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Looking for the holes where profit drains away

Here are seven real-life examples of how a review of your business processes can have bottom-line results.

By Tim Smith, Principal

Can you make 2007 your company's most successful year ever?

Of course you can ... if you'll invest the time early on to ensure that your business processes – the path that work takes from one person, department or function to another – are as effective and streamlined as possible.

That type of scrutiny can uncover the dozens – or hundreds – of tiny holes that allow customers and profits to silently drain away. Plug the holes – and you can have unprecedented profitability!

Does that sound too simple to be true? That's what many managers think, and they allow processes to get bloated, workflows to break down or important steps to be ignored. The end result is a company that doesn't work as profitably and efficiently as it could.

An Outsider's View

It's tough enough to succeed in business today. But without proper execution in the way that your company creates and delivers its product or service, sustained success is impossible.

At The Plaid Group, our role is to simplify and stabilize business operations – helping our clients improve financial performance and gain a competitive edge.

What that means is we find opportunities to enhance your work processes in ways that enable your company to make more money. We identify the gaps in your execution so that you can make the necessary changes to be successful.

Most process problems are simple, seemingly obvious, disconnections – the kind of situations that we see every day and ignore.

The solutions are often simple, too. But most companies can't see the solutions because they aren't able to view the problems objectively.



In 2007, take a closer look at your business operations and discover the processes that let profits slip away unnoticed.

That's why every organization – large and small – can benefit from an outsider's review of the key processes that govern daily workflow. As companies grow and change

and people come and go, even the most structured companies have processes that have broken down, expanded with unnecessary steps or changed in ways that no longer serve the customer.

Process Map Leads To Profit

One of my favorite tools for mining profit opportunities is the process map. I never know what I'll find, but I nearly always discover ways for companies to increase profits by generating additional sales, collecting revenue or reducing expenses.

Sometimes, the discoveries are easy to tie directly to profits – forgetting to bill for products or services sold, for example. Other discoveries reveal indirect losses – such as hiring contract labor before it is needed, and paying for the workers to wait for the job to begin.

Regardless, studying a company process – particularly the core process that starts with the sales transaction and ends when the customer has what they purchased and you get paid – is a practical way to identify opportunities for bottom-line improvement.

Like what, you ask?

Well, off the top of my head, here are some examples of problems I've run across when helping clients study how work flowed through the company. As you read them, think about how the key elements might apply to your organization, even if your business is in a different industry:

Example No. 1: Manufacturing Company

This organization purchased the typical kinds of support goods and services you'd find in most businesses – office supplies, phone service, legal services and more. They were often at odds with their suppliers and service providers because they habitually paid late, primarily because of cash flow shortfalls.

An investigation of their payables process revealed several problems, some quite glaring. For example, they often paid invoices without verifying accuracy.

And in some cases, suppliers sent "reminder" invoices that the company processed into the same queue as original ones. Without adequate checks in place, they often paid these reminder invoices, too – effectively double paying and compounding their cash flow problems.

Example No. 2: Equipment Rental Company

This client also had critical cash flow problems, but its issues stemmed from receivables management practices.

An analysis of sales data showed that revenue should have been more than adequate to keep payables current. The company concluded that its customers were to blame, but customers claimed they never received invoices.

This led to an unfortunate showdown. But one customer finally convinced the company to study the issue internally and verify that invoices were being sent on time.

Walking through the receivables management work flow, we uncovered the problem – the receivables specialist was responsible for (1) tracking down missing backup paperwork required for invoicing, (2) generating and mailing invoices, and (3) making collections calls on past due accounts.

Yet she was also the lobby receptionist ... so she handled her accounting-related duties whenever she had time (which wasn't often!).

Example No. 3: Insurance Company

Every new employee hired by this firm needed a network ID and a computer loaded with adequate software.

A study of the process used to prepare for new arrivals showed that the network ID required four approvals and a new computer required six approvals. Of the six approvals for the computer, five came from the same department!

After getting approval for a new computer, the technology group solicited bids from at least three different suppliers, ordered the equipment, waited for it to arrive, then configured and delivered it. The end result was a process that was painfully slow.

In some cases, new employees waited up to 11 days for a computer. What was the cost of having a new employee sitting relatively idle for 11 days?

Example No. 4: Software Developer

This company developed and sold a suite of industry-specific software. Every six to 12 months, the company would release a system update to existing customers.

Customers using one particular application complained that the software they received didn't work properly. In some cases, the software would fail – and to make matters worse, it would erase the customer's data!

When we studied the development process, we discovered that each software developer involved in the new releases would test his/her own work, but nobody tested the entire system to be sure that all of the components worked together and worked as intended!

Example No. 5: Mortgage Lender

A commercial mortgage company lent money to borrowers and borrowers used the purchased property as collateral.

If the borrower defaulted, the lender could sell the property to pay off the loan balance.

To ensure that borrowers didn't allow the value of the buildings to deteriorate, the lender routinely sent inspectors

to the collateralized property and notified borrowers of any maintenance issues.

Unfortunately, some of the inspectors had no training and were given no checklist or guidelines to evaluate the condition of the properties. They often forgot to document their findings and print photos.

Even worse, the findings they documented in their inspection reports weren't always reviewed. Often, they were simply filed. End result: Inspection-related costs were quite high relative to the results. Even if the inspection reports were used, the quality of the reports varied greatly depending on the knowledge of the inspector. The company wasted a lot of money and still didn't effectively monitor the properties.

Example No. 6: Ship Provisioning Company

This client sold provisions such as cleaning supplies, food, maintenance items, etc., to cargo ships.

After taking the customer's order, they purchased special items not in stock. When the special items arrived, they would stage the goods, load them on a truck, and deliver them as closely as possible to the ship's departure date.

Following their routine practices, they didn't verify items loaded onto the trucks and the customer didn't verify receipt. Nobody really knew what was loaded onto what truck or what was delivered to the customer. Customers often disputed deliveries and short-paid invoices. Nobody was accountable. The supply company incurred losses until they were near bankruptcy.

Example No. 7: Professional Services Company

The firm's managers wanted to increase sales, so they invested time and money to create a targeted business development program.

Six months after launch, however, the leaders saw only dismal results and were ready to cancel everything.

The program was supposed to make people aware of the company and its specific services, after which the sales team would follow up with personal contact.

But the sales team reported that the program made no difference. Customers on their target lists usually had never heard of the company. Most calls were ice-cold cold calls.

What was wrong? Reviewing their marketing process, we discovered that the company defined the target market and associated companies, and even identified vital decision makers. They crafted their marketing messages, created eye-catching materials and scheduled waves of marketing to those decision makers.

Then someone asked "Who is responsible for sending the materials per the schedule?" The answer: Nobody.

Breakdowns That Go Unnoticed

After identifying the root cause in each scenario above, we modified the processes so that the companies involved could be more productive, more efficient and more profitable.

What's interesting is that in most of these examples, the problems were somewhat obvious, but the personnel were too close to the issue to see clearly where process breakdowns had occurred.

That may seem unusual, but it's really not – every day companies struggle with less-than-ideal results because employees can't or won't see the big picture. Why?

Sometimes it's because of pride, or fear or reprisal if they speak up. Sometimes it's a turf issue – "my department can't be the problem."

And all too often, it's because the problems themselves create so much extra work that no one has time to stop and look at the entire situation in an objective, top-to-bottom manner.

That's where a third-party perspective can help. An outside, objective view of your processes – and an expert's approach to designing new, streamlined ones – can be extremely valuable to your financial and operational performance. And just as important, it can solve internal strife that often leads to poor service and unhappy customers.

Did you see a little bit of your company in one or more of these examples? If so, maybe we can help you find and fix the profit leaks in your company – and be more profitable in 2007.

More Information? If you'd like to learn more about how to find and fix the profit leaks in your company, please send an E-mail to tim@plaidgroup.com, visit our web site at www.plaidgroup.com, or call us at 713-627-3569. The Plaid Group publishes a free bimonthly e-mail newsletter filled with insights and ideas you can use to enhance your company's operational performance, spur growth and increase bottom-line profits. To subscribe, change your e-mail address or unsubscribe, please visit www.plaidgroup.com/newsletters_subscribe.asp.

Author's Note: **Tim Smith** is a Principal with The Plaid Group. The Plaid Group helps companies simplify and stabilize their business operations to improve financial performance and gain a competitive edge.