Scrap and Waste Management

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Editor's Note: Mike completes his three part series on Shrink – Scrap – Yield with this article on how the value of the Scrap produced can offset the cost of production. Toward the end of this article, Mike explains how the system can also handle a related topic: Waste products generated as a result of discrete production.

A colleague of mine recently reported that a former client received a monthly check that typically exceeded $80,000 for the scrap metal the local junk dealer picked up at their production facilities. The client was pleased to receive this “unearned income” but had no idea how much scrap they were generating or if they were getting fair value for it.

In the May/June, 2003 issue, when we examined Shrink, Scrap and Yield on parts stamped from sheet metal, we mentioned in passing that material costs may be partially offset by the scrap metal sold for salvage. This article will look at how the material component of production costs may be partially offset by the salvage value of the recoverable scrapped metal generated during production. Then, as a bonus, we will look at how the same system functionality may contribute to more effective waste management and control.

Preliminary Setups

In a process environment, recoverable scrap may be identified as a byproduct, and accumulated until it is sold, but how can one address recoverable scrap in a discrete production environment?

We will begin by defining Scrap Metal as an inventory item (See Figure 1). In the real world, it might be beneficial to define separate part numbers such as scrap steel, scrap aluminum, scrap brass, scrap copper, etc. These metals have different salvage value. If segregated, they may fetch a higher recovery value than as “mixed” scrap. Indeed, within a given category, such as “steel”, if sufficient differential exists, it may be worthwhile to further split out the scrap into separate alloy part numbers, such as carbon steel, stainless, chrome-moly, etc.
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Figure 1. Scrap Metal Item Master

For simplicity’s sake we have given our Scrap Metal a General Ledger class code (GLCC) of IN30, and a Stock type of P (more on Stock type after Figure 3). Again, in the real world, it may be useful to define a new GLCC for “recoverable scrap”. Don’t go crazy here – every new GLCC means more Automatic Accounting Instructions (AAIs). Do not take on the cost and effort to set up, test, and maintain new GLCCs and AAIs unless you are fairly confident that the value of the data collected will more than offset the costs to collect and analyze it.

Figure 2. Base Price of Scrap metal.

The local scrap metal dealer will pick up this scrap and pay $0.11 per pound, so that is what it is worth to us. We have set up item base price to reflect that amount. See figure 2.
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