



eBook

From the Shop Floor to the Top Floor

4 ways to reduce costs using automated data capture

Reduce Costs Using Automated Data Capture

Regardless of the state of the economy, no manufacturer or distributor stops looking for ways to reduce costs—to become leaner. The problem is, there is no one single specific solution because the issues faced are different depending on industry, region, or the company itself. Inventory management, supply chain, and shop floor all have issues—but they are weighted differently.

For example, most manufacturing in the U.S. is experiencing a resurgence and is, in fact, in growth mode. However, this isn't the case for all manufacturers; oil and gas are dealing with lower oil prices and are looking for ways to create efficiencies.

Look Into Automation, but Don't Forget Your Lean Roots

Regardless of industry, competition, or the state of the economy, however, automated data capture is one very reliable way to reduce costs—if done right. Many manufacturers and distributors make the mistake of focusing on the shop floor or automating the processes they already have in place when they think of automation, but this can be a very costly mistake.

Before you start thinking about automating, remember your lean principles: Does whatever process you're looking at add value to the customer? This principle doesn't just apply to the shop floor or the warehouse; it also applies every part of the organization, from the shop floor to the top floor.

Take purchasing, for example: Do you know how much it costs your company to issue a purchase order? First, of course, you need to keep in mind that there is a cost for each PO you produce.



Did You Know?

According to Reuters, the Commerce Department announced new orders for manufactured goods increased 0.2 percent in February 2015, the largest gain since July 2014...and orders excluding transportation rose 0.8 percent, the biggest rise in eight months. Shipments of factory goods also rose 0.7 percent.

0.2%

*Increase in new orders for
manufactured goods.*

0.8%

*Increase in new orders
excluding transportation for
manufactured goods.*

There is the salary cost of the purchaser (and related roles). Keep in mind also that a PO with 20 lines, for example, will be much easier to create (especially with MRP) and manage than ten POs with 2 lines each (fewer receipts, fewer emails, less paperwork, and so on). So, going back to our example: A manufacturer that processes a large number of POs—and does it efficiently with updated systems—estimates the cost to be five dollars per PO. That sounds good, right?

However, regardless of how low your cost may be, and even if you add an overhead percentage to each item to account for this cost, your purchaser still spends roughly 40 percent of his or her time managing POs (not including MRP). That's a lot of time that could be spent doing other tasks that add value to the customer.

Another way to look at it is this: \$5 per PO might sound According to Reuters, the Commerce Department announced new orders for manufactured goods increased 0.2 percent in February 2015, the largest gain since July 2014...and orders excluding transportation rose 0.8 percent, the biggest rise in eight months. Shipments of factory goods also rose 0.7 percent.

From the Shop Floor to the Top Floor...Four Ways to Reduce Costs Using Automated Data Capture 3 is reasonable, but what if you generate 2,000 POs per month? You're spending \$10,000 per month just on managing paperwork. Going back to lean principles, purchasing/procurement is considered overhead and does not add value (it is a necessary evil) unless it is used as a competitive advantage. That would be tough to argue in manufacturing, however, so it is smart business to eliminate as much purchasing/procurement overhead as possible.

The question is, are these companies processing rush purchase orders because they don't know what they have or don't have enough of what they need? Do they know how much it costs to ship each and every order?

What about the orders that have to be expedited when a rush PO is processed? Companies with MRP in place might mitigate this issue. By having a better handle on what they have in stock, they might avoid having to deal with processing purchase orders for expedited orders. Being forced into an expedite situation takes away the ability to search for the best product costs, adds unnecessary freight costs, and can make them miss out on volume discounts.

Also, many companies analyze freight costs as a single summarized value, which is a mistake. By doing this, they don't know what percentage of freight costs are related to expedited versus normal freight—helping them find new ways to reduce waste. Smart companies break down freight even further so they can analyze cost per carrier, vendor, and more. And if all of your freight costs are going into one bucket, you still cannot get an accurate picture of what's going on. In other words, the consequences have a ripple effect. You cannot figure out how to reduce costs without visibility...and without visibility, you cannot look at policies, procedures, and how things are set up to determine how to reduce those costs.

Business Intelligence: Action on the Shop Floor, Value in the G/L

The goal of ERP is to tie the physical world of the shop floor to finance and the rest of your back office (the shop floor to the top floor). An action on the shop floor should end up with some value in the GL. Where automation is incredibly powerful throughout an organization is in its ability to help you truly understand what's going on. By automating the flow of information—which requires a robust ERP system—you take raw data and put context around it, turning it into information you can drill down into and use to make intelligent business decisions. That is true Business Intelligence. Data is just numbers: "I spent \$100 on freight." What does that tell you? Nothing.





Information is power: “I spent \$100 on freight for expediting due to bad forecasting,” “...improper min/max levels,” “...customer rush orders,” “...incorrect inventory count”—whatever will give you context. ERP allows automation of data collection and puts it in context to extract actionable information.

4 Data Collection Areas Ripe for Automation

So, where should you begin automating to get the most bang for your buck when it comes to getting that business intelligence? For most manufacturers and wholesale distributors, they are:

1. Inventory Barcoding Scanning or RFID

Bar coding or RFID provides an accurate view of the real world without having to walk to the shop floor and keeps your shop floor informed on the status of products. An indirect result of barcoding is better inventory accuracy, providing the information required to properly manage stock levels, which, in turn, often translates into the ability to reduce inventory and associated carrying costs. Another benefit of barcoding is on-time delivery, which drives customer satisfaction, increased sales, and more. Unfortunately, automated barcoding/data collection is often pushed to a later phase in an ERP implementation, but this is possibly the most important step for most manufacturers and distributors.

2. Labor/Time Entry

When time is entered using a paper-based system, you suffer from lack of visibility. There is simply no way to analyze the data to determine areas for increased efficiency—or even how to better manage scheduling, for that matter.

On top of that, you risk data entry errors and waste time with manual entry. Depending on the size of your company, you can save from 2 to as many as 8 hours per day on average by implementing automated time entry and most companies can benefit almost immediately. This is a low cost, high-return investment.

3. Automatic Document Capture

Optical character recognition (OCR) is the most effective method for transferring data from printed paper into your systems so you can store it, share it, search on it—anything you could do with data entered into your system otherwise. Not only does OCR help you keep the piles of paper from getting lost or out of control, but it saves a tremendous amount of time when it comes to searching for information you need. It also significantly speeds up the process of sending and receiving important documents such as invoices. Even if you don't use OCR and simply capture documents electronically, you are taking a big step.

4. Shop Floor Data Collection


If you're a manufacturer that uses automated machinery, you might be recording your labor accurately, but are you also recording machine time, material usage, and other costs against production orders? This is another important area for data collection. It is critical to be able to report information such as down time, understand effectiveness, and schedule maintenance.



“Data capture is the process of extracting information from a document and converting it into data readable by a computer.”



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Looking for Help?

If one area of your company is not automating data collection, you are basically losing out on one of the main benefits having an ERP system. Are you ready to take automation to the next level?

At ArcherPoint, we work with manufacturers every day to help them achieve their desired future state. With decades of experience and training, our team analyzes every location of your business, maps your goals to your processes and technology, designs an integrated manufacturing solution, and determines what needs to be done to pull it all together to deliver real value. From forecasting and planning to production and shipping, we'll get you where you want to go. Contact emartin@archerpoint.com today to get started.

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