

When Profit Spikes Are Just a Market Illusion

Distinguishing temporary scarcity from sustainable internal competency.

manufacturing finance · capacity planning · operational excellence · supply chain

The newsletter for operations executives who want to tie their capital spending back to repeatable, predictable shop-floor capability.



The Illusion: Mistaking Price for Process

Profit is not an indicator of process health. It is easy to confuse a favorable market with a high-performing shop floor, but they are fundamentally different things. When demand spikes and prices climb—as seen in recent large-scale industrial cycles like the Nucor reports—it creates what I call **The Margin Mirage**.

In these moments, an organization can look incredibly successful from the outside while its internal processes are actually deteriorating. A high price point masks a lack of discipline. If you are selling at a premium because your product is scarce or the market is desperate, that profit isn't "earned" by your production team; it's gifted to you by the circumstances of the moment.

When we mistake this for operational success, we stop looking at what actually matters: whether the process can hold up if the price drops tomorrow. A truly robust operation produces high-quality parts with minimal waste and predictable cycle times regardless of what the market is doing today. If your only "win" is a higher margin on a flawed, high-stress process that relies on everyone working double

shifts to keep up with demand, you haven't built a better business; you’ve just found a lucky way to hide a broken one.

What is Actually Happening? The Debt Model

When revenue climbs during a market spike, it often hides what I call **Process Debt**. This is the accumulation of "shortcuts" that seem acceptable today but become liabilities tomorrow. You think you are scaling; in reality, you are just borrowing time from your future operations by ignoring standard work and skipping maintenance to keep up with the current rush.

The following table illustrates how this debt manifests on the floor:

The Comfortable Rationalization	The Underlying Reality (Process Debt)
"We don't need to update the SOP because we are moving so much volume right now."	You are creating a drift where operators choose the fastest path, not the correct one.
"The equipment is running fine; we can skip the scheduled maintenance for another month."	You are trading immediate uptime for an inevitable, catastrophic failure of critical components.
"We don't need to hire more specialized staff; our current team is 'handling it'."	You are burning out your best people and creating a single point of failure in your leadership.
"The quality checks can be streamlined since the customers aren't complaining."	You are eroding your standard work until you eventually lose control over your scrap rates.

When the market corrects—and it always does—the debt comes due. The processes that were "good enough" during a boom become unmanageable in a lean environment because they were never actually stable to begin with.

Why This Mistake Persists: The Accounting Blindspot

The reason leaders fall for **The Margin Mirage** is simple: the accounting reports are easier to read than the shop floor reality. It is much simpler to look at a quarterly report showing record profits and feel successful than it is to walk into a fabrication bay and realize that your team is skipping safety checks or bypassing calibration steps just to hit their numbers.

We have developed an "Accounting Blindspot" where we treat profitability as proof of performance. In reality, profit can be a very effective mask for operational decay. When the money is coming in, there is less pressure from the top to fix the messy things—the disorganized tool rooms, the poorly documented work instructions, or the unreliable substitute parts.

We tell ourselves that we will "fix it later" once the market stabilizes. But during a boom, "later" never comes because the goal always shifts further out as the next target appears on the horizon. We allow our teams to believe that volume is a substitute for discipline. This isn't just an accounting error; it’s a leadership failure to distinguish between a lucky streak and a sustainable system.

The Cost of Confidence: Operational Debt

There is a high price for acting on "false" growth. When you base your capital expenditures, hiring plans, and expansion strategies on a market-driven spike rather than an internal capability gain, you build what I call **The Fragile Expansion**.

If you buy more machines or lease more space based on temporary demand peaks, those assets will eventually sit idle when the market cools. If you hire a massive wave of new workers to handle a "surge" that was actually just a trend, you end up with a bloated payroll and a training burden that becomes impossible to manage during a downturn.

More importantly, this leads to the erosion of your core culture. When things are going well because prices are high, it is very easy for an operator to justify skipping a "minor" step in their standard work. They think they can get away with it today. But when you do that across fifty people over six months, you aren't just cutting time; you are dismantling the discipline of your workforce. You are creating a culture where shortcuts are rewarded and standards are negotiable. When the market eventually corrects, you will find yourself with an organization that doesn't know how to operate reliably because they never learned how to do it right in the first place.

Three Tests for True Capacity Planning

To determine if your growth is coming from your own hands or simply from a lucky wind at your back, put your operations through these three tests. If you can't pass them today, don't make any long-term expansion plans based on current profits.

1. The Standard Work Audit

Walk the line and pick five random stations. Ask the operators to show you their standard work instructions (SWIs). Now ask them to perform a task using only that document. If they have to "adjust" or "tweak" it because of how things are currently running, your process is drifting. A stable process doesn't require an operator's intuition to stay on track; it requires a clear, documented path that works every time.

2. The Throughput Variability Test

Look at your production data from the last six months. Is your output steady? Or does it fluctuate wildly based on who is on shift or how many people are "jumping in" to help? If you have to throw bodies at a problem to hit your numbers, you don't have capacity; you have a staffing band-aid. True capacity is the ability of a stable process to produce consistent results with a predictable amount of labor and material.

3. The Margin-Neutral Scalability Check

Run a "what if" scenario on your current production costs. If market prices for your primary materials or finished goods dropped by 20% tomorrow, could you still operate profitably? If the answer is no, then your current success is tied to the market's generosity, not your internal efficiency. You must be able to prove that your process can remain profitable even when the "easy" money disappears.

Practical Takeaways: Shift Focus from Price to Predictability

The goal of this week's focus isn't to find more ways to sell at a premium; it is to ensure that your operation is so stable that you don't *need* to rely on high prices just to stay viable.

1. **Audit the "Shortcuts":** Walk the floor today and identify where operators are skipping steps because they are trying to keep up with volume. Call these out—not as a reprimand of their speed, but as an identification of process debt that needs to be fixed.
2. **Identify your Bottlenecks:** Find the one machine or station that causes the most "hustle." If it requires extra people to stay ahead of demand, it's a candidate for better tooling or a more robust maintenance schedule—not just "more hands" on deck.
3. **Document the Exceptions:** Every time an operator says, "I usually do it this way because the manual is too hard," make a note. That is your roadmap for where your standard work needs to be simplified and clarified.
4. **Run a Scarcity Drill:** Ask your team: "If we had half as many orders next month but still had to produce the same quality, what would change?" Use this to identify which parts of your process are truly essential and which ones are just "padding" used during high-volume periods.

The leader's job is not just managing inventory, but understanding the true cost of uncertainty.

Call to Action

What metrics are you using right now to distinguish between true process improvement and merely capitalizing on favorable market conditions? Share this post with another leader who needs an honest diagnosis.

Newsletter replies: newsletter@sixsigmakaizen.com · X: [@kaizen_6sigma](https://twitter.com/kaizen_6sigma)

Stay curious, stay improving,

David Rodgers

SixSigmaKaizen.com

References: Nucor's Q2 Data Commentary (Source)