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SUMMER 2015

Michigan CFO Associates

The CFOs for *Small* Business

Newsletter 3

President's Message

What Would the Oracle of Omaha Say?

Todd Rammler

If you haven't been on vacation this summer, I hope you carve out the time to go sit by the water, see the sights, climb the mountain, drag your house-on-wheels up north to a campsite, or do whatever it is you do to relax. Unplug the computer, leave the phone in "airplane mode" and disconnect from work for a while. And if you've been on vacation already, might I suggest you take another one? After the last two winters, you deserve it. The summers are getting shorter and you aren't getting any younger. :)

When you return, but before you re-enter the daily firefight, here's a question worth pondering: ***Would Warren Buffet buy my company?*** Or your client's company(s), for the professionals reading this.

Perhaps the most famous investor of all time, WB has a knack for picking out winning companies. If you've read any of his books, his formula is not very complicated - it's actually quite simple. Some investment professionals might mock it for being overly simplistic or unsophisticated. But there is no arguing with his results.

What makes a company "Buffet-worthy" as an investment? Well for starters, it looks a lot like an annuity. It's predictable. Its management is professional, and predictable. The economics of the business are clearly understandable. It shows a long history of producing consistent, exceptional returns for its investors, measured in the form of return on equity (ROE)*.

Now you might be asking: "***So what, bean-counter? Why should I care?"***

You should care if:

- You hope to exit your business at some point in the future and maximize the value of that transaction;
- You want to maximize the value of the business earnings now by <u>running it professionally</u> today.

What does "running it professionally" mean?

It means you evaluate it - both financially and operationally - just as you would any other *<u>investment</u>*.

For example: Would you buy stock in a company where management didn't know their numbers inside and out? Where they operated without a forward looking plan (no target)? Where the accounting was sloppy? Where there were no clear expectations of what that investment was going to return? Where there were no systems in place to produce consistent products or deliverables?

Answers for all of the above: ***No, you would not***.

Building a business that is professionally run makes it attractive to outsiders because it is not dependent on the owner holding everything together. With dependable systems and professional people, it becomes a self-sustaining asset – like an annuity – and commands a much higher value. Value to an outsider gives you options, regardless of your specific exit plans. It doesn't matter if you actually plan to sell the business for a large payday at some point. If you're doing the things that build business value to an outsider, your business is, by definition, more valuable because it produces better returns for its current investor (you!).

So if the answer to the Warren Buffet question is "No", start working on a short list of things you can implement in the fall to begin correcting the situation. It doesn't have to be fixed overnight. . . but the sooner it is fixed, the more benefit you receive.

Give it some thought while you still have that vacation "glow" and your head is clear. Jot down some ideas on what needs to be addressed. Then come back in the fall and start shaping your company into one that Buffet would write about in his annual report – the latest of which can be found here: http://www.berkshirehathaway.com/letters/2014ltr.pdf

But first, go on another vacation!

Best Regards,

Todd Rammler

Todd Rammler, CMA, MSA, President

**For an oversimplified calculation, I created a "Buffet Barometer" handwritten worksheet that you can use to do a quick ROE check on your own business - email Kellee if you'd like a copy kwarren@michiganCFO.com .*

U.S. NATIONAL DEBT AS OF:

June, 2015
$18,152,841,401,259

June, 2014
$17,524,872,541,725

Inside This Issue:

Our CFO's:

Todd Rammler
Brian Bach
Jennifer Orow
David Leo
Rick Brown
Rick Knappe

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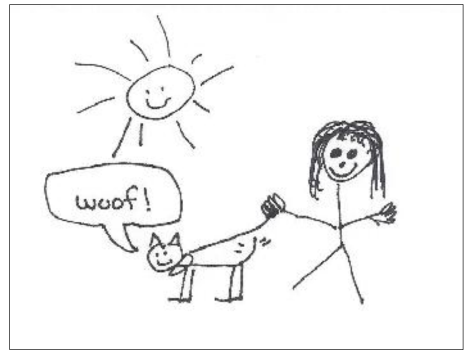
What's Happening?

Todd receiving one of Corp! Magazine's "Most Valuable Professionals of 2015"

Michigan CFO Associates KPI Presentation in April was a great success! Thank you to all who attended!



Office Manager, Kellee Warren (artist's rendition) at the annual Clawson "Paws & Claws" charity dog walk!

Welcome, New Clients!

April — **Safeway Oil, www.safewayoilco.com**
Oil Distribution

May — **Center For Digestive Health, www.troygastro.com**
Multi-Office Gastroenterology Practice

UTEC, www.universaltecinc.com
Universal Tool Equipment & Controls

June Anniversaries

3 Years — **Hibbard Inshore, www.hibbardinshore.com**
Marine Surveying

9 Years — **Colony Marine, www.colonymarine.com**
Boat Sales, Parts, Boating Community Events

July Anniversaries

2 Years — **Rave Computer, www.rave.com**
Innovative Computer Solutions

3 Years — **Anticipated Plastics, Inc., www.anticipatedplastics.us**
Injection Mold Company

August Anniversaries

4 Years — **Fleetilla, www.fleetilla.com**
Global provider of vehicle tracking

8 Years — **Schena Roofing & Sheet Metal www.schenaroofing.com**
Commercial Roofing

Three Measurements of a Company's Financial Health

Brian Bach

We help a lot of different businesses set up and manage their financial reporting. The purpose of this reporting is to determine if you're on the right track, making progress, and creating a financially healthy company.

There are a lot metrics that help determine financial health in 10 to 15 different areas. For a guy like me who likes numbers, it's easy for me to head off into the financial weeds and look at all sorts of measurements. However, the goal for this article is to simplify it down to 3 indicators that help manage profitability, cash-flow, and working capital.

Revenues are Growing Faster than Expenses This is a simple but powerful comparison. Open a spreadsheet, and in one column enter monthly revenue for the last two years. In the next column, enter total expenses for the same periods. Set up a rolling 12 month average of revenues and expenses, then put these points on a graph. Are revenues rising or falling? Are expenses rising or falling in proportion to revenues? Healthy companies see rising revenues while expenses are flat or rising less then revenues. Falling revenues are an early indicator that expenses should be adjusted.

Cash Balance Showing Positive Growth In a new spreadsheet, enter the month-end cash balances (from monthly balance sheets) for the last two years. Then create a rolling 12 month average. If you look at these points on a graph, or by inspection, is the average cash balance moving up or down? Heathy companies will see positive growth.

Current Ratio Showing Positive Growth This ratio shows the relationship between current assets and current liabilities. Again, using a spreadsheet and data from your monthly balance sheets, enter current assets in one column and current liability values in another for the last two years. Set up a rolling 12 month average of current assets and divide by the rolling 12 month average of current liabilities and put these points on a graph. Are you seeing the ratio go up or down? Healthy companies see assets growing faster than liabilities and the ratio going up. The opposite trend indicates a possible problem with receivables or inventory.

Book Review: *Who— Solve Your #1 Problem*

What is *your* #1 problem? In most businesses it's simple: People. After reading and re-reading this book, we've implemented many of the strategies put forth by Geoff Smart and Randy Street here at Michigan CFO. And we liked it so much, we ordered a case of books and sent them out as a gift to our clients. ***Who*** describes the authors "A Method" for hiring, which is a process for identifying "A Players" and weeding out "B and C Players". If you struggle with hiring top people, this is a "must read"!

Michigan CFO Associates
The CFOs for *Small* Business
43230 Garfield Road, Suite 130
Clinton Township, MI 48038
586.580.3285

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

Summer 2015!

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Michigan CFO Associates
The CFOs for *Small* Business
43230 Garfield Road, Suite 130, Clinton Township, MI 48038
586.580.3285 x 201
www.michiganCFO.com / info@michiganCFO.com

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