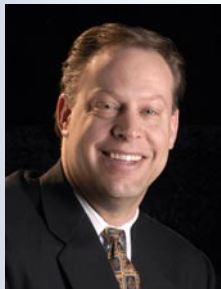


In Check: Five things your controller should have under control

By Gary Turnquist, CPA, Shareholder, Blanski Peter Kronlage & Zoch, P.A., CPAs and Consultants



Gary Turnquist

IN THE MIDST OF DAILY PROBLEMS, IT IS ESSENTIAL TO MOVE FORWARD on a thoughtful and strategic approach to business management and profitability. We recommend the head of every financial team in a manufacturing environment develop or refine the following things in the next 12 to 18 months:

GET THE RIGHT PEOPLE ON ACCOUNTING/ADVISING TEAM.

A bookkeeper is terrific at keeping track of what has happened but is not usually equipped to analyze how to improve systems, profits, or the future. If you are hiring a controller, CFO, or outside advisor, ask this question: "As my advisor, what questions would you need me to answer to help me increase profitability?" Expect thoughtful discussion about the actual costs and contribution margin of product lines and customers, and profitability per employee or department.

CASH MANAGEMENT. While everyone knows about aging receivables and inventory turns, the next level is "Turn and Earn." Turn and earn provides a way to manage the efficiency of an inventory of various products with different gross margins. The calculation provides an index that makes it possible to compare total earnings of different products over a year's period. Formula: Gross margin X Inventory Turnover = Index

For example,

- Product A 34% X 10 = 3.4
- Product B 57% X 4 = 2.3
- Product C 69% X 2.7 = 1.9

Product A, with its lower margin but higher turnover, makes significantly more money over a year than Products B and C, which have higher margins but lower turnovers.

PRODUCTIVITY. Gross profit per product line is not enough. Analyze whether you are getting maximum output per employee and machine. Grade your employees' skills so you know their value. If a job appears to have a gross profit but requires all of your "A" team so no other products move productively through the shop, reevaluate. Reorganize your people to work on jobs at the top of their capability.

CONTROLLABLE VERSUS UNCONTROLLABLE COSTS.

Create a system to monitor and manage costs you can truly control. This includes materials, scrap, and labor. Materials planning, including ordering in advance, avoiding "rush" fees, and buying on a hedge to guard against rising prices, can all help. Control start up times of expensive machinery. Calculate and track the true cost of each employee (including training and benefits) so that you can plan your work knowing exactly how much each person costs and contributes.

MANAGEMENT AND FINANCIAL REPORTING SYSTEMS.

The goal is to create clearer and more accurate reporting and recommendations. Take a hard look at the information you get versus the information you need to make smart decisions. Instead of gross profit, focus on contribution margins – what each job and each person contributes to the bottom line. While it might take some time and effort to measure the right things, it makes all the difference in running a profitable company in a competitive market.

Gary joined BPK&Z in 1989 and became a shareholder in 2001. He leads the firm's Business Process and Profit Improvement Services, focusing on internal controls analysis and operational assessments to help clients improve their efficiency and profitability.

Working with start-ups to multi-million dollar companies, Gary facilitates strategic planning in industries such as manufacturing, health care and community-based organizations. He serves as BPK&Z's Practice Group leader for Manufacturing. Gary can be reached at (763) 546-6211 or at gturnquist@bpkz.com.

Workforce concerns

Two years ago, a group of concerned people started to look at the way colleges do business. From the beginning of time colleges seemed as if they needed to do all that they could to protect their precious contacts. Ad campaign after ad campaign, CD after CD, and promotion after promotion, colleges would use all of their resources to promote manufacturing. When the money ran out they would contact area businesses and ask for assistance in helping to fund the next "new" promotion. Well those days look to be over. It's about time there is one voice in education.

Manufacturing Educators Coalition (MEC) has been working in the shadows to help recruit the workforce of tomorrow. MEC is made up of representatives from Minnesota State Colleges and Universities (MNSCU) and has four main goals:



Minnesota STATE COLLEGES & UNIVERSITIES

1. Creating universal marketing materials
2. Promoting and organizing tour days and campus visits
3. Promoting and encouraging tuition reimbursement and scholarships
4. Media Relations

I encourage all of you to go out and visit the new and improved Makelt website at www.tomakeit.org

You'll notice that as you enter a video will begin to play. Please take the time to watch this. This is the introduction and part one of a CD that is being created along with a matching brochure to be handed out by each of the colleges as they go out on their recruiting visits. The second half of the video and the printing of the brochure is currently in the works and we hope to have

them complete to unveil at Grandview April 18 – 20.

What I would like you to now consider is how important this promotion is to you and your company. For a mere \$25.00, you could help get this in the hands of 10 students. We are asking for contributions in the amount of your choosing to help fund the reproduction costs of these CDs and brochures. You can make a donation to MEC through MPMA and help grow and educate the workforce of tomorrow.

If you have any questions please contact me at (507) 332-5831 or jason.demars@southcentral.edu

As always, thank you for your support of manufacturing education in Minnesota.

Sincerely,

Jason Demars

Computer Integrated Machining Instructor