

CHAPTER 1

Put a Price Tag on Everything to Stop the Waste

Problem solving must start by following the money. The problem the bank faced was not “We are wasting envelopes.” The problem was “We are spending hundreds of thousands of dollars on envelopes.”

Following the money helps to turn an accepted practice into an unacceptable problem. Just imagine if everything your company did had a price tag. We mean, literally, a price tag, stamped on every section of every report telling you how much it cost to produce that section. Imagine a price tag on every record of every transaction telling you how much that specific transaction cost to complete.

Assuming motivated managers, this new visible information would change the tune from “That’s how we do things here” to “Wow, why does it cost so much?” or “Holy cow, this is *not* worth it!”

Putting a mental price tag on everything helps to place the focus on solving problems that matter. Two companies distribute marketing materials using a list of contact information that

is only 85 percent correct. That means that 15 percent of the material distributed does not go to a real prospect.

Do both of these companies have a problem that they should try to solve? You need to follow the money to decide. The first company distributes material using e-mail. Sending material to people who are not really prospects has a very low incremental cost. The second company mails printed brochures that cost millions of dollars.

By following the money, we know that the first company does not have a problem worth solving, while the second one does.

Generally these price tags are metaphorical—a list on a spreadsheet. One technology industry executive was having a hard time getting anyone's attention, so he went out and bought a package of labels. He then disassembled the product down to the last screw and attached a price tag to each part with the fully loaded cost of delivering that part to the customer. At the next meeting of the task force, with representatives from Engineering, Research and Development, Factory Operations, Brand Marketing, Sales, Logistics, and Finance, the executive laid out all of the parts with their price tags on a large conference table.

The reaction? Stunned silence. No one had realized how many different parts were used in just the one device. They certainly did not have a clue about how much some of the parts cost that were not important to the customer experience.

An executive who was frustrated by the countless reports produced by his company decided to commandeer a large conference room, which he filled with every report the company routinely produced. The stacks upon stacks of reports were visually arresting. Then he had the finance team put Post-it notes displaying the price of every report.

With serious money lurking in all of those reports, he then opened visiting hours for the executive team!

Talk about packing *air* versus *sand* in the suitcase!

Within a few weeks, hundreds of thousands of dollars were saved by eliminating, simplifying, or automating many of those reports.