

Quantify or Die!

Complacency or reliance on technology won't save a company that doesn't carefully track income/costs

By Sam Garofalo

Editor's Note: The two hypothetical case studies outlined below are drawn from composite sketches of the author's first-hand observations in laundries over 25 years. Some issues may be slightly exaggerated to drive home the point of how a company's survival hinges on its ability to *effectively* measure both sales and production costs.

Losing a company through bankruptcy proceedings it is always a sad and tragic event. It's horrible to see the hard work and sweat equity of so many people go down the drain as a result of an inability to act on, or to perceive, the inevitable dissolution of a business. For many in this situation, the prevalent cause of out-of-control cost overruns and lost profits can be summed up in one word: denial.

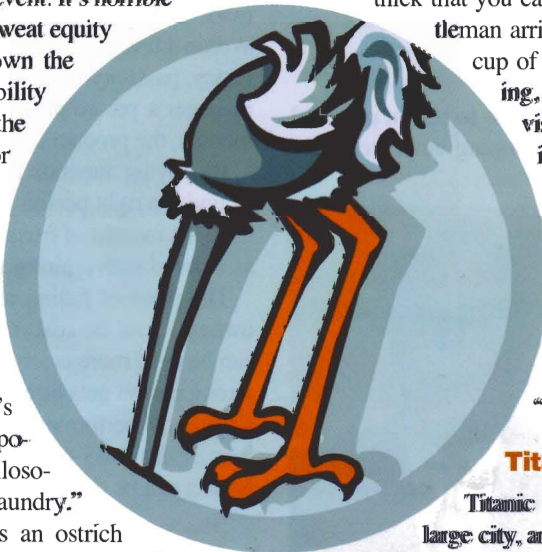
As we are all fighting the same battles, it amazes me that the tools that we use are so different. Plants in trouble generally fail from one of two methods of operation. Let's explore these methods by creating two hypothetical companies and their operating philosophies. The first is the "Ostrich & Sand Laundry." The O&S Laundry's approach resembles an ostrich with its head in the sand—it's just sitting there, enjoying life—without a care in the world. It doesn't see hazards looming nearby. Our second hypothetical example is the "Titanic Laundry." In this company, the executives know there is a problem. But they're unable to recognize the magnitude of the situation, or to implement corrective measures. Let's take a closer look at both companies.

Ostrich & Sand Laundry

The O&S Laundry is located in a medium-to-large city, and is at least a second-generation or a national company. In a quick survey of the plant, we notice that the machines are old, are labor intensive, and have little or no energy considerations. The plant is poorly laid out with either a cluttered flow plan or no flow plan at all. The sounds of steam and air leaks compete with boom boxes in the washroom. Two people load a washer, while three people watch. The washer loads are typically 25%-30% undercapacity. Several OSHA violations send shivers up the spine, followed by recollections of a defense witness on the stand during a wrongful death lawsuit who is asked, "What did you mean when you wrote, 'There was an employee

standing in three inches of water and his hands were in an open control box operating the washer?'"

The chief engineer brags about how good he is. He boasts of how everything is under control and how he, the plant manager and the owner spend more time fishing on the owner's boat than at the plant. He is the godfather of two of the owner's children and once rescued the owner's father from a drunken brawl. The political aspect is so thick that you can cut it with a knife. At 11:30 a.m. a gentleman arrives wearing a \$2,000 suit. He's holding a cup of coffee, sitting on a woman's desk, laughing, as she blushes. He comes out and greets his visitor. They walk through a long hallway into an old but beautifully appointed office. After niceties, the visitor asks him about labor, utility, dollar yield and other mundane topics. The well-dressed laundry owner doesn't know the answers. He says his company's been in business for 100 years, and this is the way they've always done things. His next comment? "Hey! Lets get some lunch."



Titanic Laundry

Titanic Laundry is also located in a medium-to-large city, and is a second-generation or national company. The owner greets his visitor at 6 a.m., Monday morning, shoves cups of coffee under their noses and pulls out a book that resembles the national budget. He describes how his plant is filled with the most modern equipment known to man. Around 11:30 a.m., he leans back in his chair, gets a sick look on his face, and asks, "How are we losing our ass?"

We tour the plant and hear the sounds of steam and air leaks competing with boom boxes in the washroom. Two people load a washer while three other people watch. The washer loads are typically 25% to 30% undercapacity. Several OSHA violations send shivers up the spine followed by recollections of a defense witness on the stand during a wrongful death lawsuit who is asked, "What did you mean when you wrote, 'There was an employee standing in three inches of water and his hands were in an open control box operating the washer?'"

Face facts

What do the Ostrich & Sand and Titanic laundries have in common? The owners are both in denial, and some consultant will be getting a

call from a bankruptcy trustee asking if they can help with the liquidation.

To survive in the textile services business today you have to know your costs, your yield, and how to implement your management program right down to the environmental engineers. I don't care if the chief engineer rescued your father from a drunken brawl, if you don't get him under control, none of you will have a job. If you don't know your yield and operating costs, you had better find the answers real quick, because the natural gas costs alone can put you out of business.

TRSA has spent significant time and money developing excellent reporting devices that can help you compare your operating costs with your competition. It stands to reason that if your operation is leaner than your competitor, you'll have a competitive advantage.

Another critical issue is yield! My definition of yield is the dollar



1. Total productive labor costs
2. Total utility costs (therms, water/sewer, KWH)
3. Total chemical costs.

You should examine your direct operating costs weekly, comparing your costs to the comparative study provided by TRSA.

Both the Titanic and O&S Laundries need to analyze information,

take a step back, look at the facts gleaned from these reports, and objectively and realistically analyze their companies' performance. After identifying problems, they'll need to take the necessary steps to get control of their operations. They must set up programs that monitor their plants, which include key people, and make them accountable for the reporting process. This involvement will generate interest in the entire improvement program. All of the tools that these companies need to monitor areas of concern are available

UTILITIES PER POUND CONVERSION and COST

Plant: Your plant Date: Any week 2006

GAS	408 DECATHERMS	40,800,000 BTUs	1,000,000 POUNDS PROCESSED	41 BTUs Per Pound	COST PER POUND—0.01659744	Unit costs must be put into these cells
WATER	100 CUBIC FT 2741	2050268 GALLONS		2.050 GALLONS Per Pound	COST PER POUND—0.00631	
SEWER		EFFLUENT GALLONS		1X water	COST PER POUND—0.006314825	
ELEC	104 KWH	104 KWH		0.00010 KWH Per Pound	COST PER POUND—0.004295	
PRODUCTIVE LABOR	\$105,690.00				COST PER POUND—0.106	
CHEMICAL COSTS	\$7,500.00				COST PER POUND—0.0075	
					TOTAL COST PER #—0.139212	

FILL IN RED CELLS ONLY

One therm = 100,000 BTUs 100 cu ft in 100,000 BTU's A decatherm equals 10 therms 18,000 therms = 1,800 decatherms 1,800 decatherms equals 18,000 therms

amount you get per pound that you sell. For example: If you charge 10 cents per napkin, and there are 10 napkins in a pound, your yield is \$1 per pound. If you are in the linen business and your yield is below 90 cents, you are selling under market. And no matter how efficient your plant is, you're in trouble. If you're in healthcare, your yield will be lower, but the consistent revenue and greater volume stability will help you control your profit/cost figure. You should calculate your yield weekly. Consider the following equation:
 $\text{SALES DOLLAR VOLUME} / \text{POUNDS PRODUCED} = \text{YIELD}$

Analyzing direct operating costs

To get a handle on direct operating costs, you have to simplify it to succeed. The simple spreadsheet seen in the inset above will analyze easily retrievable information each week. This will give you an accurate picture of production costs. Any spreadsheet that you develop should consider the following:

through TRSA. Making these adjustments may not be quick or easy. Changing long-established ways of doing things never are. However, the alternative—the eventual sale or liquidation of the business—is hardly a pleasant prospect either for any textile services operator, manager or employee.

Author's Note: The Excel spreadsheet seen above is available free of charge to any reader by sending a request to sam@technicalconsulting1.com. TR



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