



**THOUGHTS FROM THE EXECUTIVE BOARD**

**2010--the start of a New Year and new decade! We ended the last Millennium worrying about “Y2K” and we ended the first decade of the new Millennium worrying about the direction of the economy. Is the direction going up as the stock market would indicate or are we looking at a “W” shape recovery? At Tomak we are worrying only about things we can control!**

**We knew that 2009 was going to be a very tough year so at the start of the year we created a detailed, line by line budget. This is the only thing that Tomak can really control--our expenses. While this action did not make 2009 a great year at Tomak, it allowed us to know what kind of year it would be. It worked pretty well in 2009 so we are doing it again in 2010 – another bumpy year.**

**My 2010 New Year’s resolution is to worry about only the things I can control and let others worry about the things I cannot control.**

**Happy New Year!**

**Al Schaeper, Jr.  
Tomak Precision**

# Business Matters...

## **We Lost Money on that Job! What Do You Mean, We Didn't?**

*Lisa Lang and Brad Stillahn – Theory of Constraints (TOC)*

Cost accounting is alive and well in machine shops, even though it is an invalid, old technology. The continued—and unquestioned—use of cost accounting has led directly to the loss of competitiveness and long-term decline of American manufacturing. Stop using it!

**Brad:** You give a lot of speeches to business owners. Tell me again, what drives you nuts?

**Dr. Lisa:** When someone says “We lost money on that job.”

**Brad:** That’s cost accounting talking. It’s amazing the owner is still in business, saying something like that. If his competition didn’t all think the same way, he would be out of business.

**Dr. Lisa:** Truly variable costs—materials, outsourcing, freight, sales commissions—are normally just a fraction of the selling price. There are only two ways to lose money on a job: 1) charge less than your truly variable costs; or 2) re-work a job over and over again, causing you to incur the truly variable costs multiple times—and the total of all the truly variable costs are more than the price you charged.

**Brad:** The all-industry average for truly variable costs is 40%. And machine shops are usually much less than that, depending on the type of work they do. So why does the business owner think he “lost money on that job”?

**Dr. Lisa:** It’s the allocation of overhead cost, the No. 1 conceptual mistake of cost accounting. Remember, cost accounting was invented back at the turn of the last century, when labor was paid piece rates and overhead was less than 10% of total costs.

What really happened was that the job took more time than estimated. And since cost accounting allocates “cost” to that time, the job “cost” more than expected, perhaps more than the price. But this is a mirage. The margin received—the sales price minus the truly variable costs—is the same no matter how long the job took to produce.

**Brad:** So, the problem is that by using more time than estimated, there is less time left in the month to produce and ship the margin on subsequent jobs.

Sometimes, what margin is shipped in total is less than the fixed costs for the month, and then there is a loss for the month.

**Dr. Lisa:** Yes, and that is the problem that most owners are trying to avoid. And the way we were all taught to do that is—cost allocation. However, you can make sure that you make enough margin in total without allocating any costs, and it’s actually simpler and more straightforward.

Just plot the Margin dollars you ship every day (what we call Throughput) and compare that to your Operating Expenses. And remember, if you work overtime, you’ve increased your Operating Expenses. Once you understand the relationship between Throughput and Operating Expenses, you have all the information you need to ensure you ship enough work in total to make money.

A company can lose money, but a job rarely does. Jobs aren’t unprofitable, and for that matter, products are rarely unprofitable and customers are rarely unprofitable. Companies lose money because the margin in a month does not cover the fixed costs for a month. Otherwise, the margin on all jobs, products, and customers in excess of that month’s fixed costs all collectively add to the overall profits for that month.

**Brad:** Who cares? Is this really that important? In the last 20+ years since Throughput Accounting was invented to replace cost accounting, not very many business owners have even heard of it, much less felt a need to change.

**Dr. Lisa:** True. Most just went out of business slowly. Like the frog in the pot when the heat slowly increased, and never jumped before it was cooked.

**Brad:** When I switched the label printing business I own from cost accounting to throughput accounting back in 1997, it was uncomfortable. The process took time and perseverance. And there wasn’t much help available for me back then. But I found the sweet spot where conventional cost accounting leads business owners to believe they’d be losing money on jobs, and where throughput accounting clearly indicated we were make a load of money.

**Dr. Lisa:** It is really unfair to competitors when you understand throughput accounting, and price accordingly. We call that “competing with blind kittens” because cost accounting is such an inferior technology.

**Brad:** Cost accounting was invented before the Model T. Why do business owners that are so up-to-date with other types of technology, and appreciate keeping up with the rate of improvement in technology, not think to look for improved technology in business methods?

**Dr. Lisa:** I don't know the answer to that, but my guess is that they are more comfortable with new technology in their area of expertise and less comfortable with new technology where they are not an expert—financial management. And, even if they have some interest in this new Throughput Accounting technology, it's hard to give up the old until you fully understand the new. Hmm...that sounds familiar.

**Brad:** Whoa, you're right! It did take me a lot of time to make the change. I guess that does explain why it's easier to stay with the old technology.

*The Science of Business, [www.ScienceofBusiness.com](http://www.ScienceofBusiness.com), helps companies rapidly increase sales and profitability by implementing the Theory of Constraints (TOC), Lean and Six Sigma. "Dr. Lisa" Lang is President of the Science of Business. She recently served as Dr. Goldratt's Global Marketing Director and is a member of the Board of TOCICO. She can be reached at 303/909-3343 and [Dr.Lisa@ScienceofBusiness.com](mailto:Dr.Lisa@ScienceofBusiness.com)*

*Brad Stillahn is a business owner who successfully implemented TOC in his own business, and is now helping other business owners do the same. Set up a TOC Advisory Board for your company! Brad can be reached at 303/886-9939 and [Brad@ScienceofBusiness.com](mailto:Brad@ScienceofBusiness.com).*

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I t ' s o u r b u s i n e s s



t o p r o t e c t y o u r s

The FEDERATED Insurance Companies  
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## **New Jersey Tooling & Manufacturing Association Recommends Federated Insurance**

The New Jersey Tooling & Manufacturing Association recently selected Federated Insurance Companies as the recommended insurance carrier for Property & Liability Insurance and Financial Protection Services. Federated is recommended for one or more insurance programs by over 400 associations and national buying groups throughout the United States.

**Kudos to Sonny Welker of Atlas Machine and George Sepelak of Knox Machinery who attended every Monthly Dinner Meeting in 2009!!**

## **Register for the January 2010 monthly dinner meeting!!**

We're starting the New Year with another push for Workforce Development by introducing Elijah "Rudy" Rudolph, who is the Director Advanced Manufacturing Career Pathway, Greater Cincinnati Workforce Network. Elijah will join us for the pre-meeting Operations Roundtable and dinner after which he will make a formal presentation that describes the various functions and initiatives of his job.

The **Greater Cincinnati Workforce Network** is an ambitious regional partnership of philanthropy, government, employers, education, and community organizations that aims to:

- **Help employers find and retain skilled employees; and**
- **Help low-skill, low-income residents further their education and get good jobs.**

The Workforce Network is led by The Greater Cincinnati Foundation, with major support provided by the National Fund for Workforce Solutions.

We hope that you'll join us for an informative and motivational evening in which we can share ideas and discover ways in which the TTMA as an organization, and TTMA members can individually partner with Rudy and the Workforce Network to get us all working and producing once again!

**Return your registration to the TTMA office by no later than 5:00 p.m. on Thursday, 01/14/10 to reserve your dinner entrée selection!**

***Registrations were previously emailed on 12/30/09.***

### 2010 TTMA Calendar of Scheduled Events

- January 18, 2010**      **Monthly Meeting – Keynote Speaker – Elijah Rudolph “Rudy”, Director - Advanced Manufacturing Career Pathway/Greater Cincinnati Workforce Network – “Exploring a Partnership for Workforce Development”**
- February 15, 2010**      **Monica Pfarr – Corporate Director, Solutions Opportunity Squad – American Welding Society (AWS) Foundation, Inc.**
- March**      **Shop Tour – Graphel, Inc. (Exact Date to be announced) – Will be a luncheon and tour**

**Except where otherwise noted, meetings will be held in the Redwood Room at the Embassy Suites Hotel in Blue Ash:**

**4554 Lake Forest Drive  
Cincinnati, OH  
513/981-3763**

**Monthly Meetings are suspended from June through August and will resume in September, 2010**

## **More Hope for Manufacturing & Workforce Development—Educators Finally Acknowledge American Teens’ Lack of Interest in Manufacturing**

**Careers**—The article below was published by the ACTE (Association for Career and Technical Education). According to Jeff Smith, TTMA Educational Partner and Machining Instructor for Live Oaks, “although this is information our manufacturers have known for some time, it is encouraging to see education recognizes it. Recognition is the first step to addressing the problem.”

### ***Survey Shows Lack of Interest among Teens for Manufacturing Careers.***

*The [Oklahoman](#) (12/9, Blossom) reports, "A recent national poll of teens showed 52 percent have little or no interest in a manufacturing career, and another 21 percent are ambivalent. A majority, or 61 percent, said their goal is a professional career." The article notes that "the industry continues to battle an outdated and sometimes unappealing image, despite pleas for years from manufacturers about an ample supply of job opportunities." Gerald Shankel, president of Nuts, Bolts & Thingamajigs, which conducted the survey, said, "Our industry must generate interest among young people to consider manufacturing and convey that it's both honorable and profitable to work with your hands." Shankel added, "The manufacturing jobs today not only require workers to operate the most advanced, sophisticated equipment, such as robotics and lasers, but 'require the kind of high-tech, computer skills young people love to apply.'"*

*Survey Says US Manufacturers Will See Sales Gain Over Services Next Year. [Bloomberg News](#) (12/9, Chandra) reports, "Manufacturers in the U.S. have a more optimistic outlook for sales in 2010 than their service industry counterparts, according to a survey by the Institute for Supply Management." Purchasing managers "at U.S. factories anticipate sales will grow 5.7 percent next year, exceeding the 1.3 percent gain projected by services." Manufacturers "plan to boost payrolls, while employment at service providers drops." The "slower rebound in services, which make up almost 90 percent of the world's largest economy, underscores why analysts anticipate the recovery will take time to gain speed." The sales outlook also "explains why factory supply managers were also more upbeat about jobs than service providers." Manufacturers "projected employment will rise 1.5 percent next year, while service companies predicted a 0.6 percent drop." Earlier this month, the ISM reports "showed manufacturing expanded in November for a fourth consecutive month, while service industries unexpectedly contracted in November."*

## **BLR: Human Resource Strategies**

### **8 Steps to Keeping High Performers during a Recession**

While an employee who is an average performer rarely considers leaving his or her job during a difficult economic period, high-potential employees do, according to research by Sirota Survey Intelligence.

The firm found that the actions taken by employers during a recession can start a process that unintentionally devalues employees, by seeing them as costs to be controlled, rather than assets to be valued. For example, many companies will centralize decision-making, control information, reduce entrepreneurial risk-taking, and reduce (or eliminate) discretionary rewards, making it more likely that high performers will defect.

“Programs for high-potential employees often seek to involve them in the strategic decision-making, challenge their abilities, develop/advance them quickly, and recognize/reward them generously,” said Douglas Klein, president of Sirota. “The business choices many companies make when responding to a recession can frustrate all of those goals.”

Sirota has eight steps employers should take to retain high-potential employees without alienating the rest of the workforce.

1. **Don't stop focusing on their career development needs.** Even in a tough economy, high-potential employees have other opportunities. Consider developing a retention strategy for these employees that includes a strong career development focus. Give them special projects and make sure they are taking advantage of training and development opportunities.
2. **Re-emphasize corporate values and ethics.** “These employees want to believe that the company stands for something special, distinctive,” Klein said. “During difficult periods, savvy employees pay close attention to their leaders to see whether the business’ short-term needs are balanced against longer-term company and people values.”
3. **Be transparent.** These employees are the future leaders of the company, so share as much information as possible with them, for example by inviting them to select briefings with top management. This kind of behavior shows trust. The alternative is leaving them feeling uninvolved and susceptible to outside offers.
4. **Continue to reinforce their need for camaraderie.** “High-potential employees (HIPOs) enjoy being recognized, and want to work with other HIPOs,” Klein said. “A major concern of these employees is whether or not the company is able to both attract and retain top talent, so working with like-minded employees sharpens that perception.”
5. **Do more than just cut costs.** High performers are keenly aware of organizational inefficiencies and poor strategy execution; a bad economy only exacerbates these feelings. Cutting costs is a tactic; HIPOs want to be assured that the leadership is focusing on the longer-term.
6. **Involve them in the solutions.** HIPOs want to make a difference,” Klein said. “They are seeking ‘partnership’ situations where they can contribute. Put them in charge of adhoc teams focused on addressing some of the more difficult problems facing the company.”
7. **Show them they are valued.** “With economic rewards often curtailed, it becomes even more important for these employees to feel valued,” Klein said. “Failure to treat them as such will create a resentment that can contribute to their leaving.”
8. **Address compensation concerns.** While these HIPOs do understand what difficult times mean, they also want to ensure that it is still in their interests to stay. Companies need to think creatively about what these employees consider rewarding (e.g., deferred rewards, accelerated advancement opportunities), and dialog with them on these issues.

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**The TTMA mission is to be the best metalworking and manufacturing trade association with comprehensive information resources for its members and interfacing with community partners**