



## Unit by unit, can you?

**If you can, you will see your competition on the rear view mirror, struggling to overtake the physical, economical and time-based obstacles created by them selves. Inglorious effort.**

In classical terms, the concept of efficiency was associated with the maximum utilization of available capacity, thus enabling the fixed costs to be dissolved and therefore, the operation economics, being it of production or distribution type.

In fact, this model reaches its objective, which is the reduction of the operation unit costs. The question to be asked is: is this the correct objective to be reached? I.e., do you need to produce one unit of the product at the lowest possible cost? The answer seems simple: yes. However, the answer nowadays is often different: probably not. Why, you ask? Because there is a series of increasingly significant system integration costs and risks, that are also increasingly heavy, out breaking the importance of an individual, particular operation, such as production, for example.

This way, the efficiency of the modern times is not in the relative reduction of fixed costs, by dissolving those over a large quantity, as used to be the classical solution. Instead, it is in its absolute reduction. Making fixed costs of each operation as insignificant as possible, in such a way that the operation can be performed a large number of times, without major penalties, is the objective.

In the production line example, the classical answer, of producing large batches to reduce the production unit cost, postponing costs related to product losses, discounts, stock outs, product obsolescence (induced by excess or shortage of stock due to forecasting difficulties, exactly because of the long production cycles), seems to be less of a good strategy.

The quick changing and volatile market of these days makes the small batch production strategy much more adequate, as it reduces drastically the forecast error and consequently all the costs associated with the amounts above. On top of this, this strategy will increase the company responsiveness and sales potential.

This example can be applied, exactly in the same terms, to each and every logistics operation. Therefore, all

fixed costs associated to these kinds of processes must be minimized. But not only those: execution time is also very important, otherwise a repeated execution of the process will outfit the available time to execute it.

Although simple, this paradigm change is not easy, as company management often looks for economies in the fixed rate of its operations rather than in its flexibility and responsiveness. In a certain way, this seems to be done based on the real practice from two decades ago, surprisingly management becomes admired with the volume of stock and waste that tend to accumulate under this model. Particularly, it can be observed that the time dimension is often mistreated, as far as its real importance is concerned.

So, the challenge is that each company develops its business processes based on unit models, evening those by creating batches only when and if necessary, from supplier order to customer delivery, including all physical and administrative processes, and not forgetting their economical and time-based components.

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