PROFIT IMPROVEMENT

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SRJWW
Growing Business Growing People

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Overview

1. Overview of 3 stages of Business Improvement
2. How you can minimise waste in your business
3. Profit Improvement Techniques

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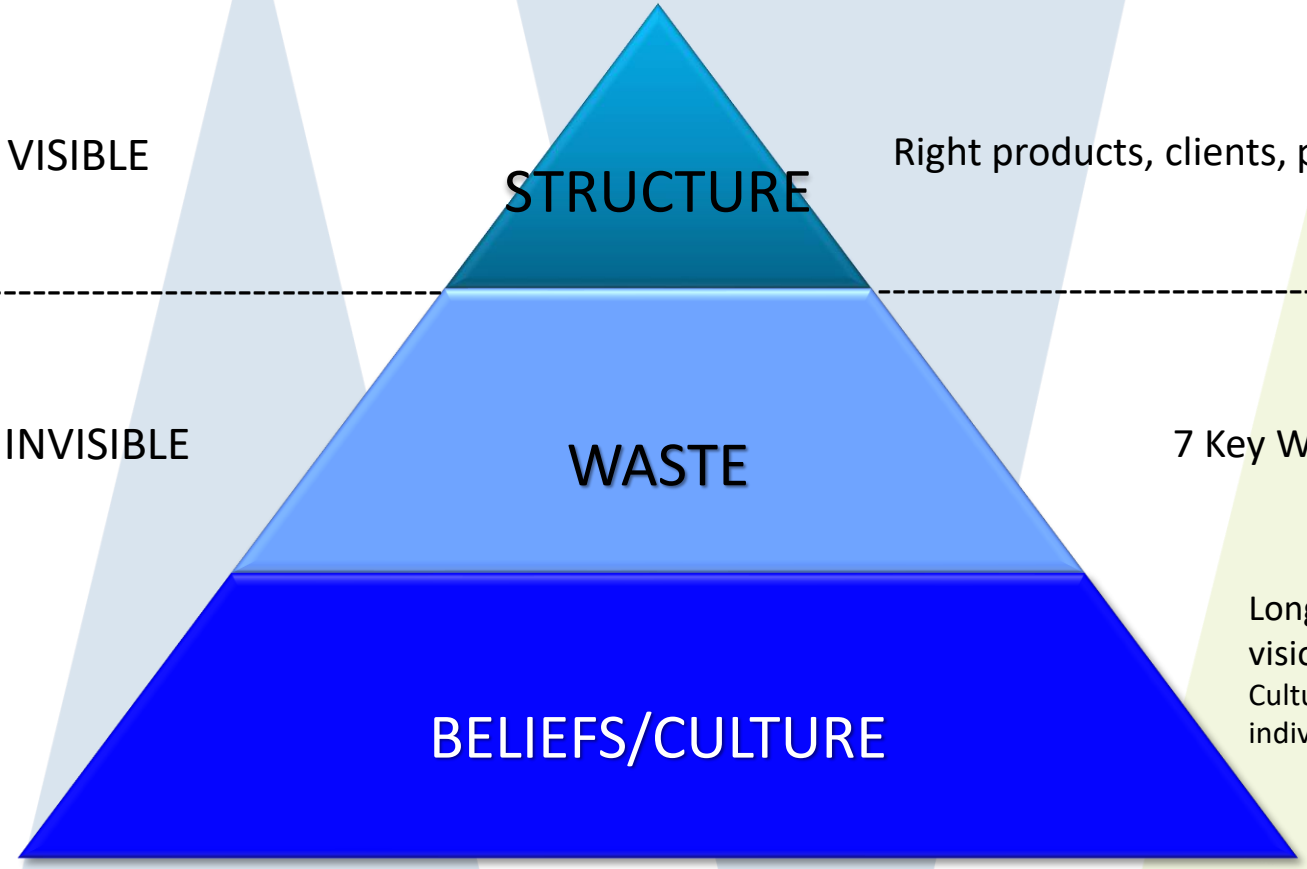
Business Improvement Stages

VISIBLE

Right products, clients, people & pricing



INVISIBLE

7 Key Waste Areas

Long term strategy & vision

Culture of success (for individual and organisation)

Stage 1 Structure = 1- 2 years

Stage 2 Waste = 1- 2 years

Stage 3 Beliefs = 2- 5 years

Continuing cycle where SUCCESS = TENACITY

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How much waste is in a business?

- Processes either add “value” or “waste”
- Studies show as much as 30% of the operating costs of a business can be waste!
- Generally, businesses focus on increasing sales rather than eliminating waste BUT …
- Waste elimination can be one of the most effective ways to increase profitability.

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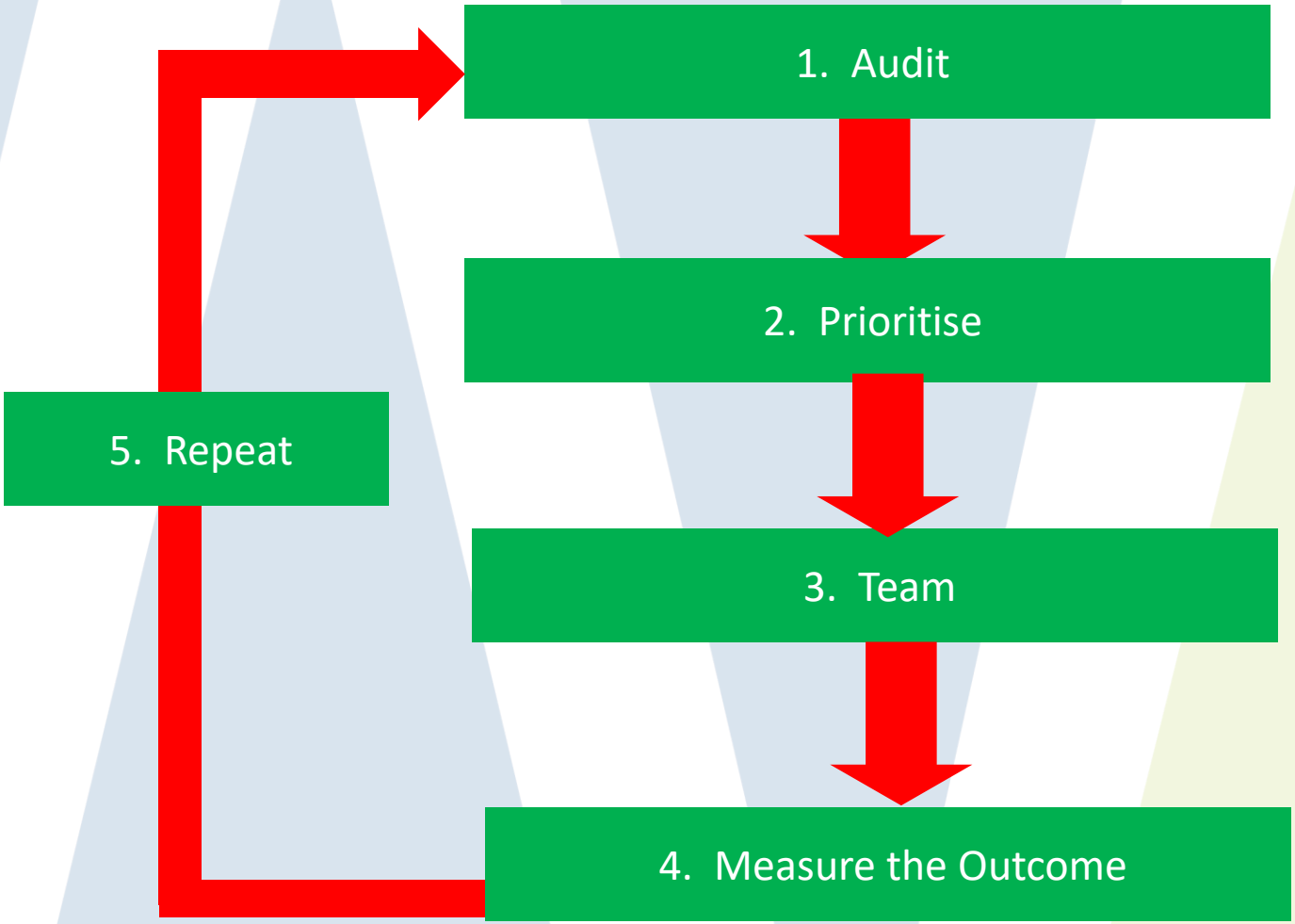
5 Step waste reduction process



Toyota Production Systems

Taichi Ohno was a production engineer at Toyota whose formative years were spent in the textiles division of the Toyota Corporation, and who moved to the automotive business in 1943. Ohno is usually referred to as the Father of the Toyota Production System (TPS), which is itself the basis for what is considered in the West as Lean manufacturing.

Taichi Ohno

Ohno identified seven wastes to be addressed by the Toyota system, and they have become known as the 7Ws (7 wastes)

Seven Wastes

	Waste Area	What is it?	Examples
1.	Overproduction	Doing something in excess of what's required	• Overpurchasing • Staff Overtime • Product Range • Overservicing
2.	Waiting	Where waiting occurs between steps in a process	• Production holdups • Materials supply • For subcontractors • Customer waiting for response/goods • For management decisions
3.	Transporting	Transport between stages in a process (internal and external movement of people, goods & information workflow)	• Excessive material handling • Layout (factory & office) • Multiple delivery runs • Travel to clients • Method of Transport

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Seven Wastes

	Waste Area	What is it?	Examples
4.	Inappropriate Processing	Right tool/process or person is being used for the job	• Outdated equipment • Wrong staff role fit • Lack of documented systems & procedures • Sales staff doing admin
5.	Unnecessary Inventory	Anything we purchase, produce or develop that's not sold. **The more stock levels you have, the more cash you have tied up!**	• Raw material, finished goods, WIP • Pallets • Product range
6.	Unnecessary Motions	Poor ergonomics and time management	• Factory/office layout • Stop/start mentality • Stock picking • Access to mgt/decisions
7.	Defects/Rework	Any error that results in double handling	• Poor communication (especially instructions) • Computer input errors • Poor workmanship

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Waste Audit Process

Area	Cost	EASE OF REMOVAL Hard Av Easy
Overproduction		
Duplication	34,000	|--X--|--|--|--5--|--|--|--|--|
Producing without guarantee of sales	18,000	|--|--X--|--|--5--|--|--|--|--|
Errors	15,000	|--|--|--|--X--5--|--|--|--|--|
Waiting		
Waiting time – work in progress	28,000	|--X--|--|--|--5--|--|--|--|--|
Freight	14,000	|--|--|--|--X--5--|--|--|--|--|
Storage	9,000	|--|--|--|--|--X--|--|--|--|
Transport		
Stock Layout	10,000	|--|--|--|--|--X--|--|--|--|--|
Sub Contracting	45,000	X--|--|--|--|--5--|--|--|--|--|
Travel	5,000	|--|--|--|--|--5--X--|--|--|--|
Inappropriate Processing		
Senior partners doing work juniors could do	17,000	|--|--|--X--|--5--|--|--|--|--|
Wrong equipment	8,000	|--|--|--|--|--X--|--|--|--|--|
Laser prints for draft copies	9,000	|--|--|--|--|--X--|--|--|--|--|
Inventory		
Raw material	17,000	|--|--|--X--|--5--|--|--|--|--|
Old Stock	12,000	|--|--|--|--X--5--|--|--|--|--|
Product range	55,000	X--|--|--|--|--5--|--|--|--|--|
Motion		
Factory Layout	16,000	|--|--|--X--|--5--|--|--|--|--|
Desk Layout	6,000	|--|--|--|--|--5-X--|--|--|--|
Hand movements	13,000	|--|--|--|--X--5--|--|--|--|--|
Defects		
Re work	12,000	|--|--|--|--X--5--|--|--|--|--|
Production faults	16,000	|--|--|--X--|--5--|--|--|--|--|
Errors	22,000	|--X--|--|--|--5--|--|--|--|--|
Total Potential Waste Saving	**381,000**	

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Making your profit drivers work for you

- ↑*increasing* ***Sales (turnover)***
- ↓*reducing* ***Cost of sales (COS)***
- ↓*reducing* ***Overhead expenses***

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Another option: Profit Formula

Profit =	Sales - (Increase Sales)		Overheads - (Decrease Overhead Expenses)		Variable Expense – (Decrease Variable Expenses)	
	Too many sales people	120,000	Reduce Salaries	5,000	Over Printing	4,000
	Reduce Conversion time on sales	20,000	Reduce warehouse size to save rent	50,000	Fuel costs	10,000
	Use Web for more sales calls	10,000	Vehicle Expenses	5,000	Delivery Expenses	2,000
	Poor conversions due to poor staff	20,000	Training staff	10,000	IT Services	2,000
	Reduce sale material, more web based	10,000	Reduce warehouse size to save rent	As above	Over printing	As above
	Clustering	20,000	Better systems	10,000	Casual labour	40,000
	Losing existing customers	30,000	Defect in production down 1%	20,000	Lessen event cancellations	2,000
$390,000 potential Profit Increase		**230,000**		**100,000**		**60,000**

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Step 3: Teams

To implement your profit improvement strategies you will need to allocate them to specific teams (or individuals in smaller organisations) to drive their removal

Step 4: Measure the Outcome – KPI's

Key Performance Indicators (KPI) are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organisation. They need to be specific and measurable.

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Step 5: Repeat every 6-12 months

Every 6-12 months ensure you repeat the audit process on your organisation to continuous look for ways to remove waste

Want to know more?

- For further assistance on reducing waste and improving profitability in your business, call **Dianne Brown on 0404 016 808**

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