



# Newsletter 4

## President's Message

### The Recession is OVER

I'm no economist (a.k.a., a weatherman that went to business school), but I believe the recession is over. This might sound to you like an exaggeration, an ill-informed statement, or just plain stupidity. I'm O.K. with that. I reached this conclusion over the past few months, based on my own personal experience, not from some fancy charts, graphs or "research". No, this is my first-hand account in dealing with people in various industries both locally and nationally.

Apparently, most businesses have enough customers and enough sales. Not a week goes by where I'm trying to make a purchase and the seller is doing their level best to chase me away. Here's a few examples:

- I use a piece of software for marketing, and I learned – through my own research, not any sales effort from the software company – that they had two additional "add-ons" that would make my life easier. I emailed and called people I KNOW at the software company explaining I was interested in a purchase, and no one returned my call or emails. I had to email the President of the company, and it still took 4-5 days to speak to anyone. Ironically, the software they sell is supposed to prevent "holes" in the marketing funnel so no prospective customers are lost. Apparently, they don't use their own software.
- I signed up for a trial subscription for another technology related product, and I was having some trouble getting a very simple process to work. Of course, you can't speak to a live body, so I emailed my question to their support department. They wrote me back and said "Help on this is already posted in the forum – use the search feature". No link, no thanks for registering with us, not even a properly written full sentence. I explained that this was a poor strategy for converting my "trial account" to a paying account. I got a half-hearted apology.
- A marketing related company to whom I am already an existing profitable customer sent me a special offer on a

product I was interested in. So I emailed a person I know at the company, twice. . . no reply. I called in, talked to the receptionist, and he plops me into voice mail of the "customer service" manager. I waited a week. No return phone call. No returned email. **No Sale.** I gave up.

Sometimes I ask myself "What do I have to do to get you people to take my money?!?"

My conclusion? If you don't need customers, then you must be doing pretty well. And based on the number of businesses I've encountered that don't need customers, I say the recession is OVER.

*What other conclusion is there?*

**In other news. . .** we've got a great article on "[Flexible Budgeting](#)" a little known, but powerful tool for analyzing budget-to-actual variances. We've also started a new feature called "[Client Spotlight](#)" which I think you'll find interesting. Finally, check out the "[What's Happening](#)" section for the latest news here at Michigan CFO Associates.

Best Regards,

Todd Rammler, CMA, MSA  
President

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## CFO Insider Tools: Flexible Budgets

For many years, I've been a fan of what is known as a Flexible Budget. This is not flexible budgeting in the sense that the government uses – "No money in the budget? Hey, we're flexible. Spend away!"

No, a flexible budget is actually a very useful management tool which brings a new level of clarity to budget-to-actual analysis. In essence, it allows a transparent look at budget-to-actual results for variable costs—generally "direct" costs – by eliminating the sales variance component. A simple illustration should make this clearer (Please see chart below).

If direct costs (Labor, Materials & Freight in this example) are budgeted for on a percentage of sales basis, then we can easily create a Flexible Budget to analyze how well we performed in each class of direct costs.

The flex budget determines **"What should direct costs be for a given level of sales?"** In our example below, we created our budget with an assumption that Materials costs are 50% of Sales. Since we will never hit our budgeted Sales level *exactly*, the variation in actual Sales vs. budget can cloud our assessment of how we did on the direct cost budget. The larger the Sales variation, the more potential there is to reach an inaccurate conclusion. If we look at Materials costs, in the traditional B vs. A report, it looks like an unfavorable variance of (50). But how much of that is due to the Sales variance, and how much is truly a materials variance?

	Traditional Budget vs. Actual					Flex Budget vs. Actual				
	Actual		Budget		Variance	Actual		Flex Budget		Variance
Sales	1,500		1,000		500	1,500		1,500		-
Labor	450	30.0%	200	20.0%	(250)	450	30.0%	300	20.0%	(150)
Material	550	36.7%	500	50.0%	(50)	550	36.7%	750	50.0%	200
Freight	100	6.7%	25	2.5%	(75)	100	6.7%	38	2.5%	(63)
Direct Costs	1,100	73.3%	725	72.5%	(375)	1,100	73.3%	1,088	72.5%	(13)
Contribution	400	26.7%	275	27.5%	125	400	26.7%	413	27.5%	(13)

Using the Flex budget, we 'reset' the direct costs budget to show ACTUAL Sales x the budgeted PERCENTAGE of Sales. Under this method, our Materials budget changes to \$750 instead of the original \$500 – Sales were 50% higher than budget, so we should expect to use 50% more materials. Now we see the true materials variance is actually a Favorable \$200, as opposed to an Unfavorable \$50.

The Materials Manager just went from getting fired to getting a bonus.

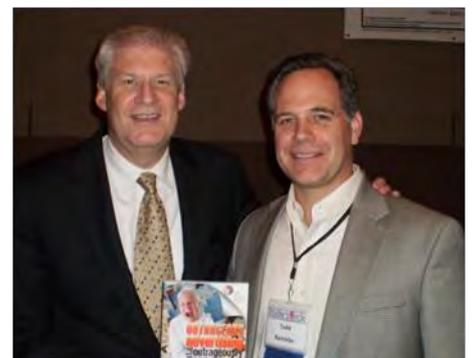
The flex budget really brings clarity management's performance on variable costs and eliminates the co-mingling of sales (volume) variances and usage or efficiency variances. Both reports are useful for different types of analysis. And the Flexible Budget can be an important tool in the analysis toolbox.

For more information of using a Flexible Budget in your business, please contact us at [info@michiganCFO.com](mailto:info@michiganCFO.com).

## What's Happening?

**Webinars.** In previous newsletters we've mentioned the research project commissioned in the first half of the year, which has now been boiled down to a 1 hour webinar entitled **WARNING: Slow Growth Ahead**. If you have not yet seen it, it is great content on what causes businesses to stagnate as well as what they can do to avoid these issues. The events are FREE and you can register [here](#). We will also be adding other webinar topics in the coming months.

**Bill Glazer Event.** In September, Todd attended the Glazer-Kennedy event featuring nationally known marketing guru Bill Glazer, as Bill spoke on **How to Make the Recession Irrelevant**. A packed house enjoyed the evening as Bill shared his most "outrageously successful" ideas. The event was sponsored by the local Glazer Kennedy Insiders Circle chapter (visit [www.noBSmichigan.com](http://www.noBSmichigan.com)).



Bill Glazer—sharing his most "outrageously successful" ideas with Todd

**Year end planning.** If you (or someone you know) is in need of assistance/preparation for year-end activities (getting ready for audits or other CPA activities), we can help on an outsourced basis to make the entire process clean and quick. Most of our clients have all prep work done by mid to late January to expedite the turnaround with CPA work. [Contact us](#) for more info.



## 5 Questions With...

### Mike Schena, Michigan Custom Machines, Inc.



**When our firm started in business 3 ½ years ago**, the very first client we did work for was Michigan Custom Machines (MCM) in Novi, MI. So we thought it would be appropriate to feature MCM in this first installment of a new segment of the newsletter, the Client Spotlight.



Mike Schena, President  
Michigan Custom Machines, Inc.

Michigan Custom Machines, Inc. ([www.mcm1.com](http://www.mcm1.com)) is an OEM supplier of end of line and laboratory test equipment. The company designs and builds test machines as a turnkey solution tailored to each customer's specific needs. The company has an expertise in hydraulic applications that involve

precise pressure control and the associated measurements. Often the applications involve extreme pressures and temperatures.

Some examples of previous applications involve diesel fuel injectors, turbo chargers, cam phasing valves, cylinder cutout valves, and EGR valves, to name a few.

The company has demonstrated continuous growth over its' almost 16 years in business, the last two of which resulted in making Inc. Magazine's 5,000 fastest growing companies list. MCM's customer base is mainly comprised of publicly traded, fortune 500 companies in the Commercial, Agricultural and Automotive sectors.

#### 5 Questions with Mike Schena, President, Michigan Custom Machines, Inc.

**MICFO:** Congrats on 2 consecutive years making the Inc 5000 list of fastest growing companies. What would you say made the difference in propelling MCM to such a high level of growth – especially in a down economy (2008)?

**Schena:** I believe that there were a few factors. The first is that with the failing economy, our customers wanted to be sure that they were doing business with a healthy company that would be around to complete and support the project. Other factors are being in a niche industry, being experts at what we do and of course... luck.

**MICFO:** You mentioned being in a niche industry, which generally allows for premium pricing. Was that by design, or did it just turn out that way?

**Schena:** I'd like to say that it was by design, but the truth is that we're in a risky business, not knowing what design pitfalls we may encounter. We produce extremely high quality machines both in look and function. And after winning some and losing some, we realized that it was necessary to charge a premium, knowing that we will have an occasional job that turns into a "science fair project" and becomes unprofitable.

**MICFO:** Often time during periods of high growth, companies run into cash problems due to financing a larger amount of A/R, inventory, or work in process. How did MCM avoid running out of cash?

**Schena:** Our business is very capital intensive. We rely on a credit line with a bank, especially when we're producing a lot of work at one time. Last year we went through a huge spike in work, so we put together a forecast, met with our bank, and were able to get our credit line increased to keep us going. By planning ahead and forecasting effectively, we had access to the cash we needed when the spike hit. . . so we were prepared. We've also been successful in getting customers to make progress payments; when we first started, we would commonly not see a dime until the equipment shipped.

**MICFO:** Some economists would consider the Capital Equipment business (MCM's business) to be a leading economic indicator of where the economy is heading. Do you agree with that, and if so, what is your take on the economy in the next 12 months, based on what's happening at MCM?

**Schena:** Yes, I have witnessed that in my 16 years in this business. We are usually a year ahead of the economy. Right now we are witnessing a slow down, which would indicate a delayed upturn on the economy. The news says otherwise, but when I look around I tend to agree with my old reliable barometer.

**MICFO:** Last question: What is the coolest piece of technology you're tinkering with these days?

**Schena:** Easy one. That would be my iPhone. I use it for everything from e-mail, GPS, browsing, calculator, banking, Controlling my TV, etc., etc. Sometimes I even use it to make phone calls. 😊

**Mike Schena** can be reached at (248) 347-7900 x224 or at [www.mcm1.com](http://www.mcm1.com)

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# Newsletter ④

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