

ROI +

SO, HOW DO WE ACHIEVE A SUPERIOR ROI? IN THEIR RECENT BOOK *MANUFACTURING MONEY*, BUSINESS ADVISERS **JASON FURNESS AND MICHAEL MCLEAN** DESCRIBE HOW BUSINESS OWNERS AND MANAGERS CAN WORK THEIR WAY UP TO A 'BLACK BELT' IN A MANUFACTURING AND DISTRIBUTION BUSINESS TO CREATE "A BUSINESS THAT IS TRULY IN CHARGE OF ITS OWN FINANCIAL DESTINY". IN PART 2. OF OUR SERIES, THE AUTHORS EXPLAIN HOW TO MAXIMISE ROI.

Designing your unique competitive advantage

At the very beginning Jason wrote:

"Commerce has always been, and will always be about the creation and exchange of value between two parties."

There are three core elements that make up this concept:

1. Client Problem

Our highest purpose in this commercial exchange is to give the individual client what THEY value in a commercially sensible way for US. Each client is unique. They all have their own peculiarities and individual desires. This applies not only to supplying value to individual consumers (called Business-to-Consumer or B2C), but also in the Business-to-Business (B2B) environment. Most of us know that individual companies have their own unique needs and idiosyncrasies.

What creates needs for these individual clients is that they have problems. Solving these problems is how we create value. Often they'll tell us those problems in great detail, particularly when we're part of it, but in plenty of situations they won't know the problems they've got. They'll know how they feel about it but they won't really know what the cause is. That happens as well. For example, no one knew they needed a mobile phone in Australia until 1987 when the first commercial service began. Up until that time everyone found a way to communicate and accepted the limitations of ordinary phone systems. They did however desire a way of communicating without being tied to a landline.

2. Industry Problem

When businesses within an industry cause a large number of their clients the same style of problem what we have is an industry problem. An industry problem is something that is experienced by clients when dealing with the whole sector. It is what you and all of your competitors are doing that hurts your clients. You are not deliberately (hopefully), setting out to do this, however, you have chosen to run a business model in the industry that puts your client's needs at a lower priority than some need of your own.

For example, if you ring-up and try to have an electrician, plumber, or carpenter come to your house to do some work and try to arrange a specific time for this, you may run into an industry problem. The stereotype of the industry is you can't get them to turn up to quote and you can't confirm an appointment time. In fact, they often won't turn up at all, and if they do, they'll tromp muddy boots through the front of the house. Not all electricians, plumbers, carpenters are like this, but enough are so that

the office for half a day or longer has caused. If the job requires parts that are not immediately available, the whole process has to be repeated at least once more.

3. Business Process

The third circle represents you. Your business processes. This is what you actually have control over. The circle includes all of the activities inside your business. This is us! Here is where we focus our change efforts.

Interaction of business process with industry and client problems

What's of most interest to you (and what you should obsess about understanding) is how your business processes interact with the industry problems and problems of individual clients.

Growth

Now, where the business processes overlap with an industry problem, you are going to get growth because you are solving a problem that

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this is recognised as an example of how the industry as a whole hurts its clients.

The client has to take time off from work, for much longer than the actual job takes, live with the uncertainty that you won't turn up on time, if at all, and then try and catch-up with all of the work and disruption that being out of

everyone experiences. If you can turn up on time and be a reliable tradesperson who cleans up after the job, you will get more business and consequently growth because so many of your competitors don't. This is still a powerful business model today where growth is driven by your reputation.

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Transformation

The overlapping point of three circles is where you can achieve real and sustainable transformation. If you are solving someone’s individual problems, if you have covered all the industry issues and your business process has nailed it, then that’s where you transform your business very, very rapidly.

For example, your clients value short lead time to market, the industry problem is long lead time to market, and you can fix this by adjusting your business process: boom, you’re off and running.

If the problem in your industry is high price and low quality and you’re able to solve that problem when no one else in the industry can – boom!

add value in this diagram are those processes that intersect one or both of the other circles.

If your business process doesn’t intersect with either circle, then it doesn’t add value. The remainder of our business process that does not overlap the other areas contains activities that do not relate to supporting a customer.

So why are you doing it?

Some of these activities will be because you have to respond to legal, financial and compliance issues. Customers don’t want to pay for your compliance work, but it has to get done. Compliance work is actually a gold mine of opportunities to improve and move more of your business process into the intersection of the circles, as it can often be rapidly systemised and automated

The rest of it is plain old-fashioned waste and should be ruthlessly eliminated. We must minimise the size of the Process circle that does not intersect with the *Client Problem* and *Industry Problem*.

But is that enough?

Our European experience on *Waste* is telling. A major ‘prime’ manufacturer wanted a supplier to provide a price for a major component. The suppliers price was too much, but instead of just asking for a target price reduction they wanted to know... their energy costs. The ‘prime’ knew, from public records and the supplier’s web site, their factory, space, staff levels, research and development (R&D), expenditure, etc., but were unsure of their energy costs. Once the supplier submitted the energy costs, the ‘prime’ asked for and received a 20% price reduction. Both parties eliminated the *Waste*.

Therefore, we achieve *Transformation* (a superior ROI) by focusing on meeting the needs of the market, but that’s only the beginning of the journey.

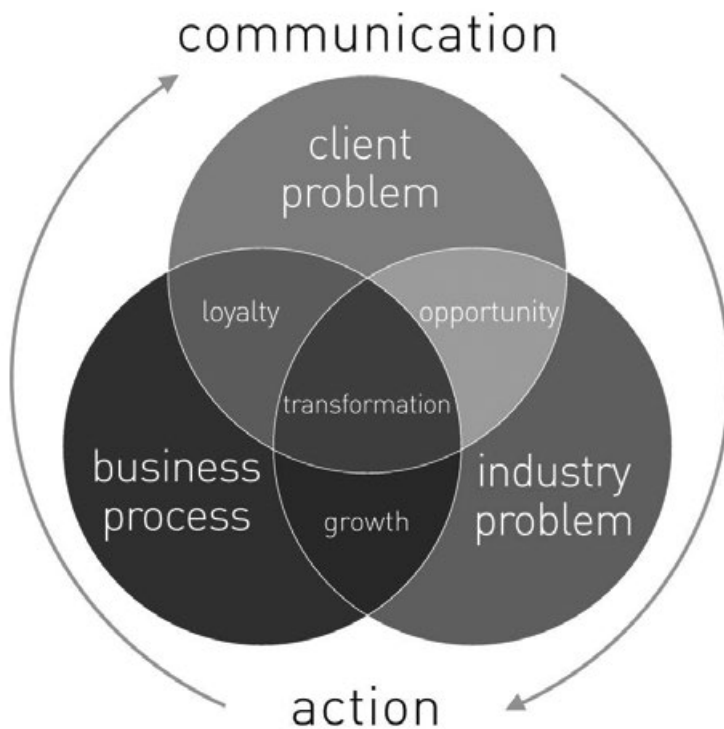
Your mission, should you decide to accept it

The three foundation models we have covered in this article form the essence of manufacturing – the transformation of the leadership role in the manufacturing business to achieve higher returns on investment by delivering greater value to customers at an ever-increasing level of skill.

Becoming a transformational manufacturing leader should be the driving force and healthy obsession for every manufacturing business owner or executive. It’s the key to moving from barely surviving to having true freedom of choice – which, on some level, is why we are in business in the first place.

We will continue Jason’s discussion in the January-February issue of MHD magazine. In the meantime, for more information visit www.manufacturing.com. *mhd*

business transformation model for improvement



Opportunity

Where there’s overlap between a client problem and an industry problem, there’s clearly an opportunity in being deliberately different in the way you work with those people. You can take advantage of that opportunity.

Loyalty

Where your business process solves the unique needs of a particular company, then you are highly likely to receive increased loyalty and repeat business. This is very valuable not just for their business, but for the referrals and recommendations it can generate for your business.

The whole concept of patents and the whole commercial value of patents is that you’re solving some issue in a way that excludes and separates you from the rest of your industry. There’s a reason we pay more money for things that someone’s invented and patented. We do not have an alternative. There is no competitive dynamic in there until we invent an alternative. In the meantime, prices can be higher.

We exist as a viable commercial entity to create value for customers and our stakeholders. We do that by having as many of our business processes as possible overlapping (solving) both the client problems and the industry problems. The business processes that