White Paper

Financial Management or Production Control?

Age old questions: Chicken or Egg? Rock, Paper, Scissors? Financial Management or Production Control? Never heard of the last one? Then perhaps you have not yet been involved in an ERP selection for the small to mid-sized manufacturing company – and if your company operates on a make-to-order (MTO) basis, the challenge becomes even greater.

As is true in many businesses, but especially in the MTO industries, on time delivery is critical. Late deliveries tell your customers that you can't be relied on to provide their product when you promised you would. Your late delivery now impacts their business. Either they have to scurry to catch up with their production schedule or they have to call their customers and explain why they can no longer deliver as promised.

The net result is that if your customers believe you won't deliver on time, no level of quality or reduction in price is going to sway them to do business with you again. So, if on-time delivery is the key to a successful business, then an ERP system that delivers the best tools to keep production running on schedule is the clear choice – right? Perhaps, except that there is the one other tiny little variable that the small to mid-sized enterprise (SME) has to worry about – profitability! Without profits, a negative cash flow will eventually kill an SME. Without visibility to the profit on individual jobs, there is no way of seeing which jobs are making money and which ones are increasing the sales numbers and reducing the profit. It is the reason that we hear so much about the importance of job costing.

For most SME's, this makes the importance of financial management equal to the importance of production control. Therein lies the dilemma. Rarely do the financial managers and production control managers agree on the ERP system that will allow them to succeed in the portion of the business that they are responsible for.

The reason is that most ERP packages for MTO share their roots in one of two areas. They were either developed as a broad-based accounting system out of which grew some basic functionality to deal with vertical industries such as manufacturing, or they began as a manufacturing solution designed for small businesses that later added some basic accounting functionality. It is really the natural evolution of supply and demand from the MTO businesses themselves.

Take for example, the company that starts out as 5 people and grows into a $10 million dollar business and is on their way to becoming a $50 million dollar business. The

TECHNOLOGIES, INC.
5 Regent Street, Suite 520, Livingston, NJ 07039
Phone: 973.758.6100 • Fax: 973.758.6120
info@swktech.com • www.swktech.com

original owner(s) have an entrepreneurial style and their background most likely determined if they started the business with a financial or production focus. The former was likely an investor that wished to purchase a small business that they could grow into a larger enterprise. The latter often times was someone with a better idea that started production in their garage and through their reputation for a great product (delivered on time) quickly grew the business.

The investor's focus was initially on a small ERP system that allowed them to track the financial performance of the business to manage the growth decisions. The "better idea" person looked for a system that would allow them to handle the scheduling issues that arise as the sales increase and capacity to produce the product and deliver it on-time becomes more challenging to manage. And then the day arrives when the size and growth of the business requires that each of these two individuals have to bring in management to deal with the "other" side of the business – the investor needs a strong production control person and "better idea" person needs a good financial controller.

With the new management staff on board, it isn't long before the original owners are hearing, "We have outgrown our ERP system. I need the tools to do the job you hired me for." And so, the search begins. The software publishers are experiencing a similar dilemma – the users of their systems are demanding increased functionality on either the accounting side of the ERP system or on the production side.

Realizing that the importance of both sides of the business are now demanding strong solutions, many of the accounting-based and manufacturing-based ERP systems are working on integrating the two packages. It appears easier to partner with the experts than it is to develop functionality outside of their domain.

Sometimes the strategy of two companies pooling the accounting knowledge of one resource with the manufacturing knowledge of another resource works well, and other times not so well. A few years ago, taking a French chef's knowledge of fine cuisine and combining it with American Marketing and Technology may have produced a brilliantly successful approach to fine dining on-line. However, after a quick change of world events and political opinions, there probably isn't much hope of "Freedom Fries" becoming the next big internet success!

Such is the challenge when trying to combine a manufacturing software solution with an accounting software solution. Unless the cultures are one in the same, difficulties arise – different data structures don't map well together and the manufacturing systems that are not transaction based weren't designed to drive journal level entries. In addition, the two systems have a totally different look and feel and navigate differently. There also may be a lack of workflow integration causing conflict between finance and accounting. Inventory levels (production) side and valuation (financial side) may also be out of sync.

Production needs real-time costing but accounting needs to follow GAAP procedures that mean that costing should not be updated unless proper posting routines have been followed first. This is in addition to what happens when companies try to marry an off-the-shelf accounting

5 Regent Street, Suite 520, Livingston, NJ 07039
Phone: 973.758.6100 • Fax: 973.758.6120
info@swktech.com • www.swktech.com

system that sells for $200 with a complex manufacturing system designed for a $25 million dollar company.

There are a few exceptions. For those Accounting ERP publishers that have taken the approach of outsourcing their manufacturing solution to a certified developer of the accounting system, the result is a solution that is built from the ground up using the requirements of manufacturing production control, but designed specifically to take full advantage of the strengths of the accounting system.

A good example of this type of solution is Sage Software's 100 ERP system integrated with the JobOps Job Management Software modules for production control that was developed for Sage Software by Synergistic Software Solutions.

Take, for example the potential conflicts that were outlined earlier. Because the JobOps module was developed specifically for Sage 100 ERP, the design did not have to take into account potential conflicts with data structures from other accounting systems. The look and feel and navigation are not only indistinguishable, but much of the manufacturing functionality runs within most of the Sage 100 ERP modules.

The result is a system which provides the tools for manufacturing management to focus on job profitability and on-time delivery without sacrificing accounting control — the scheduling system alerts management of capacity issues which could impact on time delivery (manufacturing's concern) and provides tools to correct the problems without having to pay costly overtime (finance's concern). Automated purchasing tools assure that materials needed for production will be available when needed to keep the schedule running smoothly (manufacturing's concern) without having to overstock costly materials or order them before they are needed, thus, keeping the cash flow in control (finance's concern). Real-time tracking of labor and materials used on the job provide alerts during production if cost overruns are predicted (allowing manufacturing management to correct issues that may cost even more money) even before those costs are posted to the correct G/L accounts, allowing accounting and finance to follow proper GAAP and audit procedures.

It is rare to find an ERP system that provides for the needs of manufacturing management and the needs of financial management. The fact that it is rare should not be much of a surprise considering how different the needs of these two management groups are from a systems perspective. Of course, both sides understand the need for the company to be profitable, but the tools that they need to deliver profitability require software systems that truly understand both of their needs.

The age-old question of "Financial Management or Production Control?" is becoming less difficult to answer today because ERP providers like Sage Software and JobOps have software systems that are listening to the needs of finance and production.