How to improve operational efficiency (for greater profitability)

For a successful business, you want to maximise revenue while also delivering the best possible service for customers. Equally, there is a need to keep costs low without compromising on product or service quality.

Operational efficiency is all about this balance. It refers to the ability of a company to deliver its products or services cost-effectively. If you achieve the right balance, your business will be more productive, increase profits and gain a competitive edge.

The concept isn’t new. Henry Ford summed it up:

“There is one rule for the industrialist and that is: make the best quality goods possible at the lowest cost possible, paying the highest wages possible.”

What is Operational Efficiency?

Specifically, for a business to improve its operational efficiency it must review the ratio between input and output. Input refers to the resources required to produce your goods or service, such as costs, staff, time and effort. Meanwhile, outputs include revenue & margin, production, quality, speed & agility.

Operational efficiency refers to the steps companies can take to streamline core processes. The output to input ratio is improved for better business performance.
In order to improve operational efficiency, it’s crucial to review all aspects of performance. The most critical factors will vary by type of business, for example they may be driven by processes or manufacturing – see examples in the table below.

The concept can be far reaching, but isn’t just about cost cutting. In fact, research from PwC reveals that less than 30% of cost-cutting programmes reach their targets, and less than a fifth of these can demonstrate sustained benefits over three years.

So, the goal is to achieve sustainable efficiencies, which take cost out of the business, but without harming the customer experience. Operational efficiency combines many factors, including streamlining processes, use of technology and employee engagement.

**How to measure Operational Efficiency**

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<table>
<thead>
<tr>
<th>Measure</th>
<th>Example description</th>
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<tbody>
<tr>
<td>Revenue Per Employee</td>
<td>Employee productivity</td>
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<tr>
<td>Process Efficiency</td>
<td>Repeated activity that could be streamlined or automated</td>
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<tr>
<td>Marketing Efficiency</td>
<td>Customer acquisition cost, customer value, ROI</td>
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<tr>
<td>Equipment Efficiency</td>
<td>Reliability, cost and energy efficiency of machinery</td>
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<tr>
<td>Asset Efficiency</td>
<td>Refers to capital assets such as hotel occupancy</td>
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**Types of Efficiency Measure**

To review the input: output ratio, you’ll need to consider both input and output processes. The precise metrics to use will depend on business objectives, short and long term goals and business sector/size. Metrics will also vary from team to team, as production staff will have different metrics to HR.
How to improve Operational Efficiency?

Depending on your industry and type of business, there are various ways to boost operational efficiency. Here are 3 factors for success.

1. Review
First, benchmark your performance against similar organisations. Look at how well it’s doing in relation to KPI’s and sales by talking to staff, and looking at the efficiency of physical or automated processes. For example, does the company receive multiple daily deliveries from multiple suppliers? Deliveries arriving at different times, unpacking of deliveries and distributing them to the right departments all routinely impact an employee’s core job.

2. Identify
Next, identify and eliminate waste by targeting issues like workflow, process and productivity. Waste is something that adds cost without adding value, for example if a manual process could be automated. It also concerns issues such as efficient stock management and lean inventory, which can be an issue with multiple orders from multiple suppliers.

3. Monitor
Finally, monitor and manage performance. Set up regular reviews to ensure that new, improved processes are working as they should. Regular communication between teams will help to ensure continual improvement and a sustainable approach.

Implementing new processes is just the beginning. For sustainable improvement, tangible cost reductions and increased productivity, new systems must be adopted throughout the business.

Consolidate for increased efficiency

A common issue for businesses is the time and effort involved in dealing with multiple suppliers. A form of wastage, as identified in Section 2 above, this brings cost without adding value. Employing a consolidated supplier model is a key strategy to improve efficiency.

Choosing a multi-category provider will allow you to:

1. Increase efficiency and reduce workload across your business
2. Reduce supplier numbers and the time and resources to manage them
3. Improve distribution efficiencies across your supply chain
4. Reduce the total cost of your procurement
5. Increase control and visibility of expenditure

It makes sense that supplier consolidation enables process efficiencies – less time sourcing and managing suppliers, fewer invoices to process, better leverage on pricing.
Why efficiency matters

In today’s world, businesses must have exceptional efficiency to compete with companies with greater economies of scale and bargaining power. Unfortunately, the UK is on the back foot. Bank of England research suggests that large businesses (+250 employees) that are foreign-owned are twice as productive as their UK counterparts.

While this refers specifically to productivity, it’s a reminder that overall efficiency matters. Operational efficiency is vital to success. It can free up time and resources, simplify processes and lower costs. It makes it easier to achieve both growth and profitability.

Furthermore, efficiency is about streamlining business processes; enabling you to deliver better products at better prices. More productive staff leads to increased customer satisfaction; translating to increased brand awareness and revenue. Strive for a culture of continuous improvement and you will soon reap the benefits.

How we can help

You can improve profitability and growth by consolidating multiple suppliers. In addition, optimising efficiency supports your organisation’s commercial objectives. We work with you in a strategic partnership, enabling you to consolidate spend across multiple products and services. In turn, this provides better control, better visibility and reduced costs.

To find out how we can add value to your organisation please visit our website: www.officeteam.co.uk

Or contact me on:
07967 348 129
malcom.brechin@officeteam.co.uk