How to Quickly Boost Your Profits & Cashflow
with a Little TOC

An Awareness Guide for Manufacturers

By
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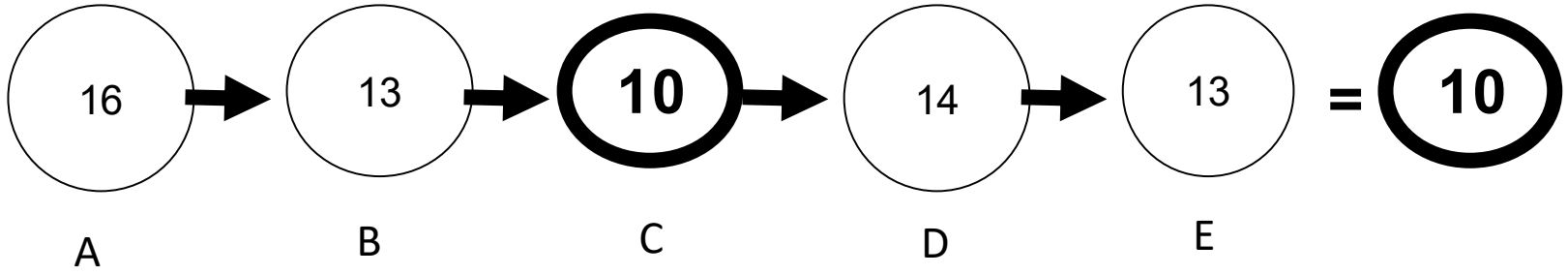
Discover Focusing Principles from the Theory of Constraints (TOC) that Help You Identify Best Money-Making Priorities Inside Your Manufacturing Business



- Each circle represents a LOCAL silo, function, or step; the number inside the circle represents the relative output produced.
- What is the maximum output of this whole, global system? **10**
- Which step limits the global system potential? **C, the system constraint, which controls the global system output and whole system money-making.**

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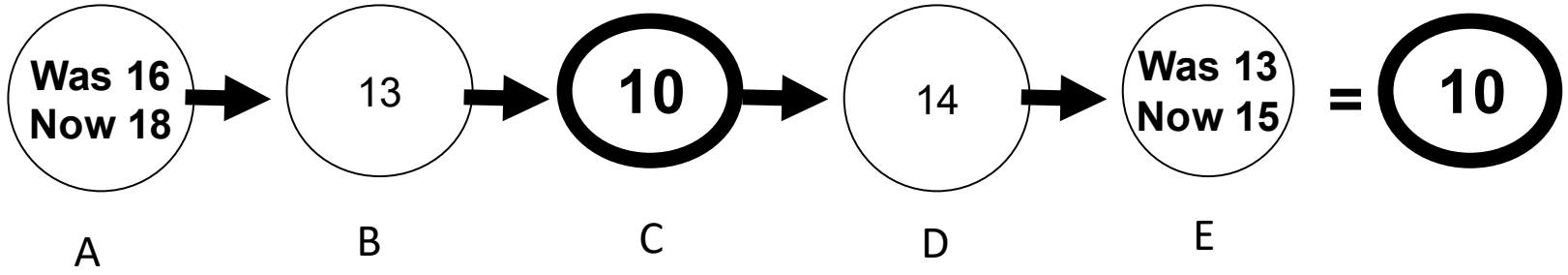
FOCUS: Get More GLOBAL, System-Wide, Output…

What About Improvement in/on NON-Constraint Areas?

Money-Making Productivity = GLOBAL System Output, Not LOCAL Silo Efficiency



What if we improve "A" from 16 to 18? And "E" from 13 to 15?

- Our LOCAL step efficiency numbers may look better/feel better, but… the system productivity/output has not improved, its still a "10"
- So we can "feel good" about the results from our 'A' and 'E' efforts, but if we care about the GLOBAL money-making, we likely just wasted valuable time, effort, and money on these activities.

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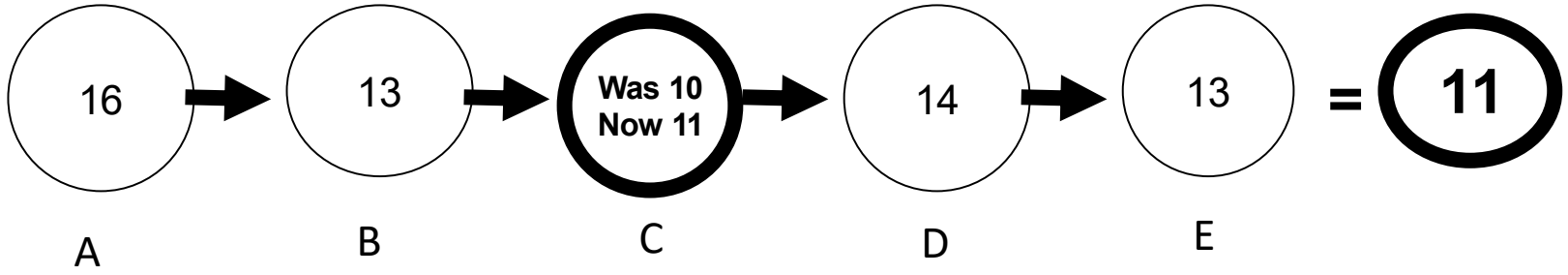
FOCUS: Get More GLOBAL, System-Wide, Output…

What Happens to GLOBAL Results w/ Only Small Improvement in/on the CONSTRAINT Area? Is this 1 better than the previous 4 on non-constraints?



- What if we focus our LOCAL improvement efforts, but only improve a little bit, maybe 1-point ...so the “10” goes to “11”… but what if the new “11” is really in/on the GLOBAL system bottleneck area?

- Now our GLOBAL system output improves! With only 1-point of properly focused LOCAL improvement, compared to no real improvement with the previous slide, where 2-point improvement of ”A” turning a 16 to 18, and 2-point improvement in E.

- From the last slide, usually a total increase of 4 (‘A’+’E’) is better than an increase of 1 (‘C’), but not when looking at GLOBAL system output/money-making, here the only improvement activity that matters is identifying and getting more from the system constraint area.

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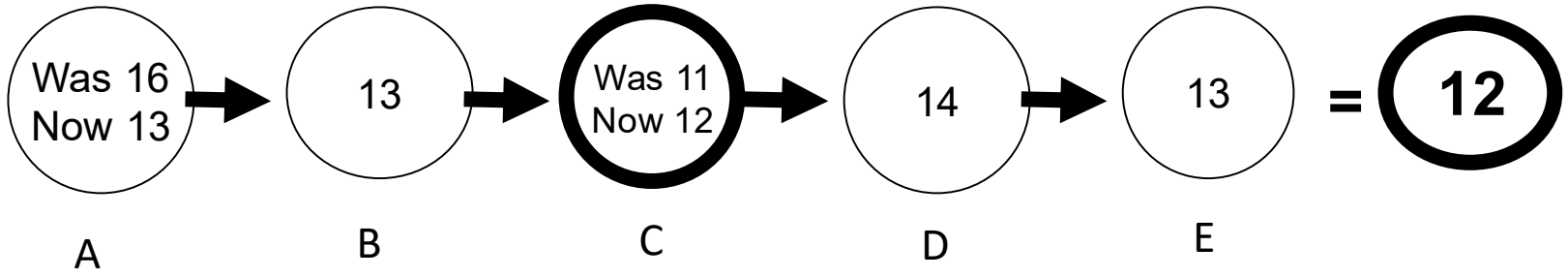
FOCUS: Get More GLOBAL, System-Wide, Output....Can We Help the Constraint by Being Far Less Efficient at a Non-Constraint? Should We Do It?

Money-Making Productivity = GLOBAL System Output, Not LOCAL Silo Efficiency...Or...InEfficiency



What if "A" decreases from 16 to 13? But it enables "C" to go from 11 to 12

- Our A-step LOCAL efficiency numbers drop "3", which is triple the "1" improvement realized by C… would you or your team purposely allow this to happen?

- Yes, you would, if you understood about constraint vs non-constraint improvement and its impact on your GLOBAL output. But your current cost metrics and accounting would likely block you.

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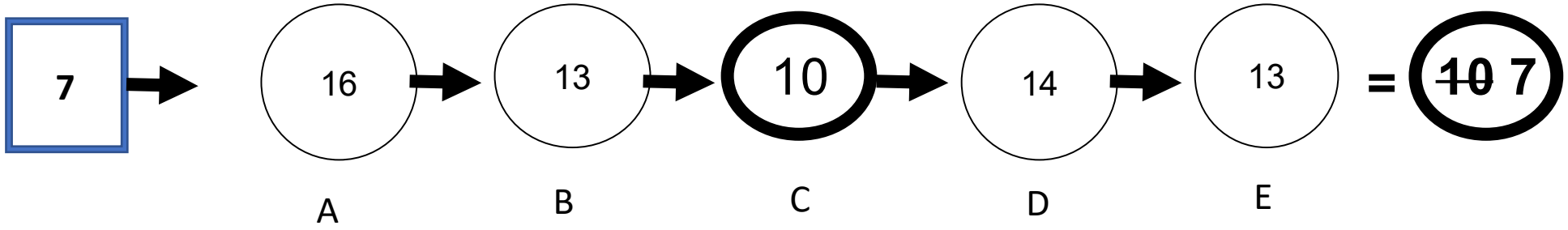
What if the Customer Demand is Only “7” and is Below the Starting Work Capacity Constraint of “10” ? (Often the Case)



- Here, <u>CUSTOMER DEMAND or SALES ORDERS are really the GLOBAL Constraint,</u> (often the case)
- So we need to use our operating capacity smartly, and better leverage it to acquire new customers, or get repeat sales from existing customers.
- Use smart offers to fill available Work Capacity with (sometimes) hard to identify, profit contributing sales
- And, focus flow improvement efforts on sales department capacity and productivity .

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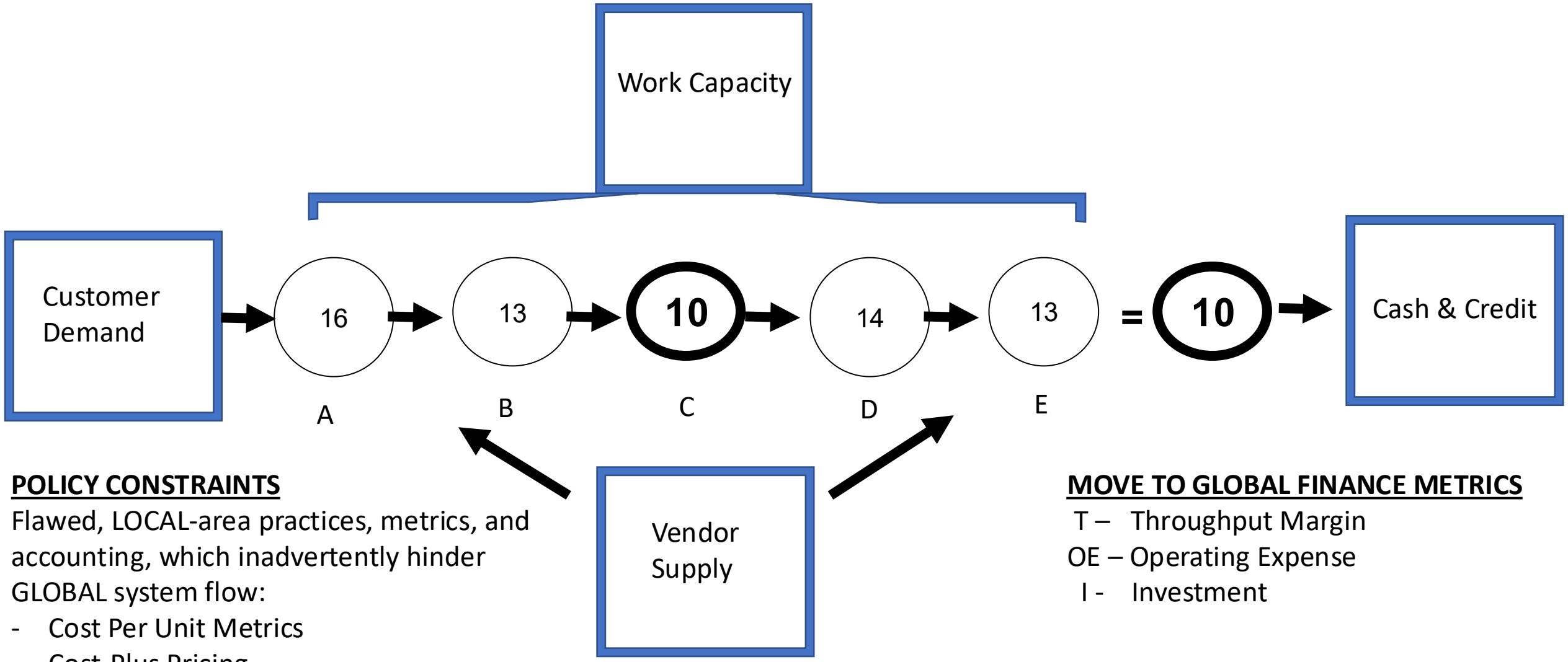
See the full Money-Making System, GLOBAL View...

The GLOBAL constraint is often Customer Demand, but can be Work Capacity, and in rare cases can move to Cash & Credit or Vendor Supply



POLICY CONSTRAINTS

Flawed, LOCAL-area practices, metrics, and accounting, which inadvertently hinder GLOBAL system flow:

- Cost Per Unit Metrics
- Cost-Plus Pricing
- Localized Efficiency Mindset

MOVE TO GLOBAL FINANCE METRICS

T – Throughput Margin
OE – Operating Expense
I - Investment

Know the Global Finance of Any Money-Making System

Overlay Global Results Metrics Known as Throughput Accounting to Sharpen Global Decision Making

S - Sales
The net revenue dollars generated by customer orders (sales less returns, refunds & allowances).

TVC - Totally Var Costs
those costs directly resulting from a sales order: raw materials, supplies, freight, subcontract, commissions.

OE – Operating Expense
The per-period costs in the system spent on payroll, overhead, and discretionary items needed by the system to generate Throughput.

I – Investment/invent
The longer-term dollars tied up in assets and inventory used by the system to support the generation of Throughput.

S – TVC = T

T – THROUGHPUT – the contribution margin money the system makes by generating more sales revenue = Sales $ less Totally Variable Cost $

The Financial Goal of a Business is to Make More Money Now, and in the Future, here is how we calc =

T - OE = PROFIT T – OE - I = CASH (T-OE) / I = ROI T / OE = Productivity

△T - △OE = △P How to Analyze The Global Profit Impact From Any Choice or Decision (△ = delta analysis = the change in)

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