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Many manufacturers focus their efforts to improve their business only in select areas within their businesses, which generally focuses on new machinery and related software.

A comprehensive and company wide focus on 'business improvement' is necessary to substantially increase your competitiveness, revenue and annual profit. This requires that you focus on improving your business in all following three areas, namely: **1 Revenue, 2 Cost of Goods Sold and 3 Overhead Costs.** These are the main areas of your Profit and Loss Statement, which determine your profit.

<b>1</b>	<b>Revenue</b>	
<b>2</b>	Less <b>Cost of Goods Sold (COGS)</b> (including your Material Cost)	_____
	=	<b>Gross Profit</b>
<b>3</b>	Less <b>Overhead Costs</b>	_____
	=	<b>Net Profit</b> (B4 tax) (or EBIT - Earnings Before Income Tax)

You need your Profit and Loss Statement for the last 12 months to refer to whilst working through the Checklist below.

# Manufacturers maximise your revenue and profits -

using this checklist of 52 business improvement initiatives

These 'business improvement' initiatives demand a top down commitment from senior management, in both implementing and ongoing monitoring, to realise maximum benefit from these initiatives.

If you are implementing the proposed initiatives below the writer welcomes the opportunity to assist with two hours consultancy advice free of charge. Simply contact me by phone 027 2284211 or email seansos@ihug.co.nz

Many of the initiatives below apply to manufacturers who cost and quote most of their work as they manufacture "custom" products for individual clients. Many of the principles of these initiatives also apply to manufacturers of "standard" products made in volume.

## 1. Maximise your Revenue

1. Recalculate the cost to operate your factory per staff member per hour. And recalculate your charge out rate per staff member per hour (both your cost to operate your factory per staff member per hour and charge out rate per staff member per hour need to be reviewed annually or immediately if your business changes significantly in your costs or revenue structure). This requires completion or at least review of the following three templates:

a) Hours worked by your factory staff. You may pay staff a standard 40 hour week but the maximum worked and invoicable hours is 26.5 hours per week.

b) Estimate your factory downtime (10% is likely far too optimistic. 20% is likely to be more accurate).

c) Cost per hour to run your factory. Cost of \$60+ per staff member per hour maybe likely.

Templates to help you confirm 1, 2, and 3 directly above for your business can be downloaded free of charge from **www.empowersoftware.biz/productivitytemplates.htm**.

“Ensure your sales staff diligently follow up all quotations and prospective clients and ensure a record is kept of the reasons all jobs were lost...”

2. Ensure that all sales staff use a well formatted Costing and Quoting Software – to undertake all costings and quotations (not simply an isolated spread sheet). Assess the following software option **www.empowersoftware.biz/jobmanagement.htm**.

3. Use a good Job Cost system to review "Live" all Actual Costs to Budgeted Costs for each job – and review and discuss all jobs at each month. Focus on Labour cost as this is where

the SUBSTANTIAL variations and financial losses occur.

4. Through 2 and 3 directly above ensure that your budgeted labour hours in your costing and quoting is accurate. This requires that you job cost all jobs to job, process and individual staff level. This information will highlight all areas of your business where your budgeted labour hours in your costing are NOT accurate – and where you are unnecessarily losing money.

5. Ensure clear weekly sales goals are in front of all sales staff.

6. GM to meet at least once a week with sales staff to review sales performance against set weekly goals.

7. Sell on customer benefits and customer value (ie. product quality, services and support). List the Unique Selling Propositions (USPs) of each of your products, service and support and ensure that sales staff always present your USPs to all prospective clients and clients.

8. Ensure your sales staff use good Contact Database Software for managing prospective clients and clients and ensure that this is being used thoroughly in their daily role. Assess the following software option **www.design2cam.com/products/tcm.htm**.

9. Ensure your sales staff diligently follow up all quotations and prospective clients and ensure a record

is kept of the reasons all jobs were lost – ensure that you review this with sales management. Your current lists of prospective clients, quotations and clients are one of your business' most valuable assets – accordingly they require professional management and real focus.

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“Periodically send sales staff on sales training to refocus and remotivate their efforts.”

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10. Advise your sales staff of the maximum period by which your company expects to get quotations back to prospective clients. Significant additional sales can be generated from getting quotations back to clients before “everyone” else. And significant higher prices and margins can be achieved because you don't have to reduce your price to compete with several other quotations of which one or more are likely lower than yours.

11. Periodically send sales staff on sales training to refocus and remotivate their efforts.

12. Revisit the “fundamentals of selling” with sales staff every quarter.

13. Revisit your remuneration of your sales staff to include significant bonus to incentivise significant sales performance in excess of their budgets.

14. Run a report of your top 10 or so clients outlining their total spend with you for the last 12 months in

both dollars and % of your total revenue. Then invest a significant percentage of your marketing and advertising budget in building further the relationship with these 10 clients - who are absolutely critical to your business. And in doing so you will secure this business further.

15. Work with your production manager to reduce your current lead times on jobs. Your sales manager's ability to offer for example a one week turn around on jobs, when the industry standard might currently be two to three weeks, will secure significantly more sales for your business. And as directly above at #10 these sales are likely to be at significantly higher prices and margins.

16. Always use Variation Orders for clients to accept and sign before your commence any variation work.

17. Ensure Variation work tracks all hours worked and all hours worked are charged. Be mindful variations consume substantial administration

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and management hours, which also needs tracking and charging to the client.

18. Do not discount. At least do not discount without knowing the true and complete impact such discounts have on your profits per job and per annum.

19. Include budgeted “pre production” time in your costings and quotations.

20. Ensure all office staff and management are aware of the budgeted time

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“Diligently monitor and manage your debtors, which significantly reduces your bad debts.”

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expected to be invested in “pre production” processes of each prospective client.

21. Track all actual time office staff and management work on “pre production” processes of each job.

22. After reviewing 19, 20 and 21 above if necessary update your company policy on any “free design time” provided to prospective clients during the quoting process.

23. Track all time all office staff and management put into clients designs after the quotation has been accepted. This time can be substantial and needs tracking and charging out.

24. Cleaning time associated with an individual job should be costed into that

job. As far as time on that job is concerned that job is not finished until the area involved is cleaned up. This type of cleaning should not be treated as an overhead job.

25. Diligently monitor and manage your debtors, which significantly reduces your bad debts. A listing of 30 Key initiatives for you as a manufacturer to focus on to better manage your debtors can be downloaded free of charge from [www.empowersoftware.biz/productivitytemplates.htm](http://www.empowersoftware.biz/productivitytemplates.htm).

## 2. Minimise your Cost of Goods Sold (COGS)

26. In for example November each year formally invite all your suppliers to provide you with a quotation for your materials supply for the coming 12 month period.

27. On larger jobs throughout the year invite several suppliers to provide you with a quotation for the supply of materials for each particular project.

28. Share some of your materials orders between suppliers and ensure suppliers know that materials orders are being shared to encourage competition and greater discounts. → 28

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“Meet with your suppliers and propose that they pay you a small rebate for ‘your loyalty in purchasing’, say 2%, on all purchases. ”

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29. Negotiate higher discounts for prompt payment on the 20th and optionally payment within seven days.

30. Use Purchase Orders for large jobs, if not all jobs, and outline the agreed price on the PO (to stop suppliers administration staff charging you what ever rate they decide on a the time).

31. Ensure that your administration staff diligently check the following:

- Receipted goods against packing slips
- Your Purchase Orders against suppliers Invoices

32. Meet with your suppliers and propose that they pay you a small rebate for 'your loyalty in purchasing', say 2%, on all purchases. Advise suppliers that their investment of say 2% in continued purchasing from an existing client makes far more sense than them investing substantially more

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in trying to find new clients. This payment can go into a separate fund, which can be shared equally by your management team. 2% of say \$500,000 of materials purchases is \$10,000 annually, which is a significant "Christmas" bonus

for management. Remember "If you don't ask you don't get" and "You get what you negotiate".

“ Every year invite several suppliers to quote you for your – insurance, accounting, legal, cleaning, and waste services etc.”

### 3. Minimise your Overhead Costs

Undertake the following examples with your Profit and Loss Statement to determine your potential percentage and dollar gain in profit, which would result from the following theoretical changes to your materials cost and production level:

33. Reduce your current material cost by 10%. You will note that this would only make a relatively small improvement to your profit.

34. Increase your production (ie your Revenue) by 10%, which is very attainable with good time tracking and production management software. You will note that a 10% increase in production/revenue, without increasing any of your wage or overhead cost, can increase your annual profit by well in excess of 30%. Assess the following time tracking and production management software option [www.empowersoftware.biz/timetracking.htm](http://www.empowersoftware.biz/timetracking.htm).

### Focus on the following areas to reduce your Overhead Costs:

35. You need a company wide real focus on managing your Core Business, which is managing "Labour". Focus on your factory staff firstly then your office staff secondly.

36. Make all factory staff, administration staff and management aware that it COSTS \$60+ per staff member per hour to operate your factory (use the productivity templates outlined above at initiative #1 to calculate your current cost to operate your factory).

37. Invest in time tracking software using PCs on the factory floor to make each and all factory staff aware and accountable to budgeted times on all jobs. This way you can substantially increase production and you can see precisely where your factory time and money is "slipping away on you". And it will tell you precisely what jobs, processes and staff are making and losing you money.

Your Production Managers role is to monitor, manage and motivate factory staff. The "tool" necessary for your production manager to monitor, manage and motivate factory staff is "time tracking" software - using PCs on the factory floor.

38. Ensure that Actual Times on all jobs always meet your Budgeted Times on all jobs (this should be one of or your main company goals). This is the key to: 1) managing your labour and 2) maximising your profitability in manufacturing.

39. Ensure that staff and management involved in costing and quoting jobs are focused on Budgeted profit

“ Provide a financial incentive to factory staff who complete jobs in less than the time that you have budgeted. ”

per job. After you have undertaken job costing per job discuss with staff and management involved in costing the actual profit that was achieved per job – and compare that to the budgeted profit for that same job. Keep a 'Continuous Improvement Register – for Costing Jobs' to record all Problems (where actual materials and labour were significantly higher than budgeted material and labour) and record all Answers (to ensure lessons are learned and that the same Problems do not repeat themselves on future jobs).

40. Provide a financial incentive to factory staff → 30

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who complete jobs in less than the time that you have budgeted. The most effective bonus system is one that is paid to individuals who have "performed" and a bonus that is paid either weekly or at most monthly.

41. At staff performance review and wage round do NOT increase the wage rate to staff who are not performing. And show staff where their performance is below what

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is required (ie present and discuss a listing of their Actual and Budgeted Times on jobs and processes, (which can be printed from any good time tracking software).

42. The workforce today is not the workforce of 20+ years ago. The writer attended a manufacturers association conference in Australia recently. The main message from one presenter was that today's apprentices entering the work force, called generation "Y", have unwarranted expectations, in terms of position and pay, and tend to have poor work ethic. So the issue of manufacturers attempting to manage the new labour force of today and tomorrow is getting more difficult. Accordingly there is greater need "today" than there was

"yesterday" to clearly advise staff what is expected of them in terms of budgeted times to complete jobs and discuss with them their actual times compared to budgeted times so they can contribute as required.

43. Ensure as far as practically possible that each and all factory staff contribute equally to your production. Don't allow a group of factory staff to carry "others". If it is clear to the harder working staff that other staff are "dragging the chain", and are getting paid the same or similar amount to themselves, then the harder working staff will see no point in working hard and "carrying them".

44. Production Management and general management should ideally meet with factory staff weekly to discuss which jobs and processes ran over time and which did not. Also keep a 'Continuous Improvement Register – of Factory Time Overruns on Jobs' to record for each time there is an over run of time on a job. This Register should record the Problem, which caused the time overrun and which staff were involved and the Answer to eliminate time running over on a similar process or job in the future. Remember that as a manufacturer your core business is managing labour – and formal continuous improvement of your core business is a necessity.

45. Keep a "Factory Productivity Initiatives Register". This records all staff suggestions for improving times on jobs - and therefore improving factory productivity.

46. Ensure the ratio of overhead staff to factory staff is justified. Do not increase overhead staff without

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considering revising and increasing your overhead cost per hour to operate your factory and your charge out rate per hour.

47. Every year invite several suppliers to quote you for your – insurance, accounting, legal, cleaning, and waste services etc.

48. Ensure that all prospective clients, clients, and suppliers phone in advance and book a time to meet with you or your staff. And ensure that they are aware that you have allocated them say 10 to 15 minutes for the meeting. This simple procedure can SUBSTANTIALLY reduce meeting time.

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“ Do not provide an incentive to factory staff to “drag out” times on jobs during the day to enable them to work overtime to earn extra money. ”

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49. Time track administration and overhead staff as "direct cost" to each job they work on. This will eliminate a substantial amount of Downtime. Many kitchen manufacturers and shop fitters now have their staff involved in "Designing" and "Machine programming" log on and off jobs using time tracking software on their PCs. This keeps all office and administration staff time conscious, time focussed and highly productive.

50. Ensure that all jobs are completed in normal working hours. Do not provide an incentive to factory staff to "drag out" times on jobs during the day to enable them to work overtime to earn extra money (and additionally get paid higher overtime rates).

51. Review each of your following processes to ensure that they are NOT causing significant "bottlenecks" and factory downtime:

- Your quoting
- Your materials ordering
- Your production manager's job scheduling and work assignment. Is your production manager focused on maximising work completed today and this week or/ is he significantly constraining production to meet his preferred more controlled and more casual delivery dates?
- Your machinery use

52. Interest cost on your overdraft can be substantial. Focus on getting your overdraft to \$0 as quickly as possible. A \$50,000 overdraft costs you some \$6,000 additional interest expense per year. This cost can be eliminated by having your money in your account (not having your money funding your clients businesses). -S-