Costing 3: kaizen costing

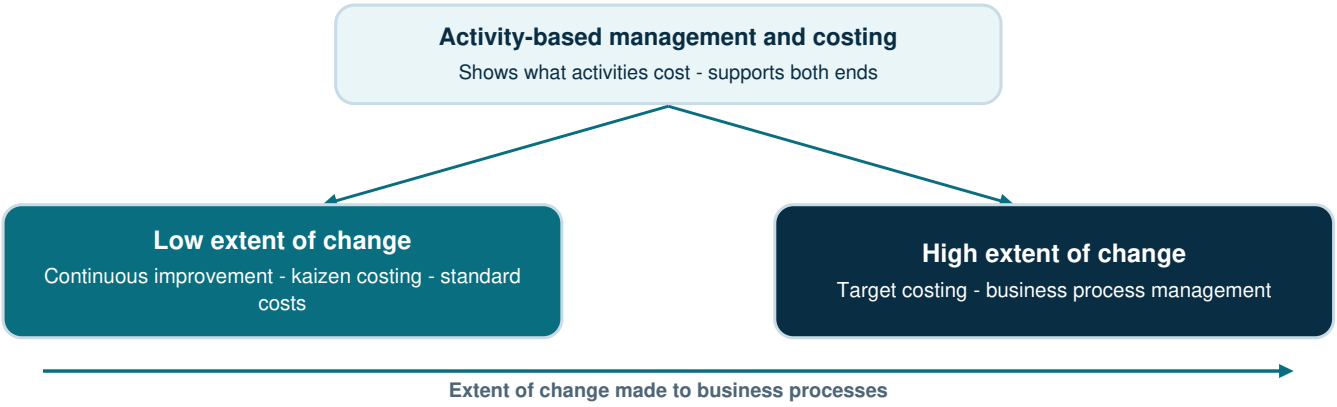
MODULE 6 | PART D.2.3 | STUDENT COMPANION

Target costing and kaizen costing

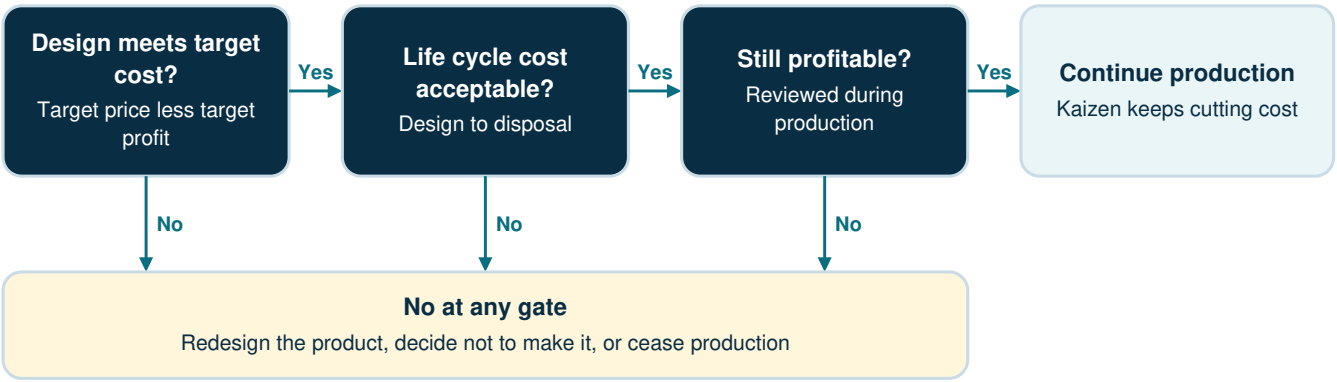
	Target costing	Kaizen costing
When	Before production (design)	During production (maturity)
Size of change	Large reductions	Small, continuous reductions
Who leads	Cross-functional design teams	Operators and team leaders
Focus	Product and process design	Existing processes
Typical target	Close the gap to the target cost	e.g. 3% a year

Kaizen costing (imagined example). A frozen dumpling maker's cost is $5.00 per tray; its kaizen target is 3% a year, so next year's target is $4.85. Sources: better use of existing resources (more trays per pallet); eliminating waste (dough waste cut from 6% to 4%); productivity through training and multi-skilling (one operator, two machines); and outsourcing where cheaper at the required standard (overnight cleaning).

How much each tool changes processes



Managing cost across the life cycle



Marginal gains: British Cycling's performance director Dave Brailsford became known for the aggregation of marginal gains - many tiny improvements - associated with Bradley Wiggins becoming the first British winner of the Tour de France in 2012. Kaizen applies the same compounding logic to cost.

Formulas and rules

Item	Formula or rule
Kaizen target	Current cost x (1 - target %) for the next period
Sources of saving	Better resource use; eliminate waste; productivity; selective outsourcing
Who	People closest to the process - small, frequent, tested changes
Link	Target costing before production; kaizen during; life cycle costing across the whole life

Question 1 - Kaizen targets

A commercial laundry's cost per kilogram washed is $2.40. It sets a kaizen target of 4% a year. (a) Calculate the target for years 1 and 2. (b) Name the source of saving for each idea: (i) training staff to run two machines; (ii) using an outside firm for overnight cleaning; (iii) cutting re-washes caused by stains; (iv) running full loads only.

Worked answers

MODULE 6 | PART D.2.3 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Worked answer

Item	Answer
(a) Year 1	$2.40 x 0.96 = $2.304, about $2.30 per kg
Year 2	$2.304 x 0.96 = $2.212, about $2.21 per kg
(b)(i)	Productivity - multi-skilling
(ii)	Outsourcing at a lower cost to the required standard
(iii)	Eliminating waste (rework)
(iv)	Better use of existing resources