

Financial training For non financial staff



The financial training specialists

Managing costs (profit)

I made cassis from my blackcurrant bush last year, so I needed some cheap brandy. I was surprised to find it was in a plastic bottle.

But then I thought about it, and weighed both the plastic bottle and a “proper” brandy bottle.

A lorry-load of spirits in glass bottles probably contains as much packaging as merchandise. With plastic bottles the same lorry-load is probably carrying 85% merchandise. And of course it's the merchandise that makes the money!

Plastic bottles may not have reduced manufacturing costs, but have probably reduced transport costs by about 40%.

When Chrysler was in trouble in the late 1970s, the new K-series car was on the drawing board. Designing it to be under 176 inches long meant more could fit onto a standard railroad car – which would have reduced transport costs by about 15%.

Toyota have teams of people manufacturing car sub-assemblies. Because each team is accountable for the quality of its production – and this accountability is very visible – quality is very high.

This higher level of quality might not reduce manufacturing costs, but it will definitely reduce warranty costs – these were estimated at \$70bn annually in 2010! (Source: automotive testing technology international)

The common theme here is thinking about cost-management holistically. Not a short-sighted “How can I cut costs in my area?”, but “How can my organisation become more efficient overall?”

So what does your organisation need to do to be more efficient, and how can you help make this happen?