

Finding the Lever to Increase Revenues The Business Constraint Analysis

Most executive managers are faced with a plethora of "opportunities" to improve business. Some are infrastructure based and others are business execution type of activities.

Since time budget and the staff's tolerance is limited, which "opportunity" should be pursued? The answer is simple - take action on the activity which will directly improve the throughput of the business.

So what is keeping your business from being more successful? Any system without an internal constraint will have its output drop to zero or rise to infinity. In a business there exists a primary constraint which limits success. Finding that constraint and managing it gives you the most effective lever for improving revenues and profit.

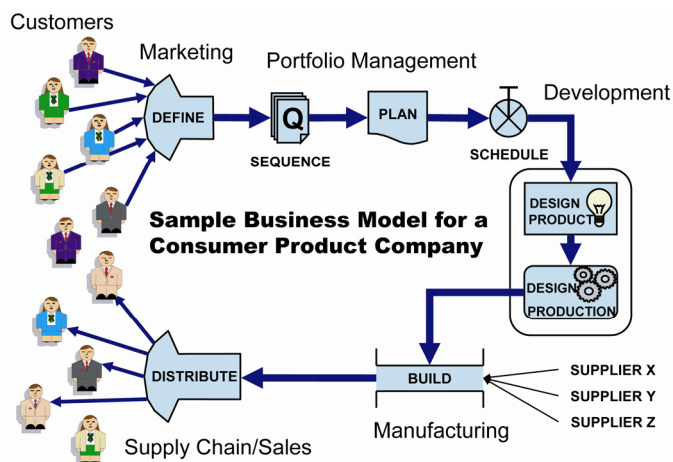
But what is the existing business constraint for your business? First let's examine what we mean by "constraint".

By definition if your business exists, it has some level of success. The constraint is that part of the business which is limiting the increase in success. If one can identify the constraint and mitigate its effects, the throughput of the business will increase. For a business throughput is retained revenue after variable costs are removed.

The process starts with an evaluation of the business where the business units financials are examined, and data is collected on the various organizations within the business. Once the initial data is collected and screened, the next step is a 1-day on-site interview of the senior management.

An overall cash flow analysis is made of the business and the operational model developed. The efficiency of this process comes from the fact that most businesses contain many similar building blocks and only rarely is time required to create a model of a new business structure.

The figure below shows the pictorial representation of one type of business. Once the cash flow and model are completed, the business is examined for the primary constraint.

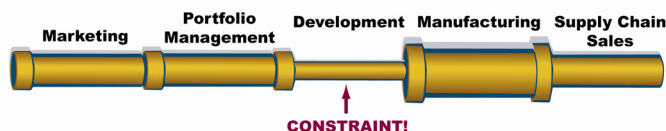


Once the constraint is determined we:

1. Determine whether it is a proper constraint
2. If it is an Improper constraint, strategies are developed to remove it
3. If it is Proper constraint, we determine ways to ensure that it is operating at maximum capacity on THROUGHPUT related work
4. Then the rest of the business is tuned to the constraint so that the output of the constraint is never wasted.

For example, the overall sales are down. Where is the constraint? It is possible that the constraint is upstream in the development part of the business where the competitive products are not being created in a timely fashion.

Pipeline Model of a Consumer Product Business



The report is delivered in a half-day review where the identified constraint is examined and business strategies are discussed to eliminate or leverage the constraint to improve throughput. The fee is 100% contingent upon the senior management's perception of value delivered. [See the White Paper for an expanded description of the process and the deliverables.](#)