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Bridging the generational gap

Succession plans for middle managers can ease disruption as boomers retire

You work hard to hire quality employees and help them develop into the middle managers who keep your projects moving smoothly every day. Are you equally attentive to what will happen if they leave?

Many manufacturers' succession plans begin and end with the keys to the executive suite. It's important to know who will take over when you or other senior executives leave, but the loss of a key middle manager can be more disruptive to your day-to-day operations. If your succession plan doesn't encompass midlevel managers, it's incomplete.

Who's going, who's coming?

To be most effective, your midlevel succession planning should start with understanding who's on your shop floor now — and who's going to be there five or 10 years from now. They're likely to be largely different groups of employees.

When it comes to drafting a succession plan for middle managers, you must consider the skill sets they'll need to direct a diverse, changing workforce.

The Conference Board (which prepares the Consumer Confidence Index) estimates that 64 million skilled baby boomers will be eligible for retirement by 2010. After they retire, you'll have a workforce composed of Gen Xers (born between 1965 and 1976) and Millennials (born between 1977 and 1998).

These younger generations of workers typically don't approach work the same way as boomers, and Gen Xers and Millennials approach work differently as well. And unless your middle managers know how to manage and mentor this intergenerational workforce, you may experience a high turnover rate. If managed right, though, you'll have a built-in stable of high performers who are quite likely to be ready to shoulder more responsibility when the time comes.

Gen Xers, generally, don't want someone looking over their shoulders. They view their bosses as colleagues,



and they value feedback and suggestions more than detailed instructions. Millennials, on the other hand, are team-oriented and seek feedback, but they typically don't expect to stay with a job for long.

When it comes to drafting a succession plan for middle managers, you must consider the skill sets they'll need to direct a diverse, changing workforce. Tomorrow's leaders are likely to benefit from experience in a multicultural, as well as intergenerational, environment, for example. Look at your existing workforce to determine the types of managerial skills your middle managers will need five or 10 years from now, as well as the operational and business acumen they must acquire.

Seek feedback from all

A top down/bottom up succession-planning approach may work best to address each group's expectations. Ask your senior managers to share their assessments of high-potential employees with each other and with human resources personnel. At the same time, ask your possible future leaders for their thoughts on their jobs and the company as a whole.

Comparing the responses can lead to valuable insights not only about your most promising management prospects but also about the skills and personalities you should look for in new hires. It also may point you toward leadership training or managerial adjustments you may need to assure harmony among the generations.

Train for future responsibilities

Once you've identified potential managers, create plans to give them the experience and training they'll need. Whether your development plan spans one year or five, it should include concrete objectives that are linked to annual performance reviews — for both the budding managers and for senior managers charged with nurturing them. Unless succession planning has visible support from top management, it won't be a priority and will thus be less effective.

No stopping required

Succession planning for the generation gap will make it more pleasant to come to work, but it also can boost your bottom line. When you promote from within, you're more likely to retain key employees. But most of all, you're ensuring that one foreman's departure doesn't bring an entire line to a stop. ■

The steep cost of turnover

Succession planning does more than ensure your business operations will continue if someone leaves. It also helps you retain your most talented workers.

Manufacturers already are aware that the pool of skilled workers is shrinking. But they may not know how much turnover costs them. According to a 2005 study by the Institute for a Competitive Workforce, per-employee turnover costs — including additional hours to make up lost time, the time and cost of finding a replacement, and hiring and training expenses — range from about \$20,000 for a customer service representative to more than \$57,000 for middle managers.

Add in indirect costs, such as losses in productivity, sales, knowledge and experience, and turnover may become an expense many manufacturers can't sustain. Flexibility may help. For example, manufacturing isn't well suited to telecommuting, but it may accommodate job sharing or flexible hours. That, in turn, may increase employees' job satisfaction and encourage them to stay.

If you look at your operations from a new perspective, you're likely to find room to bend. You also may find that it will keep you from breaking.



No business plan? It's never too late

The biggest mistake any manufacturer can make with a business plan is not to have one. Even if you're not seeking a loan or outside investors, a well-developed business plan is — or should be — a guide to the future. It will tell you where you're going and how you'll get there, as well as pointing out the sights you should see along the way.

Start with the basics

Any business plan should begin with goals, responsibilities and deadlines, and end with practical implementation and review strategies. For manufacturers, a business plan should cover several key points, including product details, marketing and sales capabilities, customer characteristics, market position, and where your facility is located in relation to potential customers.

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In addition, a manufacturer's business plan should explain the equipment you use now and whether you'll buy additional equipment in the near future. The latter is particularly important if you're anticipating a new product launch.

In that case, your plan should articulate how you'll move the product from concept to market. Some points to address include:

Strategy. Who will do the work? How will you decide whether to outsource some components?

Quality. Will you seek ISO certification? Who will be responsible for internal compliance and quality control?

Assembly. How will the product move through your factory? Where are bottlenecks likely to occur?

Parts. How will new parts be incorporated into your existing processes? How will you address differences

in part numbers among vendors and between you and your vendors?

Capital expenditures. Will a product require new machining or additional operators? What about maintenance and changeovers, utilities, and operator training?

And, of course, you'll need to include projected profit and loss accounts, balance sheets, and cash flow forecasts whether you're anticipating a major product development effort or not.

Get some help

Typically, a business plan isn't something you can produce by yourself. You'll need to collaborate with your senior management team to determine your objectives, mission and keys to success. You'll also do well to encourage input from middle managers and line workers to help verify that your ideas are workable and that you haven't overlooked potentially significant pitfalls.

Preparing a business plan forces you to be realistic. If your plant produces 100 gizmos per day, for example, you can't base a business plan on 200 per day unless you have concrete strategies to boost production.

Also, a formal business plan clearly identifies future goals, which helps you focus on what's required to meet them. If you're planning to introduce more sophisticated technology to your shop floor in two years, you may want to start researching vendors and equipment during the next six months.

Know what's coming

A solid business plan means you have considered every aspect of your business and that you know how you'll handle failure as well as success. It isn't a one-time thing. You should spend a few hours every month or two to update it as circumstances require. Doing so can save you a great deal of time and money — it may even save your business. ■



Two good reasons to think of taxes now

The end of the year is fast approaching, which means it's a good time for manufacturers to take stock of their financial and tax situations. Your company's taxes aren't due for a while, but you may be able to make them less painful if you act before year end.

Some standard year end strategies have withstood the test of time and remain as valid today as in years past. For example, it's generally still a good idea to defer as much income as possible to next year and to pay as many bills as possible before Jan. 1.

The big news this year is that the Economic Stimulus Act of 2008 offers some one-time-only opportunities to save on your taxes. The act offers a 50% first-year bonus depreciation for businesses of any size. And it nearly doubles the limit on Internal Revenue Code Section 179 expensing for smaller companies.

Depreciation on steroids

If you acquire and place in service new equipment before the end of the year, you can depreciate 50% of the purchase price the first year. That's in addition to the percentage of the remaining basis that you're already able to depreciate according to regular IRS rules. So, for example, if you buy a \$100,000 forklift before Jan. 1, you can depreciate \$60,000: \$50,000 under the Economic Stimulus Act and another 20% of the remaining \$50,000 in basis.

Bear in mind that you must buy the equipment new, and it must be depreciable over 20 years or less. And simply buying the equipment isn't enough. In most cases, it must be placed in service before Jan. 1, 2009.

Expense at will

The new law also breathed significant new life into the Sec. 179 expensing election. For 2008, smaller businesses can expense, rather than depreciate, up to \$250,000 worth of business equipment and software put in service by year end.

Don't get too carried away, though. If you buy more than \$800,000 in equipment this year, your Sec. 179 deduction will start to decrease. For every dollar over



\$800,000 you spend, your deduction decreases a dollar. Thus, if you buy \$900,000 worth of equipment, your Sec. 179 deduction will be \$150,000. And if your equipment costs hit \$1.050 million, you won't be able to use the Sec. 179 deduction at all.

Remember, too, that \$250,000 is the federal maximum. The state in which you operate may not have matched that increase, in which case you'll need two sets of depreciation schedules — one for the IRS and one for the state.

Find the best fit

There is no one-size-fits-all approach to planning tax strategies for manufacturers. Much depends on your corporate structure and accounting method, which determine not only when and how your business income is taxed but also when it must be recognized. All manufacturers can, however, benefit from year end tax planning — particularly in 2008. ■

Why open innovation can be good for manufacturers

Imagine you have a problem with the packaging of one of your products — the closure sometimes pops open on store shelves. Your research and development (R&D) department has been trying to find a solution for weeks with no success. Your product's sales are beginning to slip because of the defective packaging.

So what can you do? For a growing number of manufacturers, the answer is open innovation — consulting with outside entities to find answers to perplexing questions.

Two ways to win

Open innovation would have been unthinkable a decade ago because manufacturers were highly protective of their knowledge, but now it's catching on for two reasons: 1) it lets companies find faster

solutions to pressing problems, and 2) it provides an outlet for R&D advances that companies can't use themselves.

Manufacturers traditionally have relied solely on their own internal R&D processes to develop the technologies and products necessary to open or expand markets. And, despite the geographical, technological and corporate limitations R&D departments often face, they have performed well.

Open-innovation companies connect manufacturers that have R&D problems to outside entities that have solutions.

But even the most brilliant R&D team can't match the volume of ideas and solutions being generated daily in companies and academic institutions around the world. With open innovation, they don't have to.

Open-innovation companies connect manufacturers that have R&D problems to outside entities that have solutions. Acting as matchmakers, they may allow manufacturers to post problems themselves, or they may forward requests for proposals to targeted companies. Either way, manufacturers benefit from solutions they probably would never have found on their own.

Profits for all

This arrangement can be beneficial for all parties. An open-innovation company charges a fee for its services, and a manufacturer that requests solutions pays the provider for them — as well as working out any potential intellectual property issues. And if the solutions result in a shorter product development cycle, the manufacturer may get a jump on its competition, with potentially profitable results.

Open-innovation supporters are quick to point out that collaborative systems aren't the beginning of the end



for the internal R&D department: Companies still need ongoing proprietary advances to remain competitive.

And open innovation represents a potential market in its own right. Every R&D department comes up with products or technologies that their company isn't positioned to pursue. A telecommunications company, for example, may determine that the digital music technology developed by its researchers won't have a large enough return to warrant full development.

Sometimes companies sell such innovations. Other times, they hold on to new ideas without knowing whether or how the ideas eventually will be used. The adhesive used in Post-It® notes, for example, was the result of a failed attempt to find a super strong adhesive. It sat on a shelf for four years before a frustrated executive thought of using it to coat paper as a way to keep bookmarks from falling out.

Mistakes don't always turn into the huge success and profits that Post-It® notes created, but they can be profitable. Smaller manufacturers that may not have the resources for global product launches can sell the products to larger companies. Large companies may have unwanted products that will fill a product line niche for smaller firms. And companies of any size may have the solution to other companies' development woes.

Develop a winning edge

Perhaps the most important advantage of open innovation, though, is the advantage it gives manufacturers in a global market where rewards typically go to the lowest-cost products. Manufacturers may not always be able to compete head-to-head on costs, but they can put their knowledge to profitable and effective use. In the race for market share, innovation can give them a distinct edge. ■

Make holiday bonuses a part of Christmas past

Many manufacturers feel obligated to hand out year end holiday bonuses. If you've been distributing holiday bonus checks for years, without regard to merit or longevity, maybe it's time to consider alternatives.

In a soft economy, some companies are doing away with bonuses altogether. That's an option, but a better one may be to replace your across-the-board holiday bonus program with a merit-based plan that rewards those who deserve extra recognition.

To do that, you must first give employees fair warning that you plan to discontinue issuing holiday bonuses. They are, after all, accustomed to a year end subsidy.

Then announce a plan based on individual accomplishments. It must hinge on measurable outcomes — perhaps everyone in a manufacturing cell will receive a 10% bonus if the cell meets certain production levels. Give the reward within a few days to firmly fix the achievement to the goal. If you don't, it will lose its luster.

Another option is to give your department heads a supply of gift cards in various denominations to hand out for exemplary performance. If a shipping clerk stays late every night for two weeks to make sure rush jobs get out on time, for example, it may be worth a \$20 gift card.

Remember, too, that not all rewards must be monetary. A preferred parking place, a flexible schedule or a special table in the company lunchroom all are ways to recognize smaller, but noteworthy, accomplishments.

Whatever bonus plan you choose, make sure it's fair, impartial and open to all employees, and offers public recognition as well as a handshake. A mention in the company newsletter, an announcement during departmental meetings or a photo on a bulletin board can do a lot to make merit bonuses sought-after rewards.

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