

## USING YOUR NTMA OPERATING COSTS AND EXECUTIVE COMPENSATION (OCEC) REPORT

### SUMMARY

**The Operating Costs and Executive Compensation Report published annually by NTMA will help you to achieve higher profits, greater personal compensation, and more stable company growth — if you use it.**

### MEASURE YOUR PERFORMANCE

By using the Operating Costs and Executive Compensation Report, you can compare your company's performance with that of similar metalworking firms, identify your competitive strengths and weaknesses — and make improvements wherever necessary. This annual industry report, which describes the real-world performance of several hundred tooling and machining companies throughout the country, can help you in two ways:

- By giving you sound, reliable, industry standards for measuring your company's performance; and,
- By explaining how to analyze your company's financial statements in relation to these standards.

To survive and prosper, every company must achieve two equally important financial objectives: profitable operations and a sound financial structure. To assist you in making better business decisions, the Operating Costs and Executive Compensation Report devotes equal emphasis to the operating (profit and loss) statement and the balance sheet. In two editions (one for companies with ten or fewer employees and one for larger firms), this report displays cost and profit data, as well as key financial ratios, for seven industry classifications and nine sales volume categories. In addition to the detailed explanations and special worksheets in each section of the statistical report, the Instruction Manual contains further written explanations, guidelines and graphic illustrations to help you understand the fundamentals of financial management.

Detailed data about executive compensation is also displayed in the Operating Costs and Executive Compensation Report. This information can be used as a yardstick for establishing salaries and bonuses for key personnel, and for

measuring your own compensation in relation to that of other owners and managers in similar metalworking firms.

### EXTERNAL USES

Although the internal management applications of industry benchmarks are fully described in the report, several other uses should also be considered:

- Share the report with your accountant so he/she will be better versed about competitive conditions in the contract metalworking industry. By referencing the best available data about metalworking "job shops," he/she will be able to offer more knowledgeable financial advice and design the accounting records and reports most suited to your specific needs.
- Review the report with your banker — after you have familiarized yourself with your company's comparative position within the industry. You can use the report to demonstrate your relative progress or to illustrate your company's profit potential, in order to put your banking requirements in perspective.
- Use the Operating Costs and Executive Compensation Report in documenting key management actions, such as recording the basis for awarding executive compensation and setting forth a method of determining the value of your company. Such documentation is extremely useful in avoiding (or defending against) legal disputes relating to the reasonableness of compensation, business valuation, estate and gift taxes, and management practices with respect to minority shareholders. In fact, whenever more than one shareholder is involved in the business, a properly drawn, up-to-date buy/sell agreement is a virtual necessity; and the industry statistics can be used to support the appropriateness of the valuation formula that should be part of any such agreement.

- Provide the report to your financial advisor when developing long-range plans for retirement and business succession. By understanding more about the characteristics of the industry, he/she will be better able to deal with such factors as achieving the proper financial structure to maximize the selling price or having sufficient liquid assets to fund the transfer of ownership to an employee or family member.
- In case of a legal dispute, give a copy of the Operating Costs and Executive Compensation Report to your lawyer to assist him in preparing for negotiations or for trial. The Internal Revenue Service and courts of law have repeatedly recognized industry statistics, such as those contained in the annual NTMA report. As important evidence with respect to executive compensation, business valuation, and management practices. Expert testimony based on industry benchmark data has also proved highly useful to NTMA members.
- Use the Operating Costs and Executive Compensation Report and the Wage and Fringe Benefit Report to demonstrate to key employees the generous compensation features offered by your company — particularly fringe benefits, which are often taken for granted, but have substantial monetary value.

The Operating Costs and Executive Compensation Report is an excellent means of communicating financial information about the metalworking industry — and your company's relative position — to persons outside your firm. By making reference to the report, you also show that, as an active participant in a national organization, you are dedicated to improving your business management abilities and promoting professionalism throughout the industry.

You may wish to provide your accountant or other outside advisors with their own copies of the industry report each year. By having the report readily available, they can evaluate your company's competitive position and refer to specific sections of the report when discussing your company's current performance and your plans for the future. Additional copies of the report are available, for a small fee, from NTMA Headquarters.

## COMPUTER DISKETTE

NTMA members now have the option of submitting their financial data to the OCEC Survey by computer diskette. As with the standard (paper) questionnaire, there is no charge for

the diskette or for the comprehensive industry report that is sent to all survey participants.

A color-coded financial analysis module, which interacts with the data entry diskette, is available at a nominal fee. This special software will automatically calculate your company's operating percentages and key financial ratios, then call up a color code to highlight favorable and unfavorable results in relation to any OCEC group selected for comparison. In addition, the analysis module provides concise definitions and cause-and-effect observations in a "pop-up notes" format.

## INDIVIDUALIZED FINANCIAL MANAGEMENT REPORTS

In addition to the annual industry report, optional Individualized Financial Management Reports are also available to any participating member who wishes to receive a detailed explanation of his or her company's operating performance and financial structure. The individualized reports contain approximately 30 pages of written explanations that evaluate a company's specific financial factors in comparison with other firms of similar size and industry classification.

Each Individualized Financial Management Report reveals the company's competitive position in all key financial areas — operating performance, profitability, asset management, investment adequacy, debt structure, working capital, and executive compensation — and also contains an executive summary and specific suggestions for management consideration. Individualized reports are offered each year on a subscription basis to members participating in the industry survey.

You are urged to participate in the next Operating Costs and Executive Compensation Report. Every additional response will help your association to help you — by providing you with the most accurate and up-to-date financial information about the tooling and machining industry.

**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.**