

FOREST PRODUCT MACHINE PROGRAM

CGN developed a cost predictive model for the specialty products division of a heavy industrial equipment manufacturer. The simulation model incorporated associated program cost reduction initiatives to help determine the probability of achieving the projected cost reductions and analyze the origin of any cost variations.

Business Problem

Our client wanted to provide:

- Visibility into all the cost reduction initiatives in order to understand the probability and confidence of achieving the objectives.
- The flexibility to analyze the impact of external conditions on the cost reduction initiatives.
- A detailed breakdown of the causes for possible variations to the projected actual costs.

CGN Solution

The CGN Team:

- Modeled all on-going initiatives and analyzed the various cost sources.
- Identified key drivers that affect these cost sources. These drivers included variables such as - the cost of material, cost of labor, cost of other operations, etc.
- Applied our experience and expertise in system simulation to analyze this problem and predict the probability of each initiative meeting its target costs.
- Applied the principles of Monte Carlo simulation to build a highly complex and robust model. The probabilities of achieving the cost objectives were extracted from the results of the model.
- Customized model inputs to provide a greater flexibility of use for the client.
- Provided a graphical view of the costs using the model outputs. The model outputs also provide the flexibility to obtain the confidence interval for a particular cost value based on a defined cost range.

Customer Benefit

The simulation model gave the organization a means for increasing their probability of achieving targeted savings by allowing them to develop any necessary contingency strategies through an understanding of the magnitude of the potential cost variations and their causes.

SCOPE

Develop simulation analysis for all cost saving initiatives; Time component for the study was eliminated as the initiatives were assumed to be in effect from a specific date; Utilize 'What-if' scenario capability of the probabilistic GoldSim model to analyze whether the cost savings are achievable.

BUSINESS DRIVERS

Gain a better understanding in the confidence of achieving targeted savings; Identify cost sources for the initiatives; Identify key elements that would affect the cost reduction initiatives.



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