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Michigan CFO Associates

The CFOs for *Small* Business

Newsletter 3

President's Message

Setting Sail

Todd Rammler

Financial talk show host Dave Ramsey has a saying he regularly shares with callers who ask about starting a business: ***"The only ship that won't sail is a partner-ship."*** If you've ever listened to Dave's show, you know he's very entertaining in his role as the stern-but-loving parent to callers with financial questions. I like Dave's show, and agree with the majority of what he teaches. I can't be sure if Dave takes that particular saying literally or not, but I'm pretty sure the underlying message he's sending is: *beware*.

In the context of small business, "partnership" is generally regarded as a bad word. We've all heard and seen horror stories of partnerships gone horribly bad. One of the early business lessons I learned from my Dad came from his 50-50 partnership in a small manufacturing business. Like most partnerships, it started with great optimism and hope, and it was very positive for a long time. But eventually, there were differences of opinion. And if you're both equal partners - as they were - you're stuck.

At that age, I didn't know if I would ever own a business or have a partner. But I knew that if I did, I wouldn't allow the business to be put in that predicament because of a disagreement.

Working with many different businesses over the years, we've seen a lot of unnecessary pain (financial, mental, emotional, even spiritual) as a result of partnerships that have gone bad. We have several businesses struggling through these issues right now. It's an unfortunate waste of time, money, energy, talent and creativity. The partners are distracted and eventually it can feel hopeless.

While ownership percentage usually causes these problems, the root issue is the absence of contingency planning. The real key is to have a clear, agreed upon plan for how disagreements will be handled without grinding the business to a halt. Even if you have equal ownership, you can still have a plan for handling disagreements. What is *your* contingency plan? What does your operating agreement say?

Despite the negatives of partnerships, there are many positives. We've also worked with many very successful partnerships over the years. Some of the positives include: not being dependent on *one* individual; the ability to supplement your own weaknesses; broader perspectives; the ability to divide & conquer; more resources; and a more balanced approach to scaling the business.

Many of you know Brian Bach, who's been working as a Director at Michigan CFO Associates for almost 3 years. Brian and I were friendly competitors for several years, and after a number of discussions, we concluded we'd probably be stronger together. So we decided to work together for a "trial period" to make sure there was compatibility, and that one of us didn't kill the other (fortunately for me, Brian is a pretty tolerant fellow). It was supposed to be for 6 months, but we were both working hard, focused on the business, and when we paused to look around, 2 years had passed. Wow.

This year, Brian and I decided it was time to discuss ownership, but having seen many problems with partners, we needed to think it through carefully. So we spent a lot of nights and weekends considering not only what we wanted to accomplish, but also what we would do when problems arise. It was a lot of work, but I believe we have a solid win-win agreement that avoids most (if not all) of the major issues that cause partnerships to derail.

Now that the contingency planning is done, we are refocused on what we're both here to accomplish – growing and scaling the business and delivering positive results to our clients. With that, we are looking forward to additional positive changes in the coming months - stay tuned.

So I'd like to officially welcome Brian as a Shareholder in Michigan CFO Associates! Together, we set this "partner-ship" sailing, and look forward to providing you and your clients with the best financial leadership from a strong and growing organization for years to come. Brian can be reached at bbach@michiganCFO.com or 586.580.3285 x 205.

Best Regards,

Todd Rammler, CMA, MSA, President

U.S. NATIONAL DEBT AS OF:

September, 2013
$16,907,863,000,000

September, 2012
$16,048,018,310,213

Inside This Issue:

View past newsletters online!

http://michigancfo.com/newsletter-archive

What's Happening?

Speaking Engagement: Brian will be speaking on September 26 at an event hosted by Lori Williams of Your Legal Resource, PLLC (www.bestlegalresource.com). This event will be held at Intelligent Office, 900 Wilshire Drive, Suite 202, Troy, MI. Brian will be discussing the common financial mistakes solo professionals and small businesses make. You can register for this event at www.eventbrite.com/event/4370369894

Roundtable Luncheon: Michigan CFO Associates will be holding a Roundtable Luncheon on October 23 at Loccino Italian Grill in Troy. In this brand new event we will explore the practical application of using Key Performance Indicators to drive performance in your organization. Topics will include choosing the right metrics, interpreting the data, reporting formats & frequency, and accountability. Note to Professionals: Bring a client & join us!

See the enclosed flyer or register at www.michigancfo.com/events/16/roundtable-lunch.

Photo Gallery

Brian and his son, Harrison, in Washington D.C.

Brian & Todd at the CORP! Economic Bright spots event

Sponsors at the Dan McCarty Golf Classic benefiting the Michigan Lupus Foundation

Erica, Rachel, Joshua & Todd atop a sand dune at Silver Lake

Looking from the boardwalk in Grand Haven at dusk

"A budget is telling your money where to go instead of wondering where it went" - John Maxwell

Brian Bach

Compensation plans .... Hourly or salary are not your only options!

As CFO's we are often involved in the compensation discussion when it comes to new hires or adding staff, managers or executives to a company.

The discussion on pay generally revolved around setting a range based on industry, desired skills and what is currently being paid for similar positions within the company.

Hourly, is the customary approach to lower-level positions and salary for managers and executives, which is the way most owners think about compensation because it's simple and straight forward. Sometimes there is an annual bonus based on achieving some level of performance but often this is based on some subjective criteria. And often times the person tasked with achieving the performance does not have control or authority over what is being measured.

While most think only hourly or salary, a good CFO views a compensation plan as a tool to motivate and reward behavior that is aligned with achieving company goals.

Start with the end in mind. If the market rate is $15 per hour for a warehouse person consider $12 as an hourly base, plus an activity based plan that allows them to earn incentives to $17 per hour.

Here are some suggestions based on a few hourly positions:

- Warehouse labor – hourly + a additional $ amount for every order shipped that day.
- Customer Service Rep – hourly + a additional $ amount for every order entered.
- Repair technician - hourly + additional $ per customer billed hour.

When it comes to manager and executive compensation it becomes more difficult since there are many more external and internal forces not in a person's direct control.

Some of these difficulties can be overcome by designing a plan that only includes activities and costs under their direct control. An example would be a plant manager being compensated on a plant's profits that does not include costs for insurance, accounting or owners salary.

When considering executive plans, sometimes the CEO, CFO and VP collectively share a bonus or pool of profits based upon meeting or exceeding certain financial goals.

I recently designed an executive bonus plan that was based on 4 factors, 1) exceeding last year's revenues by 30% 2) maintaining a bottom line net income percentage to sale of 12%, 3) keeping AR days sales less than 45 days and 4) inventory turn greater than 8 times. Under this plan to earn a bonus the executive has to growth revenues and control costs while managing working capital and cash flow.

Here are some key points to consider when designing a plan:

- Make is simple to understand
- Easy to measure against the activity accomplished.
- Make it fair and attainable
- Limit management subjectivity
- Try to contain the number of controllable variables to the people achieving the goal.
- Measure it as you go along, don't design an annual plan that you can't calculate along the way.
- Focus on driving results that achieve company goals

Hourly and salary don't have to be the only compensation options. A well-designed plan is a great motivator for employees and a powerful way for a company to achieve goals while driving their vision and mission.

We want to thank the following clients for their continued support and look forward to many more anniversaries to come!

October Anniversaries:

1 Year—P & P Manufacturing: www.p-pmfg.com

1 Year—Saint Clair Systems: www.stclairsystems.com

December Anniversaries:

1 Year—Lipton Law Center: www.liptonlawcenter.com

1 Year—Sterling Agency Group: www.sterlingagency.com

1 Year—DPM Manufacturing: www.dpmmfg.com

2 Years—Relevar Home Care: www.relevar.com

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