Stop the Leakage or suffer "Titanic" Consequences

By Sandra Henson – People Logic Software Corporation

If you happen to be lucky enough to own a boat you know only too well a leak of any kind is very bad news. With a large gaping hole you have little time to repair the leak and in most cases the boat sinks fast. With a small leak you have time to initiate repairs and try to salvage the situation. But in either case without some remedial action the boat will surely sink.

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So why is it in the business community that company owners and managers allow their businesses to suffer a slow death through a gradual erosion of corporate profits? The same way a boat will eventually sink if the site of the leak is not repaired so to do most businesses who ignore the warning signs. When you look in the bottom of a boat and find water lapping around your ankles this is a good clue you've got problems. In the business world you can look to the bottom line and if you find that your profits are less than anticipated or completely non-existent you know you've got problems. Usually the cry is, there's not enough work. Generally that is not the cause of the problem. How do you make the work you have more profitable? By stopping the leaks.

Are you surprised and disappointed at the end of a project or upon receiving your year end financials that your profits are lower than you had anticipated? In most instances businesses suffering from "leakage" notice a small and seemingly insignificant loss of potential profit. A few pennies here and there in each department or job process. When the final tally is in at the end of a project or year-end financial report, the profits aren't what were expected. With a cursory inspection no major flaws were apparent in the execution of the project, just a large number of small problems (hardly worth addressing at the time) but the impact on the bottom line is significant. Managers can't quite find the problem or "site of the injury" but determine to do better next time. They simply agree to run a tighter ship and to keep on top of the expenses. They then

move on to the next project with no system of corrective measures in place and upon receiving the next set of financials find themselves with less than satisfactory profits.

There is a myriad of areas in the woodworking industry where money can be lost. Massive hemorrhaging is usually obvious and corrective measures and be implemented easily. Usually this involves big ticket items. Machinery and equipment that is inefficient and slowing other departments down can be replaced with more proficient cost effective products. Staff members can be trained and retrained, using more effectual methods and machinery. The layout of the plant can be redesigned to become more efficient to allow for a better flow of labor processes and material handling.

Even with the introduction of many cost saving devices and methods you may still find the profits less than expected, there are still more profits to be made. There are still untapped areas for making profits it is now time to plug the small slow leaks. Once the “Massive Hemorrhaging” has been tackled and corrected the slow killers can be addressed.

The assumptions for all projects are established when the estimate was submitted and accepted. Obviously if the assumptions of the estimator are not adhered to it is going to reflect in the bottom line but often the premises that the estimator based the estimate on are not understood or even known by other departments. If the keel of a boat is not laid down correctly, it will never reach its designed speed, no matter how hard you try. The estimating process like a keel in a boat needs to be laid down correctly, herein lies a wealth of opportunities where profits can be either made or lost.

By introducing an estimating and business management system that is used by all departments involved with a project, the estimators' assumptions can be followed or adjusted. If all the information the estimator used is forwarded to purchasing, manufacturing, and site management, there is a greater opportunity to keep the job on the right track, and profits in line with the estimators’ projections.

When an estimate is compiled the estimator makes certain assumptions on the time and labor required to build the project. For highly customized items, the labor component is based on historical data and a bit of added guesswork. Unless labor is tracked massive overruns

can occur and these can be repeated on other projects. It is important the plant foreman understands the time allotted to build certain items and that he is able to track whether this time estimate is correct or if there are overruns. It is also important that a mechanism is in place to pass updated and accurate information back to the estimator. If an estimator has allowed 8 hours to build a custom piece and the actual time and labor component was 16 hours, this information must get back to the estimator in order that this error does not become historical data and get repeated again. A time tracking system allows the estimator to base his labor component on actual times rather than guesstimates. By introducing a computerized estimating system with tie ins to a time tracking system this allows for access by all departments to exchange information.

Value engineering can be utilized if a system is in place where "what if?" scenarios can be applied to find ways of saving money by substituting alternate approved materials other than those specified. With the use of estimating and project management software these "what if" scenarios can be run quickly to see how areas of profitability can be improved by getting changes approved prior to manufacturing. Without software this is a huge and onerous task. For companies utilizing such software systems this ability to see the effect of alternate materials on the profitability of a project is like finding a pot of gold.

Purchasing is also made easier by using estimating and business management software that allows you to purchase directly from the estimate. The person responsible for purchasing can see the prices that were used by the estimator and if material prices have changed from the original estimate the purchasing department can find ways to negotiate discounts or seek out alternative sources to keep the purchasing in line with the estimate. The purchasing department can see immediately when the estimator is using out of date information and can correct the situation before the next estimate gets accepted.

There is definitely a gold mine of profits waiting to be discovered in the wood working industry and with the help of information technology systems these areas can be mined successfully. With the implementation of computer systems that keep track of estimates and deliver this information to all relevant

departments this will create an opportunity for managers to analyze the information to see where the problems are. Don't be satisfied with small profits, find the hidden profit in every job. Don't try to solve every problem with bigger pieces of machinery. Now is the time to change course, like the Titanic there is no future in heading full steam ahead into an iceberg. With the introduction of new technology, in the form of estimating and business management software, you can locate the leaks and expose big profits.