

**Smyrna Supply Chain Consulting**

**Of Hidden Factories, when they are Value Adding**

There is a lot more we could have written about value adding hidden factories, but in this paper, we decided to keep it short, succinct, and straight to the point so as not to bore readers. We hope you would have something to write home about after reading this or at least that you will start thinking differently about the way you view your supply chain processes. Hidden factory is defined by Business Dictionary as activities in a *process* or *operation* that reduce the quality or efficiency of manufacturing but remain unknown to managers or others that seek to improve the process. There are other slightly varying definitions of hidden factory. A different definition describes hidden factory as rework, workarounds, over production, wait-time and defects. However, regardless of how slightly varied different definitions of hidden factories are, generally, they all tend to agree that hidden factory is bad to a process or at least non value adding. The question is: Really! Are all hidden factories non value adding? Conventionally, all processes must have both a start point and a finish point, and must have inputs and outputs. Some of those inputs do not directly add value to the finished product or service but are necessary to the entire process. Assuming we go by the definition of hidden factory from Business Dictionary then such activities— activities essential to the process but do not add value— may arguably not be classified as hidden factory since these are known to managers and others responsible for improving the said process. On the other hand, a manager’s mere knowledge of an unnecessary activity that does not add value within a process does not automatically transform that activity from being a hidden factory to being a value adding activity. Unless something is done about it, it still is a hidden factory. By and large, hidden factories are not value adding and the more they are identified and eliminated within a process, the more efficient and productive the process will be, ultimately contributing to the competitiveness of an organisation. However, the purpose of this paper is to discuss the opposite side of hidden factory. In some isolated cases, there are some activities that are unknown to process owners –consciously or sub consciously— that actually do add value to a product or service.

Our experiences have repeatedly shown that in some manufacturing organisations and by extension service output oriented processes, there are activities within a process that are not captured in the Standard Operating Procedures and by the Cost Accounting System but do actually add value to the finished product or service. When this is the case, the question is: is such an activity a hidden factory? After identifying such to be the case with a number of our clients, we chose to refer to this as “**Invisible Process**”. Our experiences have demonstrated that in some organisations, as customer needs and wants transform over time, or as process inputs are substituted, companies adapt their product to meet those needs, as a result the initial process Standard Operating Procedures developed for a given product is altered. In some instances, activities that are added later on to the initial Standard Operating Procedures as a result of these changes are not properly documented and cost accounted for. Now since every activity within a process consumes some type of resources and with activities that are not properly documented and cost accounted for in a process present, calculating the total cost per unit of output becomes erroneous. If there is multiples of this kind of invisible process in an entire manufacturing environment, the effect on the entire organisation could be consequential. Some of the serious consequences of this being undervalued finished product, wrong data-dependent decision making, and high risk of non-conformance products when the production process is carried out by new employees who will likely adhere only to the documented SOP. “**Invisible Process**” is therefore the inverse of “**Hidden Factory**” and if left unaddressed is a treat to an organisation’s sustainable competitiveness. It is much more damaging to an organisation than hidden factory is. So we ask: How many invisible processes currently exist in your supply chain? When was the last time you checked? Do you care to find out? If you find out, how would you go about eliminating them? Get in touch with us today and we can help you.