



# Editor's Message

## Know Your Manufacturing Costs

by Don Groom

"It doesn't matter if you use Houlihan or not. Just use something to measure your costs."

—Scott Arquilla, Best Homes, Inc.  
WTCA Past President



**K**eeping manufacturing costs in line is a constant challenge that requires vigilance and attention to detail. Knowing manufacturing costs determines whether your company's bottom line is in the red or in the black and, ultimately, determines your success in the industry. Only by understanding every step of the manufacturing process can we really learn our hard costs.

There are a number of methods for measuring, tracking and analyzing a truss plant's costs. If you attended BCMC 2005 in Milwaukee in mid-October, you may have sat in on one of three costing-focused educational sessions. Hopefully you picked up an idea or two to take back to your company. It's important for a company to invest the time and effort to find and implement the method that works best for its operations. Today's most popular methods show that there are different ways to approach this issue, but they all focus on examining and fully understanding the costing side of the ledger, and then putting a plan into action to make the shop as efficient and profitable as possible. I'd like to call your attention to a few of the most widely used methods employed by component manufacturers.

The Houlihan method, named after its developer John Houlihan, examines the science of time and motion along with production efficiency. (You may also be familiar with Six Sigma, a method built on similar concepts.) By focusing on what Houlihan called the three Ms—man, material and machinery—this method helps component manufacturers take a critical and detailed look at their operations. To implement the program, one of John's two predecessors (John died in the 1990s) come to the shop for a number of weeks to perform a detailed time study, literally timing every job and motion to the second several times over. Based on these time studies, goals are developed for each job called realistic expectancies (R.E.s) that are monitored hourly, daily, weekly and monthly to keep production on track. By developing and following these R.E.s, manufacturers know their costs in every stage of production, which can be linked to the cost of components and used for future labor forecasting. For more information on the Houlihan method, see the **SBC** December 2004 article, "Houlihan: Recipe for Production Success."

Many component manufacturers measure their costs based on board feet, linear feet or sales dollars or a combination of all three. No matter which of these methods you choose, it's important to use it to break down costs and find out what every aspect of manufacturing, from cutting boards to building components to stacking the finished product, is costing the company. It's not enough to know that labor makes up a certain percentage of your total costs. Knowing your labor percentage may seem fine on the surface, but a more in-depth analysis could reveal that a particular press is running at a much higher percentage than your average while another is running much lower than your average. A detailed use of board feet, linear feet or sales dollars to examine costs can take the big-picture view and put it under a microscope to show where problem costs originate. It can also help you define cost trends so that any emerging problems can be dealt with early, versus when they become a crisis.

One method gaining popularity in the structural building components industry and

### at a glance

- ❑ The most popular manufacturing methods all focus on examining the costing side of the ledger.
- ❑ Using board feet, linear feet or sales dollars to examine costs can put an operation under a microscope to show where problem costs originate.
- ❑ It doesn't matter which measuring method you use as long as you constantly strive to understand your costs.

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recently featured at BCMC is Quick Response Manufacturing (QRM), which focuses on reducing lead time in all aspects of a company's operations—from the office to the shop floor. This method's concentration on designing and manufacturing products tailored specifically to the customer, and thus making customer service the top priority, makes it a good fit for component manufacturers. Looking at lead time instead of cost as a driver, QRM puts the emphasis on strategic planning to operate at a level that maximizes efficiency without creating costly and time-consuming bottlenecks. Putting the emphasis on efficiency, a valuable commodity in our industry, QRM helps manufacturers manage predictable costs by making sure operations run as smoothly as possible.

Another matter to consider that ties indirectly to costing is automation. Of course, automation is something most of us embrace and use. Ask anyone who worked in the industry 20, ten or even five years ago, and they'll tell you that automation abounds in today's truss plants. The question isn't whether you have the latest and greatest automation, but whether you have implemented the automation that is best suited to your plant and your company's needs. Unfortunately, one-size-fits-all does not apply to automation. Automation only truly works when it's implemented properly in the plant and when it provides an adequate return on investment.

When considering purchasing a new piece of equipment, the sticker price doesn't mean much about the equipment's true cost or the savings it may or may not yield down the road. Don't make a purchasing decision based on the price. Ask yourself if this piece of equipment will really pay off with savings in set-up time, labor and material. Talk to other component manufacturers and suppliers to find out how the equipment performs in the field, and consider how it will perform in your shop's unique conditions. A new piece of equipment can often bring efficiencies and savings over time, but sometimes when you crunch the numbers, you discover that it's not best to automate the particular area under consideration with the specific piece of equipment.

Another point to consider is probably the oldest and most tried-and-true element of the manufacturing process: labor. Finding skilled labor in this industry is a continuous challenge because the truss plant is a physically demanding work environment. From hot summers to the cold winter months, working in a truss plant is tough and labor intensive. In order to attract and retain a skilled and dedicated workforce, we need to find tools and business practices to help our employees build safely and efficiently. And we need to reward our employees for a job well done.

The bottom line, both literally and figuratively, is that component manufacturers need to understand the actual costs behind every press, saw and worker—every facet of the business—and how to properly allocate these costs to build a profitable selling price for each roof truss, floor truss and wall panel. **SBC**

*Do you have an article idea for a future issue or a topic that you would like to see covered? Email your thoughts and ideas to [editor@sbcmag.info](mailto:editor@sbcmag.info).*

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