



Create a Leaner Business

A Guide for
Entrepreneurs



1

The fundamentals of operational efficiency

Operational efficiency is about creating a leaner, agile and more profitable business. You can do it by measuring your performance and then identifying and eliminating waste. Improving your operations is essential in today's hyper-competitive marketplace where customers want more speed, convenience and quality.

2

Take action

Once you've identified areas for improvement, you can create key performance indicators (KPI) and establish optimum targets. The KPIs go on a dashboard, allowing the whole team to monitor progress and trends. When you've achieved your targets, you can choose others to tackle. It's the cycle of continuous improvement that keeps your team motivated.

3

Go deeper

Mastering fundamental operational efficiency projects will prepare you to go further with advanced initiatives. They make your business progressively leaner as you take them on one by one, building momentum to transform your company.

What's in it for me?

Operational efficiency is the key to making your business more competitive and profitable.



If you've never measured performance you likely have no idea how much inefficiency has built up in your company, and you risk falling behind your leaner competitors. The good news is that with some straightforward improvements, you can slash waste, increase productivity and reap the rewards.



Improved performance

Boosting your efficiency will lead to increased output, fewer defects, lower costs and faster delivery times.



Stronger employee engagement

When you create a culture of continuous improvement, your employees see the progress and become inspired to go further, faster.



Higher profits

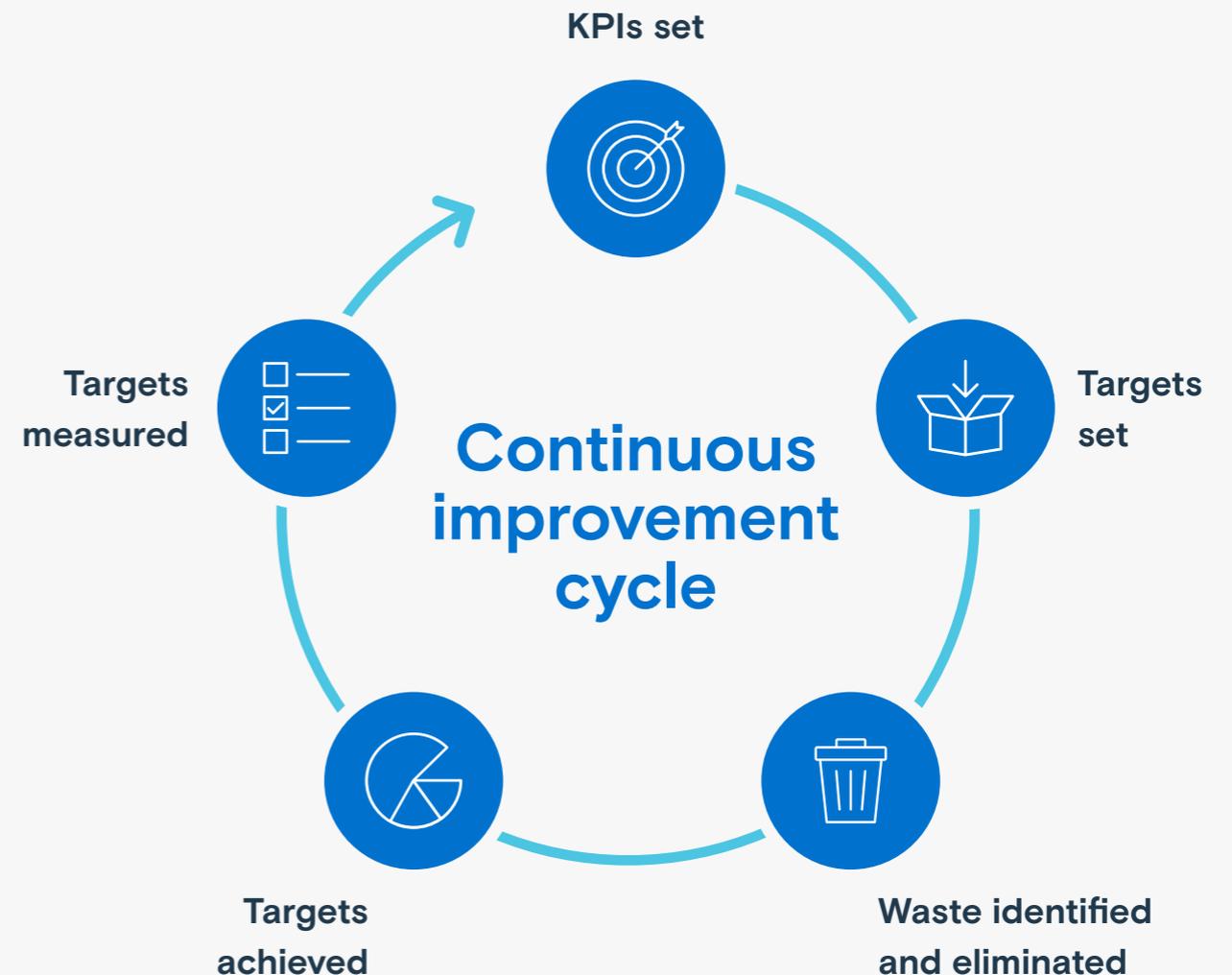
Solving production problems, improving quality and cutting costs, will produce dramatic results on the bottom line.

Kick off your continuous improvement cycle

Figuring out how to make your company more productive demands a continuous improvement mindset—a way of looking at your business every day and seeking opportunities to do things better, smarter and more efficiently. By instilling a culture of improvement at every level of your business, you can kick off a sustainable cycle of continuous improvements that will have a lasting impact on your bottom line.

“The most dangerous kind of waste is the waste we do not recognize.”

— **Shigeo Shingo**,
leading expert on the Toyota production system



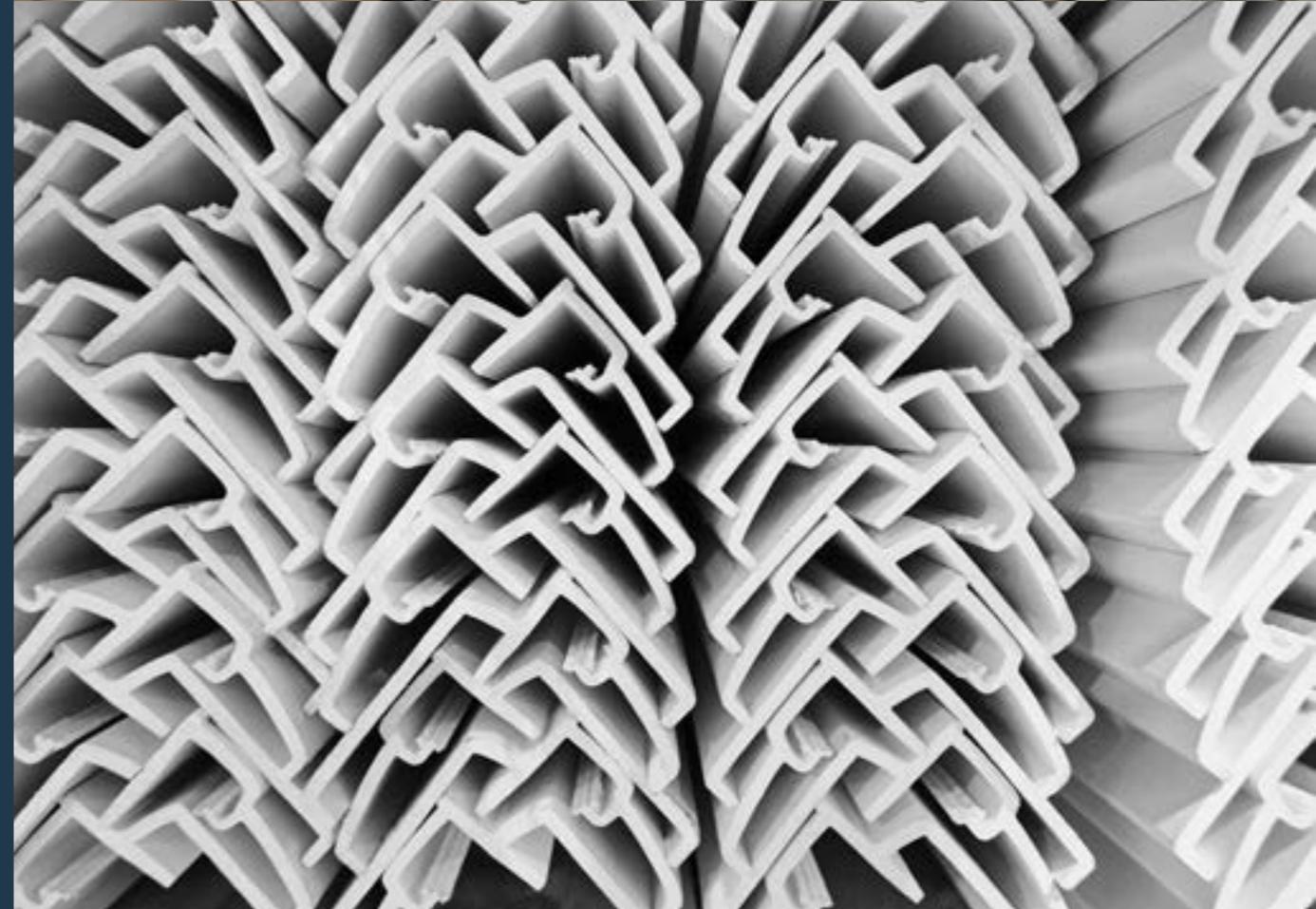
The fundamentals of operational efficiency

3 critical steps towards operational efficiency

- 1 Benchmark**
See [how you measure up](#) to industry averages on your KPIs. Set targets to meet or exceed industry averages.
- 2 Identify and eliminate waste**
Look closely at your operations to find waste and then work to eliminate it. This is the heart of operational efficiency.
- 3 Monitor and manage**
Monitor your performance so you can take prompt action on problems and make sure you stay on track toward achieving targets.



Stéphane Asselin,
owner, Melymax
[Read his story](#)



What is waste?

Waste goes far beyond garbage—it encompasses anything that doesn't create value for your customers.

It includes such things as production bottlenecks, poor workspace layout, excess inventory and much more.

Waste

Any activity that adds cost without creating value for the customers

Added-value activity

Operation that adds value for the customer

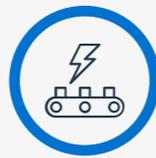
- any activity that improves your product or service
- something your clients are willing to pay for
- work that is done right the first time



8 common sources of waste

Overproduction

Producing sooner than expected or in greater quantity than required.



Inventory

More inventory than required.



Waiting

Employees who wait or equipment idling instead of producing.



Motion

Unnecessary employee movements or activities.



Transport

Material moved because of excessive distance between workstations.



Poor design

More time to produce than planned. Materials not adapted to client needs.



Inefficient operations

Unnecessary or non-optimal operations that don't add value.



Poor quality

Correction, rework or scrap.



Take action:

3 essential optimization projects

① Create performance dashboards

By continuously measuring your performance, you can evaluate how you're doing compared to internal goals and industry averages. Track KPIs by creating performance dashboards. Dashboards let you compare your performance from day to day and see the impact of your efficiency efforts.

② Improve supervisor performance

To achieve your goals, you need supervisors who can plan and maintain continuous improvement initiatives. However, many frontline managers are tied up with administrative tasks, meetings, employee training or even performing production tasks. Freeing them to lead, and giving them the tools to do it, are key tasks in your efficiency campaign.

③ Clean up and standardize workspaces with 5S

A disorganized and untidy workplace is often a sign of an unproductive company and an indication of deeper issues. One of the most basic efficiency exercises is to clean workspaces and standardize how they work using the 5S methodology.

“What’s measured, improves.”

— Management guru Peter Drucker

“You have to manage a system. The system doesn’t manage itself.”

— William Edwards Deming,
renowned management expert

“Out of clutter, find simplicity. From discord, find harmony. In the middle of difficulty lies opportunity.”

— Albert Einstein

Create a performance dashboard

A dashboard tells you how far you've come and where you're headed. It shows KPIs, targets, results, and the gap between targets and results. Many companies now use digital dashboards for this function. Your dashboard keeps your progress front and centre for everyone to see.

① Choose KPIs

KPIs allow you to track how you're doing in critical areas. Your KPIs should be specific and measurable as well as easy for employees to collect and understand.

② Set targets

Targets must be challenging, but not impossible. They should also be time bound. Your team must agree to the targets since they're the ones who will be doing the work.

③ Make your dashboard

Don't include too many KPIs and targets on your dashboard to avoid overwhelming your team. Devote your energy to a few areas at a time where you have major challenges.

Measurable	Specific, achievable	Time bound	Current	Status
KPI	Target	Deadline		
Morning start-up time	30 minutes	April 31, 2021	36 minutes / 80%	●
On-time delivery	92%	April 31, 2021	86%	●
Rework	7%	November 30, 2021	25%	●

Take action

What are KPIs?

- **Key performance indicators** (KPIs) help you focus on your most important priorities and see what you need to change to strengthen your operations.
- **When choosing your KPIs, ask:** “What do my customers value most? Which tasks, if done well, will delight my customers? What drives my business?” The answers to these questions will help you decide what KPIs to track.
- **Don’t focus on problems**, it’s often better to look at the processes leading to problems when choosing KPIs. For example, instead of tracking customer complaints, track orders completed right the first time. This KPI helps you be proactive in reducing errors and results in happier customers.
- **It’s best to discuss with your team what KPIs to track.** They’re closest to operations and know your most pressing challenges. They will also be responsible for tracking the KPIs, so they have to be on board with the improvements you’re seeking, and understand the indicators and be able to easily record them.
- **It’s not enough to just set KPIs.** You need to monitor and adjust them as required. Once you have achieved your target for a particular KPI, you can select a new target or go for a different KPI.



Plan, do, check, act:

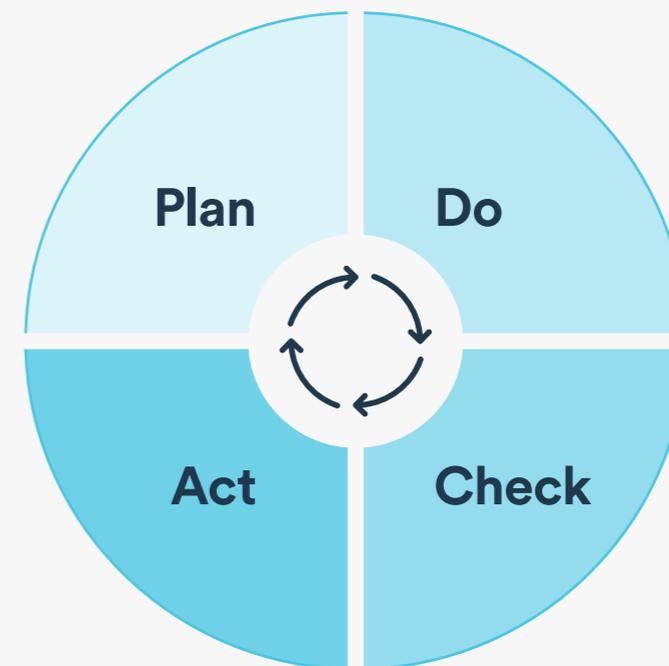
A simple method to improve supervisor performance

Supervisors are your frontline leaders, guiding efforts to identify and eliminate waste and solve problems. Your goal should be to increase active supervision—getting them on the floor and keeping everyone focused on achieving objectives.

The best way for your supervisors to work is by following the plan, do, check, act method.

Plan ahead of the change and try to predict the results.

Take action to standardize or improve the process.



Execute the plan, taking small steps in a controlled environment.

Monitor and collect data, comparing to expected results.

Encourage active supervision

Many front-line managers don't spend enough time working to improve operations. Instead, they're tied up with administrative tasks, meetings or getting their hands dirty with daily production tasks. It's not unusual for supervisors to spend less than 30% of their time doing active supervision. Entrepreneurs should strive to get that number up to at least 50%—and, ideally, 70%.

Use a daily monitoring routine

Active supervision means being on the floor and keeping everyone focused on achieving objectives and constant improvement. [A monitoring routine](#) is a simple checklist of tasks supervisors need to complete daily.

More tools to improve supervisor effectiveness

Team meetings

Supervisors should hold a brief daily team meeting to discuss results on the dashboard, production objectives, problems, progress on efficiency projects and thoughts for new initiatives.

Team leaders

You can free up your supervisors' time for high-value activities by appointing employees as team leaders. These employees can ensure work standards are respected; help with production problems; and provide training.

Reward supervisors

Give supervisors a stake in your efficiency campaigns by rewarding them for improvements, but also hold them accountable for unsatisfactory results.

A simple daily performance monitoring checklist

- Set up agenda for the day
- Schedule two tours of the floor
- Review tasks aligned to KPIs on dashboard
- Review specific production targets
- Prioritize tasks
- Identify hurdles or obstacles

Take action

Clean up and standardize workspaces with 5S

Cleaning and organizing workspaces allows workers to find tools and documents when they need them. The 5S method is a proven way to increase efficiency by cutting wasted time, reducing mistakes and improving morale.

- ① **Sort.** Sort the things you use daily, monthly and yearly, and keep handy only what is immediately needed.
- ② **Set in order.** Objects should be stored functionally, with visual aids such as labels to help staff put things away in the right place.
- ③ **Shine.** Dirt, waste and scrap should be systematically eliminated, using daily, weekly, monthly and annual cleaning schedules.
- ④ **Standardize.** Teams should establish rules and work standards on common operational issues, such as the type of materials and tools to use.
- ⑤ **Sustain.** Use an internal audit system to ensure work processes are maintained, including regular inspections and solicitation of feedback.



Go deeper

Make more progress with advanced projects

Here are some examples of advanced projects that may be suitable for your business.

Reorganize workspaces

Many businesses waste a lot of effort because of inefficient plant or office layout that needlessly increases the amount of movement needed for people and material. Optimizing your facility's layout and the design of workspaces can improve production flow and capacity, promote teamwork and improve unity among departments.

Optimize office processes

It's important to focus on optimizing your client-facing and back-office processes to reduce non-value-added activities, cut lead time, reduce errors and simplify information flow.

Manage your bottlenecks

If your production line can't keep up with demand, you have a bottleneck. Whatever is causing it, an improvement at the bottleneck can give your business a much-needed productivity boost and significantly reduce your delivery time.

Optimize inventory management

Excessive inventory is costly and can create a lot of waste in a business. One solution is to implement just-in-time inventory management, such as the Kanban "pull" system developed at Toyota.

Operational efficiency will improve any business that has the ambition to pursue it.

Efficient solutions



Quality of ideas



Degree of buy-in



Amount of diligence



BDC is here to help.

We provide business loans and advice to help entrepreneurs create leaner, more profitable businesses that can achieve long-term success.

- **Discover our operational efficiency solutions for entrepreneurs.**
- **Find out how we can help with financing.**

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