



# 10 Guidelines for Higher ROI from Continuous Improvement Initiatives

## Change the Game with Sustainable, Constantly Improving Results and Exponential ROI

Too often, CEOs, CFOs and Chief HR Officers come to me disappointed with the results of their business improvement initiatives. This disappointment is usually because they don't realize the value of improvement efforts. Therefore, they don't make the changes needed to fully integrate improvement skills and behaviors into the daily work of their entire team, including the leadership.

A "sideline" initiative often directly conflicts with how people are organized to work. If Continuous Improvement is to become a sustained force moving your business forward, you must weave it into the fabric of how you hire, train and evaluate your people. This involves the HR department, but likely also encompasses other departments.

An important first step toward building Continuous Improvement into your organization is accurately and concretely measuring your results. In that spirit, take a look at these guidelines, and let them help you change the game!

### **1. Look at the whole picture when measuring ROI**

The skills that employees develop during Continuous Improvement initiatives have value that goes well beyond particular projects. Therefore, when you are trying to get the most from a Continuous Improvement initiative and calculate its value, take these ancillary benefits into account.

Here are some examples of ways that the skills developed during Continuous Improvement initiatives create value that spills over into other areas of the business:

- Better customer service benefits both external and internal customers.
- Increased employee involvement during Continuous Improvement programs also benefits other change initiatives and suggestion programs.
- The methodology of Continuous Improvement can be applied regularly in all areas of work, not just those directly involved in the project.
- The ability to be a better leader and facilitator improves teamwork in general.
- Fact-based problem solving becomes the go-to method for tackling problems in the organization.
- The ability to communicate with visual tools—visual management—can be applied to increase performance in all areas.
- Leading by empowerment lifts teams to higher and higher levels of success, not just during the current Continuous Improvement initiative.

This list merely scratches the surface of what is possible.

## **2. Factor in potential revenue from customer loyalty generated by higher-value services and offerings**

Continuous Improvement initiatives create better experiences for customers. In addition, over time, a higher percentage of employees will be directly involved in supporting a range of service needs for your customers. This increases customer loyalty—and profits! To benefit fully from this improved approach to customer relationships, find ways for teams from different departments to interact with customers. Next time you send out a sales proposal, feature a broad cross section of team members.

See the case study below for a real-life example of a Continuous Improvement initiative that resulted in an additional \$30 million in revenue from a single customer.

### **3. Estimate savings generated by improvement initiatives using a simple formula to quantify them**

If you can't quantify something in business, it's hard to talk about it, much less get excited about it. Open the dialogue about the broader benefits of your initiatives by talking about a 1% improvement in the number you currently have. This alone can be millions of dollars. For example, look at your current cost structure. Calculate how much each percentage point means in dollars and cents. Then you can set goals and create expectations, both for specific improvement projects and for overall operations.

I've included a template below to help you get started. You can modify it to reflect your key cost drivers.

### **4. Include all the ancillary and incidental savings that your initiative creates when you calculate ROI**

Often, savings from improved operations are attributed to the obvious focus of the project.

For example, if you are able to run a process more efficiently, you would reflect the cost savings in the ROI of the work. Teams often have a narrow view of the direct and immediate savings. This tendency fails to reflect the associated savings that come from reduced complexities and fewer people involved in maintaining the work processes. Beyond the lower cost of goods sold, savings can be found in requiring less utilities and other costs that may lie within general overhead expenses.

### **5. Expand the work roles of employees so fewer purely supervisory positions are needed**

One fundamental principle of improvement is that you drive decision-making responsibility toward the person performing the work. As team members solve problems themselves, check their own work and learn more about the business operations, they require less supervision and managerial support.

The role of managers becomes more about coaching and supporting their teams. The result: you need less of this type of staffing resource. This adds straight to the bottom line.

## **6. As a starting point, consider that 30% of a work process is typically wasted effort**

As teams map out a typical process and note which steps add value and which don't, a rule of thumb is that 30% of the work in the process can be removed. This shows the vast potential for improvement.

Use that 30% of wasted time and resources as the baseline for estimating potential improvements. Wasted steps include rework, non-standardized process steps and waiting time. Refer to the 8 Wastes of Lean for more information on the types of waste to consider. Just imagine the possibilities when everyone in the organization is implementing Continuous Improvement.

## **7. Translate your improvement efforts into KPIs—and your KPIs into dollars and cents**

Most team members are aware of how their Continuous Improvement initiative will boost certain KPIs. However, it sometimes isn't clear how those KPIs translate into dollars and how those dollars add up over multiple years. Teams and senior management are more motivated by the benefits of activities if they can quantify them. Expressing the ROI in dollars and KPIs gets everyone on the same page.

## **8. Look beyond short-term benefits and cost savings**

The amount of money saved in a quarter is certainly worth discussion. Even the short-term benefits of Continuous Improvement provide a striking ROI. Quarterly savings, though, are only a **small fraction** of the financial opportunity.

When you are building up your human talent capabilities, be sure to emphasize that the benefit to the organization goes well beyond project savings over a short period. To measure the true impact of your Continuous Improvement initiative, calculate the benefits going forward over multiple years.

## **9. Use naturally expected turnover to help you meet improvement goals while boosting the morale of your team members**

Employees love Continuous Improvement when they see how it makes their lives easier and their work more successful and meaningful. No one enjoys waste and failure! Therefore, Continuous Improvement initiatives can be a powerful morale booster.

These programs also result in each person generating more value. The same work can be done with fewer people. Look for opportunities to increase ROI by not replacing workers who retire or leave voluntarily. During growth phases, use the added productivity to hire more slowly.

As a rule, do not reduce headcount with layoffs as a form of improvement. Nothing will destroy team members' trust and willingness to support initiatives faster than seeing Continuous Improvement used as the reason their colleagues lost their jobs. This is a key concern with improvement efforts, even if it is unfounded, so be extra careful in addressing this issue. Also, be sure to reduce the workload if you don't replace people who leave, as it can be equally as damaging if it leaves your team working harder but not smarter.

## **10. Double shareholder value with a more engaged workforce**

All of the above items create an engaged workforce. While this is the last guideline, it's as powerful as all the rest. Studies show that a highly engaged workforce is 7% more profitable and creates twice the shareholder value. Engaged employees are connected to each other and to the purpose of their organization.

Engagement also provides opportunities to contribute. This is because expanded roles utilize more of employees' skills, which inherently makes them feel more valued. The end result: combining Continuous Improvement with effective, inspirational leadership makes organizations perform at exponentially higher levels.

# Templates for Calculating ROI

## Cost Reductions

Use the following as a menu of estimated cost reductions that will impact the overall financial performance of a manufacturing facility or the entire company's financials. With these cost estimates, you have a place to begin when considering the potential value of improvements.

<b>Staffing</b>		
Management	Per 1% reduction	\$
Direct labor	Per 1% reduction	\$
Indirect labor	Per 1% reduction	\$
<b>Total</b>		\$

<b>Raw materials</b>		
Purchase price top item	Per 1% improvement	\$
Scrap	Per 1% improvement	\$
Usage	Per 1% improvement	\$
<b>Total</b>		\$

# Revenue Improvement from Customer-focused Teams:

## Cost Reductions

Use the following as an outline to consider how Continuous Improvement can increase revenue. To gain perspective, consider what the value of a new account might be using your average client size.

Average New Account	\$
Profitability of New Account	\$
Average Current Account	\$
Profitability of Current Account	\$

# Comparing Organizational Performance before and after Improvement

Use the following outline to do a simple projection of how your business will perform before and after any specific period of improvement.

## Before Continuous Improvement

Revenue	\$
Cost of Staffing	\$
General Overhead	\$
Annual Net Profit	\$

## After Continuous Improvement

Expanded Revenue by 5%	\$
Reduced Staffing by 1%	\$
Reduced Overhead Costs by 1%	\$
Annual Net Profit	\$

**Variance** \$ \_\_\_\_\_



# Case Studies

## Rightsizing the Workforce

A small manufacturer was expected to have 25% of the workforce retire over the next 5 years (given a workforce of 10,000, the company would be losing 2,500 over 5 years or 500 per year).

The Continuous Improvement workforce was streamlining processes and was able to reduce the replacement by 50 people per year. The model assumes an average salary of \$50,000 with benefits of \$30,000 for a total of \$80,000. Following is an outline of the savings, not taking into account salary increases and other changes in benefit costs or staffing through the upcoming years.

Annual Savings in Staffing Budget ( $\$80,000 \times 50$ )	\$4,000,000
Savings from streamlined efforts and improvements ( $\$80,000 \times 250$ )	\$20,000,000

But we're not done yet! Each year, the company saved the cost of replacing 50 employees:

Savings on replacement costs per year ( $\$8,000 \times 50$ people/year)	\$400,000
Savings in replacement costs over 5 years ( $\$8,000 \times 250$ people)	\$2,000,000

Thus, in addition to the annual savings of \$20 million in wages and salaries, the company realizes an additional \$2 million in savings related to lower recruiting, selection, on-boarding and training costs.

## Growing Revenue with Delighted Customers

The workforce throughout the entire company learned to work in team formation. A cross-functional team including accounting, maintenance and operations was sent to a large national customer to solve a quality issue, resulting in millions of dollars in lost revenue.

The customer got so much value from this team approach that the customer awarded the entire business to this company as the sole supplier of that item. That represented an increase in sales of \$30 million.

Annual additional revenue from this one account: \$30 million

Annual additional profit (10% margin): \$3 million

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Cheryl Jekiel, Founder of the Lean Leadership Center, works with visionary organizations that require strong people strategies and systems to achieve their business vision. She and her team help leadership teams increase the capability of their people to create limitless organizational value.

Ms. Jekiel has developed an expertise in lean manufacturing with a particular focus on lean cultures in leadership roles at Sweetheart Cup, Parco Foods and Flying Food Group.

Ms. Jekiel has held a variety of senior leadership roles covering operations, human resources and as chief operating officer for a number of years. As the author of “Lean Human Resources: Redesigning HR Practices for a Culture of Continuous Improvement”, Ms. Jekiel is committed to building Lean HR as a recognized field of work.

She lives in the Chicagoland area with her husband and two dogs, Sid and Ginger.

