

The LeanTrack Tool

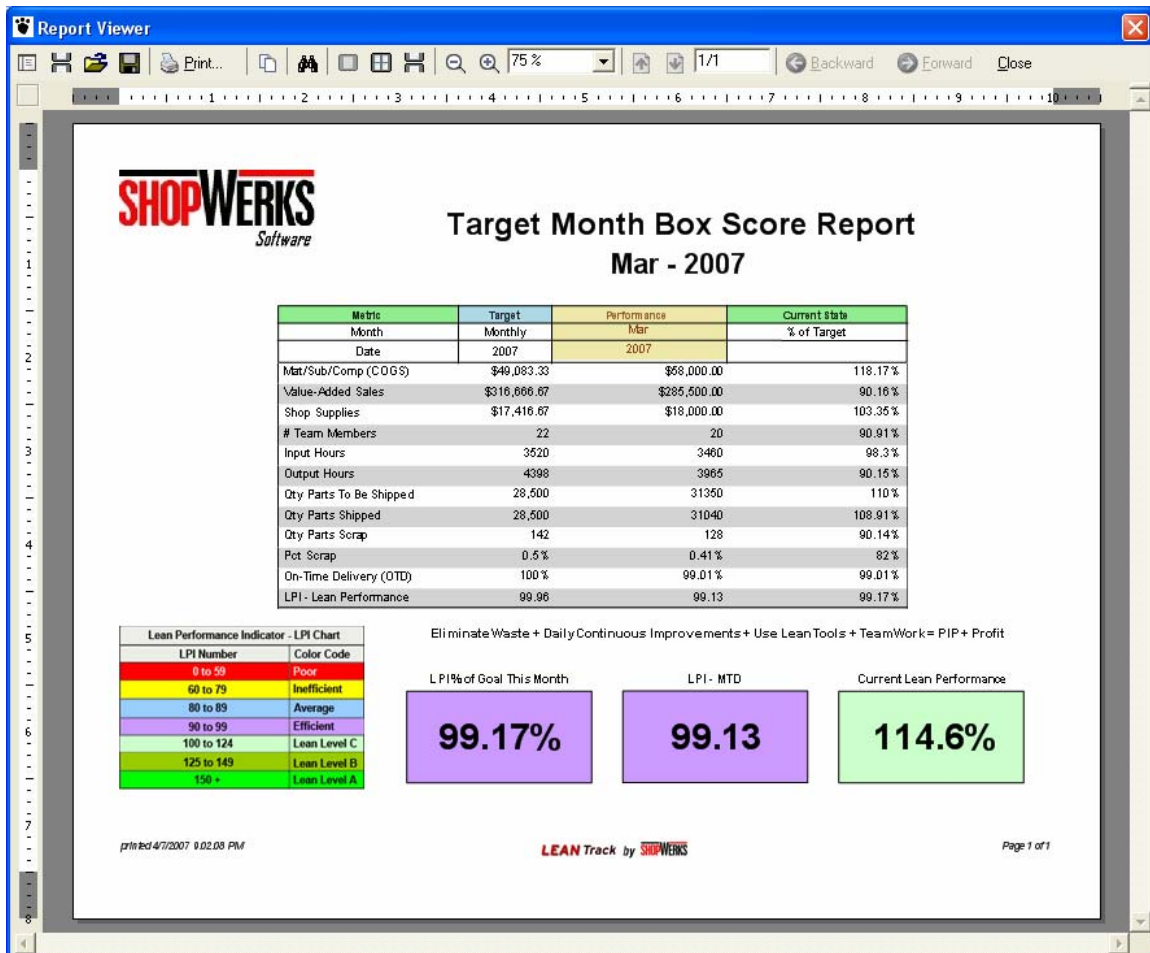
Let's take a look at what LeanTrack is all about and how it can help your company with the transition to Lean Accounting. Below we have Box Score comparison examples of the two leading well established machine shops in the Portland area. Both shops are the same facility size. Company A employs CNC Cellular Horizontal Milling while Company B employs the traditional stand alone CNC Horizontal Mills. Both companies' are basically competing for the same business and are uniquely friendly competitors. The companies, relatively speaking, produce matching Value-Added Sales (VAS). VAS is total sales minus raw materials, components and sub-contracting. Company A implements lean manufacturing and Company B remains in the traditional manufacturing model.

LeanTrack utilizes simple easy to understand metrics common to most manufacturing companies with the exception of "LPI – Lean Performance". LPI was developed by James Warren as a method of tracking the lean implementation journey: specifically as a tool to measure operating performance progress improvements. The LPI by design represents a monthly figure or a target number of 100, signified on the visual color coded "Lean Performance Indicator" chart as Lean level C. The LPI number calculated when you first begin your lean journey represents your set-point marker for tracking historical improvement data: day to day and year to year.

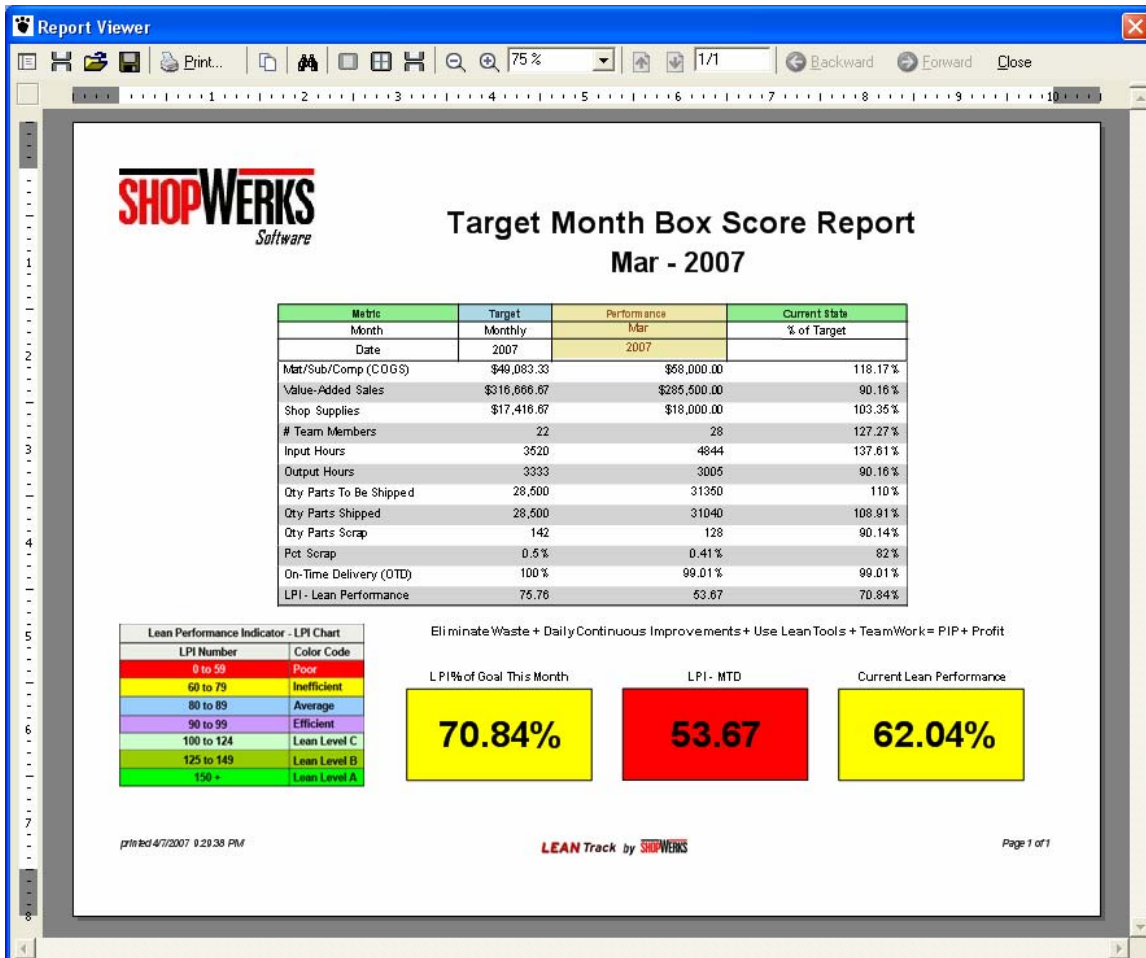
A higher LPI number simply means your company's continuous improvements are driving a higher level of throughput (VAS) per team member. The LPI measurement is extremely useful as a management tracking tool in place of the traditional accountant's bottom line figure. In the early stages of lean implementation, the kaizen process improvements as a monetary measurement usually don't represent any upward movement in the P&L's bottom line number. Only when inventory and work-in-process (WIP) reductions have settled to a consistent level will lean effect the bottom line. As lean progresses in your company resulting in a higher LPI yield keep a close eye on your bottom line. If it isn't moving with the higher LPI yield, management problems may be identified in other areas of the P&L. Your shop rates may need adjusting if efficiency is high and profitability is too low.

Lean Accounting methodology causes indirect hours to disappear completely and only direct hours remain. When utilizing the LeanTrack program, all hourly team members on the shop floor are counted as direct hours in supporting customer value-added sales. The examples below demonstrate this methodology as a comparison of Lean vs Traditional.

Company A: Machine shop implementing lean manufacturing throughout the enterprise including lean accounting and value stream costing/resource factoring methodology. Company A Quotes at \$72.00 average hourly rate, utilizing SmartQuote HP Estimating Software. Company A has 20 hourly shop employees.



Company B: Machine Shop Traditional batch processing - job costing by employee manual time card recording, manual office costing recap per job. All Estimating is calculated manually utilizing a \$95.00 hourly average shop rate. Company B has 28 hourly shop employees.



Company Comparison:

	Company A	Company B
Value-Added Sales Dollars	285,500.00	285,500.00
Team Members	20	28
Input Hours	3460	4844
Output Hours at shop rate	3965	3005
Shop Rate Dollars per hour Quoted	72.00	95.00
Shop Rate Dollars per hour Produced	82.52	58.94
Input hours per member	173	173
Output hours per member	198.25	107.32
Value-Added Sales Dollars per member	14,275.00	10,196.42
Throughput Efficiency Percent	114.6	62.04
Lean Performance Indicator (LPI)	99.13	53.67
Lean Performance	Lean Level C	Poor

LeanTrack confirms the absolute value of implementing lean practices throughout the organization including lean accounting methodology tools. These examples indicate lean creates throughput increases with fewer personnel at a lower dollar per hour rate. The truth of the matter: **Lean Accounting increases your ability to compete globally.**

Which company are you - Company A or Company B? Calculate your performance and start tracking your lean successes now with LeanTrack.