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BY JOAN ADAMS

MEASURE IT, MEASURE IT, MEASURE IT

It's got to hurt. You work so hard to bring in more revenue and most of it goes right back out the door. What's the point of selling more if you wind up keeping less? Increasing revenue is good — but not if your costs are increasing at an even faster rate. Where is all that money going anyway?

Most business owners focus exclusively on sales. Of course you'd expect some increase in expenses when sales are up, but this doesn't mean allowing the cost side of the business to get out of control.

Typically, businesses get so wrapped-up in running their day-to-day operations, they don't devote any time to analyzing their costs. Company owners have a general sense of how things are going, but some costs are notoriously sneaky. They hide among the real costs of doing business, avoiding scrutiny. Far too often, owners don't have the cold, hard cost numbers that tell the whole story.

The old joke of selling a product below cost and making it up on volume is just that — a bad joke. Growing sales numbers can give a company a false sense of success. Lose sight of costs, and you can sell yourself right into Chapter 11.

MEASURES ARE AN IMPORTANT TOOL

"If you don't measure it — you can't improve it." This old saw is exactly on point. Measure your costs and you can cut them.

To the harried business owner, measuring activities sounds like a luxury. It's something for which large companies have the time, people and money — or perhaps it sounds like a complete waste of time. You've got far more important things to do, right?

The sad truth is most of your revenue leaves the company in costs. Measures will make those costs visible. You can fight

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an enemy you can see. Fight hard and you will keep more of that revenue.

Measurement is neither exotic nor a waste of time. Ask yourself: Do you really know your cost of delivery, of carrying inventory, or of servicing your customers? Probably not. Measuring is the only way you will be able to "see" those costs and what the costs' trends are.

BAD MEASURE PROGRAMS WILL FAIL

Measures must be simple, easily tracked and meaningful.

With the advent of computers and a plethora of software packages — companies can (and some regrettably do) measure everything. Volumes of reports are printed daily, weekly and monthly. They are often not read — making them useless. Measures are not about generating more unread reports. Measures are about bringing clarity to your business costs. Measures serve as tools to do simple comparisons and analyses. Measures will help you answer that all-important question: Where are those costs coming from?

Measure programs are like any other new program — make them complicated or vague and they will be miserable failures. Most companies actually measure badly. They don't collect the data in timely fashion, they collect too much,

they don't analyze it, and in the end, it is all a big muddle. The result? They can't use any of the information to uncover and target those costs that need to be cut.

There have to be good business reasons for measures. We've seen companies track everything from average vacation days per month to cell phone usage by salespeople. Think about it: What could you possibly learn from this information that will help you cut costs?

THINK SIMPLE, START SMALL

For measures to be useful, think simple and start small. Install one measure at a time. Make the measure clean and clear — avoid measures that are interdependent. Here are some basic steps to ensure your first foray into measures produces actionable information.

1 Determine what to measure. Your first effort should be on a direct cost. These are easily measured, and you will be able to convert the analysis into cost reductions right quick. For instance, anyone whose shift workers punch a time clock is using a form of measurement. This is perhaps the most basic form of measurement, used to calculate labor expense. Now think of everything else that goes into the direct cost of operation and how it can be measured simply.

2 Assign the task of measuring — collecting the data — to one person per shift. Explain what is being measured and why. He or she must measure religiously every day, at the same time and in the same fashion.

3 Develop measuring tools — typically this will be some kind of template or grid to be filled out every shift.

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4 Ensure compliance. In the beginning, you have to follow up to make sure everybody is collecting the same data, the same way. There's no point to measures if you collect useless data!

5 Choose a time period for measuring — typically one month — longer if your business is very seasonal — shorter if you see an immediate trend.

6 Analyze the data weekly and take a look at the macro-picture. The longer you collect the information, the clearer patterns will become.

7 Now you can take action.

For example, payroll is probably one of your biggest expenses. As far as you know, you need all your people. They work hard.

In fact, they are putting in for a lot of overtime, a significant part of your payroll cost.

THE MEASURING PROCESS

Let's take a specific case: warehouse employees' overtime. You want to know everything about this overtime so that you can take action to reduce and ultimately eliminate it.

1 You have decided what to measure: warehouse overtime.

2 The warehouse manager collects the data and is responsible for measuring overtime.

3 Give the warehouse manager a tracking tool and the authority to make this work.

4 A simple spreadsheet with the warehouse employees' names in the left column; next, a column for their start times; then a column for their end times; and if the total is greater than eight hours, a place to write down the reason for the overtime.

5 To ensure everybody complies, the warehouse manager has the authority to deny overtime to any employee who does not give an "overtime reason."

6 Perform this measure every shift. Some trends will show up almost immediately.

7 Measure overtime for at least one month.

8 Do your analysis. You can slice and dice this data many ways.

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- Who put in for the most overtime?
- What are the primary reasons given?
- Is overtime dependent on the day of the week?
- Does one shift consistently have more overtime than another?
- Take action.

Measures and analyses are not an exact science. Nonetheless, you will see patterns right away. You may find that:

- A few of your employees have given themselves a raise. They routinely put in for four, six or eight hours of overtime every week, whether it was needed or not. No one has ever questioned this practice so they figure, why not?
- The overtime activity and business activity don't match. Sales are down for the month, yet the warehouse is still racking up

overtime and worse — it's increasing.

- There's consistently more overtime on Mondays, or second shift tots up more overtime than first.

USE MEASURES TO TAKE ACTION

Now you know where, when, how, why the overtime costs occur. It is time to take action and keep measuring:

- Kick off the Overtime Program — communicate the plan to reduce overtime by x % over the next three months and the goal to eliminate all but emergency overtime.
- Reward the warehouse manager for every 10% reduction in overtime with a bonus.
- Allow NO overtime without your approval. The worker must request overtime, have good reason for overtime,

and estimate the hours of overtime needed.

- Follow-up each overtime request. Did the work get done? Was the estimated number of hours of overtime correct?
- Start identifying root causes of overtime. Start correcting those root causes.
- Look at overtime in two months. Track your progress — compare this month with last month.
- Keep working to reduce overtime; dig into every reason. Overtime should be the exception, not the rule.
- Extend the overtime program to all employees.

You can measure all your costs: truck, inventory, customers, in the same way. More on that in a few months, when you

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will be ready for your next set of measures. <<

Joan S. Adams has consulted for industrial clients for over 15 years. She headed DITT, the consultancy arm of the French National Utility, Electricité de France, and was a managing consultant at A.T. Kearney. Later, she started Pierian, a consultancy that brings sustained and measurable success through operational excellence, customer focus, and competitive market strategy. Joan Adams speaks French and Spanish. She has worked on projects in Europe, Central America, Africa, Asia as well as North America. She has engineering degrees from the University of Wisconsin-Madison and MIT. She also has an MBA from the Wharton School. You can contact her via e-mail at adams@pierian.net.

THE PVF ROUNDTABLE: UPCOMING EVENTS



Stainless Steel World: The PVF Roundtable will host a joint meeting with Stainless Steel World 2004 during its Conference and Expo Oct. 20 at the Doubletree Hotel on Post Oak in Houston, Texas. A featured speaker will discuss the recent problems that have plagued the PVF industry, especially problems in material pricing and availability. Reservations are required and can be transmitted from either the PVF Roundtable Web site at www.pvf.org or Stainless Steel World's Web site at www.stainless-steel-world.net.

American Supply Association: Once again, the PVF Roundtable will be represented at the ASA Annual Convention. This year it will be held at the Boston Marriott Copley Place in Boston Oct. 12 to 14. All attendees are invited to come by booth 974 and discuss their thoughts and concerns regarding the pipe,

valve and fitting industry. The PVF Roundtable is the perfect forum for discussion in a relaxed atmosphere that is conducive to problem solving. Please join the PVF Roundtable in its efforts to make this industry more efficient. For information on ASA, visit www.asa.net.

Manufacturers' Logos Project: All members of the PVF industry are invited to participate in the PVF Roundtable's current project: compiling a current, accurate listing of manufacturers' logos. This listing is intended to provide information to both field and office personnel that will enable them to identify the makers of PVF items and prevent counterfeiting. Also, they can use it both as a quality control tool and to help identify the history of manufacturers who have been absorbed, purchased or have ceased operations.

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