

Business relations

There are many businesses in our society but most have a misconstrued idea of why they exist or what the purpose of the business is. In *The Goal* by Eliyahu M. Goldratt many of these old ideas on how to run a business successfully, and what the purpose of the business might be are addressed by a radical way of thinking that helps readers understand a new way at look at how to manage a business by looking at the connections between customers, effectiveness and efficiency, and the idea or constraints and bottlenecks in the producing arena.

Businesses could not exist without consumers. The purpose of a business is to provide a service or a product. So what is the goal of the business? Is it to please the consumer? No, the goal of a business is to make money, plain and simple, but do to this they must find ways to capture and retain a sizable chunk of the market – consumers. To attract customers businesses must know what the customer values, what they want. For example, most customers want a product or a service to be of high quality and it must benefit them in some way. The last thing a customer wants to do is spend money on something that is going to break in a few days. So not only do they want a product or service that is of high quality but most do not want have to pay very much for that product or service. And when customers are paying they also want their product or service done in a

timely manner. Customers value three things – the quality, cost, and the time it takes to receive this product or service.

So now that we know what customers value in a product or service does the cost management system explained in the beginning of the book follow this idea? The basic concept of cost management is that costs must be managed or controlled for a business to make money. Some ways to achieve this are large layoffs, so called “improvement plans” that do not do much, and the concept that people always must be working on something or the business is losing money. All of these are types of quick fixes that make companies look like they are doing really well in the short run; they are just sinking farther and farther into the hole. For example, in *The Goal* they added new machinery and fired employees which made efficiency look really high which to them meant the cost per unit was lower than before but in reality it was costing them more because the company could not produce as many as the old technique even though it did the work almost twice as fast. By definition cost management does not relate to customer’s values. Yes prices might be lower but at the cost of quality and the time it takes to get the product or service done.

As I mentioned above, many business believe that employees must be working all the time to be efficient which means that when employees are efficient the whole plant must be efficient. If employees and the plant as a whole are up to efficiency then are they effective or are efficient and effectiveness the same thing? The terms efficiency and effectiveness have been seen by businesses as interchangeable but by looking at the definitions it obvious that

they are two separate concepts. Efficiency is a way of measuring an operation with a comparison to costs which can include energy, time, and money. While effectiveness deals with the type of impact an action or process has on a business. So when looking at the idea that when employees are efficient then the whole plant must be efficient is not true. Employee efficiency is based on the idea that employees must always be working or money is being wasted. This means that if there is no more work to do they might end up working on making extra parts for future needs, these parts in return end up sitting in inventory until needed which adds extra costs to the company because that is cash flow that is stuck in product that they cannot get back until it is sold. So the employee might be so called efficient but the plant is very inefficient. To make the plant effective sometimes the better thing to do is let employees stand idle then to let them work on things that are not needed. Like I mentioned before, when employees are making extra goods that are not used very often just to work and if they can never sell those products is money that is lost, yet employees being idle does not mean that money is being lost because they are already on the payroll.

It is better to have people idle then to have so-called high efficiency. But how would a company be able to determine what levels of throughput are effective for their plants? This is where bottlenecks and constraints come into importance when producing. Bottlenecks are areas in the production process that could be called the weakest link. So if a plant has areas that push out a lot of material but in other areas slow down, then that would be where they might have a bottleneck – every plant has at least one usually. If a business continues

to go over the capabilities of the bottlenecks, shipments will probably always be late, and the plant will always be behind. Now if a plant deals with the bottleneck problem by adjusting the flow of production according to the bottleneck's capabilities, it is possible for a plant to be very effective as a whole. This is as long as plants remember that when dealing with bottlenecks plants must monitor carefully possible constraints that could occur because of non bottleneck areas that break down or shortages of material.

The Goal by Eliyahu M. Goldratt helped revolutionize the way businesses and plants managed themselves. It showed how even though the old ideas had been in practice for such a long time they were not creating a business that met the values of customers. *The Goal* also provided insights into plant effectiveness and methods for handling production concerns such as constraints and bottlenecks. With this new way of thinking, businesses could literally turn their plants into money making machines which after all is the goal of all businesses.