

Michigan CFO Associates

The CFOs for *Small Business*

Newsletter 4

President's Message Back To School



Todd Rammler

Hope you got your vacations in, cuz we're going back to work. (Although we're still reminiscing a bit with some fun pics on pg. 2.)

In the last newsletter, I talked about running your business in a professionally managed fashion and viewing it through the objective lens of a buyer – like Warren Buffett. And

specifically asked the Question "Would Buffett buy your business?", along with some action steps you might take to prepare for this - regardless of whether you're ready to sell or not.

Based on what we see happening in the marketplace, we're going to continue on that theme – so if you missed the last newsletter you can catch up on it here <http://michigancfo.com/newsletter-archive/summer-2015>

At Michigan CFO, we are not directly in the M & A world; but we know other professionals who are, we pay attention to it, and we're regularly asked questions about it when clients get inquiries from potential buyers. Off the top of my head I can think of a dozen of these conversations I've personally had with clients and prospects in the past six months. So I thought we should spend some more time on this because there is a lot of activity in the marketplace – at least in the form of talk. Whether or not it leads to deals getting done remains to be seen.

Most conversations I've had result from a business owner that received an inquiry about selling, or getting an introductory valuation, from a 3rd party who states that they have interested buyers. More recently, however, better than half of the inquiries are coming from other businesses that the owners directly know – for instance a customer, competitor or even vendor. Compared to the 3rd party broker inquiry, these known entities tend to get people's attention. Even at Michigan CFO we've had two of these inquiries as well, one from a prospective seller, one from a buyer - but both discussions ended fairly

quickly as neither was a good match for us. But this begs the very important question of "What is your walk away number?" Have you thought about it? When you factor in paying off debt, transaction costs, taxes and the possibility of some form of "earn out". . . the number may need to be bigger than you initially thought.

Recently I reconnected with a former client who successfully exited his family business a couple years ago. At the time of the transaction we were no longer engaged with them, so I was asking him some specifics on how the transaction went viewing it two years later. Through the conversation I realized that this discussion may be useful for many, so I asked him to allow me to share it with you. You will find this interesting Q&A interview on the enclosed insert.

On another somewhat related note, you will also find a description of our "CFO GAP Analysis" assessment on the yellow page insert. While this isn't an assessment of your readiness to sell, it certainly could be used to give an indication of such. We've offered this assessment for many years, and it is a great value at a paltry \$500. If you, or a client of yours have never been through this assessment, I would strongly encourage taking a look at it. We've had numerous consultants tell us "It's the best \$500 the client has spent". And the best part is if everything is going well from a financial standpoint, we'll tell you that too. It's an objective, outside assessment from the CFO's perspective.

Lastly – **we are always looking for talented people** – CFO's, Controllers, analysts, and bookkeepers. Both for our team internally, and also for clients. If you come across 'A Player' people who are looking for a change, please connect them with us. We're getting more and more inquiries asking for all sorts of financial talent and have been successful at connecting the dots between talent and opportunities.

Best Regards,

Todd Rammler, CMA, MSA, President

U.S. NATIONAL DEBT AS OF:

September, 2015

\$18,151,139,449,629

September, 2014

\$17,741,639,147,858

Inside This Issue:

President's Message
Back To School

Brian's Corner
Are you still doing your payroll in-house?

What's Happening?
A Little Work...
And A Little Play

Q&A
With James Truan,
Trynex International

Our CFO's:

Todd Rammler
Brian Bach
David Leo
Rick Knappe

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<http://michigancfo.com/newsletter-archive>



Welcome, New Clients!



June **RightBrain Networks, www.rightbrainnetworks.com**
Cloud Strategy / Software Development

July **Detroit Bold Coffee Co., www.detroitboldcoffee.com**
Local Specialty Coffee Manufacturer



1 Year **Total Security Solutions, www.tssbulletproof.com**
Bullet proof glass & bullet resistant barriers

8 Years **Regina Andrew Design, www.reginaandrew.com**
Contemporary Furniture and Lighting

What's Happening?

A little work. . .

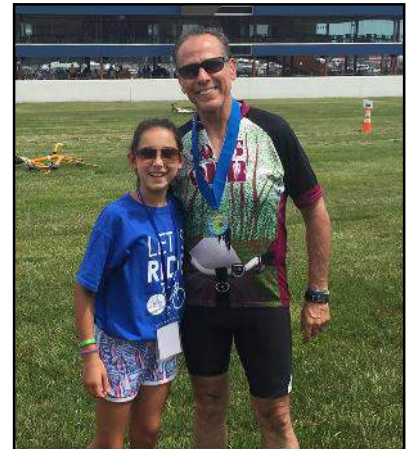
. . . And a little play!



Todd standing center court at the Detroit Pistons Palace.



Brian attended a Brother Rice Business Alliance Fall Mixer where he heard Jack Aronson founder of Garden Fresh Gourmet speak on his recent sale to Campbell Soup



Brian participated again in the Wish a Mile ride sponsored by Make-a-Wish Michigan.



Financial Analyst, Tom Carbone, playing with his band, Jukebox Junkies, at Thee Office Pub in Romeo.



Todd with Detroit Pistons Coach, Stan Van Gundy, and Dan Izdorek of P.C. Miracles, at an EO Detroit Mixer.



Office Manager, Kellee, and her father at the Macomb County F.A.N. Walk with Michigan CFO Associates being one of the Sponsors.

Q&A with James Truan, on Selling a Privately Held Business

Several years ago Michigan CFO worked with James and Chuck Truan during a transitional stage at the business they founded, Trynex International. By 2013 the business had grown substantially and was sold to a publicly traded company. James reconnected with me this summer to discuss other ventures he's considering, and I spent some time quizzing him on how the transaction turned out now that it's 2 years in the rear view mirror.

Frequently we hear about deals when they're announced, but it's rare to get the perspective of a seller after the deal has been completed and they've moved on to other pursuits. Following is some of the Q&A from our discussion.

-Todd Rammler



You'll see trucks loaded with these Trynex spreaders soon enough!

TR: James, give us a brief background on what Trynex International does.

JT: Trynex International was established in 1993...we started to manufacture spreaders for our local market and realized we had developed a product that had national and global potential. We grew the business for 20 years, developing many market-leading products and a complete distribution network across the globe.

TR: Talk a little bit about how the transaction came about. Were you actively marketing the business, or did someone just come knocking?

JT: We were having fun...a great team, a growth plan, and good customers. When the third company approached us in a short span of time, we thought, possibly, we should think seriously about it.

TR: Looking back at it now, overall were you satisfied with the transaction? Was it fair? Why or why not?

JT: Yes, all in all, no complaints. We are the kind of people that once we make a decision, get on with it and don't look back. If we were to look back, we could definitely second guess some things, but that proves nothing.

TR: What was the biggest eye opener to you going through the process?

JT: There were a lot of things that opened our eyes. Mainly, the amount of details that must be addressed and answered. Pay me now or pay me later is definitely the truth. Any areas on your balance sheet that are not squeaky clean, contracts, agreements, etc., can be a problem.

TR: Was there anything that came out of the due diligence process that caught your team off guard? Something that made you think "Wow, even we didn't know THAT!"

JT: Net working capital was a real surprise for us. This is something that is a reality with every transaction.....unfortunately, the month we closed, ours was not a favorable discussion!

TR: What would you do differently if you were to go through the sale again?

JT: Think about and manage our business focused on and understanding EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). Our CPA should have encouraged looking at our business this way...this is really the truth in true business performance.

(Continued on back)

(Continued from front)

TR: Earnouts are frequently a part of a transaction, and generally make sellers nervous. What was your experience like? How did you overcome any reservations about the earnout?

JT: It truly is a debatable route to go...it should not be much of your purchase price. The thing is, you will lose control of the amount of influence you can have on the business performance once it is managed by the new team. Ours has gone OK to date, but there is still some time left to go.

TR: What would you tell other business owners are some key things to prepare their companies for a sale down the road?

JT: Be thorough, have a growth story, invest in NPD (New Product Development), and have a strongly marketed brand.

TR: Many entrepreneurs describe their businesses as their "babies". Having built Trynex from scratch to 60 people, once the deal was done did you have any 'sellers remorse'?

JT: As a family, we made the decision and went forward. If you aren't settled about it, wait. It is a process and may take several years. It will force you to analyze your priorities, your life, and what your goals really are.

TR: When you and I met a few weeks ago you were reflecting about business in general and you said "Cash takes the panic out of business". I made a mental note of that statement as it is very true. Can you talk about your experience with this issue – have you seen both sides of it?

JT: As an entrepreneur, you grow your business based on cash flow and what you can do with what cash you have. It is simple. . . that is what you have to do, and that is OK. When you have the capital (we were purchase by a public company), decisions are made on the bigger picture. It takes the 'panic' out of making decisions to meet next week's payroll!

TR: What's next for you? Beach life? Golf? Or back into the game?

At 49, there's too much to be done! It will be a fresh, new challenge to help my family get their teeth into a rewarding business that they can build, utilizing the experience we've had.

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Are You Still Doing Your Payroll In-House?



We work with a lot of small businesses and often they are challenged with covering the back office functions on a daily basis. One of the most critical functions of any business is processing payroll. It's a necessary function that on the surface seems straight forward but when you take a closer look, you may be exposing yourself to unnecessary risks if you handle your payroll in-house.

One of the roles of a CFO is to manage risk:

- 1.) Financial risk - having appropriate cash-flow and capital;
- 2.) Insurance risk - proper coverage and limits, and
- 3.) Compliance risk - complying with federal, state and local laws.

Brian Bach

The laws governing wage and hours, tax withholding, reporting and submitting to federal and state agencies is constantly changing and becoming more complicated. The Affordable Care Act (ACA) and overtime for salaried employees are just a few recent examples of increased compliance requirements. These constant changes are enough to keep you awake at night.

The purpose of this article is not an argument for outsourcing payroll but to raise awareness on risks associated with processing your payroll in-house.

Single Point of Failure:

If you have an accounting department, or support staff of several people, this may not be an issue. If you're like many small businesses, you generally have one person processing payroll. Due to the sensitive nature of payroll, it's not a position easily open to cross training and the backup is often the owner, or none at all.

I don't like the overused statement "What happens if so and so gets hit by a bus" but the reality is there's often no backup person in the company that is trained to calculate time, enter information into the software, print or process payments, and run a payroll cycle.

While having an outside payroll company does not eliminate the problem of calculating and entering data into the system, it would eliminate stress since an owner could pick up the phone and say "run the same pay received last pay period". Then there would be time to figure out a solution. There is also comfort knowing the outside payroll company will have someone who can train a new person on using the payroll software. If you use your own proprietary in-house software this may not be an option.

Repercussions if you Mess Up Reporting or Paying:

If you're handling payroll in-house, chances are you're also reporting and paying federal, state, and, local taxes and withholdings. There is FICA, FUTA, SUI, and State & Federal withholdings reporting and paying that require discipline and vigilance. If you miss reporting and/or paying, there may be stiff penalties imposed.

Out-sourced payroll companies provide automatic tax reporting and payment services. This takes the discipline and vigilance off your worry plate and puts it in the hands of people who have the knowledge and expertise. Some out-sourced payroll companies offer performance guarantees where they pay the penalties and interest if something goes wrong.

Guidance and Expertise:

In the ever changing world we live in, running a business isn't getting any simpler or easier. As I mentioned earlier, laws surrounding payroll, labor, HIPPA, ACA, HSA, HRA and discrimination are changing every day and how can any small business stay on-top of these ever shifting sands?

A good out sourced payroll company can provide the knowledge, guidance, systems and support to keep you out of trouble. These additional services may cost a few bucks more than just processing payroll but we all know legal fees cost far more than a few dollars spent on doing things the right way.

Operationally there may be good reasons for using in-house payroll that is integrated into your ERP or accounting package. However, out sourced companies have come a long way in providing integrated solutions so overcoming this obstacle may be easier than you think.

The world keeps getting more complicated, and with complication comes the increased risk that something can, and will, go wrong. I would suggest you think about the risks of handling your payroll in-house. If it's going to cost more using an outside payroll service consider the incremental cost as an insurance that you stay out of trouble and have a good night's sleep.

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Newsletter ④

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