

## Optimize This

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Sometimes, things that seem factual are not exactly true. Here are a few examples relating to inventory:

- When I was a materials manager the auditors would declare that we had taken a “good inventory” at year-end when the amount of positive variances was counterbalanced by an equal amount of negative variances. The economic definition of optimize was at play here with the intent to meet budget. From the standpoint of profits and taxes, the statement was correct – but still not a good thing. Why celebrate the fact that you have too many of some parts and too few of others?
- Our original stockroom had eight-foot aisles to accommodate fork truck deliveries of economical order quantities of parts. It all seemed to make sense while we were congratulating each other on “cost avoidance.” What a fictitious measurement that is! Half-empty, dust-covered Gaylords with the previous year’s inventory tickets still attached were testimony to the fallacious assumptions we made about optimal inventory levels.
- To optimize the density of storage, we installed a high bay automatic storage and retrieval system (ASRS). In 1980, the ASRS was the showpiece at the opening of our new plant. This is a story for another blog. The point here is that a superficial improvement was made in the name of optimization, in this case, of space.
- There was an annual drill that took place about a month before the physical counting of the inventory: Production worked overtime to complete all open work orders including speculative production to cover for the week that the

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stockroom would be shut down for counting. The incentive for production was that if they completed all work in process, then they wouldn't have to count it. At the same time, a hold was placed on supplier deliveries, ostensibly to stabilize the stockroom for counting, but also to drive down the level of purchased material for the purpose of improving the appearance of inventory turns. The timing of this drill unfortunately coincided with the desire to optimize year-end shipments. Mura deluxe!

- We exhausted inventories and worked overtime at year-end to ship orders before year-end. Many orders were shipped a little early. This, after all, optimized bonuses for our sales team. Compounding the frenzy, our sales department offered additional discounts to distributors to buy stock that they didn't need at year-end. Distributors, no doubt, considered this optimal as we offered them an additional 2 percent discount to buy just before the end of December rather than in the first week of January. Small wonder that January shipments were awful.
- One final astounding optimization practice is LIFO valuation, a confusing device that most companies use to defer payment of taxes. Under the LIFO valuation, my company was allowed, for tax purposes, to assume that the oldest inventory for a part was never pulled – quite a concept. Inventory value was based on prices paid years earlier, which reduced taxes. I learned about LIFO valuation around the time that inventory levels for parts began to fall below base year levels: the levels used to determine that the first-in inventory was still on the shelf. Suddenly the paper tax benefit was reversed. TPS detractors asserted that inventories had been reduced below optimal levels, causing an increase in taxes. Fortunately, our wise controller pointed out the net cash that had been saved, silencing those arguments.

When we aim for optimization, the assumptions we make about the constraints can kill us. The key point from the examples above is that all of the problems created were self-inflicted — based upon unquestioned conventional assumptions.

What examples of optimization can you add to this discussion?

*OldLeanDude.org is written by Bruce Hamilton (aka The Toast Guy from the best-selling Toast Kaizen lean training DVD and president of GBMP, Inc.).*

*Oldleandude.org is an on-going reflection on Lean philosophy and practices with an emphasis on keeping good jobs close to home. Read more at [www.oldleandude.org](http://www.oldleandude.org) [1] and subscribe to receive new posts automatically to your inbox.*

*GBMP helps develop a strong regional economy through training in continuous improvement principles and is the administrator of The Shingo Prize for Operational Excellence in the Northeast.*

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Innovative format features include: 4 brand new hands-on lean tools simulations, 2 virtual plant tours, more than 30 powerful break out sessions, keynote speakers, 1/2 day workshops, The Silver Toaster Award Ceremony, and The Community of Lean Lounge. Companies interested in participating in the Lean Lounge should contact [Lglikes@gbmp.org](mailto:Lglikes@gbmp.org) [2].

Confirmed speakers & topics include: John Shook, Alan Robinson, Jerry Bussell, Jidoka, Lean flow in the office, Lean cell design, Supply chain management, the Roadmap to Lean, virtual plant tours of Madico & Carestream Health Rochester, and much more.

The conference coordinator, Lela Glikes, can be reached at 617-287-7630 or by email: [Lglikes@gbmp.org](mailto:Lglikes@gbmp.org).

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