

Lack of cash is the biggest barrier to growth, yet in most businesses an amount equal to 12% or more of annual sales is locked up in inefficient systems.

"A bad *system* will beat a good *person* every time"

W. Edwards Deming

Conventional wisdom and research says this, but we were keen to know whether our 12% figure is an accurate representation, so we asked the following questions of over 2,500 business owners, CEOs, directors and consultants from a cross-section of industries across Australia and New Zealand.

1. Do you think that this figure is accurate?

2. In order of importance, where do you believe the main lockup points are; and do you have any examples where you have unlocked some of that trapped cash?

Summary of Results

Those who responded answered with the following:

1. Is 12% an Accurate Figure?

Yes	36%
More	56%
Less	8%

2. **Main Lock Up Points:**

Systems/Processes	32%
Human Capital Utilisation	18%
Accountancy/Inventory	15%
Innovation & Technology	8%
Leadership	8%
PM Skills	6%
Other	13%

Key Survey Insights

We are Probably Underestimating the Amount Locked Up

92% of those who responded felt 12% or more is an accurate figure, but over half of them estimated it's more.

"This seems reasonable, however with my business maybe more like 10%." - Operations Director, Sydney

In many cases the estimated figure was three or four times larger:

"Our organisation tracks ROI on every project and also productivity gains directly related to production. 11% I would say is very conservative...most companies achieve around a 40 to 50% Lean health check score on the first audit." - Founder and CEO, Melbourne

"From my experience (in industry and as a Consulting Director of a Global BPM organisation) I would suggest that this figure is significantly higher than 12% - I have experience where process efficiency has increased by >40%." - Director, Sydney

Some of the efficiency estimates reported were quite shockingly bad:

"Having spent over 30 years in reviewing, developing, auditing and certifying companies systems I have never seen one that has processes at 88% efficient I have been at many that would struggle to be 22% efficient." - Technical Director, Sydney

On the positive side, it is encouraging that this is recognised; but organisations need to ask how much more than 12% is the accurate figure - and what are they going to do about it?

Inefficient Systems and Processes is THE Key Lock-Up Point

Clearly lock-up points vary from business to business, but we see the same culprits mentioned whatever sector was being considered: systems and processes.

Some consultants who work with a wide range of businesses found the following:

"Lockup points vary...an overall lack of focus on improvement and incentives, poor process flow, poor information flow, poor metrics systems, poor leadership engagement, poor material management, poor equipment maintenance." - Founder and CEO, Melbourne

Specific industries

"Today almost all are locked up in highly documented processes which are routinely not applied and or hopelessly bureaucratic. Where can companies save money? Stop producing useless documentation." - Technical Director, Sydney

This lack of automated systems, or poorly chosen systems, was seen as a major handicap to business efficiency:

"Lack of systems to capture meaningful data - there are no lean processes in the business."

- Director, Brisbane

"Many other examples exist of just not having work flow process, the wrong software programs - or no software at all." - Director, Melbourne

Part of what Business Success Partners does is tighten up and build a robust set of systems and processes for businesses. You can get in touch with an advisor [here](#).

Accounting and Inventory Inefficiencies are Singled Out

Inefficiencies in the areas of accounting and inventory also came in for special mention, in businesses of all types:

"I am confident that at least half of the inefficiency relates to internal processes in accounting, estimating and shop floor control." - GM, Brisbane

"I'd say that figure is light on - most have up to 20% more working capital invested in inventory than they should have" – Associate Director, Sydney

Inefficient Use of Human Capital is Another Major Problem Area

Moving away from purely business systems and processes for a moment, another key problem identified was the inefficient use of human capital in all types of organisations:

"Most SME owners do not operate an open book management style and limit their exposure to staff, and therefore ignore internal stakeholder engagement."- Director, Sydney

"The main issue is inexperienced managers owning and driving business process and their lack of commercial acumen to leverage and drive efficiency" - Managing Director, Brisbane

Summary: Key Efficiency Concerns for Businesses

From the findings of our survey there are clearly key challenges for businesses to overcome, to enhance their competitive edge in the future.

The key concerns are:

- A high proportion of locked up revenue, is likely to be well above the 12% that most business analysts estimate
- Key reasons for this trapped cash revolves, to a large extent, around systems and processes
- Inefficient systems and processes affect the bottom line and also the response of human capital to future challenges

One respondent described the challenge facing business like this:

"Effective processes need to be designed to deliver specific levels of performance, whether that's driven by Customer requirements, Business or Regulatory Compliance, Operational Risk, Finance and Quality (actually it's a blend of all those). In my experience too little effort is spent in this activity... which manifests in poorly- performing processes, or worse - a situation where the organisation doesn't know how their processes perform against requirements." - Director GCS ANZ, Sydney

It is clear that many organisations already understand the consequences of trapped cash and its impact on future growth. The question is why is it so often overlooked - and what can be done about it?

Start Improving Business Efficiency

Many approaches involve high investment in staff training when in actual fact it is the systems and processes that need attention at first. As one respondent eloquently put it:

"One universally common problem we see - and this is a very important distinction - is that all businesses strive for highly trained staff rather than a "highly trained business". The rock solid factual statistics produced by W Edwards Deming himself states that failures and problems within a business relate 94% of the time to system and only 6% of the time to people. Why is it we spend almost all of our training budget on the people instead of the business (the system)?" - Director, Melbourne