

Estimating the Cost of WUU

How Much Does Waste, Unevenness, and Unreasonableness Cost a Company, and its Customers and Shareholders?

Emiliani Equation:

$$C_{WUU} = I + 0.3 F + 0.3 DL + 0.5 IL$$

I = Inventory (RM+WIP+FG) in excess of 30 days

F = Facilities Costs (square footage shop and office)

DL = Direct Labor (labor+benefits, 30% of total workforce)

IL = Indirect Labor (including exec pay and benefits)

(50% of 8 hour day is wasted due to behavioral waste, organizational politics, unknown expectations, poor direction, too many projects [lack of focus], re-work, processes not defined/ill-defined, bogus corporate initiatives, managing B&Q metrics, monthly reporting, CYA, preparing presentations, firefights, budgeting, etc.)

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Inventory = \$500M @ 7 IT, so excess I = \$208M

Facilities Cost = \$500M

Direct Labor = \$300M per year

Indirect Labor = \$700M per year

$$C_{WUU} = 208 + 0.3(500) + 0.3(300) + 0.5(700) = \$798M \text{ est.}$$

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Estimating the Cost of WUU

**How Much is Waste, Unevenness & Unreasonableness
Costing The Company, Its Customers, and Shareholders?**

**35 Million Shares Outstanding ÷ \$798M^{est.}
= \$22.80 Earnings per Share Increase^{est.}**

\$2.28 Annual EPS Growth Contribution Over 10 Years^{est.}

Equal to \$878M in New Sales @ 11% Operating Income

However...

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This is an Opportunity to Pay Workers More for Doing Better Work

**3000 Direct Labor Reduced to 2100 Over Time
\$300M per Year Labor → \$210M**

**\$90M Saved ÷ 2100 People = \$42,857
Pay+Benefits Increase 48% (\$90 K to \$132K)**

**This is How Companies Realize High Wages
and Low Cost (e.g. Southwest, Toyota) & Grow the Business**

***NO LAYOFFS! Re-Deploy People and Split the Savings
Fairly Between Employees, Customers, & Shareholders***

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