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BELOW THE RADAR

Factors that Steal Tons, Increase Costs and Prevent Change

“Looking for What’s Missing” – Barriers That Hide Production Capacity

Have you ever lost your car keys? You know they are somewhere in the house, but you can’t remember the last time you saw them. Maybe it was after you checked the mail or changed your clothes after work. You look on the table and by the door. You start to worry because your plans for the evening and tomorrow are suspended until the keys are found. Finally, you lift up a pillow and see them on the sofa. Now you can relax because you can go to the ball game tonight, lock the house before you go, and leave for work on time tomorrow.

Let’s transition this example to a mine or plant. Last year you authorized the purchase of new equipment and were intimately familiar with the design capacity promised by the manufacturer. As a result, you budgeted for more tons and the marketing department secured contracts for more trains. After the new equipment arrived, tons were slow to increase due a variety of start-up problems. When the equipment was running, expected tph rates were achieved by some shifts but not others. Production gradually improved but continued to fall short of expectations. To make up for tonnage losses, some preventive maintenance jobs were postponed to increase the tons reported the following week. Eventually, you reluctantly accepted the current production level as the best you could do and assumed that you overestimated production in the budget. Your credibility suffered because other managers and employees were aware that the equipment was capable of doing more. Your inability to tap into hidden capacity was the primary cause of the shortfalls, but key measures and reports did not reveal excess capacity or the barriers that could be hiding it.

When your keys are lost, you look in the most likely places first. In mines, the most likely places to look for excess capacity are usually hidden by traditional measures and reporting systems that tell us what was achieved, **not what was missing**. Consider the operating stats and dollars on the general ledger. By design, everything on the ledger reflects actuals - numbers that quantify “what happened” (tons produced, operating hours worked, revenue collected and dollars spent). Budget may be loaded into the system to report the plan and favorable/unfavorable variances. Production departments receive production reports and are held accountable for variances to budget or forecast. However, these variances seldom tie to hidden capacity because numbers tied to “**what did not happen but could have happened**” are missing from the ledger.

Remember your sense of urgency when your keys were misplaced? What if you “intentionally searched” for hidden equipment capacity with the same sense of urgency? How would it change what you measure and the way you manage operations? Shareholders expect management teams to understand all of their equipment capacity, not just the portion they are using. Having a handle on this issue is a critical part of cash management because it may postpone your expansion capital decision or can help you determine where to add capacity if it’s really needed (which fleet, mine or plant).

Searching for and finding hidden capacity can be very satisfying work because it makes so much sense. It changes the questions you ask during the budget process and enhances the criteria for capital approvals. However, management must understand the difference between process potential and budget so that uses of potential and budget data are not confused. During the search, data collected for problems that hide capacity explain the variance between actuals and “the best you can do”. To maximize the value gained from a focus on hidden capacity, some operations “create an army of eyes” within the workforce that learn to recognize hidden capacity in daily activities. When a culture adopts this mindset, all bets are off regarding the performance achievable with your current equipment set.

Here’s the thought for August:

Look for what is missing and you will find your greatest opportunities for improvement.

Kay Sever implements improvement programs for mining and downstream processing facilities. Her approach balances commonly used tools and methods with a focus on value creation and the “people side of improvement”. Kay works with every organizational level and department to find the highest dollar opportunities and remove barriers that prevent sustainable change. She helps management teams lead improvement and better execute the budget, capital approvals, incentive plans, communications, etc. See MiningOpportunity.com for details on her services and contact information. Look for the mining edition of her first book “Building An Opportunity Culture – Addressing the Barriers That Steal Profits and Prevent Sustainable Change”, available on her website under Products/Books. Kay has designed a **NEW Management Training Series** called “**Opportunity Fundamentals – Equipment, Cost and Culture**”. It will be available to management teams everywhere beginning in August 2009.