

INCREASE YOUR PROFITS IN
FIVE EASY STEPS!



MILLIONAIRE *manager*



MANAGERS • ENGINEERS • ENTREPRENEURS
**YOU
CANNOT NOT
TO READ THIS
BOOK!**

Curtis W. Symonds

*recognized as the
world's foremost authority on
Return On Invested Capital*

Carole A. Symonds,

CPA, MST

Millionaire Manager



TESTIMONIALS

“A smart approach to financial management. As essential to success as a good business plan.”

– Philip E. Harriman, Chartered Financial Consultant,
Former Maine State Senator

“Congratulations on writing a book on understanding finance that is simple and effective.”

– Jean Otte, Founder & CEO Women Unlimited

“I’ve been to over 13 YPO Universities and the best resource I have ever encountered was Curt Symonds.”

– Dorset White, CEO, Tork, Inc.

“Yours is the kind of course that has real, practical, take-home value, and we can’t get enough of that type of training.”

– Jack W. Poole, CEO, Daon Development Corporation

“Congratulations! It looks like you have accomplished the difficult task of putting theoretical concepts into the practical language which the businessman needs and appreciates.”

– Donald A. Press, Associate Dean for Academic Programs,
Boston University

“The new knowledge that Curt Symonds has provided me is challenging my past habits and providing me with a more effective and plain old smart way to analyze our businesses...”

– John Hart, Controller

“I found Mr. Symonds’ talks to be among the most valuable educational experiences that I have had in some twenty odd years of post education.”

– Rev. John F.X. Sheehan, Marquette University

“Since first attending Curt Symonds’ Financial Management Seminars, we have been able to take this company from a low return on investment before taxes and interest to a Return on Investment before taxes and interest that places us securely in the top ten of Forbes Magazine’s latest ‘last 12 months’ list of High Return on Capital Companies. Management here owes Curt Symonds no small debt for his contribution to its techniques.”

– C.R. Mallory Smith, President, Koppers International

“Curtis Symonds’ book, “Profit Dollars and Earnings Sense” shows us a means of putting each of the profit measurements commonly used in business into proper perspective – aimed at achieving not only a more complete understanding, but hopefully, a better management of the profit system under which business operates.”

– John Budlong, (former) President,
American Management Association

MILLIONAIRE MANAGER ROIC CASE STUDIES

SMALL BUSINESS

Challenge: Small, profitable manufacturer earning \$3,000,000 in sales. Owner wishing to pursue other interests wanted to sell the company.

Solution: Hired Curt Symonds to consult. Using Return on Invested Capital (ROIC) techniques, the owner brought his business back to a stable cash position and sold his company two years later for \$7,000,000 plus a ten year bonus plan.

Outcome: The new owner kept the ROIC measurements in place, and working with Curt Symonds quarterly, the company weathered economic and industry downswings, diversified, and 18 years later the company was sold for \$58,000,000.

MIDDLE MARKET

Challenge: Privately held company doing \$600M in sales, with four diverse divisions in supermarkets, media, automotive and publishing, 8,000 employees, needed a way to measure the profitability of their divisions.

Solution: Hired Curt Symonds to consult and teach division managers the concepts of ROIC measurements which became the cornerstone philosophy of running and measuring their business.

Outcome: Sales increased and total assets improved, with the side benefit that the company performed satisfactorily against a deteriorating North American economy in the early 90's.

Using ROIC measurements and techniques, this company grew from \$600 million in sales to \$2.5 billion in 19 years and now stands at \$5.5 billion, eight divisions, 25,000 employees.

FORTUNE 500

Challenge: A Fortune 500 company was earning a low return on its capital and needed to improve its operating results.

Solution: Attended Curt Symonds' Financial Management seminars and in consultations with Mr. Symonds, implemented Return on Invested Capital techniques, company wide.

Outcome: Using Curt Symonds' techniques, this company improved its earnings and was listed in Forbes Top Ten High Return on Capital companies.

Millionaire Manager



Curtis W. Symonds
Carole A. Symonds, CPA, MST

Global Financial Publishing
Portland, Maine

© 2005 Global Financial Publishing
and Carole A. Symonds
All rights reserved.

The Millionaire Manager and the Millionaire Manager logo are trademarks of Global Financial Publishing, registered to the U.S. and other countries.

While this book is intended to provide timely and accurate information regarding the subjects discussed, it should not be used as a substitute for professional advice. This book is intended to provide general guidance only. In some cases, the information provided in this book may not apply to you. Accordingly, do not take any action or otherwise rely on this book without first seeking advice from a skilled financial, tax, legal or other professional advisor. You should not infer any guarantees or warranties of any kind from any sales representatives or sales materials, and the author and the publisher each disclaim any and all warranties of any kind in regards to this book and the information provided herein, including, without limitation, any implied warranties of merchantability and fitness for a particular purpose

This book is protected by United States and international copyright laws. You may not reproduce or create derivative works based on this book (or any portions thereof) in any form or by any means without the prior written permission of the author and the publisher.

Library of Congress Catalog No. 2003103178
ISBN 0-9631056-4-7 Hard Cover Edition
ISBN 0-9631056-6-3 e-Book Edition
Includes Glossary and Index

Published in the United States of America
Global Financial Publishing

www.MillionaireManager.com

CONTENTS

Testimonials	<i>ii</i>
Case Studies	<i>iii</i>
Preface	<i>x</i>
Millionaire Manager Text	1
Millionaire Manager Calculator	105
Five Easy Step Techniques	106
Glossary	117
Index	123
Authors Biographical Data	131

Preface

The new millennium has brought many changes to the financial world. Gone is the bull market of the late 1990s where everything connected to the Internet turned to gold. The technology boom and e-business craze tested the theory that a company's value could be based solely on revenue or "click-throughs" (a measurement of traffic on a company's website). Surprise. It was proven once again that, at the end of the day, investors require a return on their money. Even in this new world, the old rules still apply. Companies need to earn a reasonable profit to stay competitive and attract new investment dollars.

So what is the concept of profit? How do you determine a reasonable profit for an amount invested? Are two companies that have a five percent return on sales equally profitable? No. You can't simply look to the reported net earnings on the income statement to determine a company's profitability. To truly measure profit, you need to have an understanding of what profit is and how much capital was invested in the business to earn that profit.

Let me dispel one misconception right now. You don't have to be an accountant to understand profit. In fact, accounting rules have no connection to and make no attempt at measuring economic profitability. The purpose of Generally Accepted Accounting Principles (GAAP) is to develop consistent rules to match the timing of when revenue and expenses are recorded so that financial data is more comparable and reliable across organizations. GAAP was never designed to measure a company's value or determine an appropriate return for the risks assumed by the business owners and

other stakeholders. With the continued use of accounting statements and accounting terminology as the source for measuring profits, managers and business owners have adopted a technician's view of profit as a remainder amount. Being "in the black" has equated to being profitable. This reliance on accounting principles as a profit measurement is not only misleading, its continued use could cause a company to steadily lose value while its accounting "profits" are increasing.

To give you an example, in one of the country's largest bankruptcies, WorldCom hid expenses from its investors by capitalizing costs as an asset on its balance sheet. By doing so, WorldCom was able to keep these expenses off the income statement, thereby inflating the "profits" reported to the market. This, in turn, increased WorldCom's earnings per share (EPS). The techniques in this book would have shown that WorldCom was steadily losing value even as it was reporting profits to its investors.¹

In this book, we have taken the concepts of Return on Invested Capital and laid them out in a step-by-step approach that is easy for any manager or business owner to understand and apply to their own business. By following these techniques, you will understand the relationship between earnings, capital employed, and cost of capital and how this relationship impacts your business's true profitability. Apply these concepts to your company, your division, your product line, or your personal investments² and get an accurate profit measurement from which you can make better business decisions.

1 During the period 1998–2001, WorldCom went from reporting a loss per share of (\$1.35) to reporting an earnings per share high of \$1.46. During this same period, WorldCom's Return on Invested Capital decreased from 8.2% to a low of 2.6%. Further, between 1999 and 2000, the company reported an increase in net earnings of 5.6%. But during that same period, capital increased by 6.6%, so the earnings "growth" wasn't really growth at all; the earnings had to increase just to support the additional capital being utilized in the business.

2 For a more detailed discussion of applying Return on Invested Capital to your investment portfolio, the authors refer you to *The Millionaire Manager Talks to Wall Street*.

Millionaire Manager





It began as a trickle, turned into a flood, and quickly became a deluge. The monthly reports became weekly...and then hourly printouts...printouts with endless listings of the detail of every conceivable aspect of the business.

And once the detail became the norm, management began to absorb it and soon knew more and more about less and less.

The computer had given us the Information Age...and with it far more “information” than we needed to know.

I looked for a better way and that’s when I met...

The Millionaire Manager...

I first met the man in a small town I visited from time to time. I noticed him because he stood out from the crowd, because he had succeeded where others had failed.

What he had done, quite simply, was to start a small business, manage it well, and enable it to grow slowly and steadily over the years. He had stayed the course while many others had come and gone. I asked him about it, about what he knew that the others didn't.

He smiled. “A lot of people ask me that same question. It’s quite simple, really. I manage by my rule of *five percent*. In fact, some folks around here call me the five percent manager,” he replied, as he leaned back in his chair.

I was intrigued.

“Does that mean you have a five percent profit?” I asked, thinking he must be referring to the usual meaning most managers had when speaking of percentages in their business.

“Not at all!” was his amused answer. “Although that does seem to be the accepted wisdom with most people. No, my *five percent management* is a lot different. It all started with the story that probably brought you here in the first place — why I’m still here and most of the others are not.”

“You mean you just learned from their mistakes and then managed to avoid them? To do things differently?”

“You might put it that way,” he agreed, reaching for paper and pencil on an otherwise clean desk, one which I had noticed was devoid of the usual assortment of files, memos, and reports. “And, yes, I did indeed learn quite a bit from what went wrong with their businesses and have been able to avoid some of the more obvious mistakes.”

“But where does the five percent come in?” I persisted. “Were you simply five percent more profitable than the others, or what?”

The Millionaire Manager smiled again as he wrote on the paper in front of him. “No, it wasn’t that, at least not in the beginning. In fact, I was probably headed in the same direction as the rest of the crowd before I began to notice something. Do you see these three numbers?” he asked, passing me a sheet of paper on which he had written in large print...

Success in Business

100% Start

95% Fail

5% Survive

“Well, that’s where it started, when I found out that ninety-five percent of the other fellows didn’t make it over the first ten years. They had failed one way or another — gone bankrupt, been bought out, or just closed up shop and walked away. I was a five percent survivor.”

“So that’s what you mean by five percent management, just being one of the five percent still in business at the end of ten years? But that’s not a formula for managing your business, just a statistic of sorts. Maybe you were just luckier than the rest,” I protested, a bit disappointed by his answer.

“Yes, it could have been just luck,” he admitted, “if I had stopped there. But, as I said, that was simply where it all started. It was the other five percent that made the whole thing work.”

“The other five percent?” I interrupted, sensing that now he might be getting to the point that had puzzled me.

“Well, as I said, I did spend quite a bit of time studying what the ninety-five percent managers may have done wrong. I talked to many of them, asked a lot of questions, and made quite a few notes.”

“And what did they do wrong?” I asked, thinking that he must have uncovered quite a long list of mistakes.

“Nothing, according to their stories. It was just bad luck as they saw it. With one, it was a high inventory that tied up most of his cash; another complained of a slow collection of accounts due from his customers; a third couldn’t get a loan from the bank...and so on. The list ran to some one hundred bits and pieces they blamed for losing their business. I went over the list time and again until it finally dawned on me. It all boiled down to one common problem.”

“And that was...?” I prodded impatiently.

“TOO MUCH DETAIL!” the Millionaire Manager replied quickly, now leaning forward in his chair in a more urgent manner. “Entirely too much detail! They had a hundred pieces of the puzzle but no way to put it all together. They weren’t running the business; it was running them. They were so busy counting the trees they couldn’t see the forest,” he concluded with a shrug.

“So you simply eliminated some of the detail in running your own business?”

“Some? I eliminated ninety-five percent of it. That’s where the other five percent comes in. They were handling details while I wanted to manage results. To do it, I simply boiled the list of one hundred details down to five essential elements...five percent of the total.”

“Let me see if I understand you,” I said eagerly.

A
Five Percent Manager
becomes a
Five Percent Survivor
in business
simply by
managing only five percent
of all the detail involved
in operating a business.

I thought over what I had just learned and asked, “But is it really that simple?”

The Millionaire Manager smiled.

“Yes, it’s just that simple in concept, but of course you must learn what the five percent consists of as well as the sequence in which these steps must be planned and controlled,” he asserted. “Once you do that, it’s not much of a secret.”

“Where do you begin?” I asked, impatient to learn the Millionaire Manager’s five percent formula.

“Well, let’s start with the two reports that most managers get in a business...the Balance Sheet and the Income Statement. The Balance Sheet, of course, lists all the things you own: the Cash, Inventory, Equipment, and so on, as well as all of the amounts you owe to your suppliers or to the bank. It also shows how much Capital you have put into the business and where it came from. It can be a very lengthy document. The Income Statement tells you how much your income has been for a period of time...what all of your costs and expenses have been and how much is left over as Profit on the bottom line. Most managers start with the Income Statement. I start with the Balance Sheet. I find it is the more important of the two in the long run. It’s also the one that most managers pay the least attention to. Now, I apply my five percent rule to each of these reports, but let’s begin with the Balance Sheet. The most important item on this report is the amount of Capital employed in the business.”

“Exactly what is *Capital* in business?” I asked, wanting to make sure I understood all of his terminology correctly.

“Very simply, it is *the amount of money that someone has put up to get the business started and to allow it to continue and grow*. In the beginning, it is usually all supplied by the owners and is called *Equity Capital*. Later, as time goes on, *Debt Capital* will probably be added as the business borrows money from the bank. These are the only two sources of Capital. Debt and equity. Capital, of course, forms the foundation for what the business will be able to do, how much equipment it can have, how much inventory, how much of the capital its customers can use in the time it takes to collect the money due from sales, and so on. And, as a starting point of measurement, it also puts a limit on what the amount of Sales is likely to be.”

“Exactly how does that work?” I asked.

“Well,” he replied, “let’s assume we are going into the business of assembling a line of small mechanical products and that we have raised a total of one million dollars in initial capital from a group who will be the owners of the business. We will find from looking at similar types of companies that we can expect to do no more than about three million dollars in Sales with our one million of Capital...that for our kind of business, one dollar of Capital will support about three dollars of Sales.”

I was somewhat confused. “You say that would be the figure for *our* kind of business...the assembly of a line of small mechanical products. Does that mean there is a different number for every other kind of business?”

The Millionaire Manager nodded. “Yes, it does. And the measurement used to show this is called *turnover*. It works this way. If we have Sales of \$3.0 million divided by our Capital of \$1.0 million, we have a turnover of 3.0, meaning we are turning our Capital three times a year. And if we have two parts of the equation, we can always find the third,” he explained as he walked to his whiteboard and wrote...

$$\frac{\text{Sales}}{\text{Capital}} = \text{Turnover}$$

So ...

$$\text{Turnover} \times \text{Capital} =$$
$$\text{Sales Potential}$$

“In this case,” he concluded, “we know how much Capital we have, and we also know what the average turnover is for the kind of business we plan to operate. So by multiplying the two together, we very quickly get a picture of the Dollar Volume of Sales we can expect to support for the year.”

“I see. But you said there were different figures for different types of business,” I persisted. “Are they a lot different?”

“Quite different. The turnover rates will range from less than one in heavy industries such as steel, petroleum, and cement — to an average of ten times a year for supermarket operations where most of the capital is tied up in inventory. If the inventory is not turning rapidly in a supermarket, of course, you’re not going to stay in business very long.”

“So *Capital is your beginning point* as a five percent manager. I see how it works to determine the Dollar Volume of Sales it will support, but how do you control the Capital itself? You said it was used to supply the business with Equipment and Inventory and so forth. How can you make sure it isn’t all tied up in one place...in Inventory, for example...so that you don’t have enough cash on hand to pay the bills or meet the payroll?”

I could see that he liked my question because he went immediately to the whiteboard, anxious to explain his next point.

And this time, I smiled as I watched him write...

A
Five Percent Manager
limits the
management of Capital
to five percent
of all the detail
found on the
Balance Sheet.

“By doing this,” he explained, tapping his finger on the board, “I am concerned only with how the Capital is used, not where it came from. This can be measured and controlled in just five groups,” he added, writing again on his whiteboard...

Controlling Capital

Cash

Receivables

Inventory

Equipment

(Payables)



Total Capital

“What do Payables mean, and what do they have to do with the use of Capital?” I asked, as I felt he was getting ahead of me.

“Think of it this way,” he said. “Capital in business is used to supply what we call *assets*, things like inventory and equipment and so on. But there is another source that also supplies assets for a short term, and that is the various companies from which we buy inventory, supplies, and equipment. As you know, we very seldom pay cash on delivery since these suppliers will usually give us terms of about thirty days to pay our bills. The *Payables* then account for the assets used in the business that are supplied from this source.”

“Then the total assets in a business must be larger than the total Capital,” I interjected.

“Exactly!” he replied. “Assets are larger than Capital by the amount supplied by the Payables.”

“That’s fine, but I still don’t see how you manage these five groups. How can you decide how much should be in each one?” I persisted.

The Millionaire Manager had already anticipated my question and was once again at the whiteboard. “I manage each of these five groups with the same tool I have already described to you...the average turnover of investment expected for this type of business,” he said.

“You mean that there is also a series of these turnover numbers that in turn apply to the five groups that measure the use of Capital?” I asked, wondering where he got all of this material.

“Yes, there is,” he replied, “and they are available in several different financial publications, although anyone can develop them simply by studying the reports of other companies engaged in the same line of business.”

“What are the five individual turnover rates for the type of business we are talking about...that of assembling a line of mechanical products?”

“Here is how the total would break down,” he explained, as he wrote the following on the whiteboard...



Today, you have taken the first steps toward joining the ranks of other business owners and companies who are using these techniques to grow their businesses beyond their expectations.

Managing Business Finance - the real How-To-Guide

If you really want to manage a business - to make money - this is the book! The Millionaire Manager is full of useful information and brilliant insights on the best ways to make and manage money in a business. It is the most readable and enjoyable book I have read on business and finance. It should be required reading for anyone hoping to succeed in business.

Barnes/Noble Review

This book will clear your head!

If you've ever been lost in the details of managing your business, this book is a great way to get a new perspective. It is a very simple read that will change how you understand your business and will impact your management approach from the moment you read it.

Barnes/Noble Review

Best Finance Book in the Business

I needed a tool that would train my team on basic financial concepts. This book is it! It is easily understood by people without a finance background. I bought extra copies to keep on hand and give to people who come asking me for guidance. Will impact your management approach from the moment you read it.

Barnes/Noble Review

An Absolute Essential for Everyone in Business,

"If you ever cringe at the thought of creating your company's financial reports--or just feel like hiding when the word 'finance' is mentioned at all, then this book is for you. Written in a fun, engaging style, the narrator pulls you in and shows you how to clearly understand the fundamentals of finance. What's exposed in this book is the common sense we NEVER LEARN in business school. Why is that? Because most teachers don't understand profitability! Let alone entrepreneurs who are better at ideas than getting down and dirty with numbers. Now, you can have some fun. Every reader and every college course that deals with even one iota about running, managing and keeping a business alive need this vital resource."

Amazon Review

[Yes! I want to Purchase a Downloaded PDF Copy Now!](#)

(ebook at discount price of \$49.00 for this promotional only!)

[YES! I want to Purchase the e-Training at Discount Price Now!](#)

Don't wait! Increase your Profits Now!