



What is the Waste? Where is it?

by William E. Conway, Chairman & CEO, Conway Management Company

“The natural state of things in the world is that most things are all screwed up!”

Once you understand and believe that this is true, you have a key ingredient of success for the **Assault on Waste**. As soon as you get the facts and data about any work, the odds are extremely high that you will find plenty of troubles, problems, errors, complexities and opportunities for improvement. Almost every place knowledgeable people look seriously for waste, they will find it and be able to quantify it. There is no end to the opportunities because waste is everywhere. It is in inventory of all kinds, in receivable collections, in invoicing, in all paperwork operations. It includes the engineering design process, the Research and Development reports, the supplier partnership work, etc. Understanding that waste is pervasive leads to a recognition of the need to improve work in our own company (division, etc.) but also in customers, suppliers, and other business relationships.

Everyone can think of lots of small and mid-sized opportunities, but here's a big example - the \$5 Billion car division of a British company. There were potential gains from a Supplier Partnership. From past work with GM and Ford, I knew that total material purchases in the automotive industry represented approximately

70% of Cost of Goods which in turn represented 80% of revenue. \$5 Billion x 80% x 70% equaled approximately \$2.8 Billion of material purchases.

Since manufacturing companies usually have as much as 40% of revenue as waste, that meant that this firm's suppliers were shipping This firm \$2.8 Billion with up to 40% waste or \$1.12 Billion. At the first meeting we discussed working together with the CEO and his top 4 people. We pointed out that the suppliers were probably shipping more than \$1 Billion of waste. We estimated that they could capture 25% to 50% of that or more than \$250MM to \$500MM. The company's managers believed, understood and helped us. We began with a Right Way To Manage® Workshop with the 20 top car executives and 250 CEO's of their largest suppliers and we later worked with many of their suppliers. Over the next few years, the company made \$300-400MM/yr. gains for its profits. How did it happen? Because Conway knew that “everything was all screwed up” including the customer/supplier relations, specifications, engineering design, purchasing, etc. Our client believed us and we worked together to make the gains.

It takes an understanding of the magnitude of the waste, where it is and how to make these major improvements.

On a smaller scale, here is an example of how these principles work in the Payroll Department of a large company with 6 people in the department. In this company, the CFO needed to “have his nose stuck into the work.” He wanted to get into continuous process improvement but he did not know what to do or how to do it. He had already attended a workshop on Continuous Improvement. He needed help to *move into action*. If he learned to make improvements in one department, he could then set the example and act as the leader for the Treasurer, Controller, 12 Department Heads, and the 300 financial and administrative people working with him. We decided to visit various Department Heads to select someone with whom the CFO could work successfully. After meeting with people, Dick the Payroll Manager was selected. Dick already had attended The Right Way To Manage® Workshop and the Teams & Tools Workshop and had lots of charts on the wall. We reviewed each chart with him and asked a few questions.

- *What is the purpose of the chart? Why were you tracking this?*
- *Was the chart up to date? (If not, down it came!)*
- *What was being measured and why?*
- *What were the gains to date?*
- *What were the potential future gains?*

The gains were scanty. Not many charts had the appropriate data and information. Frankly there had been little action for real improvement. All of this lead to further questions.

- *How many people do you have?*
- *How many people do you pay? How many locations? Where?*
- *What do the 6 people do for work? Is there much rework?*
- *How do these people spend their time?*

Based on these discussions, our knowledge of the work and the available data, we found lots of waste and opportunities including:

- the need for a software program to record and analyze data for paying sales bonuses each week to save ½ person's time,
- 2+ people doing rework due to all the troubles and errors, and other troubles such as complex and unwieldy systems.

After 3 months of working with the Payroll Manager and his team, the CFO knew what to do and how to do it. They studied, changed and improved the work. The Payroll Department now had 3 people. One took early retirement, two took jobs replacing people who left the company for other reasons. The CFO was able to turn his new knowledge to helping others – the Treasurer, Controller and Department Heads. A year later, most of his people

were working in continuous improvement. Major measured gains were being made (not just on Payroll) but also in Receivables Collection, Billing, Purchasing and the Cost Departments. The **Assault on Waste** was underway in the Financial/Administrative Business Unit.

As you can see in these examples, the assault on waste can be done in any size company or department. What is needed is the understanding of the magnitude of the waste, the commitment to find the waste, get rid of it, and make the gains.