ROGER BOWN

OPERATIONS · SUPPLY CHAIN · ERP

OPERATIONS IMPROVEMENT GUIDE

Cost Control

Managing cost without damaging service

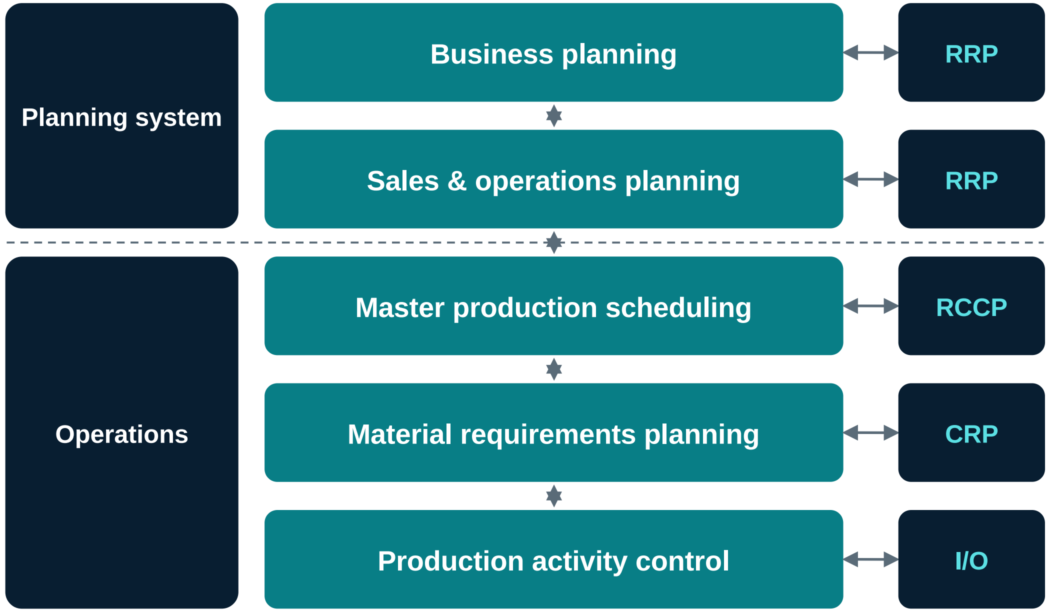
The only thing to maximise is customer satisfaction. Everything else is a constraint. Sustainable cost control attacks the causes of cost in the flow — not the symptoms in the ledger.

IN THIS GUIDE

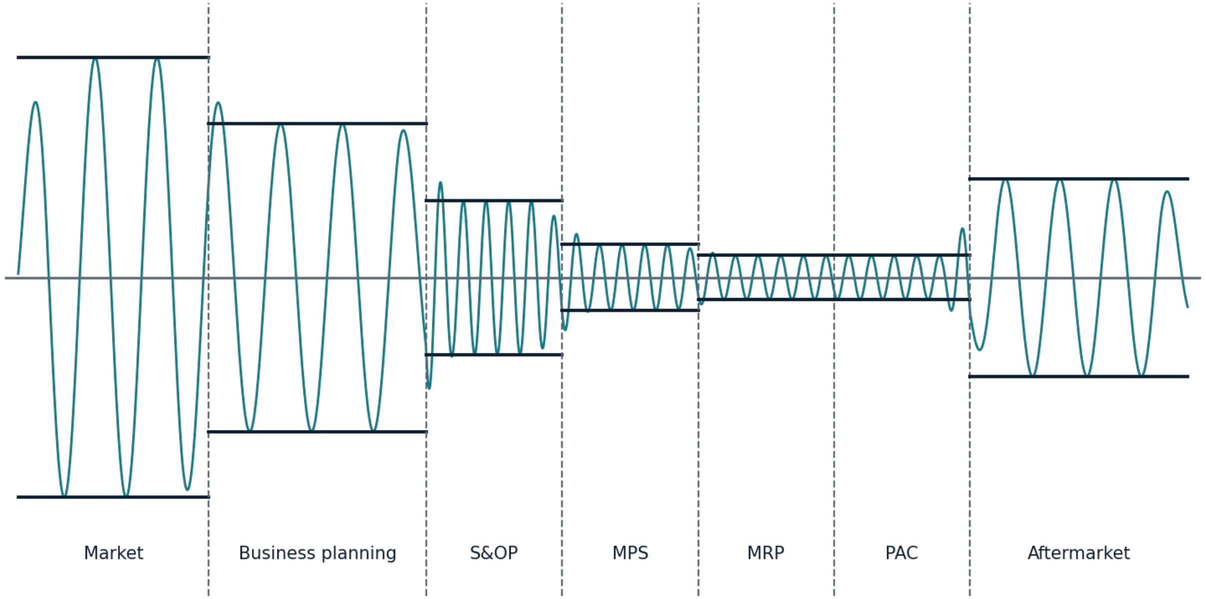
PROCESSES

Your planning system and business processes

"Your system is perfectly designed to give you the results you are getting." — W. E. Deming



RRP resource requirements planning · RCCP rough-cut capacity planning · CRP capacity requirements planning · I/O input–output control



Each planning level narrows the variability the market throws at you. Where a level is missing or ignored, that variability reaches the shop floor and the customer — and becomes cost.

S&OP – Sales & Operations planning · MPS - Master Production Scheduling · MRP - Materials requirements planning · PAC Production activity control

When the planning system fails, procurement, scheduling and fulfilment become a daily fire-fight: high inventory and poor service (out-of-stocks, availability, OTIF) — and the cost shows up in EBIT, OTIF and stock turns.

The standard approach to managing cost

PROCESSES

Four value levers, two cost levers, and the supply chain they act on

VALUE LEVERS

- **Grow revenue**
- **Maximise margin**
- **Operational efficiency**
- **EBITDA**

COST LEVERS

Reduce purchasing costs

Materials and services

Reduce operational costs

Capital-equipment efficiency, process improvement, network design, labour, automation

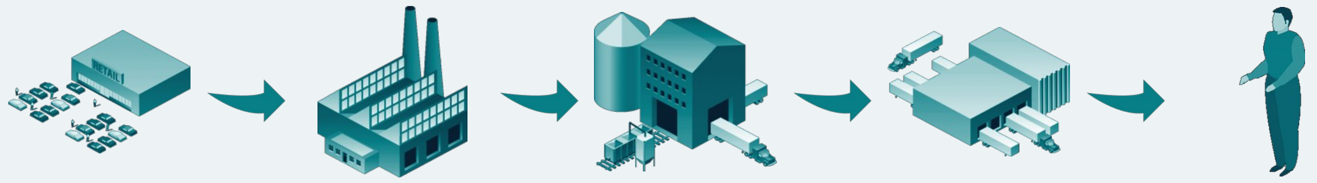
On time in full

Reduce inventories — capital allocation and stock turns

THE SUPPLY CHAIN THEY ACT ON

Demand ↔ Supply

Product, information and cash flow, balanced by supply chain management. Marketing & Sales shape demand; Finance sets the inventory policy that governs supply.



Supplier → **Factory** → **Warehouse** → **Distributor** → **Customer**

purchasing — *operational cost levers apply across factory, warehouse and distribution* — *service*

Strategies for sustainable cost control

The lever everyone sees, and the six that do the lasting work

PURCHASING

PROCESSES

ABOVE THE WATERLINE — what most cost programmes target

Reduce the total cost of materials and services — external spend

Necessary, visible and quickly measured — but on its own it is the smallest part of the opportunity, and it is easily undone.

BELOW THE WATERLINE — what makes cost control sustainable

01 Maintain or increase quality and service

Cost taken out at the customer's expense comes straight back as churn, claims and expediting.

02 Concentrate your buying power

Fewer suppliers, deeper relationships, stronger negotiating position.

03 Optimise inventory levels

Right stock in the right place — capital released without service lost.

04 Build supply chain management skills

Capability across planning, sourcing and logistics outlasts any single initiative.

05 Reduce excessive purchasing transactions

Fewer, larger, planned orders cost less to place, receive and pay.

06 Improve cost and supplier value continuously

A competitive position built on sustained improvement, not one-off cuts.

Cost through the lens of the Theory of Constraints

EFFICIENCY

PROCESSES

Cut cost where it changes throughput — not where it is easiest to see

The Theory of Constraints identifies the one limiting factor that stands between your operation and its goal, and improves it until it is no longer the limit. Applied to cost, it changes which savings are worth having.

THE GOAL **Reduce operating expense and inventory while increasing throughput — at the same time.**

01 Throughput is money

The rate at which your system generates money through sales — not units produced or hours worked.

02 Efficiency is not profit

Making or buying stock to look efficient adds inventory and holding cost without adding throughput.

03 Cheap purchasing can cost you

Volume discounts help margin but hurt EBIT when they raise inventory.

04 Only goal-directed work counts

Activity that does not move you towards the goal is not productive — such as make-to-stock ahead of back-orders.

05 Operating expense, clearly defined

All the money spent turning inventory into throughput. Dropping 'value-add' removes the argument over whether direct labour is investment or expense.

06 A bottleneck loss is a system loss

An hour lost at the bottleneck is lost for the whole plant. Its true cost is the total expense of the system divided by the hours the bottleneck produces.

Ask of every saving: does it raise throughput, cut inventory or cut operating expense? If not, it is not a saving.

Making it stick — the four disciplines of execution

A cadence that keeps cost control alive once the programme is over (after Franklin Covey's 4DX)

PROCESSES

01

Focus on the wildly important

There will always be more good ideas than capacity to execute them. Choose the one or two cost goals that matter most and narrow the team's attention to them.

02

Act on the lead measures

Eighty per cent of results come from twenty per cent of activities. Lag measures tell you whether you hit the goal; lead measures tell you whether you are likely to. Identify the actions with the highest leverage and act on them.

03

Keep a compelling scoreboard

People play differently when they are keeping score. A simple, visible scoreboard — spend, stock turns, OTIF — lets the team see instantly whether they are winning.

04

Create a cadence of accountability

A short weekly review in which each person reports on last week's commitments, reviews the scoreboard and makes one or two commitments for the week ahead. Commitments made to peers drive engagement more than instructions from above.

Discipline 4 is where the savings stay banked: fifteen-minute weekly reviews, one scoreboard, named commitments.

THE FIRST MANAGEMENT DECISION

Which costs are symptoms of the flow — and which are worth attacking directly?

A short diagnostic answers that with evidence: cost traced to its causes in planning, purchasing, inventory and the constraint, and the savings that will hold separated from the ones that will bounce back.

WHAT HAPPENS NEXT

- **01** Baseline cost, inventory and service together
- **02** Trace the largest costs to their causes in the flow
- **03** Agree the levers and the owners
- **04** Set the scoreboard and weekly cadence