

We Thought You'd Like to Know

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Gene Siciliano, CMC

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8351 Vicksburg Ave.
Los Angeles, CA 90045-3924
310-645-1091
fax 310-645-1092
E-Mail
CFOForRent@aol.com

Web Sites:

www.expert-market.com/cfoforrent
www.speaking.com/cfoforrent.html

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Financial Management Lease vs. Buy?

The question still comes up regularly: Should we lease or buy the equipment we will need next year? About half the time the questioner is actually asking which method is least costly.

The answer will always be: Leasing is more expensive. The leasing company is buying the asset you want, usually from the same source you would, and then leasing it to you. Another layer of operating cost and profit (the leasing company's) has been added to the transaction, and their buying power will almost never lower your cost below what you could have gotten it for directly.

So why lease at all?

The answer will always be one of these:

- ▲ to conserve your scarce capital resources, the cash you would otherwise invest in purchase, or down payments for installment purchases.
- ▲ to obtain credit from a source that will not impact your bank bor-

rowing limits.

- ▲ to obtain credit when you are not otherwise "bankable."

The answer will never be: to save money.

Does this make leasing good or bad? Neither. Does this mean leasing will lower your profits? Not necessarily. If you are a growing company, thirsty for capital and with good profit margins, we will almost always recommend you at least consider leasing, even at higher cost. It preserves capital that may not otherwise be available, capital that can be used in your business to generate profits in excess of the added cost of leasing.

If this is not clear, please call us. We'd like to help you.

8 Key Budgeting Tips for First Timers

Most companies with sales under \$10 million, and some much larger, don't use budgets to help

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Managing Change 8 Trends Shaping the 21st Century

Happy New Year! Another year is past, and we move another step closer to "the millenium" that the media likes to write about. Business was good last year for most folks we talked to. And most expect it to be good in 1998 as well.

For those of you who make New Year's Resolutions, we'd like to suggest long-range thinking deserves a spot on your list.

We believe corporate managers and business owners must keep abreast of future trends, and actively consider them in their long-range plans, to avoid being victims of change.

To begin 1998 in the right frame of mind, we looked for guidance to the pronouncements of the World Future Society, brought to us by fellow National Speakers Association member Sid Madwed. The futurists believe these 8 major trends will shape the next 100 years:

1. **Population.** The world's population will double again by the year 2050, they say (*Ed.:that's really hard to imagine, isn't it?*).
2. **Demographics and diversity.** We believe they are speaking to the greater commingling of the

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Executive Search Outlook

Companies soon to be looking for a chief financial officer should be interested in the results of a 1996 national survey of CFO compensation, conducted by CFO Magazine and William M. Mercer Inc.

HIGHLIGHTS:

- ▲ Companies up to \$50 million in sales paid on average \$122,000 in salary. Companies in the \$50 to 100 million range paid \$142,800. Privately owned companies paid about 78% as much as publicly traded ones.
- ▲ Bonus paying companies added an additional \$37,800 (up to \$50 million sales) and \$39,500 (\$50 to 100 million), respectively.
- ▲ Bonuses were based on net income (52%), return on capital invested or equity or total assets (42%), and sales (20%).
- ▲ Nearly 90% of companies surveyed included some form of incentive pay, and over half made stock ownership part of the package. *(Ed. Those granting stock are mostly publicly owned companies)*
- ▲ Average tenure of CFOs was short, over half stay less than 3 years, and only 25% stay longer than 7 years.

Because this survey commingled public and private companies, the ranges may be a bit high for our readers, who are predominantly privately-owned companies. Public companies with SEC reporting requirements typically must pay more for that kind of experience. Still, the data is pretty close to our experience for qualified people who truly fill CFO-level responsibilities. Complete survey results are available at <http://www.cfonet.com/html/compsurv.html>.

Incidentally, beware of flawed survey data on such subjects. We recently read an Inc. Magazine article that quoted CFO salary expectations from Robert Half International. They indicated 1997 base salaries for CFOs as \$62K to \$88K for companies with sales less than \$50 million.

Don't you believe it for a minute. Even Robert Half, whose business is typically providing lower level employees, should know that qualified CFOs don't come for the price of a staff accountant or controller. It is still true that you get what you pay for in the long run.

Remember our time-tested advice in this area: Hire the best people you can afford. Pay them what they're worth. Expect exceptional performance. You will always get a greater return for your company. ★



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- Earth's diverse peoples, and the need to create opportunity for all to thrive.
- 3. Education. Handling the knowledge explosion so we gain the benefit rather than being overwhelmed with information.
- 4. Technology. No argument here, as anyone in Southern California knows. The trick is to embrace it, not be fearful of what it brings.
- 5. Food. There is now enough food being produced in the world to feed everyone. Only politics and fear keep re-distribution from solving the age-old problem of world hunger. *(Ed.: How's that for a sobering thought for the new year?)*
- 6. Energy. The world's economy needs unlimited sources of fuel to keep going, or nothing else matters.
- 7. Communication. The key to peace and prosperity is open communication, a trend that some experts credit with the end of the cold war and the capitalist revival in the Communist world.
- 8. World Trade. When all cultures find a way to blend their skills and produce abundance for all, there will be world peace as it was intended.

If you are unclear how any of these might affect your company, maybe they don't. Then again, maybe you could use a fresh look from an outsider. Ask yourself:

- ▲ Has it been more than 18 months since you've had a strategic planning retreat with your management team?

Practice excess.
 Risk more than others think is safe.
 Care more than others think is wise.
 Dream more than others think is practical.
 Expect more than others think is possible.

Cadet maxim, West Point Military Academy

Managing People

Labor shortage — the dark side of today's growth economy

The shortfall of good people in critical skill areas, from computer programmers to accountants to machine tool makers, is hampering many companies who would otherwise see almost unlimited opportunity to grow in today's economic environment. We asked Roger Herman, Certified Management Consultant and expert on hiring and keeping high quality employees, for some advice on dealing with this issue. He told us:

"Today's labor shortage raises many issues about strategies. We can no longer afford to simply hire whoever walks in the door—few good people will. The smart strategy today is to actively recruit for current AND future needs. Some specific guidelines:

- ▲ Hire carefully. Establish careful criteria before interviewing and be very selective.
- ▲ Do everything you can to hold your good employees. After hiring people who meet your standards, give them a strong "big picture" orientation. Assure that they'll be involved, get plenty of training, and know that they're appreciated.
- ▲ *Remember:* Uncontrolled employee turnover is very costly! It is always more profitable to keep good people than to find replacements."

To help companies implement his suggestions, Roger has produced a comprehensive self-study program for business managers. *Keeping Winners* is a powerful multi-media training package on employee retention. It includes *Keeping Good People*, Roger's business best-selling book, 6 audiotapes, 6 videotapes, a study guide, and more. *Human Resource Executive Magazine* just named *Keeping Winners* as "one of the top ten human resource products of the year." Roger Herman can be reached at (800) 227-3566 or by e-mail to roger@herman.net. ★

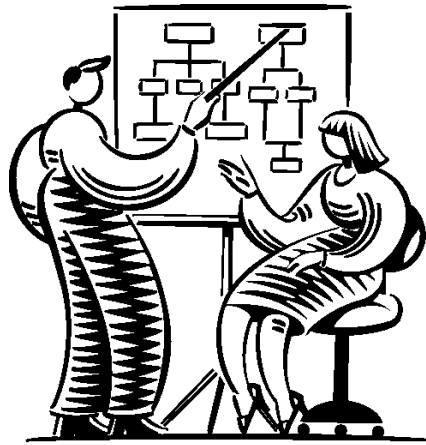
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them meet profit goals. CEOs and operating owners reason, we are often told, that the effort to learn how to build, and then use, workable budgets is just too much. They seem to feel it's more frustrating than just hoping the numbers will all work out, if they only sell enough widgets or services or whatever.

We won't quote business failure rates among companies in this size range, nor the steady stream of survey findings that say lack of good management practices is usually to blame when a company falls short of its potential. We thought it would be more productive instead to provide some concepts that will make that first budget easier.

Our premise: Profit planning, or budgeting, is the most effective way to consistently meet profit targets and avoid costly surprises.

Our target reader: the CEO who has at last decided it's time to begin controlling the bottom line with some of the same tools they use to control the top line.



Here are our 8 tips for your consideration, taken from our new audiotape seminar *Money, Money, Money — Making the Business Work*:

1. A budget is not the forecast you put together on the weekend to impress your banker. It must be the result of coordinated input and effort by you and your top management team.
2. Regardless of how tough it may be to estimate the future, you will get closer, and be better able to control the results, if you actively use a budget.
3. Any business can be budgeted. The only question is how much practice it takes to strike a balance between time invested and forecasting accuracy.
4. Use a Gantt chart to track deliverable dates for budget completion. As with any project management tool, it will tell you if you've scheduled too much to be completed in too short a time, given other business activities that also require your team's participation.
5. Accurately predicting actual results is not the objective. Giving your company a direction to use for course corrections, at the level where it matters, is what it's all about.
6. You have a set amount of resources available to you. If you must spend money for something you didn't budget, then decide what budgeted expense can be removed to "finance" the new item. Without that discipline, you will almost always overspend, because there are always good reasons to spend money. They don't always produce more profit, however.
7. Every budget should have profit targets and cash flow targets, because they're different and they require different kinds of attention to prevent unpleasant surprises.
8. With budget comparisons in hand, ask your team these questions every month:

- ▲ How are we doing compared to budget?
- ▲ What must we do to have a better result next month?
- ▲ What are we learning that will make next year's budget better?

Now you have taken the first steps to making your budget goals a reality. Have a great year! ★

For Your Computers

Best Software Products of 1997

PC-based software products continue to improve, and the newest versions have moved further in the direction of becoming largely independent of documentation that no one reads anyway. In fact, the increase in opportunities to obtain software product upgrades via Internet web site downloads simply furthers that trend. As a result, getting well-designed products is more important than ever. According to *PC Magazine's* annual roundup, here are the best products offered in the past year. We've placed an asterisk (*) by those where our personal experience supports their choice.

Application Suites

Microsoft Office 97*

Professional desktop publishing

Adobe PageMaker 6.5

Personal desktop publishing

Microsoft Publisher 97*

Business diagramming

Visio Professional 5.0

Personal Finance

Quicken Deluxe 6.0*

Web browser

Microsoft Internet Explorer 4.0*

Web authoring

Microsoft FrontPage 97 ★ *Source: PC Magazine, Jan. 6, 1998*



Personal Stuff

Shopping for Auto Insurance?

If you don't shop your auto insurance periodically, you should. Insurers are notorious for their widely varying pricing, even for identical coverage. Now Consumers Union, publisher of *Consumer Reports Magazine*, offers help in the form of a pricing service. You tell them what you drive, who drives, how much, and what your driving records look like, and they'll scan as many as 70 policies for the coverage you want, and send you a report of up to 25 lowest priced policies available.

You then compare and choose the insurer you want. Even if you have no intention of changing from Old Farmland, or whatever, you owe it to yourself to do the comparison. Cost is \$12 for one car, \$8 for each additional car. Call them at (800) 374-7434. Incidentally, they have a similar service for new car buying.



Home Mortgage Arithmetic

You've probably all heard of the techniques for lowering the cost of your mortgage by making half payments every two weeks or semi-monthly, but here's a new twist from *BOTTOMLINE/Personal*:

1. Pay an extra \$10 a month in the first year of your mortgage.
2. Pay \$500 extra annually out of your income tax refund (Doesn't everyone get one of these?)
3. In the second year, increase your extra monthly payment to \$20
4. Again pay \$500 at the end of the year.
5. In the third year, increase your extra monthly payment to \$30.
6. And so on through the life of the mortgage.

A typical 30-year fixed-rate mortgage will be paid off in less than 16 years, with huge savings in interest costs as a result. Neat, huh? ★



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- ▲ Do you find daily affairs so time-consuming that no time remains for strategic thinking?
- ▲ Do you worry that ignoring long-term issues will hurt your company's profitability? We can help.

Overtime pay rules changed

Beginning on January 1, 1998, the state of California no longer requires daily overtime or double time for hours worked in most state industries. These include occupations and industries covered under Wage Orders for manufacturing, professional, transportation, mercantile, and various other occupations. Check with your HR advisors or labor attorney for exact applicability to your company. A recent survey of 678 companies by The Employers Group found that 73% of employers plan to adopt the new rules, which require overtime pay only after a 40-hour week, and only 10% plan to keep all the old rules.

This has got to be a touchy subject for employees. These changes, if adopted, can create serious employee relations issues, and you should consider such a move only after carefully laying out a program of employee education and policy manual review. A less careful implementation could cost you more than you might save. If you don't have a trusted advisor on such matters, call us for a referral. ★

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