

# ARE YOUR FAILURE COSTS “FAILING YOU”?

## *16 Lessons Learned about Successfully Implementing A Failure Cost Program*

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### Executive Summary

In times of high demand and high prices, the focus often shifts from cost containment and prevention to maximizing production and sales at the expense of waste and rework. When demand is depressed, rising costs that were previously less important haunt companies in nearly every industry. The usual response is to cut cost or downsize the workforce to increase margins, when in fact, the hidden value in lost productivity, lost revenue and excess costs related to recurring problems or process failures may far exceed what can be gained by a blanket mandate to reduce costs.

If companies are not monitoring process failures to eliminate recurring problems, improve daily performance, and find and manage the untapped potential of the current infrastructure, **they are missing huge opportunities** to improve productivity, costs, cash flow, customer service and employee morale. If prices stay low long enough, the tendency will be to reduce the workforce first, then figure out how to improve everything else after the layoff. In the case study presented on the following pages,

**Process failures exist in every department** and all of them have a cost. It is possible to identify and quantify the impact of process failures in dollars — failures like losses in planned downtime for operations and maintenance, rework, lost revenue due to poor quality, and unplanned events that require extra resources every time they occur. Process failures cause excess costs, excess inventory levels, substandard quality, and poor customer service. Process failures make employees feel that they are being controlled by problems and are a source of low employee morale. The dollars associated with process failures are called **Failure Costs, Cost of Quality, or Opportunity Costs**.

### Are failure costs already in your general ledger?

Yes, some failure costs hide in your general ledger as costs that could have been saved but weren't. These dollars are called **excess costs** and essentially were wasted because they were spent as the result of problems that could have been prevented or eliminated. Wasted dollars are often hidden because most ledgers are not designed to capture excess costs separately, except for “fines and penalties”. Hidden excess costs include excess transportation costs, unplanned overtime, and other dollars spent as the result of “surprises” or things not going as planned.

Some failure dollars **aren't on the ledger** because they relate to production or sales that were planned but **did not occur**. Often they consist of dollars of lost margin associated with product not produced or sold. Ironically, **these dollars are often bigger than the excess costs** being captured somewhere in the ledger. Because they represent what never happened, their true impact on the business is not known unless there is a process in place for calculating them and using them to prioritize what to fix first, second and third.

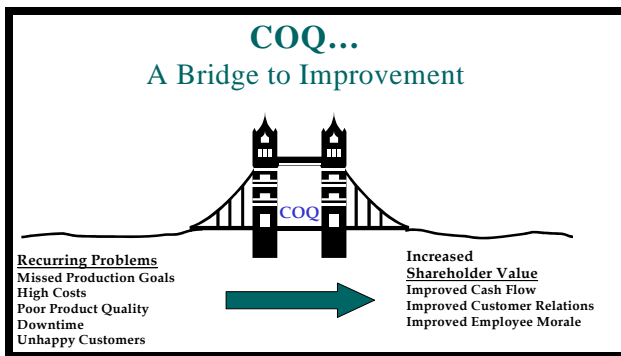
### Challenges of failure cost tracking

**The word “failure” strikes terror in the heart of every manager.** Failure in business means falling short of expectations and losing credibility with management and shareholders. Failure means embarrassment. Failure means no bonus. Failure may even mean demotion or termination. For this reason, some companies want to shy away from using the term “failure” when talking about performance. However, the “glass half full” paradigm represents failures as opportunities - opportunities to increase cash flow, production, and productivity, reduce costs, improve quality and customer service, and enable a workforce focused on improvement opportunity in everything they do.

These opportunities are the reasons to focus on failures as drivers to increase cash flow.

**Failure costs connect people to performance and profits.** Employees can either be empowered or hampered by failure cost tracking and reporting. Unfortunately, the traditional approach used to implement failure costs usually results in the latter. Many companies have the impression that failure cost tracking is a reporting exercise that adds little value to the organization. It is here that the implementation strategy makes the difference between success and failure with this concept.

Employees will not understand the impact of failure dollars and respond with urgency once those dollars are known unless 1) **they know how to apply Cost of Quality failure dollars to the events that personally “eat their lunch”** and 2) **management behaves as if Failure = Opportunity.** Both of these must occur to link the workforce to hidden opportunities for improvement.



### CASE STUDY—Background:

This white paper addresses **16 lessons learned about failure costs** by an 87-year old Fortune 500 company that used a traditional implementation approach for failure costs as part of its newly designed enterprise-wide continuous improvement program. The lessons relate to what happened when a traditional approach was used and how a modified approach ultimately brought tremendous success in the areas of operational performance,

financial results and culture change. To maintain confidentiality, I will refer to this company as “Company C”.

Company C’s senior management team decided that a continuous improvement system was needed to provide better quality to customers, reduce costs and improve productivity and cash flow. Prices were low, unit costs were high and cash for capital investment was scarce. A quick fix to high costs would have been to reduce the workforce, then figure out how to improve processes after the layoff. Instead, management decided to go after lost opportunity first. Since a sense of urgency already resonating through the organization, there was no better time to begin such an implementation.

**Most cost reductions were achieved by people working smarter, not fewer people working.**

Company C designed an ISO-based system with 18 initiatives and a heavy focus on performance measurement. Included in the system was a Cost of Quality (failure cost) component to measure the success of the entire continuous improvement system and encourage the reduction of failure costs.

Cost of Quality was the first initiative implemented. Traditional report format and cost categories were used. Data was collected for over 30 cost accounts in the prevention, appraisal, internal failure and external failure categories and was reported monthly by production facilities and some administrative groups. Correlations between actual performance and failure cost trends seemed vague at best.

Cost of Quality and failure costs were new concepts that were not well understood. The implementation approach was somewhat hands-off at the site level, which left the operations struggling with how to apply it and what the end result of capturing these hidden costs would mean. As a result, production facilities maintained that the data was of no value to them; their goal became the creation of a monthly failure cost report (i.e., “**compile and file**”) instead of using the data to improve performance.

After 9 months of trying to use the monthly report as implemented, it was determined that Cost of Quality (COQ) was sucking resources for data collection and reporting, but was not helping sites reduce failure costs. A decision was made to **re-implement Cost of Quality** on a corporate-wide basis to increase its value as a measurement and management tool.

Changes from the first implementation included

- emphasizing daily performance measurements,
- calculating process failure dollars on a daily basis, and
- tying failure dollars to action plans.

The “COQ II” implementation resulted in incremental changes in operational and financial performance and employee empowerment **rarely experienced** in any company, regardless of size or product type. The following lessons were learned as the result of re-implementing failure costs using a hands-on approach that involved employees in production, maintenance, marketing, materials management, accounting and environmental departments.

**LESSON #1: Management thought they had adequate data to manage cash flow until failure costs came along.**

Company C originally tracked failure costs as a requirement of its ISO-based continuous improvement system. This requirement culminated in the distribution of a monthly cost of quality report which was supposed to reflect the effectiveness of the ISO system being implemented. Instead, cost of quality tracking became the **most powerful management tool used in the company!**

**Actual Cash Flow + Failure Costs =  
Potential Cash Flow**

**The veil was finally lifted on the cash flow potential of the company:**

- 1) Failure costs provided data on the portion of the infrastructure that was **NOT performing**; the

general ledger contained data for the part that WAS performing, regardless of whether the level of performance was satisfactory or met standard. **It takes both sets of data** to completely evaluate the capability of a company’s infrastructure to provide cash flow and shareholder value.

- 2) **Management never knew what they were missing** until failure cost tracking came along. They knew for years that process failures were adding to cost, but rarely quantified their impact. Quantifying failure dollars in the first implementation was the first eye opener for production facilities and management. Communicating those dollars to the hourly work force and incorporating performance measures in the second implementation **reduced process failures throughout the production value stream and reduced costs by up to 20% over a 2-year period.**

**Minimizing lost opportunities  
postpones expansion capital.**

- 3) Management did not fully understand **the potential of failure costs to minimize capital spending until the second implementation.** After COQ was re-implemented, capital requests for expansions were postponed until current asset and process capacities had been maximized. Capital expenditures had never been managed this way before, but it strategy **made perfect sense to employees and created the most value for shareholders.**

**LESSON #2: Never make accountants and controllers responsible for calculating failure costs that originate in production departments.**

Company C wanted to save production employees time by having others generate failure cost reports for them. Besides, collecting and reporting data was “a primary responsibility of accounting departments”,

so it seemed logical at the time to have accounting pick up the responsibility of generating a new report. The disadvantage of this approach is best expressed by Stephen Covey:: **“No involvement, no commitment”**.

Doing production departments a favor by assigning their reporting responsibilities to another group was really doing them a disservice. Production needed to be involved in generating the numbers so they could begin thinking about how the numbers related to their processes and improvement opportunities. Production departments did not realize this until they were better educated about the significance of failure costs in their daily work practices and understood how reducing failure costs could add thousands of dollars to the bottom line every month. Education about failure cost concepts was a priority in the second implementation, especially with hourly production employees.

**LESSON #3: Calculate Productivity Loss Failure Dollars to help employees understand the financial impact of downtime and rework.**

The traditional report format for failure costs includes product losses but not productivity losses. (Product losses are losses associated with downgraded product, off-spec material, and metals or minerals not recovered in the mining industry)). Product losses are valued based on the margins forfeited because product that could have been sold went to tailings or because product was sold at a discount due to quality that did not meet customer standards.

Productivity losses are products not produced **when scheduled to be produced**. They have a tremendous impact on the bottom line, but **seldom are included in traditional failure cost reports**. Company C wanted to highlight the value of both product AND productivity losses to employees, **so a productivity loss category was added** to internal failures with sub-categories controlled by operating locations. Losses were measured according to the difference between actual and “optimum” production

levels. Huge opportunity dollars were captured in this category. **Reducing productivity losses became a major goal for operating locations** and millions of dollars of lost margins and excess costs were saved because employees could see for the first time what an hour of downtime was worth or what a ton or pound or ounce of product was worth when we lost it..

**LESSON #4: Never allocate prevention, appraisal and failure costs just to put numbers on a report.**

The first COQ implementation required each department to supply data for every line on the report to force employees to determine how each category related to department activity and create consistency across locations. This directive turned out to be a poor one for three reasons:

- 1) Company C’s general ledger was not designed to capture data according to COQ requirements, so calculating numbers according to the COQ account definitions became a very manual task in some cases. Many operating locations reverted to allocations (especially in the prevention and appraisal categories) which were averages that had nothing to do with failures or prevention activities that occurred during the month. Generating the report had become the goal, instead of capturing data that could be used as a tool to improve results.
- 2) By the time the decision was made to re-implement COQ, the report had gained a company-wide reputation for being “just another accounting exercise that would not add value at production facilities. “COQ II” had to find ways to overcome this perception in order to get employees **excited** about using failure costs to their advantage and **committed** to reduce failure costs, especially when prices were low.
- 3) Quality of data should always be more important than quantity of data—not so in the first implementation. To correct this problem in

“COQ II”, sites were asked to complete only the lines of the report that related to problems and action plans. Only six report categories were required. This new directive minimized the work required for reporting, emphasized quality over quantity, and increased the focus as a site report and management tool.

**LESSON #5: Some failure costs should not be consolidated at the division or corporate level.**

A traditional failure cost reporting technique is to generate data at the site level, then consolidate the dollars at the division and corporate levels. Company C used this reporting technique in the first implementation. However, this methodology can cause problems:

- 1) This method may result in adding “apples and oranges”. If product and productivity losses are reported at the site level, consolidating the units and dollars can lead to nonsensical results at a consolidated level, even across the same division if the lost units come from various processes that are upstream or downstream from each other.
- 2) The very nature of consolidation assigns importance to consolidated results. Company C wanted the failure cost report to be primarily a site report, not a division or corporate report. To facilitate this change, corporate roll-ups were phased out first; as sites took more ownership of the program, the division roll-up was discontinued. Individual site reports were distributed to management for review.

**LESSON #6: Failure costs exist everywhere, not just in production and maintenance departments. All departments should be involved in COQ tracking.**

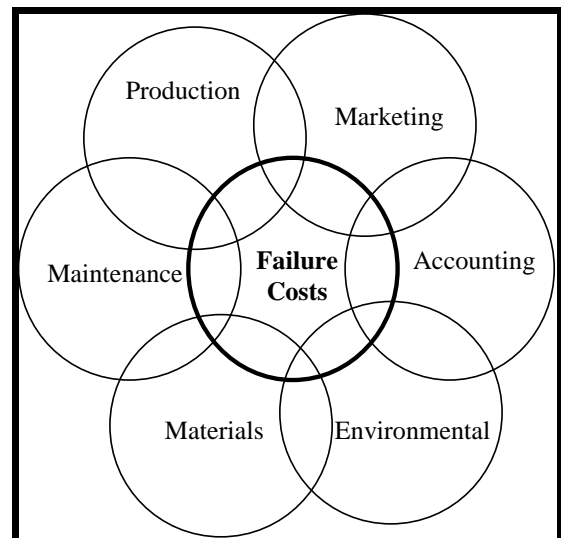
Everyone could name at least 3 recurring problems in their work area or department. If each employee

spends **one hour per day** waiting for data or materials or redoing work,

**12% of labor costs are being wasted every day, month and year!**

In Company C, most of the failure dollars existed in the production value stream (production, maintenance, materials and marketing). Company C implemented failure cost tracking in these departments initially; however, a Phase II implementation was planned to include remaining support functions and administrative groups because:

- 1) Educating the entire workforce emphasized the importance of failure costs across the company.
- 2) Support function groups like safety, environmental and accounting were responsible for internal customer support and could use process failure data to reallocate resources to value-added activities.
- 3) Employees understood failures that occurred in those processes because they were the ones responsible for fixing them. All process failures have a cost. Why not empower all employees to reduce failures everywhere?



Fortunately for Company C, the departments in the production value stream took ownership of failure cost tracking. The Phase II implementation of failure cost tracking never occurred on a company-wide

basis due to the merger, but some administrative departments did participate using **strategic performance measurements with great results**. See Lessons #7 and #8 for more about this topic.

**LESSON #7: Use process performance measures to link failure costs trends to financial performance.**

Remember that:

- 1) Company C implemented failure costs the first time as a stand-alone report that was not well-connected to financial results.
- 2) Failure cost totals **create an expectation of the potential of the current infrastructure to add cash flow**.
- 3) As failure costs were reduced, management expected to see an overall increase in cash flow **(more revenues, less cost, more cash)**.
- 4) For several reasons, failure dollar decreases are not always reflected in improved financial results. Trends of key measures related to processes that incurred failures help explain why this occurs. **If you expect a direct correlation between failure cost trends and financial trends, don't.** Some failure cost categories will correlate closely, especially if they relate to costs on the ledger. Linking productivity losses to financial trends are more difficult for a variety of reasons, including how lost margins are estimated for both revenue and cost and the timing of planned or unplanned events. Man-days can be spent on reconciling failure costs to ledger trends with little value added to the overall process.
- 5) Since the goal of failure cost reporting IS NOT to tie to the general ledger, a more value-added process is to link localized losses to key measures that are monitored by the workforce taking action to reduce failure costs, especially for production and productivity losses. These measures can also be linked to action plans to reduce specific recurring failures.

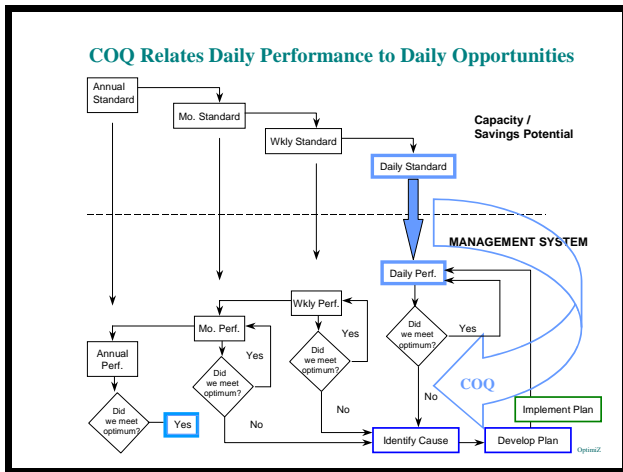
- 6) Sometimes companies think that the more they measure, the better off they will be. **It is more important to track 10 strategic measures** tied to process failures than it is to report 100 measures and pretend to be able to use all of them to manage with. This is especially true after a layoff, when there are **fewer people left to manage the same problems**.

**LESSON #8: Tracking daily process failures (i.e., Cost of Quality or COQ) with daily measures is the key to meeting monthly and annual goals.**

When budgets or operating plans are developed, an annual goal is established first. The annual goal is broken down into 12 monthly goals and from that a daily or weekly plan emerges. When actual performance does not mirror the plan, departments explain why they did not make budget at month-end and propose an adjusted operating plan for the coming month to make up for the shortfall. When events happen the next month which prevents that month's goal from being reached, departments play catch-up by changing next month's forecast to compensate for last month's errors and delays.

**Focus on daily performance and losses to achieve monthly and annual goals.**

Company C learned that the most effective way to insure that monthly goals were met was to monitor daily performance and daily failures and take immediate corrective action THAT DAY, instead of waiting until month-end to correct a problem and adjust a future plan to compensate for it.



Daily measures and daily failure dollars are tools that empower management and employees to take control of a process at “gemba” (a Kaizen term for “where they occur”). Daily failure dollars were reported so that hourly workers could see the impact of recurring problems. Employees knew they were **“fixing the right things” by prioritizing problems by failure dollars**. The biggest cost reductions were gained after daily failure costs and daily key measures were implemented in “COQ II”.

**Failure costs tell you if you are  
“fixing the right things”.**

**LESSON #9: To accelerate continuous improvement in support function departments, use strategic performance measures first — tackle failure dollars later.**

Company C wanted each department to manage using key measures that were congruent with the goals and objectives of the organization. In lieu of every department reporting failure costs, performance measures were developed that related to areas of responsibility, work processes or department goals and objectives.

Example: A division accounting department established measures that helped them shorten the division financial close process. These measures

related to process failures upstream or within the department. Cost reduction was not a goal of the department, but reallocation of resources from transactional activities and error correction to value-added analysis was a goal. Tracking measures related to delays and errors helped accomplish this goal.

Other support function departments that established non-financial process measures included marketing, environmental, safety, and procurement.

Benefits of establishing measures for administrative work processes included the following:

- 1) Employees began focusing on processes, not people. This helped end finger-pointing and encouraged a team approach to solving recurring problems.
- 2) Quantitative progress towards goals and objectives could be monitored and discussed during staff meetings. **Administrative groups fight fires just like production and maintenance do** —monitoring key measures kept departments on track and helped put out the fires.
- 3) Employee morale really improved as employees began solving recurring problems that had plagued them for months or years.
- 4) Managers were more effective in keeping employees focused on longer-term goals in the midst of short-term unexpected delays, rework or errors.
- 5) A 7-year communication barrier between departments was eliminated using a concept called Process Orientation (educating internal customers and suppliers) in conjunction with process measures.

**LESSON #10: A “Top Ten” List kept production sites focused on the biggest problems.**

As operations began to see the benefits of tracking failure costs, **they began identifying process failures everywhere, which was good and bad.**

The good news was that they were focused on finding opportunities for improvement. The bad news was that they could become overwhelmed and lose focus if the list was too long.

Company C recognized this problem and designed a departmental report to list the 10 biggest problems. The ranking was determined by the value of each problem's failure dollars. Sites were held accountable for reducing failure dollars for the problems listed and would provide a monthly update indicating their progress. When a problem was solved, it was dropped off the list and a new one was added. This list was also used during budget preparation and management presentations so that sites could talk about budgeted action plans and opportunities to create cash flow.

**LESSON #11: Don't assume a great degree of accuracy to preliminary failure cost numbers.**

For the first failure cost implementation, failure cost estimates were annualized for each of the cost of quality dollar categories. The purpose was to give management a "quick look" at the untapped potential for improvement for the entire corporation on an annualized basis.

This exercise in itself was not a bad idea, but the data was gathered before departments gained sufficient understanding of failure cost concepts and calculation methods. Management teams everywhere tend to hold employees accountable for the first set of numbers they see for any project, budget, etc. This is exactly what happened in Company C.

Preliminary failure cost dollars were in the millions. Senior management began asking how most of the dollars could be reduced to increase cash flow by a like amount. The problem was that some of the dollars were bad estimates, partly due to failure cost formulae that were hastily developed to meet a deadline. Regardless of the reasons for errors in the first set of numbers, preliminary failure cost totals had set an expectation with management. Sites

found themselves explaining the variances between bad numbers and better numbers as if the bad numbers were valid to begin with. In hindsight, a longer period for developing calculations should have been given before a first set of numbers were reported.

**LESSON #12: Don't release early estimates of potential savings to Wall Street.**

Senior management was very excited about the potential for failure cost reductions and savings identified by operating locations. Management considered going public with information about the company's continuous improvement program and the future performance that could be achieved if all failure costs were eliminated. Because the company's credibility was at stake regarding its ability to accurately forecast results, much discussion ensued about the pros and cons of releasing potential savings estimates. The pros of releasing such data are obvious. The cons may not be so obvious.

One thing to remember about failure cost data is that **all failure dollars cannot be eliminated, which means that all of them will not make it to the bottom line.** There are three reasons for this:

- 1) Lost opportunity dollars will never be completely eliminated as long as optimum levels of performance are not achieved.
- 2) As problems are solved and failure costs are reduced, other problems are identified and failure dollars are added to the pot. This fluctuation may cause failure costs to increase or decrease significantly from the starting total and be somewhat disconnected from actual trends for a period of time.
- 3) By design, failure costs will not equal zero, so not all failure dollars will be transformed into reported earnings and cash flow.

Eventually, it was wisely decided that improved financial and non-financial performance would substantiate the success of the program, so very

little information regarding failure cost totals or potential savings was released to the public.

As employees got better at estimating losses and the cost of recurring events, it was necessary to modify original opportunity loss dollar estimates. Had the original estimates been disclosed externally, explanations would have been necessary as to what changed and why. Changes in these values in the learning stage of any program are to be expected and are part of the implementation process, even though they can negatively impact a company's credibility. The lesson: Caution is always best when considering what to release externally about the value your program will deliver.

**LESSON #13: Frequent communication about failure costs and performance measurements is just as important than collecting the data.**

Making special efforts to communicate failure cost data to the workforce is critical to using failure costs successfully to improve cash flow, customer relations and employee morale. To improve daily performance, some failure costs and performance measurements need to be communicated daily.

Company C knew this and created several ways to communicate failure costs to the workforce. Daily meetings were lengthened by a few minutes to discuss process failures. Data was posted so it could be seen easily, and site managers discussed the cost of failures daily.

**How and when Failure Costs are communicated are just as important as tracking them.**

Communicating failure costs did not stop at the site level. Top management demonstrated that failure costs were a high priority by their actions:

- 1) Trends in failure costs and performance measures were on the agenda at every

management meeting that involved a discussion about performance.

- 2) Senior management called operating locations frequently to discuss operating performance.
- 3) When senior management visited operating locations, local management were prepared to discuss progress on failure cost reductions.
- 4) Operating review meetings held quarterly with the division staff included a discussion about cost of quality failures and action plans.

**LESSON #14: When management stresses the importance of Failure Costs, they are telling employees that they want to talk openly about what is going wrong in the company.**

Most employees come to work every day with the attitude of doing to best job they can do. Then things happen which prevent them from doing that—recurring problems that cause delays, rework, overtime, stress and frustration. Both the bottom line and employee morale suffer. Forecasts or expectations are not met. Sometimes problems are swept under the rug or minimized for fear of retribution.

**Tracking Failure Costs opens the door to frank discussions about what's going wrong.**

**Tracking process failures takes away the fear and communicates that management:**

- 1) Wants employees to be focused on value-added activities, not delays, rework, and error correction.
- 2) Knows that employees were planning around and working overtime to compensate for recurring problems.
- 3) Understands that employees often have a better handle on the causes of many problems than they do.
- 4) Encourages employees to identify and fix the problems that had been ignored or budgeted for in the past.

- 5) Gives permission to tear down communication barriers and **talk openly about what is going wrong** in all areas of the business,
- 6) Realizes that cost reductions, productivity improvements, and cash flow increases happen as a result of employees improving daily performance, and that employees can make a difference to the bottom line which could be measured, reported, and rewarded.
- 7) **Believes that FAILURE = OPPORTUNITY.** New projects usually meant that more process failures had been identified as improvement opportunities and total losses reported would increase. Management made a conscious decision to respond with praise for those taking responsibility to fix a problem that before this time had not been corrected. They knew that avoiding criticism at this time would keep the opportunities coming. A negative response would have shut the ideas down and would have jeopardized the success of the program.

**LESSON #15: Improve Marketing and Customer Service by measuring losses critical to the customer.**

Juggling transportation between rail and truck to meet customer inventory quantity requirements was a constant challenge for Company C. By tracking occurrences and failure cost of customer-related problems,

- 1) Customer service was improved by measuring failures from the customers' perspective.
- 2) the financial impact of providing certain levels of service to customers was measured.
- 3) Company C discovered that some levels of service cost more than the margin generated by the customers benefiting from the service.
- 4) the financial cost of carrying excess product inventory highlighted the cost of inaccurate production and sales forecasts.

**LESSON #16: Small problems that had been overlooked cost much more than expected. Sometimes those problems became the most important ones to fix after they were valued using COQ methods.**

How much can a small problem cost? A 10-minute problem per shift in a 3-shift operation will steal 180 hours of production time per year. When Company C employees began looking at recurring problems with dollar signs in their eyes, their world changed. Instead of accepting recurring problems as "part of the process", they saw every breakdown or process failure as an opportunity to add value to the bottom line.

Even the process of changing out a shovel bucket was streamlined so the shovel could gain 6 hours of production time with every bucket change-out. The team that streamlined this process took pride in their ability to cut the time in half, knowing what it was worth to their operation.

**SUMMARY: Why Companies Should Care About Failure Costs**

With earnings in the billions at some large operations, an hour of time could easily be worth over \$500,000. A 10-minute problem that occurs 3 times per day would be worth in excess of \$90,000,000 per year.

For smaller companies, if earnings are \$100M, that hour could be worth \$12,500 and the same 10-minute problem could be worth \$2,250,000 per year. In either case, the question is:

**Would you fix a 10-minute problem if you knew that it was costing millions of dollars in lost margin?**

This type of opportunity is everywhere at every operation, but because each event seems small or “just a short interruption”, the perception is that it cannot be as important as a major breakdown that takes 2 production days to fix.

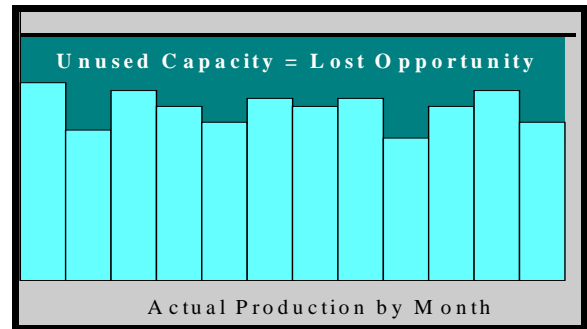
The great thing about COQ is that it helps employees quantify the cost of small problems and compare them to big ones. This empowers them to fix the right things.

Company C was able to achieve record low costs which enabled them to maintain a profit margin during a period of record low commodity prices. Implementing COQ at all operations was a key factor in their success.

Let’s review:

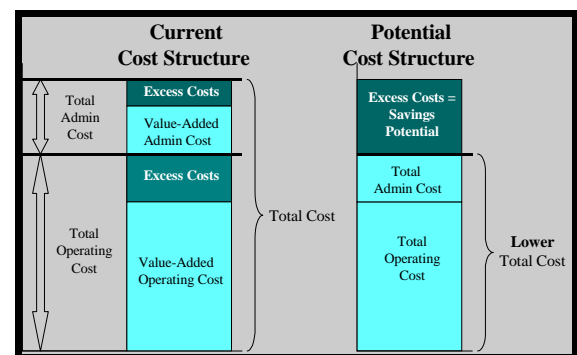
- 1) The biggest benefits of measuring failure costs are to help **increase cash flow and change the way employees view opportunity**, not to evaluate the effectiveness of an ISO, Six Sigma or other continuous improvement initiatives.
- 2) **If the goal is increased productivity**, reducing unused capacity by eliminating failures is the cheapest way to expand production. Companies have already paid for the capacity that they currently have—why not maximize it? The difference between today’s production level

and “your best day ever” is equal to losses due to process failures. **Why not shoot for your “best day ever” every day?**



- 3) **If the goal is cost reduction**, failure cost tracking will help companies “do surgery” on departmental costs. When a patient is operated on in the hospital, only the organ or tissue that is malfunctioning or diseased is removed. The same theory should be used when reducing costs. Instead of a 15% across-the-board cut, why not use a “surgical approach to cost reduction”?

**A “surgical approach” to cost reduction is the best way to eliminate waste and preserve value-added activities and costs.**



- 4) Additional benefits of tracking failure costs include improved customer service, internal communications and employee morale.
- 5) Since data in the current statistics and financial systems can be used to begin the process and **no special software is required** for tracking or reporting, failure cost tracking creates the

**lowest cost opportunity to access untapped cash flow that exists today.**

**When should a company start tracking failure costs?** Postponing the decision to track failures steals millions of dollars in cash flow from companies of all sizes each year. Right now, a 10-minute problem per shift in a 3-shift operation will steal 180 hours of production time per year. Would you fix a 10-minute problem if you knew that it was worth millions of dollars annually?

Examine the untapped potential of your asset base, especially during the current economic downturn. Do you know what it is costing your bottom line to postpone a failure cost implementation? It is probably more than you think?

**When can a company stop tracking failure costs?** Probably never. But with benefits like these, what company would want to stop?

**THE BENEFITS OF WORKING WITH US ARE CLEAR**

OptimiZ Consulting LLC builds true partnerships with our clients to enable them to maximizing performance without investing in expansion capital. We specialize in performance measurement and failure cost tracking. We help clients identify and “monetize” their untapped potential to generate cash flow, and help employees and managers see failures as opportunities for improvement using a common sense approach that makes sense to management teams, operators, maintainers and support function groups.

We assist:

- **Current ISO-9000 companies** that have 1) not maximized the benefit of tracking non-conformance or failure costs or 2) view failure cost tracking as a reporting exercise with no other benefits attached.
- Companies **converting to ISO-9000:2000 that:**
  - need to satisfy the increased focus on QMS, process performance, management

responsibility, continuous improvement, internal improvement and a factual approach to decision making.

- want to get failure cost tracking right the first time.
- **Six Sigma companies** who need help quantifying the financial impact of major projects and want to get support function employees involved in identifying and quantifying opportunities for improvement when Six Sigma project teams are not cost-justified.
- **Companies that have never heard of failure costs** but are experiencing process failures every day, week and month and want to eliminate them.
- **Companies that need more cash flow** but don't know what steps to take beyond the actions already taken to reduce costs and improve productivity.

**Our unique implementation strategy** balances quantitative the use of continuous improvement tools with a focus on what people need to succeed with continuous improvement, including barrier removal and honest discussions about what is not working.

- Hands-on workshops accelerate program results. Employees use process tools to focus on real problems that generate failure costs daily, monthly or annually.
- We perform an “Opportunities Analysis” to evaluate current measurement, reporting, communications and management practices and initially determine where failures are occurring.
- We take the mystery out of failure cost terminology by avoiding technical jargon as much as possible.
- In the workshops, employees begin identifying, quantifying and sometimes solving recurring problems. They leave with tools and concepts that they can start using immediately.
- We teach a methodology. No manuals or special software are required to successfully track and report failure costs or performance measures.
- We work with controllers and accounting managers to help integrate failure costs and

performance measures into current management reporting systems and budgeting processes to minimize disruption and learning curves for employees.

- We coach senior and site management teams on how to:
  - Champion the effort at their operations
  - Communicate failure cost data and progress both internally and externally.
  - Incorporate COQ data and concepts into key management system processes (budget, capital projects, incentive plans, etc.).
  - Use the data to interact differently as a team.
  - Break down communication barriers within their organization.
  - Manage and sustain improvement.
- We help develop internal experts (i.e., train the trainer) if requested to do so.

## THE NEXT STEP IS EQUALLY CLEAR

If you want to “mine” your company’s untapped cash flow potential, Optimiz Consulting can guide you through the process of “exploring for process failures”, tracking failures with focused performance measures and quantifying the financial impact of failures, all with the goals of increasing cash flow and maximizing the return on your current infrastructure. Please check out our website and contact us to learn more about how we can help you improve operational and financial results.

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## ABOUT THE AUTHOR AND FOUNDER

Kay Sever is a continuous improvement coach and consultant who specializes in helping clients improve cash flow, customer service, communications and employee morale. She has 25 years of experience helping management teams, operations, maintenance and support function groups produce better results and work together more effectively.

**Her goal is to maximize your chance for success and sustainability.** She balances technical knowledge of improvement tools with a focus on the “people side of improvement”, which makes her practice unique. It is the people side that contains the barriers that prevent success. Without this focus, your chance of success will be marginalized and sustainability of improvement will be compromised.

See the “About Us” and “Client List” page at [MiningOpportunity.com](http://MiningOpportunity.com) for more information.