



Consider the impact of improving the most granular level process by one percent.

# Does One Percent really matter?

By focussing on a series of small improvements, you can have a massive impact on your organisation's performance. Are you leveraging your 1% opportunities?

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## Why the 1%?

JUST HOW important is one percent – the lowest single digit factor of change and difference? When was the last time 1% made a difference for you? You may scoff at 'just 1%' but we should never underestimate the power of small wins and slowly gaining something.

Consider the last examination or test you took. What was the pass mark? Say it was 50% (or even 70%), if your result is below the pass mark then you fail. If you got exactly 49%, it is not an 'almost pass' or a 'near miss' – the line was drawn and one side is pass and one side is fail.

If you have experienced this 'just failing', you may have said to yourself that it wouldn't have taken much effort to achieve just the one percent more needed to pass. Just one percent and the reward would have been incomparable – even if it weren't something extraordinary, it would have prevented another period of study, and associated retake costs.

It's also in the workplace that you can see the difference of 1%. Most employees have Key Performance Indicators (KPIs) they need to achieve monthly, quarterly or annually and one percent below target can be the difference between receiving a bonus or not. In the workplace we see

many occasions where 1% can make a noticeable difference and even go so far as to say in some market sectors even more so than others. Where there are small margins for profit, high production numbers or high value commodities, this is very evident.

## In your workplace

For many of us in the process improvement world, we talk to more efficient processes, less wasteful activities and reducing disorder within the workplace. We often look for big wins, and rightly so, to get a difference that is very tangible and easy to see for the organisation. But when did you last offer to make a 1% improvement or efficiency gain?

Consider what difference it would make to an organisation to achieve multiple 1% improvements. Consider 1% reductions in costs, 1% improvement in sales, 1% improvement in time to customer and many more elements. We would start to see a compounding effect of the 1% improvement resonating through multiple areas. Think of it in terms of an investment: which investment would you prefer, 1% a year for 10 years or 10% over 10 years? 1% compounded each year would actually return 10.46% not just 10%.

It's also worth thinking about the difference compounding improvements, efficiencies etc. can have over a period of time or when applied many times over. A 1% improvement each day over a year would give you a 3778% total improvement. That's closing in on four thousand times the impact of day one. As Albert Einstein said, 'Compounding is the greatest mathematical discovery of all time' and seeing the benefits that can come from it are surely evident here.

## What do we mean by compounding?

The mathematical process of creating an increase to 'compound' another previously realised increase. In school you often had those wonderful compound interest questions that added 5% for 5 years: it went \$100 becomes \$105 in year one, but then \$105 becomes \$110.25 in year two and so on, with the 5% addition for each year being made against the previous year.

Year 1: \$100.00 add 5% = \$105.00  
Year 2: \$105.00 add 5% = \$110.25  
Year 3: \$110.25 add 5% = \$115.76  
Year 4: \$115.76 add 5% = \$121.55  
Year 5: \$121.55 add 5% = \$127.63

## In your processes

When we talk about efficiencies and improvements we also need to consider inefficiencies and failings within a process. Most of us in the process improvement and associated areas of operational excellence are well aware of the desire to reduce waste, stop over processing and over production of items; but sometimes we need to design the process to remove the ineffective or failing elements. Consider the Heathrow Airport example below. Here we have a failing process that was repaired through incremental approaches. Day by day they worked to reduce the impact until they were back on track compounding the benefits of the previous days to get the results of the following day better and better.

Consider some of the markets with many moving variables and how many opportunities there are for getting 1% improvements. In the Fast Moving



## Heathrow Airport Terminal 5 Luggage

British Airways opened their Terminal 5 facility at Heathrow Airport in 2008. With much fanfare to its state of the art design and particularly its baggage handling facility. However, the baggage system failed on the first day and caused a major backlog in luggage handling – the system was just not able to cope. However, instead of trying to fix it all in one go with more than 40,000 items of luggage backlogged, they realised that they would get back on track with incremental improvements. Over the next 21 days they reduced the backlog between 1500 and 2500 items a day and within 3 weeks they were able to function normally. This had all been done with minimal additional cost or effort. A success from incremental and compounded changes made over a period of time.

Consumer Goods (FMCG) space, manufacture of goods, distribution logistics and stock inventory are prime areas for improvement. But think about each of these activities and the opportunities for improvement within each. Like a Russian doll, as we open up one element we see another process inside it. Consider the impact of improving the most granular level process by one percent, as we move back up the chain of processes, the compounding of this improvement on each piece of the larger process is more and more noticeable.

If we consider stock control and inventory management, we can see how reducing production to follow a true 'Just in Time' methodology can make a huge difference. By not keeping sizeable stock, a simple visual management activity is far easier with less stock on hand to view, allowing ease of access and supply from stock.

We can also look at the multiple components of a process for the effect of 1% improvements being compounded. The typical factory line process can see significant benefits if you make just one percent improvement to various component parts. Imagine there are 365 parts to the process and each gets improved by 1% - that's the same as our example above when we compound to get 3778% overall improvement. Best of all, there's a two way benefit with a manufacturing process, not only is the compounded saving occurring within each process cycle, the same applies time and again with each run of the cycle – double win!

One of the most underexploited business improvement areas is the retail sector. Whether we are talking big box stores or small boutiques, the

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Albert Einstein

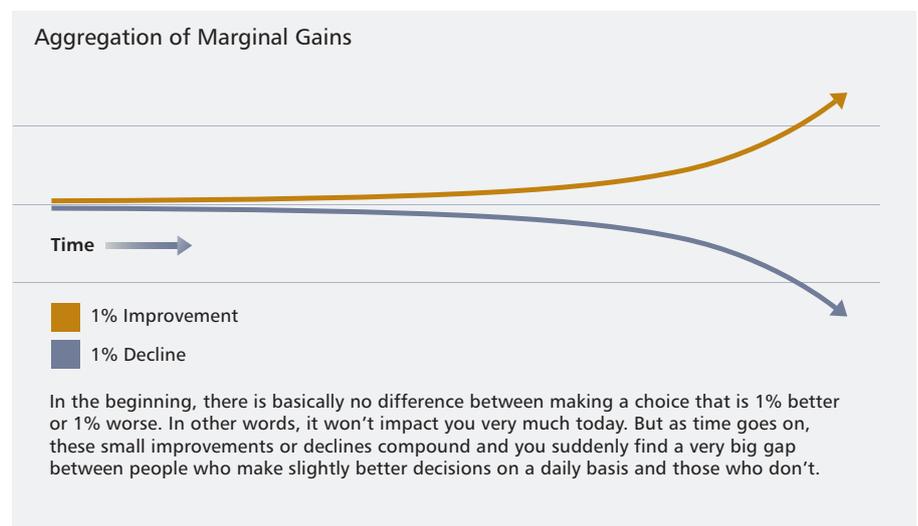
stock control and inventory management challenges they experience mean that they have to consider the logistics not just for managing that inventory but also its delivery and even the ordering process. Stock loss, through damage and theft, may be managed through security procedures, but with such tight margins here, the one percent improvement can be really significant. With floor space at a premium in prime locations, display models and shop fittings can impact everything from turnover to cashflow and profit. Improving many things – in small ways – will impact overall profit.

A 2008 IBM whitepaper – *Operational Excellence in Manufacturing*<sup>1</sup> highlighted the actual impact of a 1 percentage gain in cost savings to the overall profit to be expected.

**For every one percent gained in input cost savings, somewhere between 0.25 percent and 0.5 percent typically will be earned as profit.**

Although in the manufacturing space again this quote shows how even though we are talking small fractional numbers, the relative impacts are big, one percent here has a 25% to 50% Return on Investment.

The diagram below demonstrates the effect of multiple aggregated gains. This graphic is particularly insightful regarding the impact of 1% decline and shows how the gap between successful and failing processes can open up easily over time.





We are a successful organisation, we don't consider 1% gain a worthwhile effort.

Wrong. Think of elite athletes. People at the top of their game in an industry that has massive investment provided to make improvements. The successful athlete is focussed on how to get that 1% difference. Think of Usain Bolt's 100 metre sprint wins in the 2008 and 2012 Olympics: he clocked 9.69 seconds in Beijing and 9.63 in London. In 2008 he was 0.2 seconds faster than the second place getter; and 0.12 seconds faster than the second placed runner in 2012. These athletes are focussed on shaving microseconds off their performance to beat the competitor. They cannot be complacent – they are painfully aware of the competition and how quickly performance can change.

In the 2004 Summer Olympics, Grant Hackett won the men's 1500 metre swim in 14.43.40 minutes. The silver medallist came in at 14.45.29 minutes; for Larsen Jensen to take the gold, he would have had to improve his performance by 0.002%. At this level, success is achieved by a fingertip. In 2012, the winner of this event, Sun Yang, did it in 14.43.25 minutes: 0.15 of a second or a 0.00017% improvement on Hackett's performance 8 years prior. This makes the challenges facing a lot of corporations seem comparatively easy.

## Making it stick and spreading the impact

One of the unsung benefits of the series of small incremental gains is the ability to make change stick that comes from this. Whether we talk about weight loss or the way we work, we want to achieve sustained change and continuous improvement to take root. This remains a challenge<sup>2</sup> but individuals can adopt small, incremental, measured change easier<sup>3</sup> and have a greater impact on the culture of their organisation, with greater success rates. Thinking small can achieve big.

The potential improvement of a team from the compounded efforts of each individual's contribution is much like this repeating theme. It can see significant benefits when each team member improves just one percent. There is a phrase that says *the sum of the parts is greater than the whole* and it relates to benefits of many individual contributions rather than one large contribution. Teams use tools, they function with their own particular dynamics but effectively they are like a large machine whirring and grinding away. Consider the multitude of variable parts open for improvement in such a complex and yet flexible machine and ponder on the size of achievement if all 10, 100 or 1000 pieces, process points and variables were improved. Now much like a team of 10, 100 or even a 1000 people, the effects and consequential are much the same compounded and very significant shift.

## Leveraging the improvement across your team

We previously mentioned the benefits across a team. Now a team usually functions within a process and the process repeats many times over. So the advantage of 1% can be exploited to really show the compounding effect of 1% gains not just through each element of the process and the people within the team, but also each time you execute the process. The multilevel compounding benefits from just 1% of improvement is augmented as the activity is repeated. A triple win for the 1% benefit!

Making 1% difference in the right place in the right way can compound through to a much larger difference in many processes and their components. We've seen how this can be almost 4000 times the original effect when we look at improvements across the year and we've also looked at the impact of multiple and multi-level improvements across a broad

process, such as with the team.

It is so easy for people to dismiss the advantages gained from just a single percentage improvement, yet we have shown how impactful it can be. Now it is your turn to take the 1% advantage.

- > Take 1% of your working time to look for improvements (that's about 25 minutes per week);
- > Look for 1% improvements in everything you do, each action, task, process or procedure you follow;
- > Identify 1% improvements that occur each time you repeat the process
- > Find opportunities to improve each or many parts of a process by just 1%
- > Exploit the improvements day-by-day, week-by-week and find the compounded benefits developed from just a 1% improvement.

Thomas Edison said that genius is 1% inspiration and 99% perspiration – we can't take the work away from you, but here's your 1% of inspiration!

## And repeat!

And once you've found a 1% improvement in a process, then look for another 1% in the same process. And then another, building a mindset and culture that this can happen. You do this by setting up management systems that give you performance data and building an engaged culture that fosters improvement. See our website for our article on [Creating a Culture of Engagement](#).

### Sources

- 1 [http://www-07.ibm.com/sg/manufacturing/pdf/manufacturing/wp\\_operational.pdf](http://www-07.ibm.com/sg/manufacturing/pdf/manufacturing/wp_operational.pdf)
- 2 [http://www.mckinsey.com/insights/operations/from\\_lean\\_to\\_lasting\\_making\\_operational\\_improvements\\_stick](http://www.mckinsey.com/insights/operations/from_lean_to_lasting_making_operational_improvements_stick)
- 3 <http://www.apa.org/helpcenter/lifestyle-changes.aspx>

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