



INTERVIEW



From the latest edition of “The Goal”

Interview with Patrick Hoefsmit by David Whitford as published in Eli Goldratt’s book “The Goal”

David Whitford: What was your first exposure to *The Goal*?

Patrick Hoefsmit: I was one of the owners of a printing company. Pretty big company. Couple of hundred people, 40 presses. I was taking a course from someone who was explaining to me the difference between debit and credit-I'm a technical engineer, so I needed some explanation. And I was such a pain in the ass during the course that he gave me a book, *The Goal*. He said, "This is something for you because all the other books are nothing for you." I read it with great pleasure. I thought finally I have found someone who can explain to me the meaning of business.

David Whitford: That seems to be a large part of the appeal of *The Goal*, it's accessibility.

Patrick Hoefsmit: Yes, *The Goal* doesn't go really deep into the financial difficulties of running a company. As a matter of fact it completely makes it irrelevant. So for me it was also a great message that I could just ignore all these economist Ph.D. people-if they couldn't explain to me what was going on, then forget about it! So that was my first experience with the Theory of Constraints. Then somebody gave me an article that said Eli Goldratt was in Holland to give a seminar. So I went there. At the seminar Eli told us that he just increased the price for his Jonah courses from \$10,000 to \$20,000 because otherwise top management wouldn't come; something like that. So I said to him, "I promise I will come, even at the

old price!" He said he had a better deal for me. If I was to do the course, I could do so and I only had to pay him after the results were of such magnitude that the price of the course was irrelevant.

David Whitford: Good deal.

Patrick Hoefsmit: Yeah, it was a perfect deal. So I went to New Haven, to America. He had an institute there. Did the course, couldn't do anything with it. So a year later I went to a Jonah upgrade workshop; it was in Spain. Eli has a very good memory, so when he ran into me he said, "Hey, did you pay for your course yet?" I said, "No, no, I didn't see any reason why I should." So he invited me for a private session. Some people warned me about that! On Monday morning I had a private session here in Rotterdam. That was a hefty morning. All my homework and all the things I did were to him completely irrelevant. The point was, I was looking at my own company and looking for a production bottleneck when there was so much excess capacity and the constraint was obviously in the market! But for me that was thinking outside the box. It had never occurred to me that Theory of Constraints would apply also outside the company's walls.

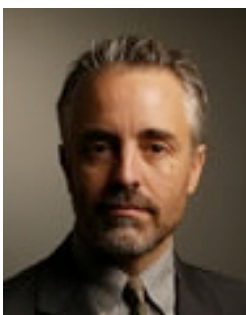
David Whitford: That's understandable, since *The Goal* describes a production problem.

Patrick Hoefsmit: Yes, So I was one of those stupid people who couldn't see the whole picture. So then Eli explained the bigger picture and the bigger application of it. He



Patrick Hoefsmit

Blue Jonah BV, Partner
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David Whitford

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slowly forced me to think-sometimes by yelling at me, "Think!" It was a hefty morning. And this story is described by him in "It's Not Luck" -the candy wrappers case. We finally made some money over there. Actually, a lot of money. Some time later I became the sole owner of an office supply business.

David Whitford: Did you know anything about the office supply?

Patrick Hoefsmit: No, nothing at all. The company was pretty big, it was number four or five in the Netherlands. It was making an awful loss. Competition was suddenly fierce and only concentrated on price. Other companies were very subtly sending brochures to every small business in the Netherlands with prices on the front cover that I couldn't get for myself as a wholesaler. This was really awful. All our good customers became suddenly more and more interested in price. They said, "How is it possible that we pay twice as much as what's on the front cover of this brochure?"

David Whitford: It sounds like an impossible situation.

Patrick Hoefsmit: Well, it was, it was really awful. We had something like four or five thousand customers, 20 sales people. The only thing we could think of was to also lower prices, and do it only on items where we had to. That was not a long-term solution but that was what everybody else was doing. So the conventional way of doing business in office supplies was pretty soon completely gone. We got tenders for office supplies-which was unheard of-where you had to fight with three or four competitors. In the past, orders for office supplies were just given to a local good-performing company. Now everybody was focusing on price.

David Whitford: So what did you do?

Patrick Hoefsmit: We started to build, as Eli calls it, the current reality tree. And of course this time

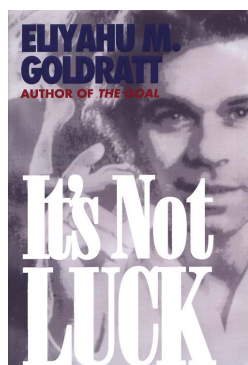
I didn't make the mistake of making it about our company but I made it about the customers' situation: Why is this customer complaining so heavily about price? After long thought and a lot of discussions with my sales people, the only thing we could come up with is that he's thinking this is the only way that he can decrease the total cost of office supplies; that he can't do anything about the tremendous cost of having to stock supplies, and store them, and the cost of bringing the stuff to the right people in the building. Well, I know what kind of a mess customers can make out of it. In most offices where you open drawers, there's more stock in the office than anybody can imagine. While at the same time they are screaming for a specific item which has to be brought to them by taxi in crazy short delivery times. In Rotterdam we are down to four-hour delivery times! Not even 24, just four-hour delivery times, which is completely crazy for office supplies. I mean, we're not saving lives here.

So this is what we offered our customers: That we would take over all this hassle of supplying everybody in the office with the right equipment, the right articles, at the right time. We offered them cabinets with office supplies in them. We owned both the cabinets and the contents. The supplies were for a specific working group. Whatever they took out was considered sold, whatever was left was still ours. We replenished these cabinets every week. We made it very easy for them to check on us. And more importantly, we could give specific data about each department, explaining that certain items were consumed fast. For instance you might need a new pair of scissors once in three months, but not every week.



David Whitford: So you could discover theft?

Patrick Hoefsmit: Well, we didn't call it theft, we called it overconsumption. But of course it was theft, yes. So suddenly this guy who was responsible for office supplies had much better tools to go after his dishonest personnel. He's



not interested in how many pencils someone uses. Everybody knows that people take pencils home; you do that by accident and it doesn't cost anything. Toner cartridges, that's a bigger problem. So when the theft of these ink jet cartridges went up very much, we advised them to buy bigger printer machines, which we could also supply, to make them different than the machines people had at home. Things like that. But those cabinets were a big, big invention. While our customers might have paid 20%-25% more for the actual articles, the total cost of providing office supplies for their workers dropped by 50% because they didn't have the internal hassle of misplacements, overstocking, and things like that. So they didn't care that much anymore about the original price we charged. When I sold my company a couple of years ago, the due diligence took a long time because they couldn't believe our added value.

David Whitford: What were the numbers?

Patrick Hoefsmit: Normal gross margins in the industry were very much below 20%. Above 20% was suspicious. We were above 30%, which makes a lot of difference. And we were not ripping people off. They were extremely satisfied with our service.

David Whitford: How did you go about selling the concept to your customers?

Patrick Hoefsmit: We had a department which was making appointments with financial directors, not the guy normally responsible for purchasing office supplies. That other guy was scared for his job when you came with this solution. And we made a short movie to show the current situation in their office and how people were screaming for office supplies and things like that, and how great it would be if we could take over their stock and their responsibility and solve this problem. And this worked really great. "Something like 30% of the sales visits were successful sales. Again, the prices we were charging for supplies was no longer an issue

David Whitford: For anyone?

Patrick Hoefsmit: Not exactly. We still had some customers who were focused on price. We didn't chase them away. We just gave them completely different conditions.



We told them that if price is what matters most, you have to buy big quantities and you shouldn't care about delivery times: "You can get the lowest price

possible but you have to stand in line." Now a good thing for us about the cabinet system was that we had one-week advance notice on our purchasing needs. I mean, what the customer used last week I didn't bring the day I was checking. I would bring it the week later. So I hardly needed any stock anymore.

My suppliers could deliver in a week but I had a week. So now I could start buying on price. And I could combine my orders with those of the bigger customers who still wanted to do business just on price.

David Whitford: Those must have been a very satisfying couple of years for you as you explored this new way of doing business.

Patrick Hoefsmit: Well, yes, for a couple of years it's really fun. Because you're winning a race. Of course at the beginning I was relatively small; I was number four or five in the country. I was really afraid the bigger companies would copy my cabinet system.

David Whitford: Did they?

Patrick Hoefsmit: Yes, a little bit. But they didn't get the message. It was actually really funny. They were prepared to deliver cabinets but the customer had to buy the cabinet and the content as well. They were never willing to do it on consignment terms, which is what made it work. So that was a big difference to start with. Secondly, they didn't understand my replenishing system of stuffing the cabinets full enough that

you could survive a couple of weeks. What they offered was so different that we could immediately show the customer that with our competitors, you'll still have to do it yourself, you'll have to take responsibility. Whereas in my case, when you change a printer, for example, and you don't tell me, I will find out you don't use this cartridge anymore and I'll adjust. These cartridges are very expensive, do you want the responsibility? That's the main difference of consignment.

David Whitford: Later were you able to discover new constraints that opened the way to new growth?

Patrick Hoefsmit: Ultimately the constraint moved back inside the company. The new constraint became; how quickly can we measure or install a new cabinet? At first we could only do something like two or three cabinets a day. People were standing in line for cabinets. We had waiting lists for three months. So we put a second person on the job. Not a big deal. But we were fully in charge. We could grow at the pace we wanted to grow. That's kind of funny in a race where everybody was yelling about price! There are other businesses in that situation. For example, if you go to a really good restaurant, they don't care about prices. They are booked for the next three or four months; they become arrogant. And we had the same situation! It was great! And to think that we had started with all those competitors, all the problems, and 20 sales guys who were really discouraged, they didn't know what to do. And here we came with this really simple solution. I'm amazed that to this day nobody's really copying it.

David Whitford: Would you have discovered this breakthrough had you not been exposed to Goldratt's theories?

Patrick Hoefsmit: First of all, I wouldn't have known how to attack the problem. Since I was working at the printing company and my nephew was working at the office supplies company, I

never expected that we would change roles. Nevertheless, I knew how much loss they made. And by then I was so convinced that just by applying Theory of Constraints, I would figure out a way to solve the problem. It took me something like three or four weeks to see the light and understand what was going on and how to solve it. I survived that month by sitting back and saying, "Okay, no panic, no panic, let's not be hasty. As long as we don't have a breakthrough idea I'm not going to make any changes." I was

just sitting back and thinking and discussing with people how we could solve the problem, until we solved it. And that's one of the good things about theory of constraints. You know in these cases that eventually you will come up with a breakthrough idea.



David Whitford: You have only to find it.

Patrick Hoefsmit: Yes, and I became better and better at it. It takes Eli about five minutes to find the constraint and how to brake it. In most cases, I can find the same within a week. Compare it to just doing more of the same. I very often use this funny story about two guys on a safari. And after a couple of days they hear the first tiger and they think, well, great! So they go for their guns and discover they forgot their bullets. So one of them puts his pack down and grabs his running shoes, and the other guy starts laughing: "Do you think you can outrun the tiger?" He says, "I don't need to outrun the tiger; I only have to outrun you!"



Patrick Hoefsmit Former managing director, TIM Voor Kantoor, 100-year-old office supply company in the Netherlands.