quality
- Delivery/Availability
- Service
- Price
- Value

P1b(3) Role of Suppliers/Partners in Value Creation As a very small manufacturer, our business is typically a small portion of our suppliers' business. Therefore, we involve our suppliers in the strategic planning process only when we believe that we will be asking our suppliers to do something that they have not done before. We create multi-year partnership agreements built on Service, Quality, and Price. We buy mostly commodities and therefore are somewhat immune to issues relating to sole-suppliers of raw materials. We communicate our raw material usage projections to our suppliers at the beginning of the partnerships.

P1b(4) Supplier and Dealer Relationships Stoner relies on suppliers who provide—

- Chemical raw materials;
- Packaging materials including aerosol cans, aerosol valves, bulk liquid pails, drums, and corrugated boxes;
- Printed materials (labels and direct mail pieces); and
- Support services such as shipping.

Stoner has established partnership agreements with these suppliers. These partnerships have helped us to improve the sharing of technical information and enhance product development. Supplier partnerships have also improved supplier quality, service, and pricing stability.

P2 Organizational Challenges

P2a Competitive Environment

P2a(1) Competitive Position In the United States, Stoner is the largest supplier of aerosol release agents in the plastic mold release industry.

P2a(2) Factors that Determine Competitive Success: Principal factors that determine competitive success include:

1. Team Stoner teamwork (the productivity and motivation of our workers).
2. Product technology and quality (including the use of safer formulations such as water-based chemistry).
3. Extensive direct customer contact and a strong focus on customer service/satisfaction.
4. Factory direct marketing and product branding.
5. Strong culture of continuous improvement and the ability to assess, improve, and implement quickly.
6. Lean operations (high focus on value added tasks).

P2b Strategic Challenges: Stoner's key strategic challenges are to:

- Grow the company profitably.
- Maintain an outstanding workforce.
- Provide world-class customer satisfaction.

Some market channels (retail, catalog sales, selling via the Internet, and polyurethane foam release agents) may be candidates for faster expansion and/or further development and are under investigation to determine the best approach.

We use a Portfolio Analysis tool to score and identify R&D projects that promise to provide the best fit to the overall business strategy. Stoner uses prototyping and piloting to develop and commercialize products rapidly. After products are developed, they are continuously refined based on customer feedback. Our design to delivery processes is very efficient—often requiring less than 4 weeks for the entire cycle.

In the mid-1990's, Stoner decided to strategically pursue growth to "consumers" in the general public through both factory-direct sales as well as through retail stores.

P2c Performance Improvement System Continuous Improvement is one of Stoner's core values and it is integrated into the management and operational fabric of the company. The company's simple approach to continuous improvement is a three-step process of Assess, Improve, and Implement. Team Stoner members understand that continuous improvement is the key driver of sustained competitive success with the focus always on finding and implementing ways to add value for customers. Team members are heavily rewarded for performance improvements.

Stoner Excellence Description

Stoner's business system is based on the fundamentals of *Leadership, Strategy, and Process*, which are combined with an *Assess/Improve/Implement* continuous improvement approach. **Stakeholder value is at the center**

of the system and our main focus since the customer is the key stakeholder.

1. Stoner's *Leadership* approach is built on:
   - Leadership at all levels
   - Worker leaders (leaders also serve as individual contributors on functional teams)
   - Strong fundamental leader skills based on Stephen Covey's Seven Habits of Highly Effective People

2. Stoner's *Strategy* is deployed by all functional teams via strategic planning and uses an approach that incorporates the following elements:
   - **Vision** (where we want to be in 3 to 5 years)
   - **Strategic Objectives** (derived from the vision and focus the measures, goals, strategies, and prioritize action items)
   - **Mission** (what value must we provide to our customers to achieve our vision)
   - **Values/Beliefs** (the principles, values, or beliefs that we use to guide us)
   - **Goals and Key Indicators** (the goals and measures we use to monitor our performance toward our vision)
   - **Strategic Action Items** (our plan to achieve our goals and vision. Typically ongoing or long-term approaches)
   - **Prioritized Action Items (PAIs)** (Typically "short-term" projects that will require more than 4 hours of effort. PAIs usually have a clearly defined start and end point)

3. *Processes* are created to deploy Stoner's strategies and PAIs. All processes must be effective, efficient, sustainable, and kept current with changing business needs.

In addition to the three-part management system described above, we refine our approaches and continuously improve them using a simple *Assess/Improve/Implement* process.

a. We regularly *Assess* using these primary inputs:
   - *Business Results*
     1. Financial
     2. Sales and Customer Satisfaction
     3. Safety, Quality, Productivity
     4. Team Satisfaction
     5. Support Operations
   - *Stakeholder Input* from:
     1. Shareholder (president/owner)
     2. Customers
     3. Team Members
     4. Suppliers
     5. Others in community and government
   - *Benchmarking*, based on
     1. Baldrige Program
     2. World-Class Performing Companies
     3. Competitors
     4. Consultants

b. We develop ideas to *Improve* our leadership, strategies, and processes based on our assessment findings.

c. We *Implement* improvement ideas by making immediate changes, modifying our strategies or processes, or by creating Prioritized Action Item projects as determined by functional teams and senior leaders. Performance incentives motivate and reward team members to implement and sustain improvements.

At Stoner, continuous improvement is a business strategy as well as a core value. It provides a sustainable advantage over our competitors who do not improve continuously. We remain customer focused, data driven, and work to improve effectiveness and efficiency at all levels, leading to continually better performance and a stronger market position. Each functional team in the organization uses the same performance system to plan and carry out their work (see Item 2.2a).
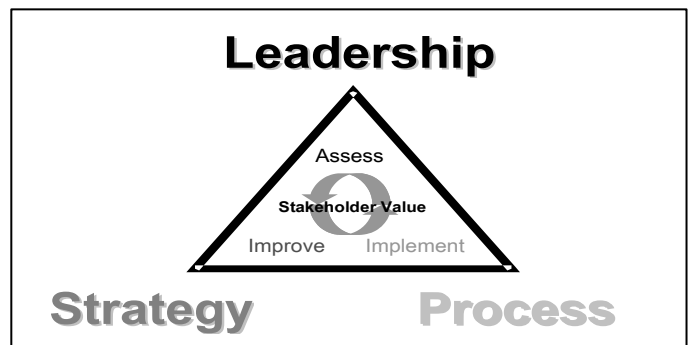
Figure 0-4 Assess/Improve/Implement Continuous Improvement Process, part of Stoner's Excellence System

A focus on stakeholder value (customers, team members, shareholder, suppliers, and community) is aligned to company strategy and sustained at all levels in the organization. This results-oriented focus on adding stakeholder value throughout all aspects of Stoner's operations has enabled significant growth.

To improve team morale and effectiveness, Stoner senior leaders created the concept of "Team Stoner" in the early 1990s. A Team Stoner logo was designed which is now imprinted on shirts, jackets, sweaters, hats, luggage, and other items. These items are given FREE to all team members on a regular basis. Friday is "Team Stoner day", where everyone wears casual Team Stoner clothing. Frequent team outings bring all members of the team together for fun and celebrations, some of which include family members and off-site events. The Team Stoner concept fosters a sense of family unity, commitment, friendly competitiveness against our business rivals, focus, and family among every Stoner team member.

Over the past ten years, Stoner has enhanced its customer satisfaction, based on benchmarking competitors and through feedback from prospective customers.

Consistent with our drive to improve continuously we are always looking for ways to work better, faster, and more economically. This effort has resulted in improvements such

as these to customer service, operational efficiency, and team satisfaction.

- A new, highly integrated customer database now captures and archives virtually all customer transactions, enabling faster and more accurate customer service, customer monitoring, and fact-based strategy and process improvements.
- A simple, yet effective, raw material dispensing system now allows faster product mixing and has eliminated pump waste.
- "Lean" and flexible manufacturing strategies have been adopted and now allow small runs of custom products as well as reduced inventory space and costs.
- Rapid set up and changeover of process and packaging equipment has reduced production cycle time and costs.
- Automated assembly and quality assurance inspection has eliminated labor hours and ensures 100% product quality verification.
- Flexible, Manufacturing team-selected work week.
- New, product-focused web sites provide extensive product data and on-line ordering capability that can be accessed 24/7 by customers.
- New, automated team-surveying tools let team members provide feedback through external service providers. This information is quickly captured, compiled, and assessed for fast response by Stoner senior leaders.

Because new knowledge is needed to support continuous improvement, Stoner sponsors many activities each year to foster individual and team learning. The company holds Stoner University ("Stoner U") courses monthly which cover topics such as: Aerosol Technology, Malcolm Baldrige Performance Excellence System, Stoner Culture, and computer training courses for our integrated management information system. This effort helps ensure each team member receives appropriate training annually (at least 40 hours). Team members also participate in outside training classes, industry and business seminars, conferences, trade shows, customer and supplier visits, benchmark company visits, and self-study through learning tapes and literature they determine are needed.

Stoner participates in the Lancaster Chamber of Commerce Business Excellence program. Stoner was the first company in the region to achieve the highest recognition level, the Lancaster Chamber Business Excellence Award in 1995. The company then participated in the Pennsylvania Quality Leadership Award in 1996, the last year of the program's existence. Since then, Stoner has participated in five Baldrige assessments through the national award program, and makes ongoing improvements based on these examinations. In 2001 and 2002, Stoner received a Baldrige site visit and feedback report on which to base ongoing improvements.

The process of applying for a Baldrige review has helped us focus on key issues and circumstances that affect the way we think about and manage the business in an integrated, holistic manner.

Stoner

Glossary and Organizational Charts

Accpac	Legacy accounting software
A/P	Accounts Payable
B-B	Business to Business
BEL	Below Expectations Log is a database Stoner uses to capture and analyze customer feedback
COD	Cash on Delivery
CPR	Cardio Pulmonary Resuscitation
CSR	Customer Service Representative who are in contact with customers (sometimes used interchangeably with ISR)
Direct	Refers to sales direct to end user
DNC	Did Not Complete
ERP	Enterprise Resource Planning
FTE	Full-Time Equivalent (2 half time team members equal one full time equivalent team member)
FTF	Face-to-Face (typically used in the context of Stoner sales approach)
GC	Gas Chromatograph
GM	General Manager (also Leadership Team Leader
HR	Human Resources
ISR	Insides Sales Representative (sometimes used interchangeably with CSR)
IT	Information Technology
Leadership Team	Senior leaders at Stoner
MISys	Manufacturing Information System
MRP	Manufacturing Resource Planning
MSDS	Material Safety Data Sheet
NIST	National Institute of Standards and Technology
OFI	Opportunities for Improvement
OSHA	Occupational Safety and Health Administration
PAI	Prioritized Action Item
PM	Product Manager
PO	Purchase Order
R&D	Research and Development
RFM	Recency/Frequency/Monetary is a key indicator Stoner uses to rate customers and measure customer activity
ROE	Return on Equity
ROI	Return on Investment
RPS	Freight/shipping vendor

|	
KEY 1	The integrated system Stoner uses to track and measure company key indicators
Release Agents	Release agents help reduce surface tension in moulds and allow the casting to release without sticking, tearing, or breaking
S60	Stoner 60, the company comprehensive database for planning, recording, and tracking performance
S/H/E	Safety/Health/Environmental (also SHE)
Skid™	Stoner cleaner lubricant
SKU	Stock Keeping Unit
SWOT	Strengths/Weakness/ Opportunities/Threats
Stoner 60	Stoner 60, the company comprehensive database for planning, recording, and tracking performance. See S60
Stoner U	The in-house training and education activity for Stoner
TAPE	Texas Award for Performance Excellence, Baldrige-based, State quality Award
Team Stoner	All Stoner employees
TEC	The Executive Committee, an independent, external organization of business leaders
U/E-hr	Units produced per Employee-hour worked is a Stoner manufacturing measurement used to determine team productivity and manufacturing incentive bonuses
UPS	United Parcel Service

Stoner

1 Leadership
1.1 Organizational Leadership
1.1a Senior Leadership Direction
1.1a(1) Rob Ecklin, grandson of company founder Paul Stoner, acquired the privately held company in the mid-1980s. By 1990, Ecklin transformed the company through the creation of a professional leadership team fully empowered to oversee the daily operations and set strategic direction of the company. The leadership team realized the use of sound management principles was critical to ensure the success of the company and adopted the principles of the Baldrige Performance Excellence Criteria.

The leadership team created and refined, through several iterations, the Stoner Excellence System to define and communicate to all team members how we run the business. A diagram of this system appears in figure 1.1-1, and a description of the system processes accompanies figure 0-4 in the Organizational Profile, P2c.
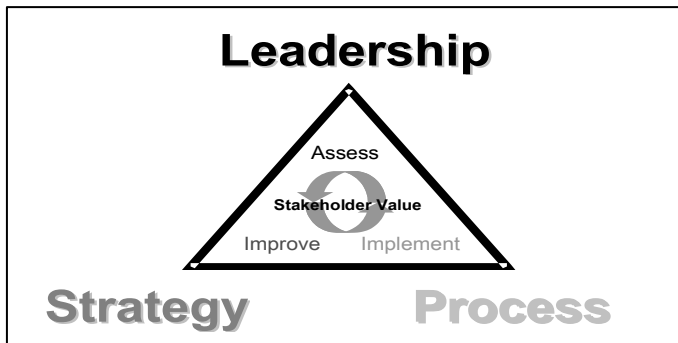
Figure 1.1-1 Stoner Excellence System
Senior leaders define the company "culture" and communicate expectations through the Strategic Plan. Within this plan is a set of Core Company Values. For the past nine years, these Core Values have served as a simple and consistent foundation for Stoner's leadership (please see P1a(2)).

The six-member senior leadership team is directly and personally involved to ensure that this approach guides the behavior of everyone at Stoner. The Stoner Excellence System is clearly understood as the way we run the business. Senior leaders use the following communication approaches to reinforce the System:
- Six functional team meetings and an additional monthly "strategy review" meeting attended by senior leaders provide a forum to deploy the Business Excellence System throughout the company. Stoner's strategic planning, performance goals, and daily activities are integrated to help achieve optimum performance.
- Leaders provide training during team meetings and through classes they lead at "Stoner U." They ensure that Stoner team members know the fundamentals of the Performance System, strategy, and values and is able to describe how his or her work contributes to achieving them.

- Along with regular meetings, the senior leadership team holds quarterly all-company meetings. During these sessions, each of the six leaders discusses Stoner's vision and values, long-term strategic goals, and company performance. These company meetings promote team communication and morale and support company training. Stoner team members are surveyed at the end of these meetings to evaluate team satisfaction and solicit feedback for improvement.
- For many years, every senior leader has held one-on-one personal meetings with every team member in his area at least quarterly to promote open two-way communication concerning key indicators, review of strategy and tactics, and determine Prioritized Action Items (PAIs). Issues are addressed that may be getting in the way of meeting customer requirements or performance goals.
- Monthly product manager meetings are held to clarify strategic direction in key market segments, examine sales process effectiveness, and review results of sales and marketing of new and existing products in the individual markets.
- Meetings, at least monthly, in key manufacturing areas (aerosol packaging, mixing, and warehousing) are used to review process, drive strategic initiatives, and identify new improvement projects in these areas.
- Meetings and phone calls occur between senior leaders and each key supplier at least quarterly to ensure expectations and changing directions are fully understood.

To improve the effectiveness of these meetings, feedback is taken as part of each session. This team member feedback identifies areas of concern, interest, as well as improvement ideas for future meetings. Improvements are prioritized by the leadership team based on the team member feedback, implemented (often before the next meeting!), and then evaluated again. Continuous improvement is an active core value that drives behavior and is rewarded by incentives.

1.1a(2) Our senior leadership team creates an environment of improvement, which drives quick response capability, innovation, sharing, and learning organization-wide through the functional team structure. The following six functional teams are empowered to make decisions consistent with Stoner leadership, strategy, and process (our Performance System, see figure 1.1-1):
1. Inside Sales
2. Manufacturing, Warehousing, and Purchasing
3. Technology
4. Sales
5. Marketing
6. Accounting, Logistics, Information Technology

The owner and the general manager are ad hoc members of the teams as well.

Stoner

Virtually all team decisions are made by consensus. The six functional teams meet to assess business results, stakeholder feedback, and benchmark data from which solutions and improvement ideas are developed, and approaches to implement these ideas are determined. Functional team meetings stimulate open communication, engage team members, and build consensus on important issues. As with other Stoner processes, participants assess the effectiveness of these meetings and meeting improvements are put in place. Examples of innovations that have been made by these teams based on on-going performance and efficiency reviews include the following:

a) Inside Sales, Customer Service, and Information Technology Team Improvements:

- Researched and implemented in 2001 an enterprise computer software package to better manage customer, financial, and process data.
- Added automatic web ordering software which eliminated several hours of duplicate data entry when processing orders.
- Automated credit card processing to eliminate need for manual number input.
- Developed specifications, selected, and implemented a new computer based, integrated phone system to improve customer response time and integrate various sources of incoming data.
- Installed shipping partner software and hardware to transfer data from Stoner systems to vendor systems seamlessly.

b) Manufacturing Team Improvements:

- Added a second shift to reduce overtime, fulfill increased sales orders, and position the organization to meet its growth targets (included hiring new Team Members and reassigning work).
- Reduced down time by revamping maintenance to function concurrently with manufacturing operation.
- Re-engineered aerosol line and warehouse to make better use of limited space and increase operational effectiveness.
- Created staggered schedule to increase line time and decrease team member overtime.

c) Technology Team Improvements:

- Re-formulated mold release product line to improve environmental impact and comply with phase out of 141b solvent.
- Improved key supplier partnerships to include vendor storage and just-in-time delivery of key raw materials, saving considerable warehouse space.
- Designed and implemented automated mix-tank and drum filling/shutoff mechanism to allow team member to multitask without risk of overflow.
- Developed many new and improved products in response to customer requests or cost improvement PAIs.

d) Sales Team Improvements:

- Initiated sales training program.
- Hired sales consultants to provide benchmark input and facilitate sales training.
- Developed a sales call worksheet to capture key prospect data and facilitate "value-added" selling.
- Changed offer on Auto/Detailing catalog from 12 FREE cans of a single product to a professional detail kit.

e) Marketing Team Improvements:

- Created individual product web sites to better market and communicate about top selling retail products.
- Created individual markets web sites redesigned to incorporate online ordering, and recurring design theme among all Stoner sites.
- Updated mold release labels to comply with 141b formulation changes and created product packaging for new products.

f) Logistics, Accounting Team Improvements:

- Utilized part-time team members, adjusted team working hours to support increased data entry and order demands.
- With help of purchasing consultant, negotiated partner contracts with freight carriers to reduce cost and ensure quality standards.

g) Leadership Team Improvements and Innovation Activities:

- Established environment for self-directed teams to form, solve problems, and disband as needed.
- Provided for monthly team outings and celebrations (e.g., lunches, baseball games, Casino Night, Hershey Park).
- Purchased new team gear and promotional items, given free to Team Stoner members.
- Leaders facilitated team members' creation of personal development plans.
- Encourage and coordinate attendance at annual conventions and trade shows and sharing of info upon return.
- Monthly Stoner U training reinforced change, improvement, and innovation.
- E-mail system facilitated daily communication, created "suggestion box" system.
- At regular 1:1 meetings, leaders seek ideas from team members and input on prioritization.
- Developed new team communication tools such as Stoner 60 (S60) and Assess/Improve/Implement Continuous Improvement matrix on Excel® spreadsheet.

1.1b Organizational Governance
Although Stoner is wholly owned by its president, Rob Ecklin, Rob developed an expanded governance structure

Stoner

to ensure effective oversight and a diversity of ideas to strengthen the planning process. Rob's Advisory Board consists of three external advisors and four internal advisors (in addition to himself). The Advisory Board provides basic direction and focus to the strategic planning and goal setting process. The Board also reviews the results of annual independent financial reviews and business results and advises of priority improvement areas.

Along with Advisory Board oversight, several management practices and system ensure accountability of Stoner's senior leaders and protection of key stakeholder interests: First, Stoner operates under a team concept and openly shares information with all team members. Stoner's small company size, single operating location, and simple two level management structure facilitates close oversight among all Stoner team members. Key business results, stakeholder input, and benchmark data are displayed for all Team Stoner members. Stoner's Controller also prepares monthly financial statements within seven working days after each month-end for assessment by senior leaders and Stoner's president.

Second, Stoner uses an outside accounting firm to review quarterly financial statements and prepare annual tax documents. Stoner's bank requires regular updates of key business results which provide an additional level of independent oversight.

Third, team members monitor business results because individual and team incentives are closely tied to various business results. Moreover, to ensure that employee interests are protected, retirement funds are professionally managed by an independent firm and since Stoner is privately held, no pension funds are invested in Stoner stock.

Advisory Board effectiveness is reviewed annually. Based on the last review, the Board is being expanded to include more independent (outside) members with expertise in areas of strategic growth.

1.1c Organizational Performance Review

1.1c(1) Every Monday, Stoner's leadership team meets to review organizational performance. During the meeting each functional team leader provides updates on: key business results, stakeholder input, PAI list activities, and team schedules or events. Key results reviewed include measures such sales volume, new customers, receivables, orders received, orders shipped on time, % orders shipped same-day, aerosols produced, bulk gallons produced, units produced per manufacturing team employee-hour, Below Expectations Log issues (reflecting customer satisfaction), and PAI list updates. If any of these measures are below expected levels of performance detailed supporting measures are analyzed to help pinpoint areas of trouble and then determine the root cause(s). A highlight of the meeting is the review of data collected and reported via the KEY 1 spreadsheet. This integrated database contains information relative to Stoner's progress toward meeting the expected

performance trajectories defined by the strategic planning process. These measures are aligned to report progress against all key business objectives and growth trajectories (see Item 2.1b). In addition to these leadership team meetings, the Advisory Board meets quarterly to review overall business performance against plans and updates goals based on competitive threats or new information that may have surfaced during the previous quarter.

1.1c(2) Figure 1.1-2 identifies key performance measures and findings from recent reviews and targets of opportunity (organized by strategic objective).

1.1c(3) If performance deviates from plan, the responsible leader presents an explanation of the reasons and (if performance is below expectations) presents a corrective action plan. If performance is ahead of plan, consideration is given to adjusting (increasing) goals or reallocating resources (as appropriate) to areas needing more support. Team leaders, with input from their teams, reach consensus for prioritizing action items. PAIs requiring support from other functional teams are coordinated and prioritized by the senior leader team. Organizational priorities for improvement are determined by consensus after identifying the potential impact on organizational strategic objectives and operational priorities.

This process represents a significant improvement over the way we used to look at business performance. Instead of focusing on just financial and product units manufactured, we now look at the full range of key indicators and goals across our strategic plans. As leaders in a very small business, we each fill the roles of senior leaders, middle managers, and individual contributors. Accordingly, we simultaneously attend to top-level organizational issues of strategic importance; serve as middle managers leading functional teams and attend to unit performance and priorities; and serve as individual contributors with responsibility for specific operational deliverables needed by the team. To help manage these multiple levels of responsibility, we improved the linkage of our key business objectives and trajectories with a comprehensive spreadsheet we call the Stoner 60, which contains strategic and action measures as well as in process measures. Since then, we have refined the list and dropped/added 10 measures that help us monitor work required of our multi-level jobs. This enables all Stoner team members to focus on, monitor, and link key work processes, and make consistently reliable decisions to improve them.

For example, recent prioritized action items, generated from review meetings include the following:

- New national automotive retailers will require marketing support to ensure effective "shelf pull" by customers. Redirect magazine advertising call-to-action from "call Stoner to order" to "visit nearby retail store."
- Adjust marketing activities to shift focus on turning current prospects into customers, rather than generating new leads.
- Identify top sales prospects in each market so senior leaders can monitor status and sales process in team meetings.
- Team survey shows that some team members do not fully understand benefits package. Create PowerPoint® presentation, review at all-company meeting, and continue to address and monitor through team surveys and meetings with team members.

Improvement and opportunity ideas are assessed within functional teams and among senior leaders, which results in PAIs being created. Team members implement these action items with guidance, monitoring, and input by the team.

When suppliers or partners are key to a priority improvement area, we join with them to help solve problems and implement improvements. Many of our key customers and suppliers serve as extended members of our team.

Functional teams each have strategic plans that clearly identify the functional team's vision, strategy, tactics, and key indicators. Elements of strategic plans are reviewed at all-company meetings and key indicators are reviewed at functional team meetings. Relevant elements of the strategic plans are shared with suppliers and customers for their awareness and input. Priorities are communicated during face-to-face meetings with team members, customers, and key suppliers. We also use phone, fax, and e-mail to augment the communication of priorities. (Note that as a part of our business strategy, Stoner outsources tasks that add little or no direct value to our customers. These are not considered "key" suppliers and are not involved in the deployment of or discussions about Stoner strategy. These suppliers include grounds maintenance, payroll processing, facilities maintenance, and printing.)

1.1c(4) Stoner leaders are continually monitoring and assessing business results relative to the vision, goals, and benchmarks of their functional teams. Stoner leaders have multiple stakeholder feedback and assessment mechanisms that are used to improve their effectiveness. Several of these include:

- Individual feedback during one-on-one meetings between each functional leader and team members—our culture of improvement and incentives encourages open, honest feedback.
- Group feedback during functional team meetings.
- Written diagnostic feedback effectiveness reviews.

Measures and Findings	Priorities Targeted for Improvement	Innovation Opportunities
Exceptional Results		
Sales growth below plan (Stoner 60)	Develop more formal selling processes, Hire new sales team members.	Train Product Mgrs on sales process Use recruiters to assist with hiring
Missed sales opportunities for existing products	Trim Shine, More Shine Less Time for Tires	National Retailers Car Clubs Create dedicated web page
Direct to Consumer sales below target (Stoner 60)	Improve online ordering system for consumers Rebalance retail marketing to optimize retailer and direct to consumer sales	Add mix-n-match ordering capability to web sites Create new consumer self mailers Add $5 saving offer to advertising
Mixed Productivity Results	Increase Manufacturing Productivity	Reduce Breakdown time Increase shipping accuracy Reduce Maintenance Cost
Effective Team		
Good OSHA/ Team member Safety Record	Continue performance in key areas	Reduce waste Keep lost time accidents at zero
Team benefits could be improved	Collect, analyze, and use data to target benefits to improve	Create a better team member feedback system
High Value Solutions—Lifetime Customers		
# Below Expectations (complaints) are very low but not zero	Improve product and service quality	Reduce % BE Orders/week Reduce # BE Occurrences Reduce Order Entry Errors

Figure 1.1-2 Key Performance Review Findings

- External benchmarks such as Baldrige, Advisory Board, conferences, consultants, and business books.

Leadership and team member continuous improvement is facilitated through functional team PAIs and individual training and development plans.

During the past five years, Stoner has enhanced its system to measure and improve the effectiveness of senior leaders in the organization by using a formal 360-feedback process administered by an external provider and used as a supplemental feedback mechanism.

To complement this system, Stoner has evaluated and improved the effectiveness of its integrated management system using the *Baldrige Criteria* and external examiners from the Lancaster Quality Award program, the Pennsylvania Quality Awards program, outside independent consultants (QPG and Hogan Center), and the Baldrige national award program. Stoner has received progressively higher levels of recognition and/or ratings

as a result of improving processes identified as opportunities for improvement.

Leaders attend seminars and conferences on leadership to reinforce the values of performance excellence including the Quest for Excellence, national industry conferences, and special purpose business seminars. Leaders remain current on new business practices by reading related business magazines and listening to "books on tape" (provided free by the company) as they drive to and from work. Important lessons from the readings are discussed at leadership team meetings to share learnings. Improvements in the leadership system and in the personal effectiveness of leaders at all levels continue to be made including:

- Establishing a one-on-one meeting process to increase communication effectiveness (two-way) and receive better personal feedback from team members;
- Creating a system to conduct exit interviews to understand why some people had left Stoner and how to improve the work environment and hiring process;
- Using a formal, psychology-based assessment tools for new team member screening and hiring; and
- Improving personal communication effectiveness.

1.2 Social Responsibility
1.2a Responsibilities to the Public
1.2a(1) As a chemical specialty manufacturer, Stoner mixes, blends, packages, and ships chemical products, some of which are classified as hazardous. We systematically address the health and safety issues surrounding all of our products that impact the public, as well as applicable regulations and reporting requirements. Some examples include:

- All Stoner team members who are involved in handling of chemicals are trained to properly handle all raw materials and finished goods, which may be present in the facility.
- Manufacturing team members are trained to properly and safely use all materials and equipment.
- Warehouse and shipping team members are trained to handle all materials and prepare finished goods, packages, and paperwork for shipments throughout the world.
- All raw materials and finished products have an accompanying Material Safety Data Sheet (MSDS), which describes the product characteristics, shipping requirements, hazards, safety precautions, first aid measures, and more. This practice exceeds regulatory requirements.
- All product labels meet or exceed workplace and consumer regulatory requirements.
- Team members are trained in fire safety and prevention.
- Team members receive CPR and first aid (Red Cross) training, and confined space training to deal with disasters and emergencies.
- Stoner's safety coordinator conducts bi-monthly safety team meetings to discuss safety performance and generate

ideas for improvement using the Assess/Improve/Implement process.
- Senior leaders conduct regular safety and product security audits with the assistance of independent consultants.
- R&D and safety team members utilize consultants, suppliers, and subscription services to stay ahead of health, safety, and environmental regulations, and emerging issues.

As a chemical specialty company, Stoner has an impact on the environment through the products it manufactures. Accordingly, Stoner has taken a strong stance on Safety, Health, and Environmental protection through its product design, development, and internal work processes. All new products and processes are examined to ensure they provide safe, environmentally sound alternatives to customers or they are not released. For example:

- Stoner was the first company to offer 100% non-ozone depleting release agents in an aerosol delivery format.
- Stoner's product mix has been steadily shifting to more water-based products over the past ten years. These are safer and more environmentally friendly than petroleum-based products offered by competitors.

Some improvement goals and targets are set based on regulatory requirements. However, in many areas, because of our interest in meeting the concerns of the public, Stoner's requirements for reducing risks to the public are more aggressive than required by law. Goals or targets include:

- Zero violations or fines for rule violations. (achieved)
- Exceeding the threshold level for OSHA reportable accidents (OSHA 200 log). (achieved)
- 100 percent compliance with government-mandated phase-out of environmentally unfriendly chemicals on an accelerated schedule. (achieved)
- No legal action or lawsuits. (achieved)
- Exceed regulatory requirements for product labeling for better customer communication (many competitors offer minimal or incorrect product labeling). (achieved)

1.2a(2) To ensure that concerns of the public are accurately and proactively identified, Stoner evaluated and revamped its processes for learning about these requirements and concerns. Stoner expanded its listening posts beyond its customer base and now collects information from civic organizations, local schools, private citizens, and a systematic review of industry publications (which has helped us identify a potential problem before the local public is aware of it). Moreover, our safety, health, and environmental officer monitors local and state environmental publications and technical releases at least monthly to determine if any new threats are emerging in the chemicals industry. Furthermore, one of the topics examined at Advisory Board meetings is

public safety and concern for new, highly confidential and proprietary products and processes. If any Advisory Board member identifies a potential threat or concern, the product or process is fully examined. Relevant regulatory agencies are contacted, as appropriate, to discuss possible threats or concerns. We live and work in a small community and in no event do we consider the public to be an adversary in these matters. We consistently go beyond minimum requirements to proactively address concerns before they become issues or problems.

We also read journals, speak to local branches of regulatory agencies, and conduct regular safety and periodic waste prevention and control reviews. For example, upon learning about an emerging public concern over our production by-products, we expanded our program to minimize waste, even though our waste output was in full compliance with regulatory requirements.

The reduction of waste water and air polluting chemicals is another ongoing public concern. We have improved processes in that area as well. For example, we have implemented new mixing systems that include sealed mixing vessels and pipes to virtually eliminate the emission of volatile solvents. Stoner redesigned its storage tank facility to include a completely sealed spill pad on which tanker trucks unload bulk chemicals. In the event of a spill, this pad contains the entire contents of a truck or tank to prevent contamination of water and soil.

Non-regulated waste is minimized through systematic recycling. Stoner currently recycles corrugated cardboard and paper. Steel 55-gallon drums are returned to the manufacturer or refurbished for reuse.

1.2b Ethical Behavior During the new team member orientation, every team member is briefed about Stoner's standards of ethical business practices and compliance with regulatory requirements. We examine ethical and public responsibility issues as a part of design and production (see figure 6.1-1). Stoner's procedures and policies regarding ethical business practices are further reinforced in the Team Stoner handbook. Each year team leaders discuss ethical practices with each employee, after which, Stoner team members formally review the written business practice rules. In response to recent national ethics related events and as an additional safeguard to ensure ethical business practices, Stoner in 2003 added a mandatory Ethical Business Practices course to its Stoner University course lineup. We post test team member knowledge as a measure of satisfactory course completion. We also improved the employee climate survey this year and now measure employee perception of leader and team ethics. We measure ethical complaints. Perhaps it is due to our rural location, our culture, small size, or the seriousness with which we approach business ethics in all transactions, but we have never had a complaint, let alone a finding, that any Stoner team member engaged in unethical business practices.

1.2c Support of Key Communities Stoner is an active contributor to more than twenty different community organizations that team members and senior leaders believe are priorities to support. We receive many requests for support from community organizations even though we are a very small company. Rob Ecklin, our president/owner, is well respected in our small community as his grandfather, Paul Stoner, was before him. He maintains his family's legacy of community responsibility and support. Organizations receiving support include: Junior Achievement, Boys Club of Lancaster, Lancaster Museum of Art, Lancaster Carousel Association, Spina Bifida Association, Lancaster Chamber of Commerce – Business Excellence Program, Boy Scouts of America, Solanco Little League Baseball, Southern End Community Association, Fulton Opera House, YMCA, and Quarryville Fire Company. Stoner also supports handicapped workers through Occupational Development Council.

Stoner team members make contribution requests to Stoner's senior leaders which are nearly always supported. Most contributions are directed to causes that align with the values of Stoner team members. These are primarily related to children's causes, Lancaster community development, and promotion of business excellence.

Typically, Stoner bases its giving decisions on personal relationships between the beneficiaries and a team member (team member's child on a youth team, team member on board of Lancaster Art Museum, personal relationship between Spina Bifida leaders and Stoner leader).

Stoner team leaders and team members volunteer their time to local organizations on themes consistent with Stoner's vision. Some of these efforts include: speaking to middle school and high school students (some of whom will become future Stoner team members), speaking at Lancaster quality events, and working with other companies that wish to benchmark Stoner's practices. Stoner team leaders also sit on boards of other businesses and non-profit organizations. In addition to community giveback, Stoner team members also gain insight about effective management practices that they subsequently use at Stoner. Stoner encourages its team members to volunteer in the local community and even provides time off for this purpose. Stoner's 48 team members also contribute their personal time to support community activities they value. Combined with Stoner-sponsored time, this amounts to over 1,000 hours of service annually.

We also support many civic activities outside of our local community if they relate to our business. We are contacted throughout the year to support car clubs or civic organizations that are staging an auto-related event. Many times they are fund raising events for the community,

non-profit organizations, or club membership. We have supported such events since 1999 with product samples, signage, or donations for raffles and prize giveaways.

Each year the leadership team reviews the effectiveness of annual community support to determine if resources and volunteer time is having the desired impact. For example, Stoner has focused the allocation of resources in favor of community organizations that align with business interests and provide the highest percent of contributed funds to direct services to intended beneficiaries, rather than organizations that spend resources on high administrative or overhead costs.

In an effort to improve the process and engage team members more fully in the community support arena, this year we have put in place a five-person committee of team members who decide through consensus, which organizations will receive Stoner funds. Membership is rotated through the team member population with staggered terms to provide both consistency and broader representation in this decision making process. In addition, the Community Support team evaluates its own decision making process each year to identify areas to improve efficiency and effectiveness, much like team members evaluate and improve their regular work processes. The evaluation is simple (what went right, wrong, and how could we do better), but it has helped the team focus simultaneously on sound business decisions and reinforcing the continuous improvement core value.

2 Strategic Planning

2.1 Strategy Development

2.1a Strategy Development Process

2.1a(1) Stoner's formal strategy development process was initiated in 1992, based on the principles of the Baldrige performance excellence criteria. Since then, the process has improved each cycle and adapted to meet the changing needs of Stoner's business and its stakeholders. In the early years, strategic planning at Stoner was very simple and existed only at the top level of the company. Since then, using the continuous improvement process, strategic planning has become more sophisticated and extended to include all team members within all functional areas of the company.

Stoner's strategic planning process (figure 2.1-1) falls under *Strategy* in the Stoner Excellence System. Strategic plans have a simple yet effective outline that is used by all functional teams to create team plans that are in alignment with Stoner's corporate strategic plan. The corporate strategic plan provides broad-based guidelines, within which all functional teams provide more specific detail. All plans are linked and aligned under the direction of senior leaders. Each plan contains the following components:

- The **Vision, Mission, and Values** of the functional team
- **Goals** and Measurable **Key Indicators**
- **Strategies and Tactics** (longer-term approaches)
- **Prioritized Action Items** (shorter-term, project-based activities)

Plans are developed and updated annually with multiple stages of input, review, and communication from team

Plan/Team	Mo.	Participants	Action
Strategic Plan	July Sep Jan Mar	Advisory Board Senior Leaders All Company Senior Leaders	Stakeholder Input Func. Teams Input Plan Presentation Func. Team Reviews
Sales Plan (PMs) (customer-focused planning)	Sep Oct Nov Jan Apr	1 on 1, Gen Mgr PM team Senior Leaders All Company 1 on 1, Gen Mgr	Leader Review Peer Review Linkage Review Plan Presentations Mid-Year Review
Inside Sales Marketing Acctg./Logs IT Whse/Ship Manufact. Engr. S/H/E R&D/A	Nov Dec Jan May	Func. Teams Senior Leaders All Company Senior Leaders	Peer Review Func. Review Plan Presentations Mid-Year Reviews

Figure 2.1-1 Strat. Planning Calendar, Participants, Actions

members. Strategic plans are summarized in a one-page, two-sided document to promote simplicity, focus, and quick and easy communication. Plans have also been adapted to presentations for more effective and consistent communication to others within the company. The key stages are listed in figure 2.1-1. The leadership team reviews the results of the prior year planning process to determine what refinements need to be made. Then we review (and modify or validate, as appropriate) the basic business direction, values, mission, and vision, and customer and market requirements, and risk/threat projections. To analyze customer and market requirements, data from customer surveys, below expectation log, customer comments, and competitor capabilities are analyzed. Strategic plans are developed with a three- to five-year horizon. The top five-year trajectory goals and milestones for each functional team are compiled on a spreadsheet known as the "Stoner 60." In this, 60 key trajectory measurements and events are identified for each of the next five years. These trajectories link future goals, key business milestones, and long-term action plans.

Shorter-term action items, which may require from several hours to several months to complete, are managed via the Prioritized Action Item process where PAIs

typically have a very specific beginning and end. Senior leaders oversee the linkage and prioritization of Prioritized Action Items, with input from their team members.

Once the basic direction and strategic focus have been validated (or modified), the leadership team, together with the functional and support teams, conduct a "situational analysis" of current business conditions and review organizational capabilities including human resource capabilities, operational capabilities, R&D capabilities, marketing capabilities, economic factors, and key supplier performance capabilities. Prior year experience is reviewed to determine whether adjustments to planning assumptions must be made based on the prior year(s) actual performance and the accuracy of planning assumptions. Taken together, this review completes the strength, weakness, opportunity, and threat (SWOT) analysis. Based on this analysis, the leadership and functional teams develop strategic options during planning meetings. This leads to the development of a strategic plan with company-level goals and objectives defined.

2.1a(2) All of Stoner's strategic plans were initially created, and are now updated, using Stoner's continuous improvement process. In this process, data and input from three primary sources are assessed:

1. **Business Results** such as:
   - Financial profit & loss statements, balance sheet, ratios
   - Sales by market, customer, and product
   - Manufacturing production, labor hours, productivity
   - Customer satisfaction and retention
   - Customer orders, calls, complaints (BEs)
   - Team Satisfaction and safety
2. **Stakeholder Input** from:
   - Advisory Team
   - Shareholder (sole owner/president)
   - Customers
   - Team Members
   - Suppliers
   - Community/Government

3. **Benchmarking** Sources:
   - Baldrige feedback reports, award recipient presentations
   - Other top performing organizations
   - Key competitors
   - Consultants

Some of the many input sources used in our assessment process are shown in figure 2.1-3. Some examples of how Stoner uses multiple and diverse resources to address key factors are shown below:

- *Customer and market needs/expectations/opportunities.* We enjoy extensive direct contact with both our customers and our prospective customers (our competitors' customers!) every day. Every week, we receive in excess of 1,000 incoming phone calls from customers and speak to hundreds of prospects during outbound phone calling. We meet face-to-face with our largest customers, in the facilities where they use our products. During these numerous customer connections, we discuss, person-to-person, all aspects of what they want from their suppliers and the products we provide. Virtually every discussion we have with a prospective customer involves gathering information from them to help us assess the value our competitors are providing relative to the value we can provide. This "value impact" information is reviewed in leadership team discussions and is a part of both strategic and product and service design/development/delivery input. Stoner's sample test process provides further feedback from current and potential customers regarding the performance and value of our products, relative to our competitors. A third party analysis (see figure 3.1-1) helps us rank priorities that drive perceived customer value.
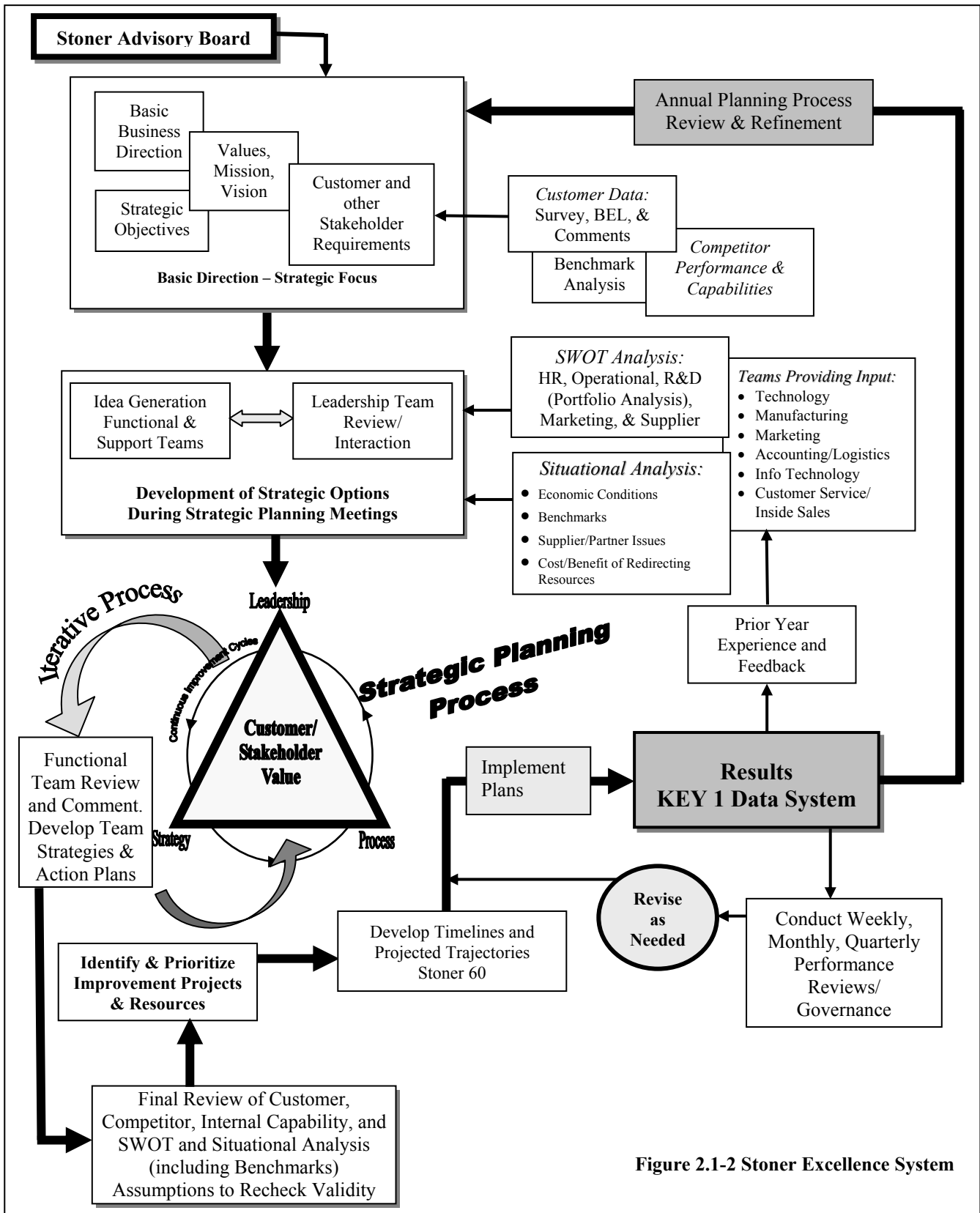
Stoner

Figure 2.1-2 Stoner Excellence System

- *Competitive environment and capabilities relative to competitors.* Direct contact with customers and prospects provides data and information we use to monitor our competitors from which we make strength, weakness, opportunity, and threat (SWOT) assessments. These assessments are discussed during senior leader and sales meetings. Our studies of top performing benchmark companies provide insight into key business strategies to help us achieve similar performance results.
- *Technological and other key changes that might affect products/services and/or how we operate.* In 1996, we began using our planning process to examine technology initiatives. Our objective was to assist strategy development through the evaluation of technology projects in a way that merges their merit with company strategy. The process was scaled down to fit our small company needs and is called the R&D Project Portfolio Analysis. This process is used to evaluate R&D projects based on their Attractiveness and Uncertainty. Team members identify product and service ideas in new or expanding markets. These ideas are evaluated and scored by a group of Sales, Marketing, and Technology team members. The resulting list of projects is then prioritized by point totals and weighed against current levels of resources. Projects are then placed on an Active or Backlog list. Stoner has aggressively adopted operational technology advances with regard to our integrated computerization, our rapidly growing Internet presence, laboratory testing and analysis, and manufacturing automation. In some cases, these technology advances have required specialized training to address a knowledge weakness before they were fully implemented.
- *Strengths and weaknesses, including human and other resources.* Stoner's internal strengths and weaknesses are analyzed by the team leaders with input from all functional and support teams. The members of Team Stoner have a vested interest in a strategic plan that produces high levels of customer satisfaction, efficiency, and profit. Accordingly, by involving team members to provide input about operating capabilities, research and development capabilities, technology applications, and their experience with suppliers, we have been able to get better thinking about realistic avenues for success, including new products, marketing directions, and work process improvements. Many incentives contain an efficiency component, with a performance bonus split among the team. This encourages maximum performance per team member and the team as a whole. Moreover, team members are actively involved in determining how to optimize team size, team skills and development, team member contribution, productivity, and innovation. We have continued to refine and upgrade team member training and personal development plans to address business and technology knowledge gaps.

Team	Assessment Type	Input Sources
Senior Leaders	Business Results Stakeholders Benchmarks	Financial Reports Customer retention Shareholder/President Team member satisfaction Senior leaders, SWOTs Community concerns Baldrige feedback Bald. Quest conference TEC business peers GE, 3M, Corning & other Baldrige winners
Sales	Business Results Stakeholders Benchmarks	Sales trends by market Sales growth Team morale Support team input Competitor SWOTs Sales consultants Industry trade shows
Inside Sales (customer service)	Business Results Stakeholders Benchmarks	BELog Customer risk analysis Sales team input Customer survey Competitor practices Cust Service conference Supplier best practices
Marketing	Business Results Stakeholders Benchmarks	Catalog Response Rate Shareholder ROI Industry best practices Marketing consultants Catalog awards
IT, Logistics, Accounting	Business Results Stakeholders Benchmarks	Equipment outages Receivables Bad Debts Customer AP Dept D&B reports
Manufact.	Business Results Stakeholders Benchmarks	Overtime hours Warehouse Team BELog – mfg. Errors Packaging conference
Whse/Ship	Business Results Stakeholders Benchmarks	Same day shipments BELog – shipper errors Supplier comparisons
Technology (R&D & SHE)	Business Results Stakeholders Benchmarks	New product sales Customers, test samples Industry data Lost time accidents Govt. regulations

Figure 2.1-3 Strategic Planning Input Sources

Human resource issues are the responsibility of the leadership team. Senior leaders make HR decisions

with input from all affected members of Team Stoner. Factors relating to human resources are always examined as a part of strategy development. All plans or new initiatives are finalized only after leadership team consensus on the appropriate staffing action, including recruitment, reassignment, outsourcing, and/or training. By design, our human resource plans are closely integrated with business plans.

- ■ *Opportunities to redirect resources to higher priority products, services, or areas.* Resources at Stoner are continuously being monitored and redirected to optimize business results and increase stakeholder value. The Stoner 60 spreadsheet helps Stoner leaders manage and balance resources based on linked goals and business trajectories that extend five years into the future. Key projects or action items are identified, defined, and prioritized by senior leaders to ensure the best use of company resources. Weekly monitoring of key business results and PAI lists sometimes require resource shifting to achieve targeted results or to accomplish agreed upon tasks. Similar input and adjustments of company resources take place at the individual and functional team level with input from team leaders as well as the general guidance provided by the functional team's mission, vision, and core values.

- ■ *Financial, societal, and other potential risks.* Along with input from team members, Stoner leaders obtain input from a broad spectrum of external benchmark resources to formulate both short- and long-term action plans. These primary benchmark sources include:
  - Stoner's Advisory Board of Directors
  - Participation in TEC – a nationwide network of business leaders
  - Consultants
  - Benchmark organizations including Baldrige recipients
  - Industry conferences and tradeshows

Stoner conducts quarterly Advisory Board meetings to explore emerging trends as well as customer, market, and competitor issues. These meetings bring Stoner's leadership team together with outside industry leaders and Stoner's president/owner. The Advisory Board discusses key results and next steps for new directions in products and services that relate to vital strategic initiatives. Emerging trends are identified and shared with team members to get their feedback, new ideas, and innovative approaches to strengthen future offerings and enhance our competitive position. This information feeds the strategic planning process.

Our Advisory Board also provides input concerning risks from outside our company including financial, regulatory, economic, and public concerns. The leadership team also examines risks from a market, financial, and environmental (regulatory) perspective when new products are introduced by a competitor or are requested by a

customer and we are considering their development. If we determine the new product is consistent with our overall business strategy, we analyze developmental costs, life cycle costs, resource implications (space, people, financial), and internal support implications. The same kind of analysis is done during the strategic planning process as it pertains to new directions and new or significantly modified products or delivery tactics (such as the decision to expand the direct marketing of consumer retail products through the Internet). We also examine these factors when we uncover new competitive threats to determine our possible vulnerabilities and the potential impact on our customers and business results.

At TEC, Stoner's president and general manager attend monthly, all-day leadership meetings to benchmark, network, and learn with other business leaders. Each monthly meeting typically includes a morning presentation by a nationwide network of business experts and consultants. These consultants provide insight valuable to a small company, give external assessments of Stoner business systems, and offer improvement suggestions which Stoner leaders and their teams implement. Afternoon sessions include roundtable discussions to resolve current business issues of individuals in the group.

The improvements we made to the strategic planning process each year since 1997 have helped us identify key elements for success, focus our resources, and target growth opportunities by identifying key elements for success. The leadership team adopted the Leadership-Strategy-Process component of the Stoner Excellence System (figures 1.1-1 and 2.1-2), after benchmarking the concept at a Quest for Excellence conference. Monthly strategy review and update meetings now focus on monitoring the implementation of agreed upon strategies and actions across the business and business results relative to our S60 goals. Based on these reviews, we check the accuracy of planning assumptions and projections and modify them for the next planning cycle.

- ■ *Supplier/partner strengths and weaknesses.* Our key suppliers are involved in the planning of new strategic initiatives and new product design where their contribution is essential. If a product line requires new or different levels of raw material, or material supplied at a different rate, we get input from suppliers to make sure they can meet our operational requirements prior to committing resources or finalizing plans that involve the use of that supplier. We do not commit to any new initiative (including new products) unless we are sure that we have the operational, human resource, technical, environmental, financial, space, and supplier capability to carry out the plans successfully.

- ■ *Changes in the national or global economy.* Trends and changes in the national economy are monitored via business news sources such as newspapers, journals,

and industry publications. We monitor economic trends for our key customer markets through purchased market data. Suppliers, many of which have a wealth of knowledge regarding our markets and economic trends, are also utilized for their insight and also to supply key industry information. Stoner has adapted effectively to recent economic declines. In some instances, large customers of Stoner have experienced bankruptcy or a severe drop in their business output. Although these situations have been difficult for all parties, Stoner has managed to offset these losses by gaining new customers, growing the retail market significantly.

▪ Factors unique to Stoner, including partner and supply chain needs, strengths, and weaknesses. Our demand for raw materials has always been significantly smaller than the available supply resulting in a favorable situation for planning purposes. Supplier capability and capacity has never been a factor in our ability to grow and meet objectives. However, during monthly or quarterly meetings with suppliers such as transportation providers we discuss performance issues and consider those capabilities and quality as we develop our performance objectives.

2.1b Strategic Objectives

2.1b(1) Stoner has key corporate strategic objectives that provide guidance to the functional teams. Each functional team in turn, has key objectives that are identified in their strategic plans with goals and key indicators. Goals have timelines, and action items are prioritized for implementation. Stoner's key short-term and long-term (stretch) goals, strategic milestones, and key

operational measures are compiled in a single spreadsheet known as the Stoner 60 (S60). This is used to link and align functional team goals and objectives for five years into the future. Senior leaders monitor and compare team results to S60 goals, which are broken out by month (and in some cases by week), and use this information to facilitate performance monitoring and improvement discussions at their regularly scheduled meetings (weekly, monthly, quarterly). Senior leaders meet monthly for a "strategy review" meeting where the primary agenda is to review how well teams are performing relative to strategic objectives and (S60) monthly timelines. The Stoner 60 spreadsheet is large but a representation of the spreadsheet is presented in figure 2.1-5.

2.1b(2) Our comprehensive strategic planning process and Stoner 60 trajectory spreadsheet helps ensure that strategic objectives are developed with consideration of critical business strengths and weaknesses or relevant competitive opportunities and threats. Figure 2.1-6 highlights key corporate strategic objectives and some strategic drivers/challenges that relate to them.

Strategic Objectives	Relevant Challenges
Exceptional Results	*Grow Profitably*
Effective Team	*Maintain an Outstanding Workforce*
High Value Solutions— Lifetime Customers	*World-Class Customer Satisfaction*

Figure 2.1-6 Strategic Objectives, Stretch Goals, and Relevant Challenges

Stoner

#	Team	Strategic Objective	Description - Results Measure	2003 Short Term	2004	2005 Estimate	2006 Estimate	2007 Long Term
1	Corp	Eff Results	Sales, Gross revenue					
2	Corp	Eff Results	Profit, Net					
3	Corp	Eff Results	Profit, Gross					
4	Corp	Eff Results	G&A Expenses					
5	Corp	Eff Results	R&D, Other Expense					
6	Corp	Eff Results	Sales/Team Member					
7	Corp	EffTeam	Team Size (FT + 1/2PT)					
8	Corp	EffTeam	Team Morale					
9	Corp	LifeCust	Top Corp PAIs					
10	Corp	EffTeam	Key New Hires & Specialists					
11	Mkt	Eff Results	Sales&Mkt Expense/Sales					
12	Mkt	Eff Results	Sales Expense					
13	Mkt	LifeCust	Retail Mkt & Advertising					
14	Mkt	LifeCust	B-B Mkt & Advertising					
17	Mkt	LifeCust	Retail Product Focus					
18	Mkt	LifeCust	Retail Mkt Focus					
19	Mkt	All	Top PAIs					
20	Sales	Eff Results	Sales, B-B					
21	Sales	Eff Results	Sales, Retail & Cons.					
22	Sales	Eff Results	Sales, Consumers					
23	Sales	Eff Results	Ave Sales per customer B-B					
24	Sales	LifeCust	Customers -B-B					
25	Sales	EffTeam	Sales team size B-B					
26	Sales	EffTeam	Sales growth per PM (salesperson)					
27	Sales	Eff Results	New Accounts					
28	Sales	All	Top PAIs					
29	ISR	LifeCust	Customer Retention					
30	ISR	LifeCust	BELog Occurrences/Orders					
31	ISR	Eff Results	Orders, B-B					
32	ISR	Eff Results	Orders, Consumers					
33	ISR	LifeCust	Order Entry BEs					
34	ISR	LifeCust	Overall Customer Satisfaction					
35	ISR	EffTeam	ISR Team Size					
36	ISR	All	Top PAIs					
37	A/T	Eff Results	Receivables over 90 days					
38	A/T	Eff Results	Bad Debts.					
39	A/T	LifeCust	Transit Times, Freight					
40	A/T	LifeCust	Shipper "BE"s per # of Shipments					
41	A/T	All	Top PAIs					
42	Tech	LifeCust	Tech Team related BEs					
43	Tech	Eff Results	New + Improved Product Sales					
45	Tech	Eff Results	Aerosol Packaging Equip. Availability					
46	Tech	Eff Results	Capital investment					
48	Tech	All	R&D PAIs					
49	Tech	All	SHE PAIs					
50	Tech	All	Eng PAIs					
51	Mfg/Shp	EffTeam	Lost Time Accidents					
52	Mfg/Shp	LifeCust	Mfg. & Warehouse Related BEs					
53	Mfg/Shp	Eff Results	Aerosols Manufactured					
54	Mfg/Shp	EffTeam	Aerosol Cans/Min.					
55	Mfg/Shp	Eff Results	Aerosol Line Time					
56	Mfg/Shp	Eff Results	Bulk Gallons Manufactured					
57	Mfg/Shp	EffTeam	Team Time (team size)					
58	Mfg/Shp	EffTeam	Productivity					
59	Mfg/Shp	EffTeam	Orders Shipped Per/Emp/Hr					
60	Mfg/Shp	All	Top PAIs					

Figure 2.1-5 Stoner 60—Strategic Objectives, Timetables, and Process Measures

Finally, our strategy development process includes steps whereby team leaders and teams check the validity of the planning assumptions for all stakeholders including customers and the owner. Part of this review uses information concerning planning accuracy from the previous cycle and lessons learned. We have found that our consistent, disciplined use of the strategic planning process (see figure 2.1-1) produces a valuable plan that consistently helps us focus on the things we must do to be successful in the future. The plan becomes the roadmap for success that team members use to guide his or her decision making.

2.2 Strategy Deployment

2.2a Action Plan Development and Deployment

2.2a(1) The same comprehensive management system that serves as the heart of the corporate Stoner planning process is used among all Stoner functional teams. The same people who plan have direct responsibility for executing the plan.

Within our strategic plans, strategies define longer-term or ongoing approaches. Prioritized Action Items are typically shorter-term action plans or projects with a clearly defined beginning and end (figure 2.2-1) (also see Stoner 60, figure 2.1-5, and item 2.1b(1)). Senior leaders identify, prioritize, coordinate, and allocate resources for the implementation of action plans using consensus to ensure balance across the organization. This is done during a "back-and-forth" coordinated process where the six functional teams work with top leaders to set functional level goals and actions. Leaders consider team member input and analyze the potential benefit resources may have on strategic objectives.

Strategic Action Items	Prioritized Action Items (PAIs)
Long-term action plans	*Short-term action plans*
(3 mo. or more)	(4 hours – 3 mos.)
Can be ongoing	Clear beginning and end
Typically few in number	Can be a long list
All are typically active	Acted upon based on priority
Used to determine resources needed	Used to determine the management of resources

Figure 2.2-1 Comparison of Long-term and Short-term Action Items

Functional team leaders are also the senior leaders, making it easy to ensure consistent and effective alignment of strategies, actions, measures, and resources. By meeting with their functional teams (daily, weekly, monthly), leaders and team members develop an accurate picture of progress against plan. These senior leaders truly understand the importance of working as a team to achieve strategic goals. Functional-level or individual issues do not take precedence over doing what is right for the customer,

or other stakeholders including our shareholder, team-as-a-whole, or community.

Once the resource agreements are in place, performance goals and measures are logged into KEY 1 and monitored during the weekly performance review meetings of the Leadership Team. When performance deviates from plan, or action items are created, senior leaders (along with their team's input) assign responsibility for corrective actions and facilitate implementation.

2.2a(2) To achieve aggressive growth, the following specific actions have been developed (also see figure 2.2-2):

For the past ten years, Stoner has strategically chosen factory direct sales and marketing as a primary means to increase sales and growth in our business-to-business markets. Stoner's basic direct marketing strategy is to mail a catalog, as a promotion to qualified businesses, to attract new customers. Stoner sales team members speak with respondents to qualify their applications and usage, add their names to Stoner's mailing list, and follow-up with periodic phone calls or mailings. The continued evolution of this core strategy is part of Stoner's long-term action plan.

In 1996, Stoner took the first steps toward a new distribution strategy for its most popular automotive detailing products. The top ten products were identified and targeted for promotion, initially direct to auto enthusiasts. The plan was for eventual distribution through automotive specialty retailers.

To comfort prospective customers who are wary of product claims and uneasy about purchasing products that may fail to meet expectations, Stoner decided in the early 1990's to position itself at a benchmark level of service and provide to its customers a simple, fool proof, hassle-free guarantee. We offer an industry leading, no time limit, 100% money back guarantee. We also offer toll-free 800 telephone and fax lines, 8:00 AM to 8:00 PM customer service staffing, 24x7 accessibility through the Stoner web site, credit card payment, same day shipping, and free delivery for case-or-more purchases throughout the continental USA.

2.2a(3) Senior leaders determine their individual human resource needs based on Stoner 60 and strategic plans. Team members are involved in all aspects of human resource planning since incentives are influenced by team size and performance.

We also expect to continue to draw upon readily available part-time resources for short-term needs. For example, we will continue to hire students during the summer while regular team members take vacations. We will also continue to hire external service providers on a part-time basis to assist with projects such as year end tax filings, facility expansion projects, typesetting, photography, web site hosting, and sample kit assembly.

2.2a(4) Each functional team's strategic plans contain goals and key indicators. All team members monitor and assess results at least bi-weekly. Based on these assessments, decisions are made to either change strategies, tactics, or add new action items for individual Prioritized Action Item list implementation. Company-wide key indicators are compiled in the KEY 1 database and examined by senior leaders weekly. This KEY 1 database, which contains historical data, along with the Stoner 60 database that contains trajectory data, allows team members to better assess and anticipate results and trends. For each strategic objective, actions are identified and action leaders are assigned. For each action, one or more measures are used to monitor progress and determine if adjustments in priorities or resources need to be made (see sample list in figure 2.2-2). Other measures for tracking progress can be found in the results reported in Category 7 and on the Stoner 60 list (figure 2.1-5).

The leadership team uses these actions and measures to monitor both overall company-level performance as well as the performance of their teams. One of the benefits of just two levels of team members in the company is easier communication, monitoring, and alignment of actions and resources. We implemented a formal, disciplined planning process to ensure that everyone understands what is required to be successful and works in a coordinated manner to achieve key goals. Initial deployment of plans, objectives, and measures takes place after strategy development. Once plans, actions, measures, and resources are locked in, we use the Stoner Excellence System (triangle) to align work and drive the strategy and actions throughout the organization. Since we have only two levels of work in the company, the process of aligning and communicating is relatively easy and straightforward. The leader of each area of the business is a member of the Leadership Team. Each leader's direct reports are all front line individual contributors. Each Stoner area uses the same Leadership-Strategy-Process system to align work to exceed customer requirements. Each leader examines the human resource implications of the team's goals and objectives. Actions are developed at the micro level for implementation by the team. This includes the definition of work processes and the identification of in-process measures to monitor daily work progress against objectives.

We have developed a fact-based decision making culture to increase decision making accuracy and consistency throughout Team Stoner. Before we developed the data driven decision culture in the early 1990s, we found that decisions were too easily pushed up to the top leaders by team members (or not delegated by leaders who were reluctant to let subordinates make decisions based on their own intuition).

Communication of expectations, goals, measures, and progress ultimately occurs through both written and verbal means. Leaders at Stoner are very close to their team members. They meet and talk with each one every day. However, to ensure consistent communication, team leaders hold various regular weekly, monthly, and quarterly meetings to communicate, teach, mentor, and inform every member of Team Stoner about the strategic initiatives and performance updates. This includes a wide range of information ranging from ongoing performance reviews, to the communication of strategic initiatives, new product introductions, better management techniques, knowledge sharing of effective practices, and the generation of innovative practices.

2.2b Performance Projection

To help us set appropriate goals that secure a leadership position, we collect information about benchmark organizations, especially Baldrige recipients. We push to exceed historical results trajectories and use stretch goals to help expand the possibilities for future success. For example, since 1990, if we projected and achieved sales growth based on historical performance, we would have remained almost the same size instead of recording nearly a five fold growth (see figure 7.2-1). We expect to achieve levels of customer satisfaction as good as the best companies, such as Baldrige winners with reported satisfaction levels between 88 and 95 percent satisfied.

- We expect to exceed the customer retention levels of a Baldrige winning company with our "A" customers at better than 98% retention for a three-year period.
- We have already beaten the productivity per team member revenue goals of Baldrige winners. We expect to do even better, generating nearly twice the revenue per year per team member, as found in similar small businesses.
- Finally, we expect to place in the top 10 percent of companies as measured on a national employee satisfaction assessment. We also expect to match the best in the world with zero lost time accidents, a goal we have nearly met.

Currently, benchmark performance in customer satisfaction, employee satisfaction, and accidents are at very high levels (even among Baldrige winning companies). Based on our own analysis and the performance projections of benchmark manufacturing companies, we have confidence that achieving these levels of performance will continue to place us among the top performers.

Finally, some of our competitors have indicated to our customers that our performance is a function of "good luck and timing and cannot last." Performance prior to 1991 (the implementation of Baldrige-based management systems) was quite flat. Contrary to our competitors' desires, our data indicate that a decade of substantial and steady improvement is the direct result of better management, not "good luck," or "good timing."

Stretch Goals	Strategic Action Items	Key Short-Term Action Plans (Prioritized Action Items)	Key Measures
Exceptional Results			
Sales Growth: Increase retail sales	Increase sales to national retailers.	• Focus sales effort on automotive specialty retailers. • Sell other Stoner products to national retailers.	• # of retail outlets • Sales ($) per product line • # of Stock Keeping Units (SKUs) in retail outlets
	Sell factory-direct to high volume business and industrial accounts.	• Focus sales on best segments within each market. • Focus sales effort on top prospects in each market. • Mail catalogs. • Place ads in industry magazines to generate leads.	• Sales ($) per product line and niche segments • Catalogs mailed • Catalog response
Increase Financial Performance and Operating Efficiency	Sustain high levels of financial performance and grow sales.	• Increase sales in niche markets • Upgrade product packaging and automate manufacturing equipment. • Focus sales effort.	• Sales per product • Sales per team member • Profit
	Expand facility.	• Finish site expansion analysis by mid-2003. Lease new warehouse in 2003. Upgrade and remodel current offices and team house.	• Event completion is on schedule
Effective Team			
Employee satisfaction among top 10% of companies surveyed	Continue to hire and develop strong leaders. Fill key team member openings.	• Use recruiting partners to expand team. • Use formal hiring assessments rather than informal. • Enhance capacity to assess team member satisfaction electronically, rapid results availability, prompt leadership follow up with corrective action. • Emphasize incentive based pay for good team "fit." • Grow sales faster than team size.	• Team survey of satisfaction/morale • 1-1 discussions with team members to get feedback (on schedule)
High Value Solutions — Lifetime Customers			
World-class customer satisfaction	Continue to build strong ISR team and provide generous service practices.	• Keep customer Below Expectations occurrences low, use computer system to minimize data entry errors. • Direct low dollar consumer orders to web site vs. phone. • Train ISRs to improve technical and communication skills.	• % satisfied • # BELog Occurrences/Order • % Customer Retention

Figure 2.2-2 Strategic Objectives, Goals, Short- and Longer-term Action Items, and Key Performance Measures

3 Customer and Market Focus
3.1 Customer and Market Knowledge
3.1a. Customer and Market Knowledge
3.1a(1) In 1990, we divided customer markets based on major product lines. Over the last ten years, with advances in technology and more specialization among our customers, we expanded the segmentation based on needs of customers and potential for growth in the market niches.

During our strategic planning process, Product Managers and the Sales Manager assess and monitor market size, market share/position, and growth in each key market. Data are collected from a variety of sources including industry publications, customer interest groups, and input solicited from other functional team members. Strategic initiatives for the upcoming year are developed using this information.

3.1a(2) *Current Customers*: A substantial percent of Stoner's sales are factory-direct to the customer. Accordingly, we maintain direct, personal contact with the "end users" as well as with process engineers, purchasing officers and business owners. Senior leader, product manager, and sales team member is involved. Because we are committed to exceeding customer requirements, Stoner leaders set the pace for customer contact and service response. Top leaders, including the general manager talk personally with between 30 to 100 customers each week. Each week over 1,000 customer contacts are made to gather or validate requirements data, follow up on recent transactions to get an early alert of issues, and even take or modify orders. Our leaders and product managers (sales people) know their key customers personally. As our customer's business processes change, we then determine

if a Stoner solution will fulfill their needs. Direct, personal contact continues to be the most effective process we use to understand the drivers of purchase decisions for customers.

Prospective Customers: During the prospect qualifying process, Product Managers or Inside Sales Representatives determine drivers of purchasing decisions of each customer in all segments by asking questions that uncover the "value" indicators, "pain" indicators, and qualified annual consumption. To ensure consistency and accuracy of data, a formal protocol is followed. Data are analyzed and rankings of value drivers are compiled. The indicators that are creating "pain" for the potential customers are reasons they would switch to another supplier or stop using Stoner products. An example question would be, "What post mold release decoration takes place for your parts?" The answers to these questions help us uncover whether there is a problem with their current mold release agent preventing the adherence of paint (decoration) to the part. Another pain indicator could be flammability. If their current supplier provides a product release that is flammable, the customer may benefit from a non-flammable mold release. "Value" questions provide data about which features of products and services our current and potential customers value most (including customers we have lost to competitors). In this process, we ask customers to rank order characteristics that are most important to them. Qualified annual consumption questions are asked to determine what Stoner team member will be assigned to the account and what form(s) of marketing will be instituted. These processes continue to help Stoner identify key product features that are subsequently built into our products or services to meet emerging customer requirements.

The process of gathering customer requirements and value information is the same for all markets *(except for retail consumers where a random sample of customers are contacted, unlike the other segments where all customers are contacted multiple times each year)*. Customer response data indicate that the top five drivers for all segments are:

- **Quality** (includes product performance, packaging and labeling, and safety)
- **Delivery/Availability** (includes easy ordering, same day shipping expectation, condition of order, order accuracy, delivery when promised)
- **Service** (knowledgeable technical/application support and prompt and easy resolution of problems)
- **Value** (we do not want to compete in the low price market—instead we target customers who are willing to pay a higher price for even greater value)
- **Price** (mid-price, not bargain basement)

Each market segment has a product manager who makes personal contact with customers to understand the specific requirements of each customer and the consolidated needs

of that market. Our product managers make personal visits and phone calls to prospects and customers. Written comments from formal customer surveys, transactional follow-up inquiries, and testimonial forms also provide data to help us identify and rank order customer requirements and expectations. Product managers systematically feed this information back to marketing and R&D teams through a combination of standard call reports and summary reports in case any changes or new trends emerge. The product managers as a team, with the sales leader or GM, use this information to set and communicate priorities to marketing, IT, and R&D team members. New product and service ideas generated this way are prioritized and listed on a (Prioritized Action Item or R&D portfolio analysis) development schedule. This also happens through the Inside Sales Representatives. Opportunities for improvement are suggested by e-mail or at team meetings to the Inside Sales team leader, who adds these to the company-wide Prioritized Action Item list or evaluates them independently to decide whether to address the ideas within the team.

Former Customers: In addition to the process described above for potential and current customers, Stoner team members (Product Managers or Inside Sales Reps) contact former customers to gather information to more precisely define customer requirements and priorities. Previously, former customers were identified by manually searching through monthly reports to determine which customers stopped purchasing from Stoner. Using customer sales data, we track customer counts by analyzing Recency, Frequency, and Monetary (RFM) scores weekly. These data are used to analyze "lost customers" which are then contacted by Product Managers. During one-on-one weekly meetings between the Sales Manager and Product Managers, the reasons for the loss of customers are discussed and root causes are examined. This helps drive changes in production and/or support functions to prevent additional losses.
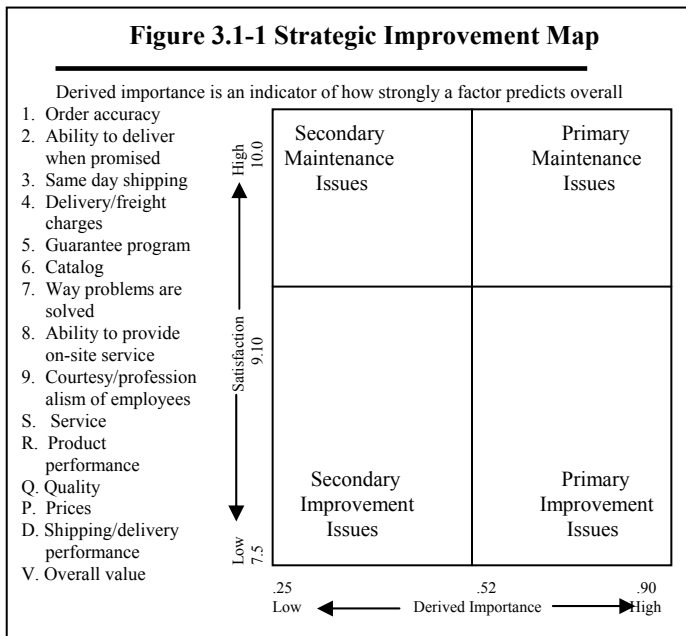
In our business many emerging needs are driven (or at least influenced) by changes in environmental standards. To learn about these emerging customer needs, Stoner closely tracks upcoming environmental regulations, trends in the chemical industry, and customer industry research and planning journals. We have consistently anticipated changes in federal regulations that require the phase-out or changes in use of several chemicals. For these chemicals, we have developed alternative solutions that enable us to continue to deliver products that meet or exceed customer performance requirements without damaging the environment.

Stoner team members from all functions of the company also attend key trade shows and related events annually to gather intelligence about the requirements and preferences of customers of major competitors. In the past, intelligence was gathered in an ad hoc manner by Product

Stoner

Managers or Inside Sales Representatives at these events and relayed verbally. Based on feedback from Baldrige regarding the effectiveness of this process, we developed a new process to capture data at industry specific events using a questionnaire protocol. This refinement helps us consistently capture the voice of the customer better and provides a more disciplined and systematic way of ensuring accurate and reliable data are brought back for analysis. We involve customers of competitors in field-testing new and modified products to determine how our product compares with competitor products or services.

To prioritize customer requirements before we make new product development decisions, we use an evaluation worksheet to capture and rank customer requirements according to their assessment of importance. Once the requirements are ranked in order from most valuable to least valuable based on customer survey data, the Leadership Team seeks input from the functional teams to analyze the cost/benefit implications of the priority requirements and the possible impact on strategic goals such as growth, profitability, customer satisfaction, and market share. We implement the requirement to adapt our manufacturing process to handle the larger can. We took into account the impact on customer satisfaction, profit, market growth, and the ROI of the changed process.

Figure 3.1-1 demonstrates one of several analyses we conduct each year through an independent research firm, to help ensure objectivity and reliability.

Figure 3.1-1 Strategic Improvement Map

Derived importance is an indicator of how strongly a factor predicts overall

1. Order accuracy
2. Ability to deliver when promised
3. Same day shipping
4. Delivery/freight charges
5. Guarantee program
6. Catalog
7. Way problems are solved
8. Ability to provide on-site service
9. Courtesy/professionalism of employees
S. Service
R. Product performance
Q. Quality
P. Prices
D. Shipping/delivery performance
V. Overall value

Figure 3.1-1 Analysis of Drivers of Customer Satisfaction ratings deleted as proprietary

This helps us determine with great accuracy drivers of customer satisfaction and targets for improvement.

3.1a(3) Many reviews of process performance and efficiency occur each year, depending on the system being reviewed. We use the Assess/Improve/Implement cycle at the completion of each process. We verify that our determination of customer requirements are accurate by using open-ended survey/interview questions to determine what else we could be doing to improve value and satisfaction as a part of the daily contact with customer base. This technique also helps us determine if we have identified the appropriate service standards for customer contact requirements (relates to 3.2a(1)) and allows us to monitor changes to customer requirements and expectations over time.

Even when we attend a trade show, and receive the resulting data, we conduct a simple analysis: what did we learn about customer changing or emerging requirements (what went right, what went wrong, and what could we do better).

When a federal regulation is changed that impacts Stoner, we conduct a similar analysis to determine the extent to which we correctly anticipated the change and responded appropriately. This discipline has helped Stoner's senior leadership team role model continuous improvement, every day, consistent with our core values. As mentioned before, this process has resulted in changes to the way we capture and analyze information from customer interactions and trade shows. We analyze techniques used by the Inside Sales team members to learn about the requirements of the growing retail/Internet segment and determine if our processes for understanding their requirements need to be modified from the techniques we have traditionally used. So far, it appears from the analysis that our current methods (as refined) are producing timely, accurate, actionable information to support planning, product design, and customer relationship management processes.

3.2 Customer Relationships and Satisfaction
3.2a Customer Relationship Building
3.2a(1) Our entire focus is designed to build customer loyalty through exceeding expectations and providing value. Many of our processes support this effort, including excellent product quality, responsive service, and team members who are trained and empowered to do whatever it takes to satisfy our customers. Our customers refer others to us, and help us build our business. Over 96% of all customer types indicate that they would recommend us to others.

Inside Sales Representatives and Product Managers maintain extensive contacts with customers (see discussion in 3.1a(2)), and use promotional items to surprise and delight customers. These are given liberally at the discretion of the Inside Sales Representatives, Product Manager, or any team member to build positive feelings with customers. We also work to delight customers by

providing free technical support from our lab or tech team to help solve customers' special internal production or application problems, a service that our data indicated is a key component of value and satisfaction. All of these actions increase customer loyalty.

3.2a(2) We determine the best way for customers to contact us based on requests by our customers and benchmarking other organizations with similar customer interaction requirements. Although we initiate a substantial amount of contact and anticipate customer requirements through these multiple contacts, we can also be available in off-hours if necessary, and our customers have the ability to leave a message or place an order via fax or web 24/7. Since establishing and maintaining excellent customer service is a key customer requirement, we use the processes described in Item 3.1 (surveys and personal contact) to define customer requirements for ease of contact. We have found that these service standards are essentially the same for all classes of customers (except that large (key) customers receive dedicated customer contact personnel to provide more personalized access). We provide customer access twenty-four hours a day, seven days a week through toll-free phone and fax numbers and Internet access. This access is possible through our computerized telecommunications system (which was developed three years ago in an effort to improve access for customers). In an effort to continue to enhance customer contact capability, we have also compiled web site/e-mail addresses of customers, and provide e-mail addresses of our customer contact people to make it easier for customers to contact us. Utilization reports indicate a favorable capacity for future growth.

When customer survey and personal customer contact data indicate that a particular standard of service is required by a customer or group of customers, the standard is defined, with metrics established. This service standard is communicated directly to all affected team members through the Product Manager or Inside Sales team leader. In addition, the requirement is entered on the computer support system, which automatically locates the customer profile when the customer caller identification is entered. Our small size makes this type of communication easy and natural. Through this communication, team leaders also reinforce the customer focus value of our company.

Ensuring that team members understand customer requirements is facilitated by team members working side by side in the same room. We have frequent quick team meetings to discuss the new requirement. When any new service standard is defined, screens are adjusted to reflect the change and ensure that team members who contact customers have the most current information. As changes in contact requirements are identified that affect team members in other parts of the company, special training is provided to ensure that everyone who comes in contact with customers is aware of and follows the revised

requirement. Training takes place in the form of a Stoner U session, team meetings, or one-on-one meetings.

Key customer contact requirements (service standards) have been derived from an analysis of service expectations from survey and direct contact data. The service standards include:

- Prompt response to routine questions (question resolved in one call by the person who answers the phone, except for research-intensive questions).
- An answer to a call by a human being within 3 minutes.
- A response to a voice mail, fax, or e-mail query receives a response within one hour.

After visiting a Ritz Carlton property in Philadelphia on a benchmarking trip, our Inside Sales team examined the personalized customer service used by this Baldrige winning company to help focus improvements in our system. Although our customer data system is relatively new, we have already improved our customer screens to make them easier and faster to use (cutting customer wait time) by creating additional fields for contact information; fax numbers, extension number, e-mail, web address; and special customer-specific requirements.

3.2a(3) Our customer contact team consists of Inside Sales Representatives plus an Inside Sales Team Leader who are dedicated to promptly resolving customer concerns, better understanding the needs and expectations of our customers, and helping ensure they are met or exceeded. Inside Sales Representatives interface with all of our customers. The Inside Sales Representatives help customers via phone when they call in orders, ask for information, or require other assistance. Each Inside Sales Representative is trained not only on ordering and shipping procedures, but on product knowledge as well. Nearly all technical issues and service requests are handled directly by the Inside Sales Representatives. We track the performance of these customer contacts/Inside Sales Team member interactions through our data system. Each week, the senior leadership team reviews these data.

Although our Inside Sales Representatives are very knowledgeable and committed to complete customer satisfaction, we have found that process problems can get in the way of excellent service. As a result, all team members continually examine work processes to make them better. We previously implemented online tracking capabilities for our primary shippers. However, there were instances where we could not provide customers with real-time tracking information for our secondary carriers. Last year we changed the system to obtain online tracking information for our secondary shippers, thus allowing us to provide customers with the tracking information they required. Inside Sales team members also access UPS or FedEx ground tracking numbers from the Internet, to expand our on-line tracking ability.

All customer contact team members are empowered to do whatever it takes to resolve customer concerns so we

can satisfy our customers' needs in one phone call, without transfers. (Realistically, there are legitimate times where a customer has a technical research question that relates to a new application for one of our products. When these questions require lab testing and/or research the customer does not expect an immediate answer. In these cases, we work with the customer to define a timeframe for response that is acceptable to the customer and then work to meet that timeframe.)

We learned several years ago, that increasing customer contact, without enabling the customer-contact team members' ability to resolve the customer's issue or question promptly, often led to more customer satisfaction problems. In 1994, we imposed a limit on what a team member could spend to resolve a customer complaint. When we evaluated their effectiveness in one call resolution we found that many customer calls were being elevated to members of the leadership team for resolution and our 95% one-call goal was not being met. Next, we raised the limit and provided training to ensure the team members made good decisions. That refinement helped, but it did not suggest that we really trusted our team members to make good decisions. Team members are now empowered to do "whatever it takes" to please a customer whose expectations were not met.

Because of the close working relationship within Team Stoner (which is helped by our very small size), it is routine for one team member to get quick advice from another to resolve a thorny issue. All team members know that they will never be "punished" or "get in trouble" for helping to satisfy a customer.

All complaints are entered real time into a database we call the Below Expectations Log (BEL). The BEL database is used to track complaints and record information such as root causes, corrective actions made, cost of resolution, and new/incomplete action items that come from these complaints. This information is used to generate reports on problem trends, including Pareto analysis and complaint levels. The inside sales leader analyzes the BEL data each week to determine trends or potential recurring problems that should be addressed in the design or production/delivery processes. In addition to weekly review by both product teams and the Leadership Team, the Inside Sales team leader conducts formal reviews of the BEL data and presents results at all company quarterly meetings. These reviews are used to ensure problems stay resolved and no new ones emerge without corrective action taken.

Information gathered by Stoner's customer contact team members is recorded in a computerized customer database. Stoner's product managers and Inside Sales Representatives all access this database via computer network. The database includes information such as:
- Individual shipping and billing addresses
- Phone and fax numbers
- E-mail addresses
- Industry identification codes
- Individual contact names with titles
- Business information
- Order history and products purchased
- Contact dates
- A text log of conversations, customer activity notes, and special customer requirements

3.2a(4) Inside Sales team members attend customer service conferences like the International Customer Service Association conference, the *Inc. Magazine* Customer Service Conference, and other regional events and benchmarking trips each year. To raise awareness of new techniques to strengthen relationships with customers, we make available to team members trade magazines, bi-weekly publications like Dartnell's Inbound Selling and Service, customer service books and audiotapes.

Finally, like the rest of the organization, the Inside Sales group uses the Assess/Improve/Implement continuous improvement system to make routine improvements to processes that improve customer relations. Through our handling of customer contacts, we gather data and evaluate interaction factors such as satisfaction with the way problems are solved, satisfaction with team member courtesy and professionalism, satisfaction with our 100% guarantee, and satisfaction with our ability to deliver as promised. Our feedback from customers on these factors is consistently excellent.

3.2b Customer Satisfaction Determination

3.2b(1) In 1998, we conducted an extensive independent (third party) satisfaction survey of all customer segments. After a thorough analysis we found that there were no significant differences in satisfaction among market segments. In an effort to reduce cost, we determined that a streamlined "pulse" survey and analysis was warranted. Accordingly, we refined the process and decided to conduct a comprehensive review every three to four years and use the pulse survey the rest of the time.

The comprehensive customer satisfaction survey consists of contacting existing customers and asking a battery of questions. Customers were contacted proportionately based on Stoner market size. With this survey we were attempting to determine the most important customer issues related to Stoner's performance within each of our market segments.

The pulse survey conducted in 1999, 2000, and 2001 consisted of contacting existing customers and asking a group of questions that took an average of 7 minutes to complete. As with the comprehensive survey, the number of customers contacted was based on market size. We asked fewer questions in this survey in order to focus on specific Stoner key indicators (Quality, Delivery, Price, Service, and Value).

In 2002, we decided to make use of cutting edge technology by administering our annual Customer Satisfaction Survey by e-mail. We did this through the same third party administrator who had conducted our phone surveys in the past. The 2002 survey involved sending e-mails to customers with the number of e-mails distributed based on market size, as we did with the phone calls in previous surveys. We were able to keep the same questions and content that we had in the phone survey, but the fact that we were sending e-mails to customers instead of making phone calls allowed us to reach many more customers in a shorter amount of time.

Based on customer feedback from our annual surveys (together with the ongoing personal 1:1 contacts made by team members) we have been able to understand drivers of customer satisfaction and dissatisfaction. The individual customer contact is particularly important to help uncover timely (near real time) information about our shortcomings and uncover opportunities for improvement. We have found that these combined approaches produce accurate, yet economical data about satisfaction and dissatisfaction. Each year we analyze the real time data to determine if variation between customer segments warrants a more complete examination.

In addition to the third party satisfaction survey, Stoner uses the following sources to determine customer satisfaction (frequency and information format follow the sources).

- BEL
- Customer retention data/analysis
- Accounts Overdue report
- Unsolicited testimonials
- Trade shows to generate face-to-face feedback from customers
- Phone contact with a sub sample of customers in all market areas
- Sales/customer data

This information is analyzed and reviewed by product managers during weekly team meetings, and discussed by senior leaders with all team members at quarterly company meetings to give an overview of customer satisfaction levels and communicate the continuing importance of exceeding customer expectations on business success.

Survey information is compiled and analyzed by the Inside Sales Team Leader. To help improve satisfaction levels, in 2000 (using the Assess/Improve/Implement process) we implemented a new Customer Service Improvement Portfolio Process. This includes contacting customer responders, surveying Inside Sales Reps and Product Manager listening posts, and considering industry standards for improvement ideas. They are then ranked based on cost/risk and return/impact. We then began implementing the highest valued ideas first and will re-assess results with future surveys depending on the

quarterly satisfaction levels. If improvement in targeted areas is not evident at the end of the quarter, then a new risk/return analysis is conducted with additional improvement ideas examined.

3.2b(2) Product managers continue to contact prospects directly until they have been converted to customer status. They then become the responsibility of the Inside Sales team, which services these customers to meet their special needs or situations. We make contacts proactively and reactively. Product Managers contact customers proactively after a key transaction to ensure that their needs and expectations have been met, and/or exceeded. The results of these contacts are entered into the database and analyzed for emerging trends and issues that need to be addressed to prevent any erosion of satisfaction and loyalty. Problems that key customers may have with our product will also affect all other customers so we capture this information and take action quickly to prevent the recurrence of the problem elsewhere in the customer base. Product Managers are notified via e-mail or recall if there is follow-up needed with a particular customer.

We are in nearly constant contact with all key customers. However, it is not physically or economically feasible to maintain such contact with the small catalog or Internet customers. We follow up with all customers who submit a Below Expectations comment, regardless of customer size or purchase history. We evaluate the appropriateness of our follow up by asking questions to determine whether our level of contact is appropriate (too frequent or infrequent). We contact customer service responders in order to clarify responses or to address customer concerns. One of the questions we always ask is "Would you like a Stoner Rep to contact you?"

3.2b(3) Based on a Baldrige internal assessment, which is part of our performance improvement process, we determined that we did not effectively collect information about the satisfaction of our competitor's customers. As a result, we designed and implemented a system to collect and analyze information about the satisfaction of competitor's customers. We administer surveys that allow us to determine how we compare with the satisfaction levels of our competitors. We measure areas that are key to customer loyalty and satisfaction based on the drivers of purchase intention and the product and service priorities identified using the process described in Item 3.1 (see figure 3.1-1). In particular, we use these data as part of the strategy development process to help identify areas where we are perceived as weak, relative to competitors. Although Stoner's results were among the best of comparable data set, we continue to identify opportunities that will not only enhance our current customer satisfaction but also allow us to win over our competitors' customers.

3.2b(4) Continuous improvement is one of our five core values. Our Assess/Improve/Implement process is ongoing, not an event. Each time a process cycle is

completed, we assess, at the minimum, what went right, wrong, and what could be improved. We also conduct a disciplined Baldrige review of the processes that drive performance excellence. These reviews identify key opportunities for improvement that go beyond a review of existing processes and looks at "missing" processes.

4 Measurement, Analysis, and Knowledge Management

## 4.1 Measurement and Analysis of Organizational Performance

4.1a Performance Measurement

4.1a(1) All significant measures are tracked using the KEY 1 database. KEY 1 is supported by data from each of the functional team Sub-Spreadsheets. They are Sales1 (Sales, Product management), Acct1(Logistics/ Accounting), ISR1 (Inside Sales/Customer Service), IT1 (Information Technology), Tech1 (R&D, Engineering, S/H/E), and Mfg 1 (Manufacturing/Warehouse). The sub-sheets are maintained by respective team leaders and are directly linked to the KEY 1 database. Each of the sub-sheets is supported by various software and hardware throughout the business. Some data are also collected manually by team members. Our integrated data systems and sources include:

- Sales Order Management, Accounting (A/R, GL, A/P), and Manufacturing Resource Planning (MRP) reside on a common SQL database.
- The Call/Order Management module is used by all Product Managers, Inside Sales Representatives, Tech Team Members, Accounting Team Members, and Team Leaders to record customer interactions and learn about customer preferences and history. As well as order entry, order tracking, and sales history.
- The Accounting module is used to capture data on accounts receivable, accounts payable, general ledger, and financial reporting.
- The manufacturing and inventory data system maintains inventory data as well as data about manufacturing processes such as MRP, assembly processes, and quality control.
- Enterprise Interaction Client Phone system is used to capture data on call volume, duration, and other process measures.

The KEY 1 system integrates functional team key indicators with performance results and presents the data in workable clusters that align with the functional team responsibilities as figure 4.1-1 indicates.

The KEY 1 system helps us record, analyze, report, and share the information with all team members through our computer network. Reports are compiled and available on spreadsheets for graphical display and statistical analysis. KEY 1 links all vital company and quality

measurements in one location for easy access. Anyone who needs to look at the data in any data subsystem can access it immediately. KEY 1 also helps us spot emerging trends that may require corrective action or the reallocation of resources. If key measures are not progressing according to plan, we use KEY 1 to "drill down" and identify the underlying variables (which are recorded in the various data subsystems) that may be responsible for the slippage. As a result it is easier to identify root causes of problems. As issues arise that require closer
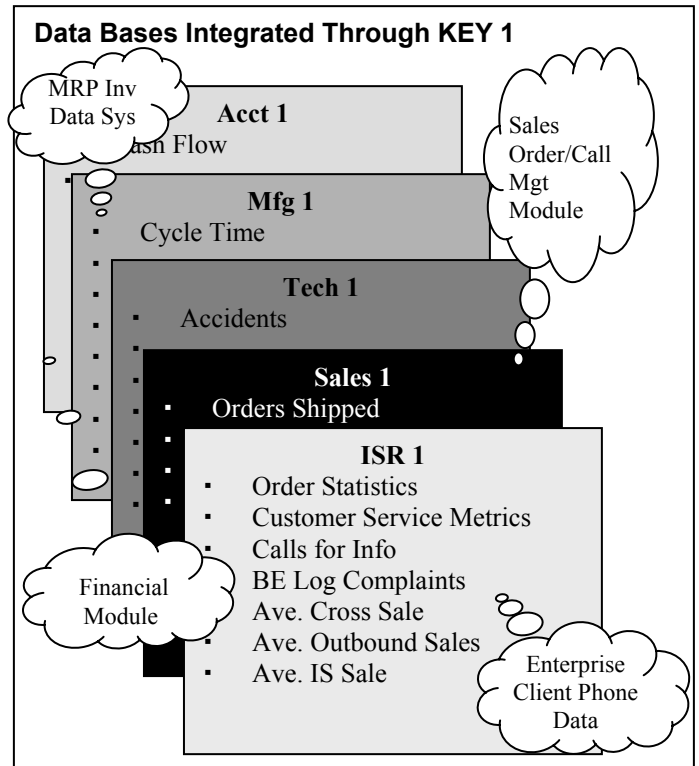
Figure 4.1-1 KEY 1 Database Integration

observation, data may be added to KEY 1 to enable continual monitoring. If an unacceptable variation is discovered, our system enables us to quickly analyze the problem through research tools. For example, if a key indicator shows an excessive amount of receivables, a weekly report is reviewed that identifies these customers or an online inquiry with individual customer detail that verifies the data can be produced within minutes.

Two key factors drive data selection and analysis: strategic goals (results data) and work process data (operational). The two types of data are all part of unified information system but they serve different purposes.

- Results data are used to monitor organization level performance and are reported in Category 7.
- Process data are used to support daily decision making.

Accordingly, we collect data that deal with all strategic and process areas. Overall we collect and use (for team member and team leader decision making) over 100 measures throughout the company. These measures

directly relate to company, team, or individual plans and Key Indicators. For example, the Inside Sales team contributes to sales growth by cross-selling new Stoner products to existing Stoner customers. They in turn measure the number and dollar volume of cross-sells. Figure 4.1-2 provides a partial listing of measures in the KEY I Data Base.

4.1a(2) We have made steady and significant improvements in gathering competitive information over the past four years as we increased market share. Because many of the companies that Stoner competes against are small and privately held, comparison data are hard to obtain. However, we collect valuable data from five sources: business information reports, industrial trade publications, annual reports of publicly held companies, personal communication with several industry competitors, and third party/Advisory Board members/consultant data.

We obtain valuable benchmarking and best practices

Partial Listing if KEY 1 Data	
(some measures are used for operational decision making by more than one functional team)	
Financial	
Cash In/Out	Accounts Payable
AR/AP Ratio	Cash Flow
Sales	
Phone Dials/hr	Orders Taken
New Customers	Orders Billed
Total Customers	Orders Shipped
Inside Sales	
CSR Calls In	Orders Entered
Average IS Sale	Cross Selling Volume
Manufacturing	
# Aerosol Produced	Cycle Time/Speed
# Bulk Gallons Produced	Total Output
R&D and SHE (Technology Team)	
Below Expectations Log	Supplier Related Complaints
# Lost Time Accidents and Worker Comp	% New/Improved Product Sales

Figure 4.1-2 Partial List of KEY 1 Data
information through the network of state and national quality award examiners. We benchmark more than 15 world-class companies on an ongoing basis. Before a company is selected as a benchmark, it must demonstrate leading performance in a process or approach that is consistent with our business priorities and strategic objectives/action plans. In all cases, our benchmarking practice is to identify and learn from the best. Activities with benchmark companies include adopting benchmark policies and practices, company visits, direct communications with their managers, using benchmark products and services, and studying communications such as annual reports, advertising, and catalogs.

Whenever we decide to collect benchmark data or information, we discuss the expected use of the learnings within Stoner. At that time, before we conduct the benchmarking activity, we determine who at Stoner will benefit from the knowledge. Whoever leads the benchmarking effort (from among the functional teams) briefs the designated Stoner teams so that the new knowledge gets maximum exposure. If we cannot define an expected benefit from benchmarking, we do not collect the information.

Once new information is identified, we can quickly pull nearly any permutation or re-organization of data that are needed, due to volume of data stored in linked SQL database tables and the ease of query and access. Trends are easily identified, as well as checking the validity of data as a performance indicator. Valid performance indicators are easily added to sub-ordinate spreadsheets and potentially to KEY 1.

When developing new products, we always conduct comparison tests against the best competitive benchmark products available. These benchmark products are typically identified through customer feedback as described in the Below Expectations Log (BEL), customer surveys, testimonials, or open-ended discussions with customers. In fact, our daily discussions with customers produce some of our best competitive comparison intelligence. Feedback received from phone conversations indicating that a competitive product or service is better than ours is recorded on the Below Expectations Log, even if the customer is still satisfied with our product. We even developed an easy-to-use testimonial form to encourage customers to give their opinions and tell us about competitor comparisons. Three years ago, we gave customers the ability to provide product testimonial information via our web sites. This feedback is then evaluated for usefulness in promotion materials (catalogs, web sites) or product/process development or improvement. The Inside Sales Representative team responds to the customer with note of thanks, and feedback is routed to the responsible team member for action.

4.1a(3) The selection of data we need to support decision making throughout the company continuously evolves through team discussions and consensus on the importance, relevance, and utilization of data. As we grow and expand both market share and product lines, we are faced with the need for new data and different ways to analyze and report the data. Over the past five years, we have extensively refined our system from a paper driven system to one using electronic data entry, analysis, transfer and exchange, e-mail, and personal digital assistants. We are currently expanding our customer interaction using the Internet to sell, take orders, and communicate. The Information Technology sub-team reviews the elements and requirements of our information system (including hardware and software) using the Assess/Improve/ Implement process of the Stoner Excellence System to analyze, design, and implement better information systems

to support this expansion. As potential new processes are assessed, the IT sub-team evaluates new technical and data requirements. For example, as web initiatives increased, needs identified were: in-house server to link shopping cart with product data, inventory, and pricing; increased solicitation of e-mail addresses by ISR's web marketing and promotion; and back-end performance tracking not only of sales, but of web visitors and other activity.

4.1b Performance Analysis

4.1b(1) Each week the six-member leadership team prepares an analysis of key results from the KEY 1 system and its related subsystems. Examples include the examination of daily sales, web order activity, and manufacturing efficiency. By design and because of our size, we do not use an independent staff to analyze data and give the leaders summaries—they do it themselves. We gain a much deeper understanding of the results when we analyze the data personally. We analyze the cause and effect relationships and system linkages by utilizing analytical tools such as run charts, histograms, correlational analyses, response measurement, and Pareto analyses. Root causes of problems are identified in order to initiate corrective action. The general manager is also the team leader for Marketing. He, like all team leaders, analyzes organizational performance using KEY 1 and the relevant subsystems. The same approach is used for the other five functional teams/areas. As mentioned in Item 4.1a(1), the analysis focuses on both strategic and operational measures of performance to ensure complete alignment to support planning and operational decision making.

Through the development and use of the Stoner 60 (see figure 2.1-5), the leadership team collects and displays measures that are used to track and project short- and longer-term goals and timelines (trajectories) for accomplishing them. These help the leadership team monitor performance during the quarterly and monthly review sessions.

4.1b(2) The hierarchical data structure of KEY 1 reflects our organization, mirroring the way we organize to manage effectively. Since the analysis and work are led by exactly the same people, it is difficult to separate the results from the execution of functional operations. There are no middle managers or staff analysts to get in the way, to misinterpret a direction, or to delay an action. Raw data are compiled from various sources including the phone system. Team leaders and team members then collect and link key measurements for their individual areas on sub-spreadsheets as a part of KEY 1.

The leadership team meets every Monday at 11:00 AM to report and discuss data for their areas. Data are analyzed prior to this meeting. During the meeting, results are reviewed against expected performance levels (which were produced during the strategy development process and expressed as performance milestones). This meeting

requires regular compilation, analysis, and communication of company-level data by the leadership team. Every Monday, Stoner's owner receives financial and operational data summaries but the operational decisions are left to the Leadership Team. The KEY 1 data (see also the Stoner 60, figure 2.1-5) provide information necessary for business planning and operations.

The information that is gathered at these meetings is then discussed with each team member either individually or during regular functional group meetings. This dissemination of information is vitally important in the process of task completion, error limitation, and creating an open atmosphere of communication. Alignment between data, analysis, and action is tight. Our system is second nature to leaders and team members.

4.2 Information and Knowledge Management

4.2a Data and Information Availability

4.2a(1) The underlying principle for Stoner's information/data management is this: Every team member is responsible for the accuracy and entry of the data they enter, change, use, or report. Our IT sub-team is an internal service provider and takes pride in exceeding the expectations of other team members. The IT function provides a reliable technology infrastructure that supports Stoner goals; helps all Stoner teams accomplish more with less effort and less staff; and fully integrates information from all areas of the business. Information is easily retrieved from the system in a matter of minutes, and the information is valid, accurate, and user friendly. IT team goals include keeping the networks and workstations "up" at all times and provide access to the data "at the users' fingertips." To help ensure that all team members understand and use the system effectively, the IT team organizes courses through Stoner U on base software including Microsoft Word®, Excel®, and Access®, as well as individual training on processes like Inventory Transfers, cost roll-up, and report analysis to name a few. This ensures *effective & efficient* access.

Daily reports are run by the scheduler program, such that the data are available in the morning, and weekly and monthly reports are initiated by IT staff, then distributed to the appropriate personnel either electronically or printed. At the request of users, we improved the system to provide live query screens in for any user to poll such metrics as current inventory levels, manufacturing quantities completed, item sales or use, and customer sales to name a few. All users are trained to access needed data.

All business data are stored, backed-up, and processed on Stoner's Local Area Network, which provides all team members with access to data. In addition to the base software training, all team members are trained to access and use the data that are relevant to their functional tasks. As responsibilities change, training by functional team leaders, co-workers, or IT team members is provided to

expand the knowledge base of the user to enable desktop access to support decision making. Every Stoner team member has e-mail access with a personal Internet e-mail address to assure internal and external availability. All Stoner team members check e-mail and the Intranet at least daily, in order to keep abreast of company-wide or inter-team communications.

We do not provide access to Stoner sensitive or proprietary data to non-Stoner people. We do provide product data including pricing and specifications on the Internet via our multiple industry targeted web sites and via printed catalogs and data sheets. We have refined our web ordering system to provide integration with our order information process. Our Inside Sales Representatives Team identified this area as an opportunity for improvement to eliminate most manual re-keying of data by ISR team members. Now data are directly transmitted to internal systems without human intervention, reducing errors and improving speed.

4.2a(2) As our business grows to meet the demands of customer volume and customer preference, we continually monitor the speed and reliability of Stoner hardware and software systems. Over the past 2½ years, we have added or replaced 19 servers and two firewalls for security and the web interface. We continue to make improvements to the reliability such as climate controlled room with backup power generation, redundant heat sensors, and various security measures and alarms.

To address issues of hardware and software reliability and the need to keep pace with changing business needs, we added a full-time team member to the IT staff in 1998, and in 2001 we added a part-time data entry clerk. A Senior Leader also oversees our IT Team.

We recognized that the resources needed to maintain and improve the existing systems were continuing to grow and a complete redesign would be required to support our data and analysis needs into the next decade. Further analysis was completed internally using the Assess/Improve/Implement process to determine the needs of individual team members relative to system support. This analysis set the foundation for the software selection and the direction our hardware and software systems would take during the next five years.

In 2000, our assessment of system demands (strengths and weaknesses), available solutions, costs, and ROI helped us determine that the best solution was to replace our existing stand-alone systems with one comprehensive package that would integrate our legacy systems with a much easier to use and more flexible relational database. Based on our benchmarking review, we found that it is considered one of the best enterprise packages available for manufacturing businesses. We also upgraded and replaced our hardware and network systems in order to support the new software system. The new software and hardware was purchased late in 2000. It went "fully live"

in October 2001 and has performed superbly. Stoner's team members have been trained and are fully functional on the new system. The process for the implementation of this system improvement was managed as any new product design/development/release. The implementation of the system has ensured the capability of software and processes to scale up and handle more than twice our annual sales volume.

4.2a(3) Through customer feedback, benchmarking, seminar attendance, and trade research, Stoner team members keep abreast of new emerging technological advances. We conduct reviews of our data system (including hardware and software) and use the Assess/Improve/Implement System to upgrade a current process or system. IT Assessments encompass the totality of systems and software – the 'big picture". Since Team Stoner members are recognized and rewarded for innovations, regular improvements are, in fact, made. Each month, the IT team holds meetings to uncover team member concerns with IT systems. Open issues are reviewed for status and resolution. These issues are organized in a database for tracking and resolution. All team members add new issues or edit existing issues to ensure the system continues to improve to meet the changing needs of customers and themselves.

To ensure our system remains viable, the IT team conducts utilization reviews and meets bi-weekly with team members to ensure emerging needs are identified and addressed promptly. Also, every six months we conduct an IT Customer Service Review to identify areas needing greatest improvement from the users' perspective. Improvement priorities are identified and implemented based on the impact to our business priorities. One direct result of this process, for example, has been the creation of targeted training sessions including Stoner U, individual one-on-one sessions, as well as specific education for each functional team. This state-of-the-art system greatly enhances our ability to make good use of data and should meet our needs for several years with ongoing updates and improvements.

4.2b Organizational Knowledge

4.2b(1) Communication and knowledge sharing are facilitated through frequent meetings, e-mail, and face-to-face impromptu and scheduled discussions. Ideas are actively solicited and best practices are shared with key customers and suppliers. For example, as we negotiated shipping rates with our transportation suppliers, we began each session with a presentation describing Stoner history, decision making process, expectations, and comparative data. As each vendor viewed our information, it would offer insights about its company culture, capabilities, and needs. Utilizing information collected from our BELog we would share information and problem solve alternatives or corrective action. Also, in 2002 we implemented the Stoner Intranet, a convenient yet comprehensive repository

for Stoner institutional memory—ranging from Stoner standards, practices, and "tech tips," to employee birthdays and lunch menus.

4.2b(2) Because the functional teams and leadership team constantly monitor performance, data that are collected and stored at Stoner are typically reviewed or used for decision making within days, sometime hours of entry. Because the users are also the enterers and processors, they check for and spot discrepancies or integrity gaps. There are also automatic checks in place for mission critical data to ensure reliability and accuracy. Some examples, if an Inside Sales Representative enters an incorrect customer zip code, a warning appears before the order can be shipped, prompting the error (either zip code or address) to be corrected. The credit card entry process has been upgraded to verify and authorize funds on a real-time basis. If the Manufacturing team incorrectly enters the quantity of an item produced, this would raise a flag on shortage reports, variance reports, item availability inquires, and inventory location reports prompting reconciliation.

To ensure we have the complete set of data needed for operational and organizational planning and continuous improvement (data integrity), the leadership team identifies assessment needs and improvement options that must be considered and then ensures that all team members—from senior leaders to individual contributors—have the data they need to support decisions they must make. Part of this data set is reflected in the Stoner 60 compilation (see figure 2.1-5).

5 Human Resource Focus
5.1 Work Systems
5.1a Organization and Management of Work
5.1a(1) "Motivated Team" is a core value and the way we lead the company. We operate with a motivated, incentivized, and very lean team. To achieve this, we develop leadership skills and responsibilities for all team members throughout the company. We go beyond most organizations as we systematically enhance opportunities for all of our team members to help them make their own personal "dreams" come true while achieving the company's goals.

As a small business, we cannot afford to build or support a bureaucratic, isolated, special purpose workforce. We designed our organization around two levels: (1) team members and (2) team leaders. They work through six integrated functional work teams.
- Marketing (including catalog development)
- Sales (market niche/customer segment focused)
- Inside Sales (customer care, retail, and Internet focused)
- Manufacturing and Warehousing
- Technology (including R&D, engineering, performance excellence, and safety, health, and environmental)
- Logistics, Accounting, and Information Technology

We have no "supervisors" or "foremen" between the top leaders and the team members. The functional leaders are worker-leaders. They do projects and provide functional guidance. Everyone in the company knows the business of everyone else, both as a function of our small size and because we promote cross-training in two to four jobs per team member to ensure full utilization of all team members. Team leaders and team members work together to address training and organizational matters as a part of Stoner's desire to develop and fully motivate the entire team. Consensus-based cross-training decisions are made between the team leader and members of each team. Training is targeted after an analysis of team member skill needs and the team member's personal goals for improving their skills.

We created the team environment and work together as teams because we have found that our success is highly dependent on teamwork across functions. We were able to create higher levels of productivity, morale, and efficiency by cooperation and coordination between the six functional work teams. We have created an environment that promotes leadership at all levels and in all functions. To facilitate the transition to an environment that maximized the contribution of every team member, we systematically developed the leadership (analytical and decision making) skills and technical knowledge of all team members throughout the company (see processes in Item 5.2). Over the past four years, we have systematically energized the intellect and creativity of all members of Team Stoner. That is, we work across functional team boundaries and focus on tasks beneficial to the whole business.

The flat organizational structure with regular functional team meetings, and personal one-on-one meetings between the team leaders and each team member has provided effective communication throughout the organization. Our small size and team environment demands individual initiative—there is no bureaucracy to get in the way or hide behind. We have evolved to a point where initiative, innovation, and flexibility IS the way we all work—the way people behave. The top leadership team reinforces the importance of this behavior by serving as role models for cooperation every day, through their own communication and through the interaction with all team members. If a problem arises, the team members closest to that problem follow a standard, validated problem-solving process. They define the problem, collect data to validate the problem's scope and importance, discover the root cause, formulate a corrective action, implement it, and then check to be sure it has been resolved. These teams meet on a regular basis until an agreed upon solution to the problem has been put in place and verified. They work on and solve these problems without seeking approvals or waiting to be told to do it. We do not waste resources by inserting unnecessary levels of management decision

making between the team members and their work or between team members and the customers.

To address routine problems or areas for improvement and implement corrective actions across the business, self-directed project teams assemble from various functions in the company. These teams meet on a regular basis until an agreed upon improvement goal is met. Other smaller, ad hoc teams are formed for quick solutions to immediate problems. Every team member is involved in such a team at least once a year.

5.1a(2) Stoner is an equal opportunity employer. We are located in a rural, farming community, a two-hour drive to the nearest urban center (Philadelphia). Our workforce is highly representative of our community. Our team members have pride in Stoner, have good relationships with the leadership team, and believe it is a good place to work. Part of the reason for this support is that we treat all team members fairly and honestly and truly value their input.

If an individual team member believes that he or she has not been treated fairly, that team member has immediate access at any time to top leadership. In this way, issues are resolved quickly and with little or no controversy or trauma. As a result of fair and equitable treatment, and the immediate accessibility of top leaders, a formal grievance process has never been required or requested. Benchmarking tells us that if our team members felt that they were not treated fairly, they would demand systems such as grievance procedures or collective bargaining as has been the case for so many other companies.

5.1a(3) We make sure that every team member has current information in areas that affect his or her contribution to Stoner's goals. We know how important effective communication is to team productivity and we make numerous communication mechanisms open to all. Although we use phone mail and e-mail extensively, these do not substitute for frequent face-to-face discussion during personal meetings, in the hall, or at a team member's work area. Team members know that the leaders are serious about an issue when they look into their eyes and talk about it. That is not possible with an e-mail. When a functional team is discussing an issue that affects another team, the other team is specifically invited to attend to promote cross-team sharing.

5.1b Our process requires that each functional team meets regularly to review its key measures. If a key assessment indicates a problem, the team begins the improvement process by determining root causes, identifying possible corrective actions, which are then implemented. Team leaders provide feedback to team members immediately, as they participate in these weekly meetings.

More personal and private feedback is provided during the one-on-one meetings, which are held at least quarterly. Performance results and personal goals/behavior are reviewed with each team member each quarter at the minimum and usually weekly by the functional team leaders. All team members receive both financial and non-financial rewards for meeting personal, team, and company goals. Goals are linked to individual, functional team, and overall company performance.

Along with base pay, Stoner team members are personally rewarded for his or her contribution to the performance of the company through a **bonus incentive program**. Bonuses at Stoner are based on the extent to which functional team performance and overall business performance meet or exceed expectations. This incentive system effectively focuses all Stoner team members on achieving critical performance objectives. We know this because leaders check team member understanding of goals and objectives to ensure ongoing alignment of work to desired objectives during daily conversations and one-on-one meetings. Incentives for team members and team leaders are directly linked. Incentive pay is driven by better business results, rather than paying a bonus for engaging in special activities, such as cross training/acquiring new skills or participating on problem solving teams. However, every Team Stoner member knows that it is important to learn new things and work together as a team to improve work processes, and in turn, improve productivity, profitability, and, ultimately increase incentive compensation.

Our team members understand and appreciate how the management system works to enhance performance and benefits for everyone. Feedback from team members on satisfaction surveys and face-to-face indicates that the incentive pay system is well understood and well liked.

This compensation system was started in 1990, refined through several cycles, and fully integrated by 1994. It has been modified and refined several times since to ensure it continues to meet our key strategic performance objectives and motivate team members. It motivates and encourages each team member to share in the success of the company. This system provides enhanced compensation to team members based on business performance. As a result, all team members, from senior leaders to individual contributors fully understand that key strategic objectives such as customer satisfaction, operating efficiency, and continuous improvement are essential to everyone's rewards. There is absolutely no doubt that this system provides a powerful incentive to drive each Team Stoner member to do those things that keep customers happy and loyal—develop new products, produce quality products, respond quickly to customer requests, ship orders fast, resolve complaints quickly, and grow sales in chosen markets. As a result, every Team Stoner member knows how his or her work and compensation is tied to the attainment of Stoner business excellence and high performance goals.

Based on an evaluation of the incentive system in 1998, we found the need to strengthen the focus on customer satisfaction. To emphasize the importance of quality and customer satisfaction, and reinforce the fact that dissatisfaction has a negative effect on business performance, we began to reduce bonus payments where appropriate, in percentage increments, based on Below Expectations Log responses (customer complaints). This change caused team members to focus more intently on ensuring customer satisfaction. Through participation in Stoner's bonus program during the past four years, team members have benefited significantly and have become keenly aware of the need to satisfy customers to make more money and have a winning company.

All team incentives are tied to key indicators within their functional group. We have found that by incenting continuous improvement in top level business results, team members are encouraged to look at all actions and behaviors that can impact these results. Incentives are team-based, individual-based, or project-based as appropriate. Frequently, the final incentive amount is a function of all three types of high performance contribution. However, every team member knows exactly what level of performance relating to key company goals is needed for a particular level of incentive pay. Money, however, is not the only incentive we use. For company-level performance improvements in any key area, Stoner regularly throws lunch parties for all team members to celebrate collective success. Other non-monetary recognition systems include personal congratulations by leaders and public recognition of exceptional performance at Stoner meetings.

5.1c(1) We have identified the skill requirements for each team function and defined the skills necessary to carry out job and work requirements for each of the following work teams: marketing, sales, inside sales, manufacturing and warehousing, technology, and logistics/accounting. When new products are planned and developed the skills needed to produce the products (and support their production and sales) are identified. When needed skills do not exist within the current group of team members, the leadership team determines whether the shortfall will be addressed through training, recruitment, or outsourcing. The decision on which approach to take is influenced by the long-term and short-term cost benefit analysis and the impact on achievement of strategic goals. Frequently, new skills are acquired through training and cross-training current team members. If current team members cannot meet work demands, and if potential team members who possess the required skills are available, they may be hired on a temporary or permanent basis, either full-time or part-time. If it is not practical or cost-efficient to hire new team members, we acquire the necessary skills through outsourcing or contract purchases. However, we tend to hire new team members (as opposed

to outsourcing) when it is critical to support strategic growth of the business.

We have found that cross-training promotes personal development and maximizes team flexibility and productivity. Greater team member flexibility has allowed us to expand both products and markets while keeping overhead and growth costs low. This also promotes an appreciation and support of other team member's contribution.

5.1c(2) When bringing a new team member into Stoner we use the following process to minimize hiring mistakes. As a result, we have had few members leave the team. First, we clearly define the position and the competencies that the position requires. We advertise in newspapers, on the Internet, and use recruiters. Candidates that pass the skills screening are put through a process that consists of assessment instruments and interviews with a representation of co-workers, not necessarily from the same functional team. We also identify the candidate's personal growth goals and training requirements necessary for assisting them in achieving their goals. The top prospects that possess the highest levels of the necessary competencies and traits (both skills and personal work characteristics) based on review team consensus are hired.

5.1c(3) Our biggest succession concern is that one of the functional team leaders or the general manager may become ill or disabled. Through longstanding and close working relationships, consensus decision making processes, shared planning responsibilities, and participation on cross-functional teams (to name a few), all senior leaders are intimately familiar with the work of the other leaders and at least one is prepared to backup any other—including the job of general manager. We have also chosen to groom team members that demonstrate high potential for functional team leadership through mentoring, training, and cross-functional team assignments in general paths—toward sales or technology, for example—rather than to specific positions. We target specific individuals for leadership development because we have found that not all team members desire or have the ability to assume or prepare to assume leadership duties.

5.2 Employee Learning and Motivation
5.2a Employee Education, Training, and Development
5.2a(1) Each team member is involved in preparing his or her training and development plan together with leadership team members. The plan is updated as business needs change and is reviewed at least annually, as a part of the performance planning and review process. Together, leaders and team members reach consensus on training required to address knowledge gaps and/or desired behavior and results. Off-site training approaches include conferences, supplier/customer site visits, and professional seminars. On-site approaches include consultants, Stoner U classes, team meeting training, and subscriptions to

industry and professional publications. Close relationships with many business consultants and suppliers also provide training opportunities and the sharing of best practices. Leaders will often "preview" or "sample" training opportunities themselves, to assess the suitability for their team members. We are small and cannot afford to waste either time or money on inappropriate training.

The skills inventory (see Item 5.1), which is used to identify skills needed to carry out the strategic objectives and personal development plans versus skills possessed, forms the basis for individual learning plans, both short-term (current year) and long-term (2 to 4 years). A sample from the learning plan is listed in figure 5.2-1. This figure provides examples of skill sets needed, and training planned (short- and long-term) driven by company and personal growth needs.

Position	Strategic Objective	Skill Inventory: Business (B) or Team Member (T) Personal Development Need	Training Planned (P) Delivered (D)
Tech Team Leader	Exceptional Results, Effective Team	Baldrige Training (B) (T) Leadership Skills (B) (T) Problem Solving Tools (B)	Quest Conference (D) Executive Leadership Training (D)
Mfg Team Members	Effective Team	Mixing Equipment Use and Maintenance (B) (T)	External Short Courses (D) Stoner U (D)
Sales Team Members	Exceptional Results, Effective Team	Computer Skills (B) (T) Sales Methods (B) Safety (B)	Stoner U (D) External Consultant (P) (D)

Figure 5.2-1 Training Planned and Provided (Sample)

The strategic plan is our guidance mechanism to align all management processes including product development and skills acquisition through recruitment and training. By continually refocusing on the strategic plan (including the use of processes described in Item 2.1 to update the plan as needed), we have been able to consistently stay focused on business needs. Our skills inventory, which is keyed to skills needed to implement the actions derived from strategy, keeps us focused on ensuring training enhances individual skills required to implement strategies and action plans. We have found that in order to grow the business and meet our strategic goals without hiring many new people and driving our costs up, we have had to systematically expand team member knowledge, skills, and responsibility. We all receive training to address gaps in skill sets and to prepare for changes in work and jobs—including the leadership team, which as we mentioned earlier is responsible for both leadership <u>and</u> individual contributor (worker) activities. Since our business strategy is customer and market driven, we have focused on developing the capabilities to deliver more value than our

competitors. To do this, we have worked to strengthen the capabilities of all team members in order to improve products and work processes.

5.2a(2) In 1996, a new team member orientation program was developed to ensure that all new team members understood Stoner's culture, values, and job responsibilities. This was especially important as we staffed the manufacturing team for a second shift. The orientation program takes place the first three weeks of employment. The new team member objective for this time period is to orient him or her to the Stoner environment, culture, and values. This individual is relieved of other work responsibilities during this training. A schedule is sent out to all participants via electronic mail and the schedule is managed by one of the members of the leadership team (we have no dedicated HR staff). The orientation process is used to support the human resource portion of our business growth plans.

We monitor organizational performance to uncover the need for education and training. For example, as Stoner standardized on Microsoft products, it was apparent that each employee was not capable of using other suite products for analysis and communication. As a result, Stoner U classes are held to maintain and develop proficiency. Training programs, however, are usually attended after a conclusion was drawn that a return on the investment in dollar sales or a reduction of expenses or could be tabulated based on skills improvements and increased value to the employee.

Specific training and skills are also aligned to strategy and action plans. This includes the use of measurement and decision making tools, such as the problem solving process and data analysis techniques (since everyone uses data to make decisions about work). Each team member is able to use appropriate performance measures and maintain records for use in monitoring and improving work processes. The orientation and subsequent skills training ensures that each team member possesses the measurement, decision-making, and process control skills needed to do all assigned tasks.

5.2a(3) Training is driven by the knowledge and skill needs of the business and personal development needs of team members. Every team member, in conjunction with his or her functional team leader, develops an individual development and learning plan and decides the preferred mix of delivery methods. In order to effectively keep up with changes in our business and meet the ongoing business and personal training and development needs of each team member (including team leaders), we have found that an average of at least 40 hours of training is required each year. Of course, more is provided as required (according to each team member's individual learning plan). Within the context of the individual learning plan, Stoner team members are empowered to select the training and style of delivery that they feel best meets the needs of

their individual, team, and company goals. We make sure that training is relevant and focused by tying it to the strategy and skills inventory. We do not waste resources to provide training for the sake of training or to meet a bureaucratic goal.

Additional training is selected as-needed, based on current projects and responsibilities and emerging future needs. New, specialized training (that may not have been a part of the individual learning plan) is one of the outcomes of a performance review, if that review indicates that insufficient skills or knowledge are one of the root causes of not meeting performance milestones. The individual performance review of each team member addresses the attainment of skills and knowledge required for team participation and job performance.

5.2a(4) Training is delivered in several forms: traditional classes, Internet, and local educational institutions. The primary vehicle for training delivery is Stoner U. Options for delivering training are determined by the team members and functional leaders. Training provided at Stoner U draws upon the knowledge and skills of team members who both train and mentor team members who need to develop those skills.

5.2a(5) As mentioned above, training is not provided unless it is (a) critical to the team member's work and job requirements and (b) has been identified as a skill in need of development or improvement. Because we are so small, the absence of even one team member can affect productivity. Team leaders (and especially fellow team members) do not support a team member's absence for training if that training is not expected to produce a performance benefit. Moreover, team leaders helped identify the training needs in order to boost performance and productivity. They mentor team members on the use of new skills in order to ensure optimum use of skills. After all, the bonus incentive plan provides a benefit to everyone as performance goals are met and exceeded. Bonuses are paid for results, not activities. Knowledge and skills that are essential to improving performance are demanded by the job, the team, and the company. The reward and recognition system provides company, and in turn, peer reinforcement for the use of key skills to meet business goals.

5.2a(6) We evaluate training effectiveness in several ways. Each individual learning plan is evaluated bi-annually and modified based on changes in team member needs and business needs. Each Stoner U course is evaluated to ensure it is appropriate and meets objectives. Evaluation techniques range from knowledge testing to written feedback to group discussions. Additional training is provided as needed to ensure subject mastery. The end-of-course evaluation provides feedback on factors such as course materials, content, relevance, instructor knowledge, delivery, and value. This feedback is used to help the instructor improve the delivery, pre-work, and materials if

the course is repeated. Feedback from team members is solicited about the usefulness of the training on the job. Training that fails to deliver appropriate knowledge or skills is modified or replaced.

We usually schedule skill training on a just-in-time basis to ensure that new skills are actually used and reinforced on the job. That is, training is planned (as a part of the team member training/development plan) and taken when it is needed to ensure it is reinforced by the application of the learning.

Finally, based on a request by the team member or leader, the personal training and development plan is reviewed and modified as appropriate at any time as needed.

5.2b In the context of our strategic objectives we focus on developing an effective team in order to achieve exceptional results and deliver high value solutions for lifelong customers. Training is provided to develop our human resources. Every team member at Stoner receives training in support of technical skills and in support of Stoner's values and strategic objectives. For example, since product and service quality and customer satisfaction are critical for success, each team member is trained to understand his or her role in meeting these requirements. After knowledge and skills are developed, each team member is responsible for his or her work processes and outcomes and receives performance incentives and bonuses. Each team member measures his or her progress against the company's key performance indicators. The knowledge that quality and customer satisfaction are being measured and rewarded, inspires a personal sense of responsibility for action to ensure desired results are achieved.

Each team member has defined job and personal career objectives. We encourage training on personal as well as business-related gaps. The individual learning plan for each team member identifies these developmental actions and sets the individual's (1) career development plan, (2) mentoring, and (3) positive reinforcements of results linked incentives.

5.3 Employee Well-Being and Satisfaction
5.3a Work Environment
5.3a As Stoner grew, team member safety received increased attention. Stoner has appointed a full-time safety director who has helped to maintain a safe work environment through the use of a variety of safety training courses, site safety audits by Stoner's workman's compensation insurance carrier, and bi-monthly safety meetings. Bi-monthly safety meetings with all team members are used to evaluate safety issues and generate safety improvement projects. Team members identify potential hazards during meetings with the Safety/Health/Environmental (SHE) coordinator and their

Activity	Description
Celebrations	Summer Family Picnic, Thanksgiving dinner, Christmas party, steak dinner and golf.
Sporting Events	Company paid Orioles baseball and Ravens football trips, golf outings.
Recognition Lunches	Parties to celebrate the meeting of performance goals, record-setting events.
Birthday Gifts	Cake, signed card, and $20 gift certificate for every team member.
Renovated Team House	Early 1800s stone farmhouse was restored and outfitted with a lunchroom, meeting room, snacks, and fireplace.

Figure 5.3-2 Stoner Sponsored Activities

own team leaders. They also identify several goals as well as improvement opportunities:

- Our safety goal is simple: zero lost time accidents.
- Remove threats to health in the use of chemicals during production. Reduce accidental exposure**.**
- Provide ergonomic support devices such as telephone headsets (to prevent sore necks) and arm rests on computer keyboards to reduce repetitive stress injury.

The SHE coordinator conducts safety and environmental reviews to identify and eliminate potential hazards. Stoner U provides SHE training in a number of areas based on OSHA standards as well as Stoner SHE goals. Every team member receives SHE training and update briefings to remain current. Training is customized to the job as a part of individual planning.

Stoner works to exceed required safety measures in the best interests of the team member safety and productivity.

5.3a(2) Stoner has developed a preparedness protection and contingency process in order to facilitate an organized approach in dealing with a catastrophe. We have developed an emergency response plan.

5.3b Employee Support and Satisfaction

5.3b(1) We use three basic methods to identify the drivers of team member well being, satisfaction, and motivation.

- First, we ask them during our daily and routine meetings together (team members quickly become open and frank when communicating their thoughts).
- Second, although few team members leave, we never miss an opportunity to gather feedback. We conduct an exit interview with each departing team member. Again, team members are not shy about communicating their concerns or reasons for leaving. A consultant who is an expert in organizational psychology and is very familiar with Stoner and our culture and environment does the interview.
- Third, on the semi-annual team member satisfaction survey, several open-ended questions are asked to capture issues that may be of concern to only one

person, but could affect others. When we start to see a trend in issues identified through the open-ended question, we modify the survey to ask question(s) and probe the issue to see if it is more widespread.

Figure 5.3-1 provides a brief description of the Stoner benefits package that has been put in place based on these findings. Stoner also sponsors a number of activities to support the broader Stoner "family." To reinforce the team concept, Stoner team members are given free Team Stoner hats, sweatshirts, and polo shirts. This clothing serves as an informal "uniform" on the job and is a constant reminder of individual and collective responsibility. Every Friday is Team Stoner day where all team members wear Team Stoner clothing (figure 5.3-2).

5.3b(2) We work in an area of Pennsylvania that is, and has been for 300 years, very homogeneous. With the exception of Team Stoner and a few local shopkeepers, most of the local activity is agricultural, characterized most notably, by beautifully maintained Amish farms. Accordingly, we definitely have a workforce that is representative of the community and the local work pool.

Our benefits package has grown richer and increasingly more flexible during the past 5 years to better meet the needs of team members. We added personal days, additional vacation time, flexible spending accounts, and 401K improvements. Profit sharing provides additional benefits. Manufacturing hours were set by team members to accommodate life style or other personal preferences.

5.3b(3) Absenteeism (except for personal leave days, which are provided to all team members as a benefit) and grievances are virtually non-existent. As such, for us they are not valid indicators of team well-being, satisfaction, or motivation. On those extremely rare instances when an individual is absent unexpectedly (not sick or using an approved personal leave day), team leaders know of the absence immediately and follow up personally to determine if they can help with a problem (if one exists).

Since 1996, we have used a short, written survey every 6 months to assess team member well-being, satisfaction, and motivation. The semi-annual assessments have been used consistently to measure and improve key areas of team member well-being, work climate, and leadership effectiveness. However, it was difficult to obtain accurate benchmarks or comparisons for our internal survey data. Accordingly, in 2001, we began to explore options to strengthen our assessment and acquire more useful comparison data.

In 2002, we contracted with an outside firm to administer a comprehensive, nationally norm-referenced employee climate and satisfaction survey. Results of the survey are circulated to all members of the leadership team for review discussion with their teams, improvement planning, and follow-up action. Within one month of receiving the survey results, the leadership team plans corrective actions and shares these plans with everyone in

the company. By adding a comprehensive assessment to our internal pulse, we are better able to identify subtle issues facing team members and make ongoing improvements that impact productivity.

5.3b(4) Work climate improvement priorities are always analyzed from a cost-benefit position to determine the relative value to the business of expending additional (or shifting) resources to improve work climate or provide additional benefits. We also examine the potential impact on morale and motivation, similar to the analysis we conduct before allocating resources to new product development. This helps us focus limited resources on those improvements that are most likely to have the biggest positive impact on the business.

6 Process Management
6.1 Value Creation Processes
6.1a Value Creation Processes
6.1a(1) Value creation processes are defined as our core business processes—production and delivery of Stoner solutions. All new and improved products are developed by Stoner teams (figure 6.1-1) using our design process (figure 6.1-2). The red (grey in B&W version) boxes represent value creation processes; the blue (dark grey in B&W version) represent support processes. A similar

design process is used for value creation and support processes (excluding manufacturing-specific steps like "labels" and "commercialization").

Most new product and service ideas at Stoner are driven by (1) direct customer contacts by Stoner team members, (2) research of practices at companies that Stoner benchmarks, and (3) suggestions from Stoner team members throughout the company. Suggestions from team members have produced many valuable products as we work to promote innovation and initiative. The Stoner Design Process focuses on enabling Stoner people to capture customer and market requirements and maintain focus on those requirements throughout the design, production, and delivery process.

• Our process requires that customer requirements, supplier capabilities, and product concepts be integrated and aligned before product feasibility is tested against our corporate (and related functional) strategic plans. Our design teams review all customer comments, including the complaints from the Below Expectations Log, to ensure any that relate to the proposed new concept are fully considered and addressed. We also contact our key suppliers and review our proposed requirements to ensure they can deliver key products and services before we spend resources to develop a new product that might be impractical. Manufacturing
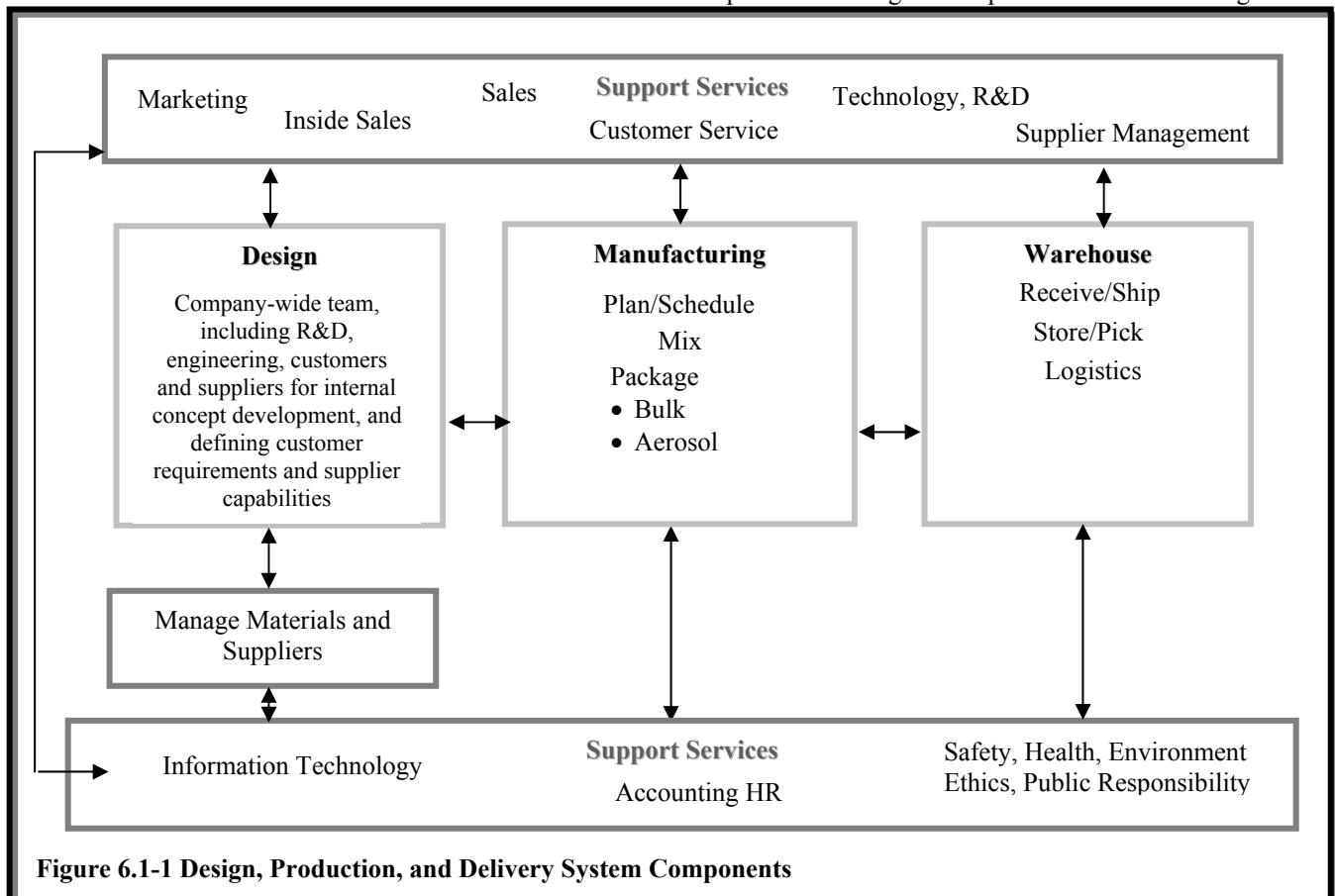
Figure 6.1-1 Design, Production, and Delivery System Components

resources and procedures are compared to core competencies by the design team as a part of internal concept development. An analysis of supplier capability compared with production requirements and capabilities is used to identify changes that may be needed in the supplier mix.

- At the same time, the leadership team reviews the product concept, life cycle, and customer data to determine if it is consistent with company and functional plans. The concept for new products is reviewed against regulatory requirements and risks identified through the strategic planning process. If the new concept is consistent with strategic direction, we conduct a portfolio analysis to determine the *attractiveness* and *uncertainty* associated with the potential new offering.
- The proposed manufacturing process undergoes testing with prototypes to ensure that it consistently produces the desired output and that it can operate within appropriate safety and environmental parameters. During this step in the Stoner Design Process, the design is tested to ensure it meets customer requirements. We ask customers to field-test the prototype products. We use their feedback to make improvements in the product as appropriate. We also measure production cycle time, error, defect rates, and compare them with similar processes that have been in place and refined. In this way, we ensure that mistakes of the past are not repeated and better practices are put in place from the beginning. Customer feedback during the prototyping activities helps us determine that the product performs as expected or even better. This provides

evidence that the design of both the original product and the production process will work as intended. However, before the product is fully launched, appropriate team members from affected functional teams meet to evaluate each aspect of design, production, warehousing, and delivery. When all team members are satisfied that their respective processes are performing as expected and the product meets customer and operational requirements, it is approved for commercial production.

While these final tests and discussions are taking place, a commercialization plan is finalized, including marketing and promotional material development and delivery specifications and processing.

- At the end of the design process cycle and at each major step, a process evaluation is conducted (using the Assess/Improve/ Implement Process) to identify the steps that worked as expected and those that need modification. During these team reviews, which are facilitated by a technology team member, refinements to processes are identified even if the current process already "meets" expectations. Proposed refinements that have the potential for significant cost savings are analyzed for cost/benefit implications, including the impact on customer satisfaction. These refinements are prioritized for action and implemented accordingly. Refinements with small resource implications are simply put in place.

When all processes demonstrate capability, the commercialization plan reflects achievability, and customers report satisfaction with the test products, the new product is then approved for production and delivery.

Design Component

Internal Concept Development — Customer Requirements — External Supplier Capabilities

Strategic and Functional Plans

Project Portfolio Analysis

Initial Prototyping

Material Safety Data Sheets, Product Specifications, Labels

Final Prototyping and Implementation

Delivery Systems

Commercialization

Assess and Improve Accuracy, Efficiency and Effectiveness

Figure 6.1-2 Stoner Design Process
The steps outlined in red (grey in B/W version) are used to design support products and services as well as value creation products and services

6.1a(2) Stoner's customers provide many new product and service ideas that are listed in our database for examination by functional teams and the leadership team. Our contact with customers is close and personal. Comments received by the Inside Sales team are used by the design team to help uncover problems and make design or delivery refinements. Comments from the Below Expectations Log are recorded by the Inside Sales team and made available to the Manufacturing and Warehousing team each week, as well as the Technology, Sales, and Marketing teams. Furthermore, the leadership team reviews the previous week's BE Log during staff meetings each Monday. Issues and ideas are discussed at weekly meetings and prioritized based on business impact and required resources.

At these meetings, the status of top priority items is monitored very closely. Customer requirements are analyzed against product and service requirements based on direct customer feedback. This ensures changing customer requirements are identified and captured immediately so that we can modify processes and products/services to produce the highest possible level of satisfaction.

- Stoner solicits and records feedback and preferences every day from current, former, and potential customers.
- Below Expectations Log—tracks complaints and compliments of customers. See figure 7.1-4.
- Daily contact with customers produces a verbatim record of comments and requests. This information is analyzed to identify trends and issues that may emerge at any stage of the design process. In this way, we get current (daily) information about customer requirements and factor them in to the design process.
- Via partnerships and close relationships with our suppliers, we receive key information that helps to define these requirements.

6.1a(3) The Technology Team, which includes R&D, is an integral part of the Stoner Design Process (even though much of their work is considered a business process). The technology team examines the following as a part of the Project Portfolio Analysis step of the Stoner Design Process.

- R&D—Design new production approaches, especially where products and production can be made more environmentally safe.
- Suppliers—Meet with key suppliers to examine their capabilities, coordinate the shared development of new technology solutions as appropriate.
- Engineering—Technology Team members coordinate the engineering (if needed) of new manufacturing processes, packaging equipment, warehousing modifications, and delivery. Engineering also tests equipment and identifies needed knowledge and skill requirements for the team member skill inventory.

Stoner's production processes are designed to minimize labor and maximize reliability through the use of computer control and monitoring. Although some testing is done to ensure that manufacturability and operational requirements are met, our entire design focus is to ensure that quality and fitness for use are designed in, rather than rely on inspection to prevent defects from reaching customers. The Technology Team prototypes every production and delivery process to make sure they perform as expected.

The Technology Team, which consists of Engineering and Research and Development sub-teams, ensures that all processes, from design to delivery, are working as intended. Coordination and complete alignment of sales, marketing, customer service staff, manufacturing, warehousing, and delivery is relatively easy. The preceding design steps led to the following process improvements and activities:

- Product Assemblies.
- The creation of a Material Safety Data Sheet (MSDS)—our formal communication to the customer of all key technical information.
- Prototyping and/or Pilot Scale Manufacturing.
- Field Testing.
- New and Improved Product Spreadsheet and Item Traveler
- Marketing and Label Production.
- Evaluation and refinement to improve effectiveness and efficiency of design and delivery processes is an integral part of the continuous improvement cycle.

6.1a(4) Figure 6.1-3 summarizes some key production and delivery processes, job functions/requirements, and measures. The key performance requirements and associated measures and performance standards are defined in the design phase.

Many of Stoner's production processes are monitored by computerized equipment. Networked personal computers are used to record data and information, consolidate data, and produce reports that team members and leaders use to monitor performance. Critical manufacturing processes are controlled and/or monitored by automated equipment that provides greater accuracy and more dependable performance. For manual processes associated with production (such as warehouse picking and batch mixing), team members follow a standard process protocol to record data and dates for each key process stream. The team member who enters the data records his or her initials for each entry to ensure traceability and accountability.

In addition to the measures discussed above, several other real time operational control measures are used by team members to monitor, control, and refine key production and delivery work processes.

Stoner

Furthermore, we log and analyze all customer questions about product and delivery as a means of prioritizing our improvement efforts.

Our key suppliers, in addition to monitoring their own in-process measures and controlling their own process variability, help us reduce dependency on testing and inspection.

However, we will perform additional tests that are specific to our internal processes and/or end use of the raw material. We want to be certain that all raw materials meet performance standards before we add value to them.

6.1a(5) Each time we manufacture products, we utilize an assembly protocol that lists all necessary information to make the product. The assembly protocol is printed directly from our manufacturing computer system.

6.1a(6) During all stages of manufacture and delivery, the manufacturing team evaluates the key process steps to identify opportunities to improve, just like the design process is reviewed. This includes a process evaluation (using Assess/Improve/Implement Process) to identify and prioritize processes that can be improved. The review process is also triggered immediately when desired performance levels for the manufacturing and delivery processes are not met. During these manufacturing team reviews, which are facilitated by a technology team member, refinements to processes are identified. As with the design process evaluation, all proposed refinements that have significant resource demands are analyzed for cost/benefit implications, including the impact on customer satisfaction and prioritized for action (improvements with little cost impact are simply put in place).

Key Processes	Description	Job Functions/ Requirements	Measure
Design Products and Services	(Owner: R&D) • Rank project by portfolio analysis • Field test • Refine product • Develop assembly specifications	• Concept development • Analyze/adapt external customer requirements • Determine need for supplier changes	• Sales of improved products • Sales of new products • Samples shipped when promised
	(Owner: Engineering) • Produce product on prototype process • Scale up process • Refine process and test for manufacturing ability	• Define in process & finished product specifications • External/ Internal customer requirements	• Equipment up time (aerosol packaging) • Repairs and maint costs • Capital project ROI
Manu-facturing	(Owner: Manufacturing) *Plan and Schedule* • Review future needs against current inventory	• Accurate Sales forecast • Sales history • Inventory levels	• Aerosol packaging line changeover time • Aerosol can output • Bulk gallons output • Total unit output
	Mix • Review schedule • Print assembly and follow instructions	• Achieve weekly schedule • Meet product specs	
	Package-Bulk and Aerosol • Review schedule • Print assembly and follow instructions	• Achieve weekly schedule • Meet product specs	
Ware-house	(Owner: Warehousing) Receive/Ship • Interface with carrier Store/Pick • Place in or pick from location	• Achieve weekly schedule • Pick location	• Picking error rate • Orders shipped same day
	(Owner: Traffic) Logistics • Determine best carriers for order size and destination	• Customer locations • Market forces	• Transit time to customer • Damage ratio • Cost of in-bound and-out bound freight

Figure 6.1-3 Key Production and Delivery processes, Requirements, and Measures

Through our continuous improvement processes, we have made use of lean manufacturing tools to reduce operational costs and streamline manufacturing processes.

Significant process improvements are documented. We share the results of improvements of our business with other functional team leaders via our weekly staff meetings. Functional team leaders then communicate the results to their team members during regular functional team meetings. During meetings with our key suppliers, we share the non-proprietary results and learnings from projects like those listed above to assist with their improvement efforts. This sharing provides a basis for win-win negotiations.

6.2 Support Processes

6.2a Support Processes

6.2a(1) Key support processes include the following:
- Accounting
- Information Technology
- Human Resources
- Safety, Health, and Environmental
- Customer Acquisition, Satisfaction, and Retention (Marketing, Sales, Inside Sales, R&D)
- Manage Materials and Suppliers (Purchasing)

6.2a(2) All teams at Stoner are interconnected and aligned to support business strategy. During the process of developing strategy, the internal process capabilities are considered prior to finalizing strategic objectives. Support functions are evaluated for their ability to meet operational requirements that are necessary to meet company performance goals. The leaders of each functional (support and operational) team all agree during the planning process on both general and specific performance requirements. Support requirements, as all other operational requirements, are clearly defined and evaluated prior to committing the company to a particular strategy or course of action.

Our size and interconnecting teams make it easy to communicate requirements and work together to meet them. If one team fails to meet its objectives, it threatens the success of all teams. Accordingly, each functional unit shares a piece of the responsibility for meeting business goals. Figure 6.2-1 identifies the key requirements of our support teams.

6.2a(3) Our design processes for Support Processes are the same as we use for product and service design. All of the Key support processes, like operational processes, have defined procedures to follow to ensure requirements are met. Sales and Marketing teams work to enhance new customer development through the coordination of promotional literature, catalog development. Support process design is the responsibility of that support process owner who is also responsible for coordinating work with the other process owners. The six team leaders interact frequently during the week to coordinate functional and operational activities. They meet together at least weekly to plan, coordinate, monitor, and drive improvements. When new products are designed, requirements for all support functions and suppliers are identified (see description in 6.1a). Products are not put into production until all aspects of work within Stoner and
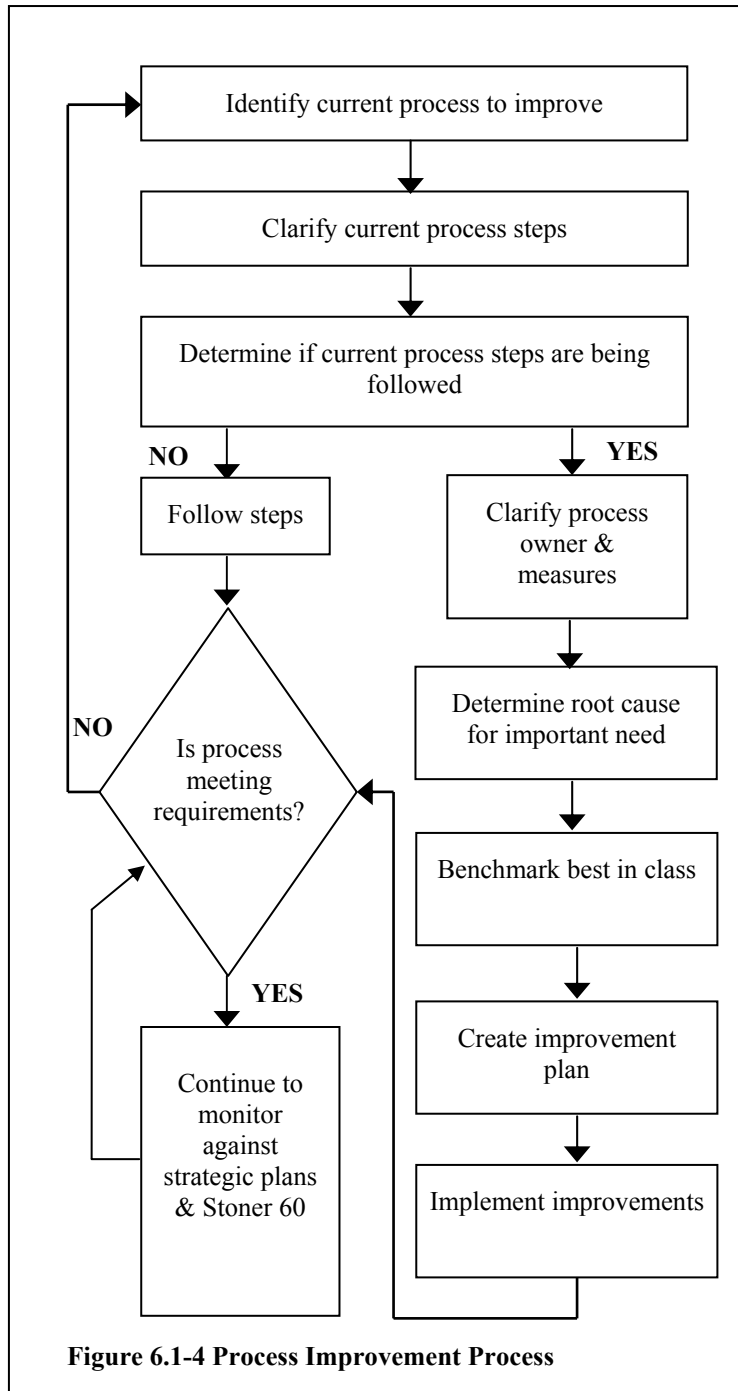
Figure 6.1-4 Process Improvement Process

The flowchart contains the following steps: Identify current process to improve → Clarify current process steps → Determine if current process steps are being followed. NO → Follow steps → Is process meeting requirements? YES → Clarify process owner & measures → Determine root cause for important need → Benchmark best in class → Create improvement plan → Implement improvements. Is process meeting requirements? YES → Continue to monitor against strategic plans & Stoner 60.

with its suppliers are aligned to provide seamless support to ensure everyone can meet requirements of our core product/service processes.

6.2a(4) In addition to the measures listed in figure 6.2-1, the data subsystems of KEY 1 provide a steady stream of in-process data to appropriate team members and team leaders. In total, KEY 1 collects and helps integrate over 100 in-process measures that every team leader uses to aid decision making. The continuous use of these measures enables the Stoner team to know how well they are meeting key performance requirements on a real time basis. Key performance measures that are used to monitor and control support processes are listed in figure 6.2-1. When trends are unfavorable, a group of team members will determine the root cause and implement corrective action to reverse the trend. When any member of a team identifies an existing or emerging problem, the team meets, analyzes the problem, and agrees on the actions needed to keep the process on course. We know all of our key supplier contacts personally, and personal contact is a very effective way to ensure a prompt solution to our concerns. We record all vendor-based problems on the BELog. Significant problems prompt the creation of a problem solving improvement team that works with the vendor until

resolved. Additional measures for our business processes are shown in figure 6.2-1.

6.2a(5) Costs are reviewed monthly to determine if they are in line with our projections as well as industry standards. We take a proactive stance on cost minimization. Each functional team tracks costs associated with their processes to ensure that the appropriate testing is completed to meet customer requirements while simultaneously minimizing resource requirements. Costs associated with tests and inspections have been eliminated for our key supplier/partners once they demonstrate highly reliable production and delivery processes. We receive from them certificates of analysis that assure that proper chemical analysis and testing has taken place. If a defective unit or batch is identified during our production process, immediate calls are made to the supplier/partner to alert them of the problem and begin corrective action. Errors that recur prompt our team to work more closely with the supplier/partner until their products are back in compliance and demonstrate high levels of reliability. Reducing these costs, while maintaining or beating process performance expectations, drives bonus incentive payments (described in Area 5.1b).

Description of Key Support Process	Job Functions/ Requirements	Measures
Accounting • Print and mail invoices and checks for purchased materials and services	• Accurate financial tracking system	• Accurate, auditable records, (including invoices) available on-time (see KEY 1, S60)
Information Technology • Install, support, and service existing and new hardware and software	• Timely decision support • Support hardware and software	• Downtime associated with IT equipment
Human Resources (shared function of senior leadership team) • Provide training to team members to support strategy; competitive benefits package; safe and stimulating work environment	• Timely recruiting, hiring, training • Benefits marketplace analysis	• Team member satisfaction • Employee goodwill expenses • Charitable giving
Safety, Health & Environmental (SHE) • Provide safe work environment; product safety information via MSDS; monthly meetings to review improvements	• Raw material SHE data • Cross-functional resources to drive SHE improvements	• Lost time accidents • OSHA 300 Log cases • Worker's Comp cases • Completed SHE improvement projects
Customer Acquisition, Satisfaction, and Retention • Convert prospects to customers • Satisfy customers • Develop loyal customers	• Most important publications read by target audience • Most important product benefits and features • "A" leads • Communications systems (e-mail, telephone, fax) • Product literature • Sample kits	• Percent of catalog response orders • Sales growth • Sales by product line • Weekly average sales • Overall satisfaction • Top customers lost to competition/stay with Stoner • BE occurrences • Customer care efficiency
Manage Materials and Suppliers • Procure appropriate amounts of raw materials • Manage partnership arrangements	• Specifications for finished goods (on time, damage free, pricing)	• Supplier price stability • On time delivery of raw materials • Supplier related Below Expectations occurrences

Figure 6.2-1 Summary of Key Support Process Requirements and Measures

6.2a(6) As discussed previously, <u>every</u> team makes extensive use of the Assess/Improve/Implement process to achieve better levels of performance, and this includes support teams. Our small size, flat management structure, and close personal working relationships enhance the spirit of empowerment, innovation, and creativity throughout the entire organization.

• We put in place a comprehensive computer-based network of integrated or linked databases. Everyone uses these systems to gather facts, report performance issues or progress, and aid in sharing and decision making.
• Income Statement, Balance Sheet, and other financial information are computerized. Financial statements are printed monthly and formally reviewed by Stoner's Advisory Board that has met one Saturday, every quarter, for the past ten years.
• All accounts receivable and payable are computerized.

We use sales and marketing comparative information to judge our performance. We attend trade shows, speak to consultants, read trade journals, and obtain competitive information to improve our business processes. We have entered catalog competitions to measure our performance against the best in the industry.

Stoner has made significant improvements in managing supplier performance. Stoner reduces incoming inspections by requiring extensive material quality assurance by those suppliers. Other non-chemical items such as boxes and cans are further inspected on-line by team members and rejected if defects are found rather than using a separate inspection process.

It is difficult for us to influence our large suppliers through purchasing power alone.

• Stoner utilizes information services that provide instant Internet access to customer and competitor financial status and ratings.

We introduced hand-held two-way radios to provide instant communication between our manufacturing team members, team leaders, and office personnel. All team members have electronic mail and telephone voice-mail.
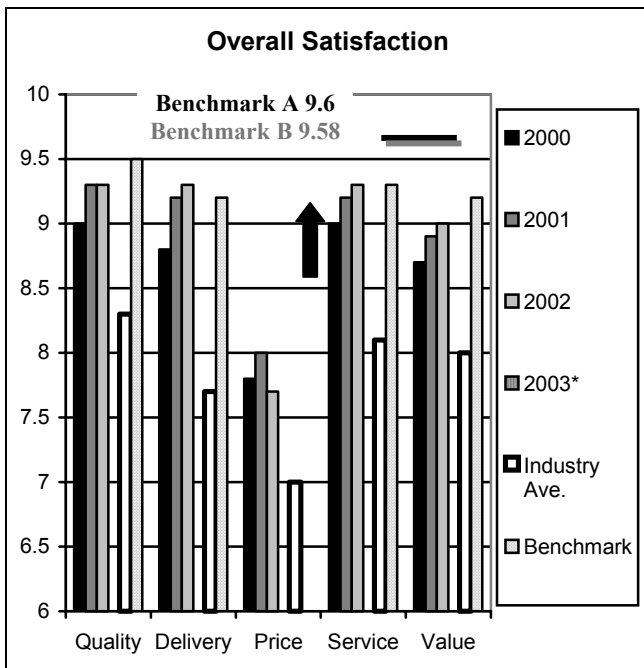
We always share improvements in one area of our business with other functional teams via our weekly staff meetings. Functional team leaders obtain the improvement learning during the staff meeting and then communicate it

to their individual functional team members during weekly functional team meetings. This process consistently works for us because it is tied closely to routine communication channels and interlocking functional teams.
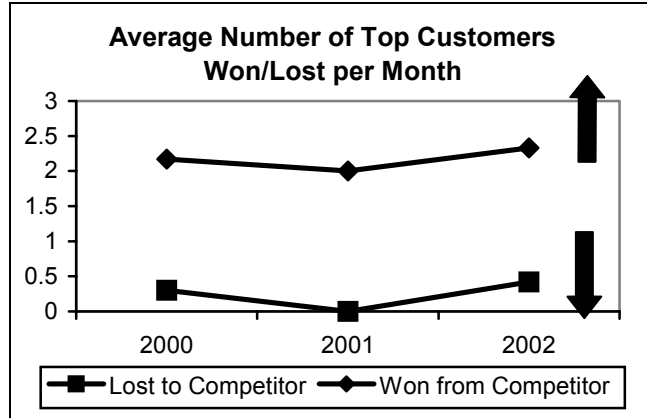
7 Business Results

7.1 Customer-Focused Results

Our customer relations research contractor produces an industry comparison that allows us to identify where Stoner performs on key customer requirements of quality, delivery, price, service, and value (figure 7.1-1). The bold white line represents the industry average. **We are in the top 10% of the industry.**

Average Number of Top Customers Won/Lost per Month

Figure 7.1-2 Top Customer Win/Lose Comparison

Our average retention of top customers the past 5 years is over 98% percent (figure 7.1-3) and indicates strength across the entire product line.

Overall Satisfaction

Figure 7.1-1 Overall Satisfaction Compared to Industry

Figure 7.1-2 compares our won/loss rate for our best customers (those that account for 60% of our business). In the last three years, we have won more than three times as many customers as we have lost to competition.

Retention Of Top Customers
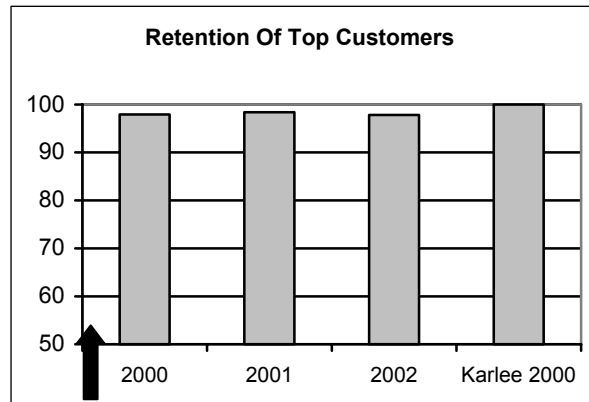
Figure 7.1-3 Top Customer Retention Levels

Another key indicator that Stoner uses to measure customer satisfaction is the Below Expectations Log (BELog). The BE Log is a database of customer generated complaints and concerns. Linking to KEY 1 we analyze the data and report the number of complaints relative to the number of orders processed. Figure 7.1-4 summarizes BELog results normalized as a percent of orders billed. Note that the increase in BE Occurrences in 2001 was based on qualifying a new supplier delivery service.

BE Occurrences as a % of Orders Billed
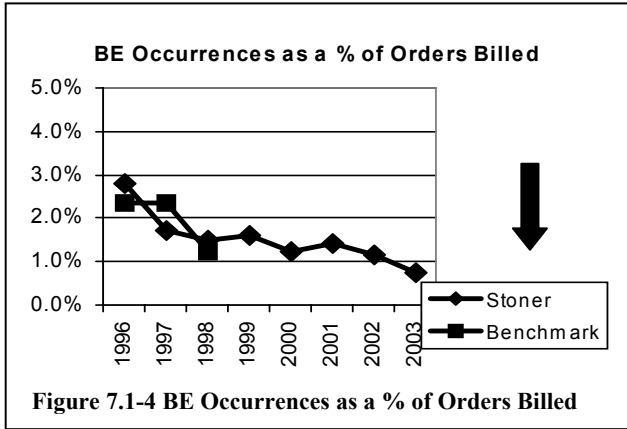
Figure 7.1-4 BE Occurrences as a % of Orders Billed

Customer Security and Vulnerability

Figure 7.1-6 Customer Security/Vulnerability

Same day as ordered shipment of more than 300 stock (non-customized) products is a key objective that links directly to customer service satisfaction. Although same day shipment is not a high priority of all customers, we have adopted this practice as a key factory-direct service strategy. The results in figure 7.1-5 are indicators of the performance of our customer contact team (Inside Sales) and help us predict customer satisfaction.

We analyze customer satisfaction to determine the extent to which Stoner is vulnerable to losing customers (even though our loss rate is very low (as reported in figure 7.1-2). Figure 7.1-6 is derived from survey data that examines the likelihood that a customer will consider using another supplier, or stay with Stoner. We use this information to help plan both short- and long-term actions.

Inside Sales Indicators	1999	2000	2001	2002	2003
# Calls taken/wk					
# Orders processed/wk					
Ave $ value of cross sells					
# of Order Entry BE complaints/ 1000 Orders					

Confidential

Figure 7.1-5 Inside Sales-Customer Care Efficiency

7.2 Product and Service Results

7.2a Figure 7.2-1 shows the customer product and service satisfaction ratings for each customer segment and demonstrates little variation among them. Overall, we have consistently maintained a high level of customer satisfaction in a very competitive market. It is interesting to note that although the satisfaction level for "price" is the lowest it is still in the top 10 percent of comparative ratings among competitor organizations. However, in response to this price sensitivity, not increased our prices for the past five years. In fact, all of our performance outcomes place Stoner in the top 10 percentile.

Stoner's 100% satisfaction guarantee helps encourage new customers since we absorb virtually all of the risk.

Independent benchmark comparisons between Stoner and the industry show Stoner to be at the very top in product and service features including quality, delivery, service, and value and significantly above average for price as figure 7.2-2 indicates.

	Year	Service	Delivery/ Availability	Quality	Price	Overall Value	Overall Sat.
Total							9.2
							9.1
							8.9
Market A							9.4
							9.1
							8.8
Market B							9.5
							8.3
							8.8
							9.6
							9.4
Market C							8.3
							9.0
							9.5
Market D							9.0
							9.2
							9.3
Market E							9.1
							9.2
							8.4
Market F							9.1
							9.1
							8.5
Market G							8.5
							9.0
							9.0
Market H							8.6
							9.5
							9.1
Market I							9.2

Figure 7.2-1 Product and Service Customer Satisfaction Ratings by Product Line

Comparison to Industry

Satisfaction with general factors, compared to other manufacturing companies

Legend: High/Low | Industry Average | Stoner 2002 | Stoner 2001 | Stoner 2000

Industry scores are based on proprietary data from Diagnostics Plus surveys
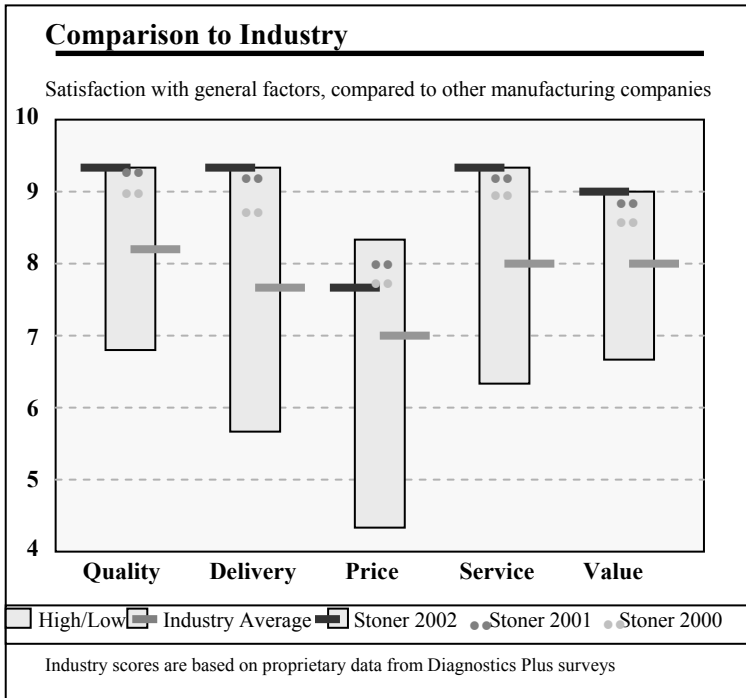
Figure 7.2-2 Comparison to Industry

7.3 Financial and Market Results

Stoner has a history of strong and consistent financial performance, especially since the early 1990s when Stoner's leadership team began to adopt the principles of the Baldrige business excellence criteria. Stoner has worked hard to ensure consistent sales growth, with a 400% increase since 1990 compared with only 63% growth in the US gross domestic product (figure 7.3-1). Recent revenue growth has come from new business.

Sales Growth ($000)

Introduction of Stoner Excellence System
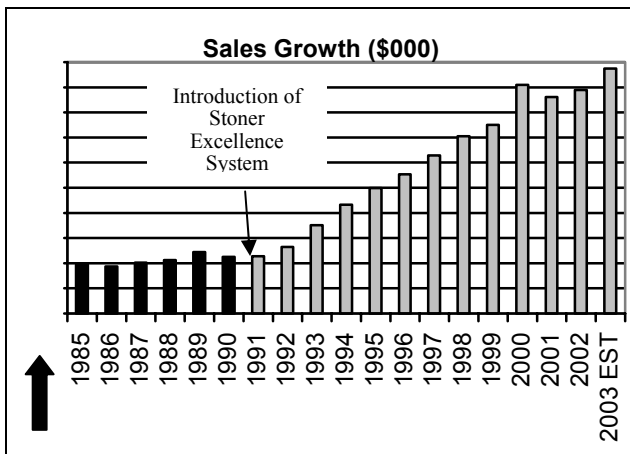
Figure 7.3-1 Sales Growth

Figures 7.3-2 through 7.3-5 demonstrate increasing market share against differing competitive products.

Market Share Data

Legend: Competitor | Competitor | Invisible Glass 19 oz. | Competitor | Competitor
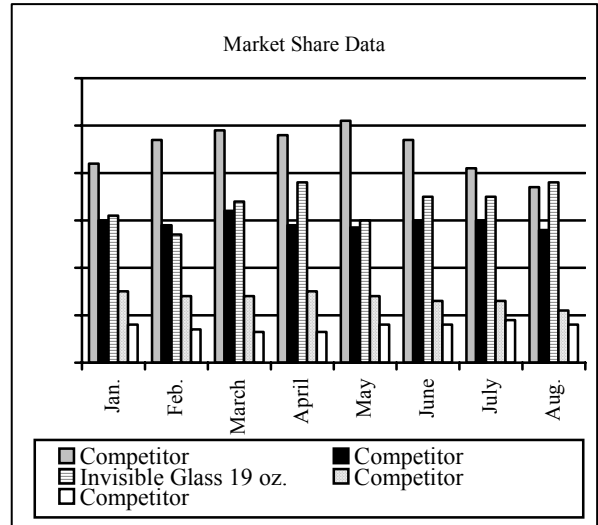
Figure 7.3-2 Market Share Data

Invisible Glass vs. Competitor

Legend: Competitor | Invisible Glass 19 oz.
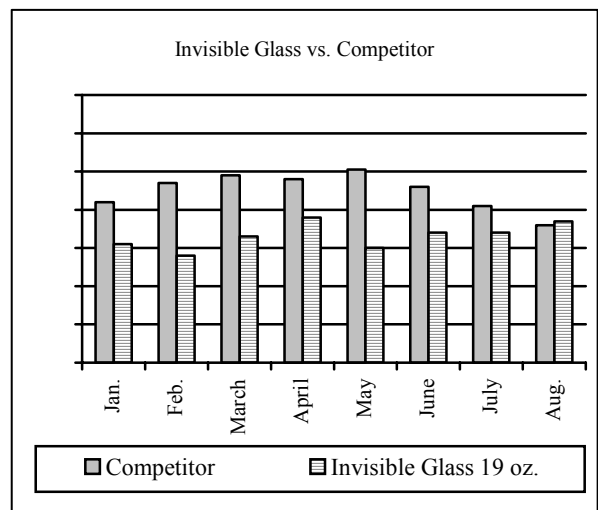
Figure 7.3-3 Invisible Glass vs. Competitor

Invisible Glass vs. Competitor

Legend: Invisible Glass 19 oz. | Competitor
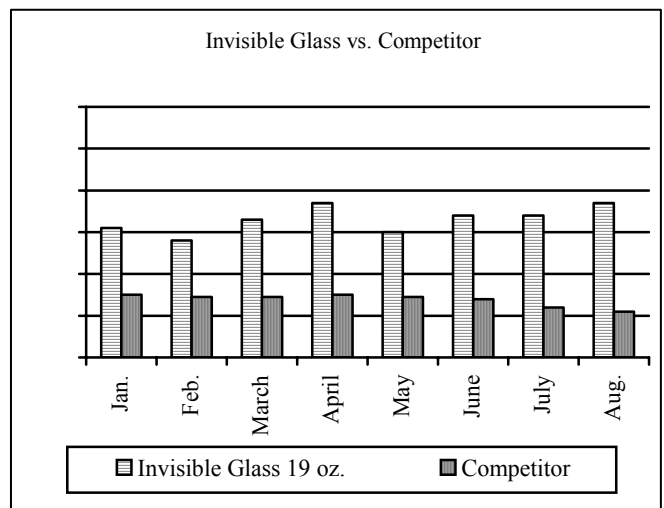
Figure 7.3-4 Invisible Glass vs. Competitor
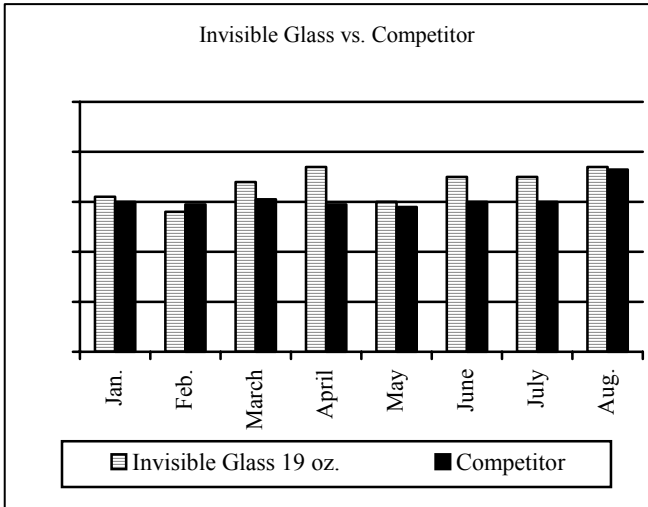
Figure 7.3-5 Invisible Glass vs. Competitor

Figure 7.3-6 Sales by Product Line

Weekly average sales (figure 7.3-7) have been steadily increasing.
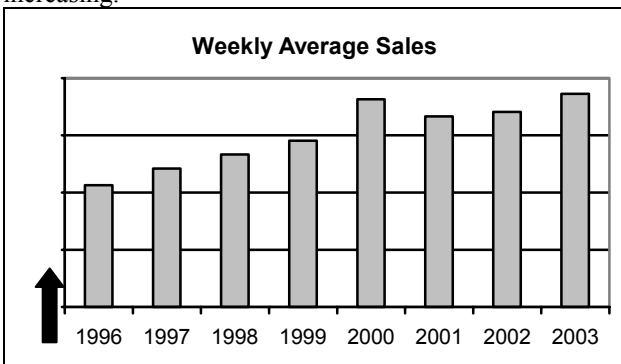
Figure 7.3-7 Weekly Average Sales

National retail accounts represent an emerging market that Stoner has developed in addition to the company's core B-to-B markets.

Figure 7.3-8 Growth in Sales

Figure 7.3-9 demonstrates the increasing sales through the Internet sales channel.

Figure 7.3-9 Internet Sales Growth

Stoner's gross profit has increased steadily since 1991, following the introduction of the new management system (see figure 7.3-10).

Figure 7.3-10 Gross Profit

In addition to sales growth, we have been able to maintain strong gross profits that have increased since 1990. Strong profit margins reflect our ability to provide increasingly high value and satisfaction to customers.

Figure 7.3-11 Gross Profit as a % of Sales

Figure 7.3-14 Gross Profit per FTE Team Member

Figure 7.3-12 Net Profit Before Taxes

We made a strategic decision to position Stoner for future growth even though it would mean that net profits in 2000 would not be as high as the growth rate of the last decade (see figure 7.3-12).

Indicator	Stoner 2003 (EST)	Stoner	Competitor A	Competitor B
Net Profit (before taxes)				
Gross Profit Margin (%)				
Return on Equity (%)				
Revenue Growth (%/yr)				

Figure 7.3-15 2002 Benchmark Comparisons

Return on Assets

Best Competitor
Industry Average

1994 1995 1996 1997 1998 1999 2000 2001 2002 2003
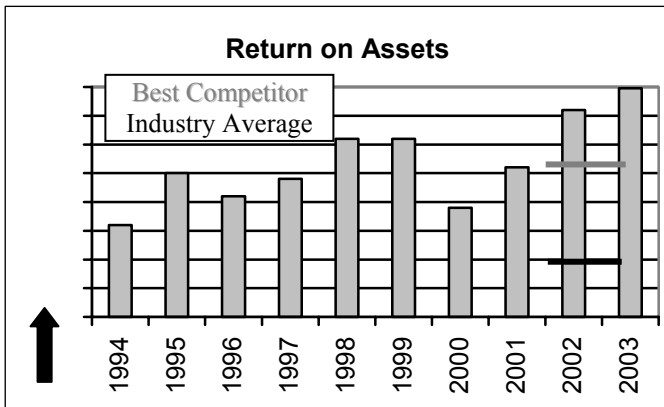
Figure 7.3-13 Return on Assets

This rate is starting to increase again as new team members become more efficient.

Part of Stoner business strategy is to increase the number of different items (called SKUs) on retailer shelves. Figure 7.3-16 demonstrates an increase from a total of 2 in 2001 to 11 year to date 2003.

Store	2001	2002	2003
Customer A	2	1	2
Customer B	0	1	3
Customer C	0	1	3
Customer D	0	2	2
Customer E	0	0	1
Customer F	0	0	2
Total	**2**	**5**	**13**

Figure 7.3-16 Number of SKUs/Retailer

7.4 Human Resource Results

"Team Stoner" enjoys outstanding human resource performance and effectiveness. Figure 7.4-1 shows Stoner's significant increase in sales per team member.

In 1996, Stoner established a partnership with a human resource service vendor to work with the senior leadership team, which collectively owns the HR process. Figure 7.4-2 summarizes the turnover rate of team

members during the past nine years. The increase in 2001 was due to one medical reason, one moving, and one performance issue.

Every six months we ask team members to rate Stoner as an employer and indicate their level of overall satisfaction with Stoner. Figures 7.4-3 and 7.4-4 demonstrate the steadily increasing satisfaction and decreasing dissatisfaction with Stoner. Satisfaction levels are currently at an all-time high. Benchmark (BM) data are from Hogan Center for Performance Excellence, Dallas Texas for 2001.
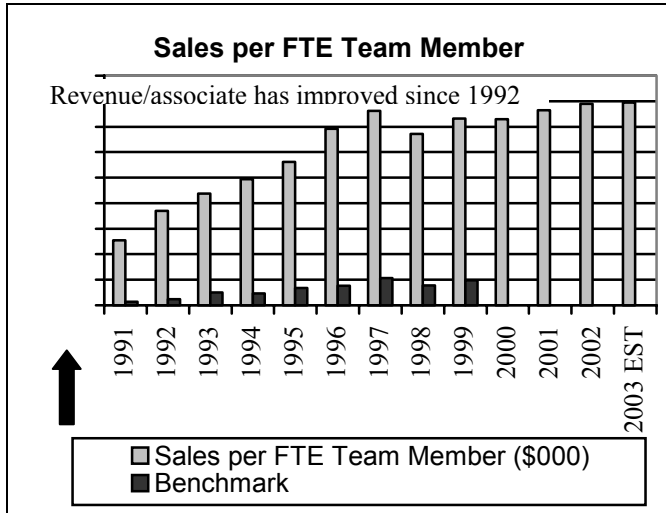
Figure 7.4-1 Sales per FTE Team Member

Figure 7.4-2 Unintended Team Member Departures

We allocate funds to promote team member well-being and morale. Figure 7.4-5 summarizes company expenditures toward "team activities and fun."

In 2002, we revised and improved our team satisfaction survey. We adopted a nationally norm-referenced survey prepared by The Hogan Center for Performance Excellence. The results indicate that Stoner scored in the top fifth of companies surveyed (including past Baldrige winners). Less than 10 percentage points separated Stoner from the top scoring company.
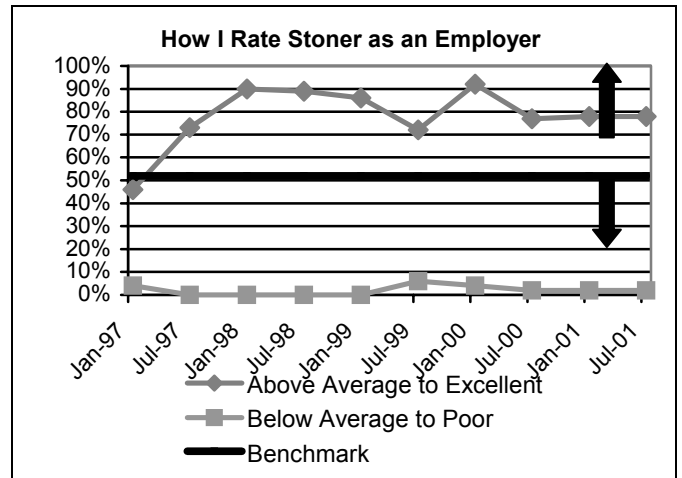
Figure 7.4-3 Team Members Rate Stoner
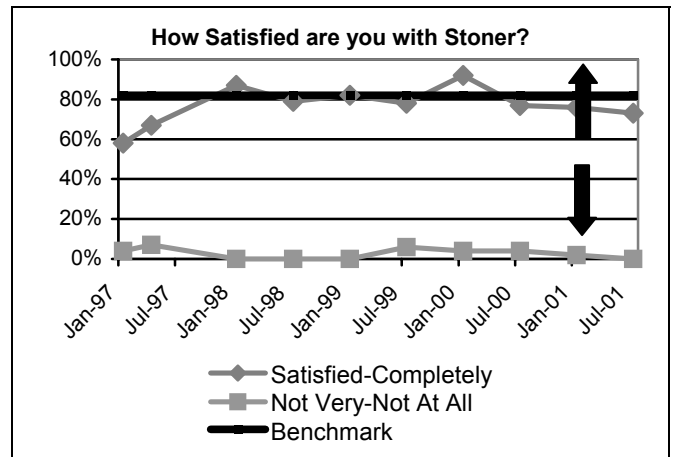
Figure 7.4-4 Team Member Satisfaction Ratings
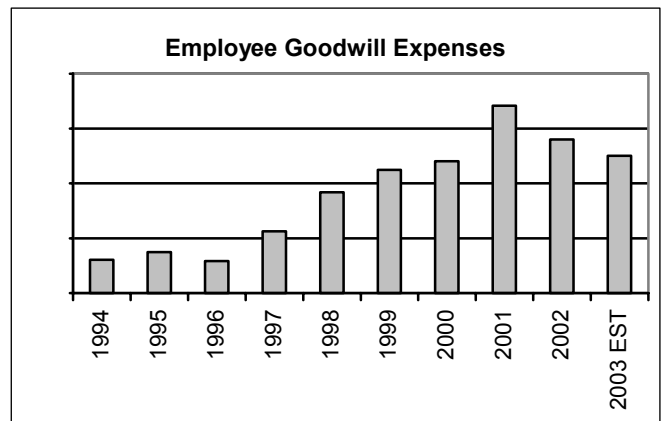
Figure 7.4-5 Spending on Team Goodwill Activities

Figure 7.4-6 Team Morale and Satisfaction

Ongoing efforts by Stoner's safety team have helped to address potential safety hazards in the workplace and significantly reduce team injuries. Figure 7.4-7 summarizes Stoner's safety and accident record for the past seven years.

Figure 7.4-7 Lost Time Accidents Safety Record

Stoner has worked to achieve better results in the areas of team member well-being and development.
- Zero layoffs in the history of the company.
- Zero team member written reprimands since 1995.
- Zero team member lawsuits.
- Virtually no unexcused absences for the entire team since we began providing 2 days for personal reasons.
- Team-selected work hours in manufacturing.

- A goal of 40 hours training per employee.
- All employees trained in chemical safety.
- We average more than 10 implemented improvement ideas per person per year.

Our worker compensation claims have been consistently low (figure 7.4-8).
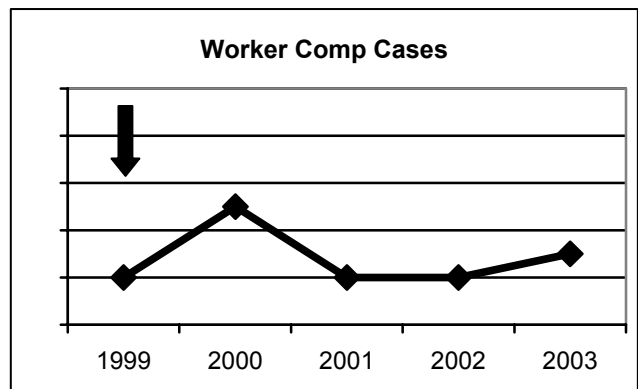
Figure 7.4-8 Number of Worker Compensation Cases

7.5 Organizational Effectiveness Results
7.5a. Operational Results.

All of our company specific goals and activities are in alignment with the vision, mission, and core values of the company. A key internal process measure (and promise to our customers) is that orders are shipped the same day they are received. With the exception of minor start-up glitches with the implementation of the ERP system, we have achieved our goal of 100 percent (figure 7.5-1), which equals the best benchmark Abbott Labs, 2002 Supplier Recognition.

**% Of Orders Shipped Same Day**
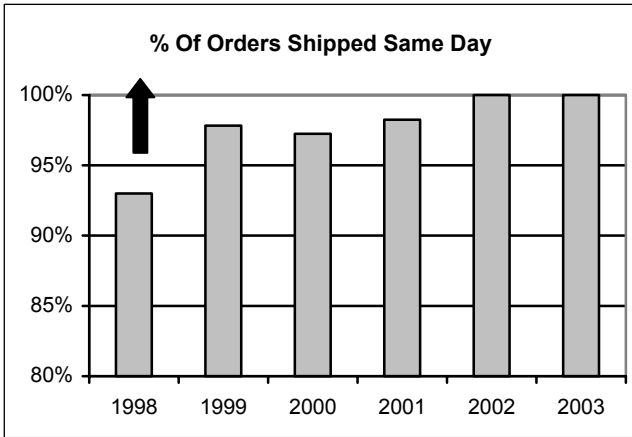
Figure 7.5-1 % of Orders Shipped Same Day

To achieve its business objectives, Stoner has developed an effective and efficient manufacturing operation. In manufacturing, Stoner tracks several key indicators to measure productivity and efficiency. Included in the charts below are primary key manufacturing indicators for overall unit production, aerosol units produced, non-aerosol units produced (bulk liquids measured by gallons) (figure 7.5-2), manufacturing team member hours, and units produced (figure 7.5-3). The increase in aerosol cans closely correlates with our retail growth trajectory projections.

Manufacturing Weekly Average Output
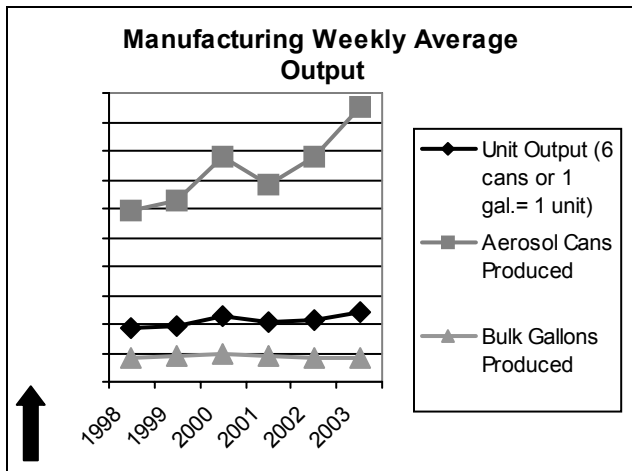
Figure 7.5-2 Manufacturing Weekly Average Unit Output

Annual Manufacturing Productivity
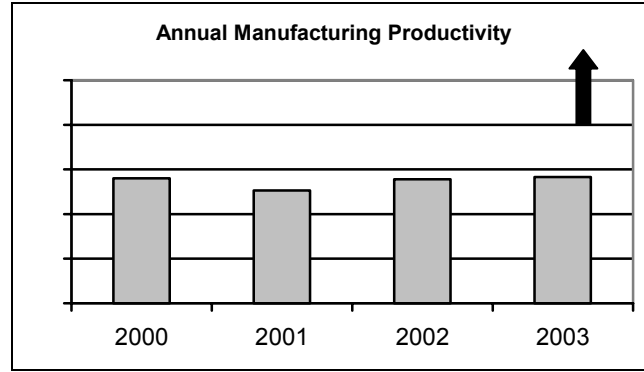
**Figure 7.5-3 Manufacturing Productivity**

Stoner's manufacturing team has produced good results in this area.

Figure 7.5-4 shows the amount of aerosol packaging equipment capacity utilization increased through 2000 and supported our decision to introduce a second shift. Capacity utilization subsequently dropped and is now balanced as the second shift has been trained. This utilization information is used as a leading indicator that helps manufacturing to remain aligned with sales growth.

Current Aerosol Packaging Equipment Utilization
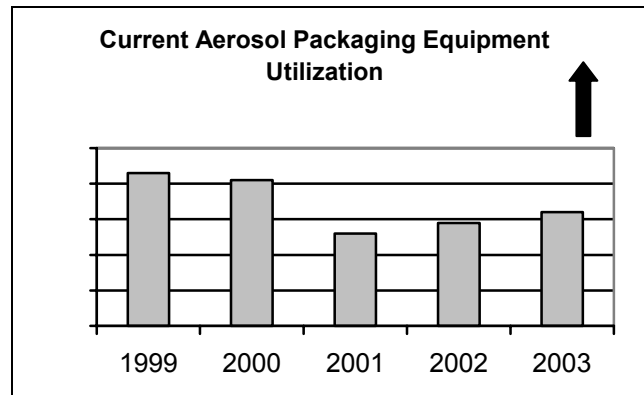
**Figure 7.5-4 Aerosol Packaging Equipment Up Time**

The development and introduction of new products are also key objectives for Stoner. Sales of new plus improved products, summarized in figure 7.5-5, are determined by those sales, which occur within **3 years** after their introduction. We are aggressive with our measure when compared to benchmarks. Most chemical companies use sales of a new or improved product over a five-year horizon to measure the payback on their investment.

New / Improved Product Sales as a % of Total Sales
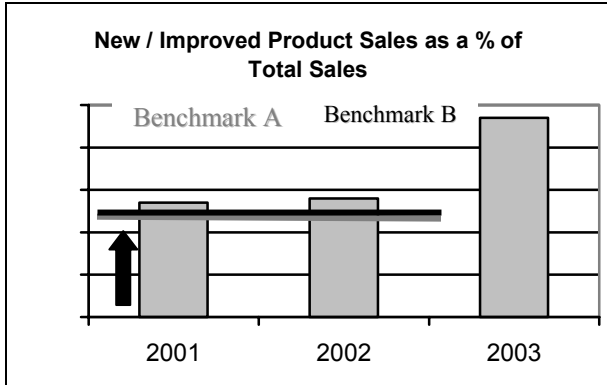
Figure 7.5-5 New/Improved Products as a % of Total Sales

Our warehousing picking errors are very small. Figure 7.5-6 demonstrates the rate since 1997 and includes 2003, year to date which is 3/100ᵗʰ of one percent.

We generate sales "leads" from mailings as well as from other sources such as customer referrals and trade shows. All sales leads are measured along with the conversion of these leads to customers.
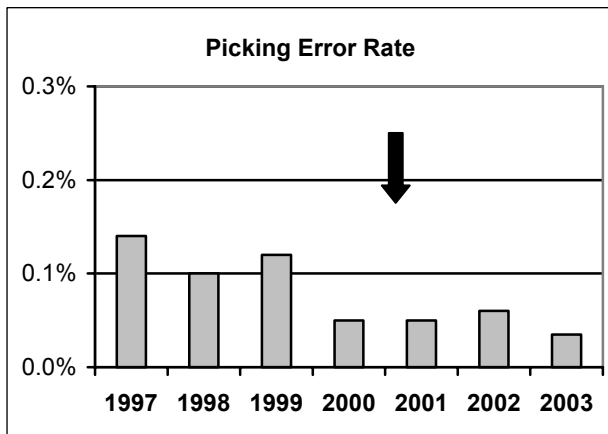
Picking Error Rate


Figure 7.5-6 Picking Errors/Orders Billed (%)

Our catalog mailings serve to introduce Stoner to prospective customers; maintain contact with existing customers; and cross sell other Stoner products. Figure 7.5-7 summarizes our increasing catalog response rate, which reflects the improved effectiveness of our catalog marketing.

Our sample shipping operation must provide prompt shipment to meet customer expectations *and* demonstrate our capacity for delivering products on time. Our goal is to have samples shipped to customers within 48 hours of an order. Figure 7.5-8 demonstrates the on-time shipping record of all developmental sample requests to customers.
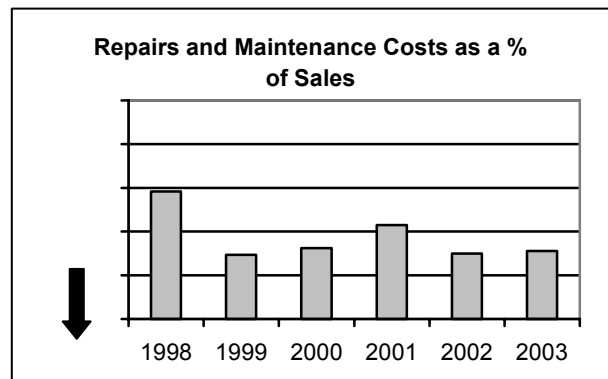
Overall repairs and maintenance costs, as a percent of sales is low and steadily declining as figure 7.5-9 indicates.

Percent of Catalog Response Orders
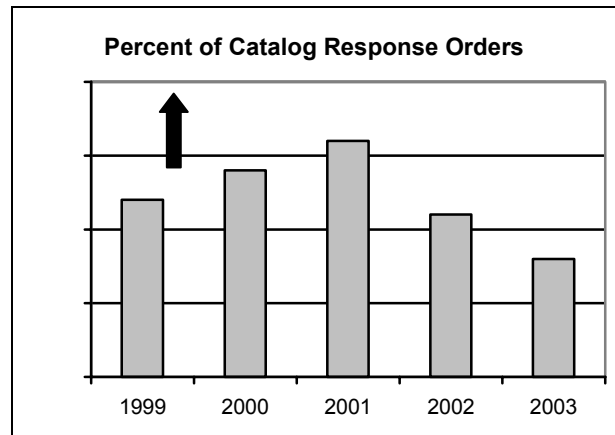
Figure 7.5-7 Percent of Orders from Catalogs Sent

% Samples Shipped When Promised
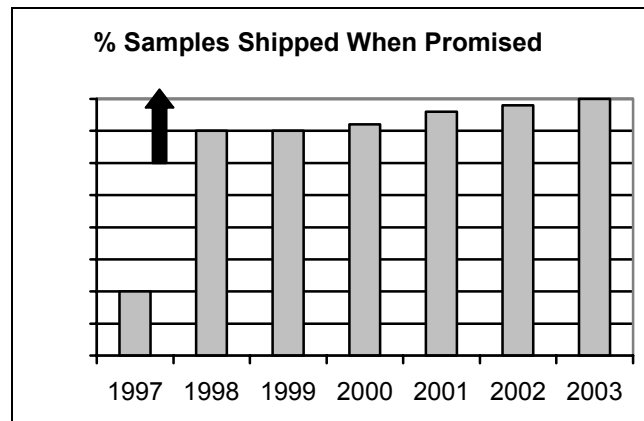
Figure 7.5-8 % Samples Shipped When Promised

Repairs and Maintenance Costs as a % of Sales

Figure 7.5-9 Repairs and Maintenance Costs as a Percent of Sales

Shipping Partners	1999	2000	2001	2002	2003	Benchmark-Industry Std. 2002
Service Related—Transit Time (days) to Primary Customer Destinations						
West Coast			*Confidential*			5
Mid West						3
East Coast						2
Quality Related—Shipper Damage Bes as a % of Orders						
			Confidential			
Price						
Discount Under Base Rate			*Confidential*			

Figure 7.5-10 Supplier Results for Carriers of Finished Products

Supplier Performance. Since 1995, Stoner has established formal partnership agreements with its top suppliers.

Supplier Data					
	1999	2000	2001	2002	2003
Chemical Costs			*Confidential*		
Packaging Costs					
Shipping Costs					

Figure 7.5-11 Supplier Price for Five Years

7.6 Governance and Social Responsibility Results
a. Governance and Social Responsibility Results

7.6a(1) Stoner is a privately held company and has had **zero** findings of financial impropriety.

7.6a(2) We have **never had a complaint**, let alone a finding, that any Stoner team member engaged in unethical business practices.

7.6a(3) Since 1990, Stoner has experienced **zero citations, fines, or other legal action from any regulatory agency**. This is significantly better than sixteen percent of the 2002 Industry Week Best Plants, which were cited for EPA violations in the past 5 years.

- Compliance with government-mandated phase-out of environmentally unfriendly chemicals.
- Zero rule violations and fines from any US regulatory agency.
- Compliance with government-mandated phase-out of hazardous chemicals.
- Accurate and complete product labeling.

7.6a(4) Stoner has made consistent donations to local charities and organizations. Since 1997, Stoner committed annually to fully fund the Junior Achievement program in the local Quarryville elementary school and in 1998

partially funded another elementary school in Lancaster, PA. Since 1998, Stoner assumed a primary sponsorship for an annual "car rally" fund raiser for the Lancaster Museum of Art. Stoner has also provided a sponsorship of the local Spina Bifida golf tournament for the past three years in addition to sponsoring various local youth sports teams.

In addition to Stoner's financial sponsorship, Stoner team members donated more than 1,000 hours of their time each year to local organizations since 1997.

Figure 7.6-1 summarizes Stoner's annual charitable giving.
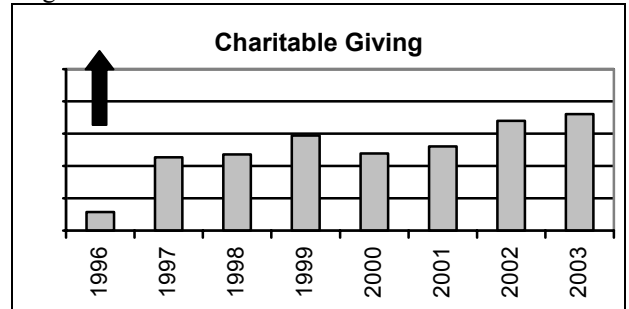
Figure 7.6-1 Charitable Giving

The total water usage in finished products is increasing, reflecting a reduction in petroleum-based materials as figure 7.6-2 indicates.

	2001	2002	2003 (EST)
Total water usage in finished products (lbs)		*Increasing*	

Figure 7.6-2 Environmentally Conscious Product Development

The Toxics Release Inventory (TRI) is an United States Environmental Protection Agency (EPA) database that contains information on toxic chemical releases and other waste management activities reported annually by certain industry groups as well as federal facilities. This inventory was established under the Emergency Planning and Community Right-to-Know Act of 1986 (EPCRA) and expanded by the Pollution Prevention Act of 1990. Our R&D sub-team constantly improves product designs for a variety of reasons; one of which is environmental compatibility. We have been able to reduce the number of TRI chemicals and the amount of TRI chemicals used. See figure 7.6-3.

	2000	2001	2002
Number of TRI Chemicals reported		*Decreasing*	
Amount of TRI Chemicals used (lbs)			

Figure 7.6-3 Reduced TRI Chemicals Usage