

PSI Tips for Project Management

and

Maximizing Business Performance

For More Information: Call — 864-855-3373, or Visit — www.psim.com

Step 1: Complete A Business Checkup.

The first step in maximizing business performance is gaining a full understanding of where the business is today. Every entrepreneur has a general feeling of where the business is and what needs to be done. However, a business cannot be built on feelings; it must be built based on actual facts and the quantitative business performance results.

A starting point for understanding the current status of the business is to go through the checklist provided and very carefully investigate, evaluate, and quantify each bullet item. For the sake of this document, one item will be discussed when in reality, there may be several areas where the business is underperforming. If that is the case, start solving the issues that have the largest negative impact on the business and progressively work toward the issues that have the least negative impact.

A scenario for a gear manufacturing business who completed the checklist found that the major problem was profits are below expectation for one of the product lines. This established the place for the business owner to start. The steps to arrive at this conclusion may be as shown in the box on the right. Look at every item in the business, overhead, margins, net profit, productivity, personnel, costs of goods sold, etc. Turn over every stone to see what is underneath. Compare your company's performance results with the results of similar businesses to identify potential problem areas.


In the scenario presented here, sales, cash, receivables, payables, on-time delivery, etc. are good and gross margin is low. This indicates the problem could be in cost of goods sold or the product is priced too low. If the product is priced at market price, cost to produce the product may be the guilty culprit. Then it must be determined what is driving the cost up too high. Everything associated with the

product costs must be analyzed, such as labor, material, yield, etc. In this case, material costs are the highest, so this would be the place to start.

This is a discovery and learning process, so what initially seems to be the problem may not be once an investigative evaluation is completed. In the example provided here, material is the primary cost driver for the gear. If the other product costs are in line and the material costs cannot be reduced, perhaps there just isn't enough margin in this product line to justify manufacturing it. Given this situation, an informed decision should be made on whether to discontinue this product line, raise the price, or if this product line is strategic to the business, lower profit margins may be acceptable. Once a decision is reached, move on to the next issue, and resolve it.

Always quantitatively monitor the business.

Quantitatively Determine How The Business Is Performing "Checklist"

- Yes
- Are you overwhelmed and frustrated?
 - Is your business stagnated and in a rut?
 - Are profits below expectation?
 - Are finances out of control?
 - Are sales down?
 - Are employees overworked?
 - Are deliveries late?
 - Are business processes defined?
 - Are business processes out of control?
 - Do you want to grow the business?
 - Does the business need a tune-up?
- 

Gear Manufacturer

Scenario where "Profits Are Below Expectation"

1. Sales year over year increased annually by 10% for past three years.
2. Cash flow of the business is excellent, typically there is 90 days operating cash in the bank all the time.
3. Accounts receivable are current with all below 30 days.
4. Accounts payable are current.
5. Operating Exp. 23.5%
6. GM = 30.8%
7. Shipments are 100% on time
8. Quality is 99.9% yield
9. Labor costs are \$5.50 per unit.
10. Manufacturing time is average 10 min per unit
11. Shipping cost \$0.50
12. Material cost are \$10 per unit

Look at All Available Data

PSI Tips:

Biweekly publication of PSI Business Solutions.

Comments:

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Email:
Roy Mathena, PMP
roy@psipm.com or
Call: 864-855-3373

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PSI Business Solutions specializes in Project Management and Business Profitability Improvement Projects. PSI has broad experience in applying lean, six sigma, TOC, VSM, and other tools, in

aviation, electronics, manufacturing, and service companies. PSI provides professional solutions in sales, operations, and finance, based on the needs of the client's business.

PSI's founder and president, Roy Mathena (PMP), is committed to total client satisfaction through results-based professional services.



PSI Business Solutions

Specializing In Improving Business Profitability

Volume 2, Issue 2

February 4, 2011