

What To Do When Half Your Company is Not Profitable

*A few days ago, CNNMoney.com/Fortune posted a very informative review of my new book, **Islands of Profit in a Sea of Red Ink**. Here's the review by Anne Fisher:*

What to do when half your company is not profitable

By [Anne Fisher](#), contributor
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FORTUNE -- Sure, the global recession took a big bite out of earnings at plenty of companies, but according to profitability guru and M.I.T. senior lecturer Jonathan L.S. Byrnes, the downturn has masked an even deeper and stickier problem: Most businesses are still operating the same way they did in the Age of Mass Markets, which Byrnes believes ended about 10 years ago.

In *Islands of Profit in a Sea of Red Ink: Why 40% of Your Business Is Unprofitable and How to Fix It*, he explains how to thrive in what he calls the Age of Precision Markets, an era ushered in by Internet-empowered consumers and fraught with changes "as profound and disruptive as those that occurred when roads were first paved."

In his consulting work, Byrnes has noticed over and over again that at companies still clinging to mass-market thinking, it's perfectly possible for everyone to meet their targets and still be stuck with huge chunks of business -- often as much as 40% of the whole enterprise -- that are "unprofitable by any measure," he writes.

One key to turning that around is an accounting system Byrnes calls profit mapping, designed to help managers pinpoint precisely which products, and which customers, are profitable and which aren't. It's a common-sense idea: The first step in fixing anything is seeing exactly where it's broken.

Then there's the little matter of how you pay your salespeople.

"If all revenues are not equally profitable, and some are not profitable at all, why do virtually all sales compensation systems treat all revenues as equally desirable?," he asks, and then proceeds to explain how to encourage and reward the profitable sales you really want and phase out the less lucrative ones you don't.

At companies that have tried out his system, Byrnes says, sales have jumped by as much as 35% and profits by 50% or more.

No question about it, the changes Byrnes recommends in *Islands of Profit* add up to a total overhaul of practices and assumptions that have lingered unexamined in some companies for decades, which is why he also throws in some shrewd advice about handling resistance to change.

A skittish economy, where he acknowledges that "the instinct is to hunker down and focus on short-term measures to minimize the pain," may be the best moment to shake things up and get fit for a recovery.

"Like all things, hard times pass," Byrnes writes, adding that "competitors who were frozen in the headlights and afraid to act decisively will fall further and further behind."

Now, there's something to look forward to.

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