

PCS Group Forum December 15, 2021

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December 15 Agenda

- Introduce The CFO Solution/PCS Forum
- Today's first session
 - Reducing costs using contingency SMEs
- Second session-
 - Reducing taxes best practices

What is the CFO Solution?

- We share best practices and best processes from peer CFOs.
- We don't know everything and our ideas are not always right for your situation but we believe it is helpful to share what your peers are doing.

You decide if you should consider-if we can help, just ask.

What we don't do (and do)

- We don't charge for our services.
- We don't consult or sell you anything.
- We don't compromise or embarrass you.

- We will take your call, discuss our ideas.
- We will introduce you to our SME expert and they will continue the conversation.

Contingency Cost Reduction

- We all get many calls from salesmen promising to reducing all of our costs (and they keep 50%).
- “Just send me your GL and Purchase Register and we will analyze for you” really?
- Most are pure sales guys, not experts but fronting for some back office analysts.
- Some are sales folks, some are franchisees who were former “finance” folks that do the work themselves and are not experts! Some are disguised GPOs.
- Lot of hot air and promises BUT there are savings to be found!

Typical cold caller categories

- Electricity, Telecom, UPS/Fed Ex, supplies, sales and use taxes, credit card fees.
- One offers to reduce all types of spending 47 verticals –basically everything!
- Most of these are tiny spends but savings of 25% to 50% are possible. Largest saving % will be in telecom. Just did a 59% saving.
- Usual Terms are 50 50 split for 3 years. (a lot)
- Conclusion- Savings are likely BUT these are generally tiny spends for most firms.

Common savings

- Hidden, built in escalation clauses.
- Switched from delivered price to FOB.
- Paying for phone lines no longer in .(fax machine phone line is still in the wall!)
- Smart cell plan? How many are you paying for?
- Sky high credit card fees!
- Some services have regulated price increases-do you know that?

More examples

- Do you understand your power bill(phone bill, trash bill, scrap agreement, etc.)?

Cost guys will lower cost per but management of usage is just as critical as the price -a cost guy won't generally help you understand usage, quality or service. Pick the SME.

- Do you, as CFO, review shipping, power and other contracts and trends?
- Annual increases in software support contracts are “Normal” but can be reduced.

Even more examples

- Software and hardware costs can be reduced. An expert will know how while most of the contingency guys just point you to a different big box.
- Contingency guys generally “demand” 50% of your savings (3 years) and many demand decision power.
- Beware of their backend/ other payments from their suppliers. It happens a lot.

Ask yourself

- Would you share your data and invoices with a stranger?
 - Would your purchasing manager?
 - Would your plant manager or receptionist?
- How much of your spend is spent without any analysis or even authorization? Do you have a three year cost stack/key supplier analysis?
- Many plant managers, clerks, admins and receptionists handle purchasing of incidentals that can really add up. Plus some conflicts may occur.

Less common categories

- Software and hardware purchase
- Software renewal/service agreements
- Copiers and printers
- Natural gas
- Waste disposal Haz. Mat disposal
- Scrap resale
- Worker's comp. claims management

Best practices

- Procurement must focus on key purchases and they never have time to buy incidentals smartly. They don't have a baseline, don't know what to ask and don't have time so they just buy and keep buying!
- Analyze your year on year cost stack and vendor analysis
- Figure out who signs PO and "approves" invoices. Delegated authorities in place? Do they know what review and approve means?
- Get an assessment from an SME. Don't use a group that does everything because they likely don't do anything well AND want all of your business.
- Worst case is you find out you don't save anything...world class processes exist! (Great)
- Select the right SME (pretty hard to find them by yourself)
- Don't use them for strategic or huge purchases (such as healthcare)
- Understand their business model (backend payments/ commissions)
- Select carefully and negotiate 50 / 50 for three years to 50 / 40 for two years. Their close rate is very low and CFOs have leverage!
- Demand vendor selection authority and terms.
- Include a quarterly or semi annual update. Have an escape clause.
- Block an automatic renewal

Next steps

- We have over 15 specialized contingency partners and we have outsourced procurement partners
- If you have weak procurement, might make sense to outsource to one of our partners and pay a retainer/ fixed fee with a performance clause. Fractional procurement director in effect.
- Both are Win Win best practices

What NOT to do

- Some firms offer healthcare (but want 50% of the savings. OMG is that expensive).

Use a healthcare advisor-specialized, accountable and much lower cost.

Some offer supply chain-mission critical piece of your business to outsource. When quality or service declines, potentially deadly to business and your career!

How to implement

This should not threaten Procurement—they need to be focused on critical strategic purchases and not distracted by nuisance, low dollar purchasing. Using SME experts is a best practice not a punishment or blame game to procurement!

Figure out who is the contact for SMEs. I suggest it should be the CFO.

Pull all purchasing into Procurement. Get it out of the hands of shipping, admins, receptionists or the plant manager for a handful of reasons!

Reducing taxes!

From the incidental to major savings!

- Sales and use tax review recommended
 - Purchases obviously
 - Any internet sales –Mayfair ruling !
- Property tax-lower assessment possible
- State and Federal taxes
- Remember, ERC credits may apply!

Property Tax

- Millage rates increase multiplied by your assessment determine your tax bill.
- Assessments are based on similar nearby properties BUT you can appeal for a lower assessment.
- Reasons include economic hardship, obsolescence, downsizing, market, etc.
- Get an expert. Don't do it yourself. Don't use a real estate person!

Income taxes reductions

- Overlooked and unknown include:
- First, R&D/R&E credit:

Now permanent / usually no AMT restriction

Not “GAAP” definition-product design, product development, design/ build, software development, continuous improvement/LEAN/Kaizen, etc. qualify.

Federal and 35 states have R&D.

R&D

- Complicated at Fed and State levels.
- Retroactive-generally 4 years.
- Get an expert-not your CPA firm!

Many CPAs do not understand it or the changes.

Most do not know how to do it AND don't want the liability or the risk of losing your audit and tax business.

- DO NOT use the algorithm guys unless you like audits and a fiduciary FAIL.

Do you export? IC DISC

- Only remaining incentive for US man. firms.
- Form a IC DISC legal entity (year end entries).
- Most CPA firms don't offer it so use a SME.
- Direct and indirect exports qualify.
- Incremental cost rule==high taxable income at 35% lower federal rate.
- A little complicated.
- Proactive.

Other Export Best Practices

- If you export, create the IC DISC and visit our site to understand other best practices such as using EX IM Bank financing and assistance from Dept. of Commerce.

Own a building?

- Use Cost Segregation to optimize tax depreciation.
- One time accounting change is allowed.
- Retroactive to purchase date of building.

(huge impact in first year)

Classify from 39 years to 5, 15 or 39 years

- Bonus depreciation still applies (at least for 2021)
- Use an expert! CPA firms should not be doing this because you have to know building cost/building code and the accounting rules.

SME should work with your CPA firm to file amended.

- Complicated, detailed analysis.
- Office, warehouse/mixed use and hotel examples on website.

Other credits

- New hires-create a process to use WOTC. (Work Opportunity Tax Credit) for qualified new hires. Administratively difficult but worth it. Outsource it because HR won't get it done correctly and within the 30 days.
- ERC-First 9 months of 2021-if revenue down 20-25% vs 2019, you likely qualify for thousands per employee. Non profits qualify as well.

Future Sessions

- Jan 19 Human capital process
Facility management
- Feb 16 Healthcare (25% reductions are possible)
Preparing for an exit

Navigating our website

- Link to these sessions from PCS website or click on the PCS portal
- Visit www.thecfosolution.org, click on members button to see
Past content (over 60 sessions) and future working sessions (90 min)
View the table of contents
Slides and/ or zoom sessions
Testimonials, videos and examples

Any questions, send me an email at gbender@thecfosolution.org or call me at 215.421.8291

- Future session topics and dates (always 2 PM EST 3rd Wed. via zoom)

Comments ?

- Visit the website through the PCS portal
- Let me know your thoughts and questions

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Thanks for joining our group!