



What Drives Your True Cost?

IET worked with a metal forming company to develop software to aid in a total cost analysis (fixed and variable) of current products, proposed products and evaluation of redesigns.

The Customer

A leading manufacturer of cold formed components used in many different applications, with a strong focus on the powertrain area.

The Challenge

The client needed the capability to evaluate redesigns and new manufacturing plans for current and proposed production components at their facilities in terms of total cost. IET's strategic model had to address supplier costs, overhead expense, labor productivity, utilization, and the ability to respond to growth.

The Solution

IET worked with the team to document the major cost factors. These factors included product volumes and routing, direct, indirect and salaried labor, materials, transportation, capital equipment, outside processing, production loss and overhead costs, both fixed and variable.

A model was developed based on these inputs that predicts outputs such as labor costs, machine hours and costs (capacity planning), outside processing costs and total costs. The baseline results were compared to historical performance. IET worked with the team to identify opportunities for improvement and to evaluate capital improvements and requirements to eliminate outside processing under staged levels of production, process changes and redesigns. After validating the baseline, a series of scenarios and initiatives were defined within the model and reviewed for resulting cost implications.

PRODUCT QUOTE FOR PRODUCT: X23F				
DESCRIPTION: Drum CREATED ON: 4/26/2007 CREATOR: Chris Frybarger CUSTOMER: Linamar DATA SOURCE: BASELINE DATA YEAR: FY 2007 PRODUCT FAMILY: Drums				
DIRECT COSTS (\$ / piece)	2007	2008	2009	
RAW MATERIAL	\$2,8880	\$2,8880	\$2,8880	
SCRAP MATERIAL	\$0.0000	\$0.0000	\$0.0000	
DIRECT LABOR	\$0.3939	\$0.3939	\$0.3939	
TOOL ROOM LABOR	\$0.0000	\$0.0000	\$0.0000	
OUTSIDE PROCESS	\$1.2400	\$1.2400	\$1.2400	
COMMISSION	\$0.0000	\$0.0000	\$0.0000	
DIRECT COST TOTAL (\$ / piece)	\$4,5199	\$4,5199	\$4,5199	
VOLUMES	361,000	361,000	361,000	
ANNUAL DIRECT COST (\$ / year)	\$1,631,683.90	\$1,631,683.90	\$1,631,683.90	
CAPITAL (\$ / piece)	\$0.5900	\$0.5900	\$0.5900	
EXPENSES	\$ / MACH. HR	\$ / piece		
Direct Fringe Allocation	\$10,8516	\$0.2970	\$0.2970	\$0.2970
Indirect Labor & Fringe Allocation	\$0.0000	\$0.0000	\$0.0000	\$0.0000
Salary & Fringe Allocation	\$47,7430	\$1.3314	\$1.3314	\$1.3314
Grinder Supply Allocation	\$0.0000	\$0.0000	\$0.0000	\$0.0000
Supplies	\$13,2004	\$0.3879	\$0.3879	\$0.3879
Shipping & Freight	\$7,4122	\$0.2067	\$0.2067	\$0.2067
Depreciation	\$14,2444	\$0.3972	\$0.3972	\$0.3972
Building - Rent, Repairs & Maintenance	\$10,8554	\$0.2971	\$0.2971	\$0.2971
Equipment - Buys, Repairs & Maintenance	\$48,5444	\$1.3537	\$1.3537	\$1.3537
Taxes - Other	\$1,4473	\$0.0404	\$0.0404	\$0.0404
Utilities	\$14,4778	\$0.4037	\$0.4037	\$0.4037
Insurance	\$1,8298	\$0.0287	\$0.0287	\$0.0287
Sorting	\$3,7500	\$0.1048	\$0.1048	\$0.1048
Commission	\$2,5246	\$0.0704	\$0.0704	\$0.0704
Other Expense	\$16,9568	\$0.4729	\$0.4729	\$0.4729
TOTAL EXPENSES (\$ / piece)	\$193,3463	\$5.3918	\$5.3918	\$5.3918
TOTAL COSTS (\$ / piece)		\$10,4716	\$10,4716	\$10,4716
EXPECTED PROFIT (\$ / year)	10.00%	\$378,026.41	\$378,026.41	\$378,026.41
EXPECTED PROFIT (\$ / piece)		\$1.0472	\$1.0472	\$1.0472
PIECE PRICE (\$ / piece)		\$11.5188	\$11.5188	\$11.5188

iet

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How can IET help you? Any way you need us to.

Productivity	Capacity planning	New manufacturing	Indirect labor design	Total value analysis
Current production standards	Key capital resources	Detailed process map	Standards	Make vs. buy
Current production performance	Direct and indirect labor	Layout	Material handling	Site selection
Detailed reasons for variances	Salaried personnel	Facilities	Supervision	Consolidation
Detailed plan for improvement	Facilities	Labor	Maintenance	Vertical integration
Goal-setting, accountability	Support		Plan for improvement	Horizontal integration