How to Lead a Profitability Turnaround

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• Islands of Profit in a Sea of Red Ink
• Barriers to Profitability
• Managing the Turnaround
• Transformational Leadership
Astonishing But True

In almost every company – even leading ones:

- 30-40% of the business is unprofitable by any measure
- 20-30% is so profitable it provides all the reported earnings and subsidizes the losses
- No one is responsible for managing profitability
- Even if everyone makes budget, the company will still have huge embedded unprofitability

Virtually all top managers agree – but they don’t know how to fix it
Profitability turnarounds

- Not particularly difficult
- Very different from day-to-day management and improvement
- Generate cash from the start
- Results come surprisingly quickly
- Systematic pathway to success
Leading a Profitability Turnaround

The President’s dilemma

A leading distribution company

- Accounts – 33% unprofitable
- Order lines – 35% unprofitable
- Products – 40% unprofitable
- Sales channels – not aligned with profit potential
- But – everyone made budget

Upside: 30%+ profit increase within a year with no investment
Islands of Profit in a Sea of Red Ink

Profitability

Accounts - Products - Orders
Islands of Profit in a Sea of Red Ink

Same picture in leading companies in over a dozen industries, including:

- Laboratory supplies
- Steel
- Transportation
- Food and beverage
- High tech
- Financial services
- Healthcare
- Telecom
- Retail
Barriers to Profitability

Four big barriers

- Accounting systems
- Sales compensation
- Lack of focus on the profitable core
- Business case process

The legacy of the Age of Mass Markets
Three Eras of Markets

- Inchoate Markets
- Mass Markets
- Precision Markets

1900 to 2000
The Case of Baxter’s Stockless Inventory

Stuck in the mud

What business are we in?

Major cost reductions – foreseen and unforeseen

Surprise revenue increases

Pile on!
What’s Going On?

Huge new revenue and profit increases

Decisive strategic differentiation – enduring financial gains

It’s not about the products!

30-60% supplier base reductions across industries

Who wins big? Who gets pushed out?
New Locus of Value Creation

Locus of Value Creation

Mass Markets

Watershed

P&G – Wal-Mart Alliance

Precision Markets

Go-to-Market Process

General Foods

Product
New View of Value Creation – And Profitability

Our Company

Our Customers

Mass Markets

Precision Markets
Managing the Turnaround

Four key elements

• The right information
• The right priorities
• The right processes
• The right compensation

The fallacy of the “Big Bang” theory
The Right Information

What’s wrong with accounting

Profit mapping
Profit Mapping

Five-step process

Extract a Sample → Income Statement for Each Line → Database Analysis → Hunt for Profits → Targeted Actions

Tips and pitfalls
The Right Priorities

The intuitive response

The four priorities:

• Secure your high profit business
• Get more business that fits
• Turn around your marginal accounts
• Reprice what’s left

Don’t forget to build for the future
The Right Processes

Get Sales, Marketing, Operations, and Finance on the same page

- Standardize your offers
- Map the market
- Develop your accounts
- Focus product development
- Invest in showcases for new strategic initiatives
Investment Decision Matrix

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<th>Return on Investment</th>
<th>Strategic Relevance</th>
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<tr>
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The Right Compensation

Front wheel drive

Are all revenues equal?

Align sales with profitability
Transformational Leadership

Transforming the business

The fallacy of large-scale change

Transforming the culture
Profitability Turnarounds

High sustainable profitability

Grow into your sweet spot

Enduring strategic advantage