

How to Maximize Profits Through Benchmarking and Process Improvement

Michael J. Poirier, Director
Manufacturers & Distributors Group
Feeley & Driscoll, P.C.
(888)875-9770
www.fdcpa.com



Agenda

- Process improvement models
- Manufacturing metrics
- The importance of analytics

Breakout Session

- Strategies for growth
- Developing customer base
- Question/answer session

Visit us: www.fdcpa.com

Call us: 888.875.9770



Process Improvement Strategies

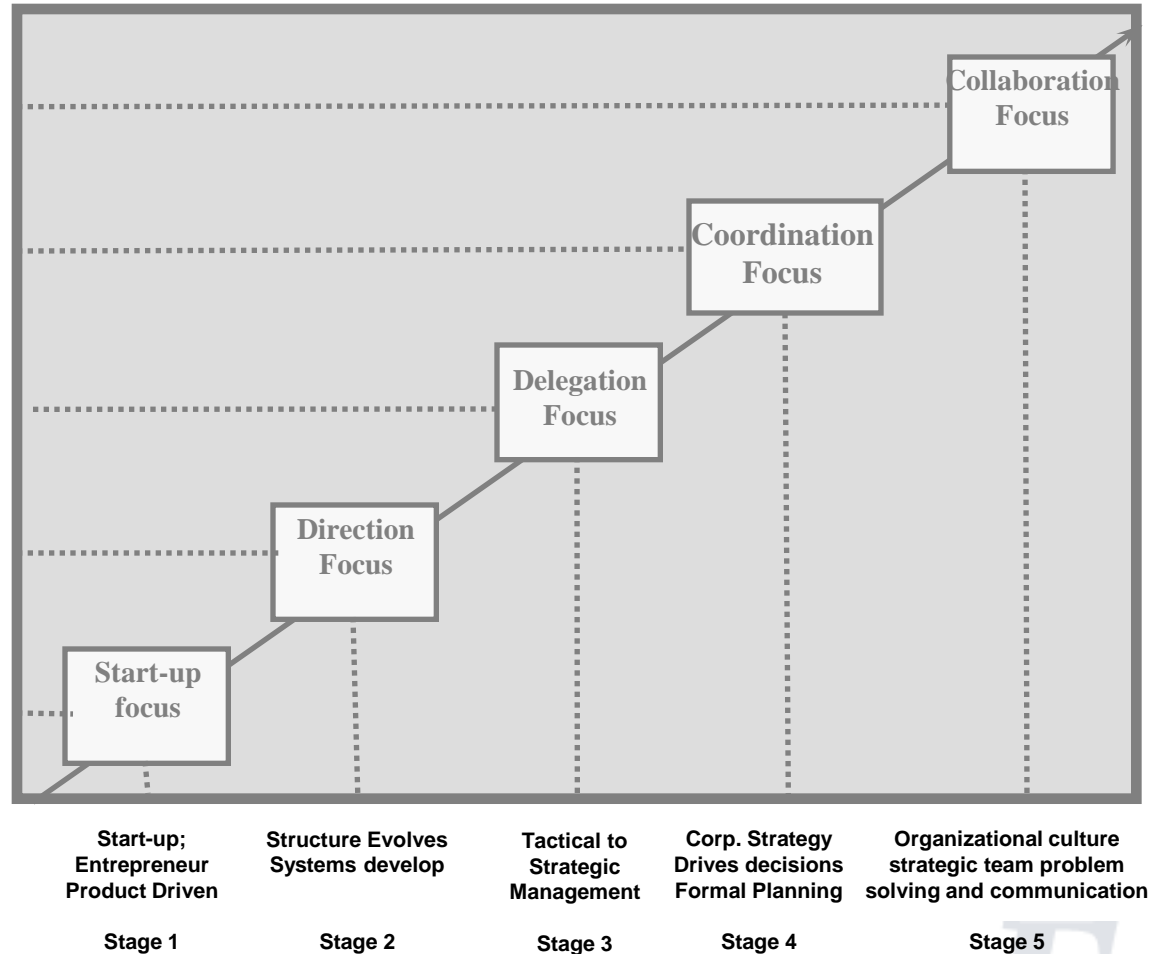
- Theory of constraints – eliminate
- The bottlenecks in your organization
 - ✓ Where are your bottlenecks?
- Lean manufacturing/lean thinking
 - ✓ Reduction of the 7 wastes

Process Improvement Strategies

- Seven Wastes
 1. Overproduction
 2. Motion
 3. Waiting
 4. Conveyance (moving from one location to another)
 5. Over-processing (making features not valued by customers)
 6. Inventory (RM or FG)
 7. Correction (scrap or remove)

Stages of Growth

| Annual Sales | |
|-------------------------------|------------------------------|
| <u>DIST</u> | <u>MFG</u> |
| Over \$150 million | Over \$50 million |
| \$75 million to \$100 million | \$25 million to \$50 million |
| \$20 million to \$75 million | \$5 million to \$25 million |
| \$1 million to \$20 million | \$500,000 to \$5 million |
| \$0 to \$1 million | \$0 to \$500,000 |



Visit us: www.fdcpa.com

Call us: 888.875.9770

Performance Metrics

- What metrics does your organization have on its “dashboard”?
- How have you measured?
- How often do you measure?
- How would those change as you progress through stages of growth?
 - ✓ Take a few minutes to write down

Manufacturing Metrics Example

Customer Related

- Sales Analysis (By Customers, Type Recurring, Strategic, Profitable)
- Sales Backlog
- Top 25 Sales
- Daily Sales Reporting
- Actual Volume vs. Forecast
- Product Margins
- On Time Shipments

Manufacturing Metrics Example

Customer Related (Continued)

- Customer Lead Time (Order to Shipment)
- Customer Returns
- Partial Shipments
- Customer Credits
- Customer Satisfaction Statistics
- Profitability by Customer
- “Mini ABC”

Manufacturing Metrics Example

Production Related

- Machine Utilization
- Machine Downtime (Planned and Unplanned)
- Machine Maintenance Costs (Planned and Unplanned)
- Product Setup Times
- Manufacturing Cycle Time
- Production Rate vs. Capacity
- Productivity per Employee (\$ Value of Shipments)
- Various Manufacturing Variances

Manufacturing Metrics Example

Production Related (Continued)

- Inventory Turnovers
 - Raw Material
 - WIP
 - Finished Goods
 - All Inventories
- Inventory Obsolescence
- Bottlenecks
- Stockouts
- Rework
- Safety

Manufacturing Metrics Example

Quality Related

- First Pass Yield/Scrap
- Rework
- Warranty/Repair/Service Costs
- Labor Turnover Rate
- Manufacturing Change Orders

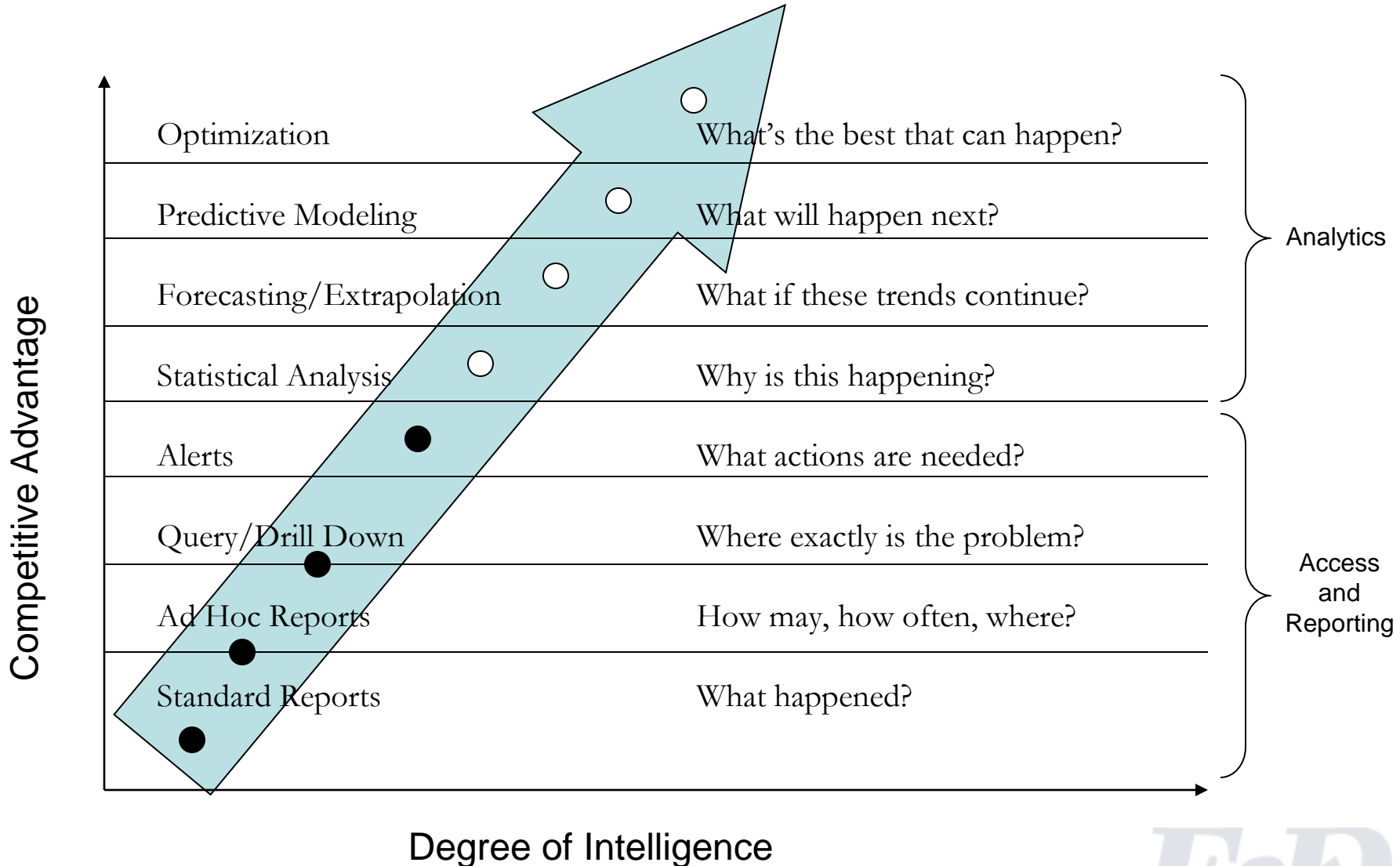
Supplier Related

- On Time Delivery
- Quality
- Purchase Price Variances
- RMAs/RFCs
- Other Vendor Performance Statistics

Breakout Session

- If you can measure it, you can improve it:
 - Discuss the #1 measurement in your company that you measure on a consistent basis.
 - How do you use that information within your organization?

Business Intelligence and Analytics



Strategic Focus

- Organizations initially focus on 1 or 2 areas for analytical competition
 - Loyalty plus service
 - ✓ Harrah's
 - Employee selection plus customer experience
 - ✓ Patriots
 - Operations plus customer data
 - ✓ UPS
 - Supply chain plus marketing
 - ✓ Walmart
 - Internal logistics plus customer cost reduction
 - ✓ Owens & Minor
 - Pricing plus new analytical service offerings
 - ✓ Progressive

Visit us: www.fdcpa.com

Call us: 888.875.9770



Suppliers

- Supply chain analytics
 - How many suppliers/vendors do you use?
 - ✓ Capacity planning
 - ✓ Demand-supply matching
 - ✓ Location analysis
 - ✓ Modeling
 - ✓ Routing (best path for delivery)
 - ✓ Scheduling (flow of resources and work through a process)

Customers & Supply

- Mine data to ensure that customers have the products that they want, when they want them and at the right price.
 - What is your top seller?
 - What external issues can produce a spike in demand and can you meet those demands?

Best of Class Benchmarks

- Cycle counting accuracy
- Inventory physical/perpetual adjustments
- Customer service level
- Inventory turns (non-perishable)
- Gross profit margins

| | Best of Class Range |
|-------------------------|----------------------------|
| Cycle | 99-100% |
| Inventory | Less than 1% |
| Customer Service | 90-95% |
| Turns | 12+ |
| GPM | Mfg: 50% |
| | Dist: 20% |

Other Data

- RMA Annual Comparative Data Book
- Your industry association

- Proper units of measure
 - ✓ Pounds, gallons, etc

Creating the Social Engine of Revenue Growth

- Information flow should be unfiltered & disseminated across the board
- Works across all departments and becomes culture
- Example: Southwest Airlines
 - ✓ 40 minute turnaround down to 18 minutes
 - ✓ Result: One additional flight per plane each day
- Charan, *Profitable Growth is Everyone's Business* (2004)

- Successful individuals
 - ✓ Not so much about overcoming enormous obstacles and handicaps
 - ✓ More about avoiding high-risk, low-reward scenarios
 - ✓ Do everything in their power to turn the odds in their favor
- Goldsmith, *What Got You Here Won't Get You There* (2007)

Customer Benchmarking Model

Net Promoter Score Model

- Promoters
 - ✓ Loyal enthusiasts, urge others to buy from you
- Passives
 - ✓ Satisfied but could be wooed by competitors
- Detractors
 - ✓ Unhappy customers, trapped in bad relationships
- Promoters – Detractors = Net Promoter Score
- Reichheld – *The Ultimate Question* (2006)

NPS | High Scores with Ties to Manufacturers & Distributors

| | |
|-----------------|-----|
| Harley-Davidson | 81% |
| Costco | 79% |
| Amazon | 73% |
| Apple | 66% |
| Cisco | 57% |

NPS | Case Study - Lego

- Employees know the score
 - ✓ Employees are rewarded for improvement to score (10% of bonus tied to NPS)
- NPS research driving business improvement initiatives
 - ✓ Web redesign
 - ✓ Packaging quality
 - ✓ Delivery