

## Lean Cost Management Exploiting new sources of sustainable cost reductions

Managing costs have been top of mind for executives over the past year and many companies have taken a variety of measures to decrease cost. At the same time Lean and Six Sigma have become successful and established methods of improvement for many companies. In this paper we exploit a new and unique way of combining cost management with Lean and Six Sigma that have yielded great results.

### Enterprise Cost Reduction – An Overview

Operating in these volatile times, companies should look beyond organizational silos to include cost reduction opportunities across the entire enterprise. The key to achieving significant results is to pursue strategic as well as tactical cost improvements to ensure a sustainable advantage – which puts you ahead of your competition.

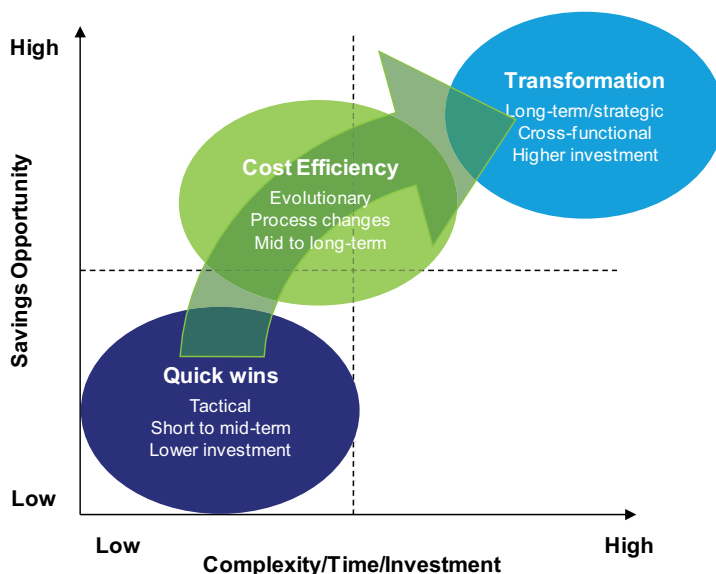
It is important to balance short and long-term improvements. Companies facing severe margin pressure or other urgent problems have a greater imperative to reduce their costs using a wide range of cost levers. On the other hand, companies which are in a stronger position can continue to focus on incremental improvements, or look for strategic opportunities to capitalize on their strength by investing in long-term structural changes. Generally speaking, the most effective cost management programs apply a balanced mix of:

- Low effort quick win opportunities, for example. Sourcing & Procurement
- Medium effort cost efficiency improvements, for example Lean and Six Sigma
- Long term transformations, for example Manufacturing footprint redesign

### Traditional Lean and Six Sigma is not always enough

For many companies process excellence programs such as Lean and Six Sigma have become a way of life and are included in their strategic efforts. These types of programs can help a company drive continuous bottom-up incremental improvements and they include a wide variety of tools to help implement improvements in broad range of areas. However, in our experience the bottom-line savings can often be higher. This is due to the fact that Lean and Six Sigma lack an explicit cost management component. This is why Deloitte has developed Lean Cost Management (LCM), as a way to merge the positive effects of Lean and Six Sigma with the monetary benefits of a Cost Management program.

Enterprise Cost Reduction approach



LCM focuses on the production expenditures that each work crew is able to control, thus addressing those costs at a decentral level on a daily basis – those whose actions drive costs are made responsible for costs. Our experience shows this to be especially powerful in those industries where the use of consumables is common, for example reagent chemicals usage in enrichment in the mining industry or maintenance lifecycle costs. We give work crews the means to eliminate waste of those consumables and at the same time measure them on the unit costs.

### How it is done in practice

As mentioned above our proven approach focuses on enabling work crews to take responsibility for not just production but also costs. This is done through the following steps:

- Identify and separate impactable costs from non-impactable costs
- Calculate a baseline impactable unit cost over a control period of typically 6 months in the past
- Remodel costs from monthly account to weekly production cycles
- Distribute unit cost by process step, factory section or similar
- Start budgeting and measuring unit cost on a weekly basis
- Implement weekly meetings to track costs and propose improvements
- Execute improvement actions

As a result, we see two effects of LCM. First, impactable unit cost – which often varies more than one would expect – is stabilized and lowered somewhat. Secondly, impactable unit costs are lowered over time. In industries where production outages must be avoided, we do this slowly and carefully. By continuous incremental improvements following the principles of Lean and Six Sigma we increase the involvement of the organization to continuously enable continuous cost reduction.

### Where is LCM applicable?

LCM is applicable in all industries, but especially suitable for industries where maintenance costs are significant, where expenditure on consumables is high or where there are risks of raw material waste.

Typical general results of LCM have been:

- Initial reduction in variability of impactable unit cost and an initial step change reduction of around 5%.
- Incremental, risk managed monthly reduction in production unit cost of 1%–2%, at a given throughput, for at least one year.
- Sustained capacity for safe continuous improvement and control of unit cost.

As a specific example among others, LCM has been used in the mining industry – where maintenance is important and the cost for consumables is high. Examples results from several projects include:

- Improved engineering cost infrastructure & production of 10%–40%
- Increased equipment availability of 15%–25%
- Improvement of impactable unit costs of 10%–25%
- Improvement of total production unit cost of 15%–35%
- Improvement of power and water expenditure of 20%–75%
- Improved reagent unit cost of 20%–75%

### Contact

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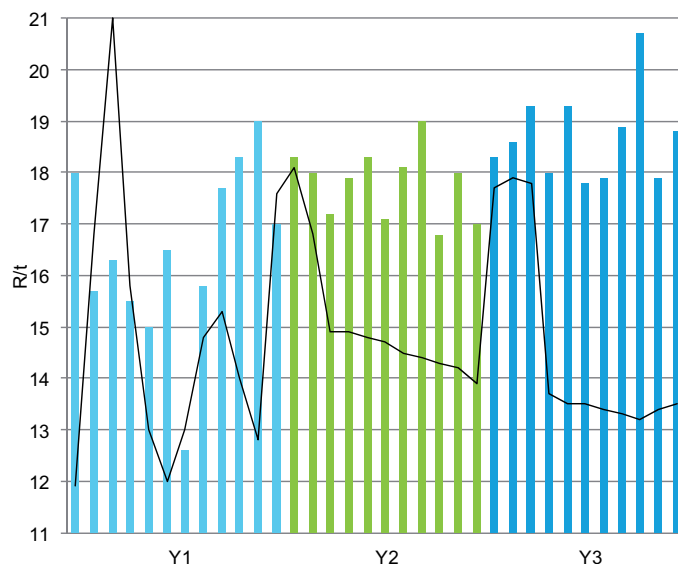
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### LCM effects at one of our clients in the mining industry

The bars in the diagram shows the production volume, while the black line shows the unit cost. During the project (where the bars are colored green) the variability of the unit cost decreased sharply. Also, the unit cost is being reduced over time. The reduction of unit cost continued after the project, showing that continuous improvement was institutionalized.

Note: The high costs during the beginning of Year 3 reflects a seasonal increase in cost of certain consumables.