

Session 255

Lean - Management and Strategic Implications

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Prior to his consulting business, Mr. Ryan was the chief operating officer of a mid-sized manufacturing company. Additionally, he is the chairman of the Audit Committees of two publicly traded companies and has extensive board level experience in the for profit and non-profit arenas.

He is a retired Colonel in the United States Marine Corps and has served in numerous contingency operations to include Haiti, Afghanistan and Iraq. He received the "Outstanding AICPA Instructor" award in 1994-95, & again in 2005-06

Frank is a recipient of the AICPA Outstanding Discussion Leader Award for 2007.

Strategic Implications of Lean

Presented by Francis X. Ryan, CPA
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Strategic Implications of Going Lean

- **Understanding the impact of:**
 - Principles of Going Lean – what is it?
 - Product Concept
 - Target Costing and Cost Drivers
 - Strategic Critical Success Factors
 - Uses and incorporating into decision making



Basic Principles of Lean Thinking

- **Providing Customer Value through Target Costing**
- **Eliminating Waste through VALUE STREAM Management**
- **Improving FLOW through Capacity Management**
- **Managing PULL through Material Requirements Planning**
- **Achieving PERFECTION through Continuous Process Improvement**

3



Fundamental Principles of Target Costing and Lean

- **Price-Led Costing**
- **Focuses on Customers**
- **Focuses on Product and Process Design**
- **Requires Cross-Functional Participation**
- **Has a Life-Cycle Orientation**
- **Involves All Members of the Value Chain**

4



Product Concept

- The product concept is why people are really buying the company's product.
- Determines what creates true value to the consumer.
- Critical determinant of pricing
- Crucial to understanding the determinants of demand
- Assists in understanding elasticity of demand

5



Product Concept

- Starbucks – why are we willing to pay so much for coffee?
- Apple Computer – are you surprised that they are still around?
- Airline industry – are you comfortable when you fly?
- Microsoft – what is the real significance of Vista?

6



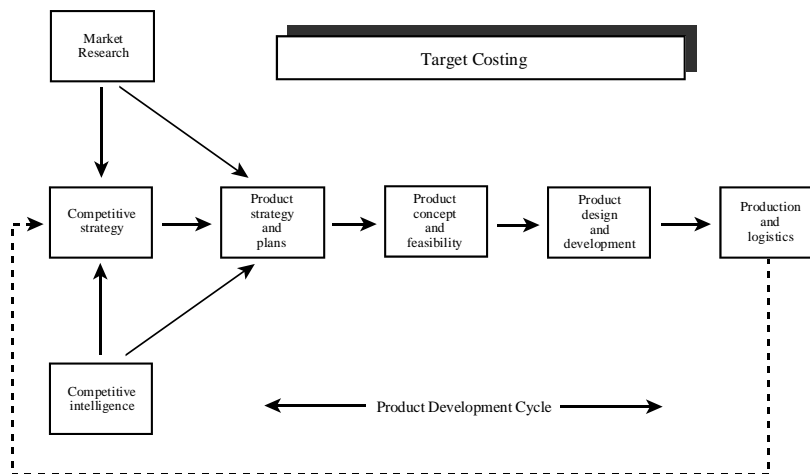
Paradigm Shifts Required By Target Costing

- From Cost-Plus Pricing to Market-Based Pricing
- From Cost-Cutting During Production to Cost Control During Design
- From an Internal Focus to an External Focus
- From an Internal Vantage Point to a Customer Vantage Point
- From Independent Efforts to Interdependent Efforts
- From a Narrow Focus to a Wider Focus on Information Needs
- From a Focus on One Variable to a Balanced Focus on Multiple Variables
- From Cost Forecasts to Cost Commitments

7



Target Costing, Competitive Strategy and the Product Development Cycle



8



The Ten Key Elements of the Lean Value Stream

1. Specification of what does and does not create value from the customer's perspective.
2. Identification of all steps necessary to design, order, and produce across the entire value stream.
3. Creation of continuous flow throughout the production process.
4. Concentration on what is pulled by the customer just-in-time.
5. Development of a dynamic transparency of strategies, costs, and information throughout the value stream.
6. Recognition of competitive advantage at the value stream network level.
7. Use of value stream mapping for analysis, diagnosis, and implementation of change.
8. Focus on key processes rather than separate business departments.
9. Emphasis on improvement of entire industries over long term.
10. Strive for perfection by continually removing successive layers of waste.

9



Seven Types of Waste

- Overproduction
- Waiting
- Transportation
- Inappropriate Processing
- Unnecessary Inventory
- Unnecessary Motion
- Defects

10



Target Costing and Cost Drivers

- **Cost drivers are anything that drive costs.**
- **The concept of going lean assists transitioning to activity based costing which is what cost drivers are.**
- **Cost drivers are NOT standard costs.**
- **Differences in costing methodology impacts strategic decisions**
- **Examples include the airline industry, hospitals and are true for all organizations.**

11



Strategic Critical Success Factors

- **Critical success factors are major determinants of success or failure of an organization.**
- **Part of enterprise risk management**
- **Include product concept, capital structure, financial capacity, employee turnover, determinants of demand to name a few.**

12



Transforming the Organization for decision making

- **Removing the Obstacles**
- **Simplifying the System**
- **Establishing a Process View**
- **Change Performance Measurement**
- **Integrating Systems**
- **Be creative**

13



Credits

**Special thanks to Pat Berry, AICPA for the
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14