Uncover Inefficiencies

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Rising costs are not the only indicator of inefficiency or waste. Merriam-Webster defines inefficiency as “the lack of ability to do something or produce something without wasting materials, time, or energy”. Can you spot any of the following in your business?

- Costs rising faster than revenues, supplier prices, labour rates or other economic price indicators?
- Inability to match competitors’ prices?
- More customer returns, product deficiencies, customer complaints?
- Accumulation of inventories?
- Slower collections?
- Increased processing times and/or backlogs?

These incidents cost money whether literally or figuratively. Cost reduction is not just the end game here; rather eliminating inefficiencies presents an opportunity to indirectly improve profits by enhancing the customer experience, strengthening supplier relationships, and bringing products and services to market faster. A systematic investigation is needed to unlock the full potential for improvement that can be realized.

1 **Begin with demystifying your costs.** Become familiar with the cost profile of your business. Review the way costs are incurred:

- Do costs remain fixed or variable with changes in business volume, changes in production capacity, changes in supplier prices, etc.? Can the structure be changed to improve control?
- Do costs have a direct or indirect relationship to the product or service provided? Where costs are indirect, are they being controlled actively or passively?
- Are existing procurement controls working?
- Have costs increased disproportionately to other prices?

2 **Optimise your asset profile.** Look at your asset profile. Apart from cash, can better short and fixed asset management improve income?

- Are the right mix of inventories being carried and are they turning over fast enough to optimise profitability?
- Are customer receivables being managed effectively to avoid arrears?
- Are equipment assets and facilities contributing to high operational costs such as excessive utilities, equipment breakdowns, repair and servicing? Would more current technology and equipment improve profit performance?
- Can cash flows be managed better to optimize investment income?

3 **Revitalize your organisation structure.** Continuous realignment of organizational structures and functions to business strategy is necessary if the business evolving. To avoid disruption and unproductive activity, structures should mirror a three to five year strategic outlook. Similarly, structural design should reflect the way operations are executed: team structures for end-to-end solution delivery or project work; assembly lines for high volume, repetitive production; and so on.

4 **Eliminate duplication, compress processes and integrate technology.** The challenge for any business is to establish processes that optimize the use of technology, effective use of personnel, and minimize end to end processing time. Important considerations are the number “touches” a document receives from inception to process completion, duplication of effort, excessive controls, impact on customer service, quality, and strategy. As well, electronic monitoring document flows eliminate the need for intermittent record keeping, reporting and administrative bureaucracy.

5 **Leverage expertise and knowledge ware.** Knowledge and expertise strengthen competitive advantage. The capability to harvest knowledge of production efficiencies, process design insights, customer buying behaviour, competitive strategies, global trends are fast becoming a core competency. Capturing critical knowledge systematically and in a meaningful medium to promote its reuse throughout an organization not only leads to more informed creative insights to leveraging business expertise, but it also eliminates duplication of knowledge bases, prevents erroneous data and leads to faster decision making because everyone shares the same information.

Productivity improvements will carry risks that must be acknowledged early on: deterioration in product/service quality; reduced customer service; loss of control over core competencies; increased potential for fraud; and higher than expected implementation costs. Feasibility studies and business cases essential before moving forward.

Put your money in the bank, don’t flush it down the drain!

A key indicator of whether you need to improve performance is if your prices or costs are out of whack. Get out of your cocoon and observe your competitors – are they outperforming you by offering better value? If so, rethink your business from the ground up because your customers will inevitably catch on and move away. Or, you may want to grow – and you can’t do this unless you understand how to leverage your strengths and address your weaknesses. Your business will continuously change – keep on top of your performance targets, drive sales, streamline operations and stay ahead of the game. Please contact us to learn about our engagements.Please contact us to learn about our engagements.