



# **Manufacturing Organizations: FP&A Leads to Increased Profitability**



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## Introduction

Sustained headwinds in 2023 continue to affect every industry. Manufacturing organizations are no exception as they continue to deal with supply chain disruption, inflation, and labor shortages.

Financial planning and analysis (FP&A) can be a time-consuming, highly manual task for manufacturing organizations. Even in an age where technology can streamline manual processes, many organizations still use cumbersome and error-prone Excel spreadsheets. If manufacturing organizations wish to weather this storm, they will need to become more agile to quickly pivot and address operational changes.

Let's break down the steps you can take to plan for shifts in the economy and become an agile and profitable organization.



A blue-tinted photograph of two manufacturing workers, a woman and a man, both wearing hard hats. The woman is holding a laptop and looking at the man, who is also looking at the laptop. The background shows a factory setting with various equipment and structures. The image is overlaid with large, semi-transparent red and blue geometric shapes.

# **Tackling FP&A Challenges Specific to Manufacturing Organizations**







## Tackling FP&A Challenges Specific to Manufacturing Organizations

Many manufacturing organizations, particularly those with multiple locations and different management teams, struggle with FP&A because they lack the right processes and technology to support them.

The right technology can make budgeting, planning, forecasting, reporting, and analysis easier, more accurate, and more efficient. Without it, manufacturing organizations face multiple challenges when it comes to manual reporting, demand planning, production planning, and personnel planning. Additionally, plant profitability analysis and other cost control measures are difficult and labor-intensive.

Challenges specific to manufacturing organizations include:






- Prolific use of spreadsheets throughout the planning process, from demand planning to production planning and personnel planning, can impact decision-making and profitability. This is compounded when there are multiple stakeholders relying on data in the spreadsheet. Sharing spreadsheets via email can result in broken or deleted formulas as they are passed from plan owner to plan approver. Because [accurate forecasting is at the heart of effective decision-making](#), decisions made using spreadsheets are at risk for using incorrect data due to changed formulas or broken links.

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- Lack of technology to streamline processes. The right technology in place can simplify FP&A processes and act as a single source of truth (SSoT) for stakeholders. A single platform that caters to analysis and planning will make analysis and decision-making easier and more accurate.
  -  Risks associated with data security and protecting data integrity that can lead to incorrect planning of costs. How can you ensure that the data you are using is up to date so that every stakeholder is using the same data for analysis? Without integrated and centralized data sources, it is difficult to get a complete view into all areas of your organization.

Effective cost, revenue, and profitability management requires a foundation of understanding, awareness of the problem, and the ability to act based on your data. There are some measures that you can take today to increase your organization's profitability.



### Why Spreadsheets No Longer Work for FP&A

-  Lack of agility with time- and labor-intensive manual review and consolidation
-  Higher margin for error as formulas can break or be deleted during sharing
-  Difficult month-end, board, and other reporting
-  Financial agility does not happen
-  Hinders the data analysis needed for sound decision-making



# **5 Paths to Organizational Profitability**



# 5 Paths to Organizational Profitability

There are several ways that you can increase the profitability of your organization that center on more accurate planning.

## 1. Scenario Planning

Scenario planning is a strategic planning model that helps you look at different possibilities and trends to help reduce errors. By looking at different scenarios, you can avoid under- and over-predictions of costs associated with production, labor and overheads.

Trends are particularly important in scenario planning. You'll need to look at situations such as:

- Continuation of supply chain disruption
- A tight labor market and the cost of vacant positions
- The impact of inflation on the cost of materials
- Uncertainty that may be associated with unpredictable events such as a pandemic

Looking at possible scenarios can help you understand the potential challenges, warning signs, and even opportunities, such as new product creation. You can easily pivot from one outcome to another with scenario planning and 'what-if' analysis so you can make better decisions.

## 2. Collaboration

Collaboration between stakeholders across your organization is important to ensure that all budget owners have a SSoT in terms of workflows, data entry, and forecasting.

To be profitable, every plant team needs to be working with the same version of a report or template versus multiple versions to ensure accurate data.

Collaboration among stakeholders also builds trust, encourages group problem-solving, and helps multiple plants become more efficient, thereby increasing productivity and profitability.

## 3. Demand and Production Planning

An agile process to analyze demand and manage production can maximize financial health across an organization. Increasing the accuracy and frequency of in-depth analysis of actual demand and production metrics against what has been budgeted helps to identify trends, potential roadblocks, and tracks financial performance in real-time.

Inflation and supply chain disruptions impact the operations of every organization. Analyzing your data from multiple angles helps to determine opportunities for additional efficiencies. You can use this data for informed decision-making and take a proactive approach to your future versus reacting.





## 4. Position Planning

Given that labor costs make up the largest portion of operating expenses for most organizations, an accurate workforce plan is fundamental to good fiscal health.

Most organizations start personnel planning with the current employee base. Ideally, this plan is informed by the budgeted production by each product. There are several items to consider, including:

- Beginning with last year's positions to help inform current needs
- Linking personnel planning to production planning
- Using vacancy trends to plan for future staffing gaps
- Automating the personnel planning process with employee drivers for tax and other benefit calculations

The bottom line is that in the face of global talent shortages, accurate position planning and execution is a priority for every organization.

## 5. Use of Technology


You may not even be aware that technology exists to help streamline your organization and drive efficiency. Technology can help you to make decisions quickly and confidently, and better manage the costs and profitability of your organization.

Understanding the profitability of each product and maximizing sales while minimizing costs and risk are paramount

to longevity in manufacturing. As we mentioned earlier, manual processes and spreadsheets limit visibility and agility because they are difficult to manage and update on a regular basis.

The use of technology to increase profitability in manufacturing organizations can:

- Centralize your workflows that facilitate the planning process by using only one data-entry template for all plants and/or products
- Centralize modeling to reduce or eliminate overly complex spreadsheets
- Run different scenarios to assess various potential outcomes
- Combine historical data with budget data to easily plan for the future
- Involve stakeholders in the planning process for higher accuracy
- Facilitate collaboration among plant management teams and corporate teams to build more profitable plans
- Report and analyze data at a higher cadence so you can see trends, roadblocks, and financial performance in real-time
- Bring data together from all sources to minimize switching between systems
- Daily analytics that help to identify cost increases and labor shortages early on



● Create dashboards customized by stakeholder that visualize the key performance metrics of their plant and/or product

- Integrate data sources to provide a complete view of all areas of your organization, including:
- Demand to Production Planning and Analysis
  - Personnel Expense Planning and Analysis
  - Operating Expense Planning and Analysis
  - Scenario Planning and Analysis
  - Capital Projects Planning and Analysis
  - Financial Reporting and Analysis

Organizational effectiveness can be measured by how well an organization works together to foster continuous improvement, strong financial health, and support the organization's mission. Financial planning and analysis, which involves developing and managing an organization's revenue, personnel, and other expenses while ensuring financial viability, is key to addressing this challenge head on.

As manufacturing organizations continue to readjust their planning processes to be more fiscally responsible, the need for a financial performance management platform, like Prophix for Manufacturing, becomes paramount to organizational profitability.





# What's Ahead for Manufacturing Organizations



## What's Ahead for Manufacturing Organizations

There are several challenges and opportunities ahead for manufacturing organizations coming out of a few tough years. With continuing supply chain disruption, rising inflation, and ongoing employee retention difficulties, effective action is paramount to both your organization's mission and its financial health.


In January, Ernst & Young LLP [reported](#) on the findings from their survey of 200 senior-level supply chain executives. The survey acknowledges that there continues to be significant challenges globally which results in disruptions for manufacturing organizations. EY research did find that enterprises plan to revamp their supply chain strategies to build resiliency and sustainability.

Inflationary pressures are a double whammy for manufacturers. Ian Alberts writes in [Berdon's industry insights](#) about how inflation will present multiple business challenges to manufacturing organizations.

Not only are manufacturers facing challenges with production costs, but rising inflation is impacting demand. [J.P. Morgan's research](#) discusses the impact rising inflation will have on consumer spending.



[Deloitte's 2023 manufacturing industry outlook](#) focused on five industry trends. The tight labor market is predicted to remain a top priority in 2023. The enduring workforce shortage will continue to impact operational efficiency and margins. 1 in 3 surveyed executives spiked out the retention of high performing employees as a strategic priority in 2023.





Innovative technology platforms will be a critical investment to help accelerate cost analysis, optimize production and labor, and reduce the need for spreadsheets and manual tasks. An FP&A process can help improve profitability. Stakeholders across your organization can work together to foster collaboration and make data-informed decisions that impact your financial health. The right technology will help you plan for tomorrow, today, so you can minimize risk and impact the long-term success of your organization.

### **Benefits of Using a Technology Solution to Increase Profitability**

- ⬡ Standardize your processes across finance, accounting, and plant management teams
  - ⬡ Streamline your FP&A and financial close and consolidation activities
  - ⬡ Standardize your data and workflows
  - ⬡ Increase stakeholder productivity
  - ⬡ Self-serve capabilities for stakeholders
  - ⬡ Increase efficiency
  - ⬡ Have a single source of truth (SSoT) to drive your decision-making
  - ⬡ Improve business agility to make decisions faster
  - ⬡ Increase financial health
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## **Ready to get started?**

See how you can improve your agility and profitability with Prophix.

**Try it now**

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# About Prophix®

Ambitious finance leaders engage with Prophix to drive progress and do their best work. Leveraging Prophix One™, a Financial Performance Platform, to improve the speed and accuracy of decision-making within a harmonized user experience, global finance teams are empowered to step into the next generation of finance with no reservation. Crush complexity, reduce uncertainty, and illuminate data with access to best-in-class automated insights and planning, budgeting, forecasting, reporting, and consolidation functionalities. Prophix is a private company, backed by Hg Capital, a leading investor in software and services businesses. More than 3,000 active customers across the globe rely on Prophix to achieve organizational success. Additional information at [www.prophix.com](http://www.prophix.com).

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