

Six Sigma Finance Benefits

Fixed Standards

- Benefits Rate = **XX**%
- Costs include routine, repetitive C&B to resolve these issues: Pricing Specialists, TQL's Account Managers, Receiving / Warehousing and Cash Application

Don't Assume...

- That all defect types will be reduced at the same rate
- That numerical average is representative of the typical item
- That we can sell everything we make (capacity)
- That short term sampling will always replace long term data collection
- That a scrap percentage can be generalized across all types of returns
- That the relationship between defect reduction and cost reduction is linear

Think About These...

- Transportation costs for returned materials
- Disposal costs of scrap
- Material write-down / write-off loss less than recovery cost
- Warehouse cost per pound for scrap / rework inventory

Think About These... (cont.)

- Changing scrap pounds to good pounds
 - pounds that will be produced
 - scrap or rework reduction
 - incremental revenue (from capacity)
 - cost avoidance on plant and equipment
 - pounds that will not be produced (excess capacity)
 - scrap or rework reduction
 - cost avoidance on plant and equipment

Think About These... (cont.)

- Creating new capacity from existing plant and equipment
 - pounds that will be produced
 - incremental revenue
 - cost avoidance on plant and equipment
 - pounds that will not be produced (excess capacity)
 - cost avoidance on plant and equipment

Think About These... (cont.)

- All types of material
 - scrap or rework
 - administrative costs of claims
 - transportation cost of returning material
- Concession returns
 - enforcement of restocking charge on returns that become normal under RM policy
- Quality returns
 - elimination of additional credits for customer downtime, machine cleaning, etc.

Types of Benefits

- Direct Savings
- Cost Avoidance
- Other Savings
- Incremental Revenue from Capacity
- Other Incremental Revenue
- Incremental Costs

Direct Savings

- Scrap / Rework write-off reduction
- Headcount reduction
- Concessions reduction
- Additional accounts payable discounts
- Scrap disposal cost reduction
- Scrap / Rework / RM transportation cost reduction
- Scrap / Rework warehouse cost reduction (If space purchased on a per LB or sq. ft. basis)
- Expedited freight cost reduction
- Fewer LBS per container (material cost reduction)

Material Scrap or Rework Cost

- Project reduces the pounds of scrap / rework and reduces the write-off or write-down losses on those pounds
- Associated Benefits
 - Transportation costs on returned material
 - Disposal costs on scrap
 - Warehousing cost of scrap / rework inventory

Disposal Costs on Scrap Material

- Project reduces scrap and associated disposal costs
- Associated Benefits
 - Transportation costs on returned materials
 - Material scrap loss

Warehousing Cost of Scrap / Rework Inventory

- Project reduces scrap / rework and associated inventory costs
- Associated Benefits
 - Transportation costs on returned material
 - Scrap disposal costs
 - Material scrap / rework loss

Transportation Costs on Returned Material

- Project reduces the cost of returning material to the plant or warehouse (includes return material claims for concessions and quality issues; does not include customer paid freight costs)
- Associated Benefits
 - Reduced scrap / rework
 - Disposal costs of scrap
 - Administrative costs of claims / credit/ debit transactions

Expedited Freight

- Project eliminates expedited freight costs
 - **This is meant for projects with specific freight savings

Additional Cash Discounts on Accounts Payable

- Project allows SRC to take advantage** of discount opportunities not available in the past due to defects in the process
- Associated Benefits
 - Other manpower costs associated with defect resolution
- **Savings tied to projects with intention to improve payables. Cannot claim benefits associated with improved payables not specifically related to project

Compensation and Benefits

- Project increases efficiency of process which enables SRC to reduce headcount or OT hours (does not include headcount resource re-allocation)
 - Headcount reduction
 - Overtime reduction

Other Operating Expenses

- Maintenance
- Leased or contract services
- Utilities
- Supplies
- Packaging
- Gage R&R on supplier shipments (did you get what you ordered?)

Price Concessions Reduction

- Project clarifies the customers expectation of price; concessions will be reduced
- Associated Benefits
 - Administrative costs of claims / credit / debit transactions

Product Weight Normalization

- Project decreases variance in finished goods product weight resulting in lower cost per container (e.g. cease having to overfill in order to meet minimum customer requirements)
 - product cost
 - shipping cost

Other Savings

- Reallocated dispute resolution resources due to reduced claims and credits / debits
- Other reallocated resources involved in defect resolution activity (Accounts Payable, sourcing, quality assurance, etc.)
- Prevention of sales erosion due to improvement of extremely poor product quality or service
- Scrap / Rework warehouse cost reduction (If not purchased on a per LB or sq. ft. basis)
- Funds flow improvement from reduced scrap / rework inventory and past due receivable balance

Administrative (C&B) Costs of Claims / Credit / Debit Transactions

- Project reduces the number of claims or non-invoice credits / debits; allows for reallocation of manpower to more productive activities

Other Manpower Costs Associated with Defect Resolution

- Project reduces resources engaged in resolving or managing defect implication (Quality Assurance functions, sourcing, Accounts Payable, etc.)

Retain Sales Volume at Risk Due to Extremely Poor Service or Quality

- Project enables SRC to retain market share; must be data supporting potential loss of sales

Improved Cash Flow from Reduction in Scrap / Rework Inventory and Past Due Receivable Balance

- Project reduces scrap / rework inventory balance or Past Due Receivable Balance
- Associated Benefits
 - transportation costs of returned material
 - disposal costs of scrap
 - material losses on scrap / rework
 - warehousing costs of scrap / rework inventory
 - administrative costs of claims / credit / debit transactions

Benefits Not Easily Quantified

- Project benefits cannot be easily categorized and tracked
 - increased customer satisfaction (service levels, claims resolution, product quality)

Incremental Revenue *from Capacity*

- Project creates extra capacity from scrap reduction or increased throughput; consensus required that extra capacity will be utilized for additional production
- Associated Benefits
 - Cost avoidance from capacity creation (don't have to buy more equipment)
 - Material scrap / rework loss

Other Incremental *Revenue*

- Increase in ASP due to correction of net underpricing
- Increase in sales volume due to fixed / improved product quality or increased service levels
- Increase in sales volume and/or ASP due to improved lead operation or quotation process

Sales Volume Due to Quality Improvements

- Project enables SRC to penetrate market; consensus required that extra capacity will be utilized for additional production

Increased Selling Price on Corrected Billing

- Project improves billing defects that result in net under-pricing of products
- Associated Benefits
 - Administrative costs of claims / credit / debit transactions

Increased Sales from Improved Quoting / Lead Generation

- Project improves speed and accuracy of quote / lead processes; increases competitiveness; results in more sales and possible increase in selling price

Cost Avoidance

- Plant and equipment avoided costs due to incremental capacity generated
- Headcount (C&B) avoided costs due to defect resolution

Plant & Equipment Cost Avoidance

- Project results in extra capacity without P&E investment; includes capacity created by turning scrap pounds into good pounds
- Associated Benefits
 - Material scrap / rework loss
 - Incremental Revenue from Incremental Capacity

Headcount Cost Avoidance

- Project results in increased process efficiency which results in business growth without an increase in headcount

Incremental Costs to *Execute*

- Additional systems software or hardware (expensed or capitalized)
- Additional maintenance
- Additional plants and equipment
- Costly design of experiments
- Consulting or other outside services