

The background of the slide features a dark, circular area filled with a shower of bright, golden-orange sparks, likely from a grinding wheel or a similar industrial process. The sparks are concentrated on the right side and trail off towards the left. The overall aesthetic is industrial and dynamic.

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**MANUFACTURING OUTLOOK:
LEAN THINKING TO
REDUCE COSTS**

INSIGHTS FROM THE SALTMARSH MANUFACTURING TEAM

KNOWING MANUFACTURING COSTS AND SHAVING OVERHEAD ARE KEYS

As the U.S. economy takes tentative steps forward to emerge from its pandemic-caused woes, and inflation dominates the headlines, it's never been more important for manufacturers to tighten their belts. While Florida has put fewer restrictions on businesses than many other states and the rising numbers of new COVID-19 cases are cause for concern, reducing costs is something that will always be in vogue, whatever the economic landscape looks like.

An Introduction to Lean

The concept of lean manufacturing is not new—it has been in practice for almost 100 years—but advances in technology have enhanced the ways companies can streamline processes, reduce operating overhead and fully embrace a lean manufacturing approach moving forward.

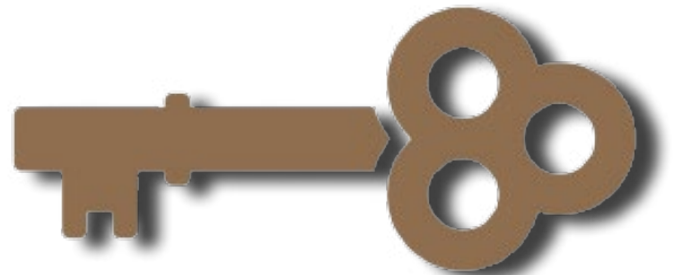
What is lean manufacturing? You'll find a variety of definitions if you look it up, but a good synopsis is this: operating with minimal waste. This applies to every part of the operation, from people and machines to processes and systems, with the goal being to reduce waste and keep costs down while boosting productivity, quality and innovation.

The five principles of lean manufacturing are as follows:

- Identify value for your customer.
- Map out the value stream.
- Create seamless workflows.
- Switch to a pull-based production schedule.
- Repeat the process

It cannot be stressed enough that to realize optimum success, lean manufacturing needs to be rooted in company culture, communicated to all employees and the foundation of all operations.

And while there are eight frequently touted benefits of lean manufacturing, including improving the quality of goods and improving customer service, the one we've chosen to focus on here is reducing costs.





CALCULATING MANUFACTURING COSTS



Before you can focus on reducing costs, you need to have a good idea of what your starting point is—what your costs are right now. For manufacturers, those costs will fall into one of three buckets: materials costs, labor costs and overhead.

Those first two are easiest to quantify, as they encompass direct costs such as all the necessary raw materials and the salaries of those working on the production line. They may also include indirect costs as well, such as those who deliver the raw goods and the palettes and bands used to store the finished product. The third is less straightforward and harder to project, since it can include costs for utilities, tariffs, leased properties and equipment, and services.

Once you know all three numbers—materials cost, labor cost and overhead—you can calculate your manufacturing cost using the following equation:

$$\text{(Raw Materials + Labor Cost + Overhead) / Number of Units = Manufacturing Cost}$$

When you understand your manufacturing cost, you can predict future margins and revenue—and also determine targets for reducing costs, most of which will fall under that challenging to quantify overhead category.

REDUCING MANUFACTURING OVERHEAD

The costs of raw materials and labor are more difficult to reduce, because manufacturers may not have total, or any, control over them— so those intent on reducing cost will be best served by focusing on making reductions in overhead. These indirect costs will be ongoing, but by implementing enhancements such as mobile communication, the “hit” to the company can be reduced.

There are three key ways to reduce manufacturing overhead:

- **Improved training and onboarding**— Indirect costs associated with bringing new employees on board, such as administrative and utilities costs as well as compensation, can quickly add up. Mobile training tools can result in significant savings, as employees don't have to be onsite and tools can handle many administrative tasks.
- **Gathering workforce feedback** — Employees are an often overlooked source of information when it comes resource utilization. You may be pleasantly surprised at the suggestions generated by the workforce when it's asked to respond to a survey asking for ideas to reduce overhead.
- **Better shift scheduling** — Be sure employees are scheduled to make the most efficient use of space and resources. Using digital scheduling tools allows managers to make assignments and shift changes that employees see in real time.

THE TAKEAWAY

Employing a lean manufacturing approach to reducing costs may provide excellent results. It's important to know where you're starting from — what your manufacturing costs are — and then take advantage

of today's technology, and your own employees, to whittle away at overhead without jeopardizing the finished product.



HOW TO GET STARTED

The manufacturing experts on the Saltmarsh team are ready to share their expertise. Please contact us to discuss any existing and potential challenges you face as a manufacturer—to help ensure your successful future.



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