COST OF MATERIALS...THERE IS NO SUCH THING
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Clearly, when we or our clients purchase goods, raw materials or services, there is a price to pay. Any business will buy commodities such as electricity, gas, paper. Whilst there is a value applied to all of these products that we call a cost of Materials or Commodity Costs, there is really no such thing.

All materials and services are simply manifestations of someone else's labor charges - all materials are effectively free at the point of origin, unfortunately the Earth doesn't charge us for removal of its resources.

So how does this help your business? In two words - **Efficiency** and **Productivity**. In any business there are huge wins to be derived here. The mindset that costs are simply the sum of the labor applied to the commodity is helpful when evaluating the wins that can be derived. So what is the difference between Efficiency and Productivity?

1. Efficiency is a measure of how much time is spent adding value as a percentage of the total time available. For example - if an Accountant works for 40 hours per week and manages to charge 30 of those hours to Clients then 30/40 x 100 = 75%. The Accountant can be said to be 75% efficient..

2. Productivity is a measure of output per given time period. If our Accountant above is busy processing Tax Returns and in one week completes 15 then his productivity is 15 / 30 = 0.5 returns per hour..

From a business perspective - bearing in mind that we know that Labor drives all costs - there are gains to be made from the improvement of both the ratios above. How could we achieve 85% efficiency and how could we achieve 0.6 returns per hour?

If we did both of these this would be the cumulative effect:

Let's say that the Tax Return is charged to Clients at $250.

In one week the Accountant processes 15 x $250 = $3750.

Now if we increase Efficiency to 85% - the Accountant will be adding value for 34 Hours - and will produce 17 Tax Returns - giving revenue of $4,250. An increase of $500 or 13%.

If we also increase Productivity to 0.6 per hour - the Accountant will process 20 Tax Returns in a week - giving revenue of $5,000. An Increase of $1,250 or 33%.

This relationship between Efficiency and Productivity works in just about any business - clearly the measures will be different depending upon the industry - however the principles apply.

So how do we measure these two ratios? Really simple - a Time Log. Complete a daily log of your time and your team's time and this will help establish Efficiency straight away. What do you need to stop doing in order to release more time to spend on adding value. To improve productivity - look at work flow and preparation. What can be done to speed up the process without damaging quality.

One of our Clients - an Injection Moulder - invested 50,000 in a machine that would chill the water used to keep the moulds cool during the production cycle. By chilling the water, the moulds cooled more quickly and the product could be removed sooner - thus reducing the cycle time. The 50,000 machine paid for itself in 3 months - pure productivity gains.