

CFO STUDIO®

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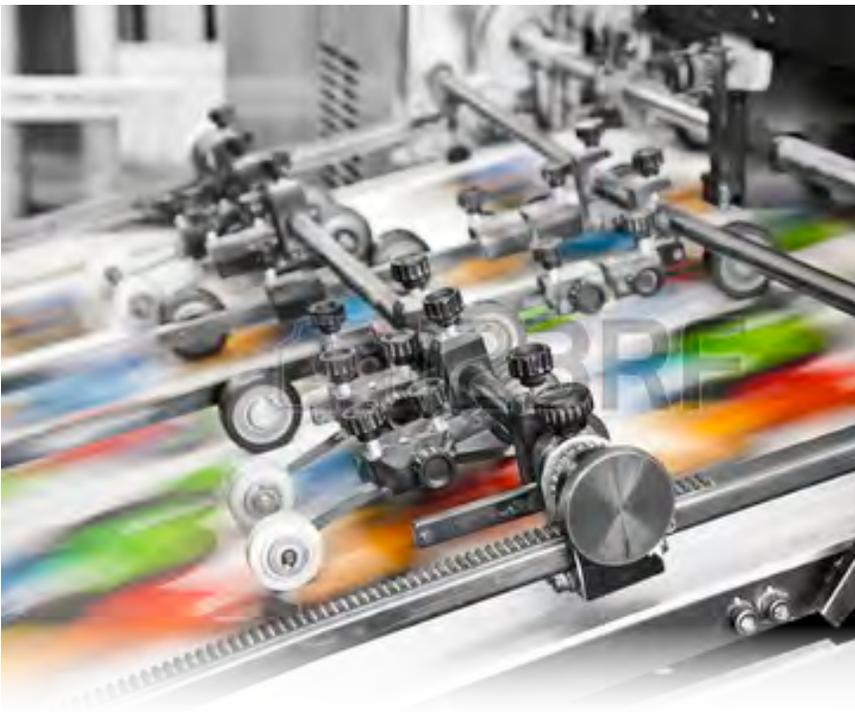
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Curt Allen,
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THE CFO-OPERATIONS RELATIONSHIP

THERE'S A GROWING ROLE FOR CFOS TO HELP IMPROVE OPERATIONS, BEYOND WATCHING QUARTERLY SPENDING AND REVENUE TARGETS

At commercial printer Control Group in Norwood, NJ, Jim Imburgia, vice president of operations, knew there was a problem with a certain account. The business was prestigious, bringing in \$2 or \$3 million in sales regularly, but the jobs were problematic, leading to press shutdowns and lost production time. "I couldn't get ownership to look at that," Imburgia says. "They just saw the magnitude of the account." So he walked next door to CFO Rob Paglieri's office, asking him to look into the numbers. Paglieri's analysis proved the case.

"Then," says Imburgia, "it became an easier discussion to have with ownership and say, 'We need to walk away.' I couldn't have that conversation without [Paglieri's detailed analysis]."

At Unionwear, a manufacturer of baseball hats and sewn bags in Newark, NJ, CEO Mitch Cahn brought in a consultant for the implementation of a new MRP (Material Requirements Planning) system. The consultant's project: to develop the procedures to collect accurate data so the company can start keeping a perpetual inventory of raw



“WE BEGAN TO GET MUCH MORE ACCURATE INFORMATION.”

– MITCH CAHN, CEO, UNIONWEAR

materials. His job title: CFO.

Both Paglieri’s cost analysis based on a colleague’s gut feeling and the Unionwear consultant’s role in developing procedures, fail-safes, and backup plans for data collection reflect the new reality in manufacturing organizations: Today the most effective CFOs are elbow deep in supply chain management and getting goods produced. The details of operations are a day-to-day concern.

Bill Bushman, vice president of operations for Takasago International Corporation (USA), in Rockleigh, NJ, the North American headquarters for a Japan-based company in the fragrance and flavor industry, says that the relationship between the CFO and the senior executive in charge of operations is “a critical partnership in the organization, from my point of view.” That’s because on the operations side, the focus is cost and value, both of which are obvious concerns for the CFO.

“The more the CFO understands the operational challenges from manufacturing, inventory control, supply issues, and business contingency planning, and the more he is educated about all the complexity in a global manufacturing environment,” says Bushman, “the better the negotiations” and the outcome for the company.

Negotiations run the gamut:

- When to purchase equipment and supplies for production

- Whether to replace aging equipment, or continue to maintain it

- What it would cost in capital, training, and downtime to implement a new system

Bushman says the CFO’s close involvement

in supply chain and operations issues has occurred over at least 10 years, perhaps as many as 15. This has been driven by a growing realization that the supply chain is responsible for, in some cases, more than half of the costs of the company. Something similar can be said of CFOs’ involvement in manufacturing issues.

An MRP System Launch

Unionwear employs a full-time controller, which Cahn feels is as much financial heft as is needed on the 120-person staff. But he brought in a CFO as a consultant for the MRP system launch. The main goal: to develop accurate costing data. “We’re a domestic manufacturer in a market where almost everything is made overseas. ... There is a really, really slim margin between us losing money on an order and pricing a job too high, which means we lose the business,” he says.

The CFO/consultant came aboard in June and, working closely with the COO, spent many months just developing the methodology to be

able to track materials usage and labor per job. A primary difficulty Unionwear encountered is not atypical. Says Cahn, in the office, English is the primary language; other languages are secondary. On the manufacturing floor, that’s reversed. There is also a math skills gap among workers and a key manufacturing executive lacks computer skills. Another challenge: “no feedback loop on raw materials yields being wrong,” says Cahn.

Being an outsider, that CFO

would have had trust and communications problems to overcome in the best of circumstances. But the difficulties were heightened by the fact that he was trying to get variance data from a person on the shop floor whose English skills were such that he had no



Jim Imburgia, VP of Operations, Control Group



DID YOU KNOW?



The world market for digital packaging and labels is expected to reach \$15.3 billion by 2018, with labels making up the lion’s share of that figure.

The unit price of digitally printed materials is higher than for analog, but today’s shorter product life cycles demand faster production times, pushing commercial printers in the direction of digital.

idea what a variance is.

Early on, the CFO and Cahn realized they weren't going to get the information by asking for it, they were going to have to create systems that people would naturally follow. Now, rather than asking for yards of fabric used, they ask, How long did you roll out one ply of material and how many layers did you lay up? "[Once workers] didn't have to do any calculating. We began getting much more accurate information," says Cahn.

Counting small pieces is an inaccurate process too. So the company switched from recording a count to recording weight for components like zippers, snaps, straps, etc. "It was just little things like that, but hundreds of little things," says Cahn.

At year-end, the MRP system was set to be launched; the next step will be analyzing pricing and purchasing methods, and looking to eliminate unprofitable product lines. In the future, says Cahn, with accurate information on labor and materials usage coming back from the factory floor, there will continue to be "a large role for the CFO. It will really be more of a continuous-improvement type role."

A finance executive who takes the initiative to analyze data and make recommendations based on that analysis can help an organization improve many aspects of operations.

Partnering on Equipment Negotiations

Interactions between CFOs and the executives heading up operations or manufacturing in their organizations work best when the CFO understands operational challenges. That's where Imburgia, the VP of operations, gives CFO Paglieri a great deal of credit. When Paglieri joined Control Group in March 2012, he began educating himself on the commercial printing business. On the shop floor, he'd talk to pressmen, asking how many rolls of paper go into this job? He'd ask, how do we track that? and is there anything we're not tracking?



Bill Bushman, VP Operations, Takasago International Corporation (USA)

"You've got to understand operations ... to make sense of the numbers," says Paglieri, who back in those early days ran reports to get a handle on the business and dug into where the numbers came from. "And I had a lot of discussions with Jim because he knows the operation like the back of his hand." Paglieri watched and learned.

The two meet every morning to go over problems and issues. Paglieri now works together with Imburgia on big financial deals for equipment, Imburgia negotiating for the machinery and Paglieri negotiating the leasing terms.

On a recent equipment lease, says Imburgia, the salesperson offered to include materials for the duration of the three-year

lease. "The vendor would discount our materials [used to make printing plates] or upcharge the material," building it into the lease price. "Rob worked out all the numbers and then he came to me and said, 'What do you think your volumes are going to be?'" The two performed like a short stop-first baseman combo.

Imburgia has worked with many CFOs over a 30-year period; he has never had a better CFO relationship than with Paglieri, he says. He sees the key to good interactions between the heads of operations and finance to be neither party having hidden agendas.

Says Paglieri, "In general, the CFO is there to service the operation, not run it, and not hold it back. Numbers sometimes become most important [to CFOs] but they should just support business decisions."

Operating in the Face of Risk

For a fine fragrance, Takasago might require a unique and costly raw material found someplace in the world. Or, a flavor for a drink might use a highly seasonal raw material. In either case, VP of Operations Bushman will have discussions with the general manager and the CFO. As an example, there might be a forecasted need for 10 metric tons of lemon oil, "but you don't have that guarantee the business will be there," says Bushman. "The [product sale] could go south. So that's where, from a true supply chain relationship, we're always in communication with finance about how much risk we're willing to take."

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MAY 12, 2015

MetLife Stadium, East Rutherford, NJ

SEE PG 24 FOR COMPLETE DETAILS

Discussions between Bushman and the three different CFOs he has worked with have gone best when the CFO understands the operational challenges and Bushman has a clear understanding of the financial implications. The most difficult issues arise when the company has to make large raw material purchases, based on a forecast of future sales, says Bushman.

The need for unbudgeted cash expenditures for improvements can also lead to contentious discussions. “Many times from an operational standpoint we’ll see a no-brainer investment,” says Bushman, “something that will yield us a nice return on investment. It’s an improvement to the process, but because of cash restrictions, there may be a bottleneck getting the approval internally.” He says it all comes back to the timing of an investment.

Bushman says that because he has built a partnership with the finance group, he monitors the cash flow — expenses and

accounts receivable — and can see when it might not be wise to request a big equipment purchase. “By sharing the [financial and capital investment needs] information regularly, we’re able to see the same concerns before they happen, so we can plan accordingly.”

Risk management is part of most CFOs’ DNA. That’s why they delve into expense control for overtime, repairs, and unanticipated equipment maintenance. “These things tend to be challenging to an organization, but especially for the finance group, working from a forecast standpoint,” says Bushman. There can be finger pointing or not, depending on how the CFO and operations executive have built their relationship.

Bushman says that CFOs today are more educated than in the past about supply chain

challenges. “Let’s face it, our customers and the end consumer are all focused on lower prices, so our focus has to be in driving our costs down on the manufacturing and supply chain side to remain competitive.”

The way he describes it, the supply chain is “our bread and butter today and tomorrow, serving the customers each and every day.” The other side of the business, sales, creative, and R&D, “are developing new business and creating our future. ... But if you have limited cash for investments, how are you going to divvy it up so you have a strong and healthy future but you’re also meeting the expectations of your customers today?”

Working together the CFO and the VP of operations are meeting that challenge at forward-looking companies. ❖



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Achieving Balance in Your Company’s Occupied Real Estate

As your company evolves, achieving balance will be essential to its success. That’s true of the real estate your company occupies, too. Balancing transaction structure of multiple properties requires intelligent planning, not only of your company’s real estate, but more importantly based on your company’s operational, financial, M&A, and other objectives.

At Real Estate Strategies Corporation, we plan and execute portfolio-wide and single transactions to enhance our clients’ real estate and their businesses. So, before you consider another transaction anywhere in North America, contact our CEO, Andrew Zezas, for a confidential discussion about how your company can achieve greater and more profitable balance in its occupied leased or owned real estate.

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