



## Improving Operational Performance in Troubled Times

A study conducted by CIO Insight revealed that the **#1 top business priority is improving business processes.**

The current economic environment provides the best opportunity for your business to improve its operational processes. As we react to the daily financial news and its impact on our current business, we need take the time to ask ourselves: What are the cost drivers within my business? What are the key processes that drive value to my customers? How can I identify my company wasteful processes? Do I have enough process information for my employees to know exactly what is required with their position and tasks?

Let's identify some practical short term recommendations to improve your business with a high return.

**1. Connect with the numbers.** Understand the breath and depth of your company's profit and loss gaps. Get the numbers for your entire company and focus on each functional area. Shift your focus from projects to metrics that identify the cost of poor quality (COPQ). Remember, the **efficiency** of any process is the results achieved versus resources used. The **effectiveness** of any process is the ability to achieve the desired results. Identify systems and processes that would have an immediate revenue impact or cost of poor quality prevention. Identify and drive projects that deliver hard dollars and avoid getting caught-up in productivity improvements that don't create real time financial value to your bottom line.

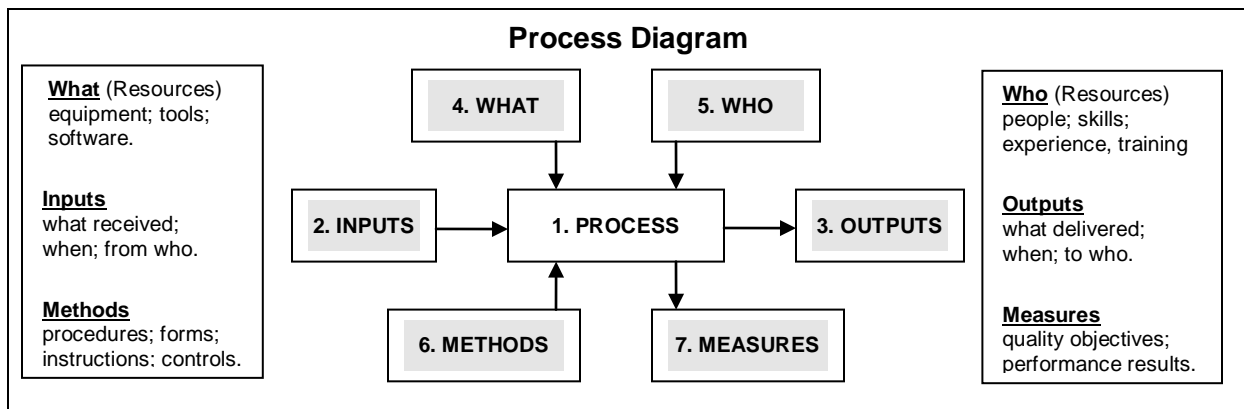
<b>Example 1 Cost of Poor Quality Worksheet</b>						
Problem Description: Grinding Variation				Cost Type: Internal		
Specific Tasks	Hours for Task	Hourly Rate	Cost of Task	Material Costs	Failure Cost - Internal / External / Appraisal or Prevention	Total Cost of Nonconformance
Document Nonconformance Report	0.5	\$25	\$12.50	\$0.00	\$0.00	\$12.50
Engineering Disposition	0.5	\$45	\$22.50	\$0.00	\$0.00	\$22.50
Grinding	0.3	\$25	\$6.25	\$2.00	\$0.00	\$8.25
Cleaning	1.0	\$25	\$25.00	\$0.00	\$0.00	\$25.00
Inspection	0.5	\$25	\$12.50	\$0.00	\$0.00	\$12.50
<b>Total Cost Per Failure</b>	2.80		\$78.75	\$2.00		<b>\$80.75</b>
2.8 Hrs per part x 160 parts = 448 hrs x \$25.00 = <b>\$11,200 in Hrs saved.</b>						
\$80.75 Rework cost X 160 = <b>\$12,920 in Internal Rework Costs</b>						

Example 1 represents a simple COPQ worksheet with a grinding process showing the value of identifying failure costs and linking it with the right numbers.

**2. Improve Process Controls.** (1) How well are your current business processes documented? (2) Do your employees have the necessary process information to know how your processes generate consistent quality products and services? Many organizations have utilized documented operational systems such as ISO 9001:2008 to create and establish a foundation for documentation and process controls. Your products and their complexity should help define the level of detail that is necessary.

A proven method to define and reduce the variability of your processes is to view and document your processes based on Example 2 process diagram. Follow the diagram sequence and define the process detail necessary for your employees to gain valuable knowledge and to understand the linkages of the extended systems of your organization.

**Example 2**



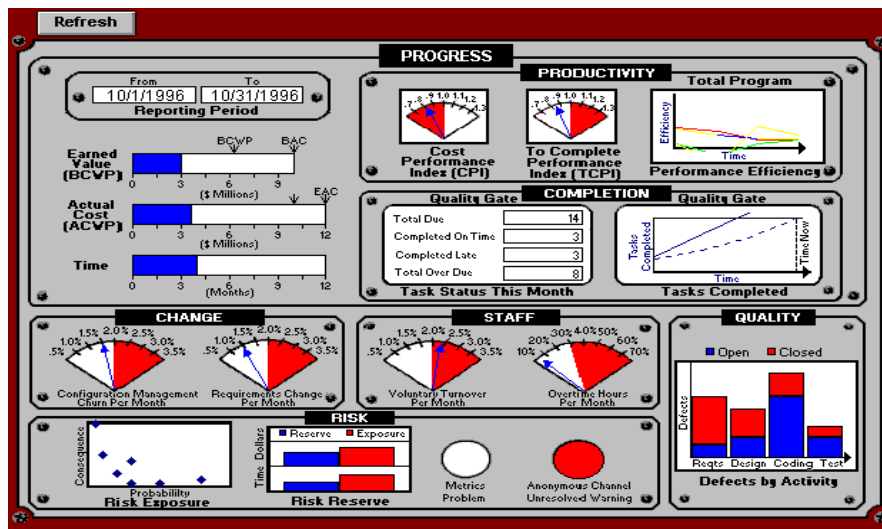
What we are suggesting here is if your process detail is not identified at this level, your process is not in the best control it can be. This process diagram is also a valuable tool for defining new processes, potential risks, and constraints of your systems. Improvement tools such as process maps, value stream maps, capacity analysis, control plans work well with this tool. Use this tool strategically and engage your employees to improve their own processes.

**3. Focus on Your Customers.** Is your cost cutting impacting your products and services negatively? How often are you talking to your customers and seeing how you can help them? Remember, they are also feeling the pain of this economy. Supplier and customer relationships are so much more dependent in these times and you have to make the effort to show real value.

In difficult times and budget cuts it becomes easy to create excuses for reducing quality performance targets and relaxing customer inquiries. Continue to evaluate the data related to process performance and customer satisfaction indices. Inform and demonstrate to all your employees and customers that the quality of our products and services are more important than ever before.



Successful companies pay very close attention, understand, align, and measure the importance of dashboard or scorecard data related to voice of the customer, voice of the business, and voice of the process measurement systems. Use this current economic environment to establish specific dollar targets within these systems to support process improvement. The old adage “You can’t improve what you can’t measure” is more relevant today than ever before.



**4. Pitch New Opportunities.** This may be the time to consider outsourcing or off-shoring that will yield to immediate cost savings within your company and in the proceeding six months. Many organizations now are cost cutting by outsourcing everything from payroll, human resources, manufacturing, maintenance, and beyond. Now is the time to join and leverage your sources and abilities with industry organizations, local chambers of commerce, and what makes good business sense within your industry. Use this time to evaluate your strategic markets and position yourself to establish partnerships where you may not have considered looking before.

**5. Get Back to the Basics.** Quality improvement and reducing your costs of doing business is all about methods, models, monitoring and measurement. Using the right combination of these at the right times, makes things better.

All industries have inherent process waste. Whether you're a service or a manufacturing organization your processes are not as good as they can be. Studies have shown that process waste is typically 20 to 30% in manufacturing and 40 to 50% in service organizations. This is lost revenue to your business. For many, Lean manufacturing is the set of "tools" that assist in the identification and steady elimination of waste.

**Now is the time to conduct an assessment of your current systems against these seven types of deadly waste. All of these deadly wastes are costing your business money. Take a close look at these against your processes; you may be surprised on what you find.**

## Seven Types of Deadly Waste

### **Overproduction**

Overproduction occurs when operations continue after they should have stopped. The results of overproduction are:

- Service materials being produced in excess of what's required.
- Products being made too early.
- Excess inventory carrying costs.
- Additional copies of forms made in advance of need.
- Stamping of paperwork or forms prior to need.



### **Waiting**

Also known as queuing, waiting refers to the periods of inactivity in a downstream process that occur because an upstream activity does not deliver on time. Idle downstream resources are then often used in activities that either don't add value or result in overproduction. The results of waiting are:

- Overabundance of work in the "IN" or "OUT" box
- Late deliveries
- Overtime

## Transport

This is unnecessary motion or movement of materials, such as work-in-process (WIP) being transported from one operation to another. Ideally transport should be minimized for two reasons;

- It adds time to the process during which no value-added activity is being performed
- Handling damage could be incurred



## Extra Processing



This term refers to extra operations, such as rework, reprocessing, handling or storage that occurs because of defects, overproduction or excess inventory. The results of extra processing are:

- Increased costs
- Damage to product
- Increased throughput time

## Inventory

This refers to inventory that is not directly required to fulfill current Customer orders. Inventory includes raw materials, work-in-process and finished goods. The results of inventory are:

- All inventory requires additional handling and space
- Reduced cash flow





### Motion

This term refers to the extra steps taken by employees and equipment to accommodate inefficient process layout, defects, reprocessing, overproduction or excess inventory. Motion takes time and adds no value to the product or service. The results of motion are:

- Fatigue
- Excess processing time
- Reduced throughput

### Defects

These are products or services that do not conform to the specification or Customer's expectation, thus causing Customer dissatisfaction. The results of defects are



- Customer dissatisfaction
- Reduced profits
- Rework
- Employee frustration

**6. Stay Progressive.** No one can avoid these economic times. But the companies that focus on improving processes can and will reduce the costs of doing business. This will allow management to position their company for long term success. By quickly deploying these types of improvements, companies can free up more capital for reinvestment.

---

*Sustaining Edge Solutions, Inc. [www.sustainingedge.com](http://www.sustainingedge.com) is a management systems consulting and training firm located in Arizona. Founded in 2002, they specialize in assessment, development, implementation, training and administrative support of global operational and quality management systems, including Lean Six Sigma process improvement methods. Walter Tighe, President has over twenty-three years' professional quality and business improvement experience. He has an MBA, is a Senior ASQ member, and a CQM. Walter is an RABQSA certified quality management systems auditor and a Six Sigma Black Belt. He has improved quality and operational systems performance for companies such as Universal Avionics, Cisco Systems, Raytheon, B/E Aerospace, Solon, HVVI Semiconductors, and MedAire International.*

For more information on how we can assist you with these cost saving methods in your business, please contact Walter at [wtighe@sustainingedge.com](mailto:wtighe@sustainingedge.com) or call toll free 888-572-9642.

---