The cost of inefficiency has a ripple effect across the company. What appears to be an isolated (individual or department) issue when investigated will expose wider reaching repercussions.

**Inefficiency costs money**

Inefficiencies cost many organizations as much as 20 to 30 percent of their revenue each year. Imagine what your company could do it if had 20 percent extra funds to funnel into customer acquisition or research and development.

Sometimes people, equipment, or processes come at a premium. That’s perfectly all right — efficiency is not about paying your employees minimum wage and scrimping on product quality.

Inefficiency is when you spend more money than you need to arrive at the same result. Defective products that need to be discarded, excess inventory, and even long-distance phone call overage fees are expenses that only deplete your bottom line — so get rid of them. Another area most overlooked is daily repetitive task that can be automated. 20+ percent of most redundant activity can be automated, what takes humans hours to produce a computer can do in minutes. Add to this, humans make mistakes especially when the task is redundant thereby creating errors. Computers don’t make errors and they never take a break or get sick.

**Inefficiency wastes time**

You may be able to squeeze every cent out of a dollar, but there is no squeezing any additional seconds from a day. Every minute squandered is lost forever, never to return. Time spent waiting, whether for a process to finish or for a manager to tell you what to do next, or employees using the day effectively is time lost.

When it comes to efficiency, time is not just measured in minutes and hours, but also in potential output. A crabby, scared, or underappreciated employee is simply not going to create the same amount or level of work as a well-rested, satisfied, fulfilled one in the same span of time.

Employee sentiment has a great deal to do with making the most of your company’s available hours. Measures to make your workplace more enjoyable, cleaner, safer, or even simply less boring can go a long way here. Additionally, investing in employee improvement programs will provide a great ROI within 6 months.

**Inefficiency reduces quality**

As process improvement methodologies Total Quality Management and Six Sigma remind us, every defect or missed quality benchmark is an inefficiency. Unproductive employees, inefficient processes and older machinery tend to cause more errors than their more efficient counterparts. Subpar quality control processes don’t catch errors in time, resulting in defective merchandise or service potentially negatively impacting customers.

Businesses don’t usually want to produce quality results as low as 82 percent of the time, and they shouldn’t have to settle for such low numbers after undertaking efficiency improvements. Correcting inefficiencies across a process can have a major impact on success rates in any business, and get those quality results up.

**Inefficiency damages morale**

Rote or error-prone tasks are frustrating. If you must perform them four or even eight hours a day, you will not be particularly apt to go the extra mile or perhaps even to smile.

While it’s true that replacing more than one employee with a piece of machinery or an Excel macro is sometimes the solution, a task that can be replaced with equipment was not particularly fulfilling or engaging. Further, eliminating inefficiencies doesn’t always mean letting employees go — they can often be redirected to more interesting *and* meaningful work (really!).

Know what else hurts morale? A lack of trust, which is the direct result of an inefficient project management process. When projects are announced only to disappear into the ether, when milestone after milestone is set only to go by unacknowledged, and when upper management touts dedication to goals that are not aligned with their actions, employees become all the more disenchanted.

An efficient workplace that delivers what it promises to high quality standards is a place where people *want* to work, and that can make all the difference for your sales, marketing, and customer service efforts.

**Breaking Away From Routine**

It is not always easy to uncover inefficiencies because several dynamics are at work, discouraging their detection. The attitude that "this is the way it's always been done" gives the assumption that years of history must mean that the process is being performed in the best way. Also, because various processes are performed by different departments or individuals, it is not so evident that redundant work is being done. In many cases, people simply are too busy to think about diving into any project in enough detail to uncover leaks in the dam.

To expose these easily hidden costs, it is necessary to understand fully your manufacturing processes in intimate detail. Some good Time Study or Task Mining software packages are available for PCs and PDAs that help give a clear picture of where exactly your staff are spending their time. This tool should be used to find out where every minute of every hour is going. This kind of inquiry can uncover those precious minutes or seconds you need to remain competitive.

Challenge yourself right now to just sit and stare at the wall for one minute. You'll see that a minute is a long time, and much could be accomplished on your business in one minute. When you can uncover one minute or 10 minutes or 100 minutes of inefficient work, the time savings could be quite significant.

Do not always be dead set on minimizing cycle times at any cost, because that's not necessarily where you're wasting your money. Significant savings are available in catching inefficiencies early in the process.

**The Cost of Change**

**Manufacturing**

A common dynamic at work in manufacturing has to do with the cost of change, and some see it as a fundamental law at work, like the law of gravity. The law of cost of change goes something like this, although the actual numbers may vary.

Assume a change must be made to an existing product, including engineering, drawing, and design changes. To change a design or feature in the drawing or design stage costs, say, $1. The same change made in the prototype stage costs $10. The same change made after the product is in production costs $100. The same change made in the field after the product has shipped costs $1,000 (some sources say as high as $10,000). This rate of cost increase is exponential, not linear. In other words, it makes a lot of sense to catch these flaws early in the process.

Now apply this law to the hidden costs of inefficiency discussed previously. Rather than applying the law to a product cycle beginning with design and following all the way through to the customer, consider that this same law of the cost of change also dictates the cost of changing a component part or product as it travels through your plant during the manufacturing process.

To identify the redundant, non-value-added work that is being invested in a part may require an upfront investment of time and money, but the results can be significant. If a small investment in some industrial engineering studies reveals that two minutes per part can be eliminated, the savings amounts to two minutes per part made over the product's life cycle. You may manufacture thousands of parts over a period of years, each part taking two minutes less labor than required before the study was done. Now you can see the exponential return on such an investment of time.

For example, a component part that is inconsistent or out of tolerance causes many problems for automated and robotic welding processes, as well as for assembly processes. The further along in the manufacturing process the change is made, the more expensive it becomes to make the change. To simply make better parts may seem more expensive, but fixing the problems caused by poor part design as the part travels through the production process is more expensive than making the part right the first time.

Let's apply the law of cost of change using some specific dollar values. The amount of time needed to make a change before the part goes into production includes attending a meeting to discuss the change; making changes to the part print; and changing the program that runs the machine that makes the part. For three hours of work, figure $180.

To make the same change after the component part is in production will cost exponentially more. Several people, several hours of work, rerouting parts, and carrying old inventory would come to about $2,000, not including the actual cost of the obsolete part, which could add thousands of dollars more.

To correct poor tolerances after the component gets welded to the main assembly and into the customer's hands will easily cost 100 times the cost of catching the unacceptable tolerances at the earliest stage. Figure you would have to dispatch service personnel ($3,000), pay airfare and travel expenses ($2,000), order replacement parts in small lots at a premium price ($2,000), revise drawings and procedures ($1,000), and reprogram CNC machines or robots ($2,000). This adds up to $10,000, at the minimum.

**Administrative Processes**

Companies today are burdened by siloed, difficult-to-use business systems that complicate processes and hamper operations. According to market research firm IDC, companies [lose 20 to 30 percent in revenue every year due to inefficiencies](http://www.forbes.com/sites/jeffboss/2016/11/01/5-ways-your-business-processes-could-be-hurting-your-business/).

And yet, many companies continue to “make do” with their current applications and systems even though those may not be the right solutions. Unfortunately, companies will often repurpose one of these systems for a task which has a plausible functionality for the project -- imagine using a flashlight to crack open a walnut -- but is still not the right tool for the job.

Sooner or later, that misapplication is likely to cause a problem.

The [consequences for using antiquated business process solutions](http://www.forbes.com/sites/jeffboss/2016/11/01/5-ways-your-business-processes-could-be-hurting-your-business/) or, gulp, no solutions at all, can be multi-faceted and ultimately damaging to a company’s bottom line. Here are six common pitfalls that plague companies in nearly every industry due to inefficient or siloed business processes.

**The silos themselves**

Regardless of what industry you are in, or the type of customers you serve, the [challenge of managing process flow and operations](http://www.gartner.com/newsroom/id/3198017) across diverse platforms and systems is universal. Combining tedious manual tasks with the reliance that company departments have on a smooth daily workflow makes it virtually impossible to maintain any kind of competitive advantage. Yet, this is how most companies operate.

There [have been studies done](https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3813367/) on the silo effect has on efficiency within certain industries. And the general conclusion has been that silos eat up a huge amount of resources, particularly in terms of interdepartmental cohesiveness. One noteworthy example referenced by author [Gillian Tett in her book, *The Silo Effect*](https://www.amazon.com/Silo-Effect-Expertise-Breaking-Barriers/dp/1451644744/ref=asap_bc?ie=UTF8) was Sony, whose successful PlayStation department jealously guarded its independence, even as the company's then-new CEO, Howard Stringer, tried to break down silos.

As a result, Sony failed to capitalize on a series of technology shifts -- [such as the iPod and the rise of digital music devices](http://www.mediapost.com/publications/article/99726/why-sony-missed-the-ipod-the-curse-of-silos.html) -- that at the time it was in a good position to dominate.

**The fix.** One of the ways companies can successfully break down work silos is to provide mechanisms to achieve transparency and openness. Companies may want to consider a “single system of record” to achieve transparency, streamline communications and manage performance.

Several companies have built highly successful systems of record: Salesforce, in the sales function, Intuit in finance and Workday, in human resources are notable ones. Systems of record are typically the backbone of core business processes. Without a solution that keeps everyone and everything connected, an organization is vulnerable to the common issues that plague distributed teams.

**Poor systems integration**

The growth of automation has led to more systems and solutions being in place than ever before, each requiring a set of processes to enable its successful use. [According to an IDC survey,](https://wwwimages2.adobe.com/content/dam/Adobe/en/news-room/pdfs/201503/IDCInfoBrief.pdf) *The Document Disconnect*, over 80 percent of business leaders surveyed from sales, HR, procurement and other departments agreed that problems “arise because they have different internal systems/applications that don’t ‘talk’ to each other," while 43 percent of workers surveyed said they often have to copy/paste or rekey in information.

Without a standardized solution, such as a SaaS platform that streamlines processes, employees are forced to continuously shift between disparate sources of information, resulting in productivity issues and even greater employee churn.

One major Fortune 500 automotive company cited in the report uses Sharepoint for document repository, Lync for collaboration, two separate document management systems and email for collaborating on critical business processes, such as managing supplies for a new product development initiative. Each process flow lives in a disparate system.

**Bottlenecks**

Just because a process has been executed one way for a long time doesn’t necessarily make it the best option. Often, companies will overlook sources of process slowdowns because of their lack of visibility and inability to understand the impact of a bottleneck.

These bottlenecks are sometimes the result of not adapting to new technologies -- or “gatekeepers” demanding control over a specific phase of a process.

Regardless of the reason, process hurdles can cause major slowdowns, with far-reaching financial impacts.

General Electric reported that just a 1 percent improvement in oil recovery was worth 80 billion additional barrels per year -- the equivalent of billions of dollars in additional revenue. [Another GE finding:](http://www.utilities-me.com/article-3972-ge-drives-smart-utilities/) Avoiding just one day of down-time on an offshore platform can prevent $7 million per day in lost production.

**The fix.** Adapting to new technologies and being open to new solutions is the best way to improve processes. Be aware of a process that seems to be slowing down your business and actively pursue a way to improve it.

**Redundancy**

Another common problem for companies of all sizes is [process duplication](http://www.computerweekly.com/feature/Stop-duplicating-effort). Repeating steps dilutes the quality of a process and confuses those who execute the steps. This is commonly seen when there is a lack of departmental collaboration, or processes have been adapted in a less-than-systematic way.

**The fix.**Improving departmental collaboration can [bring major benefits](https://hbr.org/2007/11/eight-ways-to-build-collaborative-teams). One Fortune 50 consumer-package goods company was able to manage and improve its process flow by eliminating non-value-added activities. These included wasted time, wasted movement, wasted inventory due to overproduction, customer delays, waits for approvals, delays due to batching of work, unnecessary steps, duplication of effort and errors and rework.

**Lack of insights**

Even when companies have the right business intelligence information available, it may be inaccessible or erroneously reported due to a [lack of real-time data](http://www.zdnet.com/article/the-real-time-data-disconnect-a-survey-of-reality-vs-perception/). Leaders who don’t have the most relevant insights at their fingertips are [less likely to make smart choices](https://www.concur.com/newsroom/article/expense-management-how-a-lack-of-real-time-insight-hurts-companies_04sept2014_sb).

If a leader or sponsor doesn’t know exactly how you’re progressing (for example, where in the given initiative tasks are stalled, how cycle times are being  impacted, whether the time line is being adhered to or whether a task is in the red or the black), it’s difficult to competently prioritize activities.

**The fix.** Oil and gas companies are an example of [what can be gained by using real-time data analysis](http://www.bain.com/publications/articles/big-data-analytics-in-oil-and-gas.aspx). They generate massive volumes of data from wells and sensors on their equipment and other assets they have already deployed. Concurrently, drillers and maintenance staff add to this volume by documenting their observations and the issues that concern them.

However, this potentially valuable data is often inaccessible or difficult to analyze because it’s in a text format or locked away in [data silos](https://www.cyfe.com/blog/siloed-data-is-a-destroyer/).

**Loss of operational performance**

Without a complete understanding of all components of their business, executives lose the ability to identify critical weaknesses and plan for predictable growth. Simply put, they cannot remain reactive to operational vulnerabilities or mitigate the complexities of running a business in a global economy.

Ultimately, a lack of process visibility leads to the assumption of greater risk, a loss of stakeholder trust and less positive growth.

**The fix.**Processes that digitally connect suppliers, customers and assets are creating [unique and unheralded efficiencies and customer value](http://www.digitalistmag.com/digital-economy/2016/09/28/3d-printing-asset-network-other-business-processes-changing-in-digital-economy-04509500). From connecting machines on the shop floor to connecting data from different asset vendors, operations in the new digital economy entail using information to inspire new processes.

Those processes, in turn, help close the gaps between companies and their customers. And that leads to a more positive bottom line.

**Sales and Marketing**

When you hire a sales agent, the most important thing you want them to do is close deals. That sounds obvious, but when you look at how the average call agent spends their time, it becomes obvious that there are many processes that prevent them from selling, leading to an increase in the cost of inefficiency on sale.

Quite surprisingly, the key obstacle to their sales effectiveness is not marketing, or even competition. It’s internal processes and paperwork. Ouch!

**YOUR OPERATIONS MAY BE CHOKING YOUR SALES FUNNEL**

Salespeople spend much of their time on back office tasks instead of focusing most of their efforts on closing the deal. According to a study done by [Pace Productivity](https://www.paceproductivity.com/single-post/2017/02/09/How-Sales-Reps-Spend-Their-Time):

“less than 20% of their [salesperson’s] time was being spent directly on customer-related activities.”

What’s more, “sales reps are basically spending one day a week selling and four days doing anything else!”.

Sound concerning to you? Yes, me too.

Assuming your sales organization is about average, your sales team is losing both significant time and opportunities to close deals and target their customers due to the distraction of paperwork.

These back-office tasks are killing your team’s prospecting and closing time. Instead of maximizing their time with customers, salespeople are bogged down in unproductive, back office tasks, not only impeding sales, but also leading to sales frustration and unwanted sales team turnover.

**OPERATIONS CAN SLASH INEFFICIENCIES AND PAPERWORK**

From filing and finding customer information to printing, signing, and exchanging documents, these tasks, while extremely important, are however unnecessarily time consuming and distracting. Although they may not appear to be labor-intensive, their repeated action amounts to a great deal of time spent away from the actual sale. Administrative tasks as such are dominating the workplace. According to a [Forbes Time Management study:](https://www.forbes.com/sites/kenkrogue/2018/02/15/why-sales-reps-spend-so-little-time-selling/2/#79fba361e6cf)

14.8% of an average week is spent on administrative tasks. The crux of inefficiencies of work comes down to lack of clarity. When your day is spent doing work about work (multiple meetings, endless e-mails) instead of doing actual work, that's a problem.

Another study by Quota Factory explains how sales reps spend the same amount of time completing sales as they do filling out paperwork. If your company’s sales reps could limit the amount of time spent on tedious non-revenue generating tasks such as paperwork and instead spend more time closing deals with ease, they would increase their overall sales dramatically.

**HOW OPERATIONS CAN ACCELERATE SALES & SERVICE**

Sales agents understand the need for signing documentation and receiving proper identification; these factors play a crucial role in advancing any sales deal. However, these necessities can be consolidated into more simplified processes using modern technology. These customized solutions eliminate overhead and countless back-and-forth conversations with prospects.

**THE IMMEDIATE IMPACT OF EFFICIENT OPERATIONS**

Removing operational friction typically leads to four immediate benefits:

**Improved closure rates** – reducing the time it takes to complete sales cycles improves the likelihood deals will close.

**Increased deal flow** – eliminating back-office activities frees sales time for further prospecting and better customer care.

**Improved service resolution –** customer issues are resolved in the first call, boosting FCR and customer NPS in parallel.

**Improved sales team performance** – removing non-core activities improves sales team performance and morale and reduces unwanted sales team turnover.

To unleash your team’s full potential, learn about technologies that accelerate sales processes and remove the need for paperwork altogether.

**Administrative Documentation Task**

According to Gartner, professionals spend 50% of their time searching for information, and take an average of 18 minutes to locate each document they are looking for. And it's no wonder when you consider that a company's documents are stored in filing cabinets, desktops or laptops, in email, or on a central server.

So how can you calculate the cost of chasing down all these documents? It's simple actually. Just calculate the wasted time employees spend searching for documents and then multiply that by their salary. Take the following example:

***Users waste 30 minutes a day (16 days a year) searching for documents, on average. That’s $3,840 per employee per year in lost productivity (assuming $30/hour), that’s more vacation time than the average US worker accrues each year.***

Make a count of the number of employees in a company and multiply it with the $3,840! Do you see the problem?! This is a huge amount of money lost on productivity each year.

**9 Types of Inefficiency**

Inefficiency is the failure to make productive use of resources. It is synonymous with waste. The following are common types of inefficiency.

**Strategy -** Doing the wrong thing or the right thing at the wrong time. Example, a product or service that fails due to flawed strategy.

**Process** - Doing things in an unnecessarily complicated, wasteful, or ineffective way. Example, a slow machine, computer, or staff member that represents a bottleneck.

**Tools** - Ineffective tools such as software with a complicated user interface or automation with a defective design. Slow computers. Slow or worn-out machinery.

**Structure** - An inefficient structure such as a firm with too many middle managers and too few hands-on workers.

**Energy** - Machines, devices, vehicles, and buildings are bad at converting input energy into something useful.

**Knowledge** - Failing to use available knowledge. Example, staff members who repeat well know mistakes.

**Culture** - A culture of negative politics, petty authority, or malicious compliance.

**Time Management -** Inefficient use of time such as long meetings that don’t go anywhere or continuous disruptions or lack of self-discipline to focus on one task at a time.

**Economics -** Inefficient economics such as cronyism and perverse incentives.

**The Real Price of Quality**

Addressing each of these issues upfront and in detail may seem like it would cost your company a lot of money, but this is only because these activities, such as training, cost-saving teams, meetings, and quality programs, are highly visible and typically budgeted for and closely scrutinized. The fact is that these foundational activities can prevent more expensive costs of dealing with compromise later. If they are not brought to light and itemized, the costs of poor quality may remain hidden in daily procedures and overhead, looming like an iceberg under the water.

Efficiency is about measuring twice and cutting once. Nothing is taken for granted. No process is assumed to be the ideal process until it's examined under the microscope. Everyone must be involved in optimizing processes, especially the grass roots personnel, who are the ones that really know how the machines operate and how the parts should fit together.

Change is not the enemy. Today's manufacturers must be wired to make changes quickly and efficiently. Efficiency is borne out of effective changes made early in the process. Invest the time and money upfront, and you will see that those exponentially rising costs can be reduced as quality rises and throughput increases.

When we think about the cost of inefficiency, you want to think about the true cost of inefficiency. Not just the internal cost but look further to the external cost. What are your customers paying in time and emotional labor? That will give you a clearer picture of the true cost of inefficiency of processes or products that you offer.

Many of the efficiency projects that we work on focus on improving efficiency within an organization. To improve efficiency, we must understand what is inefficient. Through Operational Excellence methodologies - Task Mining, we can determine how much time each task takes and the cost associated with each step.

When we think about cost, one of the most important factors is people. As the saying going, time is money so it’s our job to determine how much time your employees are spending on a task. What’s the cost of those employees? What’s the cost of the processes they use?

**Customers are people in this equation too.**

One of the challenges with using this model to calculate the cost of inefficiency is often companies will leave out the customer in the equation. Let’s discuss an example.

Let’s say your billing department sends an invoice to a customer. Unfortunately, the invoice is incorrect. You have already determined that on your end, when an invoice is incorrect, there are all these rework loops that take place. The customer is going to call in. Your company will have people trying to fix the error. They will need to resubmit the invoice.

Companies will often calculate this internal cost by determining the time spent by their billing department and maybe even the customer support team’s time answering the phone.

What this company has inadvertently left out is the external cost.

**The external cost is your customer’s time.**

For me, as the customer with an incorrect invoice, I must also spend my time to correct the error. I might have to submit a form online or call customer support. It’s taking time out of my schedule to correct the problem that the company created. When you factor this in, you not only see the internal cost of inefficiency, but a holistic view.

Let’s say, for example, that your customer happens to be an attorney that bills $500 an hour. Correcting the invoice took half an hour of her time. That’d be $250 of her time. That’s one way of looking at it.

**The true price of inefficiency can include future costs.**

But the sheer amount of time your customer must spend isn’t the only factor you should be considering. Perhaps more importantly it is less about the cost of time for your customers, but their frustration levels with inefficient processes. If working with you becomes too painful, they will leave. If a company keeps making continuous errors due to inefficiency, it will frustrate and ultimately lose otherwise loyal customers.

At this point, you must start thinking about the cost of customer churn and the acquisition of a new customer. This opens a whole new area of additional cost. Lean Six Sigma makes room for these considerations as well.

**Solutions**

Solutions are multi facet and can become overwhelming but there is a better and simpler way.

Using Pareto’s Principle (80/20 rule) – 20 percent of the proper action will reap 80 percent of the necessary solution. The actions required will be found in optimizing the staff and technology because these two areas impact the business the most.

Optimizing the staff is will require increasing the cognitive skills and proficiency training using a proprietary method designed by DatCom.

The second will be process automation which automates approximately 27 percent and more of all daily activity. What takes humans hours to process, takes the computer mere minutes. This reduction in time and percentage has significant impact to the bottom line of the business.

The result is efficient operations, healthy work environment, intelligent valuable staff, reduced overhead and the ability to add 40 percent more income without increasing overhead.

“Helping People, Processes, and Technology work together – Smarter”

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