• a learning, non-judgmental, non-blaming (because blaming is wasteful) approach and intent will allow the re-examination of the assumptions that resulted in the current process.

The format for Kaizen can be individual, suggestion system, small group, or large group. Therefore, Kaizen methodology includes making changes and monitoring results, then adjusting.

Stock control

Types of Stock

• Raw material
• Work in Progress/Semi-finished goods
• Finished goods
• Consumables
• Plant and machinery spare parts.

Problems due to Overstocking

• More stock more wastage.
• Risk of stock becoming obsolete.
• High storage costs.
• Working capital is tied up.

Problems due to Stock out (total depletion of stock)

• Customers demand could not be met leading to business losses.
• Frequent orders and handling cost may lead to higher cost for the business.

Stock control charts

Depletion of stocks as a result of usage or sales is represented by the sloping lines.
The break-even chart shows the safety margin which is the amount by which sales exceed the break-even point (current output minus break-even output). Only focuses on the break-even point. Completely ignores other aspects of production like how to reduce waste or how to increase sales.

Break-even point: the calculation method

It is possible to calculate the break-even point without having to draw the graph. We need to formulas to achieve this:

\[
\text{Selling Price} - \text{Variable Costs} = \text{Contribution Margin}
\]

\[
\frac{\text{Total Fixed Costs}}{\text{Contribution Margin}} = \text{Break-even point} = \frac{\text{Selling Price} - \text{Variable Costs}}{(\text{Selling Price} - \text{Variable Costs})}
\]

Therefore:

1. Profit = (Contribution × Units produced) - fixed costs
2. Units produced = \( \frac{(\text{Target profit} + \text{fixed costs})}{\text{Contribution per unit}} \)
3. Contribution determines how much a product contributes to its fixed costs and profit after deducting the variable costs.

Business costs: Other definitions

There are types of costs to be analysed that are split from fixed and variable costs:

- **Direct costs**: costs that are directly related to the production of a particular product
- **Marginal costs**: how much costs will increase when a business decides to produce one more unit
- **Indirect costs**: costs not directly related to the product. They are often termed overheads.

\[
\frac{\text{Total cost of production}}{\text{Total Output}} = \text{Average cost per unit}
\]