

# Change, or Stay in Business No Longer

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SUNAPEE, NH—Don Carlson and I had an interesting conversation about his business and the industry that we serve. Listening to him one can learn a lot about where our industry has been over the past six decades. There is a great deal to learn from people who have been down the path of life before us.

Don spoke about a retiring banker who, after 50 years in the banking industry, was being interviewed by a young reporter. The young reporter asked a simple question: “In 50 years of banking you must have seen a lot of changes in the banking industry.” The old banker replied with a smile, saying, “Why, yes, I have, and I resisted every damn one of the changes. However, in order to survive and thrive, we had to make changes to keep up with the industry. Otherwise, we would never have made it.”

Instead of adopting the mindset of having to ‘change,’ we should think of it as ‘evolving.’ We either evolve and make the needed adjustments to the changing environment or we no longer stay in business. It really is that simple. Evolve and make the needed adjustments or no longer remain competitive. So look at the word ‘changing’ as meaning ‘evolving,’ which has a better connotation to it.

*Automated Builder Magazine* is like our business and Don is changing his business in order to stay in the game. We all have our ups and downs because of the cyclical nature of the industry. Many component and HUD/modular manufacturing plants are barely hanging on right now. Besides the profit/loss situation, what are some warning signs that you may not be doing so well and need to adopt changes in your operation?

If the gross margin of your truss manufacturing operation (sales – direct costs only) is equal to 30% of sales, then your shop’s labor should not be more than 15% of total sales. Labor costs include all burden rates! If competition is stiff and gross margin is 20%, then shop labor should be no more than 17.5% of sales. If your shop labor cost is more than that, you need to change.

If you are a modular or HUD manufacturer and shop employees are building the walls for each unit by reading blueprints, you need to change. If the most automated equipment in your operation is a laser sight for a chop saw, you need to change.

If you are a manufacturer, and are using anything other than R.E. (reasonable expectancy), S.U. (scheduled units) or man-minutes to schedule and monitor your production efficiencies, you need to change. Modular units, board footage, linear feet, sales dollars and the number of pieces have nothing to do with real efficiencies in a manufacturing plant. Updated, refined and measured time standards based on mo-

tion and time studies of your shop’s actual equipment are the only true labor standards that everyone should use. Hence, the motion and time studies should provide you with man-minutes. Reasonable expectation units and scheduled units are simply man-minutes defined in units of 100.

“Everyone is working hard” is not the same as “everyone is working efficiently.” If you walk out into your operation, and see everyone busy, it does not mean you have an efficient operation. If you are not implementing lean manufacturing practices into your operation on a daily basis, you need to change. Here is a hint for truss manufacturers: if you have a three-man build team in which one sets up the jig during setup, one sorts and sets up the lumber, and the other chases plates, you need to change.

When unemployment is a reasonable 4% - 6% and your average shop employee time with the company is less than a year, you need to change. You are wasting too much money on training and mistakes; if you knew the real numbers, they would make you cry in your cornflakes. How can you possibly expect to achieve anything above 60% efficiency with high turnover in the shop? Do you honestly believe you are turning out high quality product with that many new employees? Please, stop kidding yourself. You should change.

I will be starting my seventh year in the lean manufacturing consulting service in October. As the years have passed, I have become a much better advisor because I am always willing to listen and change when something proves to be better. After 20 years in the industry and 40+ consultations, one tends to learn a lot of what will and what will not work. The biggest obstacle in every consultation involves people’s unwillingness to change. However, as I got better and companies made the recommended changes, the results have been astounding. I tell people the results they can achieve, and they tell me I am full of hot air. But honestly, the results I speak of are what past clients are telling me they have achieved.

Implementation of lean principles and time standards in all manufacturing environments normally creates an average of 42% gain in productivity efficiencies. One company told me they had doubled their output, but increased labor man-hours by only 30%. Another told me they increased their net profit from 3% to 13%. By the way, that 10% gain is the average when lean principles are actually implemented. Are you ready for change?

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