LEAN MANAGEMENT CASE STUDY

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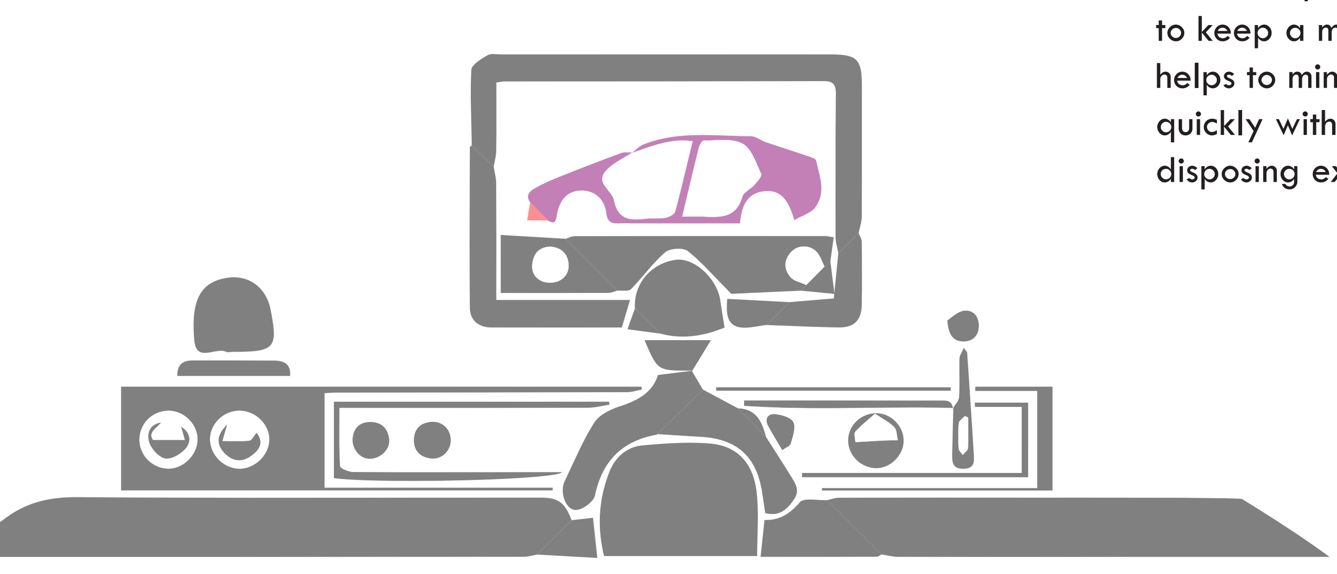
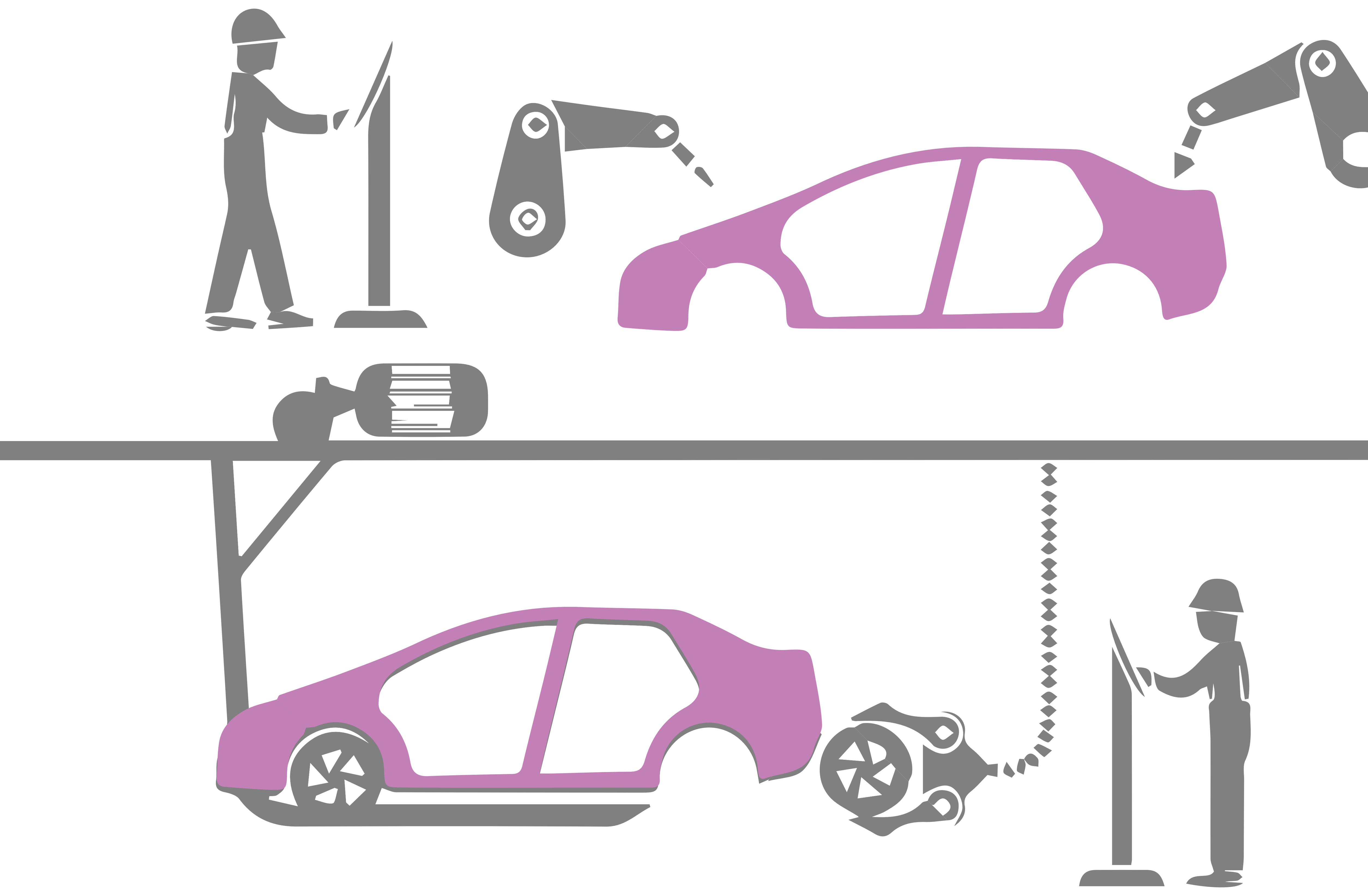
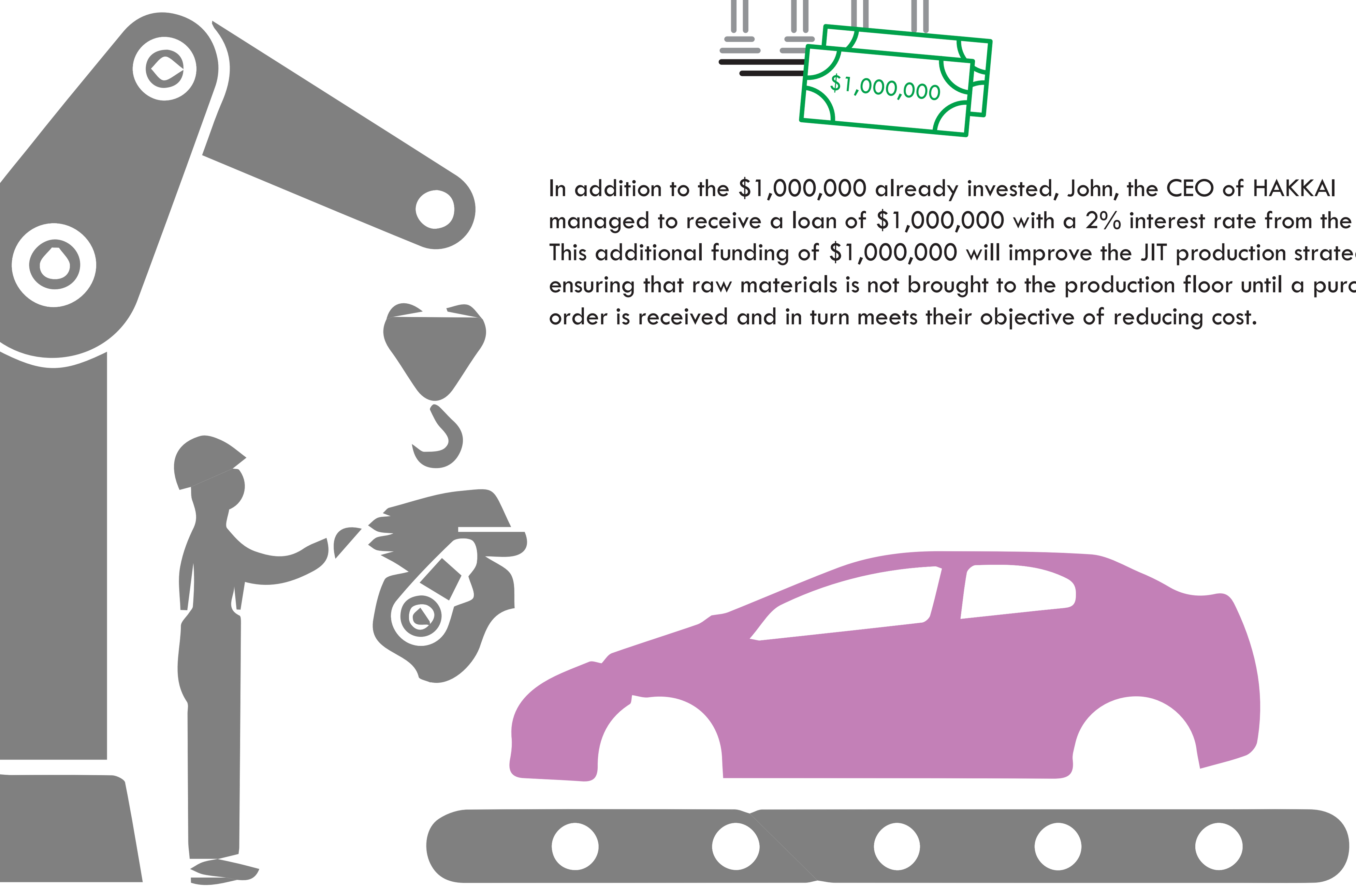
HAKKAI is a Japanese multinational automotive manufacturer that is headquartered in Tokyo.

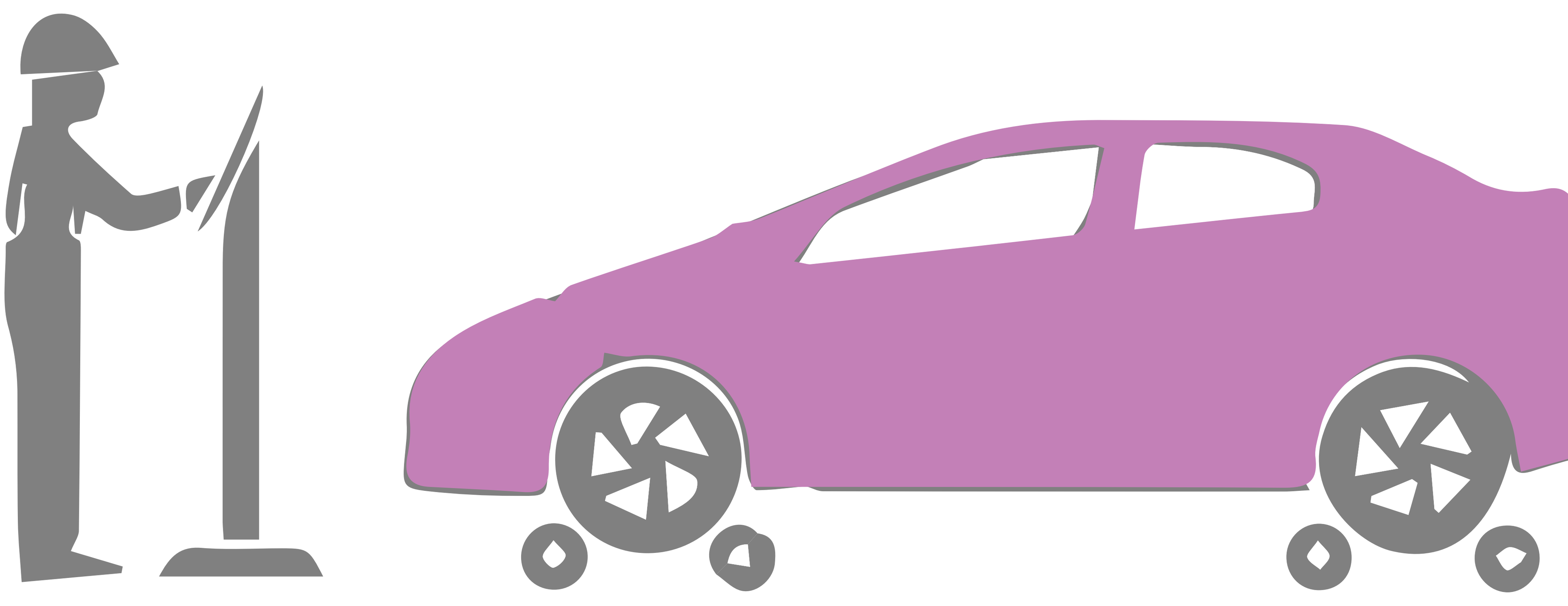
Currently, they have some issues on not being able to fully utilise their excess unused inventory. They recently invested $1,000,000 to develop a Just-In-Time (JIT) production strategy where it helps to keep a minimum amount of inventory in their warehouse and helps to minimise cost. This philosophy helps HAKKAI to adapt quickly with the changes of demand without the worry of disposing excess unused and expensive inventory.





In addition to the $1,000,000 already invested, John, the CEO of HAKKAI managed to receive a loan of $1,000,000 with a 2% interest rate from the bank. This additional funding of $1,000,000 will improve the JIT production strategy by ensuring that raw materials is not brought to the production floor until a purchase order is received and in turn meets their objective of reducing cost.





HAKKAI's Cost of Funding

2%

Rate of Return on all Investments

40%

Payback Period of maximum

4 Years

John projected that the cash flows from this investment for the next 5 years are as follows,

Year	Cash Flows ($)
2020	510,000
2021	520,000
2022	530,000
2023	540,000
2024	550,000

The project's returns for the next 5 years are shown below,

Year	Earnings ($) (After Tax & Depreciation)	Book Value Jan 1 ($)	Dec 31 ($)	Average Book Value ($)
2020	500,000	2,000,000	1,800,000	1,900,000
2021	700,000	1,800,000	1,600,000	1,700,000
2022	1,000,000	1,600,000	1,400,000	1,500,000
2023	1,300,000	1,400,000	1,200,000	1,300,000
2024	1,800,000	1,200,000	1,000,000	1,100,000

Using your knowledge of project evaluation tools, evaluate whether this JIT production strategy is worth HAKKAI's investment.