

Reducing Manufacturing Costs

Without Outsourcing

The grass isn't always greener; sending work away may actually add costs down the line

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The economy is recovering and manufacturing businesses are seeing a rebound, but as unemployment rates remain sky high, thousands of workers are left wondering where the job opportunities are. With increasing regularity, the work is being sent away. It has been going to Mexico and most recently, to China. This outsourcing trend is not only bad for the economy and bad for the labor force, but it may also prove to be bad for business

Companies are in search of the Holy Grail of cheap labor, but unless the United States becomes a Third World economy, there will always be someplace where labor is cheaper than it is here. Outsourcing work is an easy way to cut manufacturing costs, but the easiest solution is not always the best one. Manufacturers need to realize that no part of their business takes place in a vacuum; when the labor structure is changed, other operational aspects will change in turn. A decision to outsource should be a strategic decision more than a financial one.

Outsourcing work to China may drastically reduce labor costs, but sending the work away may actually add cost down the line. Unless you're in a straight commodity market—and you want to avoid that in any way possible—many factors besides cost go into the purchase decision. Speed of delivery is one important factor. Don't forget China is a slow boat from North American markets. If you outsource work to China, turnaround times will increase. Some companies believe this may be offset by increasing inventory, but increasing inventory adds cost. Customer service is another important factor

in winning jobs, but if you eliminate a good portion of your workforce, you've put this value-added business characteristic in jeopardy, and that can cost you work in the long run.

➤ By enacting dramatic cost-cutting initiatives, there is the danger of losing your business altogether. To stay in business, you can't cut your way to success.

LABOR TARGETED TOO OFTEN

In the manufacturing world, there are three types of cost: labor, materials and overhead. To reduce overall cost, most employers focus their attention on labor because it's the cost that has an immediate and direct budget impact. That's why today's headlines are filled with accounts of massive layoffs. Problem is, most companies consider reducing the labor force a panacea. But when it comes to effective cost reduction, there is no quick fix. Companies want to be able to point to a line on the P&L to demonstrate that costs have been cut. The labor line is the most readily influenced line on that statement. But what companies really should focus on is increasing revenue and controlling cost. When the proper attention is paid to the top and the middle lines as a whole, the most important line—the bottom line—will fall into place.

TAKE A GOOD LOOK AT PROCESSES

The key to effective cost reduction is to take a good look at your processes. Companies need to understand where their costs are and where their options are. If

you want to reduce costs, you must first focus on what you're doing. Take a look at your resources, Eliminate waste. There are business processes and manufacturing processes; you must address both of these. Examine any bottlenecks. Streamlining can save tremendous costs.

The following seven tips are designed to assist manufacturing companies in thoroughly and effectively managing cost-reduction efforts without resorting to an outsourcing initiative:

➤ Invest in maintenance of your equipment.

Unplanned machine downtime is much more expensive than planned downtime.

➤ Don't make across-the-board budget reductions. It's highly unlikely that equal cuts in every area will have equal impacts on the company overall. "Fair" is not the objective; "effective" is.

➤ Consider the long-term impact and goal. Labor may be the easiest, quickest target, but improving processes may have greater long-lasting positive impact.

➤ If capital expenditure is justified based on labor reductions, make sure the labor will really go away or be used elsewhere profitably.

➤ Before increasing the rate of output from a piece of equipment, make sure you understand the impact of that increase on other equipment and on inventory flow.

➤ Question everything. Much of the work we do is because "we've always done it this way." Don't do things that cost more than the value provided, unless legally required. Use the time to do something that matters.

➤ Visual, simple, and real-time information communicates quickly and effectively in many cases. Don't make it fancy unless there are real benefits to doing so.

Manufacturers are frequently frustrated by how difficult it is to manage costs and stay competitive in the marketplace. Following the above advice can put companies on the path to improvement without making dramatic and potentially damaging changes to the labor

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force. Instead of focusing on growing the business, we tend to focus on cutting costs. But you must understand and manage your costs to grow your business. By enacting dramatic cost-cutting initiatives, there is the danger of losing your business altogether. To stay in business, you can't cut your way to success.



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