

## Leaner by the Numbers

### *Lean lessons from manufacturing can streamline Accounting as well*

by Lori Modifica

**L**ean Growth Strategies are not just for the shop floor. Your entire organization can benefit from these principles, and that includes your accountants. The accounting department is accustomed to dealing with objectives such as reporting, forecasting, and budgeting, and all of these can be enhanced with Lean.

As Lean growth takes hold, accountants will have to face new demands for strategic analysis of business opportunities. Lean accounting processes are an important way to make dealing with these demands easier.

There are two primary reasons for accountants to utilize Lean. In the "micro" sense, there are individual accounting tasks that can be improved. In the "macro" sense, the accounting department needs to collaborate with other departments in order to achieve maximum success with the change.

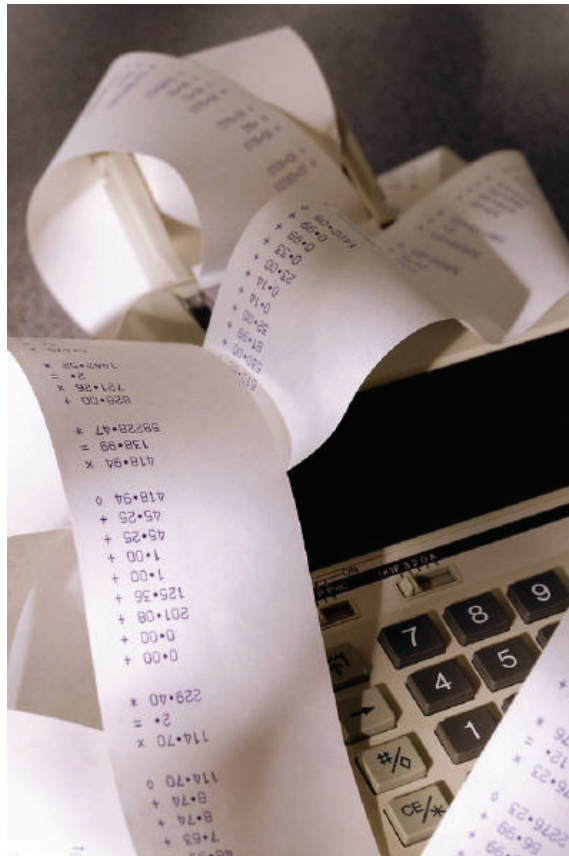
Lean processes perfectly compliment the objectives of many accounting functions and improve productivity. To see how, we must first consider the following basic objectives of most accounting departments:

- Management Per-

formance Reporting: Provides the information needed to make good business decisions. To do this, information must be understandable, timely, accurate, and actionable; however, reports by many financial departments are cryptic columns of variances that are of little use. One of the objectives of Lean accounting is to make it so that anyone can utilize these reports to improve business.

- Transactional Activities (accounts payable, payroll, tax and government compliance, cash management): These

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## Let Us Introduce You

by Jill Kennedy

The Sixth Floor Consulting group is proud to profile one of our own consultants this month.

**Fred Heintz** is one of the founders of Sixth Floor, a company that was started in 1999. Prior to Sixth Floor Consulting, Fred had 25 years experience in both management and systems roles. His management roles included Customer Service, Production Planning, Distribution, and Accounting. Because of his breadth of knowledge in these areas, he was selected to be on the ERP implementation team for a fast-moving consumer goods company.

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## An Important Reminder! ✓

In addition to providing American households with a rebate, the 2008 Economic Stimulus Act also includes two temporary tax incentives for businesses.

Under the 179 law, a business can deduct up to \$250,000 of the cost of new and used (qualifying) tangible property purchased and used in the tax year 2008. For new equipment, a business can also combine this with a bonus deduction for one half the cost of new equipment and other fixed assets.

Go to [www.irs.gov/publications/p553](http://www.irs.gov/publications/p553) and look under Tax Changes for Business (2008 changes) for more information.



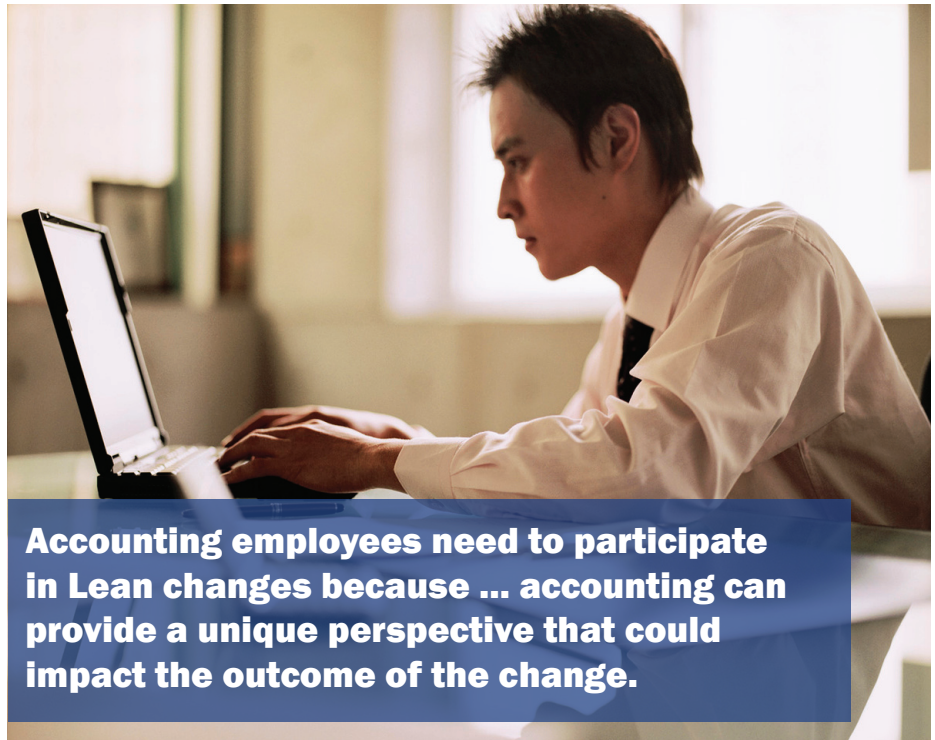
Accounting, cont. from page 1

tasks are essential, but they do not add value to products and therefore can be considered waste. Most cannot be eliminated, but efforts to reduce time spent in these tasks will free up resources for new assignments or initiatives. A spaghetti chart of a fairly simple process would prove to be very revealing to the time that is wasted.

- Sarbanes-Oxley: Has resulted in overly conservative and wasteful accounting processes, which can be dramatically improved. A Kaizen event focused on compliance will make an efficient approach to requirements and have a positive change on company culture.

In terms of the “big picture,” the work of the accounting department is cross-functional with projects that cross into many different areas. For example, the managerial accounting reports used by a company are supposed to help all departments in the business. But, as can be seen with current formats, reports offer little to nothing to other departments because the jargon is simply not understandable outside of accounting. To help make reports more cross-functional, implementing Lean changes like Plain English Management Financial Statements can help integrate the accounting discipline with other departments. This will better streamline your business by making departments more accessible to others. Truly successful companies have incorporated Lean strategies into all aspects of the culture.

Accounting employees need to participate in Lean changes because, like other business areas, accounting can provide a unique perspective that could impact the outcome of the change. Say, for example, an idea is implemented that eliminates the paper purchase orders. Without



accounting and supplier input, there could be problems paying the suppliers.

To successfully implement Lean requires the commitment of employees at all levels of the organization. This is especially true in the business office, where the most resistance to Lean is often encountered. The financial disciplines are, by their nature, conservative and slower to change. This is sharply contrasted to manufacturing, where new ideas, methods, or tools are continually being explored. In some companies, accounting processes have remained stagnant for years. Change and creative thinking are not always encouraged, and employees can be hesitant to suggest improvements even when they seem obvious.

This must be overcome. Employees must not only feel comfortable with continual change and improvement, but must promote it.

To change the system means to break the mold. Everyone's help is needed to do it because it isn't easy. Just because a process has always been done a certain way doesn't mean that it is the right way. When looking at current accounting practices, it might be necessary to institute change to improve your business. The book *Real Numbers: Management Accounting in a Lean Organization* by Jean E. Cunningham and Orest J. Fiume (2003) is an excellent read. This book can help financial and non-financial managers alike understand and begin Lean financial thinking. ■

**“We are continually faced with a series of great opportunities brilliantly disguised as insoluble problems.”**

- John W. Gardner





*Fred Heintz, cont. from page 1*

Never one to sit back and just do the minimum required, Fred became an integral part of the team, while at the same time sharpening his systems skills. Fred has worked on more than twenty software implementations, both before and after joining Sixth Floor. These have covered everything from small custom-built physical inventory systems to, most recently, a large global SAP implementation. He has taken on a wide variety of roles on these projects, with many projects calling for him to fulfill multiple roles simultaneously. They include project manager, IS lead, business lead, software design, both functional and technical specification development, training course development, and end-user education and training.

His years in Customer Service provided him with skills to deal successfully with both internal and external customers. His manufacturing planning experience, from master production scheduling to material requirements planning, has given him the skills to see and balance critical business needs as well as shop floor requirements.

With Fred's extensive business and systems experience, he possesses the skills to help businesses optimize a solution to their problems. His insight allows him to make sure that no part of the business gets left out when it comes to delivering a better way of working. While he has developed systems expertise, he is most proud of his work in crafting business solutions. He has found the best return on investment is an improved business process which better utilizes the company's resources rather than just automating the old process.

Fred has found throughout his career that the need for cross-functional communication is critical. "Without

involving everyone who will touch the system in the design and implementation phases, the project is doomed to fail," he said. "The key is developing a process and system which best meets everyone's basic need."

He believes education and training are invaluable to a successful implementation and ongoing daily operations and has developed and conducted many such classes. In addition, he has used informal "lunch & learn" sessions to help break down barriers, open communications, and surface issues otherwise missed.

Fred graduated *magna cum laude* from Central Connecticut State University, with a B.S. degree in Finance. He has achieved both CPIM and CIRM certification from APICS and is an active member of the Hartford Chapter.

Fred is an avid cook, and he enjoys matching wines with fine meals. ■

**The goal of Sixth Floor Consulting Group is to create best-in-class processes, allowing each of our clients to take their businesses to a higher level of quality, profitability, and Lean operation.**

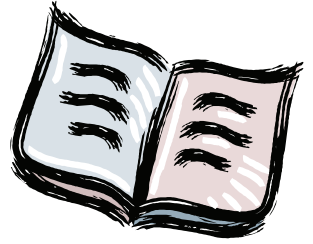
**Contact us today to put us to work on your team.**



**Fred Heintz, one of the founders of Sixth Floor Consulting Group**



## glos'-sa-ry



**Spaghetti Chart:** Diagram depicting the physical flow of products, people, or information through a process.

**Value Stream:** The process of creating goods and services and delivering them to a customer. The stream can be looked at from end-to-end or just that part controlled by the entity.

**CIRM certification:** APICS Certified in Integrated Resource Management, which is a comprehensive educational program that emphasizes effective interaction with cross-functional departments for more strategic decision making, enhanced collaboration, and improved productivity.

**CPIM certification:** APICS Certified in Production and Inventory Management.

**Sarbanes-Oxley:** Legislation passed in 2002 that established mandatory changes to the regulation of financial practices for all public accounting firms and public company boards and management.

*Do you speak Sapanese? Understanding SAP Software Slang:*

- **OTC:** Order To Cash; that portion of SAP software that covers customer service from order taking to accounts receivable. Includes order management, logistics, inventory control, invoicing, and credit management.
- **PTP:** Procurement to Payment; that portion of SAP software dealing with purchasing. Includes all procurement functions (P.O.s, Scheduling Agreements, Requisitions, sub-contracting, VMI, etc.), and accounts payable.
- **RTR:** Record To Report; that portion of SAP software covering financials. Overlaps with OTC, PTP, Manufacturing, etc.

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