**Cost Drivers that Don’t Get Discussed During Financial Statement Reviews**

Usually, every month top executives review the income statement and maybe the balance sheet to analyze the results of operations for the previous month. If the results are not up to par, these discussions typically just touch the surface of the causes of expenses rather than digging deep to find out true causes; we stay in our safety zone and put in place solutions that are band aids, not cures. In this article, I provide you a list of some of the hidden cost drivers, the real reasons why costs are incurred, or revenue goals are not met. Try to get to the source or root cause if you really want to improve financial performance.

1. **Not having a marketing/sales plan or market strategy.** Not many companies can be great at 200 different things. You need a strategy *that gets executed* to provide direction so that those things you need to do in the market are done extremely efficiently in your company. Without that definition, you try to be good for everyone and the companies that you compete against that focus will destroy you. Going after every last cent of revenue is not a good strategy.
2. **Putting Up with Excuses – Lack of Accountability.** It is quite common for management teams to provide flimsy excuses as to why a goal is not getting accomplished. One company that I worked with, the VP of Sales kept talking about how many trade shows his team attended, how many customers they had visited, etc. In my opinion, it was all misdirection as revenue numbers were not hit, but he appeared “busy”. He was replaced and the new VP developed and executed a sales plan from which he could be held accountable on a monthly basis. I have certainly seen the same things with purchasing, production, scheduling, customer service, sales, and engineering. Accepting excuses is not becomes an easy, but costly way of doing business.
3. **Slowness or lack of process synchronization.** This goes back to three wastes in lean, moves, wait time and over production. An example is, getting raw materials in a condition conducive to use in within one day of using them, so now you don’t need:
	1. A lot of racking or space for storage
	2. Extra handling to prepare for production
	3. No need to cycle count or write off old inventory
	4. Less indirect labor
	5. Less need for pallets, finding materials
4. **Bad quality.** Rework, sorting, re-shipping, paying customers to sort, throwing out raw materials, lost machine time and labor hours, having to visit customers because you didn’t sell right the first time, extra phone calls from customers, potential fines from customers, etc. Quality issues drive hundreds of activities.
5. **Bad Suppliers.** I am actually astounded at how many companies I work with have put up with poor suppliers for YEARS! Bad on-time delivery, slow deliveries (long lead times), bad quality, but they’re cheap and I have a favorable purchase price variance.
6. **Bad Customers.** I should just repeat number 5 above, but with customers in place of suppliers. Frequent production schedule changes, violation of lead times on a daily basis (and you cave in on their requests), complaining about quality issues when their art or designs are wrong or their contracted materials supplier gave you faulty materials, etc. If you have are working with a great marketing plan and have the commitment to execute to it, you can dump these bad customers.
7. **Changes to Production Schedules.** Schedule attainment or scheduling success rate is a nice way to look at how well many of your processes come together. I.e., many processes need to work right for your production schedule to work right. Changes to production schedules causes expediting from your suppliers and internally, expedited freight, more machine change overs, lost production supplies, quality issues as you try to speed delivery. Also, way too often your good customers are the ones that pay the price for the bad ones. Look at the primary causes for the production schedule changes and address them.
8. **Key employee turnover.** Lack of a skilled workforce results in quality issues, lost machine time, lower production rates, hiring of temps, overtime, etc. Do you know your turnover rate. You can associate lost productivity with lower skill sets and determine how much it costs financially and how much stress it puts on customer relationships.
9. **Inadequate training.** Not surprisingly, training is one of the first things to go when revenues take a dip or there is a surge in orders. I must be missing something, because I would think a skilled employee would contribute the following:
10. **Wrong metrics.**  Metrics are frequently the foundation for decision making in a company, so make sure you’ve chosen the right metrics and the right framework. Measuring things that approximate what you want instead of it being direct. An example is measuring machine utilization by measuring when a person is logged into the machine instead of when the machine is producing good product.
11. **Maintenance Cheating.** Frequently companies think that by skipping preventive or operator maintenance that they are saving money. Just like training, once the business picks up (when the equipment is most needed to be ready) maintenance is skipped. I have seen where maintenance people lie about doing the maintenance; it has not been done properly for years, cheap parts were bought that further damaged the equipment, etc. In a printer in Chicago during a training session I asked the maintenance guy to rate the quality of the maintenance program. He said, “nine out of ten”. A shop floor supervisor behind him was holding up three fingers. Most printing ops are machine driven; the equipment is the internal lifeblood for your revenue stream. Why would you skip maintenance or do it with cheaper lower-quality replacement parts? One printer that I worked with needed UV lighting to dry the ink on the prints. So, the purchasing guy saved $5000 by buying cheaper lights. But they were too hot and damaged the lithographic press, which resulted in $85,000 in repairs. Maintenance cheating is pervasive and *extremely* short sighted. Put together and follow a good maintenance program.
12. **Lack of a machine strategy.** Many companies buy what happens to be the cheapest available piece of equipment at the time, instead of selecting a great machine manufacturer and getting the same type of equipment. This results in operators only being to run certain equipment and not others, many different set-up methods, many different maintenance skills needed, a lot of different spare parts, maybe different pre-press activities.

**Summary**

Have this list available at your next meeting and see how many of these are hinted at in the discussions. Then make the root cause the discussion instead of focusing on symptoms.

**About the Author:** Bob Krausert is the owner of STRATE***X***, a Twin Cities based firm that works nationwide. Bob is the author of the book, ***Extreme Lean***, published in 2018. Bob has worked with over 60 printing companies, mostly mid-sized companies, but also with larger companies like Jostens and Banta, now part of RR Donnelly. During his career, Bob has trained over 12,000 people at both public and private events. Bob has been working with PIM since 2010, periodically providing educational seminars for its members. Bob can be reached at stratexlean20@gmail.com or by phone at 612-743-8706. If you would like to have a specific question or topic covered in one of the articles, feel free to make the suggestion.