

The best way to drive down costs is to reduce waste by standardizing value-added processes and reducing non-value-added processes.



Our goal: leaner operations

BY KEVIN KEHOE

Reducing waste has to be the number one priority of every contractor over the next several years. Your profits depend upon it because the market has changed. The old profit model of identifying your cost, adding a profit margin to determine a price ($\text{Cost} + \text{Profit} = \text{Price}$), has morphed to the new and permanent profit model, where the customer determines price, then you pay your ever-escalating costs, and what's left is your profit ($\text{Price} - \text{Cost} = \text{Profit}$).

When you can't raise your prices, the only way to increase profits is to decrease your costs. The best way to drive down costs is to reduce waste by standardizing value-added processes and eliminating or reducing non-value added processes in the field, the yard and the office. This means thinking lean all the time.

Waste defined

Here's the key to understanding waste. Your customer pays you, for example, to cut the grass. Therefore, the only true value-added time is that time that crews are actually moving the mower and cutting grass. Getting to the job, loading, unloading, planning, moving equipment, billing, fixing equipment and waiting for other crew members to finish work are all by definition non-value added tasks — they're waste.

Lean Management is a proven management system that focuses on identifying, reducing and eliminating waste using the kaizen blitz process made famous by the Toyota Motor Company.

I know what you're thinking. This type of manage-

ment system might be great for manufacturing businesses, but we're different. We're a service business and it won't work for us. In fact it does, and it is. In fact, we're in the early stages of adopting and translating the tools of lean management for use by contractors.

Touching the surface

We can't emphasize enough the importance of lean in a contracting/service business. The elimination of waste accomplishes two important strategic results:

► First, it reduces the need for manpower and machines necessary to produce a given level of sales, thus reducing per-labor hour cost.

► Second, it provides pricing leverage as a result of the lower per-hour labor cost. Jobs can be priced competitively without sacrificing profits, and increases the potential for revenue growth and job retention.

My company needs your help to continue to develop tools and examples that can benefit you the contractor in your own businesses. We're embarking on a long-term program to quantify the impact of lean in the industry. In order to do this, we need information about you that will ultimately benefit you. The only way we can get this information is through your participation in a series of surveys. Keep in mind that the information is tabulated by a third party company guaranteeing your confidentiality. And your participation guarantees you a copy of the actual results as we produce them.

To complete the survey, go to www.kehoe.biz and click on Lean Survey.

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