Managerial Accounting Group work

2018-11-21

2.4 Kindly advise how senior management of your company can use the following concepts in order to improve the performance. Your suggestions should be specific and practical in nature:

- Target Costing, Kaizen Costing, Total Life Cycle Costing, Total Quality Management and Benchmarking

"Kaizen" - continuous optimisation (Jap.) is a costing concept, in which cost reduction takes place by iterating frequent/small improvements in the production phase. After the second world war, Japan found itself with an economy in ruins, Taiichi Ohno created *Ohnism*, later known as *Toyotism* (after Toyota's production system) (Delers, A 2015). Kaizen costing tries to get all employees to participate and improve the company and its production. It's effectiveness can be said to be due to the fact, that the employees in e.g. the production line know best about the production line's processes. Those working within a certain process on a day to day basis see recurring problems best and thus may know how to minimise negative impact. Kaizen Costing has limitations in form of relying on the necessity of the participation of employees. Without active participation, kaizen is impossible. Thus, kaizen also gives recommendations on how to best get employees to get involved actively and continuously.

The Kaizen concept can be used in conjunction with e.g. Total-quality-management, in which employees get involved and contribute towards getting closer to perfect quality and thus better customer satisfaction.

McDonald's is a very good fit for kaizen implementation. It's production processes are really dependent on the people. Many changes have been happening to McDonald's of which many are likely to have been due to kaizen originating idea's. The JIT (just in time) tool, can be used by McDonald's within the production system, and actually has been for a long time now, to not have the patty beginning to cook when the rest of the burger is already sitting there waiting. In 1998, McDonald's had serious flavour issues, their solution was an assembled system called *Made for you*.
Made for you ensured quality and minimised time-loss/inefficiencies. Their cooks have to have had a major role in the design of this system, considering that they would use it everyday.

Often in McDonald's the concept of *The law of diminishing return* can be a problem. Imagine twenty people crammed behind the counter, not being properly able to move, a recommendation for McDonald's would be to work on the placement of employees and the precise processes they are reliable for. A McDonald's employee has mentioned to me how he feels that there is a time-lag between having an order and having the order being started produced, this could be improved upon by having better communication between order reception and kitchen. The new self-order-systems they have is already closing that gap. Kaizen recommendations are especially hard to give, as their origin tends to be withing the production line of the firm because of the closeness of the employees to the process.

Target costing within McDonald's has been implemented in McDonald's supply chain forever now. Being a low-cost restaurant, target costing has to have been conducted. Being able to deduce a reasonable cost for a burger is important and could also be derived using benchmarking, thus looking at competitor's prices/costs. McDonald's could specifically use target costing in their newer product lines or their less-low-cost products like the *signature line*. Having greater prices (4.5 pounds on average for a signature line burger) means being able to have higher costs (100% irish beef) at the same profit margin, thus considering the quality/origin/supply chain implications of the ingredients is the correct approach for target costing at McDonald's. (we tried the fancier, p., Johnson)

Total lifecycle costing is necessary for McDonald's. Their complex supply chain and global interconnectedness gives them many cost effective options. Having all these options requires their management, utilising this concept. Total lifecycle costing could be used by McDonald's to optimise their greater-scale operations. The limitation, that lifecycle costing is rather unspecific in nature makes it hard for specific use cases. Lifecycle costing is very useful for observing the bigger picture. McDonald's will find that their residual costs, their cost of getting rid of waste or closing down branches, matters. McDonald's should turn on usage of plastics and should endorse algae or similar recycle-able materials, as the taxation on those goods is significant and the cost involved of having their excess/waste removed immense. A well done implementation of total lifecycle costing in action, is the *franchise* system they use for lowering startup costs for new locations. A more drastic approach could also be thought of, in which labour costs could be reduced via automation.

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