

Going for profitable growth — Why the focus?

Suiko shares how operations can contribute to the challenge of driving up **equity value** through enhancing practices that control costs, generate extra profit and maximise cash.

1. Controlling costs

For most organisations cost reduction has been the primary goal of recent times. A survival mindset has got many businesses through the depths of recession, but looking forward will require leaders at all levels to step out of a hand to mouth focus into a culture that listens to customers, makes the necessary investments and exploits the opportunities for growth.

It should start by looking at cost from the customer's perspective: what are they prepared to pay for and what do they value? The reason for cost being built into the system can be complex and numerous; from unnecessary processes and costs incurred through unplanned surges in demand to unexpected changes in staffing or variable quality of a process. Whilst it is not always immediately transparent, the great news is that in most processes there

are huge opportunities to take out the non value added work.

How to exploit these opportunities will be influenced by many factors, but control must be a cornerstone of any improvement. Jim Godefroy, Suiko Principal expands "It encompasses robust operational basics – well executed standard work procedures, discipline and process and change control. Control is established through robust performance review; monitored by strong, simple measurement that is understood and immediately flags up the need for action when any limits are in jeopardy." The development of capable, predictable and repeatable processes will give confidence in the ability to hit budget and deliver year on year improvements.

2. Generating extra profits

When we innovate with new products or technologies, our ability

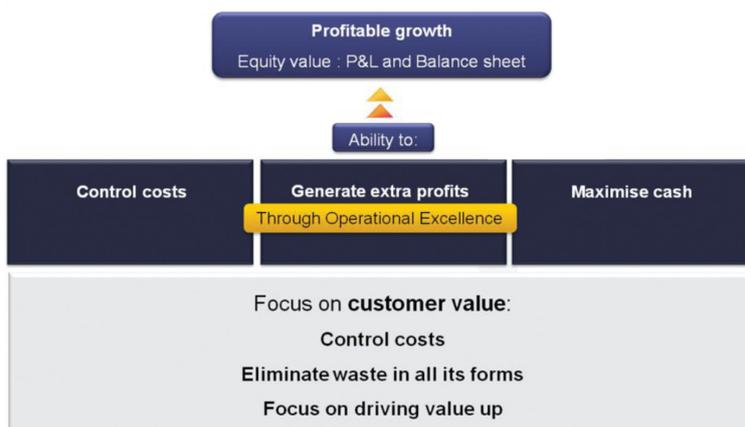
to understand and control costs makes it much easier to rapidly introduce change, commission it efficiently and for there to be the minimum of surprises.

Operations should exploit opportunities to create extra value in support of the pursuit of greater revenues and/or increased margin. If we truly understand what our customers' value, then operations can strive to deliver this and provide an improved and more highly valued service. This might be through exceptional service levels, quality, innovation, environmental credentials, flexibility and responsiveness.

Godefroy continues "Value is not necessarily directly about money. It will often be time - time to market, time to deliver a product, time to respond to a service query, time to get paid. Lean teaches us to consider value in terms of time and this will pay dividends on the bottom line. Without striving for value we cannot attack the non value added activities that exist."

Stephen Cheadle, Senior Consultant builds "It is vital that we understand value from the customer's perspective – the first and most important principle of Lean (often missed by many!) and acknowledge what this means for operations. We have to open our eyes to all the value streams that we can influence, not just the physical flow, but also the information flow, the new product development flow and the after

Focus on customer value through operational excellence



The compelling business reason to change – leveraging the opportunities

Control Costs	Generate extra profits	Maximise cash
Costs are controlled to ensure the direct costs to make the product and the overheads incurred to run the operation are always predictable, appropriate and consistent.	Create opportunity to increase revenue and margin, through reduction of non value added waste whilst providing a product and service offering that delights your customers.	Challenge all activities that tie up cash in order to use your cash as effectively as possible, maximising return on capital employed without putting your customers at risk.
Direct costs A direct cost is a cost that is directly attributable to the manufacture of a product or provision of a service. <ul style="list-style-type: none"> • Direct labour • Direct materials • Packaging • Utilities • Distribution 	Product and service The way the provider deals with all the customer’s current and future needs ultimately measured by the customer’s perception. <ul style="list-style-type: none"> • Brand/quality • Lead time • Time to market • Innovation • Service experience 	Current assets Flow in and out of a business in the normal course of its operation, as cash is converted into goods and then back into cash. <ul style="list-style-type: none"> • Material/packaging stock • Work in progress • Finished goods • Spares (engineering/maintenance) • Debtors and creditors
Overheads Resource consumed or lost in completing a process, but which does not contribute directly to the end-product. <ul style="list-style-type: none"> • Indirect labour • Indirect expenses • Central costs 	Corporate social responsibility Consider the interests of society by taking responsibility for the impact of their activities on all stakeholders. <ul style="list-style-type: none"> • Health and safety • Staff well being • Environment 	Fixed assets Are not consumed or sold during the normal course of a business and they are used to carry on its operations. <ul style="list-style-type: none"> • Production equipment • Land and buildings • Warehousing/ vehicles

sales service. This gives us a much broader pitch to influence and on which to create greater value for our customers and, as a consequence, create other avenues for increased revenue or margin.”

These operational strengths can enhance customer loyalty and help open new doors for additional products or an extended service. Manufacturing is more and more about a service, not just producing a product. This gives an ideal opportunity to add more value, distinguish ourselves in the market place and generate extra profits.

3. Maximising cash

Operations tie up cash through fixed assets (plant and machinery) and current assets (working capital, stocks and work in progress). A streamlined operation should constantly reduce the requirement for cash and any cash that it does have should be made to work hard.

Fixed assets must be well utilised (but not at the expense of optimising the value stream) and therefore must be reliable, predictable and capable. We should maximise the effectiveness of our equipment and challenge all requests for more capital and look at how we can get more out of what we have and explore re-engineering the process or the

product to enable us to hit the actual demand.

Current assets are often an untapped resource left to the accountants or supply chain specialists, but are an area that all operations people can both influence and impact upon. Engaging people in a collaborative way to the importance of cash is key and ensure they appreciate how they can help free up cash.

Pursuing profitable growth

Suiko’s experience is that there is still a vast array of untapped potential in all organisations and operational excellence can provide one of the critical levers to accelerate the pace of change for businesses.

Andy Marsh, Managing Director expands, “The sustainable answer requires longer term strategic thinking - think Lean not mean. Pulling the right levers in operations will set the business on a path to profitable growth. Going for growth will create a positive mindset in the business, avoids restructuring costs and typically builds a momentum of its own rather than a negative downward spiral of cost cutting. In addition to this we have the opportunity to improve our cash. This will happen when people focus on value and time (lead time, stock turns etc) not just cutting costs.”

Marsh concludes “It is vital that people understand how operations can make and lose money, not just what their variances are, but where value can be added along the value streams. Operations must learn to collaborate as business units and encourage all functions to move out of their silos!”

If you would like to discuss how to address the issues above, then please call us.



Building Operational Excellence

Our mission is to help major companies achieve sustainable competitive advantage through Operational Excellence

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