Increasing Performance and Sustaining Gains in the New Norm of Volatile Conditions
Frequently Asked Questions from Customers

Reducing Costs and Achieving Affordable Capability On-Time in a Constrained Resource Environment

Executive Summary

In 2013, MainStream GS' public and private sector customers are facing looming fiscal cliffs, budget reductions, fiscal uncertainty, periodic furloughs, temporary shutdowns and more. Many are calling this the 'New Norm' because it's unclear when we'll reach stability and predictability. Throughout 2013, MainStream GS is sharing our learning's and experiences on what it takes for an organization to "increase performance and sustain gains" in the New Norm of volatile conditions. This release explores the need to reduce costs in a constrained resource environment.

Many of our clients are being asked to deliver systems at a lower cost using the same or less amount of resource. The question is: "Are there tools and methods available that will help meet the objectives in this constrained resource environment?" We believe the answer is "Yes!" and approaches to consider lie in the arena of target costing, value engineering and Kaizen costing.

In the past decade, MainStream Global Solutions has developed

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"Leaders today have to do more with less, and get better results from limited resources, more than ever before."
- Brian Tracy
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significant experience with large client systems (in both military and civilian systems). Given the current budget pressure on our clients, there is great interest in getting the right capability at an affordable price. This is reflected in client goals and objectives related to both acquisition and sustainment programs. "Acquisition" is a term many of our clients use to describe their process to develop and obtain new systems. Similarly, "sustainment" refers to initiatives that maintain or extend the life of an existing system.

Target Costing

Target costing is primarily a technique to strategically manage system costs. It achieves this objective by determining the life-cycle cost at which a system must be produced with specified functionality and quality to be profitable at its anticipated selling price.

Application - It is well accepted in the design world that 80% of the cost of a product is determined very early in the design stages. Some

Elements of the Target Costing Process

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"The future belongs to those who understand that doing more with less is compassionate, prosperous, and enduring, and thus more intelligent, even competitive." - Paul Hawken
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authorities estimate that as much as 90 to 95% of a product's costs are designed in. That is to say, that these costs can't be avoided without redesigning the product. Target costing makes product cost an input to the design process, not an outcome of it. The opportunity is to influence product cost by working with suppliers to establish what the product "should cost" as opposed to just accepting what the supplier says it "will cost."

Value Engineering

"Value engineering (VE) is systematic, interdisciplinary examination of factors affecting the cost of a product with the aim of devising a means to achieve its specified purpose at the required standards of quality and reliability at an acceptable cost."

Application - VE can be applied both in the design stage as well as after a product is in production. The essence of VE is captured in five questions that focus on the functions implemented in any particular design:

- What is it (i.e. the function)?
- What does it do?
- What does it cost?
- What else will do the job?
- What does that cost?

VE can be used to explore implementation alternatives and their associated costs. The objective is to provide the required functionality at the lowest cost. Both Target Costing and VE apply in Acquisition/ Sustainment programs since this is where design decisions are made that impact product cost.

Kaizen Costing

Kaizen means continuous improvement. "Kaizen costing is the application of Kaizen techniques to reduce the cost of components and products by a pre-specified amount."

Application: Kaizen costing is applied primarily in the manufacturing/ re-manufacturing phase of a product's life and it achieves cost reduction objectives mostly through increases in efficiency of the production process. Application of these techniques is used to remove waste from the manufacturing process and further reduce the cost per unit of system. Experience also shows that in many cases; cost and delay in non-production related processes far exceeds that of the production process. This is also an opportunity to apply LEAN techniques.

Summary

One common thread across all of our customers is that their budgets are not increasing and they are being asked to deliver the same or more at less cost and with less resources than last year. We have direct experience working with clients to help them apply Target Costing, Value Engineering and Kaizen Costing. We recommend that customers seeking to apply these tools engage in an upfront planning process that includes knowledge transfer to understand the tools at a deeper level relative to your organization and environment. Effort should be taken to determine how best to integrate these tools into your strategy execution plans and production cycles.

These are just some of the tools available to customers looking to Increase Performance and Sustain Gains in the New Norm of Volatile Conditions. MainStream GS is available to assist you in learning more about these tools and developing an execution plan. For more information about MainStream or to discuss this article further, including a free on-site consultation, please email info@mainstreamgs.com or call 877.785.4888.

References
Target Costing and Value Engineering by Robin Cooper and Regine Slagmulder
"Developing Profitable New Products with Target Costing" by Cooper and Slagmulder (MIT SMR Article 4042)
"Target Costing as a Strategic Tool" by Shank and Fisher (MIT SMR Article 4116)

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