

Value Added — A Closer Look

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I was pleased with the feedback that we received from readers on our March 2008 article on “Value Added — The Key To Profitability.” Before tackling the points brought up by readers, let’s review what I mean by “value added.”

Value added is anything that changes the shape or character of the product in ways that make it more desirable to the end user or customer. Non-value added is anything that does not change the shape or character of the product with the same objective.

If a process step is not value added, it is considered waste. “Ninety-five percent of the activities in production are non-value added,” according to my training. Elimination of waste is the key to profitability any time, but especially now with the challenges of currency values, high energy prices, difficulty in finding skilled machinists, low-cost foreign competitors and ever-escalating raw materials prices. With 95 percent of the activities being potentially non-value added, it should be easy to find these in our shops. Here are some of your comments and questions on the subject.

Is parts cleaning value added?

According to my training, cleaning is value added only if the customer’s print or purchase order requires it. If there is a line item that states, “parts cleaned with XYZ,” “cleaned to meet ABC standard,” or words to that effect, the customer is saying that cleaning is of value to him or her. In that case, parts cleaning is value added. If the customer has the chance to say “yes” or “no,” and indicates that he will pay for it, it is value added.

In the absence of such a specific customer demand on the order or drawing, cleaning is just re-mediating your dirty process. Customers expect clean, uncontaminated parts that are free of chips lodged inside. They don’t feel they have to pay extra for it. In the case where they do not specify cleaned parts, they still expect good commercial delivery. So, if your process requires an extra cleaning step to meet their expectations, this would be a form of rework, which is waste.

Will the customer accept the parts if you don’t clean them? Probably not. Customers want parts without chips and residue in the threads. Such parts aren’t really functional to the customer. But removing the chips and residue is waste because they shouldn’t be there in the first place. In the customer’s mind, the parts shouldn’t need to be cleaned,

Customers don’t want to pay to have parts cleaned. So cleaning is not value added. Cleaning may be necessary for good delivery, but unless the customer is willing to pay for it, it is not value added.

What about the inventory I carry “just in case” the customer gets in a bind? While we have the machine set up, it’s easier to run one more box of parts in case of an emergency. The customer appreciates it when we can bail him out. Why is this waste?

Overproduction is always waste, even though the customer may be grateful that you have parts ready for an unplanned emergency. But it is waste all the same.

Such overproduction costs you several ways. There is the cost of carrying inventory, a reduction of your inventory turnover rate. It’s not just the value of the raw materials, but also the value of the labor and machine time invested to produce the parts, the utilities, administration and the security to keep the parts on premises.

These investments are uncompensated. Even when you are paid, payment will not cover the carrying cost. That box of “just in case” parts is actually losing cash that might be better spent elsewhere.

Another waste is the lost opportunity to make some other customer’s parts on your equipment instead of the “just in case” parts. The time spent to make these parts delays the next customer’s order. This loss of immediately available process time is unrecoverable, making the use of your equipment for a non-urgent requirement the ultimate in waste.

Is a tool room value added?

My teachers would have said

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Mr. Garcia attends all of the national meetings as well as several district meetings, depending on where he is at the time. "Our salespeople also attend a lot of district meetings," he says. "If they are in an area and there's a district meeting, they'll normally attend."

Mr. Garcia points out that PMPA provides members with a wealth of information to help them run

their companies. "PMPA offers economic reports, weekly newsletters and surveys," he says. "There are so many things that they do. But if you don't participate, you tend to miss out on a lot. If you do participate, you'll find out the value is huge."

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Value Added continued

"no," but I say "yes" in one circumstance. The tool room is value added if you can show how it gives you an advantage that serves the customer by bringing in the order at a higher price per part than you would otherwise be able to get without it.

Having a tool room that just hands out setup kits or sharpens and checks tools is not value added. It's overhead and fixed cost — a cost that is an integral part of doing business.

Having a tool room that can make the special tool in-house so you can quote 1-week delivery and get the order at your price instead of quoting 4 to 6 weeks using an outside vendor proves that the tool room is adding value.

Or, if the tool you make is significantly more accurate, less

expensive or longer lived than a purchased one (thus, giving you more margin than the purchased tool or fixture), it could be considered added value.

Only the tool room functions that give you that advantage are value added. The rest are overhead, fixed cost and burden. They may be necessary, but they aren't value added.

You could say that the tool room puts together the lean setup kits and that reduces setup by 2 hours so that particular task is value added. I would agree. But the routine or traditional functions of a tool room that do not reduce the setup by a measurable amount of time aren't value added in my mind.

Thanks for the questions.

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PMPA Annual Meeting
75th Anniversary Celebration
October 17-21, 2008
Waikoloa Beach Marriott Resort & Spa
Waikoloa, "The Big Island," Hawaii

PMPA Management Update
Conference
February 26-28, 2009
The Westin Tampa Harbour Island
Tampa, Florida



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