A Melbourne based manufacturer was experiencing a steady decline in gross margins which meant the business was no longer covering its operating expenses and making a profit.

No profit means no cashflow and no cashflow means a business can't order raw materials and doesn't have the funds to re-invest back into its own survival. The client blamed an increase in raw material expenses for the deterioration in profits and had tried to recur the problem by changing suppliers but this resulted in more problems and continued loss of profitability.
We came into this business knowing there was a rising cost of production problem which was killing margins and making it hard for this business to survive.

Our analysis of the client’s financials indicated an increase in the cost of goods produced, however all production expenses had been categorised into one expense account which made it difficult for the owner or for us to really diagnose where the problems may lie. Further investigation of procurement management, inventory control and finished goods revealed that the problem did not necessarily lie in the cost of raw materials as prescribed by the owner. Clearly there was a processing problem somewhere here so we conducted a time and motion study and compared it to a process map.

**We found the following problems:**

- No standardised manufacturing process
- Disorganised workstation placement
- Poor labour efficiency ratio’s
- Labour costs and process inefficiency was increasing total costs of production.
- Machinery breakdowns contributed greatly to the cost of inefficiency.
- Lack of control and monitoring of the production process

Employees wasted up to 2.5 hours a day wondering around the production plant, moving between different stations. Stations were not placed sequentially in the production process which created confusion and wasted large amounts of time. Labour was taking longer to produce the same amount of product. This was in part due to poorly maintained machinery and subsequent breakdown times. There was no production management and no one had been assigned the responsibility of overseeing production efficiency until it was noticed in the financial statements and the bank account.
THE SOLUTION

- Workstations were numbered and repositioned in a sequential order round the facility to improve efficiency.
- Raw materials and other production related products were repositioned near the station they related to.
- Daily quotas and performance indicators were introduced for each work area.
- Staff were re-trained in all areas of production and were able to complete the work at all stations.
- The original supplier was re-engaged on new favourite terms.
- Old unreliable machinery was traded was new machinery that was financed on favourable terms.
- Capacity was increased and customer supply was increased with products readily available.
- An updated inventory management system was introduced.
- One employee was promoted to production manager and was provided additional
THE RESULTS

• 25% increase in labour efficiency
• 15% increase in Gross Profit
• 10% decrease in wastage
• 95% decrease in machinery breakdowns
• Reduced lead times
• Reduced stocks outs and product obsolescence
• Improved product delivery times
• Decreased stock returns
• Increased sales orders and volumes
• 10% increase in net profit

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REAL RESULTS
IN YOUR BUSINESS