

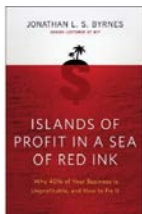
# MIT – Systems Design and Management

## How to Secure and Grow Your Islands of Profit



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## Today's Menu

- Astonishing But True
- Accelerating Supply Chain Profitability
- Islands of Profit in a Sea of Red Ink
- Barriers to Profitability
- Managing the Profit Acceleration Process
- Step on the Gas: Turbocharged Supply Chain Profitability
- 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

This is the biggest issue/opportunity for quantum increases in supply chain profitability.

Virtually all top managers agree – but they don't know how to fix it



# Astonishing But True

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## Profitability acceleration

- 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
- Market segmentation and supply chain alignment are critical



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# Accelerating Supply Chain Profitability

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## The President's dilemma

### A leading distribution company

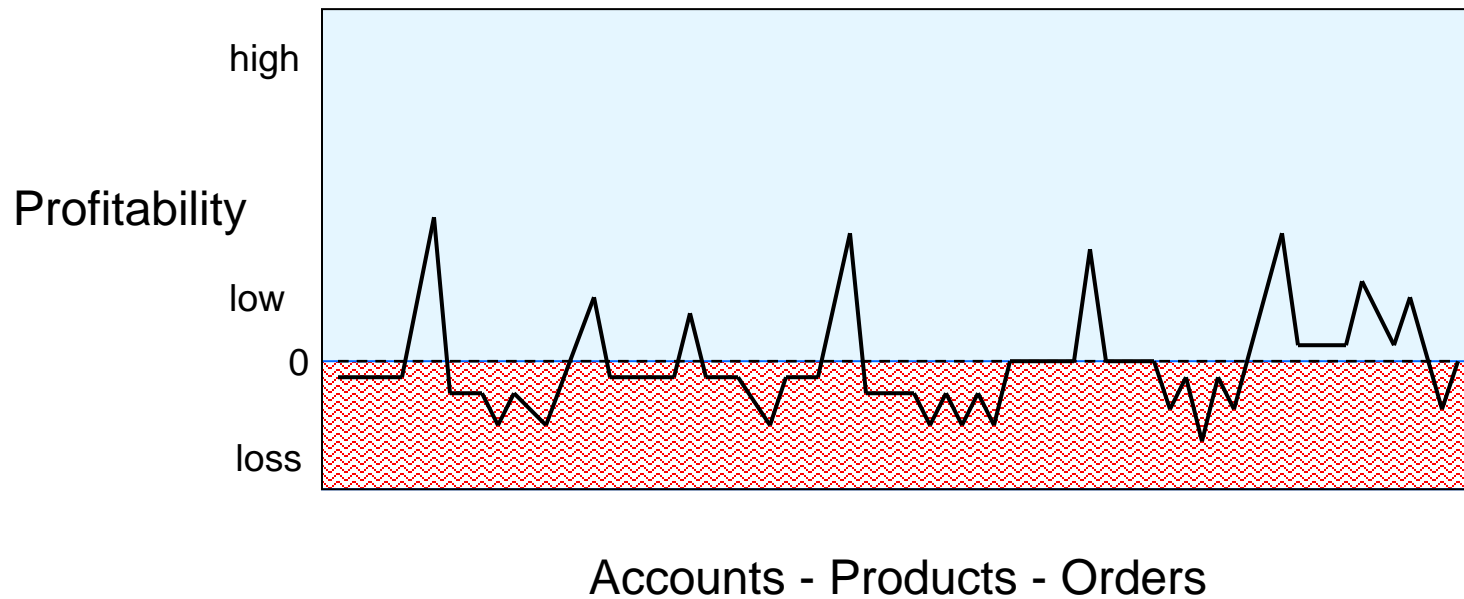
- Accounts – 33% unprofitable
- Order lines – 35% unprofitable
- Products – 40% unprofitable
- Suppliers – 40% unprofitable
- Sales channels and supply chain – not aligned with profit potential
- But – everyone made budget

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



# Islands of Profit in a Sea of Red Ink

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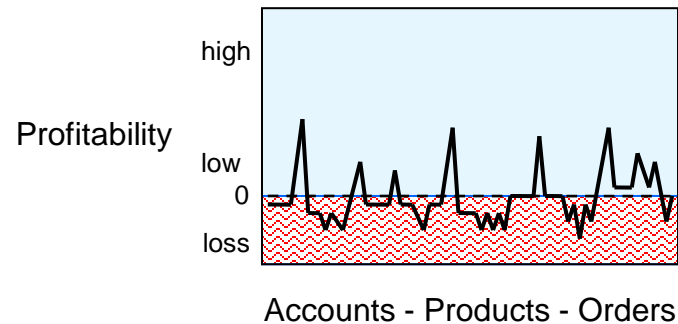


# Islands of Profit in a Sea of Red Ink

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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



# Sales Rep Comparison Example

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	<b>Revenues (\$000)</b>	<b>Gross Margin (\$000)</b>	<b>Net Profit (\$000)</b>
Rep 1	1,349	346	216
Rep 2	664	131	(25)
Rep 3	2,773	328	64
Rep 4	3,920	556	217





# Barriers to Profitability

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## Three big barriers

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

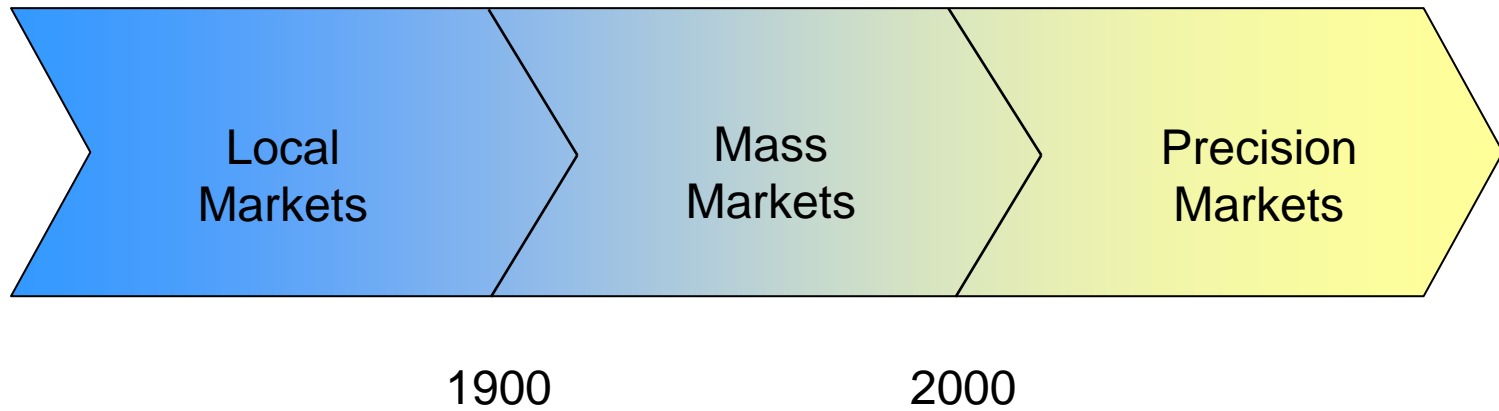


## The legacy of the Age of Mass Markets



# Three Eras of Markets

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# Expanding the Value Footprint

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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 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?



# Managing the Profit Acceleration Process

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## Four key elements

- The right information
- The right priorities
- The right processes
- The right compensation



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# The Right Information

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What's wrong with accounting

Profit mapping



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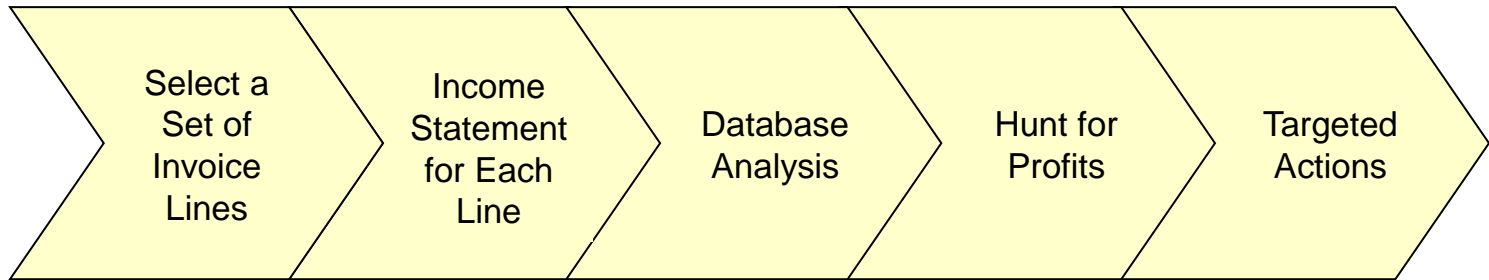
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# Profit Mapping

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## Five-step process

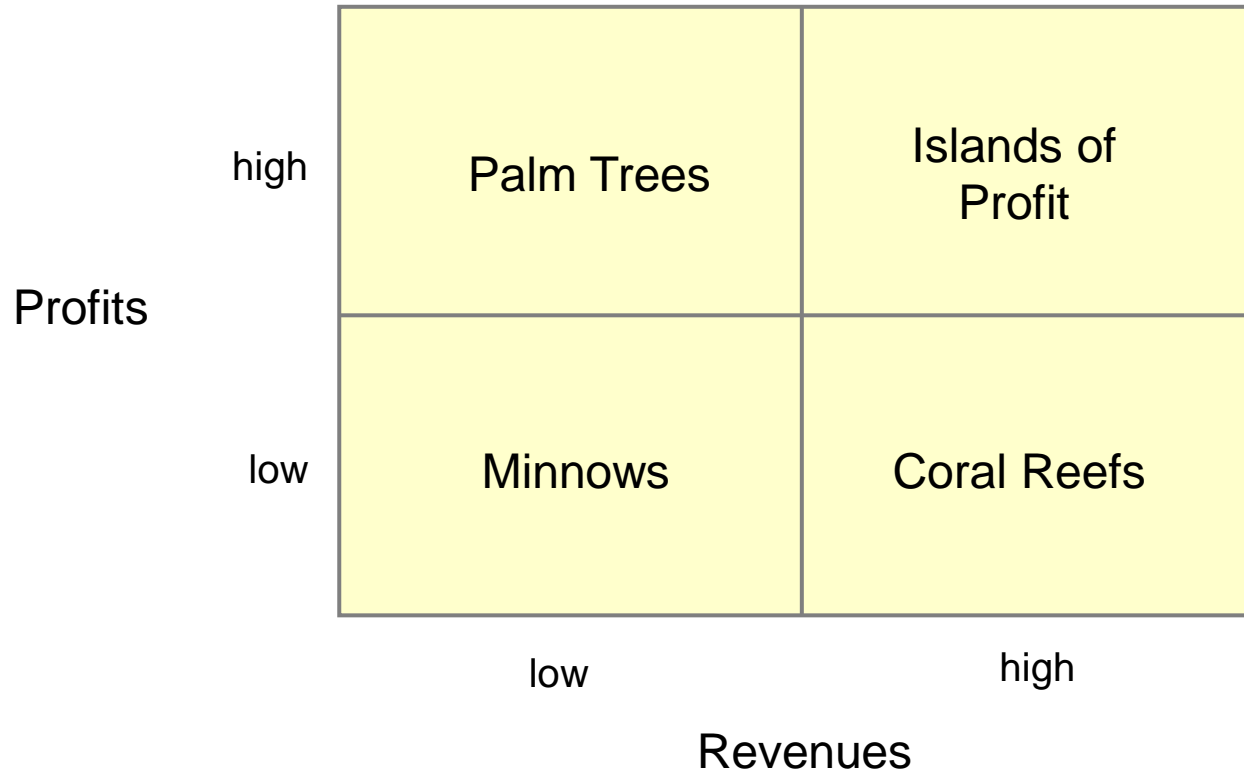


## Tips and pitfalls



# Profit Maps

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# Profit Maps – Example: All Accounts

		<u>Palm Trees</u>	<u>Islands of Profit</u>
Profits	high	1% of customers (43) 1% of revenues 6% of profits	6% of customers (422) 68% of revenues 122% of profits
	low	<u>Minnows</u>	<u>Coral Reefs</u>
		92% of customers (6,390) 19% of revenues (20%) of profits	1% of customers (43) 12% of revenues (8%) of profits
		low	high
		Revenues	



# Profit Maps – Example: All Products

		<u>Palm Trees</u>	<u>Islands of Profit</u>
Profits	high	1% of products (245) 1% of revenues 8% of profits	5% of products (1,733) 27% of revenues 173% of profits
	low	<u>Minnows</u>	<u>Coral Reefs</u>
		83% of products (28,470) 19% of revenues (10%) of profits	11% of products (3,468) 53% of revenues (71%) of profits
		low	high
		Revenues	



# Profit Maps – Example: Single Customer's Products

Profits	high	<p><u>Palm Trees</u></p> <p>1% of products (27) 1% of revenues 6% of profits</p>	<p><u>Islands of Profit</u></p> <p>12% of products (448) 21% of revenues 150% of profits</p>
	low	<p><u>Minnows</u></p> <p>53% of products (2,059) 30% of revenues 0% of profits</p>	<p><u>Coral Reefs</u></p> <p>34% of products (1,325) 48% of revenues (56%) of profits</p>
		low	high
		Revenues	



# Sales Rep Comparison

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	Sales Rep 1	Sales Rep 2
Revenues (000)	\$ 1,600	\$ 1,600
Gross Profit (000)	293	248
Net Profit (000)	117	(81)



# The Right Priorities

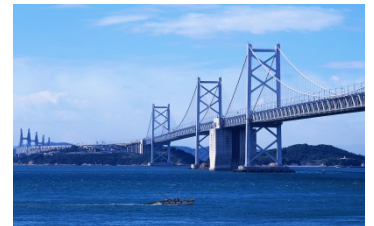
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The intuitive response

The four priorities:

- Secure your high profit business
- Get more business that fits
- Turn around your marginal business
- Reprice what's left

Don't forget to build bridges to your suppliers



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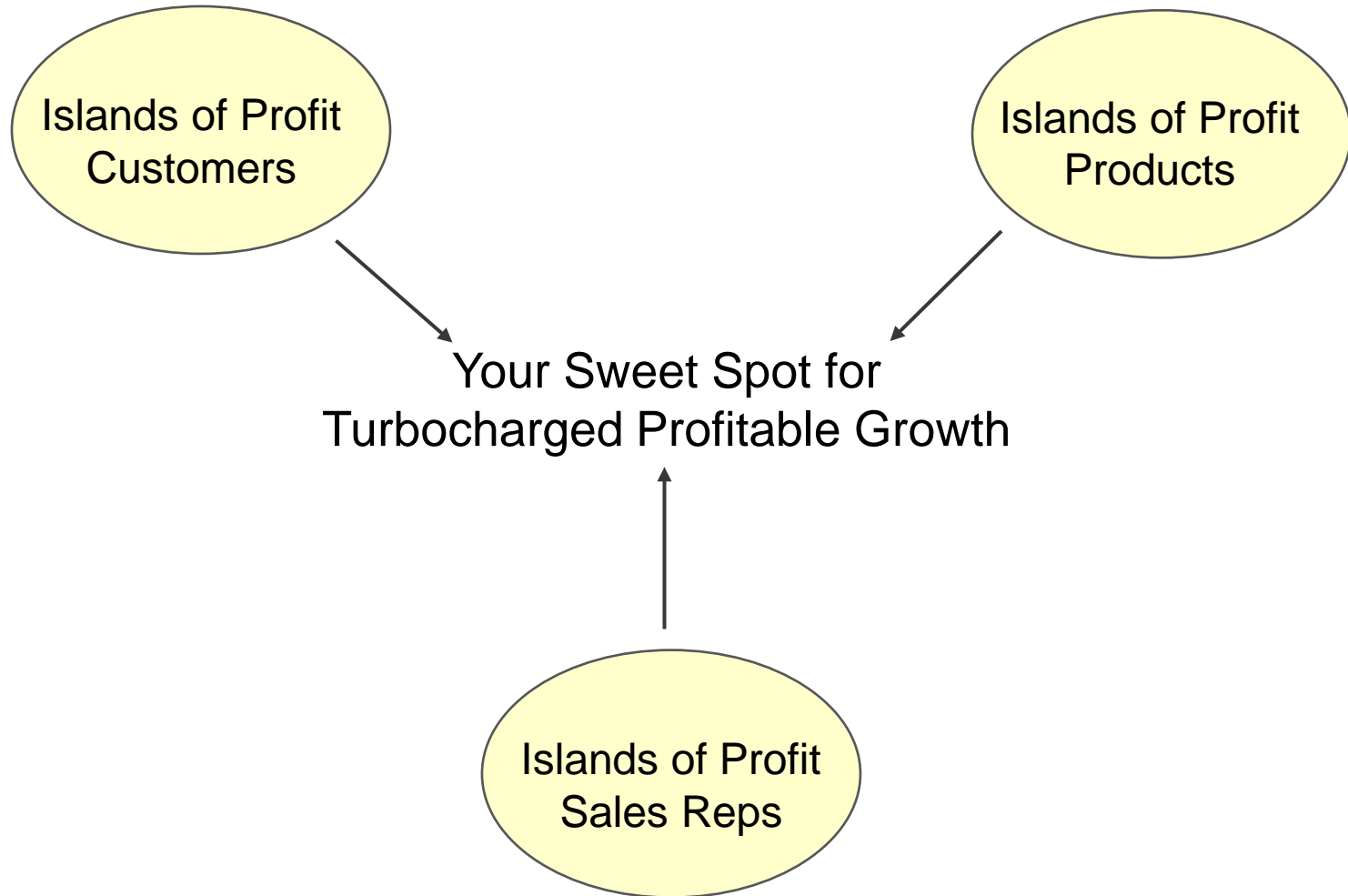
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# Secure and Grow Your Islands of Profit

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# Get More Business That Fits

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- Reach the right prospects
- At the right time
- With the right products and promotions
- As efficiently as possible



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# Reach the Right Prospects

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- Profile your Islands of Profit customers
- Profile those customers who should be Islands of Profit
- Define your market segments and buying profiles
- Identify prime prospects



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# At the Right Time

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- Buying triggers
- Seasonality and trends
- Purchase sequencing
- Purchase timing
- Integrate into forecasting and replenishment



# With the Right Products and Promotions

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- Islands of Profit products
- Products that should be Islands of Profit
- Build your value footprint in a coordinated manner



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# As Efficiently as Possible

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- Identify the most efficient vehicles to reach prime prospects
- Create outreach mix to maximize each
- Showcase projects
- Metrics and measures



# The Right Processes

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Get Sales, Marketing, Supply Chain, & Purchasing on the same page

- Standardize your relationships
- Map the market
- Institute an action profit generation process



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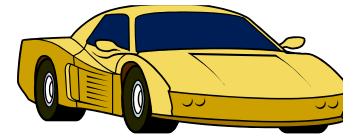
# The Right Compensation

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Front wheel drive

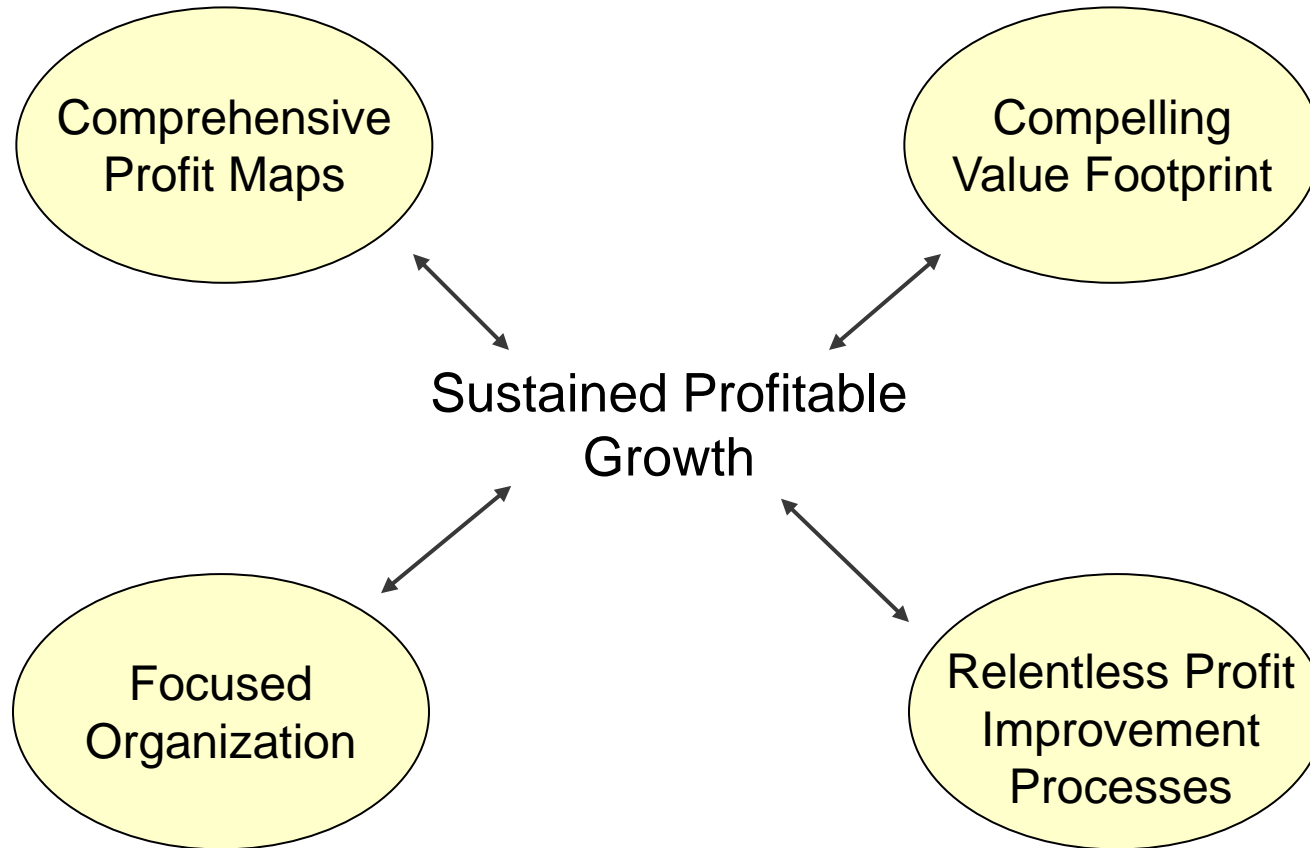
Are all revenues equal?

Align sales with profitability



# Step on the Gas: Turbocharged Supply Chain Productivity

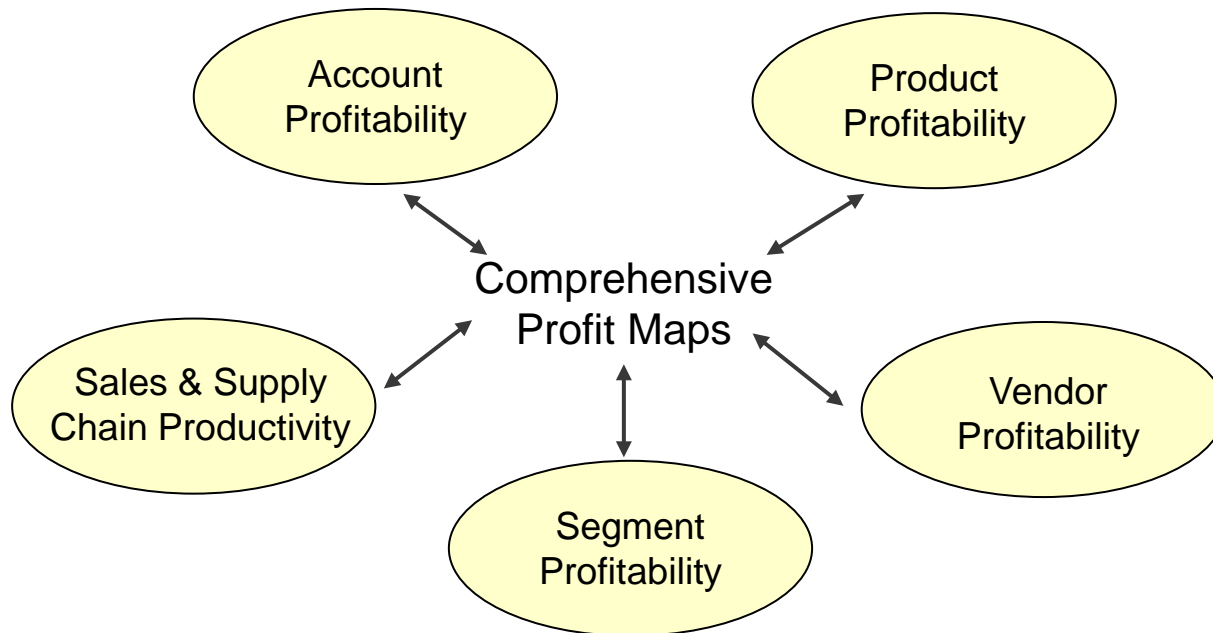
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# Comprehensive Profit Maps

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- Objectives
  - Improve all aspects of profitable growth
  - Identify best practice performance, drive all aspects of the business to best practice standards, and relentlessly improve the best practice standards
- Comprehensive profit maps – fully interactive and granular



# Compelling Value Footprint

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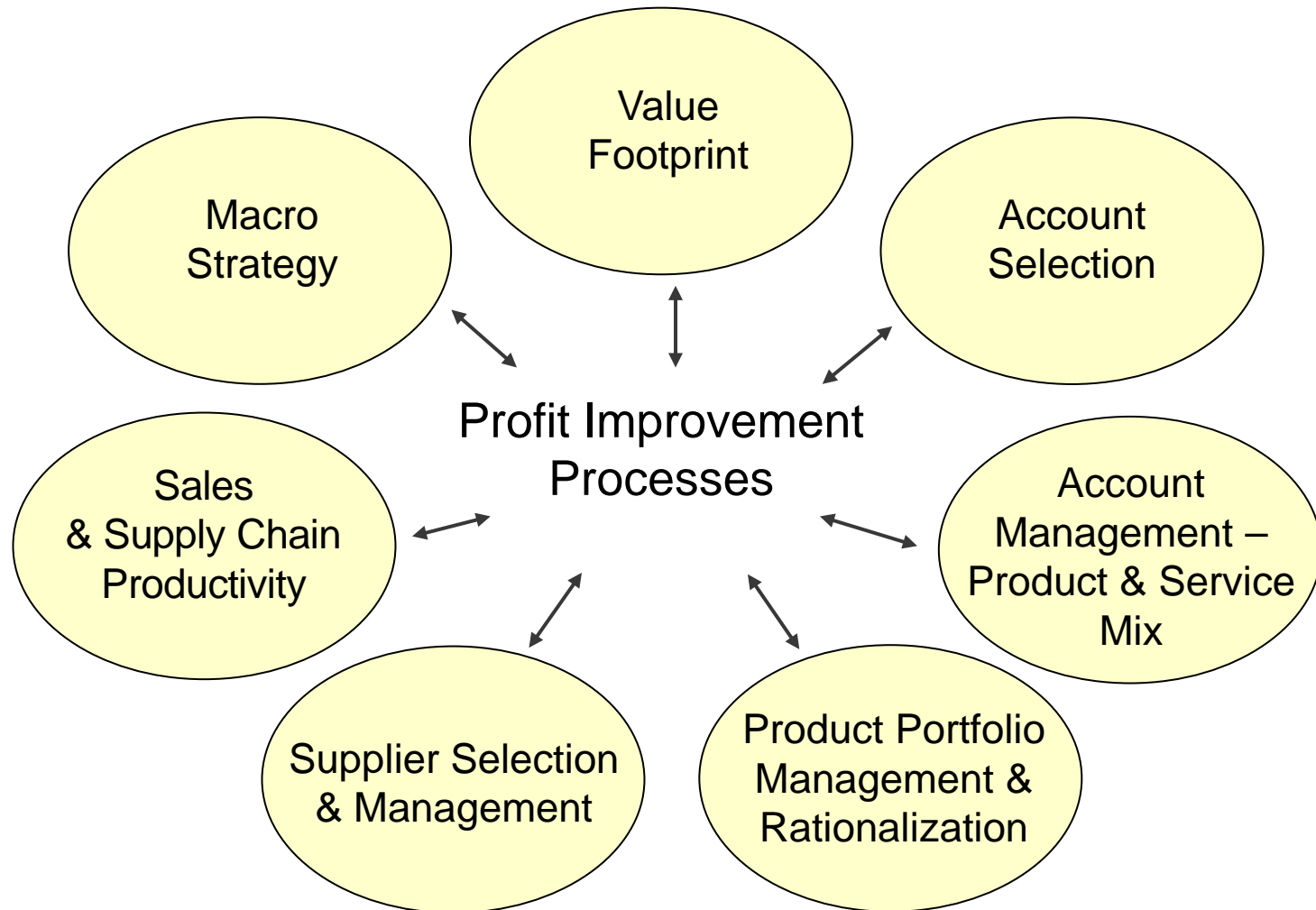
- Priorities
  - Secure the Islands of Profit
  - Grow the Islands of Profit
  - Turn around the Coral Reefs and Minnows
- Value footprint: Islands of Profit
  - Unique and compelling value proposition tailored to each segment
  - Build customer value and competitive differentiation through supply chain management
- Value footprint: Coral Reefs and Minnows
  - Appropriate value proposition – balance investment with returns
  - Focus on improving the three key profit levers: (1) pricing; (2) product mix; and (3) service package
- Establish constant innovation of the value footprint as a core organizational process with planning and accountability





# Relentless Profit Improvement Processes

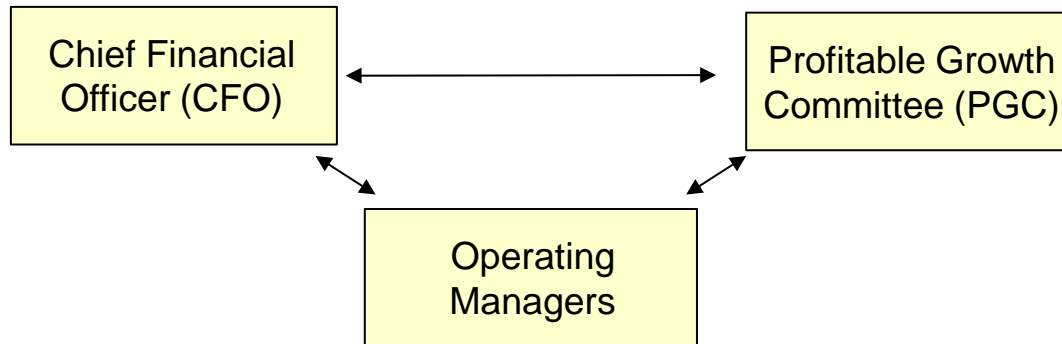
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# Example: Focused Organization

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- Matrixed full company engagement



- Focused profitable growth processes with systematic planning and accountability



# Example: Progress Overview

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- Q1 & Q2 of Year 1
  - Develop organization & processes
  - Pilot the profit improvement processes in a systematic, carefully-managed manner
  - Prime focus on securing and growing the Islands of Profit
- Q3 & Q4 of Year 1
  - Grow and spread the profit improvement processes throughout the business
  - Lock in and grow the Islands of Profit
  - Focused initiatives to identify and grow *potential* Islands of Profit
  - Develop initiatives to turn around the marginal business
- Year 2
  - Continue to refine the profit improvement processes
  - Complete the process of making sustained profitable growth an essential part of the business's DNA



# Transformational Leadership

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Transforming the business

The fallacy of large-scale change

Transforming the culture



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# Secure and Grow Your Islands of Profit

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*High sustainable profitability*



*Grow into your sweet spot*

*Enduring strategic advantage*



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