Get Labor Costs Under Control With ERP

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Suppose you went to your bank to deposit a check and the teller processed the transaction on pencil and paper. You would either think, a) their computer system was down, or b) they were nuts. Either way, it might make you think about switching banks.

SO WHY, WHEN THE VAST MAJORITY OF TODAY'S BUSINESS TRANSACTIONS ARE PROCESSED ELECTRONICALLY, ARE SOME MANUFACTURERS STILL CAPTURING TIME AND ATTENDANCE WITH PENCIL AND PAPER? ESPECIALLY WHEN LABOR COSTS OFTEN REPRESENT ONE OF THE BIGGEST LINE ITEMS ON THE P&L.

EVEN IN SMALL SHOPS WITH LESS THAN 25 EMPLOYEES, ACCURATELY TRACKING LABOR TIME AND COSTS IS TOO IMPORTANT TO CONDUCT BY HAND. NOT ONLY IS MANUAL LABOR COLLECTION A SLOW, INEFFICIENT AND ERROR-PRONE PROCESS, IT MAKES IT DIFFICULT TO CONTROL LABOR COSTS. WHEN YOU CAN'T CONTROL LABOR COSTS, YOU END UP WITH CASH FLOW PROBLEMS, A COST STRUCTURE THAT PUTS YOU AT A COMPETITIVE DISADVANTAGE, AND A BOTTOM LINE THAT'S SMALLER THAN IT SHOULD BE.

How Bad Is It, Really?

When you track direct labor time by hand, on paper, a lot of things slow down:

- Daily balancing takes longer than it should.

- Scheduling problems cause machinists to stand around because they don't know what to work on next.

- Inventory problems can also cause unwanted down time.

- Operators often waste time tracking down the correct revision of a router, drawing or BOM before they can start on a job.

- Sending incorrect routers, work orders and BOMs to the shop floor cause production problems that lead to excessive overtime and rework.

Tracking labor time electronically is a good start. It allows machinists to log on and off jobs and job sequences without leaving their work stations. It eliminates lost time sheets and employees clocking in for each other. Most important, it tracks direct labor time down to the minute for every job that passes through the shop floor.

However, by itself, electronic timekeeping won't get high labor costs down to where they need to be because there are so many other contributing factors to contend with.

What's needed is an integrated ERP system that simplifies all your manufacturing processes, including labor time and attendance, and improves shop floor efficiency and productivity.

WHEN YOU TRACK DIRECT LABOR TIME BY HAND, ON PAPER, A LOT OF THINGS SLOW DOWN.

Precision Labor Costing

An ERP system puts you in control of labor costing – both direct and indirect – by turning a manual process into a mostly automated one. The system automatically records direct labor time for every employee and assigns operator time not allocated to a job to indirect labor. This leads to robust reporting options that provide the data you need to allocate your labor more efficiently.

AS A RESULT, YOU CAN MEASURE DIRECT LABOR DOWN TO THE MINUTE AND MINIMIZE INDIRECT LABOR WHILE QUICKLY AND EASILY PERFORMING ALL THE DOCUMENTATION AND SCHEDULING ONLINE. YOU ALSO GET:

- **Less employee downtime.** ERP software makes it easy to electronically send scheduling and job data to the shop floor, so operators always know what they should be working on and when. With the data instantly accessible at work stations throughout the shop floor, hunting for lost work orders, waiting for materials to arrive and standing around wondering what to do next will disappear.

- **More efficient use of overtime.** Scheduling overtime is a major cause of excessive labor costs, as manufacturers often tend to over-schedule these shifts. With ERP software, you can determine exactly how much additional labor is required and schedule appropriately to minimize overtime costs.

- **More accurate estimating.** With ERP software, you can track variances between estimating and actual results as soon as a job is finished. By comparing actual operator time on each job with the estimate, you can determine whether the variance results from estimator error or machinists not performing to expectations.

- **Accurate, real-time job costing.** Here's where ERP software really delivers a return on investment. Companies without an ERP system usually can't determine costs until several days or weeks after a job is completed. By automatically tracking all labor and material expenses, an ERP system lets you close work orders the same day the job is finished – knowing that you can trust the numbers and that all costs are accounted for.

AN ERP SYSTEM PUTS YOU IN CONTROL OF LABOR COSTING BY TURNING A MANUAL PROCESS INTO A MOSTLY AUTOMATED ONE.

With ERP software, daily balancing can be performed in minutes. Setup times can be reduced through better planning and scheduling. Administrative overhead costs are reduced by simplifying and automating back-office processes. Automated purchasing and inventory tracking reduces stockouts that can lead to operator idle time.

ERP software even improves accountability throughout the shop floor. When employees know their time and performance is being tracked with precision, they improve in both areas. Manufacturers using an ERP system for the first time often see reductions of 10% of more in indirect time – simply by tracking time and attendance electronically.

" With our manual systems, we didn't always know what was happening on the shop floor," says **Bob White, vice president for Watson Grinding**. "As a result, labor costs, especially overtime, were out of control. Since implementing ERP, time and attendance is now effortless. To determine labor costs for a job, we log into the system, the data is instantly available on one screen, and we know we can trust it. When we schedule overtime now, we know exactly when we're doing it and why. **"**

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What You Need to Get There

ERP systems can vary widely in terms of features and capabilities. Getting a handle on labor costs requires a robust system that, at minimum, includes the following modules:
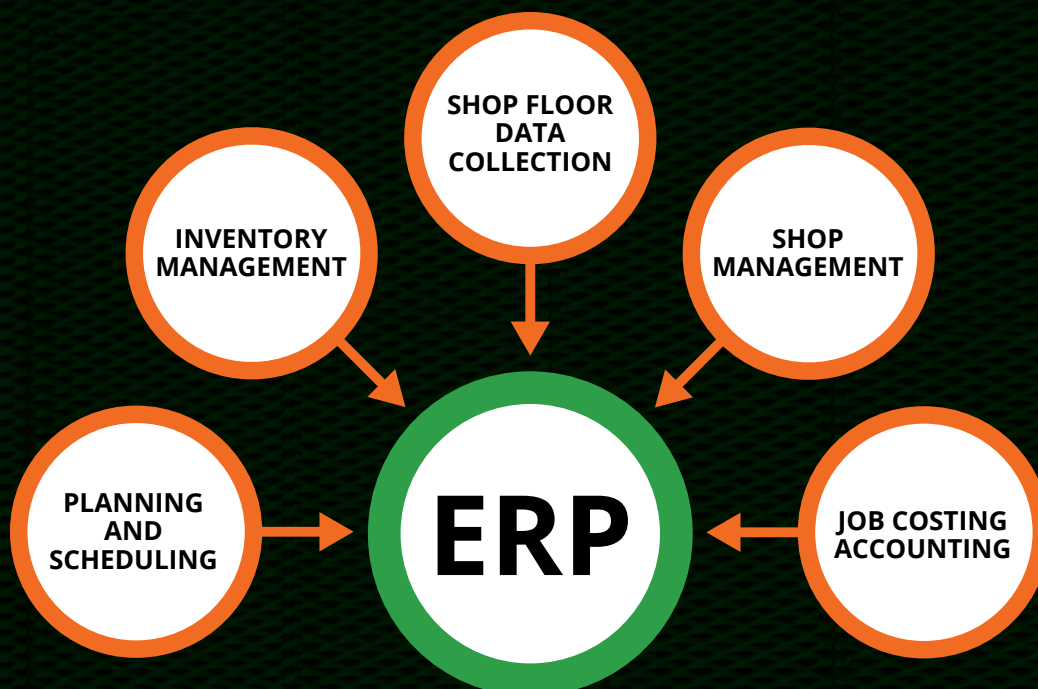
Planning and Scheduling. Look for a scheduling tool that lets you view load capacity and shop resources in real time. It should also offer finite and infinite scheduling options as well as the ability to model "what if" scenarios to insert hot jobs without disrupting the entire schedule.

Inventory Management. Knowing what you have in inventory at all times keeps jobs on schedule and reduces employee downtime. The best inventory systems provide real-time inventory tracking and management, as well as simplified material ordering and detailed vendor performance tracking.

Shop Floor Data Collection. This module typically includes time and attendance tracking, and allows shop floor employees to clock in and out of jobs and machines with just a few clicks or touches. Look for the ability to track data by jobs, employees and workcenters, and make sure the system offers robust reporting capabilities to easily view data on dispatch lists and job packets.

Shop Management. This module enables manufacturers to respond to customer demands as they happen (rather than after the fact) by providing live data on work in progress. From detailed information on current jobs to scheduling and shop floor reports, a shop management module is essential for meeting production deadlines while maximizing labor efficiency.

Job Costing Accounting. No ERP system is complete without this capability. A good job costing software lets you measure and track costs in many different ways, including complete histories of finished goods costs. It also lets you see how much labor, overhead or material goes into a part so you can identify strategies for reducing costs.
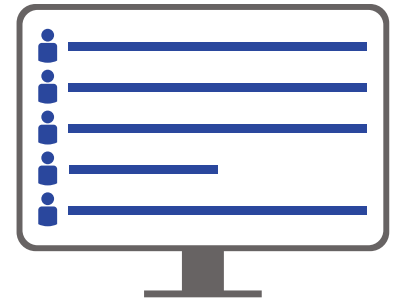
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                    SHOP FLOOR
                       DATA
                    COLLECTION

   INVENTORY                          SHOP
   MANAGEMENT                      MANAGEMENT


   PLANNING                                JOB COSTING
     AND            ERP                     ACCOUNTING
  SCHEDULING
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"Our ERP's costing module does exactly what it's supposed to do, which is capture all labor costs in real time," says **James McCleery, general manager for Sjogren Industries**, which manufactures wire tooling products. "Workers clock in and out of jobs at their stations on the shop floor, and the system automatically assigns their time to the right job or job sequence.

As soon as a job is finished we know exactly how many hours went into it and how much it cost. At the end of every month we can generate accurate financials within two hours of the final shipment."

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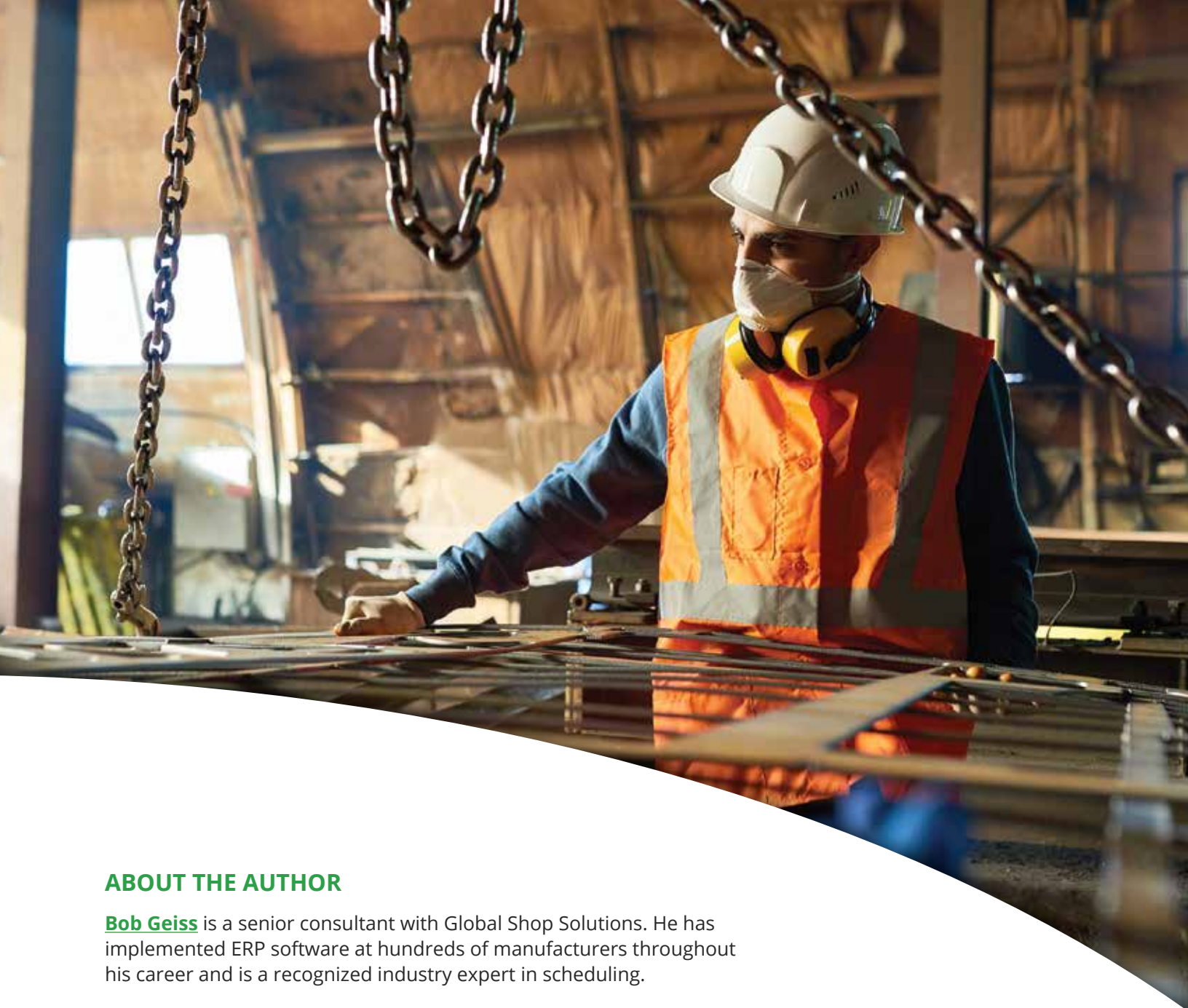
You're Not Alone

In today's highly competitive manufacturing markets, if you can't control labor costs, you can't compete, especially with overseas manufacturers that have the luxury of using much cheaper labor. At Global Shop Solutions, we understand these challenges and design our ERP software to help you optimize labor efficiency and squeeze every penny of unnecessary cost out of your production process.

If you're tired of losing jobs to more efficient competitors who keep a tight lid on their cost structure, call us today at 800.364.5958, or set up an appointment online. We'll help you get labor and other costs under control so you can thrive instead of just survive in your chosen market.

ABOUT THE AUTHOR

Bob Geiss is a senior consultant with Global Shop Solutions. He has implemented ERP software at hundreds of manufacturers throughout his career and is a recognized industry expert in scheduling.

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