Affiliates News

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Insyte consulting

Inside:

Going "Green?" — Insyte can help 716.636.3626

McCullagh Receives "Excellent" Rating on HACCP Audit

Food product safety has become increasingly more regulatory, leading to increased demand on food processing firms. Learn how one WNY manufacturer proactively addressed this situation.

S.J. McCullagh, Inc. (McCullagh Coffee), of Buffalo NY, is a manufacturer of coffee for institutional, restaurant, commercial and industrial accounts. The company, founded in 1876, has been under the current ownership since 1986. McCullagh Coffee currently employs about 60 full time workers within manufacturing, distribution, sales and support. The integrated manufacturing operation includes roasting, grinding, blending and packaging functions over 1 1/2 shifts within an 18,000 square foot facility. The company produces over 200 SKU's of coffee in various blends and packaging configurations in addition to providing over 1,000 ancillary items that help support the primary business.

Darryl Jones loads coffee beans into roaster for processing at McCullagh Coffee.

Situation – Meet HACCP Standards for Food Product Safety

McCullagh Coffee's primary market had been business-to-business accounts within the Western New York area. Several years ago

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Why Cost Accounting is Wrong

by David Hallett

Do you make critical business decisions based on information provided by your cost accounting system? Use of traditional cost accounting methods will often lead to poor business decisions and will encourage behavior that is in conflict with lean manufacturing and other contemporary improvement methodologies.

A History of Cost Accounting

In the early 1900's, Cost Accounting, or Managerial Accounting, was developed to enable manufacturers to determine profits for individual products. This differed from Financial Accounting, which simply determined what the profits for the company as a whole were. Cost Accounting was developed to enable Managers to make good business decisions on questions regarding:

- Equipment purchases
- Product pricing
- Make versus buy
- Etc.

Traditional cost accounting systems assign direct labor and direct material costs associated with manufacturing a product to the

Cost Accounting continued on page 6

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President's Message

"Going Green" can be confusing

by Benjamin Rand

"Going Green" continues to be a hot topic for local companies. For some, the challenge is whether to go green. These companies should weigh the financial benefit and the marketing implications of going green along with their social responsibility. For companies that have decided to go green, the challenge is how. Going green can encompass everything from your energy consumption and waste generation to your plumbing fixtures and vendor locations. There is no single standard, no agreed-upon definition, no litmus test for what makes a company green. Instead, companies are faced with a bewildering array of programs, accreditations, certifications and organizations at the local, state, national and even global level that all represent some facet of going green. Don't let the alphabet soup deter you. Here are a few programs, certifications and organizations worth knowing if you are a WNY company that wants to go green.

EPA Climate Leaders

www.epa.gov/stateply/index.html

The EPA created this program in 2002 as a partnership with industry to reduce greenhouse gas (GHG) emissions. This "carbon footprinting" has the advantage of being clear and focused, but ignores important areas such as solid & hazardous waste reduction, recycling, etc. Companies can become partners by completing a corporate-wide baseline inventory of GHG emissions, setting long-term (5 or 10 year) reduction goals and annually reporting their progress to EPA. Once a company has joined the Climate Leaders Program they are free to publicize their membership and use the program mark on their marketing materials. The EPA lists 284 Climate Leader Partner companies, 127 of which have already publicly announced their GHG reduction goals. To date, 21 have achieved that goal. There is no fee or membership cost to join the Climate Leaders program.

The Carbon Disclosure Project (CDP)

www.cdproject.net

The CDP is a global climate change database and reporting organization. Over 40 major multinational organizations including Walmart, Johnson & Johnson, IBM, Sony, P&G and PepsiCo use the CDP to collect, calculate and report on the carbon footprint of their supply chains (Scope 3) at a cost of up to $60,000/year to the OEM. If you are a vendor who receives a questionnaire or a Walmart supplier voluntarily reporting, there is no charge.

LEED Certification

www.usgbc.org/DisplayPage.aspx?CategoryID=19

Leadership in Energy and Environmental Design was developed by the U.S. Green Building Council (USGBC) starting in 1994 as a "green building rating system" to make buildings more environmentally friendly and efficient. LEED certification is building-specific, not business-specific, and can be applied to new construction or to existing buildings using a complex rating system. Points are awarded toward four levels of certification:

Certified – 40-49 points
Silver – 50-59 points
Gold – 60-79 points
Platinum – 80 points and above

You will need to submit an application documenting your compliance with the requirements of the rating system. But be prepared, registration and certification fees will range from $500 to $22,500 in 2010 based on, among other things, the size of your building.

USGBN www.ceinfo.org/ugbn

The Upstate Green Business Network with branches in Buffalo and Rochester serves as a forum for members to share information, best practices and questions on environmental issues. USGBN sponsors workshops, conferences and field trips to educate its 140+ members on how to make environmental improvements in their businesses and institutions. A recent guest was Walmart's Director of Supplier Sustainability who described Walmart's new Supplier Sustainability Assessment. Annual memberships range from $50 (10 employees or less) to $300 (200+ employees).

Business Doctor, Honorees

Ask the Business Doctor

Question: "One of my largest costs is healthcare. I've got a standard plan that's going up 23% next year. Any suggestion?" *John M., Buffalo*

Answer: You're not alone. Almost every business, large or small, has been struggling with escalating costs for employee healthcare. Here are three alternatives:

1) **Reduce your Company's contribution.** Very few companies still cover employee healthcare 100%. The current range is typically 50-75%. Reduce your company's percentage contribution or substitute a fixed dollar contribution, adjusted annually for inflation.

2) **Focus on Wellness.** NY companies with 50+ employees have "experience-rated" insurance reflecting their actual claims. An aggressive employee wellness plan can result in a healthier work-force, fewer claims and lower healthcare premiums.

3) **Install a Healthcare Savings Account (HSA).** These combine high-deductible insurance (~60% of a 'normal' premium) with employee-owned HSAs. The idea is to make employees careful consumers of healthcare by requiring them to pay all expenses up to the annual deductible out of a pre-tax HSA. Anything employees don't spend they keep.

Have a question? Contact the Business Doctor at www.insyte-consulting.com/Home/Resources/BusinessDoctor ❖

Insyte Honors Excelo, Perry's & National Grid

Insyte Consulting honored Excelco Developments, Inc., Perry's Ice Cream Co., Inc. and National Grid at their Affiliates Reception on October 1st.

Insyte Consulting uses its annual Affiliates Reception to honor local companies exemplifying technology, manufacturing and business excellence.

"We are pleased to honor these companies," according to Insyte president Benjamin Rand. "In doing so, we recognize their commitment to improve their global competitiveness while adding to the economic viability of WNY."

Honorees (L) Chris Lanski, Excelco Developments; Dennis Elsenbeck, National Grid; Bob Denning, Perry's Ice Cream accept awards from Ben Rand, Insyte Consulting.

Excelco Developments, Inc.

Excelco Developments, located in Silver Creek, NY, is a Tier II defense manufacturer for naval applications in undersea water and refueling. The company achieved and maintained ISO 9001:2000 certification which enabled them to effectively compete against other manufacturers on a national basis. In addition, a four-year lean manufacturing initiative increased shop efficiencies by 60%. As a result of the improvements, sales increased by over 85%, employment has increased by 20% and, most importantly, net operating margin increased by 50% over the last two years. As a result, the company has expanded employment and contributed to economic growth in the northern Chautauqua County community.

Perry's Ice Cream Co., Inc.

Over the last several years, the Akron, NY manufacturer of frozen dairy products, has developed and effectively executed a strategic planning process that has contributed to strong growth and improved profitability. This has included capital investment of over $8 million for an expanded on-site warehouse as well as new production and packaging equipment. This has enabled Perry's Ice Cream to effectively penetrate new geographic markets and a Fortune 500 account for private label business in export markets. The impact of this new business outside the area has helped to create increased wealth in WNY.

National Grid

Earlier this year National Grid introduced a cost-share grant program for manufacturing companies within its service area who utilize the services of Insyte Consulting. These companies can now be reimbursed for Lean Six Sigma and Marketing projects that will contribute to both increased competitiveness and top line growth. This program has been particularly beneficial in light of the current economic situation and the absence of funding opportunities from government sources. Numerous local companies have already benefitted from the program and are better positioned to grow and prosper with improving economic conditions. ❖

Shifting to Paradox

Personal Growth as a Leader by Russ Kamis

During my retreat work, with hundreds of CEO's around the country, a few dominant issues appear. One theme is that a large part of the personal angst suffered by today's business leaders is the result of unresolved issues in their lives. Of course, most of us are familiar with the external issues executives face. However, the issues I'm referring to are the internal conflicts–conflicts of perspective–the result of un-reconciled, and possibly un-reconcilable, ideas and beliefs they hold in their minds...

As Marshall Goldsmith's book *"What Got You Here, Won't Get You There"* proposes, the most important skills top level executives can develop to ensure future success are improved soft skills, not technical skills. The most important soft skill is self awareness–the kind that comes from continuous self study and personal development. Only when leaders really understand, accept and appreciate themselves, can they understand, empathize and accept others. The hallmark of an effective leader is self wisdom.

Each of us has many beliefs. It is not surprising, therefore, that some of these beliefs, when considered with all their implications, conflict with others. One of my favorite ways to make this point during seminars is to ask participants in the crowd to raise their hands if they believe they are going to heaven. Most do. Then I ask them to raise their hand if they are afraid of dying. Most do. How can this be? Clearly, these beliefs are in conflict.

Conflict in psychological terms is a "mental struggle resulting from the, often unconscious, opposition between simultaneous but incompatible desires, needs, drives, or impulses." Freud believed that, analogous to an iceberg, 95% of ourselves is hidden. There are two key steps we can take to grow as effective leaders.

First, we need to identify these subconscious conflicts in our lives. Self study, meditation, prayer, and falling still are excellent practices to aid in their identification. A possibly less demanding, but equally effective method, is to use anger and frustration as a red flag. To do this, simply make it habit to notice when you are upset or frustrated and explore the underlying beliefs and assumptions driving your feelings. Over time your conflicts will become more conscious and themes will emerge.

Second, we must shift our beliefs from conflict to Paradox, once we see our conflicting beliefs. Paradox is the state that occurs when two or more beliefs "seem to be absurd or contradictory, but in fact are or may be true." While we can and should continue to try to resolve such conflicts as part of our continuous personal growth–keeping some beliefs and altering others–this is not necessary to gain the benefits of moving to Paradox. The only necessary step is to accept our conflicting beliefs.

Instead of being confused, frustrated, unclear and unsure of which belief is "right", we simply allow both beliefs to be correct simultaneously. We allow them to harmoniously coexist in Paradox. We believe both, each in spite of the other, appreciate the value and truth of each. For example, as executives we can accept our belief that we must work hard to succeed and provide security for our families even as this creates an imbalance of time spent with family and friends–the very people we believe are most important. Paradox provides peace and removes angst and worry. A state of Paradox actually enhances our ability to study, address, improve and possibly even reconcile the actual conflicts–further improving our lives.

The greatest gift we can give ourselves is acceptance. Accepting ourselves for who we are, deficiencies, inconsistencies and all. This is especially true with respect to our beliefs. When we move from conflict to Paradox, we can better know and more fully embrace who we are. Only then can we can better understand and accept others–the hallmark of an effective leader.

Russ Kamis is the Founder and Principal of the Kamis Group, LLC. Russ specializes in helping Presidents, CEO's and their leadership teams create a winning atmosphere ideal for success. To learn more about Russ visit www.thekamisgroup.com or contact him at russ@thekamisgroup.com.

Editor's Note: This is the first in a series of articles written by Russ Kamis that we are offering to our readers. Future articles will deal with achieving success both professionally and personally. This is a shift from our usual newsletter content and we are interested in your feedback. ❖

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10 Talking Points About the U.S. Manufacturing Sector

by Thomas J. Duesterberg, President & CEO, MAPI Manufacturers Alliance

Manufacturers Alliance/MAPI Board members recently requested that we put together some salient talking points about the state of the U.S. manufacturing sector. In the worst economic climate since the 1930s, and at a time of intensified political change, manufacturers are experiencing difficulties in articulating a clear and strong message about the health of their sector and how policy change might affect it. What follows are 10 summary talking points intended to convey an accurate picture regarding the current state of U.S. manufacturing and some of its key issues.

1. Despite perceptions that American manufacturing is disappearing, the ***quantity*** of manufactured goods produced in the United States has kept pace with overall economic growth for the last 90 years. Since 1947 ***value added in manufacturing*** has grown sevenfold, the same as gross domestic product (GDP). While ***employment*** has steadily ***declined*** in the sector, ***one in six private sector jobs*** is still ***in*** or directly ***tied to manufacturing***.

2. When measured in ***value added*** production, manufacturing is about 12 percent of GDP, down from about 27 percent in the early 1950s. This is due primarily to ***higher productivity*** and ***lack of pricing power*** and the sustained growth of the services sector. Between 1987 and 2008, ***manufacturing productivity*** grew by ***103 percent***, about double the total for all private business. Due largely to increased international competition, ***prices*** of manufactured goods rose only by about ***2 percent*** per year since 1960, compared to ***3.7 percent*** for the entire economy.

3. U.S. manufacturers do well in global competition by ***keeping costs under control***. Due in large part to enhanced productivity, ***unit labor costs*** in U.S. manufacturing ***have declined by 40 percent*** relative to the ***average of 14 principal industrial country competitors*** since 1986.[1]

4. U.S. manufacturing continues to be a ***source of innovation***. It still accounts for ***35 percent*** of value added in ***world high technology product production*** and has a ***trade surplus*** in revenues from royalties in manufacturing processes. Just ***four manufacturing industries*** account for ***56 percent*** of ***all private sector R&D***: computers and electronics, chemicals, aerospace, and automotive.[2]

5. Manufacturing accounts for over ***one-fifth*** of all ***energy*** use in the United States. ***Energy efficiency*** in manufacturing has ***increased by 43 percent*** since 1987 alone, much better than the 33 percent in other sectors. The U.S. industrial sector has ***reduced CO_2 emissions by about 11 percent*** since 2000 and is projected to ***reduce total energy consumption*** by 12 percent by 2030.[3]

6. Manufacturing production always ***fluctuates more than the overall GDP***. The ***current recession*** in manufacturing is the worst since the Great Depression. MAPI forecasts a ***decline of nearly 12 percent*** in manufacturing production in 2009, not nearly as bad as the 20 percent annual declines in the years 1930-1932, but significantly worse than the projected ***2.9 percent decline in GDP*** [4].

7. The ***tax burden*** on U.S. manufacturers is ***higher than*** for other major ***competitor countries*** except Japan. This is the same for both statutory and effective rates and is due in part to the capital intensive nature of manufacturing. ***Reform proposals*** which eliminate important preferences, such as the ***foreign exclusion*** or last-in first-out ***(LIFO)*** accounting, hit manufacturers harder than other sectors. The ***plan by Representative Charles Rangel (D-NY)***, Chairman of the House Ways and Means Committee, to reduce corporate tax rates while eliminating many preferences ***would cost manufacturers $58 billion in increased taxes***, while all ***other major sectors*** would see ***reduced taxes***.[5]

8. U.S. manufacturing provides ***premium wages and benefits***. Current wages and benefits in manufacturing, about $32 per hour, ***are 9 percent higher*** than the economy-wide average. About ***three-quarters*** of all manufacturing firms (and 99 percent with 200 or more employees) offer ***health-care benefits***, and pay about four-fifths of total employee premiums.

9. U.S. manufacturing is ***much more engaged in global trade*** than other sectors: ***fifty-seven percent*** of all U.S. exports are manufactured goods. Despite a ***large trade deficit in goods***, mostly due to imports of oil and of manufactured products from Asia, the United States enjoys a ***trade surplus with all countries*** with which we have a ***free trade agreement***, including the NAFTA countries. In 2008, trade in ***capital*** goods, a strength of U.S. manufacturers, was roughly in balance while we had a $300 billion deficit in ***consumer*** goods. On the negative side, U.S. exporters are ***losing market share in Asia*** to China and the EU.[6]

10. Most ***U.S. foreign direct investment*** (FDI) ***is intended to***

U.S. Manufacturing Sector continued on page 8

Cost Accounting

Cost Accounting continued from page 1

product. All other costs, which are considered overhead, are allocated across all products manufactured. Overhead is typically allocated based on direct labor. As an example, if the overhead rate is 250% and $10 of direct labor is assigned to a product, then $25 of overhead ($10 x 250%) would be assigned to the product.

This scheme makes sense based on when it was developed. 100 years ago, labor was typically the largest cost at manufacturing companies. The following table shows the typical ranking of cost components then and now.

Cost Component	1909	2009
Direct Labor	1	3
Direct Materials	2	2
Overhead	3	1

Notice that this system has evolved from allocating our smallest cost across our largest to where we now allocate our largest cost across our smallest. Do you think this may create some distortions?

The Problem with Cost Accounting

Henry Ford famously said:

"One of the most noteworthy accomplishments in keeping the price of Ford products low is the gradual shortening of the production cycle. The longer an article is in the process of manufacture and the more it is moved about, the greater is its ultimate cost."

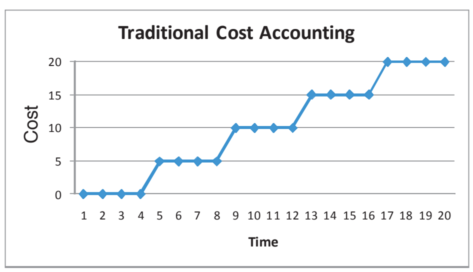
Essentially, what Henry Ford was saying is that the longer the lead-time, the greater the cost, which provides the following formula:

Lead-Time = Cost

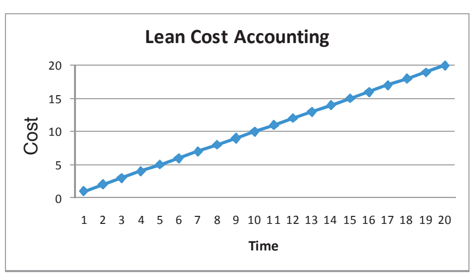
This formula is the essence of Lean Manufacturing, which is focused on the elimination of non-value added activities. Typically, 95%+ of a product's lead-time is non-value-added time. Therefore, if we focus on lead-time reduction, we will inherently reduce non-value-added time and become "leaner".

In Traditional Cost Accounting, the only time a Job accumulates cost is during the actual step where labor or materials are applied to the product. This is typically a value-added step and accounts for less than 5% of the total lead-time. The time between steps, where the product is not having value added to it, are considered "free" by this Cost Accounting system.

A graph of cumulative product cost throughout the lead-time to complete the product looks like this.



However, applying Henry Ford's philosophy of LT=Cost yields a graph that looks like this.



The Traditional Cost Accounting system tends to focus decisions and improvement initiatives at direct labor reduction. According to the first graph, this is the only direct way to reduce costs. As an example, if we buy a new tool that saves one hour of labor per week, how much have we saved? The "loaded labor rate" at most companies, which includes labor and all allocated overhead, is often in the $100 per hour range. The traditional approach will indicate that our one hour of labor savings per week will result in a savings of $100 (our loaded labor rate). Is this correct? Did any of the major components of overhead, such as buildings, equipment, utilities, indirect labor salaries, etc, go down as a result of this improvement? At best, the real savings is equal to our direct labor rate (maybe $15). However, unless the change resulted in an actual reduction in payroll, there are no savings at all (this often ends up being the case).

Alternatives to Cost Accounting

All costing tools and systems are at least somewhat flawed. With that said, several alternatives exist that are less flawed than traditional cost accounting. Some of the best include:

- Top down throughput decision making tools
- Lean cost accounting operating statements

If you would like to learn more about these contemporary approaches, contact David Hallett or Jack McGowan at Insyte Consulting at 716.636.3626.

David Hallett is an Insyte consultant with over 22 years of progressive management experience in a diverse range of industries and positions. ❖

McCullagh Coffee Case Study

McCullagh continued from page 1

the company experienced a downturn in business due to several external factors. The growth of large, national chains significantly eroded business at local restaurants and diners. In addition, a number of out-of-state food service contractors began penetrating major institutional accounts, particularly in health care. The closing of numerous businesses, especially in manufacturing, further eroded the company's sales base. In order to offset revenue and margin losses within its primary markets, McCullagh Coffee began pursuing major business opportunities outside the local area. This approach resulted in several immediate gains among major national accounts that more than compensated for local business erosion.

However, company management was informally advised that food processing manufacturers may be required to meet the standards of the Hazard Analysis Critical Control Point program (HACCP) for food product safety. McCullagh Coffee felt that it was particularly important that they be perceived as a credible supplier among their major national accounts. An initial audit using a grading system was conducted by ASI, a food safety consultant, three years earlier indicating that they did not score at an acceptable level. Insyte Consulting was engaged to work with McCullagh Coffee's staff in order to achieve immediate compliance for this reason.

> "The introduction of HACCP in conjunction with Insyte Consulting has been an important element of our overall strategic direction. It has enabled us to address changing market conditions and subsequently to positively react and pursue new national business opportunities. We learned if its not documented, you can't prove to a prospective buyer that the right procedures are in place and followed."
>
> Warren Emblidge, President

Solution – Develop a Plan with Documentation

The first step was to conduct a gap analysis in order to determine where McCullagh Coffee was deficient against ASI scoring and what actions would be required to achieve an excellent rating from ASI. The ASI points are built around specific clauses for quality and food safety including the requirement to install HACCP as a key compliance component. Although many of the required activities were actually being done, it was determined that few of these were properly documented, thus providing no means of verification to their practices. A plan was subsequently developed by a joint team of Insyte Consulting and McCullagh Coffee staff that enabled the company to become compliant over a twenty week period. The HACCP process was created and posted to let everyone see how their role was important to McCullagh Coffee's quality and control. Weekly work sessions and focused training were conducted to introduce and implement the various processes and procedures into the organization. This included the means of documenting the completed actions, as well as the processes to initiate corrective actions as required.

Results – Audit Rating of "Excellent" on First Pass

The company attained an excellent rating on its first pass when audited by ASI. In addition to retaining all of its key accounts, the company realized several other important benefits as well. McCullagh Coffee has been able to maintain average annual growth of over 15% since meeting HACCP standards. This rate of growth, combined with a related reduction in their variable costs, has had a very significant impact on overall profitability. Most importantly the company now has a quantitative measuring process to ensure stable production cost, consistent food safety and product quality. ❖

Firm Benefits

- Received "Excellent" rating on first pass of HACCP audit
- Retained all key accounts
- >15% average annual growth
- Developed quantitative measuring process to ensure production cost and consistent product quality

Completed product is filled in single use packets prior to shipping.

Insyte consulting

726 Exchange Street
Suite 620
Buffalo, New York 14210
web: insyte-consulting.com

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&

NYSTAR awarded Regional Technology Development Center (RTDC)
New York State Office of Science, Technology & Academic Research

Affiliates News

Insyte Directory

726 Exchange Street, Suite 620
Buffalo, New York 14210
Phone: 716.636.3626
Email: info@insyte-consulting.com
Web: insyte-consulting.com

Karen A. Delius | Editor, Affiliates News

Benjamin L. Rand | President

For information contact

Erie, Chautauqua, Cattaraugus Counties
John W. Murray
716.864.8675

Niagara, Allegany Counties
Bill Shepard
716.984.7949

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U.S. Manufacturing Sector continued from page 4

gain access to large and growing foreign markets. ***Over 75 percent*** of U.S. FDI is in ***high wage countries***, including Europe, Japan, Australia, New Zealand, and Singapore. Foreign affiliates of U.S. firms sell nearly $4.7 trillion abroad, much more than the $3 trillion in sales by foreign affiliates in the United States. U.S. firms earn more than ***150 percent more in profits*** from their foreign affiliates than do U.S. affiliates of foreign firms.[7]

1 "International Comparisons of Manufacturing Productivity and United Labor Costs Trends 2007, Revised," U.S. Bureau of Labor Statistics, March 3, 2009.
2 National Science Foundation, Science and Engineering Indicators 2008 (Washington: National Science Foundation, 2008), Chapters 4 and 6.
3 Garrett Vaughn, How Much Will Americans Pay To Meet President Obama's Timetable for Cutting Greenhouse Gas Emissions?
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5 Kevin S. Markle and Douglas Shackelford, Do Multinationals or Domestic Firms Face Higher Effective Tax Rates?, National Bureau of Economic Research, Working Paper 15091, June 2009.
6 Ernest Preeg, China Displaces the United States as Dominant Exporter of Manufactures in Asian Markets: What Happens Next?
7 An Ownership-Based Framework of the U.S. Current Account, 1998-2007, Bureau of Economic Analysis, January 2009 (includes all non-bank affiliates) ❖

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