Cost: A Perspective

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Whenever I think of cost overruns, Diabetic Mellitus comes to my mind. The symptoms are elusive and needs proper diagnostic study to identify the cause.

It is always said that we need sugar in our body . But excess sugar or less sugar is bad. Similarly it is imperative to have cost incurred in all our activities, but excess than required is fatal in long run.

- The first alarm will come from the customer that the competitors are becoming cheaper.
- The next alarm comes from the finance head , calling for review of the expenses/ poor realisation of sold product.
- You may see excess rejection rate in the shop floor. Many reasons, from raw material substitution, improper training to workers, non existing of SOPS, poor quality & measurement system to poor maintenance.
- You may see frequent breakdown of machines due to poor maintenance schedule and spares
- You may face a poor planning process, which does not tally on the machine scheduling.

Where to start and how to have a system to monitor and improve upon the above situation is the challenge we may need to explore.

Cost and processes: Any process (group of activities) has two components. One is the expenses incurred in executing them and the other is the value added product/service we receive at the end of the process. As long as the value of the product /service is greater than the cost/expense incurred, we are living in the comfort zone.

Efficiency is the output / Input ratio. If I am above or at par with the competitor I am successful.
Effectiveness is the resources needs to deliver a unit of the output. It would be man hours, machine hours and other expenses (expect Raw material) to deliver a unit. The higher the cost is the lower the competitiveness.

Cost : short term or Long term?

Why do we need to see this differentiations, while I quoted failures are causes of the cost overrun, which may addressed in parts. I may train the manpower, may improve maintenance, prepare SOP or proper production plan and eliminate the bottleneck in the process.

Yes, we can eliminate by proper measures in the shop floor. But the task on any leader is to identify cost over runs, maintain the cost targets and even plan to reduce the cost over the years. We need an approach in which all (workers, staff, managers and stake holders) are working in identifying, monitoring and reducing the cost over a period. This needs an approach of looking cost as a function of activities.

Variation: The variation in the process is normally the culprit of the rejections. We can identify the causes of the rejection and eliminate by suitable counter measures. Quality Tools are effective in diagnosing, eliminating and controlling the rejection rate. Some problems are quite systemic nature, needs application of the statistical tools. In some cases, we need six sigma tools to identify and eliminate problems.

Wastes: I request you to take a process and chart down the activities. List the activities as

- Important
- Not important
- Not important , but needed.

Can we eliminate the "not important" activities ?. In lean parlance, we call the "not important" as waste. Identifying eliminating waste on a continual basis is first challenge of any organisation.
Some of them are:

- Transport : Can we eliminate at all possible levels?
- Inventory : Can we think of minimum inventory and slowly eliminate this?
- Motion : What are excesses?. Can we reduce/ rework/reconfigure?
- Waiting: Can we eliminate it?
- Over-Processing : Why do reprocess?
- Overproduction: Utilising the capacity to offset overheads is a poor choice?
- Defects : Do we need defects?

Routines: It is important to have SOPs. It is better the movements of all workers of an activity in any shift remains similar. It reduces process variation. For critical operations, please :

- Design a model of operation
- Structure practice routines
- Implement in the floor and monitor it.

I assure you, most of the problems will be addressed

Cost of Poor Quality: This is another concept becoming popular. Poor quality is defined as failures in the shop floor/ factory and at the customer place.

Rework is a poor quality act. Rework blocks the machine capacity, consumes additional manpower and other service charges. Thus the cost of a rework is total cost of all activities deployed in correcting it. When I did my first COPQ, I found it shocking to have 15% of sales of a company. This tool gives a direction in eliminating the activities to reduce the cost of poor quality.

Others: There are many tools which indirectly reduces the cost of operation.

Reducing the setup time:

Reduction in set up will aid in increasing productivity and reduce cost.

Recently, Chinese are designing a method of entraining and detaining the passengers at the stations without stopping the train, challenging our mindset that train needs to stop at stations.

Mistake Proofing, BPR are some other tools which facilitate in reducing the cost.

End Note: I believe the following of three things for cost control and reduction

1. It is necessary to have a budget in place. The variance analysis will give us the scope and direction for taking corrective and preventive action

2. It is better to target for reducing the cost over a year. We can plan the requisite skills, method, technology and other resources in achieving the reduction

3. Workers can play important role in identifying and eliminating wastes. We can empower them to manage production, quality and safety of respective areas. They are important people in bringing a participative culture.

There are many other factors like location, technology, machines, logistics and culture play important role in the cost. But the points I discussed would certainly give canvass to plan your programme in reducing cost, which are independent of location, technology and logistics. Wish you a great journey.

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