

Five Financial Outcomes from Lean Thinking



Jean Cunningham



Managing To Create Problem-Solvers

Lean Transformation
Summit 2017
Carlsbad, CA | March 7-8, 2017

Jean Cunningham



- JCC founder and president
- Lean accounting, lean business management, lean office pioneer
- Original thought leader for Lean Accounting, Lean IT, Lean HR Summits
- Lean accounting lecturer for The Ohio State University, Masters of Business Operations Excellence program
- Board member:
 - LEI
 - Lean Education Advancement Foundation (LEAF)

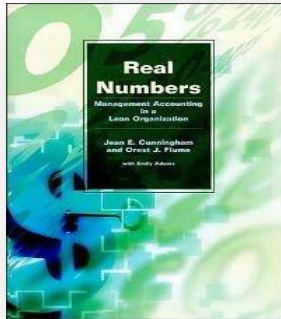


Jean Cunningham

- Former CFO for:
 - Lantech, Inc.
 - Marshfield Door Systems
 - Association of Manufacturing Excellence
 - Stiles Associates



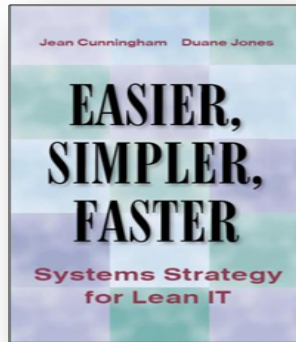
Lean Accounting



Managing Times Press,
2003

Shingo Prize, 2004

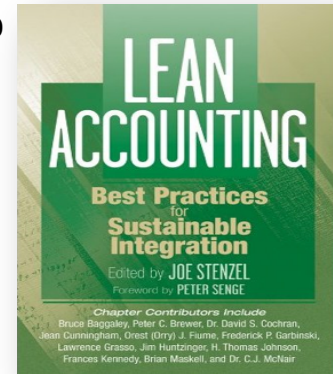
Lean IT



Productivity Press, 2007

Shingo Prize, 2008

Lean Accounting



Wiley Publishing, 2008

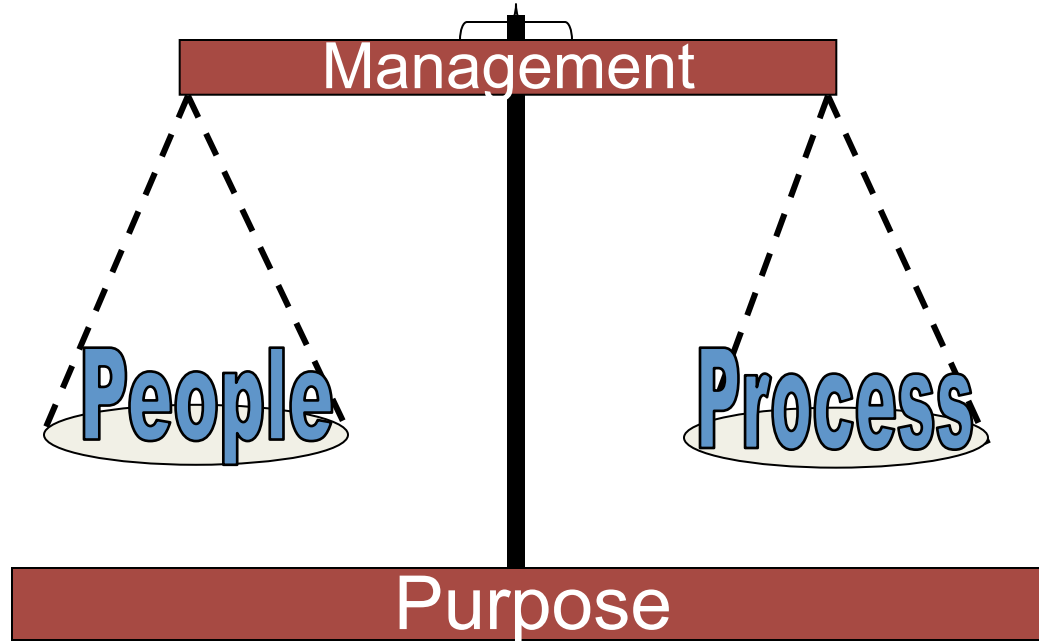


Agenda

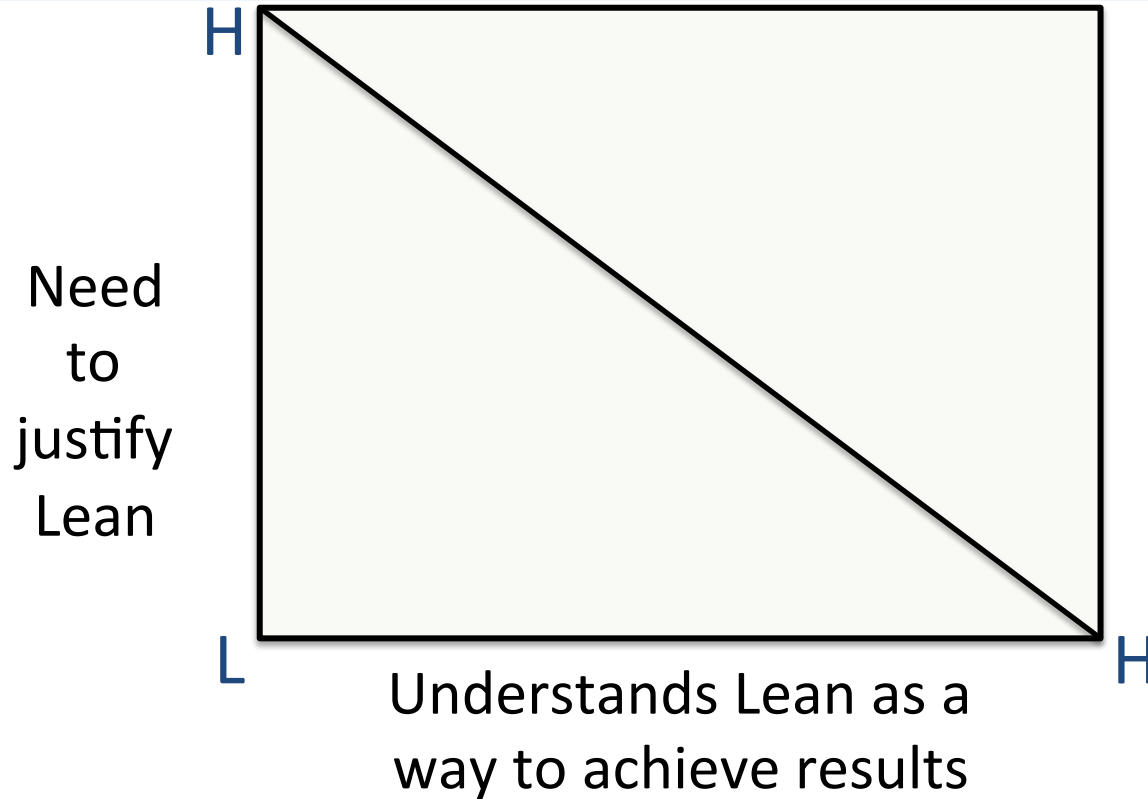
- Introduce the Profit Model, a part of the Value of Lean LEI workshop
- Show how an improved financial position is an outcome of lean thinking
- Use the profit model to show 5 ways that financial results are improved using lean



Qualitative and Quantitative Benefits



Why Adopt Lean thinking?

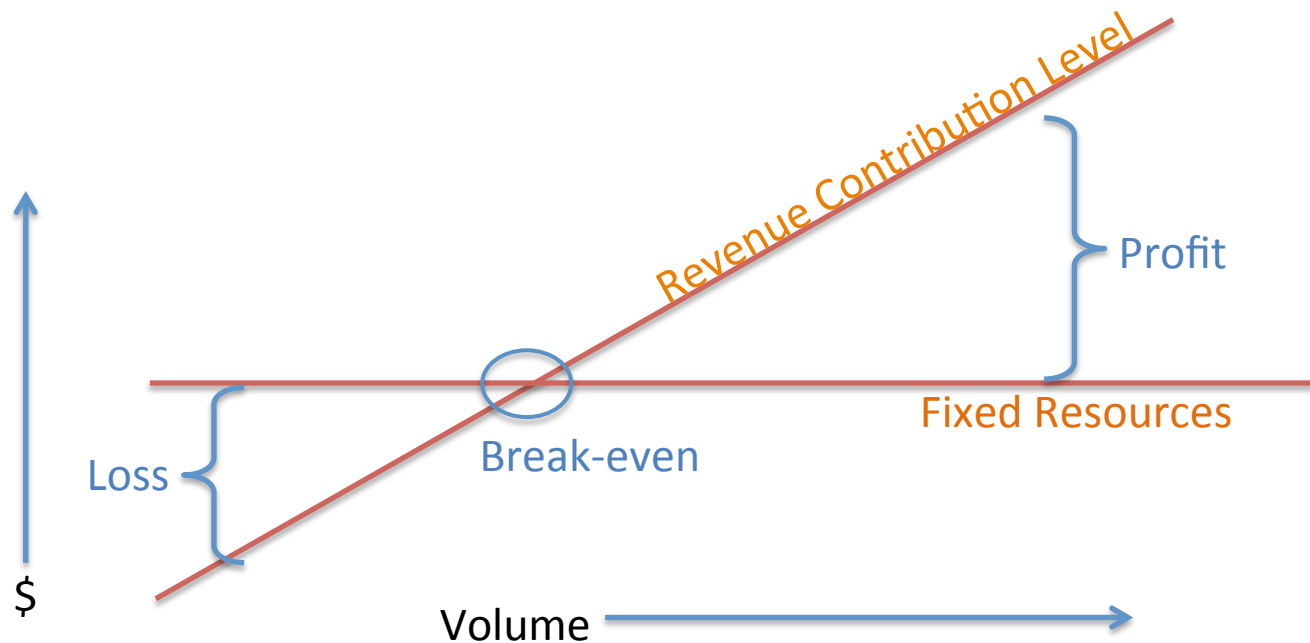


Connecting Efforts to Financial Impact

A Macroeconomic Model
for Non-Accountants



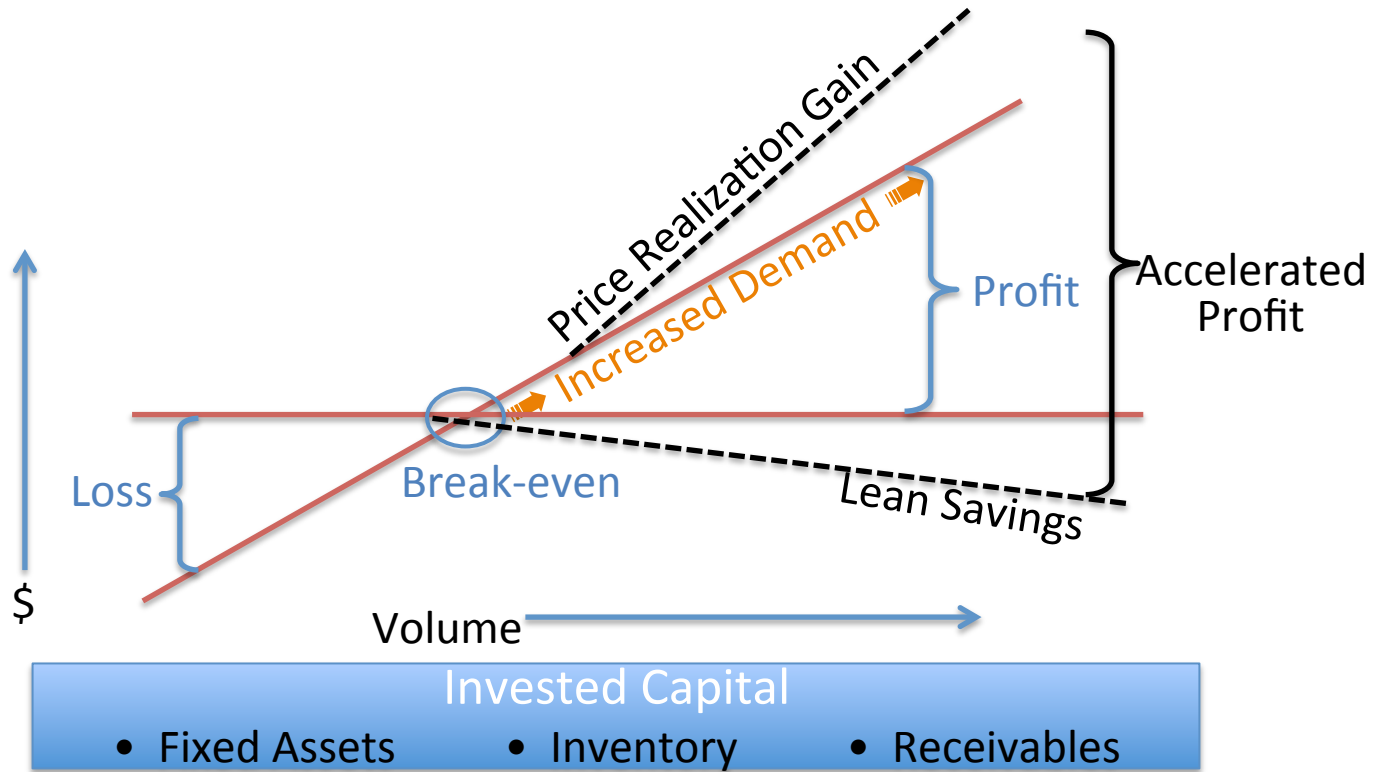
Profit Model



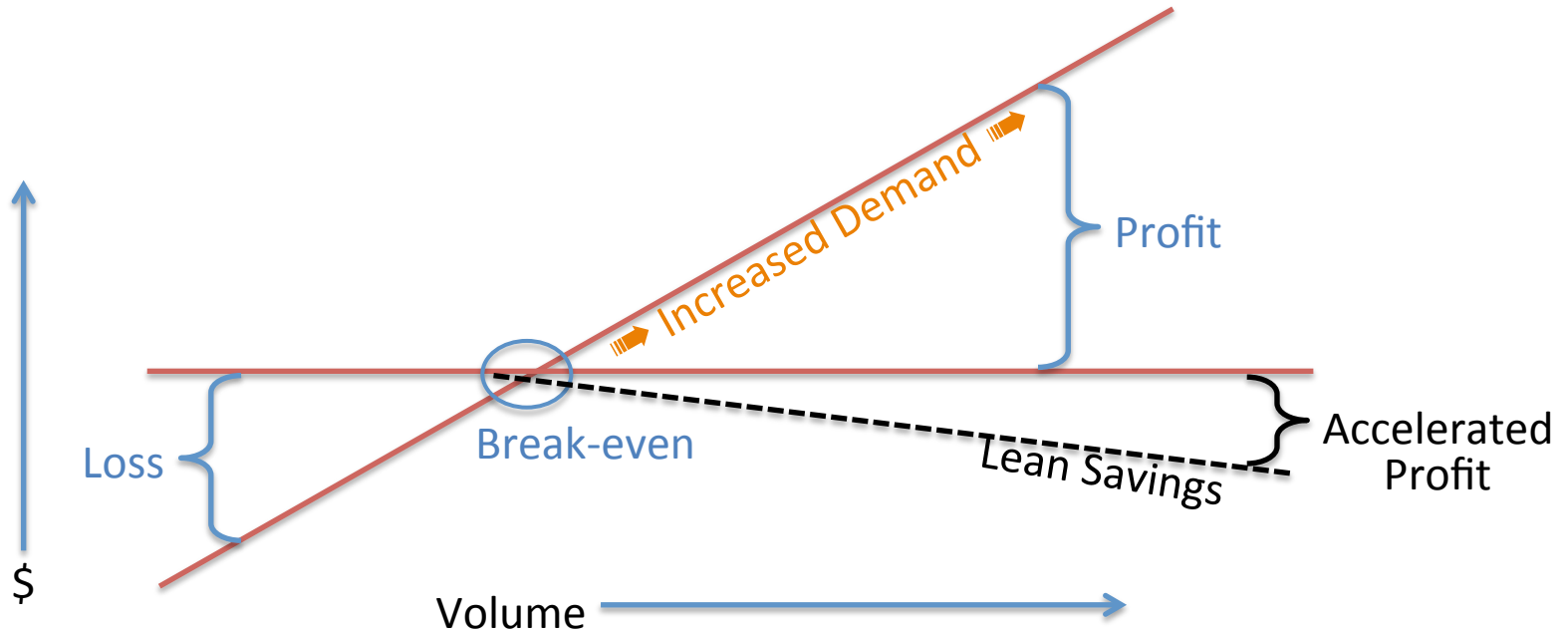
- Invested Capital
- Fixed Assets
 - Inventory
 - Receivables



Profit Model



1. Reduce Costs



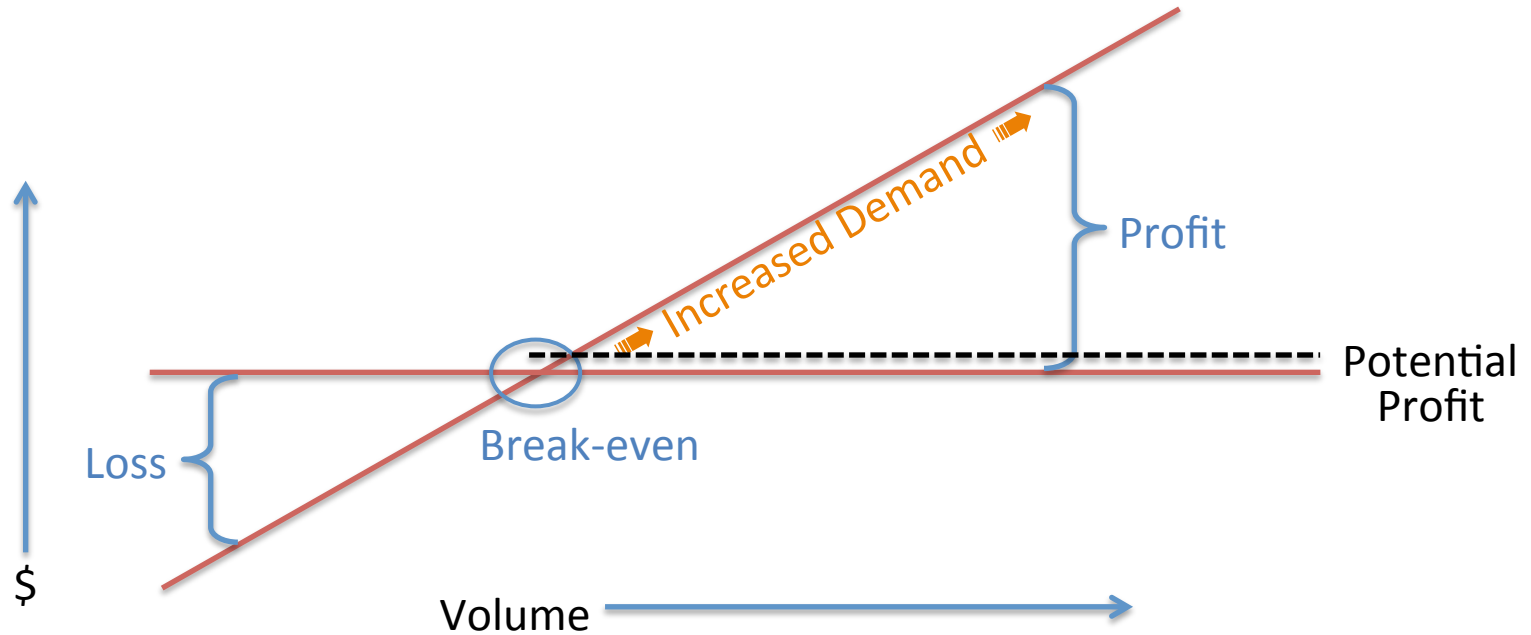
Calculate Impact of Trend Shift

Scrap as a % of Sales

- BEFORE: \$2.5 M of scrap ÷ by \$100 M in sales = 2.5%
 - AFTER: \$2.1M of scrap ÷ by \$150 M in sales = 1.4%
-
- Financial Benefit: Cost of scrap (if had not improved from 2.5% to 1.4%)
 - Calculate old cost of scrap (if at new sales): $\$150 \text{ M} \times 2.5\% = \3.75 M
 - **Savings:** $\$3.75 \text{ M} - \$2.1 \text{ M} = \$1.65 \text{ M}$ a year!



2. Create Capacity



Calculate Impact of Trend Shift

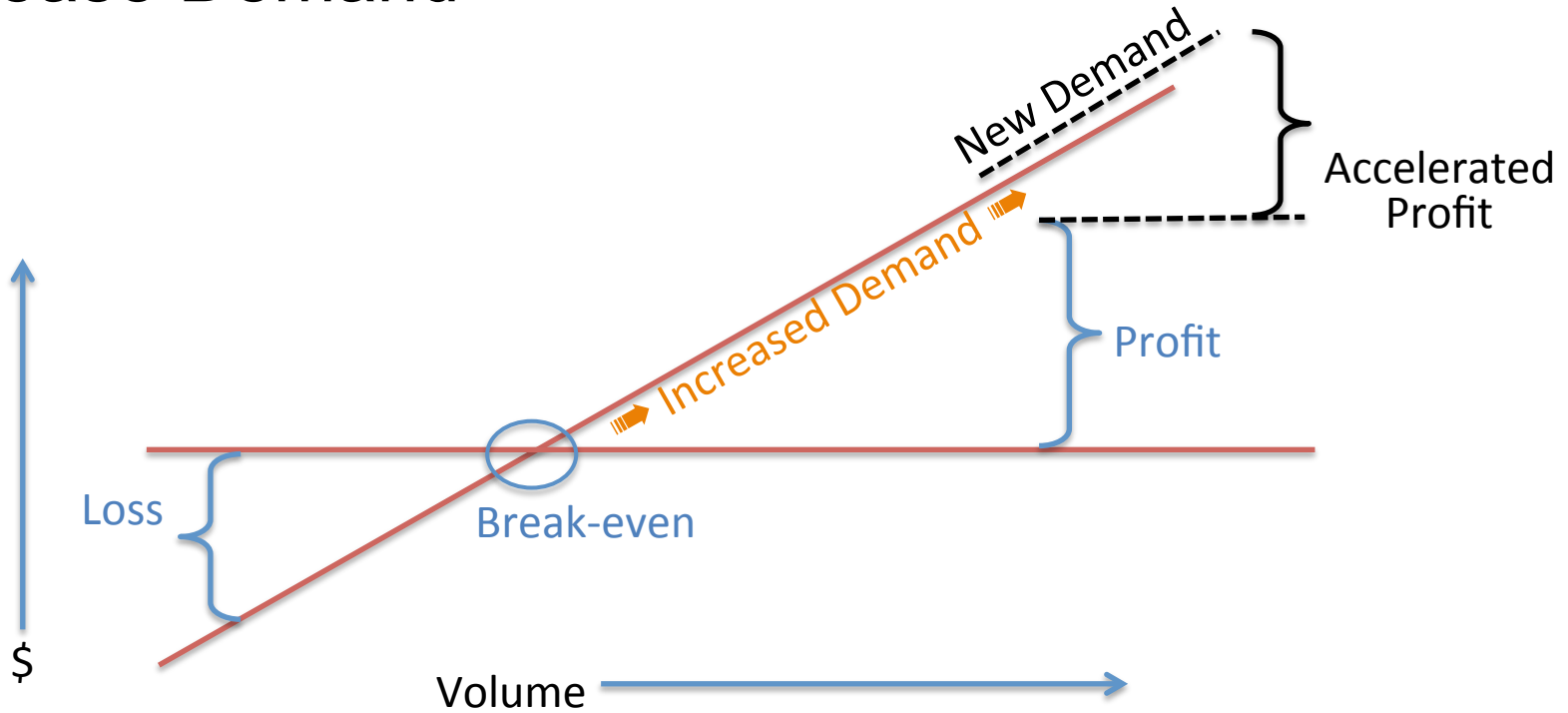
Sales Per Employee

- BEFORE: \$100 Million in sales ÷ by 800 employees = \$125,000
- AFTER: \$150 Million in sales ÷ by 833 employees = \$180,000

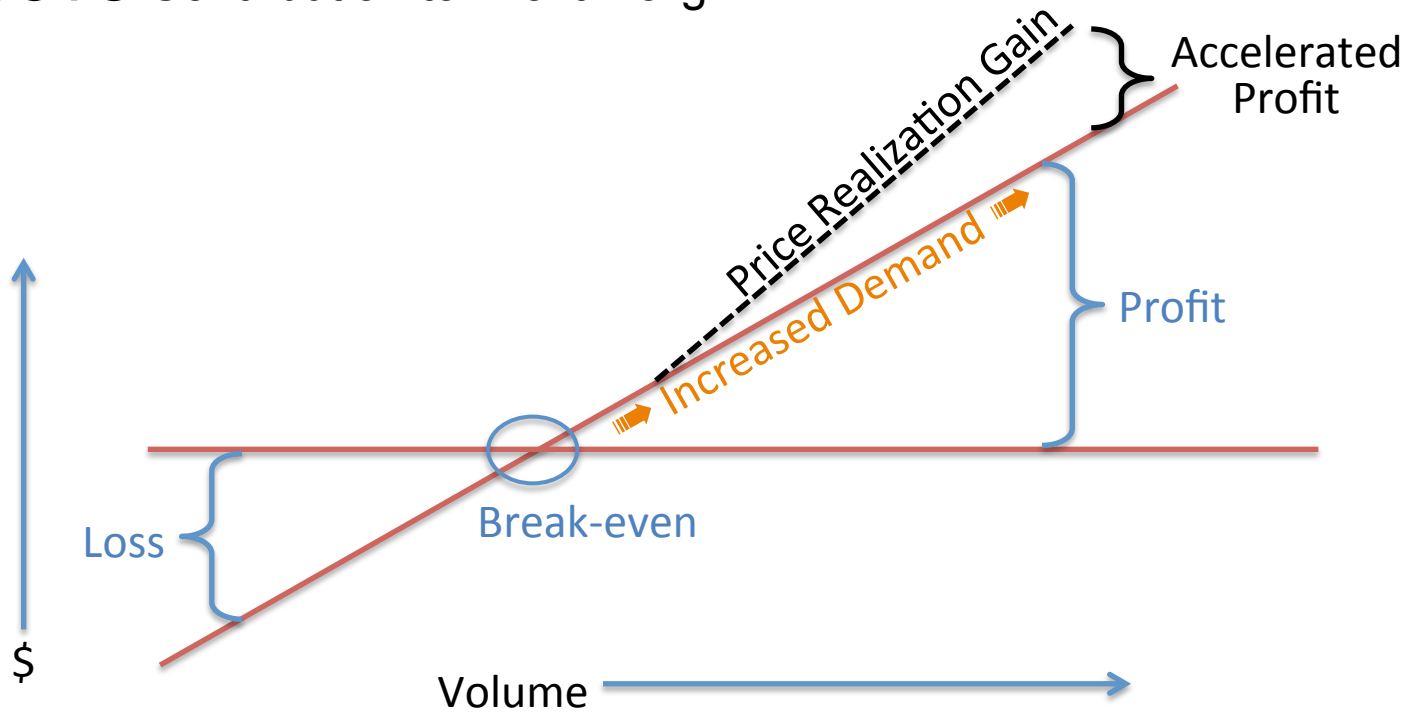
- Financial Benefit: Cost of additional employees (if had not improved from \$125,000 to \$180,000)
- Calculate number of employees (if at old sales per employee rate): \$150 M ÷ by \$125,000 = 1200 employees
- Avoidance of higher level employees: $1200 - 833 = 367$ ee
- Cost per employee estimate: \$75,000
- **Savings:** $367 \times \$75,000 = \$27,525,000$ a year!



3. Increase Demand



4. Improve Contribution to Profit Margin



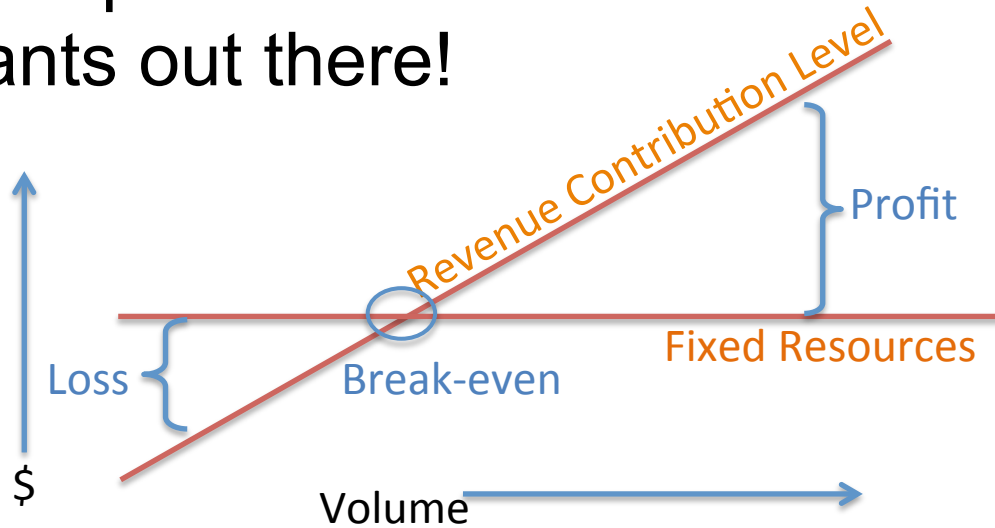
- Revenue 10,000
- Variable Costs 3,000
- Contribution Margin 7,000
- Margin % 70%

- Contributors to Margin:

- Pricing
- Quantity of Materials
- Price of Materials



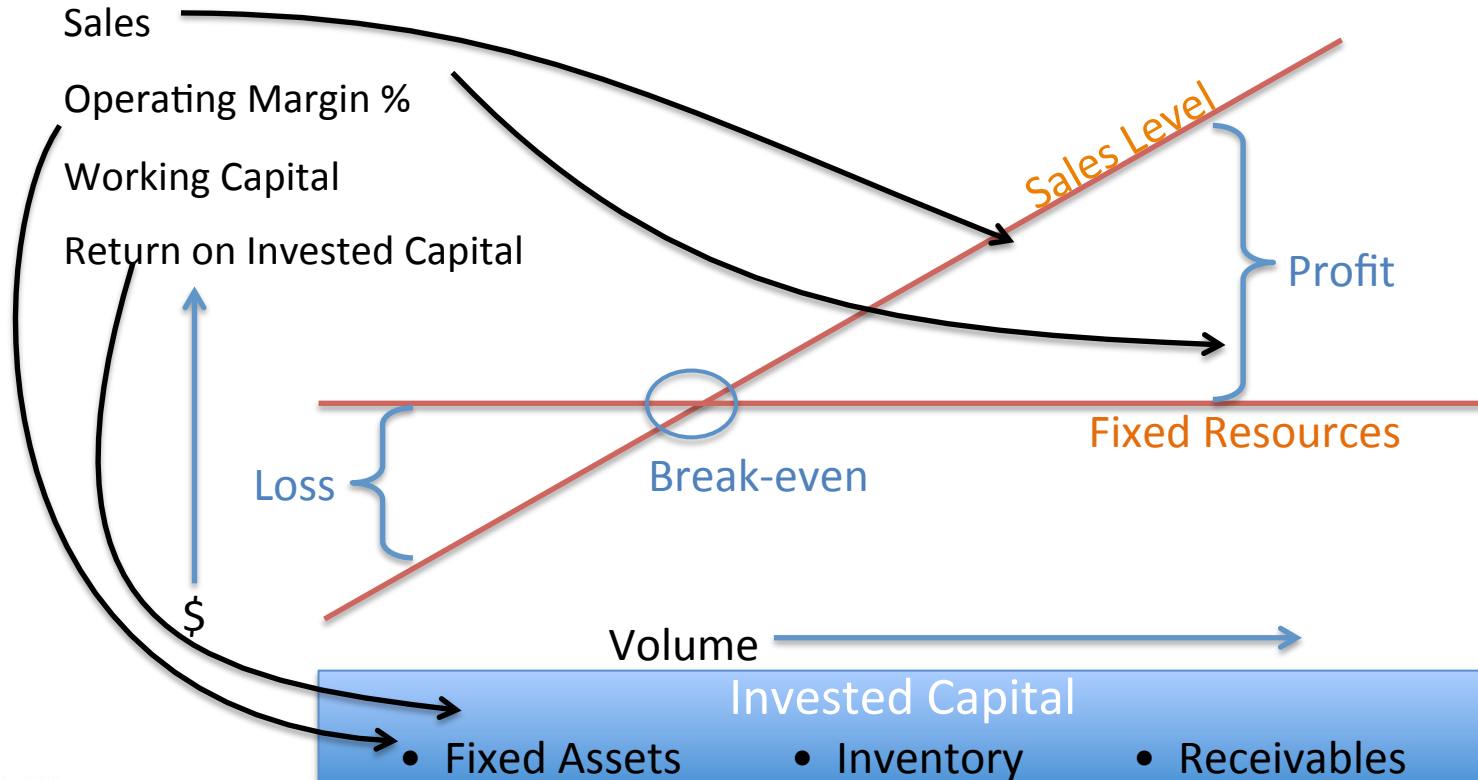
5. Improve Capital Structure...for all the accountants out there!



- Invested Capital
- Fixed Assets
 - Inventory
 - Receivables



Profit Model: with Traditional Outcome Linkage



Financial Impact Depends

- Depth of the initiative(s)
- Breadth
- Speed of change
- Size of organization
- Financial situation
- Strategic focus
- Commitment
- Investment
- Drive
- Senior leadership
- Current culture
- And so many more ...



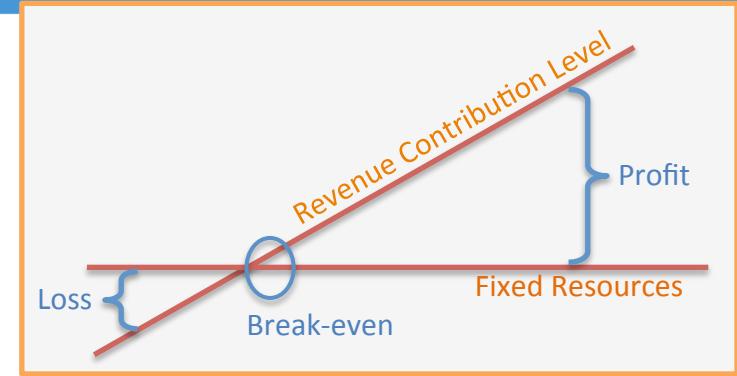
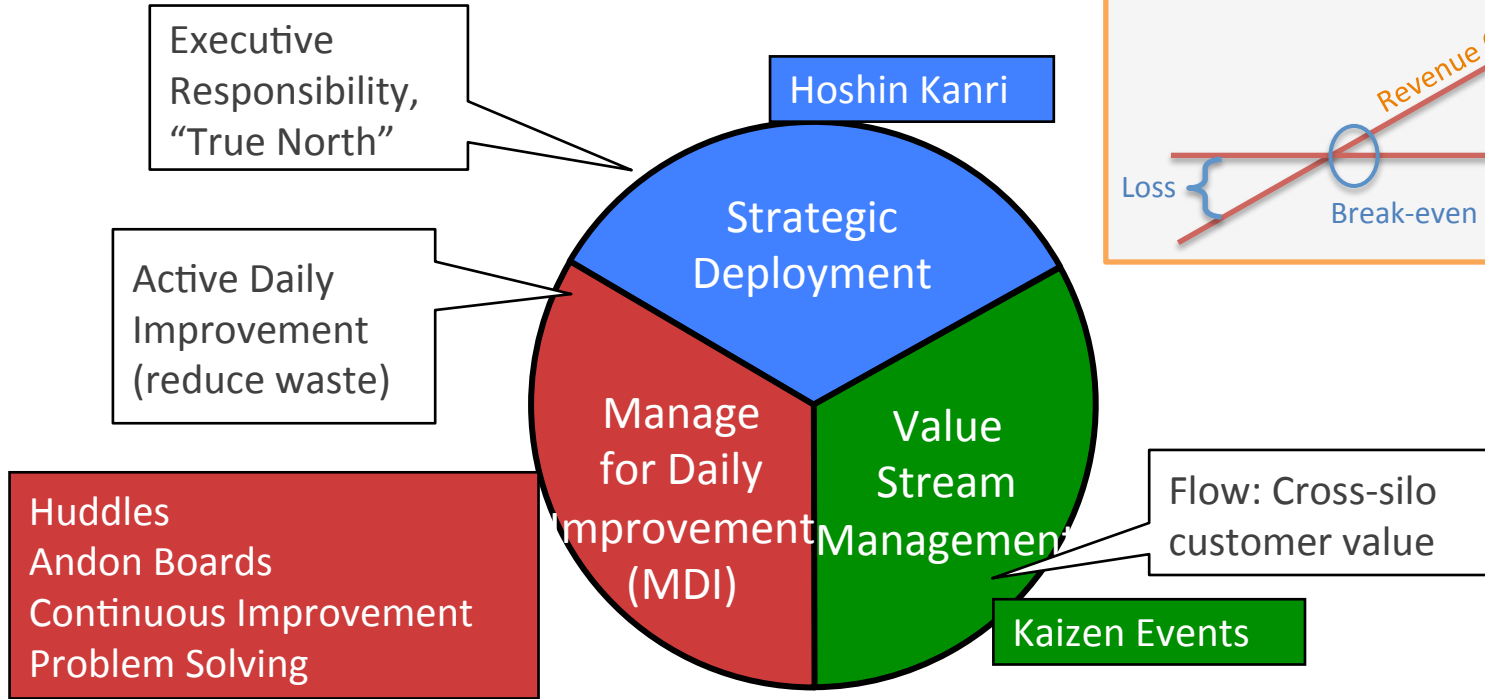
It is not about what to do.

It is about the environment
you create for progress.



Lean Transformation Core Actions

Lean Transformation



“Hidden problems are the ones that become serious threats eventually. If problems are revealed for everybody to see, I will feel reassured. Because once problems have been visualized, even if our people didn’t notice them earlier, they will rack their brains to find solutions to them.”



Katsuaki Watanabe, former Toyota President

From “Lessons from Toyota’s Long Drive”
Interview by Thomas A. Stewart and Anand P. Raman
Harvard Business Review
July/August 2007



Best way to make money that I know of!

Jean Cunningham, CFO



“A leader is like a shepherd. He stays behind the flock, letting the most nimble go out ahead, whereupon the others follow, not realizing that all along they are being directed from behind.”



Nelson Mandela

As quoted by Linda A. Hill
Harvard Business Review
January 2008



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