

FINANCIAL MANAGEMENT: A KEY TO BUSINESS SUCCESS

SUMMARY

Financial management is much more than just keeping your company's bills paid. Financial management involves thoroughly understanding your business in dollar terms; knowing its competitive strengths and weaknesses; setting goals for the future; planning the best means of achieving your goals; evaluating your progress; protecting your financial interests through proper review and documentation; and preparing for business succession.

FINANCIAL MANAGEMENT FOR BIG COMPANIES ONLY?

Why get involved with financial management when there never seems to be enough time just to keep up with the constant changes in technology, regulations, customer relations, and marketing techniques? After all, isn't an accounting background necessary to comprehend financial facts and figures? Besides, as a practical matter, isn't financial management something that only the big companies can use to improve their profits?

Not so! Financial management is every bit as important as product knowledge, shop floor control and sales expertise in increasing profitability and promoting sound business growth. Proper pricing, cost control, management of company assets and maintenance of financial stability are all absolutely vital elements in long-term business success, regardless of the size of your firm.

In addition, your ability to enjoy the full financial benefits of your company's success and to transfer the full value of your ownership rights will depend on avoiding legal disputes regarding executive compensation and business valuation. IRS claims, minority shareholder lawsuits, divorce settlements and estate tax disagreements can all affect the value you (or your heirs) will receive — and the financial impact may be equal to many years of personal income. To protect your financial interests, you must make a periodic review of your business activities and prepare proper documentation covering such factors as the basis for awarding executive compensation and the method of determining your company's value.

FINANCIAL MANAGEMENT TOOLS AVAILABLE

Your association provides you a wide range of practical publications which will assist you in the financial management of your company. Read them. You will find that you already understand many of the basic concepts from your own business experience. At the same time, the step-by-step guidelines will also give you new ideas and specific facts and figures for improving your day-to-day operations and your long-range planning. NTMA publications help you to increase your knowledge of financial management and focus that knowledge to make better business decisions.

Your accountant has already taken the first step in financial management — describing your company in dollar terms — by providing you with an operating (profit and loss) statement and a balance sheet. To help you understand the story contained in your financial statement and evaluate your company's competitive strengths and weaknesses, NTMA publishes the Operating Costs and Executive Compensation Report specifically for contract metalworking executives. This important management tool provides sound industry standards for measuring your company's operating performance and financial structure. The Instruction Manual for the industry contains explanations, worksheets and guidelines which show you how to analyze your own financial statement in relation to these standards.

Setting goals for the future, planning the best means of achieving your goals, and evaluating your progress are also made easier by other management tools provided by your association: the Business Management Advisories, the Costing, Pricing and Financial Management Manual, the quarterly Business & Customer Forecast Reports, and the annual Wage and Fringe Benefit Report, all published by NTMA.

These valuable association services make financial management techniques available to every metalworking executive. You do not need a course in bookkeeping or accounting to apply the practical techniques outlined in NTMA materials. And, every company — regardless of size — will profit from sound financial management.

INDUSTRY BENCHMARKS

Actually, you need to apply a few simple techniques of financial management just to determine whether your last few months of operation have been successful. If net sales were up by 10% and your personal compensation also rose by 10% compared with the same period last year, would you consider that successful performance? To answer that question, you need additional information and certain standards of measurement. You would have to examine your company's net profit, the amount of capital you have invested in producing that profit, the compensation of other metalworking executives, the profitability of similar companies, and the rate of inflation before you could say whether or not your company's performance was truly successful.

Over the short term, you might reasonably believe that your company was successful by simply earning enough to pay your bills. But the long-term survival and growth of your company will require a sound understanding of all financial aspects of your business, particularly expense patterns, profit margins and underlying financial structure. In actual business experience, many profitable companies have ended up in financial difficulty because of poor management of accounts receivable, inventory, and fixed assets or inadequate understanding of cash flow and financing arrangements.

And, of course, successful financial management goes beyond next month and next year. Personal transition from shop supervision to company administration, building the value of your business to provide for your eventual retirement and the security of your family, planning for future manage-

ment succession and the continuation of your business, and providing for the unexpected (death or disability) — all these considerations fall under the heading of financial management. They all require a basic financial understanding of your company in order to achieve your financial goals.

Most of the preparatory work and much of the analysis relating to financial management can, if necessary, be delegated to others within your company or to your financial advisors: your accountant, your banker, your lawyer, or an outside consultant. However, the essential management decisions should be made by you, the company owner. To help you weigh the alternatives and choose the right path for your unique business organization, NTMA has provided you with valuable management tools.

Occasionally, despite careful planning and regular financial reviews, a legal dispute will arise with respect to executive compensation, company profitability or the value of the business. In such cases, the management tools published by NTMA can also be extremely valuable in defending your personal interests, as well as the interests of your company. The Internal Revenue Service and the courts of law have repeatedly recognized industry statistics, such as those published in the Operating Costs and Executive Compensation Report and the Wage and Fringe Benefit Report, as highly important evidence in determining the appropriateness of executive compensation, management practices and business valuation. Expert testimony based on these reports has proved helpful to NTMA member companies.

This BMA was prepared by Barry E. Miller, Financial Management Consultant, Reading, PA. The Barry E. Miller Company prepares the Operating Costs and Executive Compensation Report and the Wage and Fringe Benefit Report for NTMA. Mr. Miller serves as a consultant to NTMA members and has appeared as an expert witness on behalf of member companies.