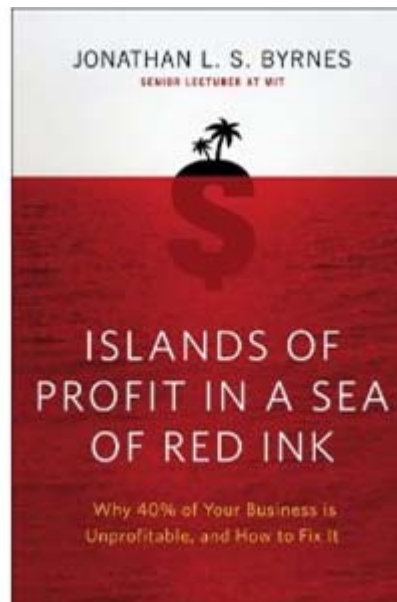


# How to Lead a Profitability Turnaround



Jonathan L.S. Byrnes

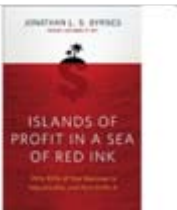
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## Today's Menu

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



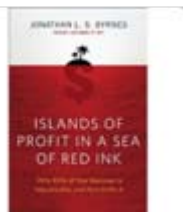
# Astonishing But True

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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

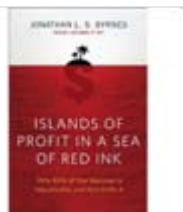


# Astonishing But True

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## 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

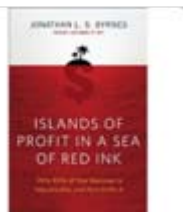
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## The President's dilemma

### A leading distribution company

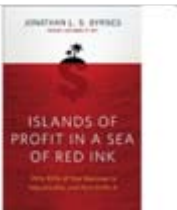
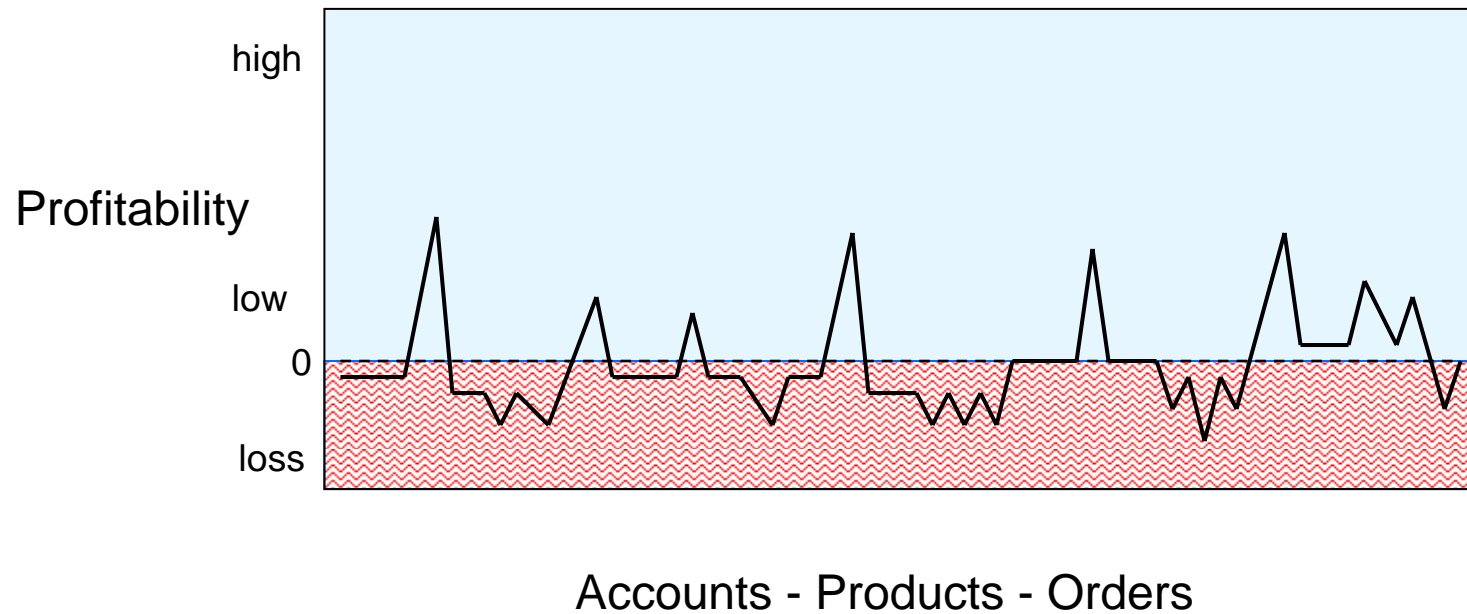
- Accounts – 33% unprofitable
- Order lines – 35% unprofitable
- Products – 40% unprofitable
- Sales channels – not aligned with profit potential
- But – everyone made budget

Upside: 30%+ profit increase within a year with no investment



# Islands of Profit in a Sea of Red Ink

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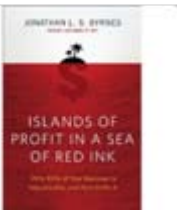
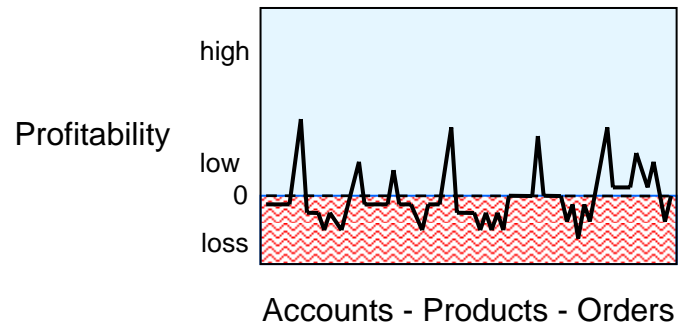


# Islands of Profit in a Sea of Red Ink

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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

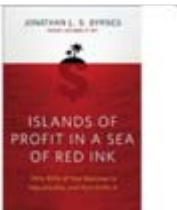
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## Four big barriers

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



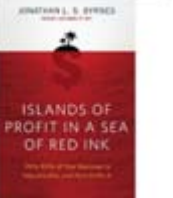
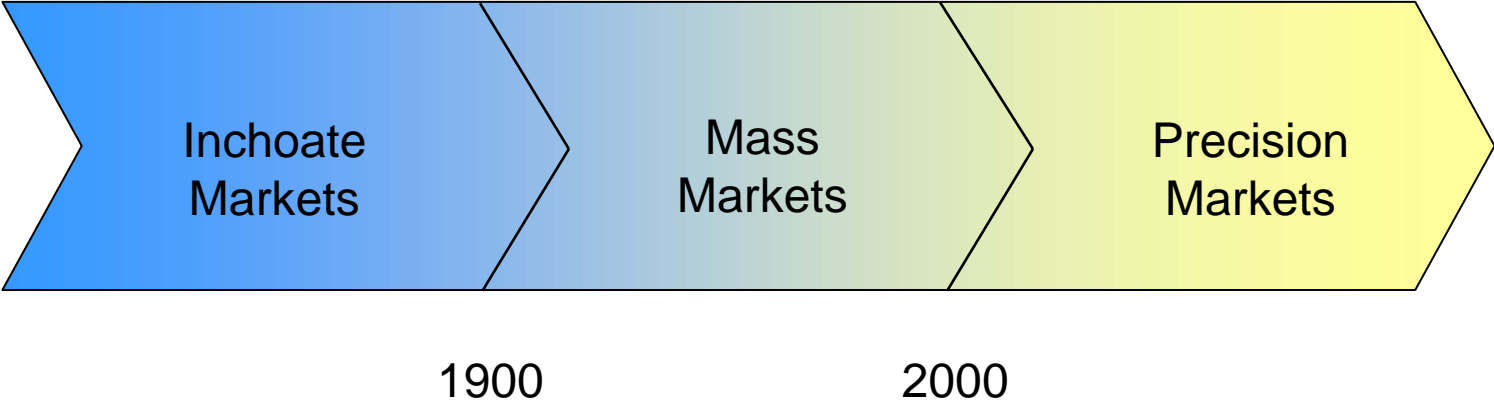
## The legacy of the Age of Mass Markets





# Three Eras of Markets

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# The Case of Baxter's Stockless Inventory

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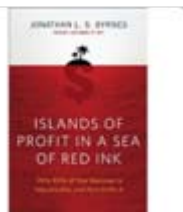
Stuck in the mud

What business are we in?

Major cost reductions – foreseen and unforeseen

Surprise revenue increases

Pile on!



# What's Going On?

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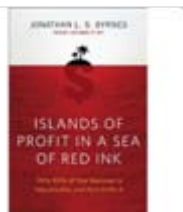
Huge new revenue and profit increases

Decisive strategic differentiation – enduring financial gains

It's not about the products!

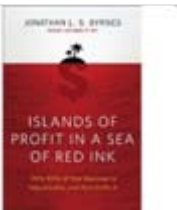
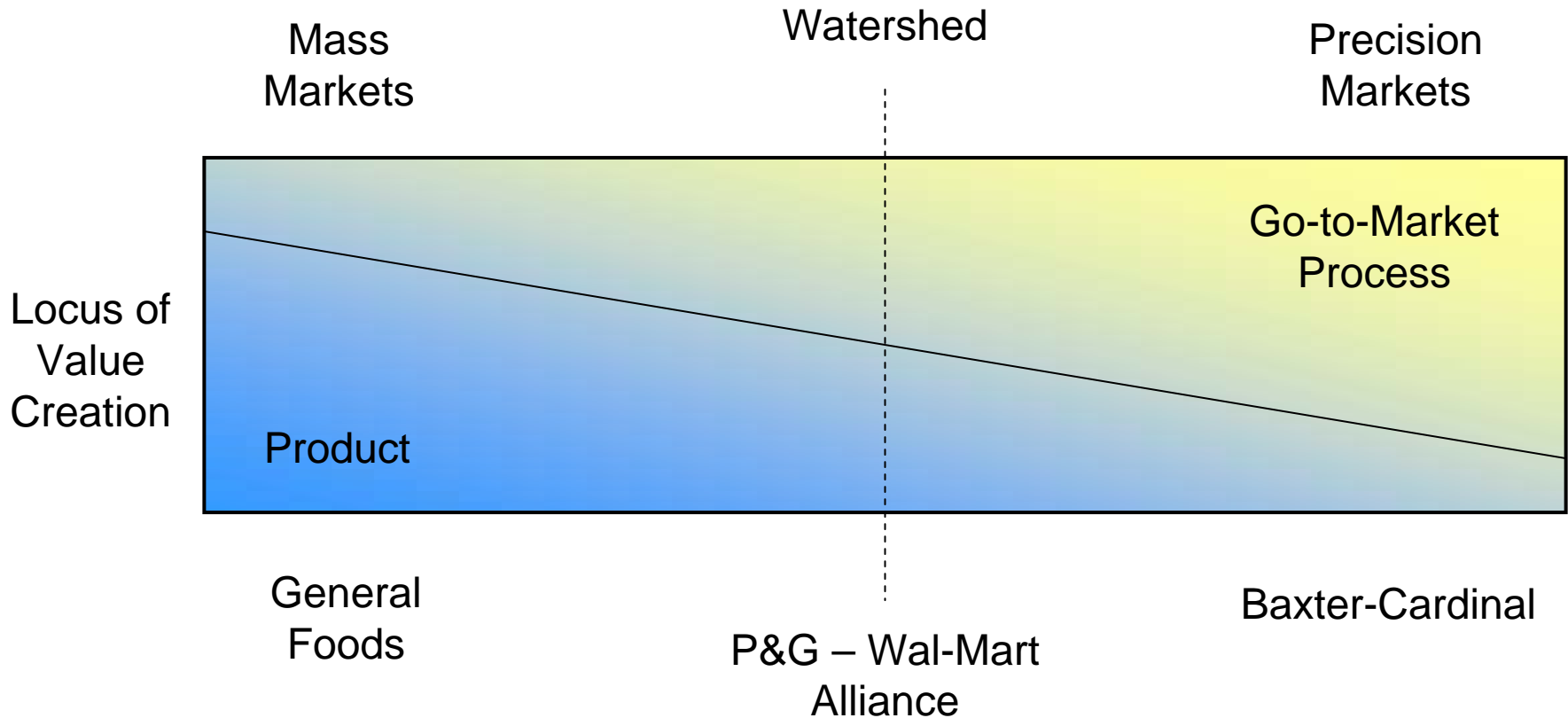
30-60% supplier base reductions across industries

Who wins big? Who gets pushed out?



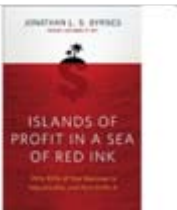
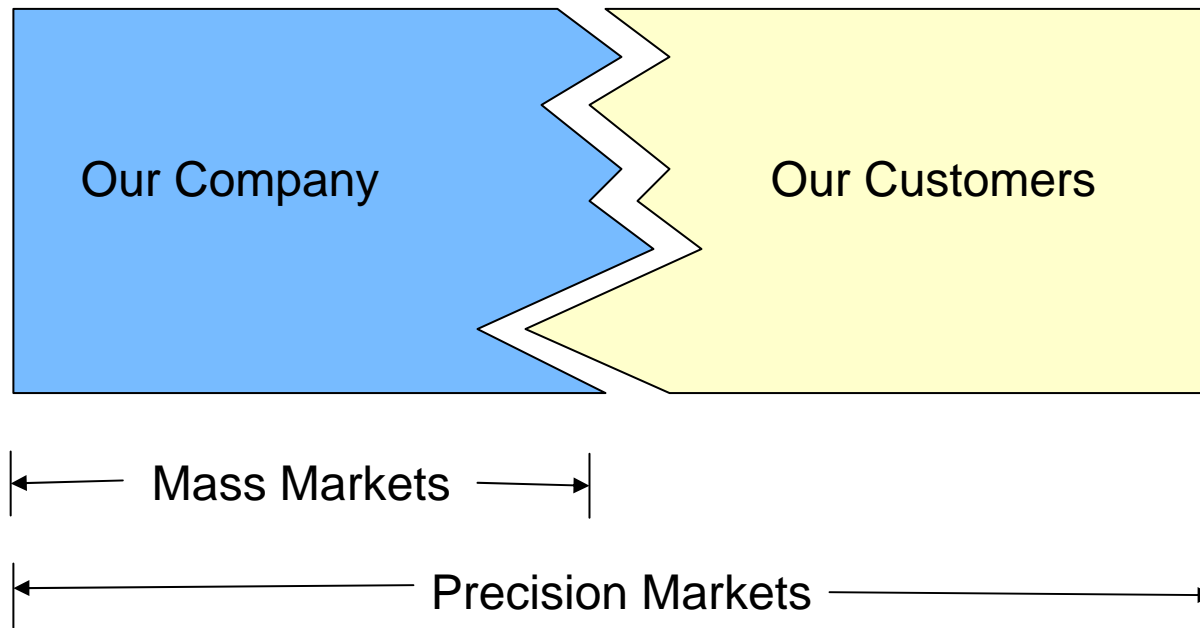
# New Locus of Value Creation

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# New View of Value Creation – And Profitability

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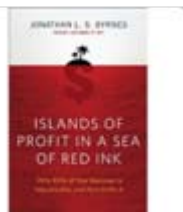
# Managing the Turnaround

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## 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

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What's wrong with accounting

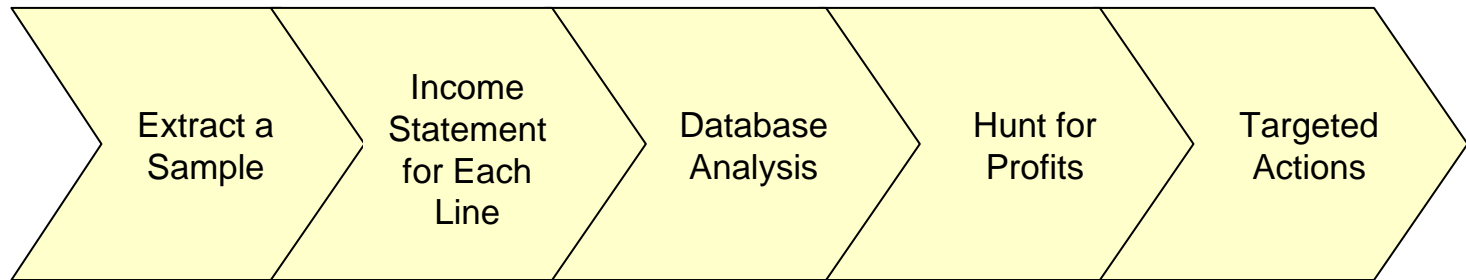
Profit mapping



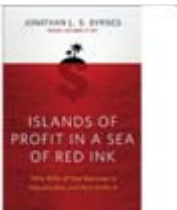
# Profit Mapping

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## Five-step process



## Tips and pitfalls





# The Right Priorities

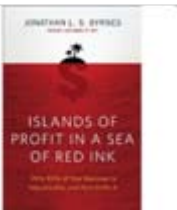
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The intuitive response

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

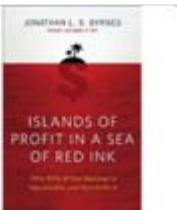


# The Right Processes

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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

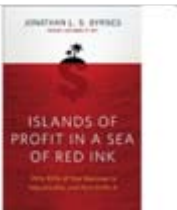


# Investment Decision Matrix

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Return on Investment	High	<i>Discipline</i>	<i>Yes</i>
	Low	<i>No</i>	<i>Courage</i>
		Low	High

Strategic Relevance



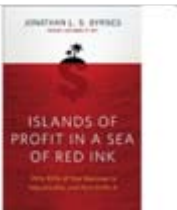
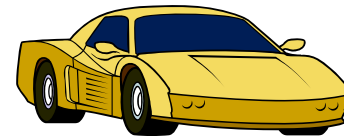
# The Right Compensation

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Front wheel drive

Are all revenues equal?

Align sales with profitability



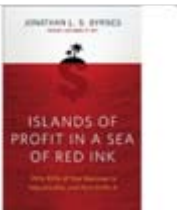
# Transformational Leadership

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Transforming the business

The fallacy of large-scale change

Transforming the culture



# Profitability Turnarounds

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*High sustainable profitability*



*Grow into your sweet spot*

*Enduring strategic advantage*

