

Happy Birthday to Us!



On March 1st, Sixth Floor Consulting Group celebrated its tenth anniversary. It is hard to believe it has been that long! The company was formed by a group of co-workers when the corporation we worked for left Hartford, Connecticut. We had always enjoyed working together, and we decided that we had a lot to contribute to the field of process improvement. We wanted to continue that on our own. With that, Sixth Floor Consulting Group was born.

As is always the case, there have been some tough times over the last ten years, but no one regrets making the move. Some people have come and gone, but the core group still works together. We have also added additional team members and business partners to the mix. We have all remained friends throughout the years, and we will continue our friendships and working relationships for many years to come.

We've accomplished a lot over the last ten years. At the beginning, we were AS/400 Enterprise Resource Planning (ERP) system experts, but knew we needed to learn more about SAP and the Toyota Production System (even though we used many of the basic tools and teachings). From the start, we knew production and inventory control as well as anyone.

Just a few of the accomplishments of which we are especially proud are:

- Working as part of more than 12 SAP implementations, covering everything from adding single plants to global single instance projects.
- Leading +30 Kaizen events with double digit improvements (including on-time shipments, inventory turns, cycle times, space utilization).
- Conducting training and education workshops on Lean Manufacturing; ERP systems; Inventory Control; Cycle Counting; Physical Inventory; SAP training in OTC, RTR, and Manufacturing; APICS Production & Inventory Management, and many more.
- Leading multiple AS/400 system implementations.
- Completed several "turnaround" projects, saving companies and jobs.

Perhaps just as important as the things we did are the things we didn't do. More precisely, things our business partners didn't do. On

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Business Essentials: Accounting

New tools make the accounting department a Lean leader

by Lori Modifica

Traditional accounting techniques designed for mass production are not adequate or appropriate in a lean business environment. New financial processes, measurements, and tools, called Lean Accounting, have emerged in response. When lean strategies are implemented, resources are freed up, inventory levels decrease, order lead time is reduced, and customer service levels increase. These positive results are not reflected in traditional financial statements, so new metrics are needed. Lean is a long-term growth strategy in which waste is eliminated and resources become available to expand the business. Employees and equipment are not disposed of for a short-term gain, but they are valued and considered the key to the future. The goal is increased profitability through sales growth, not from cost cutting, layoffs, and plant closures. The role of the finance department shifts from one of business reporter/auditor to an active business partner whose expertise is important in evaluating potential growth opportunities and assessing continuous improvement projects.

All companies need to measure their progress toward defined goals, and this is true for lean companies as well. What doesn't get measured doesn't get accomplished. There is no standard set of metrics; each

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company should choose measurements that are a good match for its unique processes. The new metrics should be designed to motivate the desired lean behavior. One change in metrics for manufacturing organizations is that some calculations should use units sold, not produced. The business goal is to sell more units, not produce and build inventories. It is also important to measure resource availability, which is critical information when evaluating continuous improvement and growth opportunities.

Lean accounting is not implemented in a big-bang style. There is a gradual evolution from traditional accounting to lean accounting, mirroring the changes happening on the factory floor. Brian Maskell refers to this as The Maturity Path in his book *Practical Lean Accounting*. Initially, there may be double reporting (old and new metrics); however, emphasis should be placed on the lean measurements as quickly as possible. Some lean recommendations may seem drastic and even to counter-intuitive to an accountant's training and experience. One needs to remember that the purpose of many of these practices is control of the business process. As the old methods are replaced by new lean processes with control built in, these external, reactionary controls are no longer needed. For example, lean accounting recommends the elimination of inventory tracking and standard costing. I agree that, stated in isolation, this idea seems revolutionary and even scary. But successful lean techniques will reduce the WIP inventories so significantly that it will simply not be necessary to track the details. In addition, as the materiality level of your inventory drops, you will have more flexibility in valuation methods for financial reporting.

During the initial stages of lean, when a company is setting up pilot cells and beginning to define its value streams,

there does not need to be significant upheaval in the accounting processes. New metrics should be introduced to provide visual assessment of the cells progress towards daily/hourly goals. They should be simple and easy to understand and, if possible, compiled by cell/team members. Timely information visible to all can be used to correct any situation negatively impacting performance. Some cell-related measurements that have been proven successful at this stage of lean development are:

- On-time delivery shipments made by customer-requested date
- WIP to SWIP – comparison of amount of in-process inventory in cell compared to a standard
- Production per hour/day
- Dock to Dock – measure of the amount of time from receipt of raw material until sold as finish goods
- FTT = first time through with no rework

When the new metrics are introduced, less emphasis should be placed on the traditional manufacturing allocations and variance reports until completely phased out. A good first step is to back-flush these costs to work orders, consequently reducing effort spent tracking time and variance analysis. Often, only the cost accountants can decipher manufacturing variance reports or develop actual costs. While this may seem to be a source of security, accomplishment, or even pride, one must consider what value a variance report can have if it is meaningless to most and becomes a game to those who do understand the numbers. A variance can sometimes be more a measure of one's skill at budgeting than process efficiency.

As the company moves further down the lean maturity path, focus shifts to mapping and understanding value stream. Management needs finan-

cial and other information by value stream to support decisions and maximize the continuous improvement efforts. Companies should try to organize by value stream instead of department as soon as possible to simplify reporting, but initially reports may need to be prepared in parallel. All costs should be charged directly to the value stream including accounting and other support functions, thus eliminating the need for allocations. The primary benefit of this approach is that value stream costs are real (actual) and are accurate, timely, and understandable. Secondly, waste has been eliminated as the allocation transactions and subsequent variance analysis are no longer required.

The final stage on the Maturity Path (according to Maskell) is the Lean Enterprise, where lean concepts and methods are fully entrenched in the company's culture. Value streams now include external partners such as customers and suppliers. More wasteful transactions have been eliminated, and there is no longer a need for manufacturing orders as the production process is controlled through the customer pull. Additionally, there is no need to track inventory as WIP and dock-to-dock time are low.

In conclusion, the finance community should embrace the opportunity to shed its bean-counter image and become an active business partner. Lean accounting offers the opportunity to look objectively at many accepted practices of the past that are no longer relevant and develop new tools that can add value to an organization. ■

Source: *Practical Lean Accounting*, Brian Maskell and Bruce Baggeley, New York 2004



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more than one occasion, we were able to talk a partner out of purchasing new software, and instead have them better utilize the capabilities of their current software. As we say, "Buying a nail gun doesn't help you screw in a switch plate." We are particularly proud when we can stop the expenditure of large amounts of time and money automating waste.

We're a high performance team of passionate change agents. We have been fortunate to find and add additional team members and business partners, expanding the breath and depth of our knowledge and capabilities. Each member of our group brings his or her own special experience and expertise to the mix.

Fred Shamburg, President of Leavonations LLC, is one such addition. He's a sensei's sensei. He shares our passions and brings international

experience teaching and implementing true Toyota Production System (TPS) Lean Enterprise Management. His unique style makes change fun, and we're proud of our partnership.

We have been fortunate and are proud to work with some very committed companies, also. This past year, one of our clients was recognized in state as "Family Business of the Year" and another as "Manufacturer of the Year."

Most of all, we need to thank our partners, including both business partners and clients. Over these ten years it has been their support and commitment to working together that has made Sixth Floor Consulting Group more than just another consulting firm. So thank you to all those people who have helped us achieve our goal of "Making Business Run Better." ■

The goal of Sixth Floor Consulting Group is to create best-in-class processes, allowing each of our clients to take their businesses to a higher level of quality, profitability, and Lean operation.

Contact us today to put us to work on your team.

A Year of News You Can Use

We're not just celebrating our tenth anniversary at Sixth Floor Consulting Group. This month also marks one year of providing business tips and Lean information via this newsletter.

We really hope you enjoy receiving



our newsletter each month.

Everyone at Sixth Floor Consulting Group strives to provide you with the best advice and the latest breakthroughs in tech-

nology — all with the goal of helping you make your business leaner and more profitable.

As we note our newsletter's one year anniversary, we'd like to hear from you. What do you enjoy about this publication? What could we do to improve it and make it more useful to you? Would you like to contribute a Lean success story that others could learn from? We would love to receive information, input, and submissions from our readers to help make our newsletter a more valuable tool for everyone.

To submit story ideas, suggestions, or any other contributions, email us at info@sixthfloorconsulting.com. We look forward to hearing from you!

Upcoming Conferences & Events

Date/Time	Event	Location
March 11, 5:00 PM	APICS PDM - Why Lean Accounting <i>presented by Brian Maskell</i>	Courtyard Marriott, Cromwell, Conn.
March 27, 8:00 AM	Leanovation Workshop - Creating Flow Through Pull <i>presented by Fred Shamburg and Tom Dzialo</i>	CCSU ITBD Conference Center, New Britain, Conn.
April 13, 8:00 AM	Leanovation Workshop - Developing Lean Supply Chain Partnerships to Compete Globally <i>presented by Fred Shamburg</i>	CCSU ITBD Conference Center, New Britain, Conn.
April 14, 5:00 PM	APICS PDM - Why Lean in the Office is Necessary <i>presented by Fred Shamburg</i>	Courtyard Marriott, Cromwell, Conn.
April 23, 1:00 PM	APICS Workshop: Lean Systems - Getting Accounting and IT to Help on the Lean Journey <i>presented by Lori Modifica</i>	CCSU ITBD Conference Center, New Britain, Conn.

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