DEFECT and FAILURE TRUE COST

By Mike Sondalini

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Introduction

There is an old story about a struggling business owner who met with a friend in his office. The conversation turned to how well his business was going.

The business owner looked out of the office window into his factory and commented to the visitor - "I have come to realise why my business is not making the profit that it should. For a long time I did not understand why I was not getting the results I expected." Then he took out of his pocket a roll of money. His friend could see it contained several thousands of dollars in $50 notes.

The owner watched the work happening in his factory. Soon he took a $50 note from the roll and let it fall to the ground. Seconds later, still looking out into the factory, he took another $50 and let it fall to the ground. He repeatedly did this. Sometimes it would be two $50 notes at once that he would unroll and let fall.

Within ten minutes thousands of dollars in $50 notes lay on the floor of his office. When the last one fell he looked to his friend and said, "Every time I saw one of my workers doing their job wrongly or poorly it wasted at least $50. You can see that in ten minutes I have lost over $2000. That is why the business is not making the profit it should, there is too much waste!"

It very likely will be the same in your business or operation too. There will be great amounts of waste and error occurring throughout it. Even though there are systems in place to conduct the work; even though your people maybe competent and able at their jobs; even though departments work to budgets and plans: huge waste, error and lost-value is happening all around.

When your business, operation or department is not producing the profit it should, it is highly likely that there is great waste occurring. There will be numerous business process failures. Possibly even no organised processes at all. **This book is about identifying and recognising the cost of waste, lost-value and non-value. Once you discover where it is hiding you can deal with it sensibly.**

As important as it is to find the waste you already have, this book can also stop waste from getting into your business. You will learn of a simple method to spot waste and non-value early in your plans when it is most easily prevented. Once you 'see' the waste that will occur with a chosen approach, it will be easy to look at other options and pick the better one.

What you learn in the pages of this book should be passed onto all managers and supervisors in your operation. Give them a 'tool' to spot the waste all around them and to act quickly to stop it. If you do that, your organisation will start churning-out strong profits.

My thanks to Don Fitchett from Industrial Business Network (www.DowntimeCentral.com) for introducing me to the concept of 'True Downtime Costing' and its power in finding the hidden losses in manufacturing downtime incidents. This book extends the TDC concept to any situation involving defect, error or failure.

The choice to call this book 'Defect and Failure True Cost' and create the acronym 'DAFT Cost' was intentional. Daft is another word for stupid and that is certainly what I think about the costs that arise from problems that should never of been allowed to happen in the first place.

Take the time to read what is within this book. You will discover a simple and easy way to spot the problems that are stealing profits from your operation so that you can fix them and get on with doing business brilliantly.

Best regards,

Mike Sondalini
www.lifetime-reliability.com

1. Understanding Where the Money Goes

Here are two simple equations that are very important to your future. These two equations can make you very successful in your career. The first equation shows how you make money in business. The second equation shows you how you lose it!

$$\textbf{Profit} = \textbf{Sales Revenue} - \textbf{Costs} \qquad \textit{Eq. 1.1}$$
$$\$ = \$ - \$$$

$$\textbf{Cost of Loss} = \textbf{Frequency Of Occurrence} \times \textbf{Cost of Occurrence} \qquad \textit{Eq. 1.2}$$
$$\$ = N \times \$$$

Equation 1.1 is what doing business is all about. If you want to be profitable you must make more money from selling your product or service than it costs to make it. If in your market you cannot raise your price, then you can only become more profitable by lowering your costs. Keeping your costs down means you must do two things well:

1. get things right the first time so there are no wasted resources, effort or money.
2. keep improving and finding ways to lower your costs further.

In business we expect things to go right, just as we planned them to go. But continually we find that they do not. This means that each time something goes wrong your costs automatically go up because the job was not done right the first time and you now have to expend extra resources and spend more money to fix it.

Equation 1.2 explains why when things go wrong your company loses money. A mistake, (we'll call it a failure from now on) costs money to fix. It is money lost that can never return. How much money you loose each year from failures depends on how big the failures are and how often they happen. How often a failure happens is known as the 'frequency of occurrence'. The more often a failure occurs, the more money that is lost. Even if a failure happens very occasionally, but when it does it is a catastrophe, you will still lose a lot of money.

The previous pages where just a sample of …

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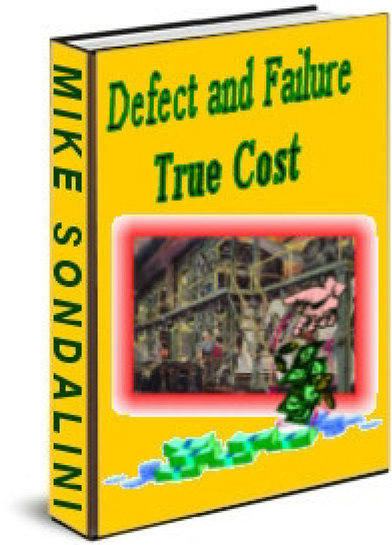

To download the entire ebook, please visit
http://www.FeedForward.com.au/Defect_failure_waste_cost.htm

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By Don Fitchett and Mike Sondalini

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