



Cost Improvement or Cost Reduction? It's Lean All the Way!

By Robert E. "Bob" Gaskins

Vice-President – The Maintenance Excellence Institute International

A cost improvement or cost reduction of \$.02 per washer saves company \$200,000 per year. Suppose your company makes washers that sell for \$.10 each to Home Depot, Lowes, etc.... A salesman shows up at your door and tells you that his new washer manufacturing machine makes washers at a cost of \$.02 less per washer (\$.080 than your current loaded cost for the part. Are you interested?

- Let's assume (and I know all about assume) you have a standard cost of 50% of your selling price or \$.05 cents per washer. Then we can infer that you will be reducing your standard cost by 2/5 or by 40%.
- Let's also assume that you sell 10 Million washers to Home Depot, Lowes, etc...each year. That would mean your total cost reduction would be \$.02 x 10 M or some \$200,000 per year.

How much of this could you add to your net worth? All of it, less the cost of the new manufacturing machine!

I am glossing over the cost of the new manufacturing machine and its payback or internal rate of return on your investment. I'm just discussing the Cost Reduction. FYI: The new machine has a payback of less than one year and a no brainer by the plant accounts.

The numbers are not important, what is important is that you understand the basic concept of Cost Reduction. It is important to: "Go Where the Bucks Are!" (Ernie Balfrey 1972)

In bad times cost reduction can be your key to continued success and even give you the ability to continue in business. In good times, cost reduction helps you to clean out the dead wood from your apple trees so that next year your fruit orchard can be more productive, bear more fruit, and multiply.

In the maintenance business, you can use cost improvement to justify the replacement of old, obsolete equipment, and procedures with new ones. Joel Leonard ([SkillTV](#)) asks, "What happens if you train your maintenance workforce and they leave you for a better job?" Then he asks, "What happens if you do not train them and they stay?" Pete Peters believes that Maintenance Cost Reduction is, "One of the keys to continued Reliability & Maintenance Excellence Improvement!" For instance:

As a budding engineer in 1979, I had the opportunity to start work for Northern Telecom Inc. (NTI) when it first came to The Research Triangle Park (RTP) area near the TMEI home office in Raleigh, NC. NTI opened a manufacturing plant in Creedmoor, NC making telephone switching gear for the likes of Sprint, and the baby Bells across the nation. I was hired to run their \$3.0 M per year Cost Reduction program. One of the first things I did was to introduce the



Cost Improvement Program (CIP) Magazine. The CIP Magazine came out monthly and gave clear concise descriptions of the current cost improvement projects under way in the NTI Operations organization. The magazine also served to cross pollinate CIP ideas to the managers and let them know what they could expect in the future. The North Carolina NTI Cost Improvement Program reached \$30M per year before I turned the control over to another budding engineer. This is important to you because I understand and believe, “That there is always a better way!” Said by Allan Mogensen before Lean and Six Sigma were born!

There are hundreds of stories about the effect Cost Reduction or Cost Improvement has had on all of us in the United States of America. In future articles, I plan to provide you with samples of these stories and the facts behind the cost improvements so you can investigate a possible application in your company and maintenance organization.

Feel free to use these ideas and take them where they may lead. Once a “budding engineer” who is now fully bloomed, I sincerely hope you find much current success with these stories and their application to your current needs.

Tune in Next Time for More Details

Bob Gaskins, Vice President
The Maintenance Excellence Institute International
Raleigh and Oak Island, NC



The Maintenance Excellence Institute International

6809 Foxfire Place, Suite 100, Raleigh, NC 27615 ♦ 2625 East Beach Drive, Oak Island, NC 28465
Office / Cell: 919-270-1173 ♦ Web: www.PRIDE-in-Maintenance.com/ ♦ Skype: [ridenwork](https://www.skype.com/en/contacts/voice/ridenwork)

Bob Gaskins 919-841-0705
E-Mail: Bob@PRIDE-in-Maintenance.com

Ralph W. “Pete” Peters 919-270-1173
E-Mail: Pete@PRIDE-in-Maintenance.com