How to Lead a Profitability Turnaround

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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
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

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  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!

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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

Mass Markets

Locus of Value Creation

Watershed

Precision Markets

Go-to-Market Process

Product

General Foods

P&G – Wal-Mart Alliance

Baxter-Cardinal
New View of Value Creation – And Profitability

Our Company

Our Customers

Mass Markets

Precision Markets

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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
What's wrong with accounting

Profit mapping
Profit Mapping

Five-step process

1. Extract a Sample
2. Income Statement for Each Line
3. Database Analysis
4. Hunt for Profits
5. 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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<thead>
<tr>
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<th>High Return on Investment</th>
<th>Low Return on Investment</th>
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<tbody>
<tr>
<td>Strategic Relevance</td>
<td>High Discipline Yes</td>
<td>Low No Courage</td>
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<tr>
<td></td>
<td></td>
<td>High Yes</td>
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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