Margins Are Too Thin to Cause You To Guess the Costs of Individual Orders — There Is a Better Way

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FORT MACLEOD, AB—Pretty much whomever I talk to in most of the U.S. it is the same story. Everyone talks about not enough sales and the fact that margins are too thin. In many areas it is now a game of outlasting your competitor in order to pick up their few customers. Are you one of the lucky ones who will make it to better times?

Okay so you say you are going to make it. But are you doing business as you always have been but have cut to the bone on the number of employees and on your expenses? If you have guess what—so has your competitor. Now you're playing who has a bigger pile of cash to burn through. Let's ask some fundamentally important questions.

Do you know the cost of each and every individual order? Component plants are notorious for their lack of understanding individual order cost. You may actually be paying some customers in order to sell truss orders to them because your costs are more than your margin spread. The easy cost to track is material but most would say that labor costs have been too cumbersome to calculate. That excuse is no longer acceptable. The time has come when you cannot be guessing any of your estimated costs. Either track every order's labor cost through hand-written paperwork or use software. My company provides economical software that allows you to easily track truss manufacturing labor costs.

Lane McLaren
Controller
Structural Truss Systems Ltd.

Lane McLaren of Structural Truss Systems here stated, "We now have been using Todd's Labor Tracker program for a year and a half. Currently we use it for job costing and employee time tracking for payroll. It performs quite well in both roles. Job costing used to take us approximately six to eight man-days each month. Using Todd's Labor Tracker we now can cost an entire month's production in less than one day. The data is much more reliable than what was collected using our manual method. There are a number of unexpected benefits to the program as well. The production manager appreciates being able to see exactly who is doing what from his desktop. Also we are finding the Workstation Pause function in the program useful for creating permanent equipment maintenance records."

Lane also said, "It not only captures all the data we need from the plant floor; its highly visual interface makes it very easy for all staff to use. It interfaces well with the rest of our production software allowing for easy and accurate expected versus actual comparisons. We look forward to working with Todd as he continues to develop more applications for the program."

Are your estimated labor costs based on a ballpark average of what your cost should have been and then allowing for adjustments at the end of the month? You know this type of costing. It is the old let's-adjust-the-labor-cost-up-and-down-to-match-what-the-actual-is-for-the-month method. It is not based on individual orders but multiple orders. You are only fooling yourself if you think this is good enough in this tight building market.

Are you estimating your labor as you have always done it? When was the last time you analyzed your labor estimates and compared them to what is really happening in your shop? Most of you are using the same old tired method of estimating labor from poorly developed methodologies. Do you really believe that board footage, linear footage or lumber costs have anything to do with how much time it really should take to set up and assemble your trusses? Or maybe you are now using the latest trend in terms of 'number of pieces.' How does the number of pieces account for the set-up time on complex profiles? Over and over again I will hear the standard response of, "We use an average set-up time and apply it to each piece." All these methods are flawed and cannot give you accurate time estimates for set-up and run/assembly of your truss manufacturing. Okay maybe you are one of those companies which has taken the time to use some of the truss engineering software functions such as pitch break, lumber size and so on to estimate your cutting and building. Take a moment and look at the total number of labor estimation factors in your labor estimation file. How many different definitions are being estimated? On average I find that most companies are using between 8 and 12 different labor definitions with most being a repeated definition labeled as a different factor with a different title. The last one I did for one of my clients had 37 definitions. Think yours has enough for proper labor estimation?

Who created this labor estimation file for your company? Usually it was a salesman or truss designer with a technical representative from your plate supplier using a lot of guessing and adjusting to match some past results for a few different truss types. Do you realize your labor estimate should have been developed on what should be and not on what was done when comparing results? Do they have any training or understanding of time and motion studies? (e.g. Man-minutes, R.E. or S.U.) If so are you comparing your shop's labor efficiencies for expected versus actual? How do you really know whether your shop is running efficiently without using good time standards?

The time and motion studies of truss manufacturing which I have done have taken me hundreds of hours to complete. I have developed them for all the different types of equipment we use in the truss industry. Have your labor estimates been properly adjusted for the different equipment you have purchased over the years? My time standards are part of my consulting services.

See www.todd-drummond.com for software and services for more information.
