VOLUME 11, ISSUE 2
Spring 2017

Michigan CFO Associates
The CFOs for *Small* Business

Newsletter 2

President's Message

Improving Margins with a Three-Way-Match


Todd Rammler

In the interest of keeping your interest, I usually write "fluffy" articles, because... let's be honest – we're accountants. Sure, we're exciting compared to H.R. people, or Engineers but we're not exactly a bunch of dare-devils at Michigan CFO. We order pocket protectors *by the caseload*, and get excited that a new, bigger computer monitor means we can view *an even bigger* spreadsheet. Yet I would really like this newsletter to get read, instead of thrown in the trash, or dragged to the virtual recycle bin. So rather than explain the nuances of account reconciliations, spreadsheet budgeting, or calculating your debt service coverage ratio. . . I usually try to keep it "light".

However, today I'm going to break from that tradition briefly with some practical accounting info, and then circle back to my more familiar topics – like Puppies, Lollipops, Rainbows & Unicorns. And Mermaids. But don't skip ahead.

Frequently business owners will tell us they feel like they should be more profitable than they are, but they're not quite sure where the problem is. And that leads us to a discussion about Gross Margins, and what I call the **Three-Way-Margin Match.**

The basic problem is this: the systems, people, data, and reporting - of both *expected* and *actual* gross margins are disconnected. Typically no one in the organization is looking at all three areas and attempting a three way match. Or if they are, the data is not comparable apple-to-apple.

The three areas in the three-way-margin match are:

1. What did we Quote (or estimate) the margin to be?
2. What does our Costing System say the actual margin is (by job or project or client. . . AND in total)?
3. What do the Financial Statements say the margins are collectively?

For a given time frame, if you compare the Quote to Job Cost (actuals) to Financial Statements. . . you can learn a lot. For example, your quote or estimate shows that you should earn a 40% gross margin; your job or project costing system shows that you actually earned a 35% margin; and the financial statements as a whole show a 31% margin overall. By the way, the financial statements Trump the other two. (As in Euchre, not the President).

Understanding these disconnects is the beginning to improving your margins. There are many reasons the three margins may be off; too many for me to list here when I've already promised you Lollipops. A few reasons might be:

<Continued on the next page>

U.S. NATIONAL DEBT AS OF:

April, 2017

$19,846,255,248,406

April, 2016

$19,246,125,352,784

Inside This Issue:

Our CFO's:

Todd Rammler
Brian Bach
David Leo
Martin Hilker
Daniel Beardslee

Check out our NEW Website at

Www.MichiganCFO.com

Follow us on

LinkedIn and Twitter for additional updates!

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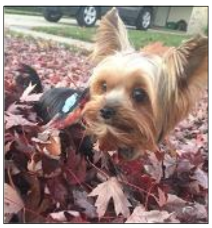
- The three systems don't accumulate the same categories of data (e.g., the quote factors in commissions but job cost and financial statement gross margins do not);
- Data is inaccurate in one or more of the systems (or all of them);
- The systems are maintained by people in different functional areas that don't share information regularly;
- One or more of the systems (typically quoting or estimating) follows an obsolete process or assumptions (e.g., out dated billing rates, machine rates, labor rates, burden rates);
- Data is accumulated, but not reviewed regularly by the leadership team There is no quoting/estimating process – or it's really sloppy. You'd be surprised at how common this is.

If you or one of your clients is wondering why profitability isn't what it should be, this is a great place to start poking around. Especially if you have a Unicorn horn. Pick a short time period – like one particular month – and compare the margins from all three. They don't need to be precisely the same, but they should be very similar.

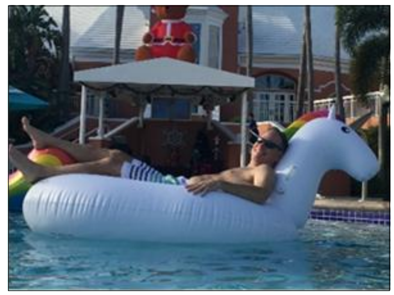
Now back to my regularly scheduled newsletter article…

Todd Rau



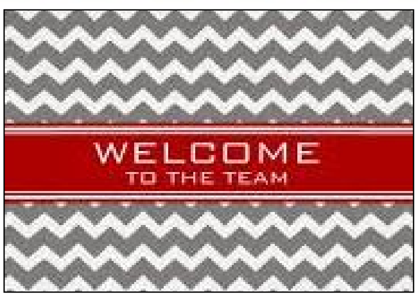
Because who doesn't love puppies...

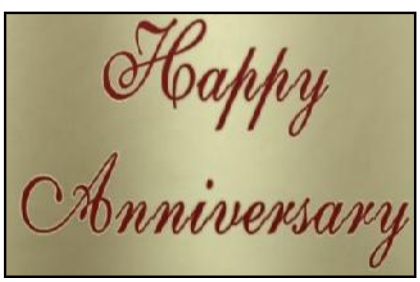
Life's better when you're a Mermaid!



Are there even words for this Unicorn picture?!?

And as promised a Rainbow Lollipop!





Welcome New Clients!

January

McClure's Pickles, www.mcclures.com
Prepares pickles, chips, bloody mary mix & more

Wilshire Benefits, www.wilshirebenefits.com
Risk management, consulting and administration of employee benefits

February

Portable Church Industries, www.portablechurch.com
Design, manufacture, and store equipment for mobile churches

St. Clair Packaging, www.stclairpackaging.com
Manufacturer of corrugated and chipboard packaging

Anniversaries

1 Year

Orion Test Systems & Engineering, www.oriontest.com
Supplier of testing solutions for production machinery

QuadWest Associates, www.quadwest.com
Human resource consulting

2 Years

Right Brain Networks, www.rightbrainnetworks.com
Cloud strategy and software development

Troy Gastroenterology, www.troygastro.com
Specialist in gastroenterology and all aspects of the digestive system

UTEC, www.universaltecinc.com
Automation systems integrator

5 Years

Hibbard Inshore, www.hibbardinshore.com
Robotic under water surveying

7 Years

Giffels– Webster, www.giffelswebster.com
Civil engineers, landscape architects, planners and surveyors

11 Years

Michigan Custom Machines, Inc, www.mcm1.com
Design and build custom industrial test machines

13 Years

Colony Marine, www.colonymarine.com
Sales and service of power boats

Budgeting for Employee Training, a Great ROI!

Brian Bach

I was recently sitting in a meeting with a group of business consultants from a variety of disciplines and the topic of improving employee engagement came up. We all put our two cents in on the importance of leadership and better management when someone added, "setup a budget for employee training". There were a number of chuckles in the room because, rarely, in small businesses are there dollars formally allocated to employee training, although everyone agrees employees need training.

So my article for this newsletter is going to outline steps on how to develop a training budget and (hopefully) provide the maximum return on your training dollars.

<u>Determine Areas Returning the Most Benefit:</u>
Start by looking at where is the pain in your business. Are there sales, operations, logistics, quality, or fulfillment issues in your company? By first identifying the areas of need you can better measure success against fixing those issues.

<u>Choosing the Type of Training:</u>
Training costs depend on the type of training required. On-the-job coaching, video presentations, seminars, e-learning and one-on-one tutoring are just a few of the options to consider. Think in terms of what works best given time and resources. It may be more cost effective to invest in one-on-one tutoring to reduce the time of getting your employee up to speed.

<u>Establishing a Budget Amount:</u>
Many large companies invest anywhere from two to five percent of budgeted salaries. The idea is to decide on a number that feels right for your budget. It's also recommended to use quality trainers and materials. Going cheap reduces results and can leave a bad impression on employees.

<u>Costs to Include:</u>
It's obvious to include the costs for classes, materials, tuition etc., however, you want to also include the cost of staff time. If a person is out of production for three days while training the cost of their salary should not be left in production costs.

<u>Securing Employee Commitment:</u>
Employee commitment is necessary for a training program to succeed. One approach is to have employees share the cost for specialized training or they pay up-front and get reimbursed upon successfully completing a program. Determine with employees ahead of time how success will be measured so there is no misunderstanding.

There are many benefits of training programs. Increasing employee engagement, retention and productivity are just a few. There is also a decrease in need for supervision, reduction in absenteeism and lower numbers of customer complaints. Through training, employees feel valued and appreciated increasing their commitment to their jobs and the company. Establishing a well thought out training budget ensures you'll achieve the results desired and your dollars will be well-spent.

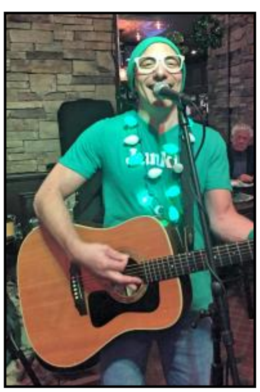
Have you been to www.michiganCFO.com lately?

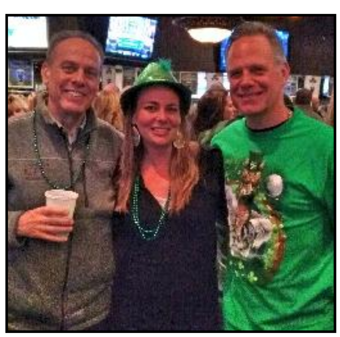
New! Fresh for 2017 is the all new, completely redesigned, high-octane, low calorie Michigan CFO Website—check it out!

Featuring new tools & assessments, additional resources, the all-new CFO Blog, and much more! Check it out and share your feedback!

St. Patty's Day Celebration

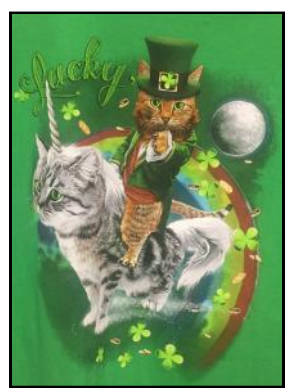
Tom singing and playing guitar with his band, Jukebox Junkies, at the Hamlin Pub in Shelby Township.





Brian, Kellee, and Todd on St. Paddy's Day at the Hamlin Pub supporting Tom's band the Jukebox Junkies.

Who says accountants don't have fun? This is a close up of Todd's St. Paddy's Day shirt! Is it a "CatiCorn or a UniCat?"



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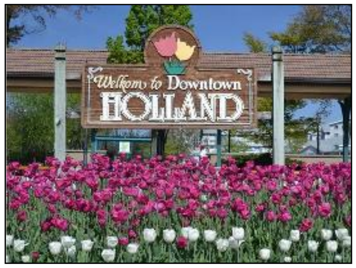
Have a smart phone? Scan the QR code below to check us out on the web!



Tulip Time Festival in Holland, Michigan

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https://www.linkedin.com/company/michigan-cfo-associates/employee-insights

https://twitter.com/MichiganCFO

Newsletter 2

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