

KEEP IT SIMPLE

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The most successful companies generally Keep It Simple!

This is the first of what will be many more newsletters from Bardol & Company. The KISS "Keep it Simple Stupid" Principle has been around forever. As our society becomes highly educated and we become exposed to more information and data there is the perception that everything is becoming "more" complex. We begin to overlook the simple or obvious. When I first started my career as a Co-op student I was given the following sequence of letters and told it was an infinite sequence and asked to complete it.

"OTTFSSSENT"

Then I was told that PhDs often had trouble completing the sequence yet five year olds were capable. This was my first introduction to the KISS principle.

Since, that day in 1975, the business world has become far more data intense. We deal with both internal and

external sources of data. New ERP systems can provide instantaneous information. The computer has become as much a curse as a savior in providing us timely and accurate information. Some organizations become paralyzed by analysis. They flounder, not making timely business decisions because they are too busy analyzing data. I have seen organizations which have several different information sources giving different results for the same metric. In this case each report was written for a unique purpose and defined gross margin differently. There was confusion when business decisions were being made based on the wrong information.

We have heard the disasters when companies have moved to the big ERP systems and how they lost focus on their business during a system conversion. These complex systems can be necessary for large multi-national compa-

nies. The same systems for the most part are overkill for middle market companies. These companies will flounder trying to utilize the system or in a successful implementation the company never recovers their investment .

What I have tried to do in this newsletter is to discuss some of the concepts and processes that I have used with my clients over the past five years. These are not new and come out of my twenty-five years of business experiences.

The most successful companies generally Keep It Simple, know their customers and run a lean organization.

The answer to the Infinite Sequence on Page Four!

FIVE YEARS

Five years has past since Bardol & Company was created. The company has evolved from its core roots as a provider of part-time CFO services into an organization that is primarily focused on business process improvements for manufacturing com-

panies. All of Bardol & CO's current clients are manufacturing companies. They manufacture a variety of products and serve a variety of industries.

I have developed great rela-

tionships with many of my clients and their employees and I consider many of you friends. The past five years has gone quickly which is an indication that it has been fun!

Thank you to the Clients of

GOALS & CONTROLS PROGRAM

In a constantly changing world, the need for timely and accurate information is a must. Accurate forecasting and planning can make the difference between success and failure. While no one can fully predict the future, success depends on projecting our best thinking into the future. Then building a strategy and plan to get there. General Grant, when asked if his decisions were always correct, responded: "No, I am not always correct but I will soon find out if I am wrong then I can do the other." By looking into the future and measuring the actual results against that forecast, we will have an op-

portunity to make the necessary adjustments to assist in obtaining the best possible results.

The Goals and Controls program is used in a variety of forms by many of America's premier companies. While the names differ, the underlying theme remains the same: Assign accountability to managers who have P&L responsibility. Then measure and account for performance on a monthly, quarterly and annual basis. This should be done against the Annual Operating Plan (AOP) and quarterly 12-month rolling forecasts.

This is not a reporting system, but a management planning system. While the output is a combination of financial reports, metrics and statistics, the true success of the program is the participation of the key leaders in running the business. Participation serves to engrain the process within the culture of the organization, requiring key employees to think about the business and the environment in which they are operating. Successful leaders think beyond their day-to-day activities to create a positive future.

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THE GO AWAY ANALYSIS

The Go Away Analysis is a very effective tool in accessing how a particular customer, product or service affects the profitability of your organization. This is an activity based analytical tool. The analysis gets its name from the premise that if the customer, product or service were to go away more costs would be elimi-

nated than revenue earned.

This analysis requires that costs be assigned not allocated. Costs must be fully assignable to customer, product line and service. Both variable and fixed costs would be assigned in this analysis. Shared, fixed costs such as depreciation and building

costs should not be used in the analysis. To successfully utilize this you must understand the behavior of how your costs are incurred.

Growth in sales and no incremental profit indicates a possible Go Away candidate.

KNOW YOUR COSTS

Knowing your costs should be a basic for any manufacturing company. The costing method should be suitable for the product the company is manufacturing and the skill sets of the employees within the organization. It does no good to have in place a sophisticated process if the process gives you incorrect product costing.

There are both statutory costing systems and business costing systems. Inventory absorption is a statutory system initially created by the IRS for inventory valuation purposes. A direct cost system is a management costing system. Understanding the difference is critical to measuring and understanding business operating performance.

There are a number of methods to determine product costs, actual costs, standard costs, job cost, process costing, direct costing and activity based costing. Within each of these processes direct material, direct labor, variable and fixed costs need to be properly defined. Data integrity is an essential component needed to build an effective cost system.

ACTIVITY BASED BUSINESS MODEL

The Activity Based Business Model can be a very powerful tool to re-evaluate a business model. The ABBM process is designed to have management stop and access the model their business is operating with and to evaluate if that model is still valid. The process is designed to:

- Identify Customers, Markets and Channels
- Identify Products and Services
- Identify Cost Drivers
- Identify Customer, Equipment, Technology and People Resources.
- Rebuild Business by Channel, by Functional Areas

- Develop Resource Chart
- Develop Income Statement around new Model

This exercise should be done and/or updated each year as the prelude to both the budgeting and strategic planning process. This process becomes a visual foundation for identifying tangible and intangible resources. This is not a replacement for the budgeting, forecasting and long-term planning processes. The main output of this process is the resource chart, a visual map of where your resources are utilized within the organization

The process challenges the management team to rethink who their ideal customer is and how the business supports the existing customer base. Companies in difficulty are the first to see value in this process. However, success is a double edge sword. A growing, profitable company may not have an effective business model in place. Successful companies can become fat. The ABBM process will keep a successful company focused on the needs of the organization and defining the wants of the organization as investment .

THE RULE OF THREE

I was at a client several years ago and as I walked through the office and factory area, I saw over fifty posted metrics. Later I visited the customer service manager who showed me his white board, which included over thirty action items. I asked him which were the most important... his response, "all of them".

This organization was having trouble focusing. They spent so much time analyzing data that the time spent on improving activities was minimal. These managers were working sixty hours a week. They were paralyzed by analysis. They were frustrated that all their hard work was not yielding the expected results.

The Rule of Three simply states that each manager should have a maximum of only three active improvement activities. This will keep managers focused, activities prioritized and allow tasks to be completed in a timely manner. Better results less stressed and happier employees will be the result.

The plans need to be understood by all employees . They should be kept SIMPLE!

THE INCENTIVE PLAN

Upper management and sales associates in most organizations have some type of incentive plan. Some organizations include all employees in a profit sharing plan.

The incentive plan should not be confused with a profit sharing plan. An incentive plan needs to reward for activities under the control are in concert with the owners

of the employees being incentivized. This would result in differing incentive plans for each functional or activity area. Sales, manufacturing, administration and managers should have incentive plans that have both common and functionally specific criteria.

An incentive plan can be a godsend or a curse. Greed is good when the objectives being rewarded are clearly defined and

Are in concert with the owners objectives. Sometimes plans can be so complex that they are not understood, while some plans incentivize the wrong behavior.

Incentive plans need to be kept simple and be understood by the employees on the plan. The plan must be attainable and provide superior rewards for truly superior performance.

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Solutions not Reports



*The Answer
Should have used
your
Fingers!
One, Two, Three,
Four, Five, Six,
Seven, Eight,
Nine, Ten, etc.*

Jack Bardol received a Bachelors of Science Degree in Accounting from Northeastern University and an MBA in Finance from Suffolk University in Boston Massachusetts.

He has twenty-five years of experience working for public companies such as York International, General Signal Corporation and GTE as well as private companies such as MKS Instruments and Office Environments of New England. He brings a perspective from both the public and private sectors.

He has held the positions of General Manager, VP Operations and Information Technology and Vice President of Finance.

Jack's industry experience has included successfully



leading several acquisitions and business integrations, Business system upgrades and a several new system implementations. He successfully participated in several turnaround situations. Additionally, Jack has implemented an activity based management system and both a direct cost system and

activity based cost system.

Jack teaches part-time in the college of Business Administration of Penn State University.

Since March 1999 Jack has been providing consulting services for manufacturing companies. The companies produce a variety of products, including air-conditioning systems, vinyl windows, Labels, polyethylene pipe, Industrial fans, Vinyl fence deck and rails, metal stampings and Vinyl siding. These clients range in size from a 10 million dollar organization to multi-plant 250 million dollar organizations.

Profile: Bardol & Company Services

Activity Based Business Model: (Defining the Business Model)

- Identify Customers, Markets and Channels
- Identify Products and Services
- Identify Cost Drivers
- Rebuild Business by Channel, by Functional Areas
- Develop Resource Chart
- Select Employees to fill Organization
- Develop Income Statement around new Model

Business Assessment: Review business operations to assess opportunities for profit and valuation enhancement. Process entails interviewing key operating managers from different functional areas. This process focuses on the key line managers, not senior managers or owners.

Business Acquisition & Integration: Provide the full cycle of handling an acquisition from the initial assessment, due diligence review, negotiation of purchase price, financing and integrating the acquisition into existing operations.

Business Systems: Provide support to clients in the set-up of business processes and in the implementation of new business packages. This support is focused on developing effective business processes, which fit the ERP system being utilized. Experienced with JD Edwards, Oracle, Mapics, Macola and Great Plains.

Activity Based Cost and Estimating System: Design and implement cost systems, which allow management to make accurate pricing and investment decisions.

Business Planning and Forecasting Systems : Customize a forecasting model to reflect each client's business. Train managers throughout organizations to re-plan their business on a quarterly basis insure that all understand the link between the business planning and quarterly forecast. Design an incentive plan that will "Reward" the key managers for meeting and exceeding their business plan.

Educational & Training Seminars: Provide customized training for organizations in the area of Linking Metrics to continuous business improvements, building the ABBM process

PROFILE: JACK BARDOL