SuiteDynamics

FROM ACCOUNTANT TO STRATEGIST:

A Manufacturing CFO's *Roadmap*

At a Glance

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Running the financial arm of a manufacturing company is a study in endurance. Industry volatility, constant risk and uncertainty, and production complexities can make a CFO's office feel like a pressure cooker, and one small mistake can splash the company's name across headlines.

That's why, as a manufacturing CFO, you must make careful moves that mitigate volatility, optimize production and costs, minimize risk, and drive growth. Pair the right financial processes and operational strategies with cutting-edge technology, and you can strengthen your organization enough to weather industry storms.

Shasta Hague

SuiteDynamics Principal Consultant

> *"Be as accurate and detailed as possible in all your transactions. Entering garbage into your system just results in garbage on your reports–and, of course, inaccurate forecasting. You can also use NetSuite's custom segments to pull out critical information for your business."*

We know how difficult those strategies can be to create and execute, particularly in the midst of daily operations. That's why we've assembled a thorough guide full of tips, insights, and expert advice for examining your processes, identifying weak points, and making changes that encourage your business to grow. It highlights eight key operational areas where you can improve your methods and strengthen your company as you refine your position into a strategic leadership role.

1. Forecasting

Financial forecasting is a lot like weather forecasting; it offers a forward-looking view of your company's future so you can make strategic decisions about what to do next. But if you've ever tried it, you know it's not an easy feat. Complex economic systems, data limitations, and the world's general unpredictability can make anticipating financial situations feel like a fool's errand.

As economist John Kenneth Galbraith once said, "The only function of economic forecasting is to make astrology look respectable."

However, forecasting has become an increasingly critical aspect of financial management. For example, Investopedia reports that in early 2020, institutions like the International Monetary Fund grossly underestimated the COVID-19 pandemic's impact on the global economy, predicting a quick recovery. They didn't expect the event's prolonged consequences, including an inflation surge, so they weren't prepared to face them.

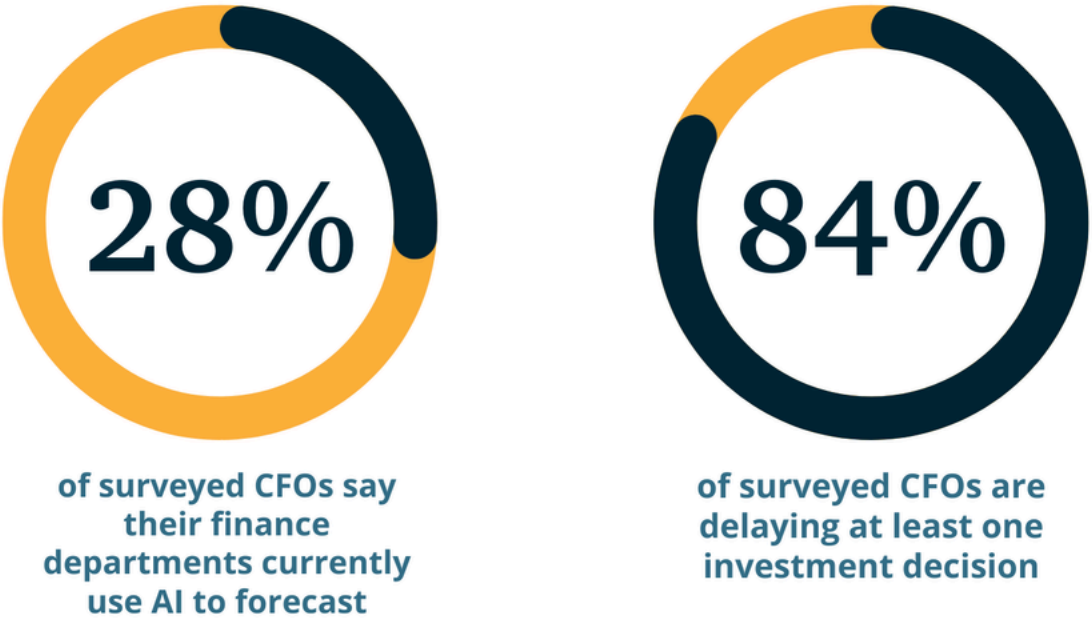
As a manufacturing CFO, if you can anticipate revenue trends, cash flow needs, and potential risks, you can plan effectively, mitigate uncertainties, and align financial strategies with your business goals. Accurate forecasting improves your chances of responding to market dynamics, securing funding, optimizing costs, and ensuring long-term sustainability.

Infographic Source: "October 2024 Pulse Survey," PwC

Tips for Boosting Your Forecasting Capabilities:

1. Double-check your assumptions. Challenge direct and implied assumptions in your forecasting models and compare them against real-world data and market conditions. You'll create a foundation of validated expectations that will strengthen your forecasts.

2. Implement a weekly variance review process. You won't just identify discrepancies – you'll start understanding the story behind the numbers. Take time to analyze what drove the variations and use those insights to refine future forecasts.
3. Convert variance tracking into actionable insights. Measure variance percentages as a KPI for a quantifiable way to track forecasting accuracy and identify improvement opportunities. This metric helps focus your efforts where they'll have the most impact.
4. Maintain a careful balance between prudent financial controls and aggressive growth strategies. When evaluating opportunities, consider both the revenue potential and cost implications.
5. Be optimistic about opportunities. Begin each new initiative by exploring its potential benefits rather than immediate drawbacks. Quantify the value proposition whenever possible and identify projects that can drive meaningful company growth.
6. Don't automatically say "no" to challenging proposals. Instead, find creative ways to mitigate risks and overcome obstacles. Look for alternative approaches that could make seemingly impossible projects viable.
7. Champion technological advancement. Transitioning to new enterprise resource planning (ERP) systems and enterprise software like NetSuite can feel daunting. Still, you must have these tools if you want to scale operations and improve forecast accuracy. Embrace the changes as investments in your company's future.
8. Expand your strategic scope. Modern CFOs must balance scenario planning and M&A activities with emerging priorities.



Infographic Source: "October 2024 Pulse Survey," PwC

2. Adhere to a Code of Ethics

A CFO's role isn't just about managing numbers – it's about setting an ethical tone that ripples throughout your entire organization.

Sadly, ethics is often overlooked in the business world. Findings from the Association of Chartered Certified Accountants **paint a concerning picture**: 55% of polled accounting professionals have seen colleagues step over ethical lines, while 64% feel that navigating ethical waters is becoming increasingly murky. Worse, 25% of professionals have felt pressured to compromise their values.

This is why you have to assume the role of a company moral compass, using words and actions to demonstrate that financial success and ethical behavior can go hand in hand. Establish clear ethical guidelines and empower your team to speak up against shady practices, helping your company build lasting value and maintain integrity.

3. Continuous Accounting

The rise of continuous accounting marks a shift from the traditional "sprint and rest" approach to handling financial tasks at a more steady, manageable pace. With this method, you no longer need to cram all reconciliations and closings into a hectic month-end rush. Instead, you can use technology to spread these tasks throughout that period, making the process smoother and more efficient.

> *"With NetSuite there is no batching. As soon as you save a transaction it posts right then, as long as it's approved. You can go look at financial statements immediately after to see the changes and validate them. No waiting!"*

Shasta Hague
SuiteDynamics Principal Consultant

The approach has significant benefits. **According to Ventana Research**, organizations that embrace significant automation in their financial processes are more successful at closing their books quickly – 71% can complete their quarterly close within six business days. Just 43% of companies using partial automation can do the same.

Continuous accounting is particularly powerful because it happens in real time. Accountants using this method can catch and correct errors immediately because they're processing accounts daily or weekly. Those using a traditional model often discover issues weeks after they occur, when they're harder to resolve.

Automation also takes your team's focus off routine tasks so they can focus on more strategic work. With continuous accounting, your staff no longer spends large amounts of time mired in data entry, account reconciliations, and basic reporting, creating a fundamental shift in how the department operates. Your accountants can become forward-looking strategic partners in the business.

4. Training and Development

Training and development aren't just expenses. They're investments. Many companies, like **General Electric** and **Bosch**, are providing their employees with upskilling programs that cover areas like digital solutions, digital analytics, automation, and lean manufacturing. The goal is to improve company-wide efficiency, innovation, and effectiveness, and these investments often work.

Forbes reports that organizations prioritizing comprehensive training see an astounding 218% higher income per employee and enjoy a 24% higher profit margin than those without formalized training programs.

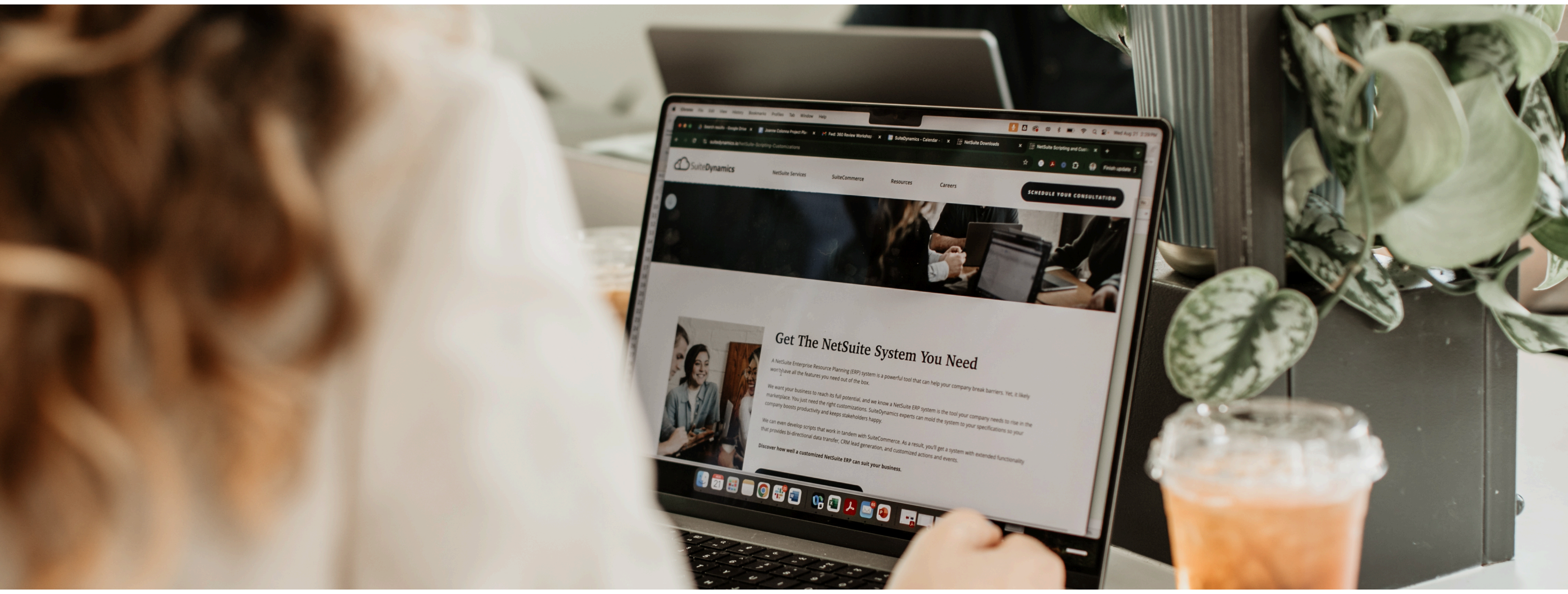
Yet, a robust training program impacts much more than the bottom line. It helps create a more engaged, confident, and adaptable workforce capable of navigating complex challenges and identifying new opportunities for the business.

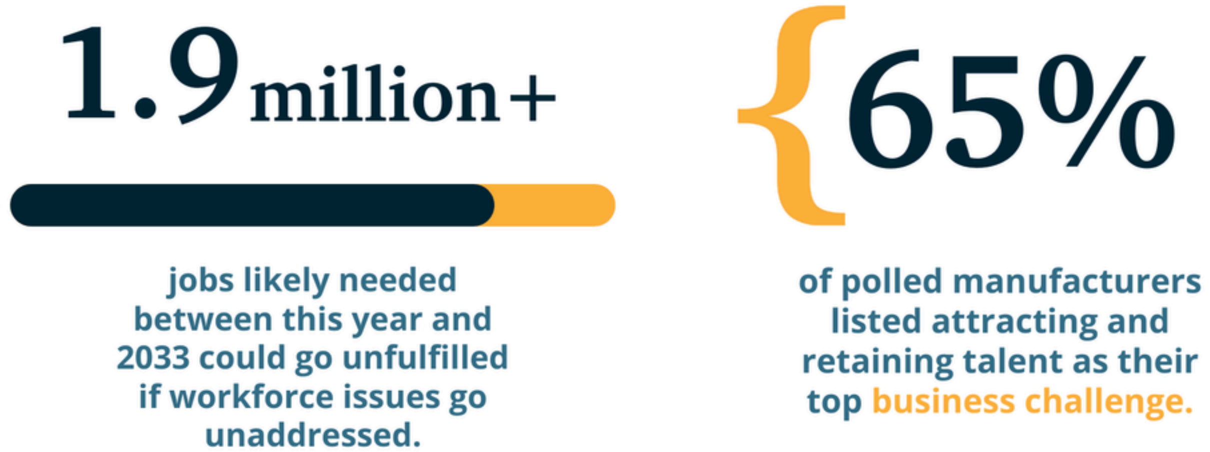
Shasta Hague

SuiteDynamics Principal Consultant

"In my experience as a CFO, open communication helps prevent turnover. If your employees can communicate when they are unhappy and what they need/want and are also embraced as a people (not just as numbers), they will remain satisfied. It's not always about incentives."

Moreover, investing in training sends a powerful message to your team about your commitment to their growth and success. CFOs who demonstrate genuine commitment to their team's growth often lead more loyal, motivated teams eager to apply their new skills and drive organizational success. Consequently, they create a virtuous cycle where improved capabilities lead to better performance, which, in turn, justifies further investment in development. That's why training isn't just a nice-to-have perk but a strategic necessity for forward-thinking finance leaders.





Infographic Source: "Taking charge: Manufacturers support growth with active workforce strategies," Deloitte

Tips for Training and Development:

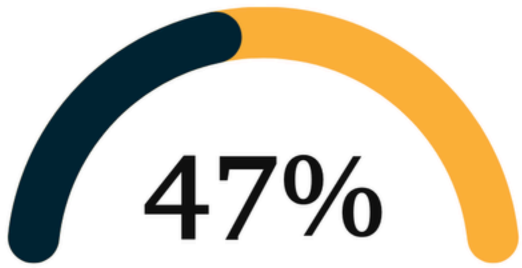
1. Create well-rounded finance professionals who can thrive in today's complex business environment. Yes, technical credentials are crucial, but successful finance leaders know their team members need a broader toolkit. Your job is to also help them develop essential soft skills like effective communication and time management. As a result, you'll reduce workplace stress and boost productivity and collaboration.
   a. You must also help your staff build more substantial analytical skills. Finance departments have evolved from purely technical functions and become strategic business partners. Therefore, the ability to analyze data, identify trends, and provide meaningful insights has become increasingly valuable.
2. **A recent study** found that 65% of polled manufacturers listed attracting and retaining talent as their top business challenge–and it's a pricey one. It costs far more to replace skilled workers – financially and in terms of lost productivity – than to simply build strong relationships and address concerns proactively.
   a. Start cultivating a close-knit and loyal team by making meaningful connections at all levels of your organization. Get to know your staff's aspirations, challenges, and needs so you can

    provide targeted support, growth opportunities, and recognition that make employees feel valued.

3. Use clear and open communication. Keep your staff in the loop on the company's strategic direction, goals, and decision-making rationale so they understand how their work contributes to broader organizational success. Transparency builds trust and engagement while reducing uncertainty and speculation.
    a. Beyond simply sharing information, actively seek input from your team when developing or revising departmental policies. Teams are more likely to support and implement changes they helped shape.
    b. Request feedback on your leadership style and decisions to create a culture of improvement and demonstrate that feedback flows in all directions.
    c. “Transparency” doesn't mean sharing every detail. Instead, provide enough information that people feel informed and empowered while respecting necessary confidentiality.
4. Build a relationship with your CEO that goes beyond basic cooperation. You need a true strategic alliance built on mutual trust, open communication, and shared organizational vision.
    a. A strong CFO provides the CEO with trusted advice and constructive criticism, offering data-driven perspectives and respectfully disagreeing when necessary. You must also translate complex financial concepts into clear insights that help the CEO make informed decisions, so you need to develop strong emotional intelligence and communication skills in addition to technical expertise.
5. Understand that your effectiveness extends far beyond spreadsheets and financial statement analysis. You need company-wide relationships that provide invaluable real-time insights into operational health and culture. Those personal connections offer early warning signals about potential issues, reveal opportunities for improvement, and offer unique, ground-level perspectives.
6. Build and maintain strong relationships with board members and external stakeholders. Engage with board members, investors, analysts, bankers, and other key external partners often to foster trust, enhance transparency, and build valuable allies for your organization.
    a. These relationships offer diverse perspectives on company strategy, updates on market expectations, and access to capital. Grab one-on-one conversations and informal updates between board meetings to keep board members well-informed and confident in your financial leadership.
    b. This network of strong external relationships ultimately serves as a strategic asset, offering broader market intelligence and a valuable sounding board for major decisions.

About 90%

of polled manufacturers are forming at least one partnership to attract and retain employees. On average, they have at least four of these partnerships.



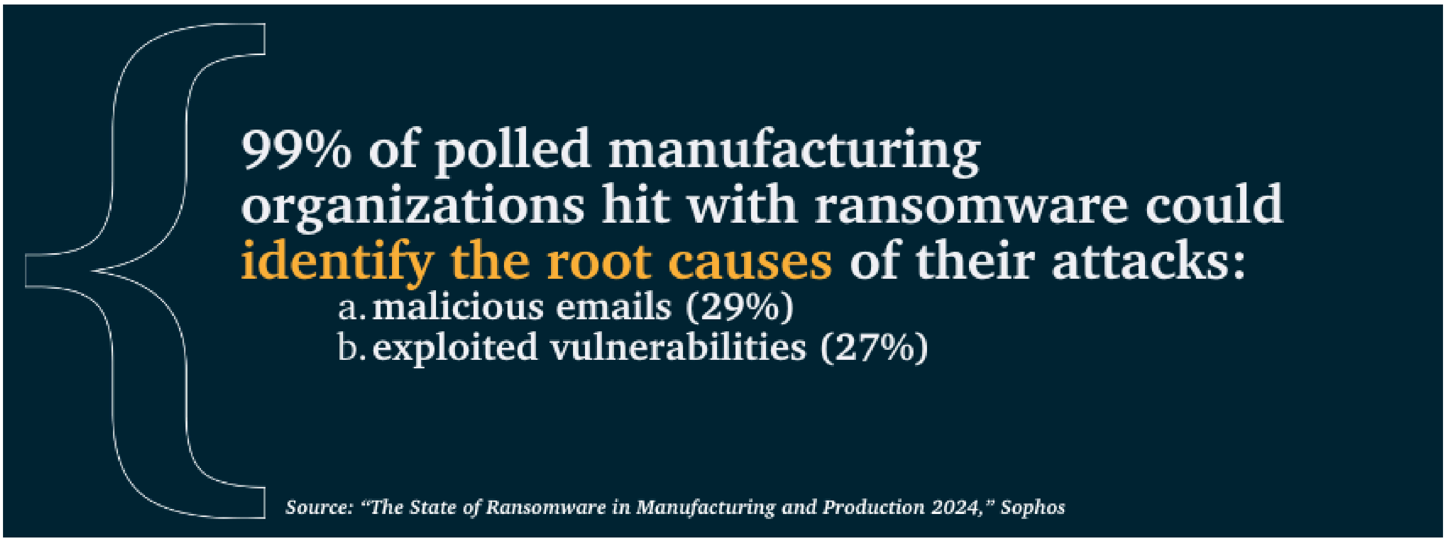
of polled manufacturers said apprenticeships, work-study programs, or manufacturing company internships would effectively increase interest in the industry.

Infographic Source: "Taking charge: Manufacturers support growth with active workforce strategies," Deloitte

5. Security

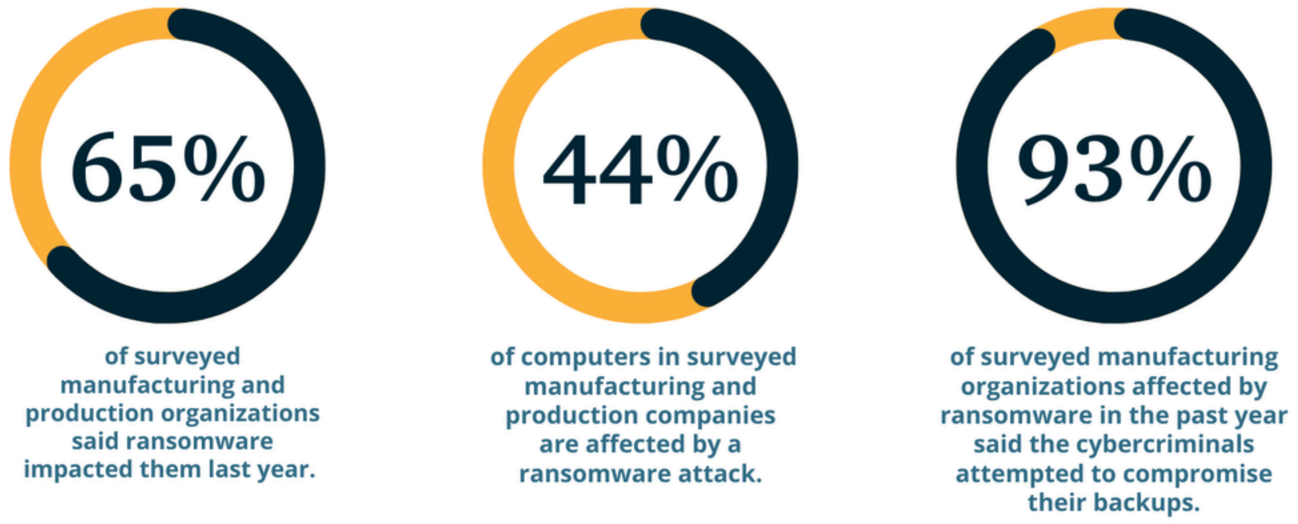
It's no secret that cybercrime hits the manufacturing industry hard. **According to Statista**, manufacturers experienced roughly a quarter (25.7%) of total cyberattacks worldwide in 2023, the highest share among leading industries.

The field is targeted heavily, in part, because manufacturers rely on an interconnected network of suppliers, technology vendors, and service providers, each representing a potential point of digital vulnerability. Manufacturing companies have also started integrating operational technology with information systems to drive efficiency. While that has worked, it has also expanded the attack surface that CFOs must consider in their risk management strategies.



The 2022 Nissan data breach vividly illustrates these issues. **As reported by IndustryWeek**, one of Nissan's third-party vendors exposed roughly 18,000 customer records through a poorly configured database, including sensitive information like full names, dates of birth, and finance account numbers.

The incident highlights why manufacturing CFOs must take an active role in cybersecurity governance, ensuring robust vendor assessment processes, clear security requirements in contracts, and regular audits of third-party security practices. You need to view cybersecurity as essential business insurance that protects your infrastructure and verifies the security of your entire business ecosystem.



Infographic Source: "The State of Ransomware in Manufacturing and Production 2024," Sophos

Tips for Improving Cyber Security:

1. Prioritize comprehensive security awareness training, clear security policies, and cybersecurity vigilance. Ensure your team understands cyber attack risks and knows how to combat them.
   a. **According to Verizon's research**, more than two-thirds of successful cyberattacks exploited human behavior rather than technical weaknesses. Even well-intentioned employees can compromise security by falling for convincing deceptions, using weak passwords, sharing credentials, clicking malicious links, or bypassing security protocols for convenience. That's why you need to prepare them.
   b. Offer thorough education on suspicious communications, focusing mainly on team members involved in financial transactions and accounting processes.
   c. It's true that antivirus software provides an essential layer of defense for your systems. Still, sophisticated cybercriminals bypass these protections with deceptive emails and target your accounting workflows.
   d. These messages often masquerade as communications from vendors, clients, or even company executives, and they're particularly dangerous in financial contexts where staff handle sensitive payment requests and financial data.
   e. Once opened, malicious emails can deploy ransomware that encrypts critical financial records, introduce malware that compromises banking credentials or initiate fraudulent payment requests through business email compromise schemes. Additionally, malware and ransomware have a greater chance of devastating your operations when working with outdated accounting software.
   f. View your employees not just as potential vulnerabilities but as a crucial first line of defense that you can strengthen through education, support, and security-conscious habits.
2. Enable multi-factor authentication (MFA) in all your software. MFA is one of the most powerful tools companies have for protecting their systems from attack. **Microsoft research found** that accounts using MFA stayed secure 99.99% of the time. That's like having a nearly impenetrable shield around your company's digital assets.
   a. When you consider that leaked passwords and compromised accounts are among the most common ways cybercriminals break into systems, the statistics become even more impressive:

MFA cuts the risk of account compromise by more than 99%.

   b. These security benefits are particularly crucial in manufacturing, where a cyber breach could compromise data and potentially shut down production lines or expose trade secrets. When you consider that implementing MFA is relatively straightforward and cost-effective compared to dealing with a cyber attack, it's obvious why more manufacturing companies are making it a cornerstone of their security strategy.

3. Establish multiple layers of security, including advanced email filtering, strict payment verification protocols, and regular system backups as extra insurance against cyber criminals. You can't afford to take risks. An attack's potential impact extends beyond immediate financial losses. It can include operational disruption, compliance violations, and damage to client relationships.

Polled manufacturing organizations that had compromised backups reported worse outcomes than those whose backups were not breached:

a. **Average ransom demands were double that of companies whose backups weren't breached ($2M vs. $1M median initial ransom demand).**
b. **Organizations with compromised backups paid ransoms more often to recover encrypted data (70% vs. 49%).**
c. **Median overall recovery costs doubled that of companies with unbreached backups ($750K vs. $375K).**

Source: "The State of Ransomware in Manufacturing and Production 2024," Sophos

6. Internal Controls

Internal controls lay a solid foundation for financial integrity and operational efficiency in manufacturing organizations. As a CFO, you need these controls to protect assets, ensure accurate reporting, and maintain regulatory compliance across complex production environments.

Strong internal controls also help prevent and detect errors or fraud in areas ranging from inventory management and cost accounting to purchase approvals and payroll processing. Even minor control weaknesses can cause substantial losses or misstatements.

Tips for Maintaining Sufficient Internal Controls

1. Establish a culture of accountability and compliance. Implement a comprehensive system of audits and reviews that monitor policy and procedure adherence, identify potential weaknesses, and

ensure consistent application control across departments. Make sure your staff doesn't view these actions as punishments but rather as opportunities for continuous improvement and risk management.

   a. Also, build accountability into performance metrics and regular evaluations. Your managers must clearly understand that policy compliance is one of their key responsibilities, so they're more likely to monitor their teams' compliance and address issues quickly. Exchange regular feedback with department managers to identify practical policy challenges and allow for adjustments.

2. Help managers to stay on top of team spending. Give them a simple dashboard to quickly see what their team members are spending, check expense reports, and send feedback or approvals with just a few clicks. This streamlined process helps maintain good financial oversight while making the review process painless for everyone involved.

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7. Data Maintenance

Modern manufacturing CFOs have one of the greatest weapons in their operational arsenal: data. They just need to know how to use it.

> *"Implement tools to capture inaccurate data. For example, NetSuite allows the use of mandatory fields that force employees to fill in all necessary details and limit incompletion. Extensive reporting in NetSuite allows you to compare and contrast month-over-month so inaccuracies are caught more often."*

Shasta Hague
SuiteDynamics Principal Consultant

Every machine on the factory floor, every shipment of materials, and every finished product tells a story through numbers. If you, as a CFO, can access and understand these stories, you'll start to spot trends and opportunities that weren't visible before. For example, you might notice certain production lines use more energy during specific shifts or some suppliers consistently deliver materials late, affecting the whole production schedule.

Only 7%

of surveyed finance leaders *feel completely confident* they can make strategic decisions, plan accurately, mitigate risk posed by external threats, and guide their companies through unexpected events.

Source: "The State of FP&A 2024," Pigment

But it's not just about collecting data; it's about turning that information into practical insights that help the bottom line. A solid data system allows you to forecast more accurately, manage inventory more efficiently, and make better decisions about where to invest resources. You can also respond more quickly when problems arise, like a sudden increase in raw material costs or an unexpected maintenance issue.

You'll be especially effective if you can connect all these different data points. Start linking production data with financial information, supply chain metrics, and customer demand patterns, and you piece together a complete picture of your business.

This comprehensive view will help you make more confident decisions about everything from pricing strategies to expansion plans. Plus, you can share insights with fellow company leaders so everyone can work more effectively toward common goals.

Grace Martin

SuiteDynamics Finance *Consultant*

"NetSuite is, essentially, a database. So, all your data is stored in one place but can be used in multiple places, which really benefits data management and reporting. You also don't have to think of your data in two dimensions. You can think of it in three dimensions because you can segment your chart of accounts to examine the same data in multiple ways. Another real benefit of NetSuite is at the transactional level. The data is entered once, either as a sales order or a purchase order, and then it flows through the system. You don't have to rekey anything, and so that reduces the risk of information getting mistyped."

56%

of polled finance leaders have been asked to forecast and make decisions for departments, even though they lack visibility into those areas.

34%

of surveyed finance leaders say they are responsible for company-wide decision-making.

55%

of respondents lack visibility into the basic business strategy and data necessary to offer strong strategic guidance for certain departments.

89%

of respondents realize they make monthly decisions based on bad data.

Infographic Source: "The State of FP&A 2024," Pigment

Tips for Creating a Data-Driven Operation

1. Think of data as your reality check; it helps balance out moments when excitement about a new project might cloud your judgment or when fear of change might make you too cautious.
   a. For example, you can look at actual customer demand, market saturation, and potential ROI rather than rushing into a new market because it seems promising. Or instead of sticking with a longtime supplier just because you've built a good relationship, evaluate their performance against competitors using real metrics.
2. Expand your data toolbox well beyond traditional number-crunching. Modern finance requires a blend of classic accounting expertise with new-age technical skills. It's like adding new instruments to an orchestra - the traditional pieces are still crucial, but new elements make the performance even better.
   a. So, dive into areas like data science to understand how it can transform your teams' work. Learn enough about analytics and data visualization to ask the right questions and spot opportunities. For instance, you might use predictive analytics to forecast cash flow more accurately or deploy machine learning to spot unusual patterns in financial transactions.
   b. But it's not just about personal development. You can also extend this knowledge to your team. Create roles for data analysts who can work alongside traditional accountants and encourage existing team members to develop new skills.
   c. You could also send your staff to workshops on data visualization tools or bring in experts to teach statistical analysis methods. Your goal is to build a finance team that can handle traditional tasks, like maintaining accurate books and managing compliance, while delivering deeper insights that help drive business strategy.
3. Become a strong supporter of comprehensive digital systems like ERP (Enterprise Resource Planning) and CRM (Customer Relationship Management) platforms. These aren't just fancy databases; they're like the nervous system of a business, connecting every department and process.
   a. Instead of waiting days or weeks for reports to be compiled manually, these systems allow you to see what's happening across the business in real time. Sales figures, inventory levels, production costs, and customer feedback all flow into one place automatically, so you can spot problems or opportunities immediately rather than discovering them weeks later in a monthly report.
   b. But the real magic happens in how these systems improve the actual work being done. When a sales team enters information into a modern CRM, it automatically updates financial forecasts. When the warehouse scans in new inventory, it immediately adjusts the books.

   c. These automatic connections eliminate manual data entry, reduce errors, and free up everyone's time to focus on more valuable work. Plus, when all these business processes are digitized, they naturally create a goldmine of data that helps leaders make better decisions.
4. Rethink how entire departments collaborate to create data-driven operations. First, build the right team. You might bring in data specialists who can turn complex information into clear insights or train existing staff on new analytical tools. Then, give your staff the right environment to succeed, including reliable systems, clear data collection and usage processes, and explanations of the change's importance.
5. Choose your technology carefully. The best tools handle today's needs and can grow with your organization. For instance, your manufacturing company might start with basic production tracking but want to add predictive maintenance capabilities eventually. The key is picking a system that is powerful enough to support the long-term vision but user-friendly enough that people will actually use it.
6. Champion for this new way of working. Show other leaders how data-driven decisions lead to better outcomes, help teams understand how these changes make their jobs more impactful, and create a culture where people feel comfortable using data to challenge assumptions and suggest improvements.

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8. Technology

Technology is revolutionizing manufacturing in ways that extend far beyond the factory floor. Modern manufacturing companies are discovering that the right digital tools can transform every aspect of their businesses, from HR to accounting to supply chain management. It's like upgrading from a collection of separate tools to a sophisticated Swiss Army knife that does it all.

Take **Abernathy Company's experience,** for instance. Like many manufacturers, the cleaning product company juggled multiple systems: one for manufacturing, another for payroll, and another for HR. This created a digital version of the classic "too many cooks in the kitchen" problem.

The company switched to a comprehensive system (in Abernathy's case, NetSuite) and brought everything under one roof. The results were impressive: payroll tasks that used to eat up a day and a half now take just one morning, and overall labor hours dropped by 10% across the company.

But the real game-changer wasn't just saved time; it was better information access for everyone in the company. Accountants and controllers were no longer bombarded with requests for data. Instead, employees can now find real-time information themselves. Managers can also quickly spot trends in their key performance indicators (KPIs) and take action before small issues become big problems.

What's particularly interesting about Abernathy's story is how it continues evolving. The company is expanding its use of technology into e-commerce and workforce management, showing how modern manufacturing companies can keep finding new ways to streamline operations. It's a great example of how technology doesn't just solve problems; it helps companies adapt and grow more efficiently in the future.

"NetSuite has an amazing add-on module called Advanced Manufacturing. It helps plan your resources and optimize production by tracking and allowing for limitations. This way, it ensures that work is released to the proper resources on a timely basis to meet customer deadlines.

And, by using the module's labor and job costing features, you can track down to the minute how long a job should take or how long it did take. You can monitor how productive your employees are and better align on items to reflect accurate costs."

Shasta Hague
SuiteDynamics Principal Consultant

SURVEYED CFOS SEE DIGITAL TECHNOLOGIES AS PARTICULARLY USEFUL IN:

Automating resource-intensive tasks (81 percent), avoiding data duplication to reduce reconciliation (70 percent), and enabling planning, budgeting, and reporting integration (69 percent).

Source: "Digitalization, AI And The Future Of Finance: What CFOs Think," StrategicCFO360

Tips for Maximizing Technology

1. Maximize robotic process automation (RPA). Consider this software your digital fact-checker. It's like having a super-fast, never-tired team member who checks every detail against your existing records. Instead of someone manually comparing numbers between different systems or spreadsheets, RPA tools can instantly verify if a new invoice matches your purchase order, if inventory counts align with your records, or if payment details match what's in your system.
   a. Plus, RPA technology creates a clear audit trail of every check performed, so you can easily spot issues. This capability frees up your accounting team to focus on more strategic work, like analyzing trends or improving financial processes, rather than getting bogged down in routine verification tasks.
2. Zoom in on the unusual or unexpected. For example, rather than scrutinizing thousands of routine supplier payments, focus your team's energy on investigating sudden cost spikes in production materials or unexpected patterns in maintenance expenses.
   a. This targeted approach pays off in multiple ways. Your finance team can work more efficiently since they're not drowning in routine transactions. They'll likely catch meaningful issues faster since their attention isn't divided across every minor detail. Plus, their analytical skills will develop as they spot trends and patterns that matter to the business.

3. Use AI as your financial team's super-powered assistant. AI systems can continuously monitor your financial data streams, from purchase orders to production costs to inventory levels. They can spot patterns that might take humans days or weeks to notice, like subtle shifts in raw material costs across different suppliers or gradual changes in energy usage patterns across production lines.
    a. This shift from manual review to AI-assisted analysis doesn't just save time; it fundamentally changes how your finance team can contribute to the business. Instead of being buried in spreadsheets, they can partner more closely with operations, providing real-time insights that help optimize production decisions and improve profitability.

of CFOs polled agreed that digitalization is critical to company survival.

of respondents said their 2023 capital allocation for digital transformation had grown from the prior year, and 65% said it would increase even more in the future.

Choosing the Right Costing Method

Your company's chosen costing method is the financial compass that guides critical business decisions–so it's a vital part of any manufacturing CFO's leadership strategy. Your costing approach determines how you understand product profitability, set pricing, manage inventory, and ultimately drive strategic choices like which product lines to expand or trim.

Get it wrong, and you might be making million-dollar decisions based on incomplete or misleading financial data. You could leave significant money on the table or invest in less profitable product

segments.
This section of our guide explores the pros and cons of four common costing methods, including how some of them function in a NetSuite ERP system.

FIFO

Companies traditionally use the “First In, First Out” costing method for perishable goods. A [GM1] business using this method will maintain a ledger for every item purchased. (NetSuite does this automatically.) That ledger tracks and calculates the cost of goods sold (COGS) using the price of items purchased from oldest to newest.

Example: On day one, you purchase 10 widgets for $5. On day two, you buy 10 more for $6. On day three, you sell 15. The COGS for the first 10 widgets will be $5, and the COGS of the remaining five widgets will be $6.

Pros

- Saves time and money because costs are calculated using the cash flows of first-used items instead of exact costs.
- Widely used and accepted.
- Easy to understand.
- Practical approach since it helps determine the COGS at the point of sale.
- Makes manipulating income difficult when it’s reported on financial statements.
- Shows increased gross and net profits when costs rise.

Cons

- Can result in higher tax liabilities if the profits grow during inflation.
- May not work well during hyperinflation.
- Requires significant amounts of data, raising the risk of clerical errors.
- May not work for goods with fluctuating price patterns.

LIFO

The opposite of FIFO, the “Last In, First Out” costing method calculates the COGS, starting with the cost of the most recently purchased item and working backward. Note that the International Financial Reporting Standards (IFRS) don’t endorse this method. You can only use it under the United States’ Generally Accepted Accounting Principles (GAAP).

Many companies choose LIFO because costs increase in a typical inflationary environment, leading to a higher cost of goods and lower profit per item sold. This, in turn, lowers the tax burden as net income reduces.

Example: On day one, you purchase 10 widgets for $5. On day two, you buy 10 more for $6. On day three, you sell 15 widgets. The COGS for the first 10 widgets will be $6, and the COGS of the remaining five will be $5.

Pros

- Compares recent costs to current revenues, improving the quality and reliability of earnings.
- Decreases the likelihood that a price decline will affect net income.
- Alleviates profit overstatement and, thus, lowers the amount of income tax owed.

Cons

- Drops reported earnings during inflation.
- Allows for easy earnings manipulation.
- Allows the working capital position to look worse than it is because this method understates inventory.
- Can encourage poor buying habits since companies must buy goods in large quantities to avoid reported income inflation and higher tax payments.

Average Costing

Average costing, also known as weighted average costing, calculates the COGS by totaling the cost of all inventoried items and dividing it by the total quantity. This costing method helps mitigate the effects of price fluctuation by incorporating the costs of older inventory into that of newer merchandise.

Example: On day one, you purchase 10 widgets for $5. On day two, you buy 10 more for $6. Your average widget cost is now $5.50. On day three, you sell 15 widgets for $10 each. Your COGS for each item would be $5.50.

Pros

- Simplifies calculation and record-keeping.
- Easily processes high volumes of inventory orders.
- Requires little to maintain inventory costs or calculate COGS for sales.
- Doesn't require ongoing maintenance costs.
- Allows users to run ad-hoc or scheduled searches to find data or produce inventory cost reports.
- Widely accepted and permitted by several accounting standards.
- Useful when you can't tell one batch of goods from another since all costs are averaged.
- Can produce data that NetSuite accounting software automatically converts into various currencies.

Cons

- May produce ending inventory cost that significantly differs from prevailing prices at a certain date, thus hampering decision-making.
- May use a rounding process for long decimals that can distort gross profit and current asset figures for large transaction volumes.
- Can cause frequent price changes if you're using a cost-plus-pricing strategy.
- Makes it challenging to determine an item's value since all goods lose their identity during averaging. This can cause problems when a unit's age factors into the pricing.

- Can still be affected by cost fluctuations if you buy large quantities at the start or end of a period, particularly if the cost of those purchased goods varies significantly from the rest of the period.

Standard Costing

Standard is the traditional costing method for manufacturers. It bases the COGS on a predetermined, estimated cost for each inventory item. Then, when actual costs differ from the estimate, the difference is captured in a variance account. Eventually, the company must reconcile that account to get an accurate idea of its current inventory value.

Example: A widget is composed of two components, part A and part B. At the beginning of the year, you estimate part A will cost $2 and part B will cost $3. So, the estimated cost of a widget is $5. Therefore, the COGS for the product will be $5.

However, after three months, data shows the actual cost of part A is $4. A variance account will capture the difference in actual cost versus expected cost. Consequently, your COGS would remain $5, and you would also have a variance account for part A, debited $2. After an inventory reconciliation, you would account for the debit in the variance account and add it to the inventory cost of part A, making it $4 and the price of the widget $7.

Pros

- Can be compared with actual cost to measure efficiency.
- Can measure employee productivity and efficiency, depending on positive or negative variances.
- Fixes standards for specific activities, encouraging employee efficiency.
- Helps estimate production costs when the actual production cost isn't known.
- Allows management to control production and decide cost elements, like wages and material purchases.
- Emphasizes cost-effectiveness and quality, improving production.
- Identifies waste in the production process.
- Helps accurately estimate the cost of new products.

Cons

- Uses standards that are difficult to determine, and incorrect standards can cause losses.
- Uses standards that must be revised periodically to reflect current marketing conditions, technology, and consumer habits.
- Requires specialists and experts to set standards.
- Expensive to use since standards must be carefully researched and analyzed.
- Only viable when you use budgetary techniques.
- Only suits companies with uniform production and set quality.
- Requires three steps for every inventory item entered with NetSuite accounting software.
- Can become frustrating since NetSuite accounting software doesn't allow any actions until you set a predetermined standard on an item bracket. This includes transaction processing and receiving an item against a purchase order.
- Tedious for users with inventory in tens or hundreds of thousands.

- Requires that you perform a standard cost rollup with NetSuite accounting software to update the assembly cost (process shown later in the post).
- Requires that you revaluate standard cost inventory in NetSuite to calculate an updated inventory cost (process shown later in the post).
- Can take hours or days to complete in NetSuite if you have an extensive inventory. This can cause a lag in data accuracy.
- Can only be done using a single currency at a time, creating difficulties for multinational corporations.

Note: Standard costing requires nearly perfect data to work correctly. However, companies without flawless data can use a custom field in NetSuite that mimics standard cost functionality.

Serialized Costing

With this costing method, an ERP accounting system can track each part or item individually using unique serial numbers. If the parts are used in a project, the COGS for the project will reflect the exact sum of every individual part used.

Example: Widget 001 was built with parts A ($3), B ($4), and C ($5) for a total COGS of $12.

Pros

- Highly accurate since you can record exact costs in inventory records.
- Offers greater accuracy with gross profitability since an item's actual cost is used for the COGS when the serialized item is sold.

Cons

- Tedious for any business with a large inventory.
- Can only be used with lot/serialized item types.
- Can't be used to track all items in a company's system because not all have unique lot/serial numbers.
- Restricted to specialized items and businesses involved in equipment, cars, etc.

Get the Software You Need to Win

Life as a manufacturing CFO can feel like a high-stakes game of dodgeball, with dozens or hundreds of jobs on the line if you fumble. You have to watch out for issues like supply chain disruptions, talent shortages, and cyber attacks while also aggressively pursuing market trends, internal controls, and company compliance.

With company success resting on your shoulders, failure is not an option.

NetSuite ERP software offers several digital tools that can help you win the game. Its advanced reporting, budgeting, forecasting, and costing features ensure your financial records stay accurate, compliant, and useful. At the same time, its real-time data equips you and your team with the best possible information for decision-making.

SuiteDynamics works with NetSuite to customize and implement ERP systems. Our experts have worked in or with the manufacturing industry for years and can help examine your operations and find custom NetSuite solutions to fix your pain points, maximize your resources, and ease your throbbing headaches.

Contact us today and tell us what goals you want to reach. We'll help you determine what's holding your company back and provide the software you need to rise in the marketplace.

Disclosure: This guide was developed with the assistance of Claude, an AI created by Anthropic. Our editorial team used Claude as a collaborative writing tool, carefully reviewing, editing, and fact-checking all AI-generated content. The final text has been thoroughly vetted to ensure accuracy, clarity, and alignment with SuiteDynamics' editorial standards. We take full responsibility for the content presented in this article, maintaining our commitment to providing reliable and informative insights to our readers.

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