

Focus on Financials: Comprehensive ERP and Financial Management for Manufacturers



Executive Summary:

- The manufacturing enterprise faces a challenging environment with scarce credit, pricing pressures, and increasing costs.
- Critical to success is a fully comprehensive enterprise resource planning (ERP) solution that aligns operations and production with finance to understand risk, allowing manufacturers to do what they do best — deliver quality products at competitive prices.
- This paper outlines key areas necessary for creating value and profitability through real-time monitoring of financial conditions.

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Comprehensive Coverage Throughout the Enterprise

The manufacturing enterprise benefits from comprehensive, real-time financial tracking, analysis and reporting of accounts receivable, customer credit management, receipts and other activities. It's a strong disadvantage if the organization uses stand-alone spreadsheet systems to track purchasing, receiving, shipping, accounts payable, collections and other areas.

With stand-alone and manually intensive systems, the challenges include tedious tracking and maintenance of physical documents like invoices; lack of visibility into financial recordkeeping such as tracking payables and receivables; a high likelihood of introducing error via duplicate data-entry; and other issues.



For example, if a manufacturer has a contractual agreement with a customer to extend credit up to certain shipping volumes, the accounts receivable system must fully integrate production, shipping, outstanding orders and delivery data for accurate tracking of the contract. If this data is not fully integrated, the enterprise incurs unnecessary risk and high levels of outstanding accounts receivable. How can production know if they should build more products for this customer? When does the shipping department get word to halt deliveries?

Automation and integration also improve collections tracking. An integrated system brings all outstanding credit information together on one easy screen, providing accounts receivable visibility for credit collection management including automated notices based on number of days receivables are outstanding.

Scalable Financials

Manufacturers face a complex world of multi-plant, multi-company and geographically dispersed operations. Having the ability to scale financial

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management and recordkeeping from one plant to across the global enterprise is crucial.

As an example, a small US-based metalstamper recently embarked upon a contract with a German-based tier-one supplier. The contract stipulated that the metalstamper meet German accounting requirements when issuing purchase orders and shipping documents. This would have been virtually impossible with a stand-alone PO system. In essence, the metalstamper would have to maintain a separate PO process for this one customer reflecting localized requirements, format changes, and currency.

Fortunately the metalstamper had in place an integrated system that easily incorporates and manages data in multiple languages, currencies, and date formats, including local tax and business mandates and other business requirements unique to specific countries or municipal entities.

Even though it is only a small company, the metalformer was able to lower administrative costs and improve productivity by accessing real-time, locally customized and integrated business information including manufacturing processes, engineering, sales, accounting, quality, production, purchasing, receiving/shipping, and inventory.

“Overall financial health, including cash flow management, is a critical success factor.”

Further, the system can scale across multiple companies should the need arise. Financial reports, such as income statements and balance sheets, combine results for two or more companies. Features include multiple levels of consolidation, intercompany eliminations, currency conversion, and multiple report formats.

Keeping an Eye on Margins

While price cutting helps a manufacturer compete and maintain volumes, as a company lowers prices, profit margins suffer, endangering overall sustainability and financial health. In the end, manufacturers using multiple systems (or

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manually intensive systems) have no confidence in their data — even in the most basic of information, the cost to produce a product. Keeping an eye on profit margins has everything to do with maintaining accurate costing and bidding data.

As an example, a tier-two supplier uses an integrated ERP system to track actual production costs on the shop floor, drawing upon that data for the quoting process.

“Actual cost to bid” directly impacts the company’s profitability. When actual cost is lower than the bid proposed to the customer, companies risk losing business to a lower priced competitor. If the actual cost is higher than the quote, the company loses money on the order.

Because the company’s ERP system tracks and records all physical events (receiving, production, inventory status changes, scrap, subcontract, shipping, etc.) on the shop floor, it’s ideal for tracking cost. How much does it cost to make a certain part? Which parts are more profitable? How low a price can they afford to quote? The company is able to answer the questions with precise data instead of guesses, thereby protecting margins without sacrificing productivity.

Cash Flow Considerations

Automated financial systems also contribute to an improved cash flow situation.

As an example, winning companies improve cash flow by paying only for raw materials or parts as they are consumed, instead of paying for them in advance of production, then assuming costs of storage. This is accomplished by automated supplier consignment tracking where invoices are generated only when the parts are consumed by the manufacturer. This helps companies reduce inventory storage costs, cut premium freight charges, and speed production cycles.

“Creating value and profitability happens through real-time monitoring of financial conditions.”

Traditional accounting, ERP or inventory software systems do not handle consignment tracking adequately. Most manufacturing companies can’t take

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advantage of consignment arrangements, or are forced to track the process manually with double data entry.

The key is to automatically track the movement and accounting of inventory, with the system managing payment only after it is consumed. If an integrated ERP solution offers automated supplier consignment, inventory from a supplier is delivered to the warehouse and consumed and invoiced directly from stock, typically tracked using barcodes that are scanned just as the material is consumed.



Compliance

For public companies, no discussion about manufacturing financials is complete without mentioning the importance of complying with regulatory requirements such as Sarbanes-Oxley.

Manufacturers must implement financial processes and controls for maintaining auditable business transactions and transparency. Manufacturing management must have complete confidence in financial systems and in the accuracy of related reports.

Look for an ERP system that integrates compliance requirements in all functional areas to avoid the need for redundant recordkeeping or third-party applications.

Focus on Financials with the Plex Manufacturing Cloud

Plex Cloud ERP software for the manufacturing enterprise delivers comprehensive financial reporting, analysis and management capabilities — addressing the considerations highlighted in this paper.

Plex Cloud ERP effectively manages business operations across a plant, a division, or a global manufacturing enterprise with multi-lingual and multi-

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currency support and customer and supplier consignment inventory tracking. In addition, the cloud solution enables full compliance with industry and government reporting requirements such as Sarbanes-Oxley.

Plex tracks the entire manufacturing process from the loading dock and shop floor as events happen (receiving, production, inventory, scrap, ordering, shipping, etc.), making mission-critical metrics available to the top floor — in real time — for budgeting, forecasting, precise costing, profitability analysis, quoting and more. The end result is improved business decisions and increased profitability, a critical competitive advantage in today's turbulent manufacturing sector.

Global manufacturers appreciate Plex Cloud ERP for its robust financial reporting and operations management functions, including a real-time look at the financial health of the enterprise via a series of configurable management dashboards.

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About Plex

The Plex Manufacturing Cloud is the first and only cloud ERP built to meet the tough requirements of today's manufacturers. Hundreds of innovative companies, across industries including aerospace and defense, food and beverage, and motor vehicles, rely on Plex to operate their manufacturing businesses and generate profit from every inch of the plant floor. With insight that starts on the production line, Plex helps manufacturing companies see and understand every aspect of their business, enabling them to lead in an ever-changing market.