

# Overhead Costs Hit List - Things to do Next



(Do it NOW!)

You are carrying up to 35% of unnecessary costs through overheads costs!

## 1. Manufacturing

- Do you have a full "Manufacturing Plan"?
- There are only two activities that add value to the product, the rest add waste and cost. Are you adding waste and not value? Take the acid test - walk around your factory and check where people are being efficient at wasting money. Don't make it efficient - eliminate it!
- Value adding and waste activities

ACTIVITY	ADDING VALUE	WASTE
Moving		✓
Storing		✓
Processing	✓	
Counting		✓
Inspecting		✓
Scrapping		✓
Re-working		
Assembling	✓	
Sorting		✓

Are your manufacturing processes adding to your overheads by building waste and complexity into the process?

- Have you got absolute physical parts control? This is where parts have no chance to do anything but follow a controlled path through the manufacturing process, people cannot make a decision where parts go next and the next move for parts is physically controlled and restricted.
- Have you looked at the factory layout to decrease the need for product movements?
- Have you looked at introducing cell based manufacturing to reduce line management?
- Have you identified your bottlenecks or constraints?
- Does your manufacturing staff have a clear idea of the overheads under their control?
- Have you looked at "Design for Manufacture" to reduce component numbers and make assembly easier? "If it can be taken apart then it wasn't put together properly in the first place".
- Have you used "Design for Manufacture" to decrease the need for support staff?
- Have you introduced component standardisation and reduced product variability?
- Have you measured the distance travelled in producing the product and reduced this by grouping product processes to give work cells?
- Have you measured the number of operations and total production time in minutes and reduced this (by combining operations) to give quicker flow and throughput?
- Do you use visual controls for performance measures? Monitor quickly, display rapidly and improve constantly.

## 2. Stocks

- Have you identified the hiding places for WIP and removed these to give clarity of work flow?
- Money tied up as stocks, inventory and work-in-progress should be included in the "cost of production" but the accountants tend to treat them as assets.
- Have you reduced supplier order quantities with forward order for maximum discount and regular but smaller deliveries?
- Have you improved supplier delivery performance? Measure, monitor, score and tell them. Establish good relations to improve performance.
- Have you reduced stores holdings to hold only essential stocks in priority order?
- Have you looked at "Stockless Production"?
- Have you reduced inventory (as stocks or WIP) in all areas? Stock is evil!
- Have you reduced set-up times (which drive Economic Batch Quantities, WIP and stocks) by

methods such as Single Minute Exchange of Dies (SMED) at bottlenecks?

- Have you reduced paperwork at all stages to give rapid response?

### 3. Quality costs

- The ultimate overhead that should be reduced to reduce costs and improve customer satisfaction:
- Do you collect any of the standard Quality Cost information (there is a British Standard)?
- Get rid of inspectors. Make operators responsible for their own work and the quality of that work.
- Do you have any plans for reducing the cost of quality?
- Have you removed Quality Control (after the event) and substituted Quality Assurance (before the event) by using SPC or other techniques?

### 4. Staff overheads

- These are the support personnel costs of the activities that you carry out:
- Have you looked at Business Process Re-engineering (BPR) for the business activities?
- What is the ratio of indirect/support staff to direct production staff?
- Does new equipment reduce direct labour but increase indirect labour to support the machinery?
- Does new equipment really result in labour reductions? This is especially vital if direct labour reduction was used to justify the investment.
- Do you use performance measurement recording for administration processes as well as for production? If not then why not?
- Reduce order process time by simplifying or using computer systems. They are easily available.
- Do you really need all those layers of supervision? Reduce them to give direct and simple control.

### 5. Energy

- What were the bills last month and what did you do about them?
- Have you thought about and investigated competitive pricing for energy supplies?
- Have you thought about "peak demand lopping" by internal generation?
- Is there any control over the usage of electricity?
- Are machine temperature settings optimised? You heat plastic up to process it and then it needs to be cooled down - energy can be wasted at both ends of the cycle.
- How does your processing energy usage (in kWh/kg) compare with the industry average?
- Have you carried out an energy audit?
- Do you have an energy management plan for the future?

***Get the best use of your energy. NOW!***

### 6. Compressed air

Only about 5% of the energy used at the compressor becomes available to do work at the point of use:

- A 3mm hole in a 7 bar compressed air line costs about £1000 per year.
- Energy consumption varies as the square of pressure so increasing the supply pressure from 2 to 4 Bar requires four times as much energy.
- Compressed air usage can often be reduced by 30% by simple management measures.

***Get the best use of your compressed air. NOW!***

### 7. Overhead cost management - Summary

- Overheads can be managed but we must accept that overheads are part of each manager's responsibility and provide the manager with the incentive and the information to reduce the costs.
- A manager should be held responsible for, and evaluated on, the costs that are under his control.
- Without overhead management, any attempt at cost management is bound to be both partial and inevitably ineffective. Effective cost management depends on the measurement and improvement of overhead productivity and will be one of the keys to success in the future. Ignore it at your peril!

***Start to focus on overhead costs. NOW!***