The 7-Step Model

for Successful Cost Deployment (CD)

Cost deployment is an analytical, evidence-based technique that enables leaders to identify, quantify, and understand the sources of most significant operational waste and inefficiency (loss) in their plants. It is also an advanced communication tool, aligning all the efforts in an organisation to ensure that everybody clearly understands the priorities for improvement, its contributions to the business and why it's crucial.

Cost Deployment is a precise technique, and it is essential to understand that it distinctly differs from traditional cost reduction methods. As such, there are specific advantages to this approach.

Benefits of Cost Deployments

Organisations typically set their annual cost reduction target, through Cost Deployment, to be in the region of 6-10% of "Conversion Cost". Nonetheless, 14-20% cost reduction year-on-year has been achieved by clients when complemented with a broader Continuous Improvement Programme.

Take the calculation below as an example:

- Actual COGS: **£ 30 m**
- Estimated "Conversion Cost":   **£ 17 m**
- Estimated cost reduction: **£ 1.0 to £ 1.7 m**

Cost Deployment provides leaders with a breakdown of their plants' losses. It helps them identify where they are losing money in the plant and focus their resources on the most significant benefits.

After its implementation, finance leaders own the Cost Deployment, enabling them to have a much more accurate "true to life" representation of improvements in the budget.

Advantages of the Cost Deployment Method

The benefits of the Cost Deployment approach over traditional methods for reducing costs are:

1. Holistic

Cost Deployment provides a complete picture of all opportunities to improve conversion cost efficiency – where they are and the cause of the inefficiency.

2. Financially Comprehensive

The Finance and Operations teams work closely together to quantify the total and actual cost of each specific type of inefficiency, ensuring that the "hidden" losses are not overlooked.

3. Justifies Continuous Improvement (CI)

A direct relationship between each improvement activity and its cost reduction benefit allows for an ROI-based approach as justification for CI activity – a fundamental factor in gaining support for a CI programme and ensuring its sustainability.

4. Long-Term Roadmap

A continual cycle of improving efficiency by executing multiple prioritised projects in parallel enables cost reduction to be driven at pace. Allocation of specific projects and associated tools provides the clarity and confidence to deliver.

5. Ownership

The approach of cross-functional working and intimate involvement in identifying inefficiency, calculating savings and instigating projects allows for a detailed understanding of the whole process and thus promotes ownership by all involved.
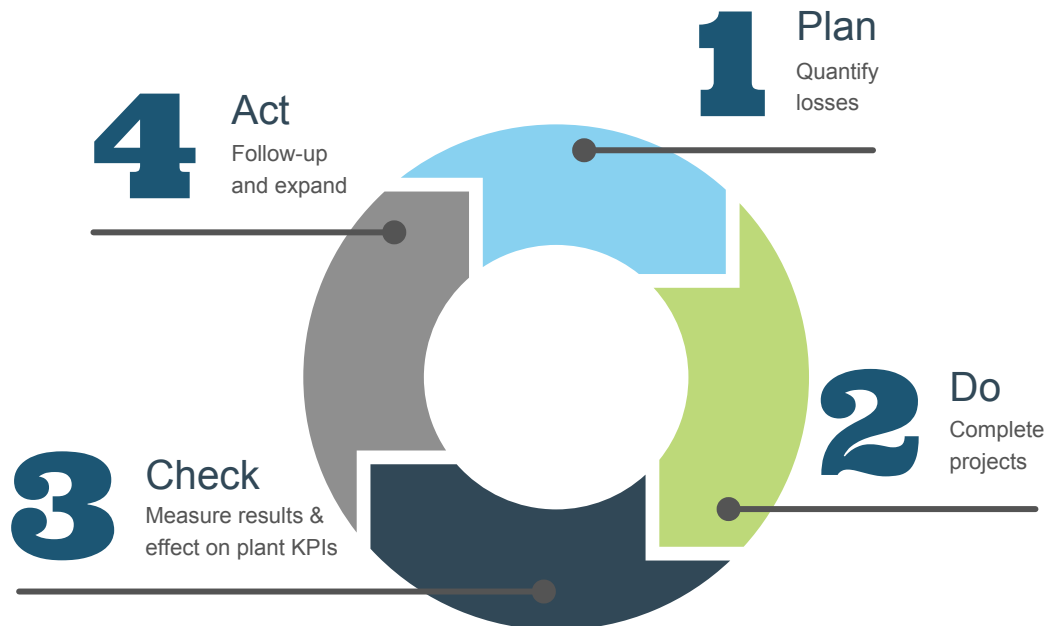
6. Proven to Deliver

Organisations typically set their annual cost reduction target at 6-10% of conversion cost. Numerous organisations have successfully delivered this improvement year-on-year and established Cost Deployment as a strategic business driver.

What is Cost Deployment?

Cost Deployment is a detailed analytical technique used to identify and quantify, in financial terms, the areas of greatest operational waste and inefficiency at a site. The information is then used to help focus and prioritise the Continuous Improvement (CI) action plan for each site and is the first stage of the work to build the "factory cost model".

Your operations and finance teams identify and quantify major areas of waste and inefficiency, prioritising them and developing an improvement plan. From there, the planned and actual financial benefits from the improvement actions are calculated.

1 Plan
Quantify losses

4 Act
Follow-up and expand

2 Do
Complete projects

3 Check
Measure results & effect on plant KPIs

Cost Deployment is the compass to determine the CI tools and methods to apply.

Cost Deployment uses the Conversion Cost as the basis against which the resulting financial improvements are targeted. Eventually, Cost Deployment directly drives the cost reduction aspect of the annual budgeting process.

The salient points of Cost Deployment can be summarised as follows:

- Cost Deployment is a powerful management tool
- Prioritises projects by understanding losses
- Balances simplicity and complexity to achieve results
- Aligns Finance and Operations to a common goal
- "Scientific" way to create a Budget
- Visualisation of losses creates action

The Mechanics of Cost Deployment

Cost Deployment quantifies the total cost of the major types of waste and inefficiency; each is given the term "losses." The losses are calculated by comparing the current performance with a set of 'World Class' measures, grouped into categories:

- Machine losses
- Material losses
- Labour losses
- Supply Chain / External Service losses

Within each category, there are a number of specifically defined losses to provide standardisation across different sites of an organisation.

Initial loss analysis is based on existing equipment and labour. The analysis will clearly show the opportunities/losses by comparing them to expected standards. The output is a programme focused on attackable losses in the short term, thus generating net savings quickly.

Cost Deployment enables people to understand the total value of their plants' losses and engage in the resulting projects.

A set of interlinked matrices is used to represent all of the collected information to formalise the selection of projects. The delivery of a Cost Deployment programme is through a series of workshops that will generate the matrices that form the heart of the programme.

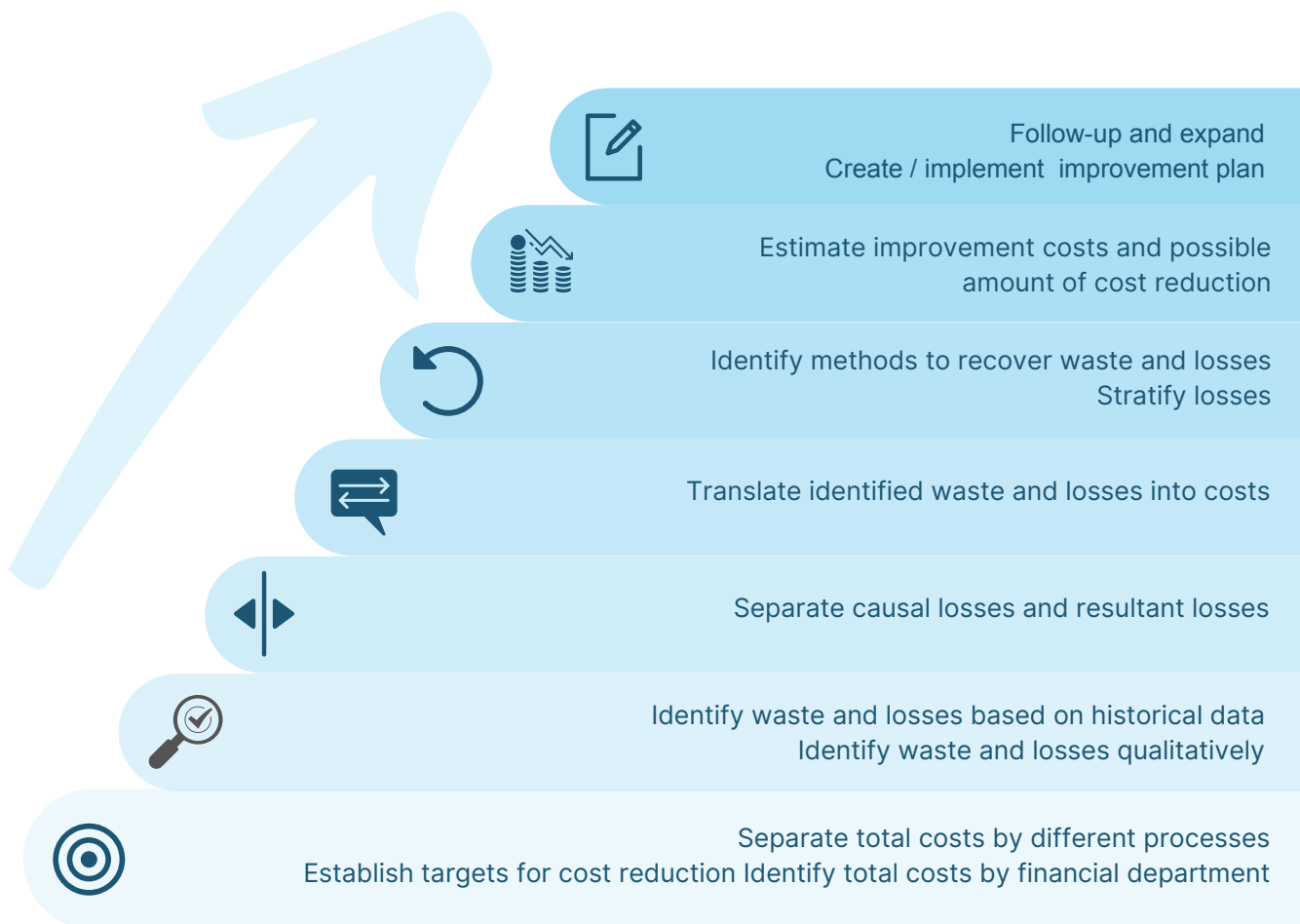## Delivery of Cost Deployment

Cost Deployment is delivered through a series of workshops carefully designed so that the output is achieved in the minimum time with the full engagement of the participants. Generating the output in the form of matrices ("Matrix-A" through to "Matrix-G") creates an alignment of finance and operations.

A 7-step model provides specific focus at each step to ensure a structured approach, the deliverable at each step being the creation and population of the appropriate matrix.

The workshops are interactive, engaging the participants through a "go-look-see" approach and physical media (charts and post-its) instead of purely electronic spreadsheets.

Ultimately, the output is captured in a series of linked spreadsheets owned and managed by the assigned owner of Cost Deployment, usually someone from finance.

7-Steps of Cost Deployment

Follow-up and expand
Create / implement improvement plan

Estimate improvement costs and possible
amount of cost reduction

Identify methods to recover waste and losses
Stratify losses

Translate identified waste and losses into costs

Separate causal losses and resultant losses

Identify waste and losses based on historical data
Identify waste and losses qualitatively

Separate total costs by different processes
Establish targets for cost reduction Identify total costs by financial department

Starting Cost Deployment with Henkan

Henkan will have an initial meeting with the client to finalise the content of the workshops, define the scope, determine the participants, agree on terminology and formats, and discuss delivery dates.

Henkan will then adjust the content of the workshops and material, including any formatting/terminology changes, and adapt to the agreed scope and expectations of the client.

Henkan has supported clients worldwide in their Continuous Improvement journey since 2006, and our clients consistently achieve or surpass industry-standard performance.

The three fully facilitated 5-day workshops are as shown:

Three to four weeks between each workshop allows for the necessary data to be collected and verified from financial and operational perspectives.

This intervening period may be longer if appropriate data requirements have not been established in the allotted period.
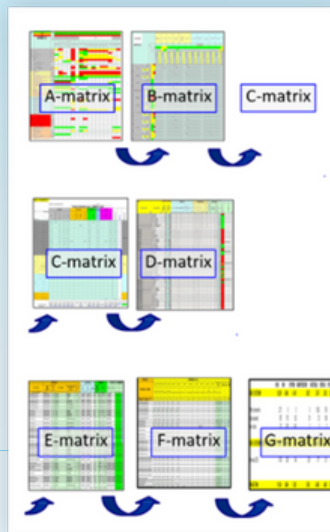
1 The first workshop session will concentrate on loss identification and causal-resultant analysis.

2 At this stage, Loss-Cost calculation and project identification will be defined.

3 The final stage develops project prioritisation, project management & financial tracking.

Want to know more about how your organisation could benefit from implementing Cost Deployment?

Book an Online Meeting

Get in touch

Contact us today to see how we can help your company transform into a world class organisation.

PHONE:
+44 (0) 151 210 5507

EMAIL:
info@henkan.com

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