



# MargolisBecker

The Business and Management Advisors

## Factory Payroll Costs

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*Factory payroll costs are often the root of overhead excesses and the major cause of profit erosion for printing companies. The GATF/PIA Ratio Studies provide the source to identify the problem and to develop the solutions.*

In order to understand and evaluate factory payroll costs, we must first define what is included in factory payroll. Factory payroll includes supervision, indirect payroll, direct payroll, as well as the employee benefits and payroll taxes applicable to this payroll. A detailed listing of factory payroll is as follows:

- Executive factory
- Plant and cost center supervision
- Indirect factory
- Production Management
- Quality control
- Customer Service (job coordination)
- Estimating
- Purchasing
- Maintenance
- Receiving, shipping and delivery
- Warehousing, machinist, etc.
- Direct factory
- Cost center breakdown
- Employee benefits
- Payroll taxes

It is important to segregate payroll as indicated in the above outline because, if your factory payroll is too high, you will want to identify exactly what elements of factory payroll are causing the problem.

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## Factory Payroll Costs

Margolis and Margolis (Continued)

Chart 1: 2003-2004 GATF/PIA Ratios Volume 2

AS A % OF VALUE ADDED

ALL FIRMS REPORTING

	<u>ALL FIRMS</u>	<u>PROFIT LEADERS</u>
<b>FACTORY PAYROLL</b>		
Salaries – executive	3.26%	3.11%
Direct Wages	25.45%	23.85%
General factory salaries and wages	4.35%	3.30%
Packing, shipping and delivery wages	1.51%	1.44%
Payroll taxes	2.78%	2.65%
Employee benefits	3.87%	3.44%
	<b>41.22%</b>	<b>37.79%</b>

Volume 2 further provides ratio standard by size of printing firm:

AS A % OF VALUE ADDED

	<u>ALL FIRMS</u>	<u>PROFIT LEADERS</u>
<b>SALES</b>		
To \$2,000,000	39.81%	36.81%
From \$2,000,000 to \$4,500,000	40.19%	35.94%
From \$4,500,000 to \$8,000,000	40.52%	36.95%
From \$8,000,000 to \$15,000,000	41.91%	38.92%
Over \$15,000,000	43.24%	39.93%

The GATF/PIA Ratio Studies guide the planning of factory payroll costs in order to structure a Profit Plan to achieve a Profit Leader's earning of approximately 13% of value added.