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“If economics has paid insufficient attention to overhead costs of production, it has definitely ignored the costs and services of selling goods in formulating the formal laws of value.”

- John Maurice Clark (1923)

Mid-Winter 2015

Dear Executive:

William Burtis Castenholz, A.M., C.P.A. was a professor of accounting at (and later Controller of) the University of Illinois a century ago. At the beginning of the 20th Century there were no mandatory, one-size-fits-all (or one-size-fits-none) rules that had to be blindly followed by accountants. The concept of GAAP (generally accepted accounting principles) didn't evolve until the late 1930s. So Castenholz was at a disadvantage compared to accountants of today; he was forced to think. No authoritative body dictated what accounting practices were right and what practices were wrong. No software package told him “here's how you plug all the data into the software and come up with a good answer.” He had to start with the basic goal of measuring economic reality and find accounting concepts to reflect that economic reality.

On major flaw he saw in the approach taken by early 20th Century accountants was their acceptance of the premise that cost accounting ends when production ends. He observed, *“Very often, although a cost system may be nearly perfect and all possible factory economies may have been effected, a manufacturer may nevertheless show losses due to inadequate control over his selling and administrative expenses. In fact, unless the same (costing) principles are applied in controlling selling and administrative costs (as for production), the entire advantage gained through efficient low-cost production may be lost.”* He wasn't alone in this concern. John Maurice Clark also commented on the situation in the quote at the top of this page that is taken from his classic 1923 work “Studies in the Economics of Overhead Costs.”

Fast forward a century and what have practicing accountants done to overcome this long-standing deficiency in accounting for a business enterprise? PRACTICALLY NOTHING! In the vast majority of real-world businesses, detail tracing of costs ends at the product or service level. Everything else is treated as “SG&A” – also known as “just the cost of doing business” – and tacked on to product or service costs as an entity-wide percentage. Although many sound, practical concepts to better understand, control and trace these costs to cost objectives have been developed and promoted during the past quarter century, few organizations have applied them.

During the past twelve months, my brother-in-arms Gary Cokins and I have both published articles addressing this issue. As many of you know, Gary and I approach issues from a different perspective (I'm an accountant who thinks he's an engineer and Gary is an engineer who thinks he's an accountant) and we often come up with solutions that reflect our different perspectives. We both understand, however, that management accounting is not like financial accounting; there is no one correct answer to any real-world management accounting problem. The answer depends on the singular circumstances of the issues and organization being addressed. As John Maurice Clark also said in 1923, *“To be more specific, the problems of overhead costs are, above all things else, not fool-proof. The student cannot be given a formula which will furnish an absolute answer to every question. He must use the highest grade of discriminating judgment if he is to distinguish case from case and to determine which rule applies or which policy is the most promising of results. The parrot which has been trained to repeat: 'supply and demand' can no longer qualify as a competent economist nor even a fair caricature.”*

In order for you to see the problem from more than one perspective, I've provided links below to Gary's recent article in *Strategic Finance* (the monthly periodical of the Institute of Management Accountants) and two of my articles from recent issues of *BONEZONE* (the quarterly periodical of the orthopaedic medical device industry). Each approaches the problem of "costs to serve" the customer from different perspectives. Perhaps one of them will strike a chord with you and make it clear how customers can drive costs and how failure to measure and manage those costs can put a dramatic dent in an organization's profitability.

Measuring and Managing Customer Profitability – Gary Cokins

http://www.imanet.org/docs/default-source/sf/2015_02/02_2015_cokins.pdf?sfvrsn=2

The "Cost to Serve" Customer Fulfillment – Doug Hicks

<http://www.bonezonepub.com/component/content/article/1036-the-cost-to-serve-customer-fulfillment>

Customer Profitability – The Why and How of SG&A Costs – Doug Hicks

<http://www.bonezonepub.com/component/content/article/1061-customer-profitability-the-why-and-how-of-sgaa-costs>

Costing, Pricing and Negotiating in the Auto Supply Industry

On Thursday, March 26, 2015, the Detroit Chapter of the Institute of Management Accountants will be hosting a one-day conference on costing, pricing and negotiating in the auto supply industry at the Marriott Hotel in Southfield, Michigan. The conference has been designed for anyone involved in making or supporting pricing decisions in the auto supply industry, not just accountants. Details of the conference, including session descriptions, speaker bios, schedule and registration information, are included with this letter. I hope to see many of you there.

As always, I look forward to hearing from any of you who have questions or comments regarding this letter and you should feel free to forward a copy to anyone you believe might be interested (or at least mildly amused).

Very truly yours,

Doug

Douglas T. Hicks, CPA
President

COSTING, PRICING & NEGOTIATING IN THE AUTO SUPPLY INDUSTRY

Detroit Chapter – Institute of Management Accountants
9th Annual Spring Management Accounting Conference
March 26, 2015
Marriot Hotel – Southfield, Michigan

Register at: <https://www.123signup.com/change?id=ydrjk>

CONFERENCE AGENDA

Speaker #1: Jeffrey Thomson, President & CEO – Institute of Management Accountants THE IMA, THE CMA, AND THE AUTO SUPPLY INDUSTRY

Over 90% of accounting education is focused on financial accounting – reporting company-wide historical results to outsiders – while the vast majority of accountants work in industry where accounting’s most valuable role is in providing accurate and relevant economic information on which management can base its decisions. The Institute of Management Accountants and its Certified Management Accountant designation were created to encourage the development and dissemination of management accounting practices that effectively support the ever more complex and competitive world in which businesses operate and to identify and support those individuals well-qualified to fill the role of “management accountant.”

This session will describe how the IMA fills this role, the significance of the CMA designation and how these can help insure the development and maintenance of effective, value-adding management accounting information in the auto supply industry.

Speaker #2: Douglas T. Hicks, CPA – President, D. T. Hicks & Co. CAN 21ST CENTURY AUTO SUPPLIERS SURVIVE WITH 20TH CENTURY COST MODELS?

During the past 30 years, manufacturing practices have changed dramatically, markets and competition have expanded globally and technology has accelerated at unprecedented rate, yet most auto suppliers continue to measure cost and performance the same way they did in the 1950s; GAAP-based costs measures are used, overheads are assigned using direct labor as a base, material acquisition and fulfillment costs are ignored, profitability is measured as a percentage of sales and the cost of capital is ignored. Their accountants are like navigators of a nuclear submarine who are provided with only a sextant and a watch to guide its course.

This session will outline the major requirements for an effective management accounting model at an auto supplier, suggest methods for incorporating those requirements into an effective model and highlight how that model can be used to support the economically sound decisions and actions necessary for a 21st Century auto supplier to survive and grow in an ever more complex and competitive environment.

Speaker #3: Robert Maks – Vice President-Cost Management, Advanced Purchasing Dynamics, Inc. FACILITATING THE CHANGE FROM ADVERSARY TO PARTNER: MANAGEMENT ACCOUNTANTS AND THE EVOLUTION IN AUTO INDUSTRY SUPPLIER-CUSTOMER RELATIONSHIPS

The auto supply industry has been struggling to evolve from an industry where customers and suppliers view and treat each other as adversaries to one where they work together in more productive, transparent and strategic relationships that benefit all parties. Although years of deception and mistrust have been difficult to overcome, progress is being made.

This session will review the progress of this transformation and how companies exploring its many faces – such as open book cost modeling, up-front early sourcing, mutual design collaboration, continuous improvement, global economy scale, longer-term commitments and technology sharing – need the support of a solid management accounting function if they are to thrive in this new environment.

Speaker #4: John Monica – Senior Consultant – Vendigital

UNDERSTANDING THE OTHER SIDE OF THE TABLE: A KEY TO EFFECTIVE NEGOTIATION IN THE AUTO-SUPPLY INDUSTRY

Effective negotiation requires that the negotiator understand where parties on the other side of the table “are coming from.” What are their objectives? What are their motivations? Under what pressures, constraints and management directives are they operating? Without such knowledge, negotiation is impossible so argument, sleight-of-hand, and outright deception take its place.

This session will address the processes and challenges associated with OEM’s development of realistic target or budget costs for purchased parts, sub-systems and tooling. It will compare and contrast ways in which various OEMs approach these challenges and their impact on program execution and supplier relations. It will conclude by identifying opportunities for management accountants to provide transparent feedback to their customers demonstrating how and where OEMs are driving costs into their supply base.

SESSION #5 - PANEL DISCUSSION AND QUESTIONS

Chris Domanski, TRW (Moderator)

Douglas T. Hicks, D. T. Hicks & Co.

Jeff Thomson, Institute of Management Accountants

Edward Pretzel, Advanced Purchasing Dynamics

John Monica, Vendigital

PRESENTERS

Robert Maks – Vice President of Cost Management, Advanced Purchasing Dynamics

For more than 18 years, Bob Maks has developed, led and implemented procurement/sourcing strategies across direct and indirect commodity segments including: polymers and resins, stampings, seating components, capital and tooling, MRO, purchased services and travel. In his most recent position as Director of Global Indirect Purchasing for a major tier-one automotive supplier, he built and drove robust commodity strategies for a global team of more than 100 purchasing managers and buyers worldwide. Overseeing more than \$1.0 billion in annual indirect goods and services purchases, he ensured that sourcing processes and controls were continuously maintained and improved. Bob holds a Master's degree in international management from Purdue University and a Bachelor's degree from Central Michigan University.

John Monica – Senior Consultant, Vendigital

John Monica has spent over 30 years working in cost management at all levels of the auto supply industry including several OEMs and both Tier 1 and Tier 2 suppliers. His experience includes cost management at both strategic and operating levels, supply chain management, product cost estimation, operational improvement and program management. His focus is to assist companies in understanding the cost of the products they produce and the development of sourcing strategies designed to balance competitiveness with profitability.

Jeffrey Thomson – President & CEO, Institute of Management Accountants

Jeffrey Thomson leads the Institute of Management Accountants, the world's leading association for management accountants focused on driving business performance in the areas of decision support, planning and control. After 23 years as a Financial Director at AT&T, Jeff joined the IMA in 2005 and was appointed its President and CEO in 2008. In addition to leading the association into the 21st Century, Jeff launched the IMA Research Center of Excellence, which has delivered global applications, tools, and guidance enabling management accountants to perform as strategic business partners.

Douglas Hicks – President, D. T. Hicks & Co. & Vice President of IMA's Detroit Chapter

Doug Hicks is an author, educator and management consultant. In 1985, after 13 years as a financial executive in the auto supply industry, Doug embarked on a consulting career during which he has helped over two hundred organizations, including several dozen auto suppliers, realized the benefits of incorporating 21st Century management accounting concepts into their decision making processes. He has spoken at over 350 events and authored three books as well as scores of articles that have appeared in a wide variety of professional and trade periodicals.

From	To	Topic	Presenter
8:00a	8:30a	Registration	x
8:30a	9:20a	The IMA, the CMA and the Auto Supply Industry	Jeff Thomson
9:20a	10:15a	Can 21st Century Auto Supplier Survive with 20th Century Cost Models? - Part 1	Doug Hicks
10:15a	10:30a	Break	x
10:30a	12:05p	Can 21st Century Auto Supplier Survive with 20th Century Cost Models? - Part 2	Doug Hicks
12:05p	1:00p	Lunch	x
1:00p	2:15p	Facilitating the Change from Adversary to Partner: Management Accountants and the Evolution in Auto Industry Supplier-Customer Relations	Bob Maks
2:15p	2:30p	Break	x
2:30p	3:45p	Understanding the Other Side of the Table: A Key to Effective Negotiation in the Auto Supply Industry	John Monica
3:45p	4:25p	Panel Discussion - Questions & Answers	Jeff, Doug, Ed & John
4:25p	4:35p	Closing & Wrap-Up	Doug Hicks

Register at: <https://www.123signup.com/change?id=ydrjk>

Early Bird

Conference Fees:	IMA Members	\$150
	Non-IMA Members	\$180
	Retired/Unemployed	\$105
	Students/Retirees	\$ 80

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