

Manufacturer



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Sustainable packaging can boost bottom line results

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Don't bank on it

Manufacturers shop for a better banking experience

In the wake of recent economic uncertainty, manufacturers may be reluctant to make changes to their banking relationships. But, in fact, many companies are exploring their banking options.

According to an August 2010 survey by strategic consulting firm Greenwich Associates, 20% of midsize businesses and 16% of small businesses had requested proposals from new financial institutions in the previous six months. Can your manufacturing company benefit from a new banking relationship?

Reasons to make a change

Manufacturers willing to endure the arduous process of shopping for a new banking relationship are doing so primarily because they want:

Lower fees. Still reeling from the sting of a down economy, manufacturers are requesting proposals from competing banks in the hopes of securing lower interest rates and more palatable banking fees. Common charges include monthly service fees for checking and savings accounts, as well as fees for overdrafts, late payments, exceeding a credit card limit and exceeding the number of monthly transactions allowed for an account. A few missteps and these costs can add up quickly.

Before choosing a new bank, identify your company's specific needs and have an idea of what type of bank can fit the bill.

More capital. After months of financial prudence, manufacturers are beginning to seek access to more capital for things like equipment purchases and facility updates. Lending capacity varies from



bank to bank. So, for growing companies, switching banks could be the solution to an increasing need for cash flow.

Personal attention. The age of banking automation has left many business owners feeling less than satisfied when it comes to customer service. They're seeking banks that can provide helpful face-to-face service and direct responses to questions and concerns — without paying more.

Before choosing a new bank, it's important to identify your company's specific needs and have an idea of what type of bank can fit the bill.

Large or small?

If securing more capital is a priority, you may be inclined to go with a larger bank. But keep in mind that recent mergers within the industry have given smaller, community banks ties to larger institutions and therefore access to more funding and services.

Additionally, community banks tend to allow for more one-on-one interaction with loan officers and are often more likely to know and consider your company's reputation and character when making lending decisions.

Meanwhile, larger institutions are known for offering lower interest rates — something to consider if rates are a priority. Service fees vary from bank to bank, so be sure to ask about these charges. Smaller banks are more likely to be flexible, assessing fees on a case-by-case basis. And some banks may even be willing to negotiate fees during the bidding process.

Other considerations

Ideally, a bank should have services, knowledge and resources that allow it to accommodate your growing business now *and* in the future. The right bank will understand the manufacturing industry and be able to suggest useful services.

Some important business banking services to look for include discounted employee checking accounts, business banking programs designed specifically for manufacturers, wire transfers, merchant services, payroll services, retirement accounts and discounts on shipping and supplies.

When making your final decision on where to move your company's banking business, the extras could tip the scales. Although online banking is fairly common, not all banks offer online business services such as payment collection, payroll applications and invoicing capabilities.

It pays to shop around

Before embarking on a search for a new bank relationship, discuss the move with your company's financial advisor. He or she can provide a list of banks that understand your specific industry.

Keeping your company's banking options open — and evaluating the ways in which each bank meets your needs — can help benefit your bottom line and future financial success. ■

How will financial reform affect your banking relationships?

The 2010 financial reform law signifies some major changes for Wall Street, as well as for the banking industry. And what affects banks likely will affect your company's banking relationship. The question for many manufacturers is how.

The new law includes a number of restrictions on banking activity, regulating everything from capital to service fees. Although the law's long-term effects won't be seen for several years, the initial obstacle for banks will be the cost of compliance with the new rules.

Forecasters predict that this added expense will be passed on to business customers in the form of reduced credit availability. With less credit on hand and to avoid federal penalties, banks could become more stringent about whom they lend to.

In theory, compliance costs will hit smaller, locally based banks harder than larger institutions. If the bank you currently use falls into this category, you could see it make strides toward substantial growth or become one of the many small banks choosing to merge with larger, national financial institutions.



Make planning a seasonal product cycle more predictable

Distributorships in the business of handling seasonal merchandise know that correctly managing supply and demand can be the difference between being left with an empty warehouse (ideal) or the burden of leftover inventory (the result of poor planning) after peak season.

Accurately forecasting the demand for seasonal merchandise isn't easy, because there are many variables to take into account. However, you can better plan the boom and bust cycle of seasonal inventory by studying historical sales data, forecasting future demand and considering the unexpected.

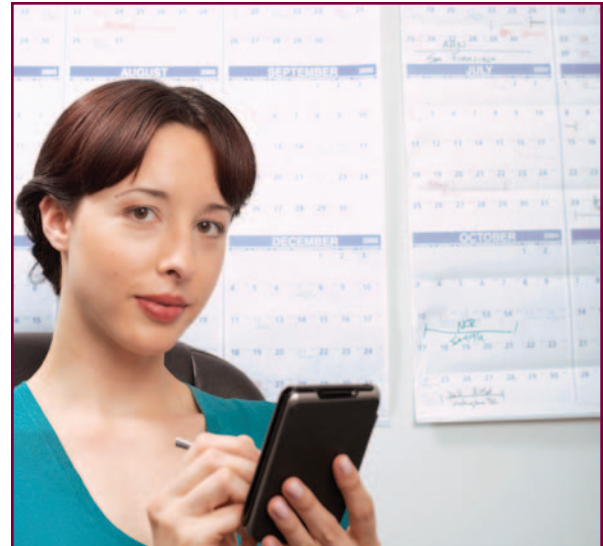
What sold in the past?

Before you can begin more accurately forecasting demand for seasonal products, you must carefully study historical sales patterns, homing in on products that show marked fluctuations in sales. Keep in mind that "seasonal" can have multiple definitions when it comes to product distribution. Consider products that are tied to the annual back-to-school timeframe, a holiday, or a type of weather, sport or leisure activity.

"Seasonal" can have multiple definitions when it comes to product distribution.

You may find some items span multiple seasonal periods. For instance, the seasonal period for cold weather gear may span fall through winter. And sporting equipment, such as basketballs and footballs, may sell during all four seasons, but sales are apt to peak during the professional sport's season.

Keeping accurate sales records will help you identify patterns and return on investment for products



over time. You can then better determine what types of seasonal inventory are smart investments based on their return.

What will sell (and how much) in the future?

Taking a rolling average of sales during the past six months with more emphasis placed on the most recent month is useful in forecasting demand for nonseasonal products — those that have consistent usage and sales. To help accurately forecast demand for seasonal products, on the other hand, you must take a *future* rolling average, which involves comparing a future period to the same time period from the prior year, with more emphasis on the month being forecasted.

So, if you're trying to forecast sales demand for seasonal summer items in June, you could apply an average from May through July of the prior sales year, placing more emphasis on the month of June. But because the sales data will be a year old, it may not reflect other variables that can affect the demand for seasonal products in the current year. Thus, you'll also need to consider overall trends in the growth or decline of your

company's sales, changing market conditions, competitor activity, and any conflicting events.

In any case, it's generally better for your bottom line if you sell out of seasonal items rather than warehousing the surplus stock until next year — although, if you run out too early, you'll risk disappointing your customers, who may then turn to your competitors. Using demand forecasting and inventory planning software can help you automate and simplify the forecasting process.

What's the X factor?

Combining an understanding of historical sales patterns with the use of future rolling average forecasting and an automated software package, you can significantly improve your distribution business's management of seasonal inventory.

But because unplanned occurrences are inevitable in a dynamic marketplace, a perfect demand forecast for products isn't just unlikely, it's next to impossible. A sudden economic slowdown or atypical seasonal weather, for instance, can put an unexpected damper on sales.

So what can you do to reduce or get rid of seasonal leftovers? Two viable solutions include

marking it down sooner rather than later or giving excess inventory to charity.

For the former, applying smaller markdowns while sales levels are still high can help entice customers to buy more, lessening the amount of leftover inventory and improving profitability. If you wait until the end of the season, you'll be forced to apply big discounts to move items, cutting deeply into your profitability.

For the latter, your distribution business may qualify for a tax deduction on seasonal inventory that you donate to a qualified charity. The available deduction will vary depending on factors such as the structure of your distribution business and the type of inventory donated. Your tax advisor can help you properly determine the applicable deduction.

Fewer variables, greater benefits

When handling seasonal merchandise, it can be the best of times (when demand is high) or the worst of times (when your warehouse shelves are full of products no one wants). Successfully planning a seasonal product cycle is no easy feat, but with some extra legwork you can reduce the variables and reap more of the benefits. ■

Powering down

Reduce operational costs by conducting an energy audit

For individuals, finding ways to reduce energy consumption is usually a choice — resulting from a decision to be more environmentally conscious, an effort to save a few dollars each month, or both.

For most manufacturers, however, energy efficiency has become a must-do measure. Why? Nearly every aspect of a plant, from overhead lighting to powering and cooling machines, requires energy. And as the oil and gas markets continue down a

volatile path, the energy that's used burns money that could otherwise be reinvested in the company. Instigating a large-scale energy reduction plan may seem daunting, but there are ways to make the process easier — and well worth the effort.

Determine current energy usage

Small steps can help reduce your plant's energy consumption, such as reminding employees to turn off the lights when they leave a room and



keep doors closed when air conditioning is running. But to make larger cuts that will truly benefit your bottom line, you need to review your plant's current power usage data.

Relying on your on-site meters may not give you accurate readings, especially if your local utility provider hasn't recently calibrated them. Instead, ask your provider for a report that contains your hourly usage. This report can help you pinpoint where and when you're using the most energy.

Conduct an energy audit

A gap may exist between your energy consumption and production demands. An energy audit can pinpoint ways to close that gap by identifying power consumption that can be cut when not directly contributing to productivity.

Conducted by a third party, an energy audit consists of an inspection of your plant's facilities followed by a detailed report on how you can reduce energy consumption. This analysis usually includes suggestions for behavioral changes, such as powering down machinery when not in use;

programming changes, including the incorporation of systems that control electrical current; and capital investments that can reduce long-term energy costs, such as equipment insulation.

Keep in mind that, even though some gas and electricity providers offer energy audits, many manufacturers typically seek the assistance of energy consulting companies. Utility-provided audits often are free, while the cost of an audit from a private consultant will depend on the size of your manufacturing operation. A less-expensive audit will be more cursory, yielding fewer suggestions, while a more-costly audit should dig deeper into your operation and result in more personalized, cost-saving advice.

Among dozens of other suggestions, an energy audit report may advise that a manufacturer:

- Repair leaks in machines powered by compressed air, such as motors, pumps and fans,
- Reduce cooling tower operation time,
- Install a second, separate HVAC system for IT equipment, which must be cooled 24 hours a day, and
- Run certain pieces of equipment during off-peak hours.

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Additionally, an energy consulting company can help your company get the best rates from your energy provider. For example, if your plant is located in an energy-deregulated state, where competition for the sale of gas or electricity is permitted, the consulting company may be able to recommend the most cost-effective energy supplier for your needs.

Once you've received the results of your audit, remember that the physical updates to your plant are only one part of a larger energy-reduction plan. The agreement and enthusiasm of your employees is just as important, because they'll be responsible for running new machinery, upholding the behavioral changes listed in the audit and making additional energy-saving suggestions as time goes on.

Make energy savings a reality

It's easy to assume that, by using less energy, you'll spend less on gas and electricity. An energy audit will tell you how much you can save — and exactly what you can do to make those savings a reality. By significantly lowering your energy costs each year and boosting your plant's efficiency, you'll streamline operations and have more cash on hand to grow your business. ■

Sustainable packaging can boost bottom line results

The shift toward implementing environmentally friendly business practices is nothing new among manufacturers. During the past few years, many have scrutinized their internal operations, adopting energy saving practices and eliminating toxic byproducts. And now, they're turning to sustainable packaging as the latest way to go green — not only because it reduces waste, but also because customers are demanding it.

The continuing consumer quest for earth-friendly products has led market research firm Global Industry Analysts to forecast that the global market for sustainable packaging will hit \$142.42 billion by 2015. Public demand for recyclable and biodegradable packaging has propelled manufacturers to innovate, finding more efficient ways to package products. This new practice has led to benefits for manufacturers as well.

A reduction in packaging not only can lower your materials costs, but also can reduce labor costs because your employees have less to assemble. Smaller packages can reduce your freight and warehouse storage costs. And another green packaging strategy — sourcing locally made materials — cuts down on supply chain expenses.

The first step in implementing environmentally friendly packaging is to work with your packaging vendor to update current designs and materials. Creating sustainable packaging typically involves reducing packaging size, choosing recyclable materials and developing an end product that will break down in a landfill. Many vendors and packaging designers now have access to software that provides environmental impact data for a specific design — a helpful tool in understanding the long-term effects of a packaging change.

When making a change to sustainable packaging, educate your sales and marketing departments on the positive environmental effects of the new packaging by providing qualitative and quantitative data. From a marketing perspective, leveraging this data will alert the public to your environmentally friendly efforts and serve as a differentiator in the buying process.



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Anglin Reichmann Snellgrove & Armstrong P.C. is a regional accounting firm committed to helping our clients in the manufacturing and distribution industries become more profitable through our involvement. We understand the challenges manufacturers face in the marketplace and offer support that ranges from traditional accounting, auditing and tax services to more proactive advisory services. In addition, we are experienced in working with clients doing business with the government and are able to assist with DCAA audits, contract costing issues and compliance with the FAR.

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**We would welcome the opportunity to
put our experience to work for you.**

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