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WHITE PAPER · MANUFACTURING COSTING

The Hidden Cost of Blended Rates

Why manufacturers on Oracle Fusion Cloud outgrow work center costing, and what to do about it

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The problem

Most manufacturers set up costing the simple way. Each work center gets one hourly rate, and that rate rolls labor, machine time and overhead into a single number. It is easy to maintain and it gets you through go-live.

The trouble starts when someone asks a harder question. Why did the margin on this product drop? Was it the crew, the machine or the overhead? A blended rate cannot say, because the detail was never captured.



Hidden cost drivers

Labor and machine cost sit inside one number.



No audit trail

Nobody can show how the rate was built.



Unused platform

Scheduling and skills features stay switched off.

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Two ways to cost a work order

Both models run in Oracle Fusion Cloud. The difference is how much of the real cost you can see afterwards.

WORK CENTER MODEL

One blended rate per work center

Simple, but the cost drivers are mixed together.

RESOURCE-BASED MODEL

Material
What goes into the product

Labor
Who does the work

Equipment
Which machine runs it

Overhead
What it takes to support it

Four cost buckets, each one visible and auditable.

Capability	Work center model	Resource-based model
Cost transparency	Blended rates only	**Auditable cost by bucket**
Labor vs. machine cost	Not visible	**Separated and reportable**
Workforce qualifications	Not enforced	**Skill matching through HCM**
Capacity planning	Approximated	**Based on real constraints**
Maintenance	Disconnected	**Tied to production plans**
Variance analysis	Limited	**By individual resource**

Both models work on day one. Only one keeps working as the questions get harder.

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What resource-based costing unlocks

Once labor and equipment are modeled as real resources, the rest of the platform has something to work with.

Accurate cost and margin

Pricing and margin analysis rest on real cost, not an average.

Reliable scheduling

Plans reflect the people and machines actually available.

Machine capacity visibility

Bottlenecks show up before they hit a delivery date.

Skill-based execution

Work goes to operators who are qualified to do it.

Maintenance-aware planning

Maintenance windows and production plans stop colliding.

A base for advanced planning

The data foundation for digital twin and simulation.

How we make the move

On the implementations we lead, the change follows three steps.

1

Unbundle the rates

Break each blended rate into labor, equipment and overhead.

2

Rebuild work definitions

Point each operation at the actual resources and equipment it uses.

3

Align the data owners

Get Finance, Operations and IT working from one set of cost data.

The effort is real, but it is a defined scope with a clear end.

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Where this applies

Any plant where skilled labor and expensive machines both drive cost, especially make-to-order, engineer-to-order and repair operations.

- Industrial machinery and equipment
- Energy equipment and services
- Aerospace and defense
- Automotive and heavy components
- Medical devices
- High-tech and electronics

Signs you have outgrown blended rates

- Finance cannot explain a margin swing without a spreadsheet.
- Quotes are priced on rates nobody remembers building.
- Schedules look fine on paper and slip on the floor.
- You are paying for Oracle features you cannot switch on.

The bottom line

Work center costing is a fine place to start. It is a poor place to stay once margin, schedule and capacity questions matter. Resource-based costing is the foundation the rest of the platform builds on.

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Want to talk through your costing model?

Our founder has spent 22 years designing Oracle supply chain and finance solutions. Reach us through the contact page on the AG Solutions website.

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