

## HOW EFFICIENT IS YOUR ORGANISATION?

Do you measure your departmental efficiencies or staff utilisation?  
 Do you believe that more efficient departments could help you through the tough times?  
 Do you want to improve your cash flow?  
 How about improving your customer service and satisfaction?

Here we share with you a simple example of how to look at your business in a different way!

A customer places an order for an item on a Monday at 9.00am and the order passes through the relevant departments on the following days and the customer order is delivered with an invoice on the Friday at 9.00am and the whole process finishes at 9.15am on Friday.

Day	Activity	Department	Time Allowed	Time Taken
Monday	Customer places order	Sales	5 mins	5 mins
Tuesday	Raw materials are ordered	Purchasing	5 mins	5 mins
Wednesday	Operations produce product	Operations	30 mins	30 mins
Thursday	Invoice produced for the product.	Finance	5 mins	5 mins
Friday	Product delivered to the customer	Distribution	15 mins	15 mins
<b>Total</b>			<b>60 mins</b>	<b>60 mins</b>

How efficient are the departments above? (each department has an allotted time to complete their task - TIME ALLOWED, and takes exactly this time - TIME TAKEN!)

In this case, most would calculate department efficiency as being **(Time Taken/Time Allowed)\*100%**

For many organisations Time Allowed, accounts only for the time when work is being done on the order and ignore “waiting time” i.e. in Purchasing, department efficiency is  $(5 \text{ mins}/5 \text{ mins}) * 100\% = ???$  (though the “work” maybe sat in purchasing for three days)

So if each department has high levels of efficiency (100%) just **how efficient is the organisation? 100%, 80%, 50% any ideas?**



There are **2055 minutes (Order Time Elapsed)** from the start of the job, Monday 9.00am to the finish with invoice, Friday 9.15am\* but adding each department Time Allowed figure shows they only needed **60** minutes to complete the work.

**Therefore the business is only (60/2055)\*100% or 2.92% efficient!**

Not quite the 100% that each department claims or the picture painted.

\*Assume the company operates from 9.00am to 5.30pm = 8.5 hours per day, 4 days \* 8.5 hours per day=34 hours, 34 hours = 2040 minutes + 15 minutes on the Friday.

## Some Common Thoughts

**We deliver from stock! When we get an order from the customer we deliver the next day, sometimes the same day!**

Then you need to start the Order Time Elapsed at the forecast process i.e. the process which told you to make or purchase the item for stock, when did that begin for this order? Our experience tells us this may be many weeks before the item is actually ordered and delivered to a customer.

In our example if on Tuesday you ordered some parts from stock and that stock was ordered 3 weeks ago then your process actually starts three weeks ago. And the Order Elapsed Time would be 19 days 15 minutes (15 days more than the 4 in the original calculation).

This would give an organisational efficiency for this order of  $(60/9705)*100\% = 0.62\%$  (*don't worry, less than 1% isn't uncommon*)

**Stock holding the double whammy!**

In the above we mention how to deal with items pulled from stock and how this immediately reduces your organisational efficiency. However there is a potentially much more damaging consequence of holding stock; stock ties up cash, cash that could be sat in your accounts earning you money, cash that is tied up in items or parts that customers might or might not decide to purchase.

**How efficient could this process be?**

100%, 50%, 80%? Reality is that 100% is not normally practical, however experience and studies tells us that organisations should aim for at **least 15% organisational efficiency**.

**How much more efficient could YOU be?**

**ResQ Management Resources Limited**

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## What can you do?

### **Measure! Measure! Measure!**

Measure how long it takes from the start of receiving an order from a customer, remembering how to deal with stock held items or parts, to the delivery of that order with its invoice. If you have multiple parts in an item or product, use the one with longest time. In our example this was a total of 4 working days and 15 minutes. - **this is the Order Time Elapsed**

Add up the Time Allowed for each stage i.e. to produce the order paperwork, to order the materials etc in our example it was between 5 & 30 minutes for each department. - **this is the Order Time Allowed**      *NB: the job may be in a department for much longer than it is worked on!*

Then complete the calculation as we have shown i.e. **(Order Time Allowed) divided by (Order Time Elapsed), then multiplied by 100 to give you the Organisational Efficiency %.**

i.e. from our original example **(60/2055) \* 100% = 2.92 %**. *Don't be worried if the figure comes out at less than 1%, this is not uncommon.*

## What would 15% organisational efficiency mean to Your company?

Simply take the 15% target and divide by the current organisational efficiency, in our case it was 2.92%, this tells you how much more efficient the business could be.

Hence,  $15/2.92 = 5.13$ , so the business could be **over 5 X more efficient**.

## What would 5 X increased efficiency mean?

Take our example again! It currently takes 2055 minutes from start of an order to delivery (the Order Time Elapsed)

**Divide that by the X improvement you have calculated,  
in our case it was 5 X, so divide by 5, it's that straight forward.**

So the 2055 minutes now becomes  $2055/5 = 411$  minutes if you can achieve 15% organisational efficiency target,

**So the Order to Invoice & Delivery target should be 411 minutes or 6 hours and 51 minutes, a "same day service".**



This reduction in time from order to delivery has many positive effects including;

### **Cash Flow**

If you can turn an order around within 1 day, then you may well be in a position to pay for raw materials at the same time as you receive payment for good delivered – meaning your cash flow isn't increased! In our example they were paying for raw materials 5 days before they could get paid (receivables and invoices were both on 30 day terms)

This quick turn around means that you can hold smaller stock levels, reducing cash tied up in stock and costs of storage and managing stock are reduced. In this case the resources invested in Work in Progress were reduced by well over 5 times.

### **Premium Pricing**

Knowing that you can turn orders around in such a short time means that you can often deliver the urgent customer requests; differentiating your offer from your competitors, increasing your customer loyalty and allowing you to charge a premium to your customers.

### **So how do you achieve being 5 X more efficient?**

This is where **resQ** can help you to use “lean thinking” principles to identify possible improvements. These principles are based on reducing all the hidden wastes that lurk in many departments and organisations. Wastes that includes wasted time, wasted outputs, wasted processes, wasted movement & transportation, defects, wasted stocks & inventory and wasted capital resources.

Wastes that cause dissatisfaction to customers and drives them to other suppliers!

Wastes are removed to ensure that the business can “flow” and provide the customer with exactly what they value in the shortest time.

### **About ResQ**

ResQ are a “Lean Thinking” performance improvement consultancy based in York and Nottingham, a company who can help you to understand your current organisational efficiency and how you can achieve your potential. ResQ have developed lean solutions across offices, marketing, sales, finance and HR as well as manufacturing & distribution.

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