



## **White Paper**

### ***Rapid Operations Assessments***

# Rapid Operations Assessments

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It's easy to say that shareholder value is important. It's not so easy to make it influence the decisions that are made every day: where to spend time and resources, how best to get things done, and ultimately, how to win in the marketplace.

The complexity of business has increased dramatically over the past decade. More products. Higher service expectations. Faster cycle times. Tighter financial management. And Globalization. We all appreciate that improving the performance of a company's operations can significantly boost revenue, profitability and cash flow. We also know that it can improve customer loyalty by ensuring that customers get the products they need when they need them at a cost that's reasonable. But the links between increasing shareholder value and driving those increases through "Operations Excellence" are not always obvious. For the investor, financial institution, or company itself, the question often becomes "where do we start?" KCB answers this and several complementary questions in this article titled **Rapid Operations Assessment**.

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**Q1:** What is a Rapid Operations Assessment?

**A1:** It is a 2 to 10 day high level diagnostic of an organization's operations and support functions.

The **operations** processes we recommend for examination include:

- Order management
- Procurement of materials and services
- Manufacture of the product(s)
- Logistics – the warehousing, transportation and distribution of the product(s)
- Customer support

The **support** functions we recommend for examination include (but are not necessarily limited to):

- Production planning and scheduling
- Engineering (Design and development, Process, Manufacturing, Maintenance)
- Maintenance (or what KCB designates as Capacity Assurance)
- Decision Support (Forecasting, planning, budgeting, reporting and evaluation)
- Order fulfillment and billing

The assessment includes a detailed walk-through of the plant(s). The purpose of the walk-through is to gain an understanding of how all the individual pieces work - but more importantly *how they work together*.

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**Q2:** Who should be interested in conducting a Rapid Operations Assessment?

**A2:** Those organizations and companies that have an interest in improving shareholder value and increasing the revenue, profitability and cash flow(s) of the business.

The value proposition for private equity firms and venture capitalists is understanding what the potential upside (or downside) in shareholder value could be, and the associated investment risks.

For financial institutions such as banks and insurance companies, benefits, in addition to potential shareholder value gains include: a) potential increases in revenue from their existing client base, both internally and through referrals b) developing a better understanding of their clients' business, c) enhanced client relationships, and d) risk mitigation.

For the investors and financial institutions clients, the benefits include: Opportunity identification in areas such as:

- Cost reduction
- Working capital
- Capacity
- Throughput
- Quality
- Service

The Rapid Operations Assessment also provides companies with early identification of interventions required and the opportunity to enhance relationships with their financial partners.

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**Q3:** When should a Rapid Operations Assessment be conducted?

**A3:** There are a number of situations when an assessment should be undertaken:

- When an investor or financial institution, is not satisfied with the returns on their investment and wants to get a fact-based handle on the root cause(s) of the problem(s) and what can be done to remedy the situation.
- When an investor is looking to acquire a company and needs expert outside due diligence performed.
- When a financial institution's client is looking for a cash infusion or additional working capital. The bank may want an operations assessment done to uncover any potential risks.
- When a company has been acquired and integrated with another. In many cases, the acquisition will have been predicated on achieving significant synergies. An assessment can confirm the original business case, and in many cases, identify additional synergies available.

- As a health check. Similar to an annual medical check up, or preventative maintenance on your car, companies should review their business processes at least once a year. It's important for companies to recognize the significant downside risk of maintaining the status quo. As the business grows - and as customers become more demanding – they are bound to hit a breaking point. Better to address the problem now – before it becomes a crisis.

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**Q4:** Can you describe the Assessment process?

**A4:** KCB has developed a four step approach. Generally speaking, a team of 2 to 4 KCB resources with multi-disciplinary expertise will undertake the following activities.

First, we'll take a tour of the facility(s) to understand the effectiveness of both operational and support processes – for example, are activities properly sequenced and coordinated? How much non-value added activity and waste does there appear to be? Does the equipment seem to be well maintained and in excellent working order? How much rework and buffer inventory exists? What's the level of interaction between engineering and the shop floor – between shop floor supervisors and their employees? What level of visual control exists on the plant floor and in support functions? We'll ask operators and technicians if they know who their customers are, what products they buy, and how satisfied their customers are with their company's quality and service.

The second step involves a series of interviews with key people across the organization, from the shop floor to senior management.

The third step involves data analysis – both operational and financial. We generally like to look at three years of historical data, the current year-to date performance, plus expectations for the forthcoming fiscal year.

The fourth step is a summary of our findings and recommendations, including a prioritized list of options and roadmap forward.

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**Q5:** In your opinion, where does KCB find the greatest areas of opportunity when performing a Rapid Operations Assessment?

**A5:** First let us share with you some potentially surprising and somewhat controversial evidence we have gathered based on thousands of operations assessments conducted over many years. These assessments have been performed across a wide variety of industries and countries, including the U.S., Canada, Japan, and Western Europe. These are areas where investments in plant, equipment, and technology are high, and where productivity is also perceived to be above average relative to many other parts of the world.

*In our experience, well run companies still incur between 40%-60% waste and non value-added activity.*

Now let's answer your question. When conducting Rapid Operations Assessments, we unearth significant opportunities to improve shareholder value, profitability and cash flows in the following areas:

- Increases in capacity and throughput (leading to increases in sales)
- Increases in plant availability and reliability (leading to increases in throughput)
- Reductions in scrap and rework
- Improvements in quality and increases in first-pass yields
- Improvements in labor productivity
- Lower materials and services procurement costs
- Reductions in working capital (Inventory and receivables)
- Reductions in cycle time – both on the shop floor and in the support functions

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**Q6:** I can understand why Private Equity firms, Venture Capitalists, and Financial Institutions would find it difficult to do these assessments, but why can't the companies themselves do what you're describing?

**A6:** First, our experience suggests that there are numerous barriers that can affect a company's operational performance. Let us share a few:

1. The perception of competing or conflicting objectives e.g. The CFO demands lower WIP and finished goods inventory, while the Sales organization bemoans the lack of available product, the VP operations is told to improve his safety performance and increase labor productivity
2. Lack of knowledge and skills to do the job or inability take the organization to the next level of performance
3. Outdated policies and procedures
4. The lack of effective decision support tools
5. Sub-optimal production processes.

The problem these companies face is the lack of a disciplined, structured approach to tackle these issues and an ability to execute on the required remedial actions.

Second, many companies continue to suffer from the proverbial "can't see the forest for the trees" syndrome.

Third, senior management have other priorities and an assessment only becomes a priority when a crisis hits.

Fourth, it's difficult for the client's people to be objective about the issues. They may also have too much invested in their own proposed solutions, and,

Finally, the client's people haven't been trained on how to conduct a Rapid Operations Assessment, i.e. they have not "learned to see".

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**Q7:** What makes KCB uniquely qualified to conduct Rapid Operations Assessments?

**A7:** Several reasons:

1. We have over 75 years experience conducting Rapid Operations Assessments with thousands of companies worldwide across numerous industries, including most manufacturing sectors.
2. We have industry experience. We understand what it takes to manage and operate businesses successfully.
3. We are experts at getting at the root causes of problems and quantifying their impact on business performance.
4. We can separate the wheat from the chaff—*we'll give it you straight*
5. We're expert at building business cases and, most importantly: *We know how to work within a client's culture—we don't do it to our clients, we work with them.*



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