



“Value Added” — The Key To Profitability

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“Value Added” is one of those terms that almost everyone seems to use, but means different things to different people. I was on an audit once and a truck driver told me, “I add value by moving the parts from there to here.” While I agree that the movement of the parts from place to place is work, I disagree with the statement that the mere movement of parts is added value.

So what is “value added” and how do we know what is adding value versus adding costs?

The concept of value added originated in economics. It made the jump to business as “economic value added,” which is typically calculated as the net operating profit (after taxes) minus a charge for the opportunity cost of capital (capital monies invested times the cost of capital).

While this can be a helpful measure for the owner or buyer of a business, it is not helpful for assessing operations directly. (My measure of management effectiveness is whether or not the operations earn back the cost of capital.)

The definition of value added that I was given in my initial Lean

Production Kaizen training was “Value added is anything that changes the shape or character of the product. Non-value added is anything that does not change the shape or character of the product.”

So, the key to understanding the nature of adding value is the appar-

incredible overstatement at the time, analysis of material flow in almost any operation will show considerable amounts of transportation and wasted motion.

How many moves are needed to get even the simplest product that you make from the inbound raw material

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ent transformation of the shape or character of the item in the process. Movement from place to place does not “transform the shape or character of the item,” such as a tapping operation or a heat treatment to alter mechanical properties of the product.

Moving parts is not adding value. Moving parts is transportation, and transportation is a type of waste. Transportation may be necessary work, but it is a cost, not an addition of value.

In my training, the statement was made that “95 percent of the activities in production are non-value added.” While this seemed to be an

truck to the package on the shipping dock? Less than half a dozen moves probably would make you world-class. Ten moves may be average for some of the simpler precision parts being made today. I have seen parts that had 20 moves or more when figuring post-machining operations and outside services like plating and heat treating.

Time to act. Eliminating non-value added steps in your process is your best way to remain competitive and keep your company sustainable. The monies saved will be an ongoing dividend to your operations.

Follow a part through your shop and record each step of its journey. At each step, ask these questions: Does this step change the shape or character of the product? Is this item here because it was made correctly the first time? Would the customer agree to pay for whatever is happening to the item at that particular time? Is what is happening at this step shown on the print as a customer-requested feature?

If the answer to any one of these questions is “no,” the step is not adding value. At the 95-percent non-value added benchmark that I was taught, finding these should be easy for you. Happy hunting!

