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From Behind the Desk 〉 Little Things Add Up

“Why are you making such a big deal out of it?”

...was the reaction of a machine shop lead when asked why he paid his eight machinists 8 hours per day for only 7 hours of work (½ hour for breaks and a ½ hour lunch).

So, an experiment was done to find out what the “big deal” was. The pack/ship and distribution unit of the machine shop lead’s team began measuring these two basic, and easily obtained, metrics:

1) The number of items shipped.

2) The total value of product sent.

On this particular week, they had shipped 4,565 individual parts that equaled $393,000. With each part valuing at $86.09.

Next, some basic shop metrics were tracked, showing that the shop had produced 1,770 parts using 216.75 machine hours. Thus, resulting in a production rate of 8.17 parts per machine hour.

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We already knew there were 8 people getting paid an extra 30 minutes per day, so we calculated that cost as well.

.5 Hours X $20 (average hourly rate of pay) = $10 per machinist per day

$10 X 5 Days per week = $50 per week per machinist

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Cogent Analytics believes in strengthening the small-mid sized businesses that are the backbone of this country.

"From Behind the Desk” is a series designed to offer our expertise in key areas that business owners are challenged with every day.

These emails are *not a solicitation* and are meant to provide insight and information relevant to business ownership.

$50 X 50 weeks = $2,500 per year per machinist

$2,500 X 8 machinists = $20,000 of over payment per year

Additionally, the business was losing 30 minutes per day of work. Meaning there was even more to be gained.

So, the investigation continued:

.5 hours X 5 days per week = 2.5 hours per week per machinist

2.5 hours X 50 weeks per year = 125 hours per machinist per year

125 hours X 8 machinists = 1,000 lost production hours per year

Now, here is where things get interesting:

If the shop can work 1,000 more hours per year at a rate of 8.17 parts per hour making $86.09 per part, the numbers become staggering.

1000 X 8.17 X 86.09 = $703,355.30 of additional revenue per year

At a modest 5% net profit, that would yield $35,167.77 in profit. Which, by the way, is more than double what this particular business earned the year prior.

Conclusion:

The experiment found $703,355 in additional revenue (using the same resources) and potentially $35,168 in additional profit. With the business leaving more on the table than it was taking home in a year.

So, the “big deal” is that the “little things” add up when running a business.

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