

MICHIGAN CFO ASSOCIATES

The CFOs for Small Business

NEWSLETTER

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U.S. NATIONAL DEBT AS OF:

September 2018

\$21,431,887,134,696

September 2017

\$20,244,900,016,053

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President's Message: **Orange is the New Black. 50 is the new 40.
And 8% is the New Breakeven**

Sometime around May I discovered that my cable bill had increased by around 25% because whatever plan I had *quietly* (<-key word) expired. Which meant I now had a "situation" to deal with, namely calling the service provider who's name I will not mention – but it rhymes with "**Bombast**". So I made the dreaded call, and after validating my identity seven ways from Sunday, I was informed of the various packages available to reduce the cost of my bill from the current *Egregious* plan, back down to the more pedestrian *Obscene* plan. *Highway Robbery* was no longer available. Faced with this dilemma, I made a bold decision: Cancel the TV service all together and go with internet only. I'll show them.

As a result of being cable-less, I've become more familiar with the options on Netflix. I'd heard about the show **Orange is the New Black**, so I watched a few episodes. Cute name, but not really my cup of tea. **Comedians in Cars getting Coffee** with Jerry Seinfeld is more my style. With TV options a bit more limited these days, I'm saving both money and time - I'm watching even less TV than before. The joke's on you Bombast.

In other less-than-exciting news. . . I am perilously close to a milestone birthday (*hint*: it's next month, and I'm a 16.5/34 shirt size if looking for gift ideas), so **50 is the new 40** resonates pretty well right now. I certainly don't feel 50-ish. . . but there are unsettling forces all around me. Like the cashier who recently repeated my order by saying ". . . and one **senior coffee**. *Will that be all today?*" Yes. . .that will be all. Thanks.

Realizing I may have a theme here, I needed a third "*blank is the new blank*". And that led to the final one, which I've actually been touting for a couple years now: **8% is the New Breakeven**.

This came out of a workshop I did a few years ago with Dave Haviland of Phimation (www.phimation.com) entitled "**Funding Growth with Limited Capital**". Incidentally, Dave & I just dusted off the material from this workshop and presented it as a webinar in early October – if you missed it you can watch the recorded version [here](http://www.michigancfo.com/publications/free-reports-whitepapers/) (www.michigancfo.com/publications/free-reports-whitepapers/)

The content takes a comprehensive look at all things related to capital investment: short & long term strategy, tools for evaluating investments, and deciding how much you can afford to invest.

And it's within that latter group where the idea of **8% is the New Breakeven** originated.

These days, most small to mid-sized businesses are "flow through" entities for tax purposes (LLC's or S-Corps). Which means any profits flow through to the owners and are taxed at the individual level - the entity itself does not pay tax. As I hope you all know, ***we don't do taxes***. But we are aware of the impact of taxes to the owners, and that impact typically gets funded from distributions. And this is where it starts getting tricky. . .

There are a variety of cash requirements that don't show up on your income statement. It will vary from one business to the next, but some examples are: owner distributions (for taxes, or personal use), debt repayment, capital expenditures or other reinvestment, and building cash reserves.

If 30%-40% of the hypothetical 8% pretax profit will go to pay owner taxes. . . then the actual profit is closer to 5%. Then subtract debt payments, personal distributions and CAPEX. . . and you can get to 0% "effective profit" pretty quickly.

Margins Matter

In his book *Simple Numbers, Straight Talk, Big Profits!*, Greg Crabtree similarly argues that business owners should target 10%-15% pretax profit with 10% being the minimum and once you achieve 15%, you can afford to invest in growth until you're back down to 10%. In other words, figure out how to get to 15%, then invest up to 5% in growth initiatives – new products, additional people, expansion – but don't go below 10% pre-tax profit.

How do you do that? With a relentless focus *throughout the organization* on achieving **black margins** on a job-by-job, customer-by-customer, category-by-category basis. Recently I was sitting in a project review meeting with a client's leadership team, and after reviewing one particularly bad job (red ink), the project manager stated emphatically: "*My new mantra is Margins Matter.*" And they do. In total, and job by job.

Your specific breakeven number might be higher or lower than 8%. The important thing is to understand all the items that factor into your "effective profit" and set your targets above it.

If you need some help with this, I know a young-ish guy who's very good, and has lots of time since he stopped watching cable TV.

Happy Fall~

Todd Rammler



Photos Around Town (and the World!)



MICFO team trying to make baseball great again at Jimmy Johns Field!



Kellee's birthday lunch! If you don't get a brownie bigger than your head, was it really your birthday?!



Alisha with Lions Legend, Barry Sanders in Dallas, TX

"I am easily satisfied with the very best."
-Winston Churchill



Euro trip! Todd with son, Joshua at the Colosseum in Rome.



Todd and Joshua on Mont Blanc, in Charmonix, France



Brian presenting his workshop series—Creating the Cash Flow Factory. We have one more workshop this year— see below!

MICFO Workshop: Four Key Systems Every Business Needs

If you've ever tried to ride a unicycle, you know that it's difficult to get started, hard to maintain balance, and you wobble around a lot – it can be nerve-racking! The same thing happens when a business owner or CEO tries to run their business from only "one" information source: their accounting system. Join us as for a workshop where we explore the importance of having FOUR real time systems to run your business.

In this workshop we'll look at Four Key Management Systems:

- **System #1:** All businesses have it, but owners rank it the least valuable
- **System #2:** Ranked #1 in importance, yet barely 1/3 of business owners USE it
- **System #3:** **THE KEY** to effective planning & driving tomorrow's success
- **System #4:** It will minimize surprises and give you a sense of control

Larger corporations utilize all four systems to run effectively; learn how smaller companies can leverage limited resources and shift their business performance into "overdrive".

When: Wednesday, November 7th

Time: 8:30am-10am— Complimentary Breakfast Included

Where: Automation Alley 2675 Bellingham Dr. Troy, MI

[Click Here to Register](#) or contact Kellee Warren— KWarren@michigancfo.com or 586-580-3285 x202



Brian's Corner: Your Banking Relationships Matter– And So Do the Numbers

You're living and breathing with your business every day. Making tough decisions, juggling a hundred priorities and moving forward with your plans. You think about your business all the time and are passionate in taking it to the next level. If taking it to the next level involves your bank you may want to get out in front of it and setup a meeting with your banker.

If your loan officer is like most small business lending organizations they are handling a number of customers and aren't necessarily paying close attention to your business. You only show up on their radar if you're an exception or "bad news" such as collateral reports are past due or your financial statements are showing poor performance.

If you're looking for additional support from your banker you, need to take the initiative and reach out to them. They welcome an opportunity to meet because they're looking for additional business and the more they know about you and your plans, the more comfortable they are with more lending.

If you're looking for a new or increased line of credit, buying or expanding your building or acquiring furniture or equipment the first thing is to do your homework and prepare for the meeting:

Have a written plan – if you can't make it work on paper how do you expect it to work in real life! Conveying a plan in writing shows the reader you've put in the time, thought and energy to make it real. In most cases your banker is not the sole authority in approving your loan so having a plan in writing allows him or her to share your plan with others.

Lay out realistic assumptions – if you're growing the business, support your growth assumptions through your market experience and research. If you're expanding in your current market space you're more knowledgeable than most on what opportunities exists. Providing reasonable assumptions and conservative targets goes a long way in aligning support from your banker.

Let the numbers do the talking – build out your financial projections in a way that clearly shows the incremental changes in both costs, revenues and the time lines needed for execution. Make it easy for your banker to determine the net incremental cash flows so they see how they will be paid back.

First and foremost banking is a collateral business. Banks are "renting" you their money with the expectation they will get it back. While underwriting does consider relationship longevity, personal character and integrity, if the story doesn't fit the numbers, the numbers don't align with the story, or the person telling the story is not credible - you have an issue.

Business owners wrongly assume that a long-term relationship, making all their loan payments on time and playing golf with their banker will get them whatever they want. Banking is a business and if you can't show collateral and a solid plan for repayment it's not going to happen. Being on good terms with your banker is important but don't be fooled into thinking your relationship is the whole loan approval process.

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WELCOME, New Clients!

H & H Tool– Precision Parts Manufacturer
Lapeer, MI: www.hhtool.com

Huron Tool– Machine Tool Manufacturer
Bad Axe, MI: www.huron-tool.com

Signs365– Sign & Banner Printing
Shelby Twp, MI: www.signs365.com

HAPPY ANNIVERSARY!

9 Years– Regina Andrew Design, Inc.

6 Years– P & P Manufacturing

3 Years– AA Jansson Inc.

Global Telecom Solutions

2 Years– Concise Computer Consulting

Patti Engineering Inc.

Proto Manufacturing

Wilshire Benefits Group Inc.

1 Year– K & K Die



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The CFOs for Small Business

Outsourced CFO & Controller Services Including:

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- ✔ *Cost & Profit Margin Analysis*
- ✔ *Bank Financing Packages & Negotiations*
- ✔ *Financial Projections*
- ✔ *Cash Planning & Management*



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