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Implementing Lean Marketing Systems

Managing Value Streams using Lean Accounting

Guest was Ross Maynard,
Senior Consultant with BMA Europe Ltd

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My guest on the Business901 Podcast,this week,was Ross Maynard, a Senior Consultant with BMA Europe Ltd., and a Fellow of the Chartered Institute of Management Accountants. He has worked as a coach and consultant with a wide range of British and European organizations for over 20 years. He is the author of many articles on Lean accounting and business improvement and specializes in Lean accounting, Lean service, and process simulation and improvement.

BMA Europe is the leading consulting firm for practical Lean Accounting and the management systems supporting the Lean enterprise. The foundations of Lean thinking are very different from those of traditional companies. Lean organizations need different approaches to accounting, control, measurement and management systems. BMA Europe Ltd. and sister firm BMA inc. have nearly 20 years experience in assisting organizations making the transition to becoming a Lean enterprise.

Related Website: Lean Accounting SuperGroup (The Meeting Place for Lean Management)

Joe Dager: Thanks everyone for joining us. This is Joe Dager, the host of the Business901 podcast. Joining me today is Ross Maynard, who is a senior consultant with BMA Europe, Limited, and a Fellow of the Chartered Institute of Management Accountants. He has worked as a coach and a consultant with a wide range of British and European organizations for over 20 years. He is the author of many articles on Lean accounting and business improvement and specializes in that field. Ross, let me start out here since I'll have a little different flavor of an audience here. Is there a difference in accounting between the British and the Europe and what you practice and then the U.S.?

Ross Maynard: Well, what a question to start with Joe and good afternoon to you. There is not a big difference between what you might call a western approach as to accounting, so United States and Europe. The accounting standards are very much the same as international accounting standards. There might be some differences in other parts of the world, perhaps South America and Asia, but between the U.K. or between Europe and America there're no big differences, no.

Joe: I find Lean Accounting a very interesting field. I think accounting has really taken off in predictive measures, and something that I think is an integral part of management today. Numbers and data are so important, have you seen that influence grow?

Ross: Well, definitely. Companies that are moving towards a Lean environment, they get very much more responsive; they want to be much more flexible in their approach to customers and internally within the business. That lays a lot more emphasis on getting performance data and financial data very much more quickly from their finance processes. So yes, there certainty is a greater emphasis on data, but also on rapid feedback, timely feedback.

Joe: When we talked about Lean accounting everybody and I disdain this approach, I mean it bothers me when everybody always just talks about waste first in Lean. However, is that what Lean Accounting is about? Is it just about removing waste, or what is it? What's the purpose of it?

Ross: No. It's not just about that. I mean if we sort of start with a definition of Lean, I'm sure everyone will know the Taiichi Ohno definition, which of the top of my head is something of along the lines of we start with a customer order, and we are talking about the time-line between the order and collecting the cash from the customer. The aim of Lean is to remove the waste from that process. So Lean is about a process, and it's about improving the speed or improving the flow through the process. Lean Accounting provides the management system for that. So Lean Accounting is about aligning your costs and your revenues with the process or with the value stream as we call it, therefore, being able to identify the financial impacts of removing waste, being able to forecast the financial benefits which will come from Lean improvement in the future.

So it's very much about aligning our costs with the flow through the value stream, and therefore being able to understand the linkages between flow and the impact on cost, and improving the flow by removing the waste and how that will impact on costs.

Joe: When Lean is applied to the accounting field, it really makes people or makes accountants get out of the office. Doesn't it? It makes them get out on the floor.

Ross: That's one of the wonderful things about Lean accounting in my view. I started off as an accountant, qualified 20 years ago, in front of spreadsheets and computers and things. Lean accounting is about getting the data and the finance people into the work areas, into the value stream, helping the value stream team understand the data, understand the implications of the data, and maybe model what some of their improvements might look like in financial terms. It's very much about the finance person getting out of the office and working with the team towards improvements.

Joe: Can you be Lean without Lean accounting and can you apply Lean accounting without being Lean?

Ross: Well, I guess you can be Lean without Lean accounting. The difficulty is if a company is using perhaps a traditional approach to cost accounting; standard cost accounting let's say; that is in conflict with the Lean philosophy. So at some point during the Lean improvement the organization will be getting conflicting results from the Lean processes and different results from the finance processes, because the concept of standard product cost, concept of variances tends to encourage people to build stock, build inventory and also to run large batches in order to absolve overhead.

There is going to be a conflict at some point. Therefore, many organizations as they get better at Lean start to realize that their finance system is in conflict with the Lean philosophy, and start to need to adapt their finance system.

The second part of your question was Lean accounting without Lean. Well, I guess there is not a huge point in doing Lean accounting unless you really want to implement the Lean philosophy. I mean, sure, you can align costs with processes; sure you can build in performance metrics to that. But it's only going to drive improvement as part of a Lean philosophy, I would suggest.

Joe: The Lean attitude of building a value stream, I think that's one of the complaints I've heard about Lean accounting is it's all about value streams, and it's all about dividing them up to assign a cost to things. It's rather cumbersome, and it's rather difficult and very timing consuming to do. Do you feel that's a fair appraisal?

Ross: No, I would disagree with that. I would agree that it is a change of mindset. An organization involved in Lean needs to start looking at its organizations' structure and move from sort of a departmental functional form of structure to a more value stream based organization. That of course has ramifications for managers, for lines of responsibility and all that sort of thing. Moving towards Lean certainly requires a mindset change, a culture change. That's true of Lean generally not just Lean accounting. Lean accounting is designed to be much simpler than traditional costing methods. So we are not trying to allocate or apportion overheads to value streams when they can't be controlled in the value stream.

For example we are trying to look at the direct costs of the value stream, we are not trying to be cumbersome and come up with different methods of allocating overheads. Lean accounting is the opposite of activity-base costing for example.

Joe: Is my value stream the way you look at it as an accountant different than what my value stream is for workflow?

Ross: No, certainly not. Lean accounting would be part of the Lean process. You would move towards a value stream organization and the Lean accounting philosophy can help you define what that organization might look like or even what the different alternatives might be for value streams. Because it's often not entirely clear at first what an organizations value streams should be. And then, it will be concerned with aligning your cost centers with the value streams, so that we can collect the direct costs very straightforwardly, and therefore start to report financial data on a weekly basis to get the rapid feedback that I mentioned earlier.

Joe: Am I keeping a different set of books? Am I doubling my costs as I do this?

Ross: Certainly not. I would accept that, in the initial period of moving over towards Lean accounting, most organizations that we work with want sort of a comfort blanket, of perhaps running in parallel to what they're used to, so that they can compare and contrast and see the impacts or the changes of moving over to Lean accounting. But certainly within six to 12 months you can then be beginning to transfer to Lean accounting without your traditional standard costing approach. It is fair to say though, at the end of the financial year; you have to reconcile to the accounting standards that we mentioned at the beginning. So there will be some adjustment required at the end of the financial year, or whatever the reporting basis is. But this can be done fairly straightforwardly, and again we would develop standard work to enable that to happen.

Joe: You bring in some good Lean terms in there when you are talking here. We talk about Value Stream and Standard Work. In your process of doing Lean accounting, do you need an account to be trained in Lean? He's not going to just pick it up from the book. He's going to be a practiced person to be able to accomplish this, isn't he?

Ross: Yes, and no. Nowadays, students of accounting, particularly management accounting, study Lean accounting and other methods of direct costing. Contribution costing is an example. These are approaches which will be familiar to people that have gone through accounting studies. We often find, working with accountants, that it gives them a new lease of life. We talked about getting the accountant into the work areas working on improvement. That's a great experience for people. It's very empowering; it's very motivating to work with the team.

So it gives accountants a whole new raft of opportunities to expand their skills and work with different groups of people. In most cases, accountants take to it very, very readily because it's broadening their mindsets and their skill sets.

Joe: What have you seen the obstacle for most people, and maybe from let's say different CFOs to take on Lean accounting?

Ross: There are a number of difficulties, obstacles to implementing Lean accounting. Perhaps, particularly, in very large organizations, organizations that have many locations, perhaps work across different countries or different continents. There then become issues of tax boundaries, for example, between countries. That means that we have to negotiate with the different tax authorities and the different duty authorities about at what cost products will be transferred between locations. So that's one difficulty that requires examination and work. Sometimes large organizations, again, are very committed to their computerized accounting system that they have, and it takes quite a lot of work to start to adapt that accounting system to the Lean philosophy.

So, again that can be a bit of a barrier. It's also the organization change aspects that Lean, or so, is concerned with moving to a value stream organization can have an impact on management and management structures.

Joe: I find it interesting, the value streams, because that's really how I practice marketing. I try to divide things up into value streams. So one of my interests in Lean accounting because I think it makes so much sense of building the organization from the value you provide a customer. Is that your take on it?

Ross: Oh absolutely, yes. In fact, in terms of the Lean measures that we use in Lean accounting, I would always encourage the client to think of what measure of customer value can they build into their value steam accounts. What measure, what is the customer looking for, and how can we measure that in a sensible and timely manner to focus on the customer value aspects. I can give a small example of that if you are interested?

Joe: Sure.

Ross: For example; We are working with, I won't name the company, but a company in the aerospace industry at the moment, an involved engine manufacturer. They were traditionally looking at the cost per product for the pieces that they produce. And then when we began to analyze the customer value aspect, they began to realize that the customer actually values the time that the engines are in the air. They don't want them to be always being maintained, always having to be checked and refurbished. So they came up with the concept of cost per flying hour as a measure for the value stream. Because in actual fact, you don't necessarily want to be reducing the product cost of these engine components. You want to be adding value, which is flying hours for the airline companies or the aircraft companies. That can mean a higher cost per part to give more flying hours.

So that became a key measure of customer value through their value stream.

Joe: You talk about the key performance indicators. One of my things is I always look at velocity. Is there a way to measure velocity?

Ross: Flow, yes. We measure flow through the value stream through a number of measures. In the manufacturing environment, you can measure manufacturing lead time, for example, customer lead time as well if an item is built to order. In a service environment, customer lead time is appropriate. We can also measure the amount of inventory in the process, so raw material inventory, work in progress, and finished goods. The amount of inventory is an indication of the amount of flow time through the process, as you can imagine. So those are areas of measures of flow that we would typically use.

Joe: From a costing aspect, are you a proponent of a certain type of costing method, like target costing?

Ross: Well target costing is indeed a key tool in Lean accounting. Again coming back to the customer value that you mentioned earlier, when you are developing new products or perhaps considering re-engineering products and services of course, you want to be looking at the market price, the market value and working back from that market price. What's an acceptable level of profit, and therefore what is the target cost we need to try and achieve for this product or service through the value stream? So yes, target costing is a key tool in Lean accounting.

Joe: You talk about value a lot, but how do you measure customer value?

Ross: That's a big question, and that comes down to the Lean tools of voice of the customer. For example, most products have a commercial market, apart from perhaps kind of defense products, and therefore there will be a range of alternative products, competing products in the market place. We can analyze how those products and those competitors deliver value to the customer and we can look at where we rank against those in terms of perhaps service, delivery, quality, etc. We can begin to analyze the customer value in our product or service on a kind of spectrum compared to the competition. And that gives us some pointers in terms of how we can improve our customer value, and therefore that helps drive process improvement.

Joe: So you really have to, let's say, get in bed with the marketing department, don't you?

Ross: Well, I'm sure it's always pleasurable to be in bed with the marketing department. But yes, sales and marketing is a key part of value stream improvement and Lean accounting. We really want to be able link as close to the customer as possible in terms of the measures that we put in place and also to the supply chain, as well.

Joe: How can you use accounting to be predictive, how do you go about doing that? When I say the words it's nice to say it, but is it truly possible?

Ross: It is possible, but like a prediction, like all forecasts, there are sources of error in there. As I'm sure you know, there are forecasting methods and techniques that we can use to improve our forecasts as we move forward. Essentially in Lean accounting the way to be predictive is to accumulate data over time. It's about trend analysis. One of the reasons why we advocate weekly reporting of Lean accounting data into the value stream is so that we can get, in a short period of time, a large sect of data, compared to the performance measures of the value stream. We can start to predict how improving flow, for example, will impact on costs, how reducing waste or reducing inventory will impact on cost and cash flow. We start to predict by using data over a period of time, like most forecasting approaches.

Joe: We do this year-end statement and then we do this budget out there for the year. There is so much uncertainty in having a year budget. Is that really sensible in today's world? What's your view on something like that?

Ross: Well, Lean accounting essentially says we should move away from the annual budgeting circus, which can become a very political process. It's about departments conflicting with each other and trying to make ground against each other. We should move towards a much more rolling budget process. We advocate a monthly forecasting rolling process, which is typically predicting ahead one year or two years depending on the market circumstances. Because we are doing it frequently and because we are constantly taking account of changing environments, we are able to forecast, hopefully, more accurately.

At the end of the year or whenever, this has to be rolled up into some sort of budget for shareholders or marketers, etc. But having an ongoing monthly process allows continuous improvement to be applied to that process, so that we are constantly keeping a link to market conditions.

Joe: If I was sitting there looking at a dashboard, I would have my monthly budget across the top of it looking like a slow ticker tape.

Ross: Sure.

Joe: Is really what you are saying there is that it's changing, and it's moving. If it moves out of what parameters I put in there, let's say that it's even numbers such as we do in the supply chain where we have red, yellow, green...

Ross: Yeah, absolutely.

Joe: You could be sitting there looking at it and seeing if numbers are fluctuating too much, too many variants and different things like that, correct?

Ross: Entirely correct, and that is very common in organizations that we work with. I'll also say that the budget, or let's say the rolling forecast, should be linked to our improvement plans, as well. So we'll have Kaizen's plan for the value stream, we'll have improvement activity planned, and that means we can plan what the financials would look like once those improvements are successful. We can do let's say 90-day forecasts for the next 90-day improvement plan and longer term forecasts, as well. So it's closely linked into other Lean activity.

Joe: You know the old saying that if you're not working on your constraint, you're not doing anything well at all. I think one of the problems that we have in a lot of organizations, they will come in, and they'll start making rapid improvement. But all improvement is not necessary, does Lean accounting follow some of the things that we're really going to look at TOC or that bottleneck or that constraint, before we start making too many improvements?

Ross: Yes. In line with Lean improvement philosophy generally, we would say the bottleneck constrains the flow of the velocity of the whole value stream. We've already mentioned performance measures, and we've mentioned aligning those with the financial data. We would also say we should align the capacity of the value stream in there and in particular the capacity of the bottleneck process or activity. If we're talking about a scoreboard that you mentioned, we might have let's say six or eight performance measures, key performance measures of flow and quality, customer service. We would have the key financial measures, and we would also have the capacity at the bottleneck, the productive capacity which is the time spent doing work right the first time, of course.

The non-productive capacity, which is the time that we lose to waste, setups, changeovers, down time, scrap, etc. and the available capacity which of course is free to do more work. This is going to be most constrained at the bottleneck and therefore this is focusing our improvement activity on the bottleneck process.

Joe: This isn't the typical accountant. We've kind of touched upon this earlier, but when you become a Lean accountant, it sounds like you're becoming more of a coach and more of a consulting party in these groups, rather than the guy sitting there saying, "The numbers aren't right here"?

Ross: I totally agree with you. Lean accountants are not just guys, by the way; there's plenty of girls out there too. And yes, of course you start wearing flowery T-shirts and sun specs when you become a Lean accountant, you become much more groovy as a person.

But yes, you're a business partner; you become part of the value stream team. You work; you help, perhaps coach, facilitate improvement, facilitate the understanding of what the data means in linkage to the performance measures. It's being an integral part of the improvement team, neither higher nor lower in status than the supply chain expert or the engineering people, or even the operational people.

Joe: You really look at a corporation then through the processes, not necessarily by departments. Is that true?

Ross: That is entirely true. One of the objectives of the value stream organization is that we should get people who have perhaps traditionally worked in departments, as close to the flow as possible. And this means having real engineers working in the value stream, real maintenance people working in the value stream, a real Lean accountant working in the value stream.

Joe: If someone wants to learn more about Lean accounting, you participate in the Lean Accounting Super Group?

Ross: The Lean Accounting Super Group is on the Internet. I'm sure if you type in Lean Accounting Super Group to a search engine, you'll find us. We've just passed the 1000th member stage, which is rather impressive. If you just want to find out about Lean accounting, there are videos and there are articles there. There's plenty of blogs and other information available. If you're a more experienced Lean accounting practitioner, then specific questions can be raised, discussions between different members and so on. So it's a very rich source of information for people interested in accounting and also implementing Lean accounting.

Joe: Now, can anybody join that site?

Ross: Oh, absolutely! It's free to join, anybody can join. As I say, there're lots of information there even for the curious just wanting to find out a little bit more about Lean accounting.

Joe: Just describe a Lean accounting process to me a little bit, if we can visually do that at all. When I'm looking at it, I picture it as I'm looking at value streams, and I determine my cost per value stream. I'm not really looking at let's say a balance sheet or a P&L statement of that value stream, am I?

Ross: Well yes, you are actually after a short period of time. I would typically say that the first step to a company or an organization that wants to move forward with Lean accounting would be the actual "Define the value stream" stage. I mean; you slightly glossed over it there, but it's important for a company to get its value streams right at the outset. We don't want to have too many value streams because then the teams will be too small, and there will be too many sets of accounts to put together. Or too few value streams, and then it will start to be meaningless and we won't be able to support decision making and improvement. The value stream definition stage is pretty important and is worth senior management time to look at the alternatives and see what the options might be.

When we've got to that stage we can then start to look at the structure of the accounts process, how our cost centers structured, start to align those with value streams. After that we should be able to start to get a value stream profit and loss statement, as I mentioned, on a weekly basis, but also perhaps consolidating that on a monthly basis.

Now this is the direct costs though of the value stream, so we're not attempting to allocate or apportion any corporate overheads to the value stream. These are the costs that the value stream team can control and manage, and are, therefore, responsible for. So, the value stream profit is more or less, as some people describe it, as a contribution. It's that value stream's contribution to corporate profit and also to corporate overheads.

So it's the profit that they can manage within the value stream.

Joe: So is it just not contribution margin said differently?

Ross: Effectively it's the same as contribution margin by value stream. Yes, I would agree.

Joe: OK. I'm not an accountant, but an accountant would certainly recognize that and be familiar with what you're doing?

Ross: The accountant would certainly recognize that and would be familiar with the term "contribution margin". It depends, actually. In Europe, the companies tend to prefer the term "contribution" because it's not a profit in the sort of financial definition of the word profit, because we haven't got overheads in there.

Joe: We talk about defining that value stream, and that is a very difficult process. Do you keep that internal to the company that value stream?

Ross: It depends what you mean, and it also depends how well advanced the company is with Lean. Usually, initially the value stream will be internal to the company, and it will be equivalent to let's say a product family, a family of products with a similar process flow. However, as companies get better at Lean, and they, therefore, progress with their Lean accounting, value streams very quickly become aligned with customers and/ormarkets, as well. So there should be a linkage with the market, and as we mentioned earlier, we should be trying to build in performance measures of customer value for example.

Joe: When you first apply Lean accounting, do you kind of get a group together, built around that value stream and have a Kaizen event to implement it?

Ross: Certainly, yes. We would be looking for a cross-functional group, so not just the finance people. As we perhaps mentioned earlier, supply chain people, purchasing people, sales and marketing people, because we want to get as broad a view as possible as what the data should look like, what the performance measures really are of flow and quality, etc. So yes, a Kaizen event or a number of Kaizen events over six, nine months will typically be required to implement Lean accounting stage by stage.

Joe: What has been your biggest drawback for being able to implement Lean accounting?

Ross: I think funnily enough the biggest drawback or the biggest difficulty is the company culture. I mean, often Lean accounting and Lean generally will be done on sort of a pilot basis. There will perhaps be a pilot value stream. And that's fine, but the people who work in that value stream also have to work in the sort of traditionally organized business, as well. And there can be conflicts of behavior, conflicts of incentive sometimes even, company incentives based on profit which might not be the same as improving flow.

So moving the company mindset away from a traditional organization structure to a Lean focus, a value stream focus is probably the biggest difficulty.

Joe: What type of organization would not fit in trying to attempt Lean?

Ross: Well, I think that an organization that was very traditionally based, that was strongly wedded to a culture of product cost accounting, for example, very much wedded to perhaps outsourcing product rather than building value streams within an organization. It would be difficult to implement Lean and Lean accounting in that type of organization, perhaps in the defense industry, as well. Defense projects are often done on sort of an allowable profit basis, a cost plus basis, and that means there's not necessarily an incentive to improve the flow and improve the value stream basis.

But in all industries there are companies doing Lean, and Lean accounting can be applied, therefore, in all industries. It's a matter of mindset rather than any physical attributes.

Joe: When you look at the different other disciplines of accounting is there a certain type of accounting that is more applicable of changing to a Lean accounting system?

Ross: No, I don't think so. I think accountants are skilled people. It takes a number of years to qualify as an accountant. Therefore, accountants working in any industry and in any particular type of costing environment can move towards Lean accounting. We've never had any particular areas of difficulty. Some accountants are more strongly wedded to traditional methods of costing than others and therefore their mindset may be perhaps more difficult to change. But again, that's an individual mindset issue rather than a structural issue.

Joe: Tell me a little bit about BMA. Are they worldwide?

Ross: Yes, BMA is a fairly small consultancy headed by Brian Maskell. Hence BMA, Brian Maskell Associates. It started in America, started in the U.S., five or six consultants working in America. At the moment, I'm the only member of BMA, who is based outside of the United States. I work in Europe and live in Scotland. We work with clients across Europe.

So, Lean accounting, is still in its fairly early days. You mentioned the Lean Accounting Summit earlier, which is next week in Las

Vegas, and that's perhaps in its sixth or its seventh year. So it is still in its infancy, still in its growth stages I would say.

Joe: Why do you think traditional metrics, or are traditional metrics still effective in today's work? Do you think they're still pertinent to today's market?

Ross: Some of them are pertinent, and some of them are not pertinent. As human beings, we like our comfort blankets. Traditional metrics were sort of born before the Second World War, perhaps in the 1920s when industries were focused on mass production. So, those metrics were entirely pertinent in a mass production environment. Nowadays, we have much more product variety. We have virtually every different customer wanting a different product or a different type of product, different demands. Therefore, the old metrics which are focused on mass production begin to fall apart.

For example metrics about overhead absorption encourage us to use our resources, our equipment and our people as much as possible. Lean says we need to be flexible, we need to change over between different product varieties, etc., etc. So, such metrics doesn't encourage Lean improvement. Metrics are often based on stock levels and, again, absorbing overheads into inventory.

In Lean, we don't want inventory. We want to get as close to the customer as possible, and we want to get as fast a flow as possible. So, those sorts of measures become redundant, as well.

However, there are still good measures which have been around for a long time, measures of quality, measures of customer service and delivery, measures of lead time, which are entirely applicable. We just need to be more flexible and more aware of the impact on the customer of our measures.

Joe: When you bring the supply chain in and you bring marketing in and customers, because I look at marketing today, and I look at products today, that they're really done in much, you know, they just about have to be changed on the fly. We live in a demand world, OK, where people can pretty much determine their own price and their own terms on buying something because we have an overabundance of suppliers.

Ross: Yes, indeed, yes.

Joe: The only differentiation you really have is value. And it's not the value you perceive, but what the customer perceives.

Ross: Indeed.

Joe: When I look at that, I look at the fact that you have to be able to build a flexible structure to be able to supply that just about on an as needed basis. So, you really can't afford inventory?

Ross: Indeed, you can't. But also, Lean accounting gives us a tremendous opportunity to respond to the different customer perceptions of value. By using the voice of the customer and other analysis tools, we can start to see what are the features, what are the characteristics of our products and of our services which a particular customer values. We can map those back into the value stream and focus on improving those activities which add value, and alternatively stop doing those activities which don't add value. Because Lean accounting gives us very rapid feedback, weekly feedback of cost information, we can start to respond and see the impacts of that response very, very quickly indeed.

Lean accounting is focused on that flexibility and on the need to constantly change and constantly be looking at different parameters.

Joe: When I'm looking at this input of data to get this weekly feedback, is there software applicable for this? I mean; this is a fairly quick turnaround you did. Do I have a Lean TurboTax out there or anything, or..?

Ross: BMA is not a software house, and we don't particularly advocate any particular packages or anything in terms of software. Many companies, process companies, have short flow data collection through the equipment that they use. So that can allow data to be ready, well on an hourly basis, let alone a weekly basis. However, we do encourage the team to collect their own data, so to have cell boards and value stream boards where data is manually written on. And that includes finance data. I've seen clients where the finance person on a Monday morning, will go into the work area onto the value stream board, and with a marker pen markup that week's financial data by hand just to make the contact more personal, if you like, for the data, to make people handle the data and understand the data much more. So on the whole, we would advocate personal involvement with the data.

Now clearly, in a highly technical process where there are measurements to nanometers and things, then some systems involvement is also necessary.

Joe: Have companies become sensitive? Do you share too much data, too much financial data to get this accomplished?

Ross: Well, that's a good question, actually, because clearly I'm talking about putting financial data into the value stream and the team working together with that data. That means that the company has to be open enough to be willing to share weekly data with the team, with the people that work for the company. Now, I personally have never seen that as a problem in the companies that we work with, but perhaps it is an issue in some companies, perhaps privately owned companies. But part of Lean philosophy is openness and working together. If a company is committed to the Lean philosophy, they should be committed to the sharing of data.

However, I will tell you that in some cases, clients will visit value streams, and the value stream team and the company are not so keen for the client to see what their actual performance data is. In which case, they will take down the sheet with the finance data on it for the duration of the visit, for example.

Joe: When you talk about the improvement cycle or how you do it, you've mentioned it several times about the standard work. So, the first thing you really have to do from... What's the first step, do you standardize or do you create a value stream?

Ross: The first step is to create the value stream, to understand the value stream and to get the value stream together, the value stream team together to start to develop what the Lean accounting will look like, what the performance measures will be, what the finance data will be. Once you've understood what the data will be you then need to develop standard procedures, standard work to be able to bring that together in a timely basis. If we're talking about reporting weekly into the value stream, you really want to be able to collect that data together within one or two hours. You don't want a huge additional workload, trying to collect the data to report it weekly. You need to simplified and standardized procedures for collecting and reporting the data.

Joe: The other thing we've mentioned and we really didn't expand on a lot was the linkage between let's say the financial benefit and performance improvement and the people. Is that something that is particular to Lean accounting or is that one of the mainstays that you try to utilize?

Ross: Yeah, I would say that was a key benefit of Lean accounting actually because there is a time-lag between process improvement and between realizing the financial benefits. The purpose of Lean improvement is to remove waste, as we discussed right at the beginning of this conversation, and that creates available capacity within the value stream. It may also reduce your costs through reducing scrap, reducing the need for overtime and so on. But the main Lean benefit is to improve the capacity of the value stream. The financial benefit will only come when you can sell that additional capacity and therefore we need to be able to use the Lean accounting data that we accumulate to be able to plan ahead and say, "In three months or six months' time, we're going to have an extra 20 percent capacity in this value stream. We need to be planning now for the new products, the new customers, the new product varieties that we can put into the value stream to realize the financial benefits of that."

I would say that ability to forecast the financial impact of Lean improvements is a vital part of the planning process linking in to sales and marketing to begin to realize the actual profitability potential of Lean improvement.

Joe: I may play Devil's advocate here a little bit. But what if I say, "I'm over capacity now, what I need is demand. I need somebody to want my product." How can Lean accounting help me? What's the sense of getting rid of waste if I'm already not utilizing everything I have?

Ross: Well, there are two issues there. Number one, getting rid of waste will save you money because it will help you improve quality and therefore reduce scrap and losses through scrap. Lean improvement will help you reduce your inventory, which will give you a cash flow boost, and all companies can do with cash flow boosts in the economic environments we have just now. So, there is an incentive from that point of view. But Lean accounting also, through the target costing approach gives us the opportunity to focus on those issues which add customer value. Once we can focus on those activities, those characteristics which add customer value and improve those, then we're going to improve our position in the marketplace.

I can give you an example of a client in Germany, making stainless steel components. They were currently able to deliver to the market in just over seven days. They realized that if they could improve their flow to deliver to the market within three days of a customer order, they would be the fastest, most flexible provider in the market and therefore they would be able to dominate the markets and increase their market share.

They achieved that, partly through improving finance processes, credit checking and that sort of aspect. The Lean accounting can help us focus on improving our customer value in a difficult market and therefore expanding demand for our product. Because we're improving the value stream, we deliver that demand with the current resources that we have and therefore increase profitability.

Joe: So, what you're saying is in this particular instance that someone sat there and was able to reduce the inventory level of their customers by shortening that lead time...

Ross: Absolutely.

Joe: ...which added profitability to that customer. It was kind of a no-brainer for that customer to use them as a source.

Ross: Yes, exactly, win-win for everyone. Much more flexibility, much more responsive to the market, makes you much more attractive supplier than your competitors and therefore you can increase the demand for your products and services even in a difficult market, perhaps particularly in a difficult market as a big incentive to move towards that.

Joe: I think that's where,, and this is going to be a shameless plug I've got to throw it in here. But that's why we always concentrate on when we're looking at customer identification to identify the CTQs that are important to their product market groups.

Ross: Yes.

Joe: And weight the value of them. So that if we know that a short delivery time such as that is important, that's what we concentrate on, to deliver that value point or that value proposition even more, because that's what will separate us from or differentiate us from the competition.

Ross: Yeah, I totally agree with you, Joe. For that reason, I believe that there should be strong links between the Lean accounting team and the sales and marketing team because the Lean accounting people can deliver the information, the cost information, the financial impact of improvement, which you can use in pricing and in demand analysis and all these aspects. So, there should be a strong linkage between the marketing people and the Lean accounting people.

Joe: That's one of the things that I have seen is when you look at data driven marketing, when you look at the different numbers and manipulating the numbers in marketing; people shy away from numbers. But it needs to be done. We have so many numbers nowadays; we don't really utilize the data we have. Accountants that have taken a liking to what I would say the value streams, they're the most readily people that seem to be embracing what I called Lean marketing.

Ross: Yeah, it's about making the data visible and understandable and accessible to people. That means making the link between the customer value and the marketing side and the delivery side. Because we're only going to improve as a business and as a value stream by making that link direct to the customer and providing what the customer wants.

Joe: Is there anything I've left out of this conversation that you would like to add?

Ross: I think you've been pretty comprehensive, Joe. You've certainly given me a sore throat. We've mentioned the planning piece; we've mentioned the customer value piece; I think we've covered everything. I hope you can edit my long arm out there!

Joe: Ross, if someone is interested in learning more about Lean Accounting, you mentioned the Lean Accounting Super Group. But how can they get a hold of you or BMA?

Ross: Well, you can visit our websites, which are www.maskell.com, M-A-S-K-E-L-L. Or if you're based in Europe you can visit www.bmaeurope.com. Alternatively, type "Lean Accounting" into Wikipedia, and there's some interesting information there. Or type in "Lean Accounting Super Group" to your search engine, you'll find the Super Group, you'll find me and the rest of the BMA team and many other people registered there. Yu can email us directly, obviously chocolates and flowers help, but we're pretty friendly people on the whole.

Joe: Well, I want to thank you very much, Ross. I really appreciate it. This will be available on the Business 901 website and also the Business 901 iTunes store. So again, thank you.

Ross: It was my pleasure to speak to you, Joe.

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Implementing Lean Marketing Systems

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What others say: *In the past 20 years, Joe and I have collaborated on many difficult issues. Joe's ability to combine his expertise with "out of the box" thinking is unsurpassed. He has always delivered quickly, cost effectively and with ingenuity. A brilliant mind that is always a pleasure to work with." James R.*

Joe Dager is President of Business901, a progressive company providing direction in areas **such as Lean Marketing, Product Marketing, Product Launches and Re-Launches. As a Lean** Six Sigma Black Belt, Business901 provides and implements marketing, project and performance planning methodologies in small businesses. The simplicity of a single flexible model will create clarity for your staff and as a result better execution. My goal is to allow you spend your time on the **need versus the plan**.

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