

## Lost cost choices

IT SEEMS AS IF EVERYONE IS TRYING to pass along less of a product or service at the same or higher price and act like you are getting a better deal. I wonder who taught these people the basics of economic analysis.

What if it were possible to measure the true cost of such decisions? What lost costs go unnoticed during the monthly budget review because, “They have been that high for years,” or “We’ve tried to measure that number in the past – that is the best we can do.” I have seen differences in beliefs and behaviors alone produce process or project costs that were two or three times higher than normal. If one is raised being wasteful, what is the incentive to change?

When I moved from manufacturing to transportation, I became aware of the significant differences associated with obtaining true costs when the general public acts more as a system variable. A wintry day in trucking messes up daily numbers a lot more than in manufacturing. Plus, most transportation people are on site for 10 percent of their workday versus often 100 percent for manufacturing. What employees think and believe and will share with others matters more.

The problem is that we lull ourselves into believing that the numbers on paper don’t lie – that they represent the complete financial and cultural situation and, in the case of projects, what will happen in the future. Don’t get me wrong. We need to consider multiple scenarios and make them as realistic

as is feasible. But we must be aware of the high potential for lost or missing costs. Cash inflows or outflows that we consider indirect could be much more significant than we realize.

When I think of my costing past, two things come to mind. First, activity-based costing should be mandatory, and the practice of reviewing performance by looking at a spreadsheet of budgetary counts should be outlawed. Second, we are losing our ability to analyze the true cost of problems and predict the financial impact of work systems.

We have given responsibility of the latter to computers, losing touch with the pulse of our work processes to an even greater degree. Missing that pulse on a daily basis has distorted our total cost perspectives. We talk about process costs and expected process performance, but we fail to think about the larger work systems or connect the data dots. We don’t seem to have the time. We usually don’t have the data in a process cost form. And, in turn, we don’t understand our work systems like we think we do.

The phrase “intelligent risk” is buzzing around more these days. This makes me nervous because I have seen risk-based decision making used incorrectly on a widespread basis, and I would hate to see what could happen with the phrase, “Well, it seemed like an intelligent risk to me.” While the phrase works if used intelligently, it screams the need for a total cost picture to help us take truly intelligent risks.



### *What lost costs go unnoticed?*

No, we don’t need to predict exactly how many customers we will lose or how many dollars less a year they will each spend, but such lost costs should be part of the decision equation – and there should be an equation, not just a vote.

Of course, maybe some in charge really want to get as much as they can without caring if any of it remains sustainable. At this point, I would accept some of their logical insanity in exchange for them showing me the math behind their decisions. Do they really know what they are systemically doing? ❧

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