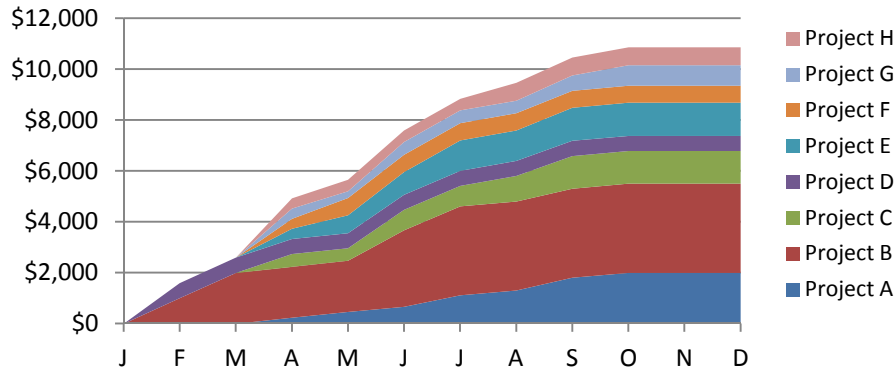


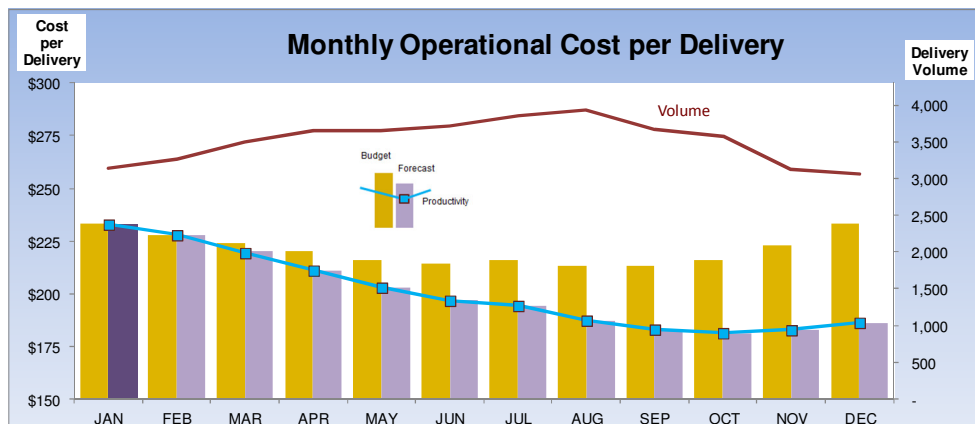
We're all familiar with the phrase "we can't improve what we can't measure". This is fairly well understood for an easy-to-measure parameter, however, how do we measure the success of a lean sigma initiative? Are we really improving productivity?

Typically, savings for each project is estimated, with cumulative savings looking like the following graphic:



The accuracy of the individual and cumulative project savings estimates is often unclear, however. Leadership should be confident the savings are truly realized in the bottom-line.

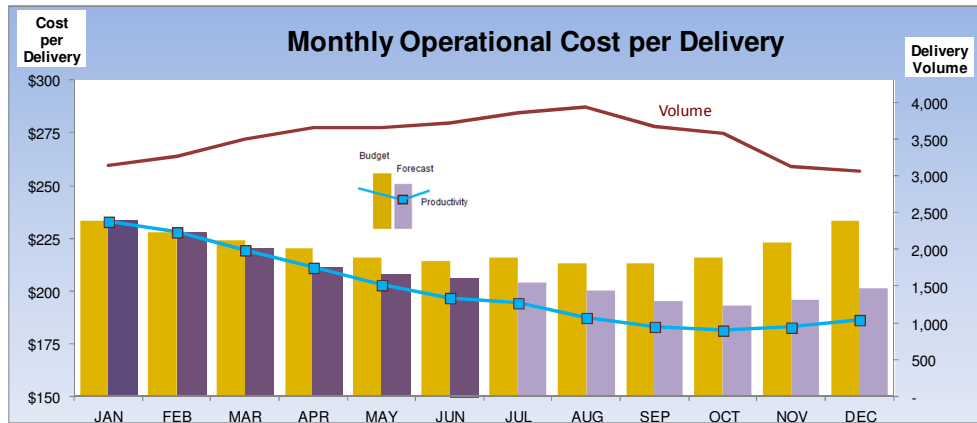
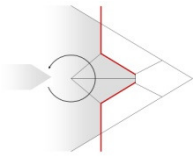
This is best accomplished through a cost reduction metric, where savings is modeled as a productivity target as follows:



Note that the metric (in this case) is 'cost per delivery' (or cost for each transactional outcome provided to a customer). This can also be cost per unit of product. Volumes are indicated on the left axis. Since costs are affected by volumes, cost per delivery helps remove some ambiguity about cost reduction actuals & forecasts. Also, (and critically important) this metric would be generated and validated by the finance department who would be intimately familiar with accurately measuring operational costs.

At the beginning of the year, the productivity metric (blue line) matches the forecasted (light purple bar). This (productivity metric) is modeled by the cumulative roll-up of project savings. As the productivity improvement initiative proceeds, actual costs are indicated by the deep purple bar.

If actual costs come in somewhere between the budgeted and productivity values, the forecast can be adjusted accordingly.



We now have an excellent view of the success of the initiative and where it's headed from a cost reduction standpoint.

Some questions we might ask at this point in the initiative:

- Are we making progress?
- Are we more confident in our forecast now that the projects are underway?
- Are we satisfied with the progress and the revised forecast?
- Is the cost/benefit (or ROI) still favorable?
- Are some projects stalling, what are the corrective actions required?
- Which project sponsors or process owners need help?
- Do we need more productivity projects?

Using the example above (as of the end of Q2) we have are confident the projects are yielding some successful results. Assuming improvements to the forecast were made, we'd continue to pursue or accelerate completion of existing projects and drive toward the forecasted productivity.

Relying strictly on roll-up of individual project savings estimates we wouldn't be so sure.