

# *Business901*

*Podcast Transcription*

*Implementing Lean Marketing Systems*

## Leading with Lean Accounting

Guest was Jim Huntzinger

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Podcast Transcription

## Implementing Lean Marketing Systems

Jim Huntzinger has over twenty years of experience developing Lean enterprises through system design and development, implementation, and guiding organizations both strategically and



tactically through the transformation process. Currently he is the president and founder of the Lean Accounting Summit, TWI Summit, and Lean and Green Summit.

He authored the book, [Lean Cost Management: Accounting for Lean by Establishing Flow](#), was a contributing author to [Lean Accounting: Best Practices for Sustainable Integration](#), and has

authored many articles including the ground-breaking article, *Roots of Lean – Training Within Industry: The Origin of Kaizen*.

Jim began his career as a manufacturing engineer with Aisin Seiki (a Toyota Group company and manufacturer of automotive components) when they transplanted to North America to support Toyota. Over his twenty-year career, he has held positions in engineering, operations, and management working to implement and evolve Lean into operational and business practices. He has also worked as a consultant with organizations ranging from small privately-held to huge global corporations.

Huntzinger has also researched at length the evolution of manufacturing in the United States with an emphasis on Lean's influence and development. He has researched and worked to re-deploy TWI (Training within Industry) within industry and uncovered its tie with the Toyota Way. He is also developing the business model and methods of operation. Jim can be contacted at [jim@Leanfront.com](mailto:jim@Leanfront.com).

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Joe Dager : Welcome everyone. This is Joe Dager, the host of the Business901 podcast. On the show today I have Jim Huntzinger, who has over 20 years of experience guiding organizations, both strategically and tactically, through the transformation process. Jim has also researched, at length, the evolution of manufacture in the United States, with an emphasis on Lean's influence and development. Currently, he is the president and founder of the Lean Accounting Summit, TWI Summit, and the Lean and Green Summit. He has authored the book, "Lean Cost Management", and was a contributing author to "Lean Accounting", and has authored many articles.

Jim, I'd like to welcome you today. Could you begin by telling me about the Lean Accounting Summit?

Jim Huntzinger : Thank you, Joe. I'm thrilled to be here. The Lean Accounting Summit this year, actually this month, in September, will be the sixth -annual Lean Accounting Summit. We started it back in 2005. What we try to do with it, basically, raise the awareness and the knowledge on things associated with Lean accounting.

So that kind of encompasses two basic things. One, I would say, Lean accounting, how can you do things within the realm of accounting to make it functionally better in a Lean sense, more effective, more efficient. The other aspect, the bigger aspect, is what we would refer to as accounting for Lean. How does the accounting function actually help a business that's trying to go through a transformation into becoming a Lean enterprise? Or is already part of the way there, and how does the accounting function and financial information help support that, help organizations go through that process.

Joe : It's interesting to me. How did Lean accounting start? How did Lean attach itself to accounting, or vice versa?

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Jim : I could probably, maybe best just tell a little background about me and how I came about it because it's really the same story. I started off, many years ago, being involved with a company. I came out of a company that was a Toyota Group company that transplanted to the United States. I was there for several years and went on to work for another company, who was just beginning their transformation to try to become a Lean enterprise.

The interesting thing I noticed, within, actually, less than a week, just within a few days after I started at my new company, that this company did not function like this organization that I just left, which was actually a Toyota Group company and Toyota itself were supplying into. They hired me because supposedly I knew something about Lean.

We were going through that process of physically changing the operations from a traditional batch environment into a flow environment, and we were moving along quite successfully. They wanted us to do an ROI on the changes we were making, changing traditional, in this case, machining departments into one-piece-flow manufacturing lines.

I got involved with the company's standard costing system. It was pretty typical of any company, even any company today that uses a standard costing system. When I got into it -- again, I'm an engineer ; I'm not an accountant -- from my perspective ; the thing looked like a debacle . I knew the information it was giving was inaccurate.

What really troubled me was, as a corporation, this information was the foundation to everything we used to make a decision. So, like I said, it struck me very hard: what type of decisions are we making as an organization when the base information we're using is flawed?

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Fundamentally, that's the problem with traditional accounting versus trying to move to, what we refer to as Lean accounting or, as I said earlier, accounting for Lean, is, what is different, and what information do we need to support the Lean organization versus a traditional organization?

Joe : If you're not a Lean organization and practicing Lean, can you still practice Lean accounting?

Jim : You can, but it makes it more difficult because, from an accounting perspective --and I should say most of this is from a managerial -accounting standpoint, not necessarily a financial -accounting standpoint but a managerial -accounting standpoint--what cost or financial information is trying to do is give you some information to help you make better decisions as an organization. If that information is flawed, that's going to lead you to bad decisions. Ideally, the financial information or accounting information is reflective of what you're physically doing, particularly in the case if you're a manufacturing operation, or for that matter, even a service organization. But that information should be reflective. The operational changes should lead the accounting changes.

There are some organizations, especially now -- down the road from when this started five or six years ago, six years ago -- that are doing some of the leading of the change of their organization, starting in their accounting organization. So, yes, it can go both ways.

Joe : Does Toyota practice Lean accounting? I'm kind of inquisitive because Lean is such an evolution from there.

Jim : I guess I'll say yes and no, and then I'll answer that ; hopefully that makes some level of sense. Do they do it in the sense of what people involved with Lean accounting have been doing in the last six years? Not exactly , the reason why is they developed and evolved their system over, what are we now,

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probably a 50, 60 -year period? Very organically and over time developed what they do.

If you go there and say, "Toyota, do you use standard costing and things like that in your accounting department?" They're going to say, "Yes. Yes, we do." Now, the difference comes in is what they use that information for, and that's very significant. So from the standpoint on how they make operational decisions, they don't use that information in the same manner other organizations, traditional organizations, do, where they use standard costing to drive their decisions.

This is actually a fellow; he was formerly the lead account. I can't remember his exact title. They hired him to come in for their operations in North America. What he described to me is the black box. And what he said is, "The black box is operations". He said, "From an operational standpoint, none of this cost information, this accounting information, goes into the black box to drive decisions. Decisions made inside the black box are being very intimate with the process and the products and making decisions according to that".

Obviously, they've got to generate financial reporting like anybody else, legally. They also generate standard costing. That information does not penetrate into this black box for these operational decisions. That's where I'm getting into where they do, and they don't use it. Where, if you take a traditional company --like in my experience, a number of years ago -- they generate this standard costing information. That goes directly, and like I said, in most cases, becomes the foundation or main information they look at to make their decisions. Their ROI and other information are based on that costing information that they have standard costing information.

Joe : From a management perspective --and this is my experience from manufacturing and looking at numbers and

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assigning numbers to it --does Lean accounting make costing easier because there's a better connection between the processes and the numbers ?

Jim : Yes, absolutely. That comes in because what you do ; you go from a traditional manufacturer, a batch manufacturer, making product, or even components if you're making internal components, in batch. You go to flow -style manufacturing , ideally one-piece flow. So, when you do that, this is what I discovered, again, years ago, when we were going through this process of changing traditional departments into one -piece-flow lines, is basically you lose the need for allocation. When you go to a one-piece-flow line, things associated with making a particular product, product X --the floor space, the people, the tooling, the machine tools, coolant, whatever it might be --are consumed directly by that, the term we use today would be value stream.

So there's a direct physical correlation between on the product you're making and the resources that consume it. So the need for this allocation process greatly diminished. There may be a few things here and there, but they become a very minor part of that picture. That's why the cost information becomes much more accurate, and actually much simpler. You don't have all these transactions. The transactions that you have to track in a traditional accounting system, the vast majority of that simply disappears by physically moving to a flow environment. Does that explain it?

Joe : =rd thinking, part of the difficulty I always have in transferring some of this knowledge and why we do things in the costing, especially to mid -level management that it didn't have any meaning . They could always what if this and what if that. With Lean Accounting and using Value Streams it seems the explanation to people is easier . Are you able to associate the numbers with the process easier ?

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Jim : That's true, and I can give an example . In operations the processes were all together , all the grinders together, all the lathes together, and so forth you have an allocation process to develop these costs. Prior to us making the physical changes in the center costing system approximately 85 % of the cost associated with a particular product in this case, we made a lot of our internal components, 85 % of the cost associated to the product, the component was some nebulous allocation process. Once we physical changed into one of these flow manufacturing cells 85% of the costs associated since the resource consumed by the product were definitive costs associated with that. So we know exactly what people working on this product, we know exactly which machine tools ; we know exactly what tooling went to this specific product and on and on and on.

So we went from 15% of the definitive resource we knew to be consumed to 85% we knew were consumed by the products. So just by default we were significantly more accurate and like i said all the transactions in the old way that you used to have to go through to try to gather information say 95% of the transactions, you had to do disappeared, they no longer existed. Because you weren't running multiple products or part numbers through the same machine , you were out of that batch process. I think exquisitely simplified the information gathering process which is a saving in itself.

Joe : =rd seeing and just not with Lean Accounting but with other types of accounting, I am seeing more niche type of accounting practices starting to crop up is that a fair evaluation from my viewpoint .

Jim : Well, there has been a variety of different accounting methods that have come up over the years, but most of us has been variations of the original allocation process of accounting and the interesting thing for a historical stand point, if you go back to the guys that developed the accounting methods the



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originally accounting came into play, it was in the 14th century by a Venice Monk that basically was double entry book keeping. That was adequate for centuries until we got into the industrial revolution and what came about in the industrial revolution was small basically working on stuff in your shed grew into these multi-processes, multi-product organizations, and that's where they needed new methods to track costs because they lost their direct contact with the market place, and we had a lot of internal costs to figure out.

So the engineers developed all of these accounting methods that we use today, and there has been really no new development since about 1920, although like you mentioned a variety of different things that came up in the last number of decades with just a minor variations to the allocation process that came in.

The interesting about these fellows in the industrial revolutions these engineers came up with it. They understood very intimately the flaws of the allocation process. They wrote pretty extensively against using it. They were fine from a financial reporting sampling. They knew from an internal decision making sampling to get an allocation process is flawed because it did not give you accurate information or accurate cost information about the products and the components that you are manufacturing.

Joe : Accountants could always tell me you know what I did wrong in the past tense. They were never there on the predictive side. Does Lean Accounting help you develop more predictive measures?

Jim : It does in two ways. One is, which actually didn't really have anything to do with accounting from a dollar and cents standpoint, or least when figuring out costing information. What it changes is your focus from your measurement standpoint. You pay more attention, much closer attention to physical measurements. So things like throughput which equates to lead

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time, first time through, are we manufacturing to takt time, are we addressing problems properly if we have a breakdown in our flow and so forth. So things become more from the measurement stand point, more physically focused. Then on the other side of that, from just the cost information, just due to the fact what I talked about earlier, is you eliminate all these transactions you don't have to track them. Resources can consume by products being produced from a flow stand point becomes more accurate. So you know that these machine tools are being used by this product. You know these operators are being utilized by that.

So you don't have as much, you have a lot more stability in the system. You know if you're this volume, you know exactly what resources are consumed, and it makes the planning, much easier too because you know, if our volume goes up, you already know exactly how many resources you'll need to do use in order to complete that successfully. So from a current and planning stand point, it makes it easier. So if you have more stability from that stand point that means your cost information is going to be, you're not going to have to wait till the end of the month, you could literally get your cost information any moment in time and it will still remain accurate.

Joe : From the description I have heard so far, this Lean Accounting means that you're more hands-on accounting, and you have to be willing to get out of the office and go to the floor a little bit.

Jim : Yes, absolutely. That's important. That's important to have, obviously, even for accounting and financial people, they have a more intimate understanding of what the operations again, whether that's manufacturing or whether that's in service of what the folks are doing out there. When they have that, and I'm not saying that they gotta have the intimate level of an operator or of an engineer that's working out there, but having that knowledge, knowing what his people are doing, knowing what physical

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activities impact negatively or positively to what the people are doing. Because again you're accounting information, since you're profit comes from how well we're adding value, how well we're delivering value to our customer. You understand that; you could actually be much more helpful from an accounting perspective to give better information out to those people who are adding value, who are in direct contact with customers that are going to help them out from decision making standpoint.

So the whole cycle, the whole feedback, group of information, becomes much truer and much more rapid, if financial accounting people are more familiar from an operational standpoint of what's going on and more familiar with the people out there. Again by just that default, you can have a better flow of information and the feedback level between those different people in the organization. That's very important.

Joe : We talked about this, but it's all internally focused. How does Lean Accounting get out of the factory, how does it get out to the customer, I mean how does that relate to the customer?

Jim : Well in a couple ways. One is, you know if you are trying to work, I'm making assumption here ; you do have a positive relationship with your customer, for that matter, even your suppliers, the positive relationship and I guess I'm thinking of contacts maybe not final OEM, like if you make something that goes out in retail if whoever your customer is, you are going to be able to give them more accurate information of what your position is. What is it that you need to do from a cost standpoint, from a modern standpoint, although still looking at the view that the market determines, what the price is. I'm talking cost and price, two different things. Not having a cost-plus environment, but more of whatever the market will bear than you're going to have to sell for that price.

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So it becomes the new task, where you get into things like target costing where your task in developing a new product, then delivering that product is you have to know what the market will bear, what is the price people pay for that and then work back in the line what you do operationally and from a delivery standpoint so you are in line with whatever the market price is and then whatever margin you'd like.

So that margin determination becomes internalized because that's up to you. That's not up to you putting whatever price you want on a product. That relates whether you're supplying to somebody that goes into the market or you're working back into your supply base. And having an understanding of those relationships, so you have accurate information you're working with, with yourself whether you're working with your supplier or working with your customer.

Joe : I think a lot of time pricing is determined by the customer's value perspective of your product , and you have to ; they have to coincide with each other, and that is a difficult thing sometimes to come up with from any number of standpoint s. But it's something that I believe is you know ; a lot of jobs in the market, a lot of the job of the marketing department and that's something that marketing accounting has to come together with and work together on as a team to determine something like that.

Jim : Yes, absolutely. I mean it's basically the value proposition, do you understand your value proposition and what it is because you're right, that's determined by the customer and so can you align yourself to that and still be a profitable organization?

Joe : Does the Lean accounting process empower the company to help to drive market share or increase revenues? Is there ways that it can help in doing that?

Jim : Absolutely. I think again ; it comes back down to a couple of things. One is again, understanding what your real costs are so,

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again, understanding what the value proposition is, understanding what the market will bear from a price standpoint, then trying to align yourself. I mean you're trying to align yourself to what that is, you know it's, you're not going to have much luck trying to align the market to what you would like it to be, aligning yourself to that. So when you know that , and you know what your internal costs are or if you're developing a new product, you know what your internal costs need to be , then that could give you much better information that again internally from your accounting people to your marketing people on, "This is where we need to be at."

So that's again, information flowing both ways. Hopefully marketing people are understanding what the market wants, what the market desires in price, in features, in product and are giving that feedback into you know the developing engineers, the accountants, the operational people , so they're; they have good information ; they can align the organization to present out a good value proposition to the customer.

So that's a loop that needs to work both ways and again, both those people in the organization give ; I don't say they have to be intimate with what each other's doing , but have an understanding of what each other's doing and what each other needs and then you just get a much better flow of information from an accuracy standpoint as well as with just from a need standpoint. What information, as marketing people, what information do we need to be supplying back into operations, into product development, into accounting.

So they have the information they can use to develop what they need to and then vice versa. You know accounting, working with product development, working with operations. What information do we have at this point that we can feed back to marketing so they can take that information back out on the market and get some reasonable feedback from it?

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Joe : I'll probably go into playing a little devil's advocate here ; I look at Lean accounting, and I say, "OK that it's based a lot on the different value streams that are created." Marketing, let's say comes up with the product, market -type of value stream that is needed for this particular process . We create three, four, five, six different product market streams or value streams for each one. Is there different costing then in each one and is that kind of then all just kind of mumble jumble because there's all this different pricing going on? Does that make it complicated?

Jim : Well you have, I mean you have different costs in the sense you're trying to figure out what, I'm trying to think of an example. We'll say you manufacture a small engine ; you know a small engine like those on your lawn mower, your push mower. If you make all the components internally, you want to know what your cost is of the crank shaft, you want to know what the cost of your piston is, and you want to know what the cost of your engine block is. You need to know what those costs are separately just for internal decision -making on what type of decision you'll, what type, "Should we buy this machine, new machine tool or not? Should we change our tooling? Should we change fixturing? What are those internal decisions we need to make?" So you need to know what those costs are individually.

Now when you go, obviously when he goes to sell that product, small engine to your customer, you need to know what that cost of that engine is, and it's accumulation of these different components and other things that go into it. Maybe components you buy from the exterior. So you need a good, accurate picture of all those components from a cost standpoint.

Now, they each have their own individual cost but the basic methodology is the same if you look at it from a value stream standpoint. So you have a value, you may have multiple sized engines there, that's a value stream within those value streams there are other smaller value streams like a value stream to

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machine piston for this particular engine model. A value stream to, maybe casts, maybe you do your own casting of those products. So there are going to be value streams and other cost information underneath.

But again, the basic principles and methods to develop that cost, from the Lean perspective will be the same. So it's more information, yes but it should not be really, it is not any more complicated.

Joe : Well I can visualize it then as a decision tree, like you said blocks. Inside the blocks , there's a value stream in it. Can this all be applied to service? I mean we're manufacturing guys, we're sitting here talking about manufacturing but can this really be supplied, or used in a service type industry?

Jim : I mean from a principle standpoint, yeah , it can. Because, you can develop different service value streams. That's going to vary industry to industry depending on what type of service you perform and things like that but in my background it's not so common in the service industry as it is in manufacturing. But I do know people that are involved with service organizations that do develop value streams within their organization. Depending on what type of service or services they provide, depending on what type of you know customer base they're supplying those services into.

Joe : Where's Jim Hu ntzinger going to? Where are you headed? What are you doing with your company?

Jim : Well I guess what we're doing , and I guess we kind of evolved into this niche where we try to find, I guess these niche topics. I guess what we do with our summits and things we deal with are trying to find these niche topics under the umbrella of Lean that are there but maybe not widely known or widely accepted or widely understood and then through the Summit, in particular, and we do webinars and some other things, try to in a

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sense, get the word out. Let people know what these things are. Let them know, not only how they integrated work in a Lean organization, but just an organization overall.

We actually this year launched another summit called, "Lean Logistics Summit." Again, something that's involved in the industry, particularly from the Lean perspective and there's some examples out there but we're trying to build a community where again, this stuff becomes commonplace.

Like I said if you looked at Lean Accounting six years ago, it was a few people kind of vaguely heard about it. Well now we have a lot more companies that are practicing. We have even a few companies now that are really out there on the cutting edge developing things involved in finance in their organization where they really don't have any place to go because nobody's developed this stuff yet.

That's why we'd like to get more people out there on the edge developing new techniques, new ideas and new methods that just help themselves and help other organizations be much more effective. You know to some degree I look at it as a consumer, a selfish consumer standpoint. If I can help organizations get better that means, I should be able to get better products and services out of you know companies and that I purchase from or use.

Joe Dager : If I want to get involved with Lean Accounting and to understand Lean accounting, what would you recommend as my first step?

Jim : Well, I'd say, come to Lean Accounting Summit, could be one, of course, but no, actually you could go to the Lean Accounting Summit website or even the TWI website. We have a resource page on each of those. You can get on those to get some articles. There are a lot of good books, especially with Lean Accounting that have been out for a number of years. There is good information out there to go learn about what it is. There are



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some other groups, blogs and other sources to get and to learn information about this whether it's reading, whether it's through blogging like you mentioned, the Lean Edge, other things like that out there that you can go get information and begin learning about it.

I recommend two basic things. First is do it. Like we talked about before, with TWI, learn by doing. Go do it. Go get your hands dirty, try it out. The other one is, is supplementing that. Supplementing that with articles, with you know books and readings. Going to some of these blogs and just learning from other people. Learning what other people are experiencing.

Learning what other people are thinking and doing from you know thought leaders in the area to practitioners. Both those are valid and good places to go. Supplement your own knowledge and your own experience of what you're going through.

Joe : Is there anything that you'd like to add that maybe I left out of this conversation about Lean Accounting or TWI?

Jim : We'd love to have listeners come to any of our summits. Like I said, we, they're great learning environments and a combination of case studies, so that people that are actually practitioners doing it, as well as with thought leaders and thought leaders, some of the thought leaders are former CFO's in the case of Lean Accounting or actually practitioners of TWI in that case, as well as with academics.

I'm located in central Indiana, and there's one in central Indiana, a Lean manufacturing group that meets once a month. So just go find, one of those, or at, get involved with them, get involved, learn, with what you're doing yourself, and learn you know from others, as well. And if you do that I think generally you'll catch the fever, and you'll learn a lot and you'll have a lot of fun in doing it. And be successful too.

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Joe : I'd like to thank you very much, Jim. The podcast will be available, not only on the Business901 podcast site, but also on iTunes.

Jim : I thank you. I enjoyed this.



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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.

An example of how we may work: Business901 could start with a consulting style utilizing an individual from your organization or a virtual assistance that is well versed in our principles. We have capabilities to plug virtually any marketing function into your process immediately. As process as needed. The goal of implementing a system is that the processes will become a habit and not an event.

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