

Lean Kaizen Business Consulting

Value Stream Costing

*Become a least cost producer with
world class Quality & Delivery*



Key to the future Survival

The most dangerous kind of waste is the waste we do not recognize.

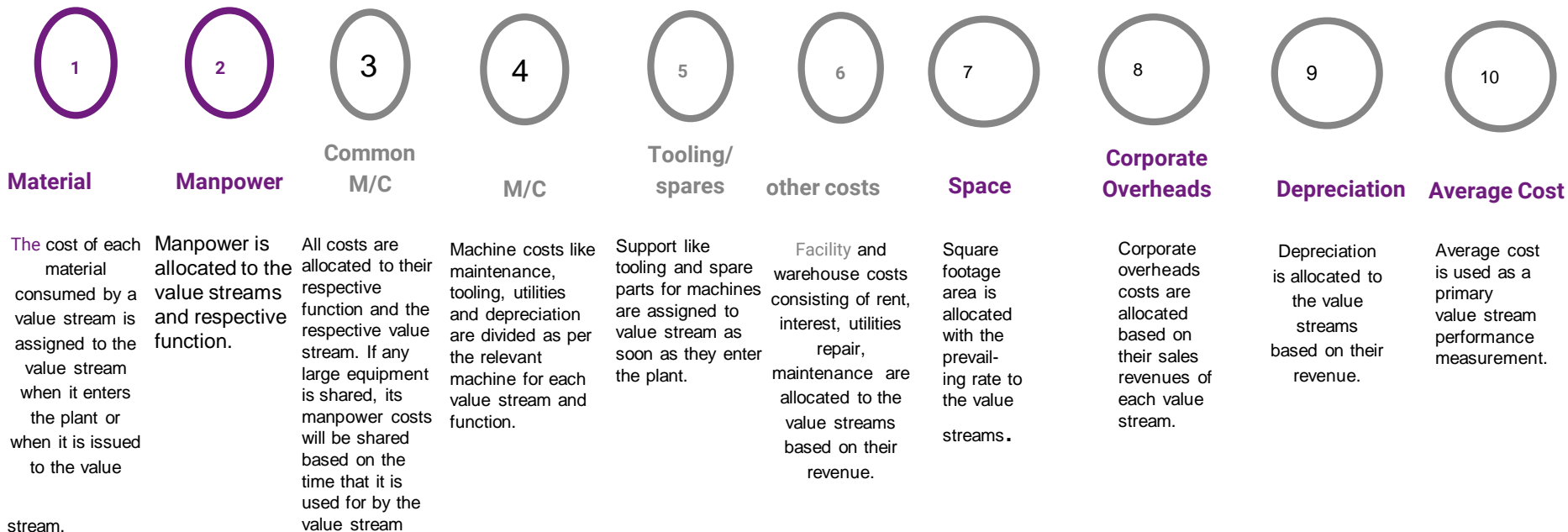
- – Shigeo Shingo

A Journey to World class organization.....



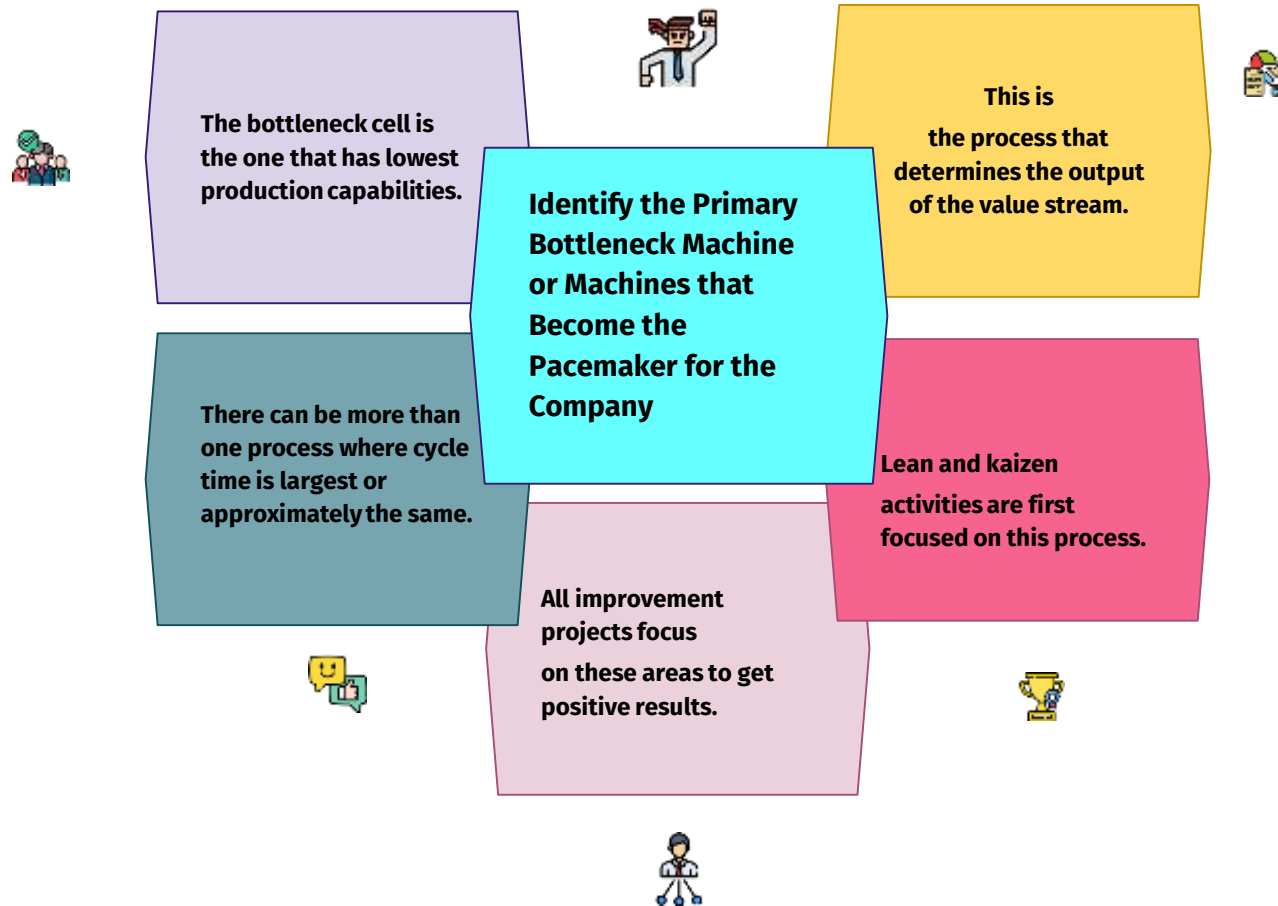
Components of Cost in a Value Stream

All direct costs like labor, machine, materials, maintenance, support services and facilities incurred within a value stream construct the total cost of a value stream.

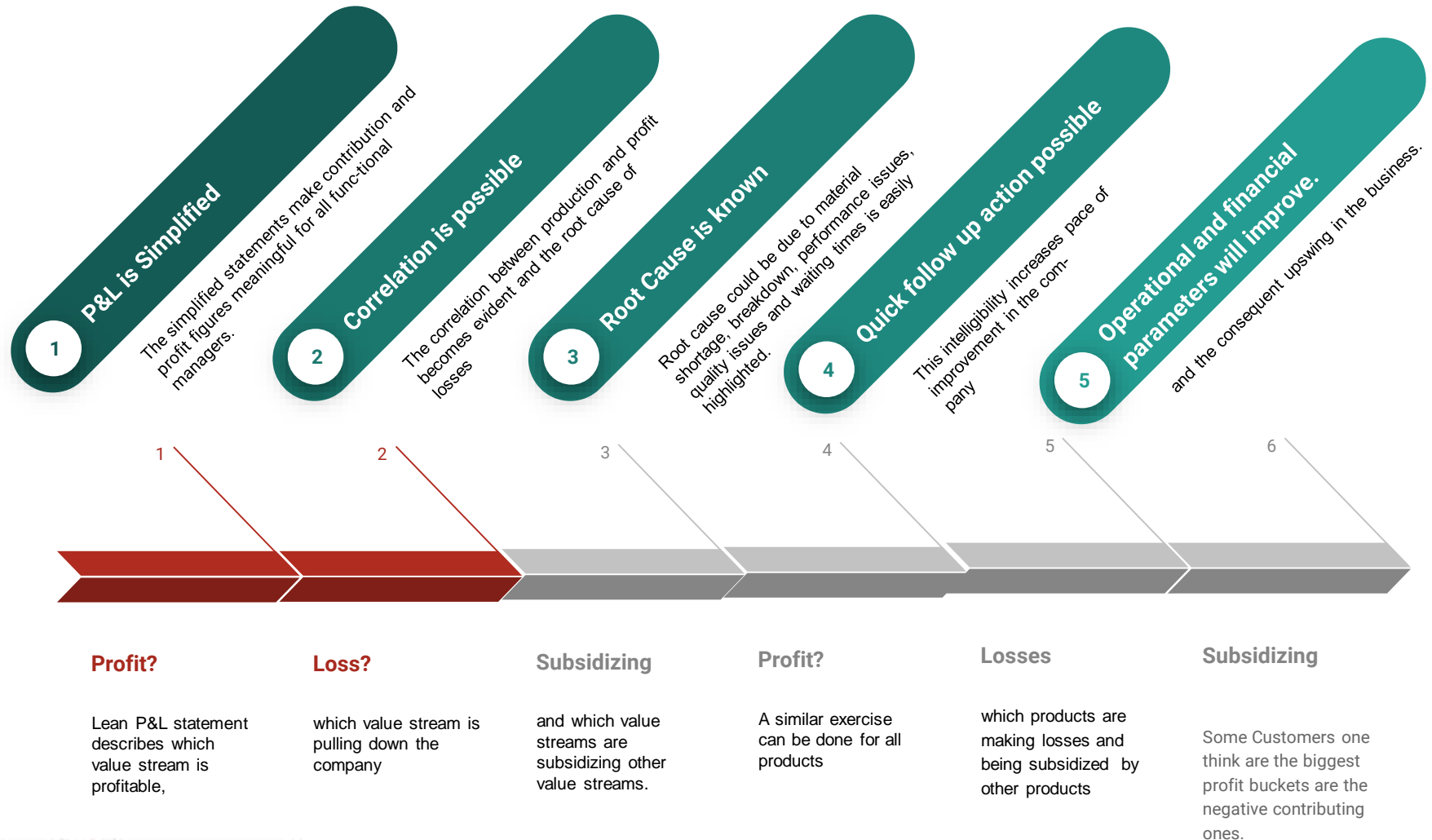


Don't introduce a complex tracking system in order to be precise. Keep it simple.

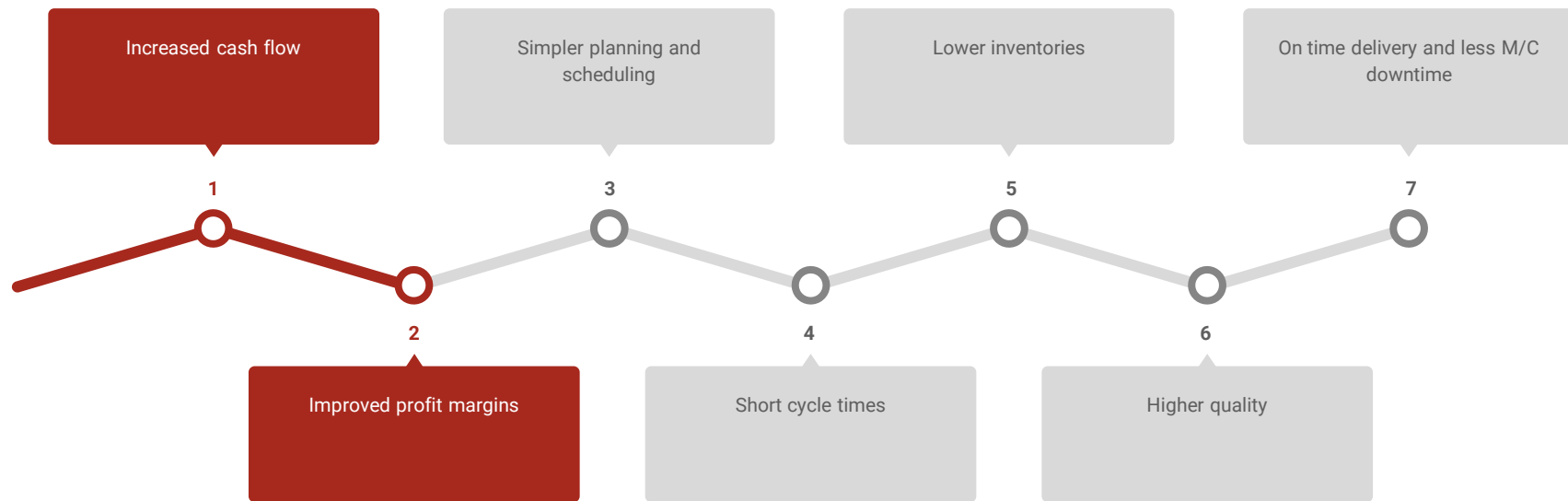
Identify the Primary Bottleneck Machine or Machines that Become the Pacemaker for the Company



Advantages of preparing Profit and Loss Statement based on Lean Accounting -



Lean Accounting ensures improved operation and financial results-



Advantages of Value Stream Costing

R



Realtime

The value stream P&L statement and cost reports are created in real time in a simple, meaningful format.



P

Profit Oriented

Profitability is driven by creating maximum flow of product through the value stream at the pull of the customer.

F



Rate of Flow

The cost of any particular product depends primarily on how quickly it flows through the value stream, mainly through the bottleneck operations within the value stream. Rate of flow through the value stream is more important than utilization of machines and resources, efficiency of individuals or overhead allocation

N



NVA focus

Maximum flow is possible only if non-value adding activities reduce. It means the waste in the value stream like breakdown, excess scrap generation, rework, poor quality, excessive changeover times and slow speeds are reduced.

C

Cost control



Revenue is directly proportional to volume of products dispatched. With the value stream costs under control, the profits from the value stream rise faster than the revenue.

M



Measures

Value stream costing provides easy-to-calculate value stream performance measurement parameters. These enable long-term improvements and focus attention on value stream issues, challenges and opportunities.

A



Accountability

Value stream costing helps value stream managers to take responsibility of financial performance of the value stream. It brings in accountability, teamwork and ownership.

C



Cost focus

It highlights unnecessary transactions in the value stream system and helps the value stream manager understand that all costs are fixed in the short term but variable in the long term.

Advantages of Value Stream Costing

S



Subsidizing

When value stream costing is done across the company, it highlights which plant or value stream is profitable and which plant or value stream is subsidizing other plants and value streams.



P

Product cost

If this exercise is done for all products too, the company can determine which products are unprofitable or are being subsidized by other products.



L

Lean Initiatives

Value stream costing provides meaningful information that adds value to lean improvement initiatives being implemented so that corrective actions can be taken in real time.

T



Team Work

The finance team partners with production, design, R&D, quality, purchase and marketing functions to fillip the growth of the company.



M

Market Price

Pricing decisions for a lean organization are never made with reference to the cost of a product. Market decides the price.



P

Price premium

The company can command the premium only if it is delivering more value to the customer because it is the value to the customer that determines the price.



V

Value stream Profit

Is the company making a profit on this product if it is sold at this price? The right approach is to look at the potential order and work out its impact on the value stream profitability.

D



Discount

When companies produce more products in the same value streams, then the company spends extra on material costs with a little increase in variable cost because machine depreciation, fixed costs, overheads and facilities is already borne by the quantities already being produced. Material, some variable cost and maybe overtime would be the only incremental expenditure.

The product cost varies at various levels of production and value stream costing brings about this clarity.