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Comprehensive Coverage Throughout the Enterprise

The manufacturing enterprise benefits from comprehensive, real-time financial tracking, analysis and reporting of accounts receivable, customer credit management, receipts and other activities. It's a strong disadvantage if the organization uses stand-alone spreadsheet systems to track purchasing, receiving, shipping, accounts payable, collections and other areas.

With stand-alone and manually intensive systems, the challenges include tedious tracking and maintenance of physical documents like invoices; lack of visibility into financial record-keeping such as tracking payables and receivables; a high likelihood of introducing error via duplicate data-entry; and other issues.

For example, if a manufacturer has a contractual agreement with a customer to extend credit up to certain shipping volumes, the accounts receivable system must fully integrate production, shipping, outstanding orders and delivery data for accurate tracking of the contract. If this data is not fully integrated, the enterprise incurs unnecessary risk and high levels of outstanding accounts receivable. How can production know if they should build more products for this customer? When does the shipping department get word to halt deliveries?

Automation and integration also improve collections tracking. An integrated system brings all outstanding credit information together in one easy screen, providing accounts receivable visibility for credit collection management including automated notices based on numbers of days receivables outstanding.

Scalable Financials

Manufacturers face a complex world of multi-plant, multi-company and geographically dispersed operations. Having the ability to scale financial management and record keeping from one plant to across the global enterprise is crucial.

As an example, a small US-based metal stamper recently embarked upon a contract with a German-based tier one supplier. The contract stipulated that the metal stamper meet German accounting requirements when issuing purchase orders and shipping documents. This would have been virtually impossible with a stand-alone PO system. In essence, the metal stamper would have to maintain a separate PO process for this one customer reflecting localized requirements, format changes, and currency.

Fortunately the metal stamper had in place an integrated system that easily incorporates and manages data in multiple languages, currencies, and date formats, including local tax and business mandates and other business requirements unique to specific countries or principalities.

Even though it is only a small company, the metalformer was able to lower administrative costs and improve productivity by accessing real-time, locally customized and integrated business information including manufacturing processes, engineering, sales, accounting, quality, production, purchasing, receiving/shipping, and inventory.

Further, the system can scale across multiple companies should the need arise. Financial reports, such as income statements and balance sheets, combine results for two or more companies. Features include multiple levels of consolidation, intercompany eliminations, currency conversion, and multiple report formats.

Keeping an Eye on Margins

While price cutting helps a manufacturer compete and maintain volumes, as a company lowers prices, profit margins suffer, endangering overall sustainability and financial health. In the end, manufacturers using multiple systems (or manually intensive systems) have no confidence in their data – even in the most basic of information, the cost to produce a product. Keeping an eye on profit margins has everything to do with maintaining accurate costing and bidding data.

As an example, a tier two supplier uses an integrated ERP system to track actual production costs on the shop floor, drawing upon that data for the quoting process.

“Actual cost to bid” directly impacts the company’s profitability. When actual cost is lower than the bid proposed to the customer, companies risk losing business to a lower priced competitor. If the actual cost is higher than the quote, the company loses money on the order.

Because the company’s ERP system tracks and records all physical events (receiving, production, inventory status changes, scrap, subcontract, shipping, etc.) on the shop floor, it’s ideal for tracking cost. How much does it cost to make a certain part? Which parts are more profitable? How low a price can they afford to quote? The company is able to answer the questions with precise data instead of guesses, thereby protecting margins without sacrificing productivity.

Cash Flow Considerations

Automated financial systems also contribute to an improved cash flow situation.

As an example, winning companies improve cash flow by paying only for raw materials or parts as they are consumed, instead of paying for them in advance of production, then assuming costs of storage. This is accomplished by automated supplier consignment tracking where invoices are generated only when the parts are consumed by the manufacturer. This helps companies reduce inventory storage costs, cut premium freight charges, and speed production cycles.

Traditional accounting, ERP or inventory software systems do not handle consignment tracking adequately. Most manufacturing companies can’t take advantage of consignment arrangements, or are forced to track the process manually with double data entry.

The key is to automatically track the movement and accounting of inventory, with the system

managing payment only after it is consumed. If an integrated ERP solution offers automated supplier consignment, inventory from a supplier is delivered to the warehouse and consumed and invoiced directly from stock, typically tracked using barcodes that are scanned just as the material is consumed.

Compliance

For public companies, no discussion about manufacturing financials is complete without mentioning the importance of complying with regulatory regulations such as Sarbanes-Oxley.

Manufacturers must implement financial processes and controls for maintaining auditable business transactions and transparency. Manufacturing management must have complete confidence in financial systems and in the accuracy of related reports.

Look for an ERP system that integrates compliance requirements in all functional areas to avoid the need for redundant record-keeping or third-party applications.