

Is Your Money Machine Scalable?

What would happen if your business doubled overnight? If you are currently operating with excess capacity (floor space, machines, people, and inventory are idle part of the time), then an increase in business is great news. With very little effort you can put that excess capacity to work meeting the increased demand, and the marginal profitability on that increased volume is great since your overhead was already being absorbed at the lower production level.

If scaling your money machine was simply a matter of turning up the rpm output from the motor by turning an adjustment knob so that you can print more bills per hour, and that motor is only running at 25% of its rated output, life is grand. You may still be printing Jackson's instead of Franklin's, but at least you are printing a whole lot more of them.

Unfortunately, for most money machines, creating scalability means more variables than you have equations. Many times we can't even identify all of the variables, much less the equations. In other words, it just isn't that simple.

Some aspects of scalability are indeed relatively straight forward. If one machine can print 1000 bills an hour, then two machines can print 2000 bills an hour. Calculating the economic impact of buying the second machine (or hiring additional employees) to meet increased demand is not that hard.

But many times we are unaware of the much more subtle constraints to our capacity. For example, our ability to

scale our operation may have nothing to do with *our* operation. Our suppliers must be able to scale their operations to keep up with the increased demands we place on them. A minor adjustment for us could turn into a complete re-tooling for a key supplier.

What if our money machine can print more money, but our only supplier of the paper we print the money on is already operating at 100% capacity?

Even if we understand the first tier constraints, once we overcome them, we may not know what our new constraints might be. The nature of bottlenecks is that they move. As soon as we eliminate one, a new one is always created.

So often we settle for just defining and eliminating the first and perhaps second tier, obvious constraints – space, people, equipment, etc. But there are usually numerous constraints we never even consider. For example, if our obvious first tier constraint is the number of people we currently have to do the job, and the market can provide the people we need to double our capacity, then we find it easy to get excited. But we must ask the next question: is our payroll system capable of operating at the higher capacity? If we can hire them but can't pay them, how long will we be able to sustain operations at the higher capacity?

Do you really understand your operation well enough to define the second and third tier constraints to your capacity? If not, you need to accept that your money machine really isn't scalable.

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