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Manage Five Items and Ensure Success in Surface Finishing

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By all accounts, surface finishing is a difficult business. For starters, there are the general management and fiscal pressures of running any enterprise. In surface finishing, however, we tack on other challenges not faced in most companies. We exist at the end of the supply chain where most of the lead time has been consumed by operations that came before finishing such that everything needs to turn NOW. We make significant capital equipment investments relative to the size of our businesses. With little notice a major customer can move their work elsewhere for virtually any reason. We face hazards and risks to our employees given the nature of the materials and processes we use and we deal with environmental controls and risk avoidance issues that simply are not concerns in most other businesses.

With all of the ancillary challenges that complicate our lives, it is perhaps more important in our industry than any other to simplify our business success model to the greatest extent possible. What if I told you that the financial success of a finishing business, in the short term, comes down to your management of just five key items?

Proper control and aggressive management of these areas will virtually guarantee predictable financial performance and provide the basis for improvement programs. Improvement in these areas will have the greatest impact on your company's financial performance. Let's explore them:

Revenue—It almost goes without saying that a key driver in your profitability is your sales volume. Suffice it to say that you must have a solid sales and marketing program in place to ensure revenue stability and growth. Beware, however, the temptation to blame profitability problems exclusively on revenue. Often the key to your improvement lies further south on the income statement.

The remaining four items are expense items. In my estimation, a typical surface finishing operation expends 45% to 50% of its operating budget on the four items below. What's more, these items tend to be quite volatile, which is why controlling them in the short-term is so important.

Direct Labor—This is the compensation paid to the people on the shop floor who actually "do the work"; the employees that polish parts, load racks, fill barrels and operate manual hoists. Minimizing this number relative to your revenue is a critical step to improving your company's bottom line performance. Come up with a metric that can be easily calculated, communicated and understood, and one that is tied to sales volume. Suggestions include revenue dollars per employee hour, direct labor expense as a percentage of revenue—or if your measurement system is sophisticated enough —production standard to actual. Report results every day, discuss them with the operations team even after they are sick of hearing about it, and implement programs for improvement.

Chemistry and Materials—Examples include proprietary and commodity chemistry, powder, paint and metals. Materials usage should be projected before the month even starts. Schedule tank dumps, regular additions and other requirements for the entire month. Multiply the usage by the unit price for each item and add the results together. If your operation is comprised of multiple lines then project expense line by line. As the month progresses review month-to-date usage each week. Compare the actual usage to your projection and account for any variances.

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Maintenance—The big culprits here are unplanned or emergency repairs, but I include all equipment related materials and contractor expense in this item. Here again the key to controlling these costs is planning ahead. Decide before the month begins which projects are going to be completed. Arrive at an estimated cost for each. Add in a cushion for emergencies. Once your budget for the month is set make sure to tally your actual costs as the month goes on to make sure you are on track with your budget. Going a step further and measuring your variances project by project is even better.

Utility Costs—Included are natural gas, electricity, steam, water, and sewer. Many utilities will provide up-to-date consumption information for your facility via the internet. If not, identify a way to measure and record consumption. Gathering data from your meters for natural gas and water is a simple example. Armed with the daily or weekly usage, simply use your latest bill to arrive at a cost per unit (weighted for the applicable fees and taxes) and multiply your month–to-date usage by the unit cost to arrive at a near perfect estimate.

Finally, keep a running income statement projection and update it for changes in the above at least weekly. This will help you avoid being surprised by your month-end results, and will enable you to address unfavorable trends before it's too late.

Of course, optimizing cash flow and profitability ultimately involves the management of each and every revenue and expense category. In the short-term, though, obsessing over and controlling direct labor and materials, maintenance expense and utility costs will have the greatest effect on the short-term financial performance of your finishing business. Your business is complicated enough. Do yourself a favor and focus on the five items that have the greatest effect on your profitability.