#### MANUFACTURING INSIGHTS

# Lean Accounting

SCENE 1

CG: FBI Warning

Warning

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SCENE 2

ANI: SME Logo

SCENE 3

Standard Manufacturing Insights opening

SCENE 4

Opening Title

C.G.:

Lean Accounting

SCENE 5

# NARRATOR (VO):

MANUFACTURING INSIGHTS, MANUFACTURING ENGINEERING MAGAZINE'S VIDEO SERIES FOR PROCESS IMPROVEMENT. THIS PROGRAM WILL EXPLAIN THE CONCEPT OF LEAN ACCOUNTING.

SCENE 6

SUGGESTED B-ROLL

PLANT OPERATIONS

AS A COMPANY MOVES TO LEAN THINKING AND BEGINS

IMPLEMENTATION, THE ONLY WAY TO TRULY MEASURE

PROGRESS IS THROUGH LEAN ACCOUNTING.

DURING THE NEXT FEW MINUTES WE WILL EXAMINE

THE IMPORTANCE OF LEAN ACCOUNTING AND HOW IT

SUPPORTS A LEAN ENTERPRISE.

SCENE 7

### NARRATOR (VO):

MASKELL FOOTAGE

WE WILL TALK WITH TWO EXPERTS IN LEAN

ACCOUNTING. BRIAN MASKELL IS PRESIDENT OF

B-M-A INCORPORATED.

SCENE 8

#### NARRATOR (VO):

FIUME FOOTAGE

AND OREST FIUME WHO WAS VICE PRESIDENT OF FINANCE AND ADMINISTRATION AT THE WIREMOLD COMPANY.

SCENE 9

## NARRATOR (VO):

MARQUIP FOOTAGE

THEN WE WILL LOOK AT HOW MARQUIP-WARD-UNITED

TESTED LEAN ACCOUNTING IN A SMALL "FOCUS

FACTORY". THIS TEST HAS BEEN SO SUCCESSFUL

FOR MARQUIP-WARD-UNITED, THAT THEY ARE POISED

TO TAKE LEAN COMPANY WIDE.

SCENE 10
SOUTHCO FOOTAGE

# NARRATOR (VO):

NEXT WE WILL VISIT SOUTHCO INCORPORATED, WHERE
LEAN ACCOUNTING HAS HELPED THEM TO LEVERAGE
EXISTING EQUIPMENT TO OFFER COMPETITIVE
PRICING AND GAIN NEW BUSINESS.

SCENE 11

SUGGEST FOOTAGE: PLANT

B-ROLL

AND FINALLY, WE WILL GIVE SOME TIPS AND

TACTICS TO CONSIDER AND USE WHEN CHANGING OVER

FROM USING A STANDARD COSTING SYSTEM TO USING

LEAN ACCOUNTING.

FADE TO BLACK

SCENE 12

NARRATOR (VO)

FADE UP FROM BLACK

THE CONCEPT OF BECOMING A LEAN ORGANIZATION

HAS GREAT APPEAL BECAUSE OF THE MINIMIZATION

OF WASTE AND INCREASED CAPACITY IT CAN

GENERATE.

HOWEVER, LEAN CAN NOT BE APPLIED IN ONLY ONE

AREA OF THE COMPANY. RATHER, IT IS A CULTURE

CHANGE THAT WILL FLOW THROUGH THE ENTIRE

BUSINESS.

SCENE 13

C.G.(reveal):

- \*Measure Performance
- \*Reduce Transactions
- \*Assessment of Improvements
- \*Value Stream Costing
- \*Contribution Margin
- \*Drives toward Customer Value

### NARRATOR (VO):

SPECIFICALLY, LEAN ACCOUNTING IS A WAY OF
REPORTING RESULTS ANYONE CAN UNDERSTAND. IT
IS A SIMPLE WAY TO:

- MEASURE PERFORMANCE,
  - REDUCE TRANSACTIONS,
  - GIVE A VALID ASSESSMENT OF THE FINANCIAL IMPACT OF IMPROVEMENTS,

- DEVELOP VALUE STREAM COSTING TO MEASURE CONTRIBUTION MARGIN,
- AND LEAN ACCOUNTING NATURALLY DRIVES THE BUSINESS TOWARD CUSTOMER VALUE.

IN THE BEGINNING STAGES, WHILE DEVELOPING A LEAN CULTURE, A COMPANY NEEDS TO INCLUDE THE FINANCE DEPARTMENT.

C.G.:

SUGGEST B-ROLL: ACCOUNTING DEPT. OR PLANT FLOOR, I.E., BATCHING - SIDE PANELS OR WORKER WRITING INVOICE/ORDER

SCENE 13

(MASKELL) TAPE: 5, The reason it's important to institute Lean
T.C.: 05:02:29 - Accounting early in the Lean process is that
05:03:35 traditional accounting systems are actively
TIME: 1:06 hostile to Lean. First, they motivate nonlean behavior through their behavior
C.G.: measurements.

FOUNDER & PRESIDENT the transactions and complexity. They lead to BMA INCORPORATED poor decisions because the standard control to the standard control distort the financial information. And they show that bad things are happening when in fact good lean things are happening. The traditional system is pushing back against what you're trying to achieve with Lean.

> There are other systems within the business that push back against Lean. The MRP system, the HR systems, union agreements, and other systems that have been built for supporting traditional manufacturing. They all push back against Lean, and the accounting system is one of those.

SCENE 14 SUGGESTED FOOTAGE BRIAN WORKING/WALKING

# NARRATOR (VO):

ETC.

AS FOUNDER AND PRESIDENT OF B-M-A INCORPORATED, BRIAN MASKELL, HAS MORE THAN TWENTY-FIVE YEARS OF EXPERIENCE IN THE MANUFACTURING AND DISTRIBUTION INDUSTRY.

A SPEAKER AND AUTHOR, MASKELL SPECIALIZES IN HELPING COMPANIES BECOME A LEAN COMPETITOR.

SCENE 15

Blank scene

SCENE 16

SCENE: 17 B-ROLL BACK TIME FOOTAGE OF ORRY TALKING/ SHOT OF BOOK

C.G.: SCENE 18

(FIUME) TAPE 1, T.C.:01:04:05 -01:04:32

TIME: 27 SECONDS

Sot (Maskell):

SCENE 16

(MASKELL) TAPE 5, Changing the culture of a company to become a T.C.: 05:04:19 - Lean-thinking culture, that's not done by saying "think differently." It's done by TIME: 58 SECONDS

changing the way you act within a company. The accounting system is deeply embedded into the culture of the company.

### Narrator VO:

ORRI FIUME, AUTHOR OF REAL NUMBERS -

MANAGEMENT ACCOUNTING IN A LEAN ORGANIZATION,

IS RECOGNIZED AS ONE OF THE LEADERS IN LEAN

Sot (Fiume)

One of the problems that companies run into early on in the transformation process is when they make improvements operationally and it doesn't show up in the financial statements, or in fact shows up as a negative. I have yet to see a standard cost accounting system that could adequately give any information about improvements being made in operations.

SCENE 19, (FIUME)

TAPE 1

T.C.: 1:04:30 -

01:05:15

TIME: 45 SECONDS

GRAPHIC:

SCENE 20, (FIUME) TAPE

1, T.C.: 01:15:17 -

01:16:15

TIME: 58 SECONDS

SCENE 21 SUGGESTED B-ROLL PEOPLE AT WORK BOTH OFFICES AND PLANT FLOOR. POSSIBLY A SPLIT SCREEN

sot(Fiume):

The subject of lean accounting is one that's still developing, but all of the people that are working in this area are working with several basic principles. One of the principles that everybody recognizes is important, is that financial information be

sot(Fiume):

When we present financial information in a plain English P&L for example, our experience at Wire Mold was that when we distributed that P&L before the meeting, when we got to the

Narrator (VO)

WHEN USING LEAN ACCOUNTING IT'S IMPORTANT TO HAVE A STANDARD METHOD OF COMMUNICATING THAT CAN SPEAK TO MANY DIFFERENT PEOPLE SUCH AS THE VALUE STREAM MANAGERS, THE FINANCIAL PEOPLE, SALES AND MARKETING AND TOP MANAGEMENT. AN EFFECTIVE TOOL TO CONVEY THIS INFORMATION IS

SCENE 22

(MASKELL) TAPE 5,

T.C.: 05:10:32 -

05:10:47

TIME: 15 SECONDS

SCENE 23 (MASKELL)

TAPE 5

T.C.: 05:07:30 -

05:09:40

TIME: 2:10

GRAPHIC:

TO THEM

THE BOX SCORE.

sot: (maskell)
The analogy for the box score is the baseball box score. But really what we're trying to do is present all the pertinent information in a way that's simple, clear and direct.

The box score is designed to give a simple understanding of the status of the value stream. We're looking at three aspects of the value stream-how we're doing operationally, how we're doing financially, and are we making good use of the resources or the capacity we have available to us. So the top part of the BOX SCORE, POSSIBLY box score shows the operational performance ANIMATE DIFFERENT measurements that are being used for the value SECTIONS AS HE REFERS stream.

The bottom part of the value stream shows a summary of the financial information-revenue, material cost, conversion cost, profitability, return, inventory levels. The center part of the box score shows the capacity and how well those resources are being used.

How much capacity is being used productively, how much capacity is being used nonproductively, and what's the available capacity. This is a summary and behind the summary is a lot more detail. But the purpose is to put on one sheet of paper (edit out stutter) a three-dimensional view of the value stream that gives a complete understanding of the value stream performance.

We use the box score in many ways. One is for summarizing the financial performance for reporting purposes. That's typically done weekly. We look at the financial numbers and the capacity and the operational performance on a weekly basis. We would also use it for decision making.

(Maskell continues)

suggested b-roll: floor.

suggested b-roll: final line/finished product at factory

For example, if we have a request for a quote, maybe we have a buildup of demand over the next 12 months, and we would show how that people working on plant affects the value stream operationally, how that affects is financially, and how the capacity usage would change with that new order coming in. Quite often you'll find something that appears to have low margins that can be very substantially beneficial to the company when you look at it step by step across the value stream over time.

SCENE 25 SUGGESTED B-ROLL PLANT FOOTAGE, FINAL PRODUCTION LINE

#### Narrator (VO:

A FREQUENT CONCERN WITH LEAN ACCOUNTING IS "WILL IT BRING VALUE TO THE CUSTOMER?" LEAN ACCOUNTING IS PART OF A SUPPORT SYSTEM FOR THIS LEAN BUSINESS STRATEGY.

SCENE 26 (Fiume) Tape 2, (Fiume) sot: If I were to ask the customers of different

t.c.:02:20:45 -

02:21:32

time: 1:48

companies what they expected, what they wanted, I would get some pretty long lists. If I compared all those lists, I would probably find three things on everybody's list. They want quality product, delivered on time, at a reasonable cost. Lean improves all those wants, if you will. Lean improves quality dramatically. Lean gives us the ability to shorten lead times and deliver product faster and more frequently, which helps the customer become lean and helps the customer so they can do business with a smaller investment in our inventory.

SUGGESTED B-ROLL
COMPANY FINANCE OFFICE

And it helps cost equations in the sense that, through the productivity gains that we achieve in implementing Lean, as we are faced with market pricing pressures, we can respond to those pressures in a positive way because of the productivity gains we've achieved, without necessarily giving up profitability. So Lean accounting directly does not deliver value to the customer, but it certainly helps management make better decisions by seeing financial information that is more clearly understood, and helping deliver value to the customer in terms of quality, cost and delivery.

FADE TO BLACK

SCENE 27
FADE UP FROM BLACK IN
BOX WITH TEXT

SUGGESTED B-ROLL EXT. OF SOUTHCO/PLANT FOOTAGE

## NARRATOR (VO):

SOME BUSINESSES BEGIN LOOKING AT LEAN

ACCOUNTING AFTER WATCHING THE CHANGES LEAN

MANUFACTURING CAN GENERATED. SOUTHCO, BASED

IN CONCORDVILLE, PENNSYLVANIA, IS ONE OF THEM.

OVER ONE HUNDRED YEARS OLD, SOUTHCO IS AN INTERNATIONAL COMPANY THAT DESIGNS, MANUFACTURES AND MARKETS ACCESS HARDWARE AND LATCHING SYSTEMS.

SOUTHCO GOAL IS TO LEVERAGE GLOBAL RESOURCES

AND DELIVER CUSTOMER PROVEN SOLUTIONS, WHILE

REDUCING THE OVERALL COST AND CYCLE TIME OF

THE PROJECT.

THEIR PORTFOLIO INCLUDES OVER 25-THOUSAND STANDARD CATALOG PRODUCTS AND OVER 50-THOUSAND CUSTOM PRODUCTS THAT HAVE BEEN CREATED TO MEET CUSTOMERS' DESIGN NEEDS.

SOUTHCO BEGAN LOOKING AT LEAN ACCOUNTING WHEN TRADITIONAL ACCOUNTING PRACTICES WERE NOT ACCURATELY REPORTING THE CHANGES THEY WERE MAKING IN LEAN MANUFACTURING.

SCENE 28 A (MALRIAT)
TAPE 6, T.C.: 6:05:29,
TIME: 1:53

C.G.
STEVE MALRIAT
CONTROLLER - FINANCE
DEPT.
SOUTHCO

Sot (Malriat)

...we were into lean manufacturing for almost two years by the time we looked at lean accounting. Having had enough experience on some things that changed with lean, like inventory changes, that there were going to be financial impacts from the choices we were making. People get started with lean, and they think that means low inventories, not realizing that means you have to have processes capable if you're going to lower your inventory and still maintain customer service. Like most, we got started without all the answers, and we started reducing inventory. That adds additional cost to your P&L for the period, because you have the costs

for the period and you have the cost of the inventory on the shelf going out on the P&L at the same time. It's devastating. It looks like the P&L is just vaporizing. In actual fact it was a beautiful cash play, because we were shipping this product out, not replacing it, so we weren't buying raw materials or getting inputs for cost or outlays of cash, but we were collecting cash from customers, so it was a tremendous benefit on the cash side. But the P&L would have suggested otherwise, that we were nose-diving. But it was a temporary situation, and we at least had the foresight to say if that's what you're forecasting to happen, here's going to be the result from that. That's not obvious to people who just haven't lived the absorption accounting world, or the nonfinancial managers. They're very disturbed that things are really eroding fast and what's this lean thing, is it really working? In fact we're actually getting more nimble, as well as freeing up a lot of cash, which is the name of the game.

#### NARRATOR (VO):

UNDERSTANDABLY, MANY COMPANIES STARTING TO USE

LEAN ACCOUNTING METHODS TO SET SHORT-TERM

GOALS OF CUTTING COSTS AND INCREASING SALES.

THEY ARE USUALLY DISAPPOINTED. THE FINANCIAL

IMPACT OF A LEAN ENTERPRISE COMES FROM

INCREASED CAPACITY AND THE CASH FLOW FROM

REDUCED INVENTORY.

SCENE 28 C (MALRIAT)
TAPE 6
T.C. 6:08:02 - 6:09:52
time: 1:50

sot (Malriat)

In and of itself, lean accounting didn't directly increase sales. What it did is it served to give us a clearer picture of, if we took on new business, a.k.a. add to our sales, what is the impact of getting that new level of sales. It allowed us to look at capacity, how it would affect our operating performance, and ultimately our financial performance. We have examples where, in a standard cost world, people would come to me all the time and say standard cost is higher than what I can get in the marketplace, I'm going to turn this down unless you can convince me that we're looking

at the wrong answers here.

So we took our standard hats off and looked at it very holistically and said well, do we have capacity in our manufacturing environments, machines and people, and if we don't, what do we have to add to bust through any constraints we're facing.

SUGGESTED B-ROLL: SOUTHCO OPERATIONS Capacity constraints tend to really drive a lot of costs, because you're throwing a lot of resource to push things past the constraint. Then you add what is the outlay for material and external costs, and paint the real facts. This one example was a small piece of business that they were about to turn away, and it turned out to be a \$100,000 contributor to the bottom line that year, virtually immediately. It was an existing product and we were able to leverage it.

Our VP of Operations, who was looking at it from an operating point of view, whether we should take it or not, once we started going through the real facts, said what are we waiting for, get that order. It's really getting to the real answer and not some stake in the ground that may or may not reflect today's reality.

SCENE 29
SUGGESTED B-ROLL
LEAN MANUFACTURING AREA
AT SOUTHCO

### NARRATOR (VO):

LEAN MANUFACTURING AREA
ONE OF THE KEYS TO BEING ABLE TO ACT QUICKLY
AT SOUTHCO

IS HAVING INFORMATION THAT IS ACCURATE AND UP
TO THE MINUTE. BUILDING ON THIS UP TO DATE
KNOWLEDGE, STEVE MALRIAT SAYS THEY WERE ABLE
TO MONITOR TRENDS CLOSELY. THE TOOL USED TO
GATHER AND DISTRIBUTE THE LATEST RESULTS WAS
THE BOX SCORE. PROVIDING SOUTHCO EMPLOYEES
WITH THE MOST CURRENT RESULTS, THE BOX SCORE
ALLOWS THEM TO PEEL AWAY ALL THE WASTE AND
SEIZE THE OPPORTUNITIES FOR GROWTH.

SCENE 30, (MALRIAT) TAPE 6

TIME: 2:37

GRAPHIC: ACTUAL BOX SCORE CARD OR ANIMATED VERSION

sot (malriat)

The box score card is really a three-pronged T.C.: 6:18:08 - 6:20:45 quick scorecard of metrics that measure how the factories are operating, various operating metrics from delivery performance, our investment in inventory, how our quality levels are, what our capacity is, all the way through the value stream. What are we able to get out of that value stream, what are the current demands, what's available that we can leverage.

> The third aspect of it is financial, that brings us to quantifying how we utilize our capacity. When we look at new business opportunities, the box score is right there to guide us to say if we take this on, we have plenty of machine capacity and people capacity, or we don't, in which case we have to add this machine or this person or whatever it would take to take on that business. Then we look at it holistically.

#### NARRATOR (VO):

USING THIS HOLISTIC VIEW IT IS EASIER TO

DECIDE IF THERE WILL BE A FINANCIAL REWARD FOR

EACH BUSINESS OPPORTUNITY.

SUGGESTED B-ROLL:

We also use it for just week to week. We LEAN MANUFACTURING AREA measure box scores weekly. When we do kaizan events or any kind of activity where we're expecting a better result, we look at the next week and see if we can see it. If we rely on just the financial statement process, that's every month and it doesn't close immediately, so it's a couple weeks into the month before we give you the answers. So it can be six weeks sometimes after what really happened until we learn did we get what we thought we would get. This way we get it every week. We take a temperature check and see if we made improvement.

> If we didn't get what we expected, then we look for the next week and what can we change so we can get what we expect at the following box score meeting. We sit back down and

collaborate over what can we do to improve the results. Little by little, over a long period of time. And you can watch. Our box scores or metrics are trended. So it's not about any one week necessarily, but over time are we making steady progress. Lean is not about one year out we expect to be a lean world class company. It takes deliberate effort over a long period of time to just peel away all the waste opportunities we can attack.

FADE TO BLACK

SCENE 31
FADE UP FROM BLACK TO
BOX WITH TEXT

SUGGESTED B-ROLL
EXT. OF MARQUIPWARD
INT. OF OPERATIONS

### NARRATOR (VO)

AT MARQUIP-WARD-UNITED, LOCATED IN HUNT

VALLEY, MARYLAND, LEAN ACCOUNTING BECAME THE

TOOL THAT ALLOWED EVERYONE FROM THE FRONT

OFFICE TO THE SHOP FLOOR TO TALK THE SAME

LANGUAGE ABOUT MEASURING MANUFACTURING

OPERATIONS.

SCENE 32 A (SOLOMON)
TAPE 8, T.C.:8:02:41 8:03:31
time: 50 seconds

C.G.
JERRY SOLOMAN
V.P. OPERATIONS- HUNT
VALLEY
MARIQUIPWARDUNITED

# Sot(Solomon):

In terms of why it's important to the company, we just think it's an easier way of doing business. It's also critically important as we change our manufacturing operations and change the way we physically do things out on the shop floor, we have to change the way we keep track of it. That's what we call lean cost management.

When you think about lean cost management, it's really tools to provide users, or the people that are changing the physical operation in the plant, the tools to allow them to understand what's really going on. Right now accounting is a totally different language.

It's a foreign language to the folks in the shop that have to use the information to

improve, and how can they improve anything if they don't understand it. So we have to make it easy, we need to make it actionable, and we need to make it timely. That's what lean cost management is all about.

SCENE 32 B (Solomon)

TAPE 8

T.C.: 8:04:52 - 8:06:05

time: 1:13

Sot (solomom)

Lean accounting has changed the way decisions are made. For example, when we design things or evaluate costs, what we typically do is try to get the lowest bill of material cost for every end item. So what you're looking it is, in isolation, one small piece of the cost of a product, then you add those all up and get the total cost. When we do a value stream map or value stream costing of the operation, we're really looking at the total system cost.

To an accountant, to me that is the greatest thing, because now we can make decisions on how we optimize the system, instead of how we optimize one small piece of it, when we may just be transferring cost to another element of the operation. As an example, as you might see later, at our other plant we used to purchase material from Budapest, Hungary, one of our divisions.

suggested b-roll
plant operations

The thought was that if we buy those end items over there and import them to the U.S., it would be cheaper. After we did value stream mapping and value stream costing and took into account total system costs, we actually moved some of the operation to the U.S. So it does change decisions, and it can change them quite dramatically.

SCENE 33
SUGGESTED B-ROLL
ACCOUNTING DEPT.
ORDER WRITING

#### NARRATOR (VO):

ON AVERAGE, A TRADITIONAL ACCOUNTING

DEPARTMENT WILL SPEND SEVENTY-PERCENT OF ITS

TIME ON ROUTINE BOOKKEEPING AND REPORTING.

TWENTY- PERCENT IS DEVOTED TO MANDATORY

HOUSEKEEPING ITEMS AND ONLY TEN-PERCENT ON

ANALYSIS THAT WILL HELP THE COMPANY PREPARE

FOR THE FUTURE.

MARQUIP-WARD-UNITED IS CONSTANTLY WORKING TO ELIMINATE UNNECESSARY DATA ENTRY AND TRANSACTIONS. THIS HAS HELPED TO REDUCE THE TIME BETWEEN TAKING AN ORDER AND PRODUCT DELIVERY.

SCENE 34 (WARNOCK)
TAPE 9

T.C.:9:20:55 - 9:22:24

TIME: 1:29

C.G.
KAROL WARNOCK
VALUE STREAM MANAGER
CORRUGATING ROLLS
MARQUIP-WARD-UNITED

sot: (Warnock)

Because we were entering discrete part numbers, we would have engineers enter a new number for every time we sold a roll, which would be two transactions per order. We made 600 transactions a year just for that, times 3, because every end and body had to have a unique part number, all those drawings had to be made as particular detailed drawings. Now we go with one drawing, which takes considerably less time.

It's like a Word document, as opposed to an engineering drawing with a picture of a Roll in the more traditional style. So it probably has reduced our transactions by a good 10,000-15,000 a year, in a lot of the Engineering and MRP functions. They no longer enter any kind of routing into the system, nothing detailed. It's all done off an Excel spreadsheet, and you simply select the operations that need to be performed.

What we learned was that every Roll was not unique, so much as it was a subset of operations of what it could be. So we have the worse case scenario in an Excel spreadsheet, and when you sell an order you simply delete the operations that won't fly and hit the print button. That now is done in about 5 minutes instead of about 32 hours. And the great thing with that was we had about 80 orders in backlog. (Edited out Steve's comments)

One of the first stumbling blocks we found when we first value streamed was our inability to even get the order to the manufacturing floor in a reasonable time. It would take us

SUGGESTED B-ROLL:
CORRUGATING ROLLS AREA
OR
EXCEL SPREAD SHEET

months to get it out onto the production floor by the time Engineering did what they wanted to do, and the custom routings were built. Now we can take an order and flow it. It averages two days. It can be done in as little as 15 minutes if we need do.

## NARRATOR (VO):

MARQUIP-WARD-UNITED HAS A LONG RANGE GOAL OF

ELIMINATING AS MANY DATA ENTRIES AND

TRANSACTIONS AS POSSIBLE. THE BURDEN OF

PAPERWORK, THE COMPANY HAS FOUND ACTUALLY

SLOWS DOWN THE PROGRESS MADE BY LEAN THINKING.

SCENE 35 A SOT: (SOLOMOM) TAPE 8, SECS

B-ROLL SUGGESTION: PLANT EMPLOYEES

SCENE 35 B (SOLOMOM) TAPE 8, T.C.: 8:10 TIME: 1:04

Sot (solomom)

It's very difficult to go down the traditional T.C.: 8:09:53, TIME: 25 accounting path and implement lean manufacturing. For instance, labor reporting. We traditionally have direct labor and indirect labor. That always amazed me, because I ask people, does the money come out of different accounts for the direct vs. the indirect labor? They're both a cost of doing business.

### Sot (solomom):

So the whole notion of direct and indirect labor is something we move away from. When we move away from it, we have one category, that's our work force. What's our total labor content. (Edit out - So to get to your question,) we eliminated all job costing, all labor transactions. How many hours did you get this week, that's what we're paying you for.

The other reason it becomes very difficult to track labor in a lean environment is because we're going to cross-train everyone. They're going to be moving from job to job all day. If you were going to track that in a traditional way, you'd be overwhelmed with transactions and people spending time clocking in and clocking out instead of doing valueadded work. So yes, we've removed a lot of transactions, particularly labor. In our routings we've eliminated routings on the computer, we just have paperwork that follows the work. We check off some boxes. We don't have any standard costs, we don't have any

variances. We have a target cost, and our goal is simply to get better each and every day. So we find out what our average cost was this day, this week, this month, and our goal is to get better.

SCENE 35 C (SOLOMON) TAPE 8, T.C.: 8:11:56 TIME: 44 SECONDS

So we've eliminated 95 to 98 percent of labor transactions, all of our labor routings, a lot of shop floor paper. We eliminated purchase orders, and it could go on and on. I would say all in all probably 90 percent of transactions have been eliminated.

### (Edit out Steve's follow-up question)

The goal is not just to eliminate transactions. Really what we want to do is the people that were spending time doing those transactions are now helping other folks improve the business, engage in the business, be part of the improvement teams. Some people might think if you eliminate all that work, now we don't need the folks. No, we want to redirect the folks to things that add value. So it has been fun, and it takes some of the drudgery away from the folks in terms of doing clerical work.

SCENE 35 D SUGGESTED B-ROLL FINANCIAL REPORTS

#### NARRATOR (VO):

BY REDUCING TRANSACTIONS AND SIMPLIFYING

FINANCIAL REPORTS, LEAN ACCOUNTING HAS CHANGED

THE WAY DECISIONS ARE MADE AT MARQUIPWARD UNITED.

SCENE 36 (Hentschel) TAPE 9: T.C.: 9:08:14 TIME: 46 SECONDS

C.G.

sot: (Hentschel)

The lean accounting has helped me in forecasting and budgeting tremendously. The main reason is the people understand the numbers. The people running the operation understand what they're spending, what they're DIVISION CONTROLLER information that makes it more easy to MARQUIP-WARD-UNITED forecast. going to spend, they provide me with

They actually do the forecast and get it to

me. With traditional accounting, because you're probably the only who really can get through all the numbers, you come up with the forecast. You give it to the operations people and you ask them does this look right? This works the other way around. They give you the forecast and you review it with them.

SCENE 37
SUGGESTED B-ROLL
PLANT FOOTAGE,
ACCOUNTING OFFICE

# NARRATOR (VO):

WHEN CONSIDERING MOVING TO LEAN FROM

TRADITIONAL ACCOUNTING PRACTICES A KEY ELEMENT

IS PACING. ACCORDING TO THE EXPERTS,

SWITCHING TO A LEAN BUSINESS MANAGEMENT SYSTEM

SHOULD BE IMPLEMENTED OVER TIME AS THE NEW

METHODS ARE LEARNED AND APPRECIATED.

SCENE 38(FIUME) tape 2, T.C.:2:13:13,

time: 2:15

C.G. \*PACE ACCOUNTING CHANGES WITH OPERATIONAL CHANGES

\*SPEND TIME IN OPERATIONAL AREAS

\*INITIALLY USE PARALLEL STATEMENTS

sot: (FIUME)

Many people ask, where do I begin? How do I start this transformation process to Lean accounting? What I recommend to people is that they have to understand the changes that are being made in the operational areas in order to understand the changes they need to make in the accounting area, and the pace of that change.

If we change our business processes significantly faster than the rate at which the operation is changing, we run the risk of creating havoc. If we change the business processes at a rate significantly slower than the rate of change that's taking place in the operation, we run the risk of becoming blockers. So as financial people we have to become much more familiar with what's happening in operations than we ever were, and the only way to do that is really to spend more time physically in the operational areas.

With regards to the financial statements, because we have a period where part of the

operation is implementing cells and flow, and part of the operation is still in a batch and queue mode, it's a very difficult period from an accounting standpoint. What I recommend to people is that they produce the standard cost statements as they always did. Then as supplemental information, produce the plain English P&L also, and run those two in parallel for some period of time. At Wire Mold we ran in parallel for probably 14 or 15 months before we shut off the standard cost statements. But it's during this period when you run parallel that you have the opportunity to really understand the bridge between the old and new method of looking at your financial information.

SCENE 39 SUGGESTED B-ROLL PLANT FOOTAGE, MEETINGS, ETC.

### Narrator (VO)

TO MAKE A SUCCESSFUL TRANSITION TO LEAN ACCOUNTING, THE ENTIRE ENTERPRISE MUST CHANGE THE WAY THEY DO BUSINESS BOTH INTERNALLY AND EXTERNALLY WITH SUPPLIERS.

SCENE 40 (MASKELL) TAPE 5, T.C.: 5:25:24,

TIME: 1:21

sot: (Maskell)

Some of the roadblocks to implementing Lean accounting are traditional things like people's resistance to change. To overcome that roadblock you have to demonstrate the importance of making the change. This is similar to Lean manufacturing. Many people really resist that until they really get it, and it's the same with Lean accounting. You have to kind of get it and understand why it's different. Another roadblock is that Lean accounting works by value stream, and that means that various departments of the company that have in the past worked independently, now need to work together. Decision making has to be more of a consensus rather than the product manager having the last say, so there is sometimes some objection there. There's also the pseudo-objection (edited out pause) of saying this can't apply to generally accepted accounting practice, and will the IRS and SEC accept this. In fact Lean accounting is better suited for that kind of external

reporting than traditional accounting.

SCENE 41
SUGGESTED B-ROLL

## NARRATOR (VO):

ACCOUNTING ACTIVITIES

BY PROVIDING REAL NUMBERS IN A TIMELY AND

UNDERSTANDABLE WAY, THE ROLE OF THE MANAGEMENT

ACCOUNTANT BECOMES INTEGRAL IN VALUE-CREATING

BUSINESS FUNCTIONS. AS KEY PLAYERS ON THE

VALUE STREAM TEAM, FINANCE PEOPLE SUPPLY

INFORMATION ON ACCOUNTING, CONTROL, AND

PERFORMANCE MEASUREMENTS THAT SUPPORTS AND

ENHANCES THE CONTINUOUS IMPROVEMENT PROCESS.

THE LEAN MANAGEMENT ACCOUNTANT CAN BECOME A

CHANGE-AGENT WITHIN A WORLD-CLASS

ORGANIZATION.