

PRODUCTIVITY

Let's get serious about profit



by Sean O'Sullivan

Time tracking shows - "small gains in your productivity generates substantial gains in your annual profits"

Homeplus Southland, one of Southland's, New Zealand, leading kitchen manufacturers, invested in PCs on their factory floor and time tracking software in 2005 to find that they increased their factory's productivity by 80%, which lead to a 400% gain in their annual profit. This insight into Homeplus Southland's figures highlights a very good point for all manufacturers – that is, increasing your productivity can lead to exponentially higher gains in annual profit.

Typical Joinery Manufacturers P and L – with \$1 million dollar a year revenue

Revenue		\$1,000,000
COGS		
	Wages (direct and indirects) -	259,000
	Subcontract -	37,000
	Purchases/Materials -	431,000
		\$727,000
Gross Profit		\$ 273,000
Admin/Overhead Costs		
	Admin	40,000
	ACC/Rent	46,000
	Depreciation	20,000
		\$106,000
Net Profit (b4 tax)		\$167,000

\$167,000 NP on \$1mill revenue is a 16.7% return on investment (b4 tax).

Joinery P and L – \$1 million dollar business, which then increases their Productivity and Production by 10%, 20%, 30%.

Note that when productivity and production increases it is only Purchases/Material costs (including Subcontracters costs) which increase. All other costs remain the same.

		10% Increase In Productivity	20% Increase In Productivity	30% Increase In Productivity
Revenue	\$1,000,000	\$1,100,000	\$1,200,000	\$1,300,000
Cost of Goods Sold				
Wages (all)	259,000	259,000	259,000	259,000
Subcontracters	37,000	40,700*	44,400*	48,100*
Purchases/Materials	431,000	474,100*	517,200*	560,300*
	\$727,000	\$773,800	\$820,600	\$867,400
Gross Profit	\$273,000	\$326,200	\$379,400	\$432,600
Admin/Overhead Costs				
Admin	39,000	39,000	39,000	39,000
ACC/Rent	46,000	46,000	46,000	46,000
Depreciation	20,000	20,000	20,000	20,000
	\$106,000	\$106,000	\$106,000	\$106,000
Net Profit (b4 tax)	\$167,000	\$220,200	\$273,400	\$326,600
		32% Increase in Profit	64% Increase in Profit	96% Increase in Profit

The following table summarizes the extent your annual profit increases as your productivity increases;

Productivity Increase = Annual Profit Increase

10%	=	32%
20%	=	64%
30%	=	96%

The key messages here to all manufacturers are 1) focus on driving your productivity and 2) focus on capping your wage and overhead costs. These two simple goals can deliver a 30% increase in productivity which may deliver nearly a 100% gain in your annual profit.

The best advice I can give you is invest five minutes right now on the following small exercise. Get your 2007/2008 Profit and Loss Statement out and add three columns to the right – potentially increasing your productivity and production by 10%, 20% and 30% and

material costs as outlined above. See the impact such increases in productivity will have on your annual profit. Then you may consider how you would invest this additional profit in your business each year to take it to the next level. -S-