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## Why Your Company is at Risk for Bankruptcy

By Carole A. Symonds, CPA MST

What is happening to Corporate America? In the last decade, companies have shrunk the size of middle management in order to 'cut the fat' from their overhead and better respond to increased competition and pricing pressures. They've implemented Six Sigma and Total Quality Management to improve productivity and find efficiencies, and yet it seems that every week we're reading about another major corporation on the brink of bankruptcy, or facing an accounting scandal. How did it come to this? Who is to blame? The answer is everyone, and no one. There is not a manager anywhere who deliberately sets out to fail in his mission to do his job. But without the financial knowledge or skills to effectively assume these increasing responsibilities, they inevitably, and unwittingly, make daily decisions that put the company at risk.

While Six Sigma and TQM have proven to boost companies' productivity and increase quality, they do not, in and of themselves, make companies profitable. Employees at every level of an organization need to have a basic understanding of finance. It is critical for the employee making a purchasing decision, or setting a marketing plan, or quoting prices to a long-term customer, to have an understanding of how their decisions impact the overall financial health of the company.

As layers of management have reduced, more responsibility for profit decisions is given to the lower tiers of management. These managers generally come up through the ranks with specific technical or sales backgrounds, where financial skills were considered to be unimportant. Too often, organizations leave finance to the finance department, and separate the profit responsibility from the decision-making floor. But smart engineers do not automatically make smart financial decisions, just as smart finance people don't design cutting-edge products.

Most managers, and CEOs for that matter, have some exposure to finance. But, as they are never given the techniques to transfer knowledge into action, they still view profit as a remainder amount; what is left after all the company's expenses are paid. As long as that number is above zero, they assume the company is making a profit. They may have vaguely heard of the term 'cost of capital', but aren't really sure what it means, and don't have a clue as to what to do with the information. But the truth is that profit is inextricably tied to capital. There is no way to separate them, and you can't achieve one without knowing the other. And if your managers have responsibility for setting prices with customers, or negotiating terms with vendors, or cutting costs to improve margins, they'd better know **exactly** how their actions in those efforts impact the overall results. A manager can meet their revenue goal for a product line – and even receive a significant reward for that achievement – while the company has lost value overall because the costs of obtaining that revenue far outweighed the revenue itself.

Let's take a simple example to illustrate what I'm talking about. Let's say that Manager A has two product lines: Product X and Product Y. He has been directed by his boss to increase his division revenue by 20%. He looks at his current Income Statement and determines that product X is doing better. It has a higher price point, a larger share of the market, and generates more dollar volume of sales. So Manager A puts all of his effort into manufacturing and selling Product X. What he has failed to recognize, because he has not had the proper financial training, is that product Y has a higher profit contribution and requires a smaller capital investment. In fact, by increasing production of Product X, the company actually lost money, because Product X required additional outlays for equipment and supplies. So while the goal of 20% revenue growth was achieved, the company lost where it really matters most – profits.

The sad truth is that this scenario plays out in companies around the world every single day. These poor financial decisions pile up, one by one, slowly eating away at the company's profits until there's nothing left, and like the straw that broke the camel's back, the company is ultimately forced to close its doors or sell off its assets to stay afloat.

There is help. Millionaire Manager Profit Management Training offers non-financial managers fun, easy techniques that have assisted companies for nearly 40 years in achieving profit gains of up to 45% a year. Regardless of your managers' prior financial experience, this program will help them understand the fundamental elements of finance that drive profits, and teach them how to make better business decisions.

***"It was rewarding to see how fast ROIC techniques were learned by non-accounting people and how quickly the vocabulary changed to include ROIC language. The knowledge became the basis for all of our pricing decisions and corporate planning."***

***"The financial concepts Curt Symonds developed are timeless. The formulas will work forward to the end of time, as they are fundamental to any business transaction. It is too bad that there are scores of businessmen who didn't drive their business to success, simply because they did not know about Curt's work."***

- D. Dean Rhoads, Lincoln Wearever



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*The Millionaire Manager Profit Management hands-on training course can be ordered at [www.MillionaireManager.com](http://www.MillionaireManager.com), Discounts for bulk orders available.*

*The Millionaire Manager hard cover book is available for purchase online at Amazon and Barnes & Noble.*