



**Sigma Breakthrough Technologies, Inc.<sup>®</sup>**

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To: [Karen Richardson](#)  
From: [Joe Ficalora](#), [Joe Costello](#), SBTI Executives  
Re: Article in Wall Street Journal  
Cc: [Steve Zinkgraf](#), [Dan Kutz](#), [Debby Sollenberger](#)

Dear Ms. Richardson,

We wish to respond to your article, dated January 4, 2007 in the Wall Street Journal, entitled [“Departure of CEO Nardelli Brings Into Focus A Management Technique He Championed”](#). As a long-term provider of Six Sigma business methodologies, and many complimentary approaches to driving business excellence, SBTI is very interested in your recent article. We would like to bring to light some additional information that we are certain would be interesting to readers and we feel compelled to respond to certain key points in your article which we feel are in error or perhaps ill-informed. SBTI was not involved in Home Depot’s Six-Sigma deployment; however we feel that the performance of Home Depot’s stock price was not a direct reflection of Home Depot’s Six-Sigma deployment.

Perhaps the most important point you raise is in the title of your article. There is an implied question whether it is CEO Nardelli that is parting ways with Home Depot or is it CEO Nardelli and Six-Sigma that are parting ways with Home Depot. The fact of the matter is simply Bob Nardelli is leaving, but I doubt you will find Home Depot abandoning their Six-Sigma deployment. They may modify or re-invigorate the approach, but odds are against them stopping. Why? They would not abandon Six-Sigma because it works. In all things in life there is a distribution or variation in the individual samples, a fundamental tenet of Six Sigma. You have written about a single sample in only one individual, at one company and attempted to raise questions about an entire methodology and all the deployments of it.

By and large the executives who have left GE and AlliedSignal (now Honeywell) and other Six-Sigma companies who became top executives have uniformly started Six-Sigma and Lean programs at their new companies, and nearly all successfully deployed it. Focusing on one CEO is a mistake of omission by ignoring the larger picture. It may grab headlines, but it is most certainly myopic. Consider the following short list of Executives who started Six-Sigma in their new positions:

- Fred Poses – to American Standard
- Jim McNerny – to 3M, to Boeing
- David Weidman – to Celanese
- Ed Breen – to Tyco
- Matt Espe – to IKON Office Solutions
- Jim Sierk – to Iomega
- Wes Lucas – to Sun Chemical

These are all bright, motivated-to-succeed executives. They would not begin an initiative that was unproven, untested, or questionable in their new leadership roles.

Also, Six-Sigma began at Motorola, true, but was expanded and improved with each new deployment at Texas Instruments, ABB, and Kodak among others. Along the way from Motorola's birth of Six-Sigma, Texas Instruments Defense Systems Electronics Group identified how to modify the approach and measures used to drive new product designs to higher levels of quality with appropriate advances in product launches. It was deployed to all products, high volume and low volume, and all services and functions beyond just manufacturing in the deployment at AlliedSignal, beginning in 1994. Larry Bossidy truly moved Six-Sigma from a Quality Initiative to a Business Initiative with documented and predictable bottom line results. He also insisted that the two oft-competing methodologies of Lean and Six-Sigma begin cooperating as one improvement method. It is true that Jack Welch and GE preached Six-Sigma from the mountain tops and sang praises in a very public way, but it was far from "languishing" before GE.

Let us consider Six Sigma and the return on investment with regards to a realistic time frame. Classic Six Sigma return horizons are 18 to 24 months. Mr Nardelli's implementation of Six Sigma began in mid-



2000. With the consideration to Executive Training, Black Belt selection, project selection, training, launch, execution and results associated with the projects we should expect to begin hitting the Income Statement profit and loss numbers around late 2002. At this time, (Q3, 2002) the share price of Home Depot was about \$25. Today the share price closed above \$41, this is a 64% improvement. In comparison (over the same timeline) Lowe's share price went from \$21 to \$32, a 52% improvement. Considering these numbers and this timing, Home Depot out-performed Lowe's by 23%.



Figure 1 – Lowe's versus Home Depot Stock Prices

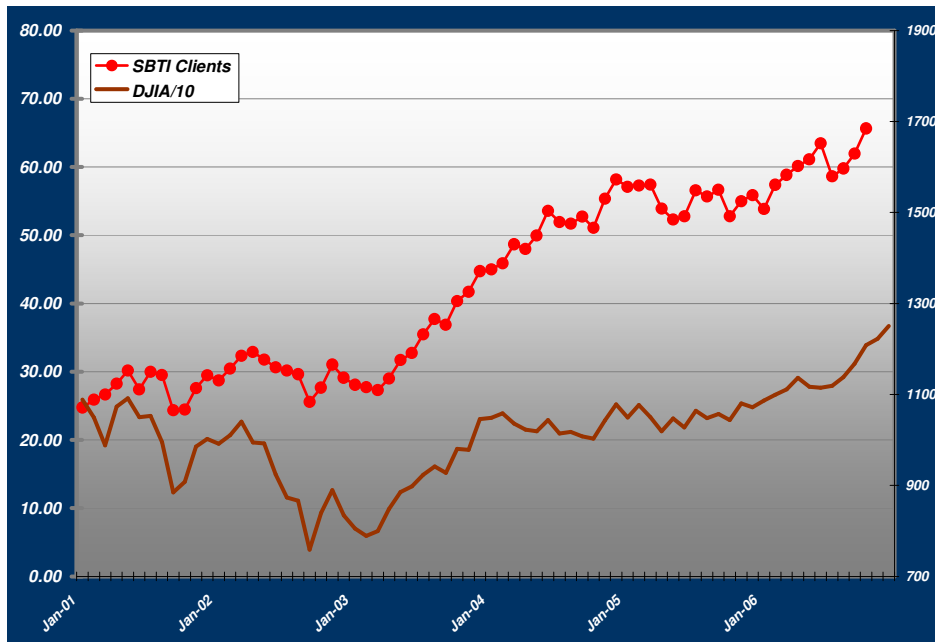
A savvy investor would have been able to time this predicted up-turn in performance.

As stated in the *Business Week*, January 15<sup>th</sup>, 2007 issue, Home Depot has enjoyed a 12% annual growth rate. Under Bob Nardelli's direction, Home Depot Supply, which services professional contractors, is up 159%. Wall Street did not agree with Nardelli's focus on Contractor Services and hence their opinions have been reflected in the share price. Overall, Nardelli's numbers aren't too bad, since January 28, 2001 to October 29, 2006 overall sales are up 209%, gross margins are up 6%

You are very correct in Qual-pro's competing stance, biased viewpoint and lack of popularity in their approach. Their approach is less practical from SBTI's perspective. Multi-Variable Testing as they espouse on their website is taught over an extended time, and in truth



is just one aspect of the Six-Sigma roadmap which has been taught in a more compressed standard format to over thirty thousand individuals by SBTI. Please have a look at an excerpt from our recent [SBTI Quarterly newsletter](#) for some contrasting perspectives on bottom-line results versus the S&P 500 or the Dow Jones Industrial Average (which is a more appropriate numerical comparison due to averaging and sample sizes). Figure 2 is one of those graphs, which does include 3M stock by the way.



**Figure 2 - SBTI Client Weighted Stock Average vs. DJIA**

Other Six Sigma providers have done this type of successful comparison of their clients' stock average too. Any premier Lean and Six Sigma consulting firm assists in increasing the value and forever changing a company if the client's leadership team is involved and leading the deployment. While we cannot speak for Home Depot, a short glance through Steve Zinkgraf's 2005 book, "*Six Sigma, The First Ninety Days*" should provide some insight as to what to expect and why it works with committed company leadership.

With regards to stock performance there are multiple issues to contend with, as pointed out in your article. Especially if Six-Sigma is viewed as a merely a set of process tools and a Quality Improvement program, then why would the stock price be positively



affected? Total Quality Management (TQM) came and went without any major and sustained business impacts over a global basis. Larry Bossidy points out in his recent book, "Execution" that there is three-way focus to obtain sustained business results on External Realities, Internal Activities, and Financial Goals. While Home Depot was facing challenges from Lowes, their earnings per share increased 145% under Nardelli's leadership. If Six-Sigma and Lean have an impact in efficiency, Earnings-Per-Share would be one area that should be impacted, which it was in Home Depot's case.

Lastly, your article, while certainly about negative results with Mr. Nardelli at The Home Depot need not end there. Remember that Home Depot is only a single sample of a Six-Sigma deployment and the variation in deployments is almost as large as the number of consulting companies providing Lean and Six-Sigma consulting and training.

There are literally tens of thousands of Improvement Teams, Executive Champions and Sponsors, Lean Leaders, Master Black Belts, Black Belts and Green Belts who do yeoman's work of solving chronic business problems every day with the tools of Lean and Six Sigma, sometimes called Lean-Sigma. These people feel compelled to constantly and forever improve the effectiveness and efficiency of their companies, satisfying their customers, while keeping productivity advancing, and making their companies more competitive each year. That is the real story, and one worth telling. We urge you to seek out more than the individual departure of an ex-GE executive, but to look further into the quiet revolution that is literally spanning the globe in company business performance improvement.

We invite you to dig deeper into Lean and Six-Sigma and would be happy to arrange a tour of some of SBTI's customers, their results and perspectives on the methodology from top to bottom, inside and out. If you want to gain some additional perspectives, this would be a unique opportunity.

We look forward to your response, as we continue serving our varied and global customers' needs this year in all things Lean and Six-Sigma.



Best Regards,



Joe Ficalora  
EVP, Technology  
Sigma Breakthrough Technologies, Inc.

Joe Costello,  
Executive Director, Lean  
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*[Click here to read the original article in Wall Street Journal](#)* “

