



One of the biggest things wrong with American manufacturing is accounting.

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I've spent over 50 years in manufacturing, and one thing is clear to me: while other kinds of businesses may be well served by Generally Accepted Accounting Principles, manufacturers are not.

In my opinion, manufacturing companies should manage themselves on cash flow and not on profit. Profits are determined by balance sheets, comparing this year's assets to last year's. The problem is, what do you call an asset? According to GAAP, inventory is an asset.

But the truth is, it's not.

Only Cash Is Cash

If you're a smart MBA, the first thing you do when you take charge is get rid of inventory and write it off. Then, when December comes and you haven't made your numbers for the year, you build inventory like crazy because it's counted as assets on the books. It's counted as money. Obviously, it isn't, but that's the way things are done.

I discovered a certain phenomenon many years ago when I was doing a study of manufacturers. The more inventory a company had, the less it was able to serve customers in a timely fashion. Conversely, the less inventory a company had, the more it was able to serve customers in a timely fashion – precisely the reverse of the principle behind buffers, of which inventory is one.

The problem with inventory is that you end up with a lot of something you don't need. Since you don't know what you'll really need until the orders come in, producing in advance is, for a lot of manufacturers, pointless. That's why a big chunk of inventory at many companies is really just scrap. And I don't have to tell you, scrap is incredibly expensive.

GAAP vs. Reality

To see how deeply GAAP manipulates your business, look at your major technology systems. ERP and MRP systems are based

on accounting, not the manufacturing operation. They exist somewhat in a make-believe world, where you can have an infinite amount of resources to do whatever you want to do. And of course, you don't and you can't.

ERP and MRP are unable to show you where your resources are, either. Because these systems look at your company from an accounting perspective, many resources have been written off. From an accounting perspective, all those tools and fixtures out on the floor have no value. They don't exist.

If it doesn't have a dollar value attached to it, no one keeps track of it. It's not in the system. Your factory personnel are supposed to have what they need to do the job when they need to do it, but no one is keeping track. Nobody really knows. Everyone is just guessing and hoping – and often, they're wrong.

Sadly, CEOs are usually the worst offenders.

Technology to the Rescue

To my mind, the ideal company has no finished goods inventory, but has the ability to do anything instantly. Whatever anybody orders, you're ready and able to build it and deliver it on time. If you're trying to get a good bottom line with real cash, instead of accounting cash, that's where you want to go.

A brilliant mathematician named Dr. Ken Henderson and I developed the basis for a new kind of manufacturing software that takes your company to precisely that place. It's called nMetric®, and it's the only software I've ever seen that can change the very nature of a manufacturing enterprise. It greatly reduces the need for buffers and inventory, helps you identify and eliminate bottlenecks, and makes the bottom line look better than ever, without the aid of bookkeeping razzle-dazzle.

Smart Jobs™ Change the Game

Dr. Henderson's expertise in probabilism allowed us to take a radically different approach to the manufacturing process. Instead of trying to control it with a massive, deterministic and centralized software program like accounting-based solutions, we equipped every job going through the plant with intelligent software objects – basically, specialized mini-programs.

The resulting Smart Jobs™ find and book the resources necessary to complete themselves, including materials, equipment, tools and labor. They understand the relationship between resources and order routing. They know when each operation has to be completed to stay on schedule. And they're aware of their priority relative to other jobs.

In effect, Smart Jobs supervise and route themselves. And by doing so, they bring real business process automation to the factory floor.

Real-Time and Future Event Visibility

nMetric also gives you unprecedented plant visibility. All of its distributed software objects constantly share and collect real-time information, which the system uses to create an accurate, multi-dimensional representation of factory floor operations in real time.

You can graphically see all workplaces and timeframes and jobs, and what labor, material and tool resources you actually have available to do them. You see precisely what you can and can't do – and it's very easy to see it. With remarkable precision, you're also able to foresee the effects of practically anything that is happening or could happen. So you can avoid problems before they start, and be prepared to respond as new events occur.

Accountants Like Money

Instead of forcing you to conform to a rigid, preconceived series of steps like centralized solutions, nMetric accommodates the way your factory works and optimizes its performance. It lets you respond to customers in record time, keep your promises to deliver, and avoid late penalties. You can intelligently procrastinate where capital expenditures are concerned, because you'll know real needs both now and in the future. And because it's Web-based, you can put your entire supply chain on the same, accurate page and greatly reduce costly supply errors.

Best of all, nMetric will help you make sure a lot more of the "assets" on your balance sheet are really cash. I can't see how an accountant would object to that.

With nMetric, your factory will be transformed into a highly efficient, reliable, flexible, demand-driven, Just-In-Time operation. That's a big claim and I know you've heard big claims before. But I'm a manufacturer, and I've learned not to promise anything I can't deliver. nMetric can deliver on this.

If you're ready to take your company to the next level, call us at 714.424.4400 and we'll arrange a meeting. Bring your CFO along, too, if you like. We think he'll enjoy the conversation.



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