

Financial Control in Food Manufacturing: A Senior Manager's Guide

An essential food industry ERP guide for senior managers, focusing on financial responsibilities.



Financial Control in Manufacturing: A Senior Manager's Guide

In this part of our food industry [Enterprise Resource Planning \(ERP\) guides series](#), we share the best practice methods for taking maximum control of your financial responsibilities within food manufacturing. The guide will explain how your company can achieve a competitive edge by:

- Improving your budgetary control.
- Improving your financial reporting.
- Reducing administration costs and improving efficiency.
- Eliminating unnecessary business risk.

... all through business integration, achieved with a food-focused ERP system.

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[According to the Aberdeen Group](#), manufacturing companies that use ERP systems, on average, experience a ...



13%
reduction in
operating costs.



10%
reduction in
administrative
costs.



11%
reduction in
inventory.



12%
improvement in
internal schedule
compliance.



13%
improvement in
complete and on-
time shipments.

“ Obviously, the highest type of efficiency is that which can utilise existing material to the best advantage. ”

Jawaharlal Nehru (former Prime Minister of India)

So what advantages can food manufacturers gain in financial control with ERP? Let's find out.

01. Improve budgetary control through integration.

As a senior manager you need accurate numbers that are timely and meaningful, to give you powerful and comprehensive management information. So you need your business systems to provide an accurate representation of your recipe. This is best achieved by unifying the ingredients, processes, inputs and outputs of making a SKU (Stock Keeping Unit).



Doing this will enable you to draw up an optimal plan using a proper representation of the production implications for your machines, materials, quality and so on. This will ensure that the cost build is accurate and, very importantly, provides the means for you to analyse and manage variances.

Closing the loop between your recipe definition and what actually happens requires you to use a best practice approach to integration. This can be achieved by integrating your:

- Operational processes and communication of data in real-time.
- Barcode systems to track use and movement of items.
- Factory floor touchscreens to collect production data.
- Enforced compliance procedures.
- There are many advantages to this integration approach...
- Provides material traceability and accurate recording of machine use and efficiency.
- Records your material usage, wastage, stage yields, outputs and labour.
- Captures your downtime to enable analysis of causes of both planned and unplanned downtime. Was it caused by changeovers, wash outs, material shortages, skill shortages or machine problems?
- Provides comprehensive support for external audits such as FSANZ & AQIS. Integration provides the necessary data capture, audit trails, and definition and compliance controls for your processes.

Other best practice integration tips . . .

Your **material input costs** can become fully accurate by including:

- Conformance to specification.
- Any incurred additional processing costs (e.g. drying or sifting).
- Full details of the delivered cost, including landed costs if appropriate.

Define your **staff costs** by skill grade, including not only direct labour but also indirect costs such as:

- Supervisory.
- Quality.
- Engineering/Maintenance.

As well as being able to define these in the recipe, you need 'actual costs' to be captured for management to accurately monitor variances and perhaps trigger corrective action.

When using touchscreens and/or machine integration, your **factory floor data** capture is largely automated so variances will expose waste and inefficiency. This includes your waste

across materials, packaging, labour or equipment inefficiencies.

Accurate product costing for SKUs then enables your business to have true analysis of:

- Sales.
- Cost of sales.
- Handling and transport/delivery costs.

Finally, to establish your true product profitability by customer, you may integrate: complaints, returns, credit notes, sales commissions and marketing costs.

In summary . . .

Your success in controlling budgets and achieving targets relies on the accuracy, timeliness and meaningfulness of your data. So integration is key.



“ The way to become rich is to put all your eggs in one basket and then watch that basket. ”

Andrew Carnegie (American industrialist and philanthropist)

02. Improve financial reporting through integration.

As with budgetary control, the common factor in improving your cash-flow management and financial reporting is having management information that is:

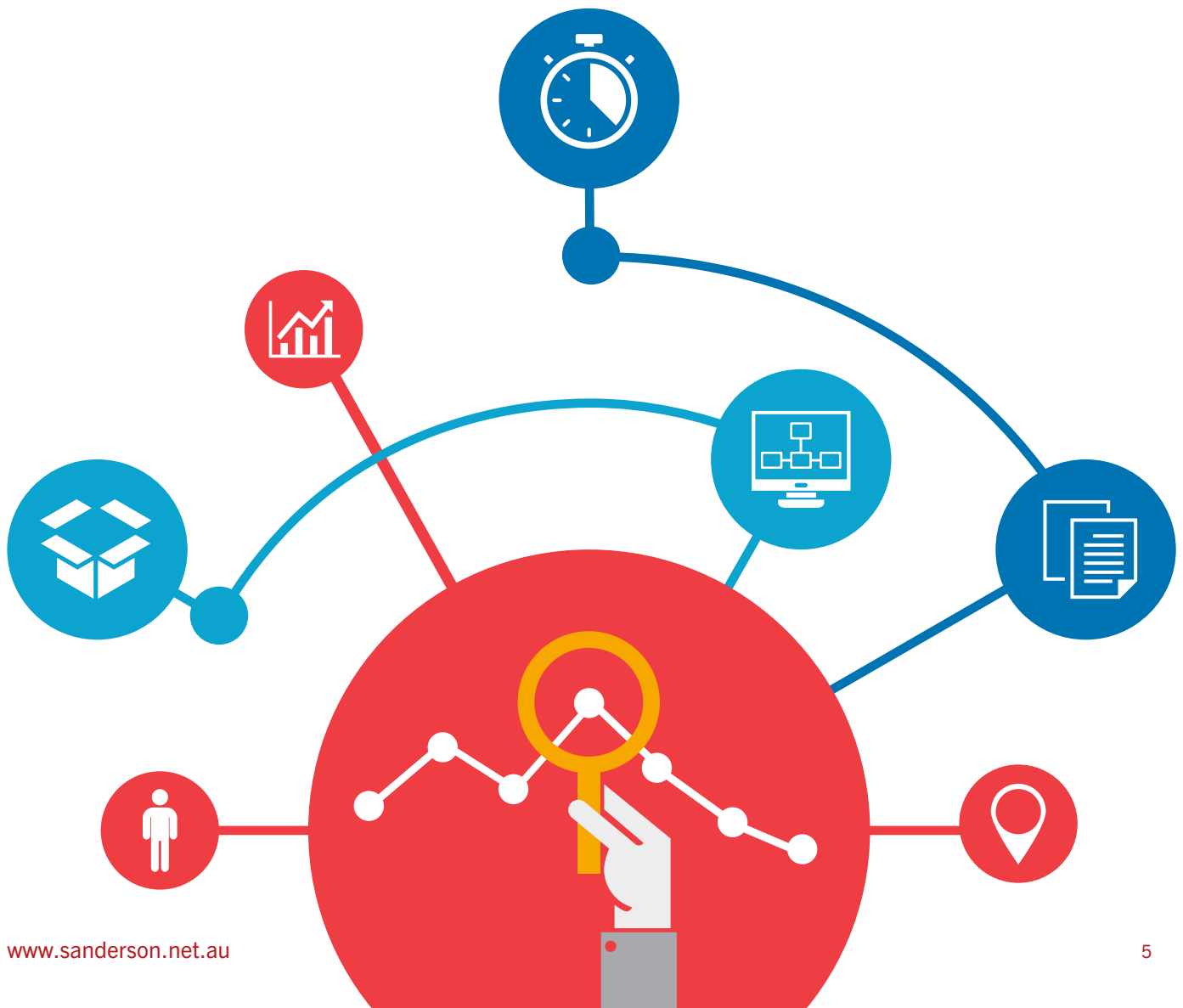
- Accurate.
- Pertinent.
- Timely.

Getting this vital information requires the integrated capture and sharing of data as it happens. You will discover that finding this end-to-end visibility is difficult across standalone factory or accounting

packages and spreadsheets. In that situation, achieving this visibility in real-time becomes near impossible.

The best way to achieve real-time visibility is with a fully integrated ERP system, which gives significant benefits to your management and reporting. For example, you become able to model cash-flow using:

- Accurate customer service information.
- Accurate customer financial profiling.



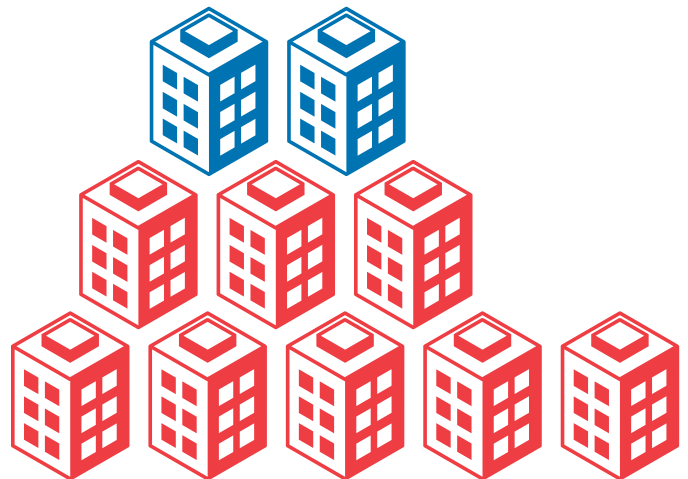
In addition, issues within areas such as customer service and product pricing are identified immediately when your integrated end-to-end information is made available. Other integration steps – such as integrating proof of delivery, or accurate label and invoice content – also drive down credit notes and reduce the opportunity for delay in payment.

This means that your customer services team can focus on driving new sales and ensuring payment to terms. Any issues are captured by an integrated ERP system - e.g. that late payment due to invoice inaccuracies can be modelled and any impact anticipated.



In summary . . .

By pursuing true business integration you can enjoy a cash-flow model that accurately predicts the in-flow of cash from customers and the out-flow of cash through wages, suppliers, etc. Using accurate data for your invoicing and credit control reduces risk and delay.



“Eight out of ten SMEs fail because of cash-flow problems.”

[SimplyCashflow](#)



“ Once you get instantaneous communication with everybody, you have economic activity that's far more advanced, far more liquid, far more distributed than ever before. ”

Marc Andreessen (American entrepreneur, investor and software engineer)

03. Reduce administration costs and improve efficiency through integration.

Administration overheads increase when you have data from separate sources which requires re-keying, merging or any extra form of manual processing. This is also the common cause of data error and delays in getting information to critical decision stages and to your staff.

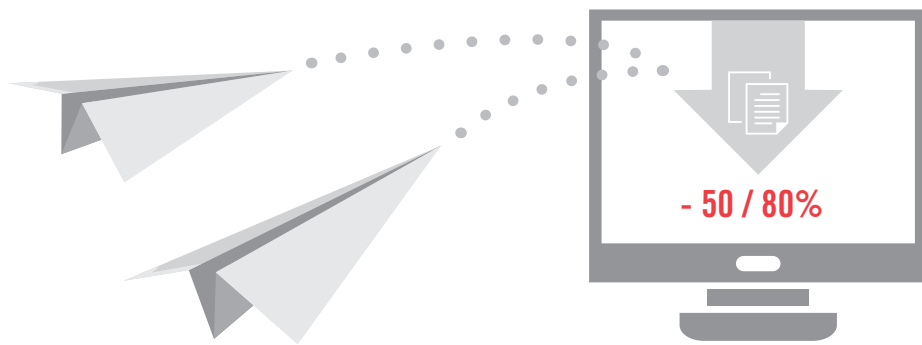
So it's fair to say that eliminating data duplication, manual keying, merging or email forwarding vastly improves your administrative efficiency. Most importantly, the information you use to support decisions becomes more timely, accurate and meaningful. This helps better decisions to be made across your operations.

Through effective integration, you also provide administration staff – whether supervisory,

management or back office – with greater opportunity to act on information and exceptions. This proactive, best practice approach drives down your costs – and drives up your business efficiency and output.

In summary . . .

When your business adopts a true integration approach, it will typically reduce overheads immediately and support substantial growth before you incur any proportional increase in costs.



“In comparison with paper-based processes, electronic invoice handling processes make it possible to reduce costs by 50-80%.”

E-Invoicing/E-Billing 2013 Report, [Billentis](#)

““ The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency. ””

Bill Gates (American business magnate)

04. Eliminate unnecessary business risk.

You gain better risk surveillance when automating your business processes and capturing variances, by enabling the use of best practice techniques.

One key technique is being able to manage by exception – when variations from the acceptable state are brought to the attention of your management as they are recorded. This enables informed, timely intervention to limit any immediate cost impact and pre-empt expenses from the problem flowing further into your processes.

And it's not just about cost. In the food industry 'best practice' risk management also must include the capture of any non-conformance which impacts on quality, safety and efficiency. Other sources of risk to your business are failure to comply with standards for:

- FSANZ.
- AQIS.
- HACCP.
- Health and safety.

Such risks can threaten your contracts, profitability, customer loyalty and brand reputation. As well as potentially threatening the continuation of the business itself.

By automating your processes, formal procedures and widespread data capture you enable:

- Management by exception.
- Root cause analysis.
- Proactive management.

This approach also ensures quality, predictability and conformity. Today's best food ERP systems, for example, extend automation and integration right up to: label accuracy, allergen specificity and certification of analysis and conformity.

Another major benefit of the automation of your processes is reduced dependency on the knowledge of certain personnel. This removes the risk should personnel not continue with your business.

In summary . . .

Integration allows your day-to-day processes to become automated so you manage by exception. This reaps great rewards in efficiency, costs, quality, customer loyalty and growth. Your compliance with industry standards becomes automated and valuable staff knowledge can be systemised into your processes.



“ In most cases, the cost of implementing the steps [of software integration] will be far outweighed by the savings that can be realised. ”

Ted Friedman (Gartner analyst)

All these benefits in one system.

Finally, all these best practice methods and the benefits they provide can be united in a single food industry focused ERP system – such as UnityF8 software from Sanderson.

The Sanderson approach also offers you further cost reductions including:



Lower computer hardware, software and support costs.



Reduced software development and training bills, as staff need only be taught to use a single, common system.



Reduced administration costs.



Improved ability to grow without needing extra staff.

To read more, please visit www.sanderson.net.au/unity-f8-food-drink

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