

Cost Management Tip: Understand your Operations Cycle

by: [Daryl Cowie](#)

The more efficiently you can fill orders the more money you get to keep from each sale. If you sell an extra \$10 product you may only get to keep \$1 or \$2 after you finish paying for the product, warehouses, salaries, etc. But if you can find a way to do something for \$10 less than you're doing it now you get to keep the whole \$10.

This is one of the basic views of business from an operations, or orders fulfillment perspective. It is commonly broken down into four main steps:

1. Sell a product or service
2. Source the parts and labor
3. Build the product or prepare the service
4. Deliver the product or service to the customer

The end goal is to provide a solution that the customer is happy with so you can collect payment.

Sell

The selling stage of the fulfillment cycle is lead generation, conversion and closing all rolled into one. From the perspective of the operations team (the team that needs to deliver whatever the sales team has sold, or fulfill the order) a sale is what gets the cycle started.

Source

Sourcing is the activity of gathering together all of the raw materials and labor required to fulfill the order. The sourcing team is responsible for purchasing raw materials such as nuts and bolts and paper and ink. The definition of raw materials differs greatly depending on the business. For a nuts and bolts company, the raw materials will be iron and steel to make the nuts and bolts. For an airline raw materials would include planes, fuel, food, baggage carts, etc. Raw materials refer to things that you buy in finished form from an outside supplier, and then use in the process of putting together your own product or providing your own service.

The other side of sourcing is the people side. If you want to make nuts and bolts, or if you want to start an airline, it is obviously not enough to gather up a bunch of raw materials. They are useless without people to turn them into something. You also need to source people. Do you hire permanent staff? Do you sign short term contracts? What skills do the people need? This is all part of the sourcing process.

In short, sourcing means getting together all the labor and all the materials required to get the job done. Good sourcing teams are up front planners that arrange a lot of things, and spend a lot of money on raw materials. Wherever a lot of money is being spent, there is also a lot of opportunity for savings. Supply chain optimization to

decrease sourcing costs is big business, and worth the effort.

Build

Building is the process of taking all the raw materials and labor and using them to create a product or service.

For a products business you take the raw materials, turn them into a product, put them in a package, and pile them in the warehouse or on the shipping dock to be delivered to the customer.

For a services business building is getting things ready. If your business is providing business training for adults, do you just walk in and give the training? No, you take your raw materials (paper, computer, name tags, CDs, pens, props, etc) and you build them into a training course.

Simply put, building is turning raw materials into something presentable to your customer. You can build a product. You can build a service.

Building things costs a lot of money, particularly in process costs and labor costs (remembering that materials are already provided by the sourcing team). Optimizing your processes to use less labor, and controlling the salaries of big teams of people (like factory workers) have big impacts on the viability of your business. This is particularly true in very large organizations.

Deliver

Delivery is getting your product or service into your customer's hands. The range of delivery methods varies greatly across businesses, but it is always an important customer interaction that has a huge impact on the satisfaction of your customer.

Delivery is the part of the process that the customer sees. The customer doesn't see you order raw materials, or build your products. The customer sees whatever is delivered, and the people that deliver it. People judge your business by the delivery experience at least as much as they do by the quality of your products and services. A good delivery team is a vital step in starting the work of getting the next sale.

Customers buy perception, and remember what they see. They don't see the sourcing team. They don't see the building team. They see the delivery team. Make sure the delivery team has what it needs to deliver a great customer experience. People judge your company by the people they come in contact with, not by all the great people they never get to meet.

Summary

The operations cycle consists of 4 main steps: Sell, Source, Build, and Deliver. This perspective of business is primarily focused at looking inside the business for better ways to do things that will result in top quality products and services at reasonable costs.

This view of the business cycle tends to put focus on optimizing process control across the business to provide better quality, and lower cost. Two things customers love.

About The Author

Daryl Cowie has shared management tips with 1000s of people in over 30 countries around the world. His mission is to help you and your company turn business opportunities into business realities. Sign up for his free business management home study course at <http://FreeManagementTips.com>