

## Have you made a profit today?

"Have you made a profit today?" is not a trick question – for manufacturers.

The substantial majority of small to medium sized jobbing manufacturers that I speak with on a daily basis, namely furniture manufacturers, kitchen manufacturers, shop fitters, timber joiners, window and door manufacturers throughout Australia, do not know whether they have made a profit on a daily basis.

To answer the question for you – the only way you can know whether you have made profit on a daily basis is to achieve the following:

1. have a current and accurate overhead cost per productive staff member per hour;
  2. have accurate budgeted labour times costed into your quotations or price list;
  3. not exceed your total daily downtime hours. If you have 10 factory staff, your budgeted daily downtime, which is allowed for on your overhead cost calculation, might be, for example, 10 hours daily or 50 hours downtime weekly. You need to ensure that your budgeted downtime hours are not exceeded daily and weekly;
  4. complete all your manufacturing jobs within your budgeted times.
- Common mistakes manufacturers make, which means that they do not know whether they have made a profit in their businesses on a daily basis are outlined as follows. I suggest that you use a pen to rate your company performance next to each of the eight points below – we do very well; we do averagely well; or we do poorly or not all all.
1. Lack of any current (ie 2011) and accurate overhead

cost calculation to know the true cost per productive staff member per hour to run the factory. On average, most Australian small to medium sized jobbing manufacturers range from around \$60 to \$80 per productive staff member per hour overhead cost. Some manufacturers are higher than \$80 per hour when any or all of the following apply; rent cost is high, the ratio of non productive to productive staff numbers is high or a lot of expensive machinery means annual depreciation cost is high.

2. Office staff and management staff numbers and salaries, which are generally treated as an overhead cost, have changed significantly from the last time an overhead cost calculation was carried out in the business if an overhead calculation was carried out at all.

3. Office staff and management working unproductively by not completing their pre-production jobs on budgeted times. Most manufacturers do not have budgeted times for pre-production jobs (pre-production jobs include, for example, designing, programming and materials ordering). This is changing and progressive Australian manufacturers are both budgeting their labour times for their pre-production processes on each job and also time tracking actual times on those same jobs. This is making a substantial improvement to office productivity, cost savings and profitability.

4. Little idea of total actual downtime hours daily and weekly.

5. No budgeted labour time per stage of manufacturing jobs.

6. Job costing (ie back costing) does not occur in the business or occurs infrequently. This means that mistakes in costing budgeted labour times in quotations or price lists go unnoticed and are likely repeating themselves daily. So budgeted labour times in quotations and pricelists are generally inaccurate.

7. No time cards that staff fill out to confirm what jobs and times that they worked on and completed, so times recorded on all jobs are highly inaccurate. Such manual time cards are commonly referred to in the industry as 'lie sheets', 'cheat sheets' or 'crime sheets' for obvious reasons.

8. No or inadequate assessment by management of staff and factory productivity reports to ensure that budgeted labour times on jobs are achieved daily and not exceeded.

The solution to resolving all these eight issues outlined above is to put a few second hand PCs on your factory floor yourself (it will cost you approximately \$1,000) and invest in labour management software, which tracks all your actual times on all downtime jobs and manufacturing jobs and compares them to your budgeted times. Labour management software can be implemented in your business in one day and be working well and achieving significant gains in your business within five days. Labour management software costs \$11,000 for most factories and a full return can be achieved in less than two months.

Suppliers of Empower labour management guarantee both successful



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implementation of software in your business; and significant factory productivity gains in your business.

Empower Software guarantee successful implementation and significant productivity gains because 1) they have been doing this for ten years and 2) they have implemented time tracking software at over 120 manufacturers to date. The smallest increase that has been achieved on one manufacturing site in ten years across 120 manufacturers, is a 15% factory productivity increase, which, for this particular client's original investment of \$11,000, was \$140,000 per year saving in wage cost alone. ●

Paul Entwisle, owner general manager of Forest Furniture AND winner of the 2005 ANZ Bank and Deloitte Consultancy Firm - Business Excellence Award. A significant factor in winning this award was Paul's investment in factory PCs and Empower time tracking software, which demonstrated that Forest Furniture tracks and reports live productivity and profitability figures per furniture item, per order, per staff member and per day. Hence, Paul knows precisely what profit he makes daily.

