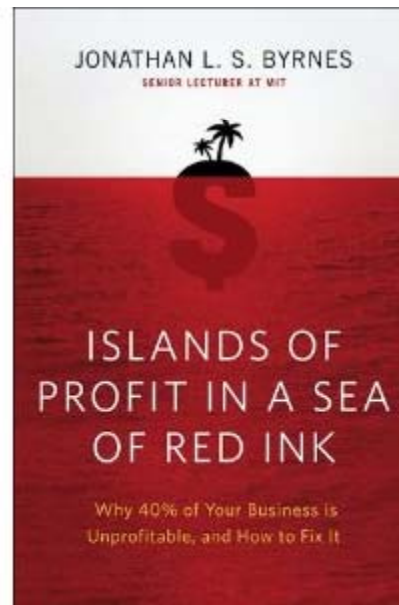


How to Lead a Profitability Turnaround



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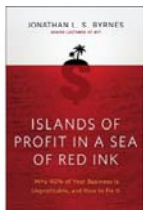
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Today's Menu

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

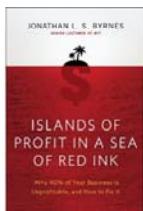


Astonishing But True

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

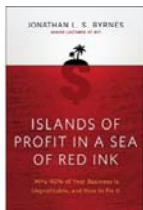
Virtually all top managers agree – but they don't know how to fix it



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



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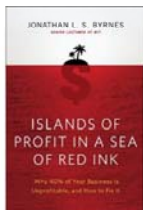
Leading a Profitability Turnaround

The President's dilemma

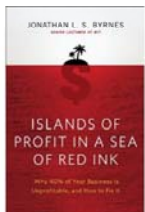
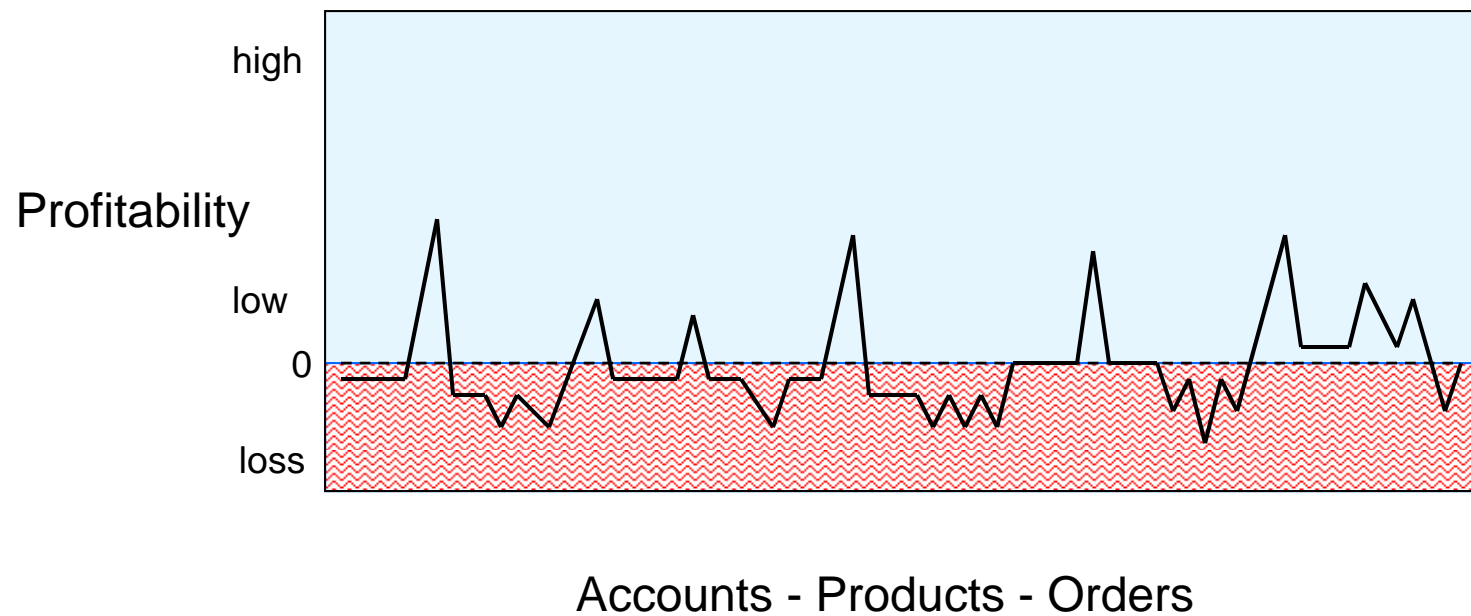
A leading distribution company

- 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



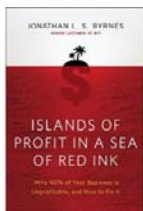
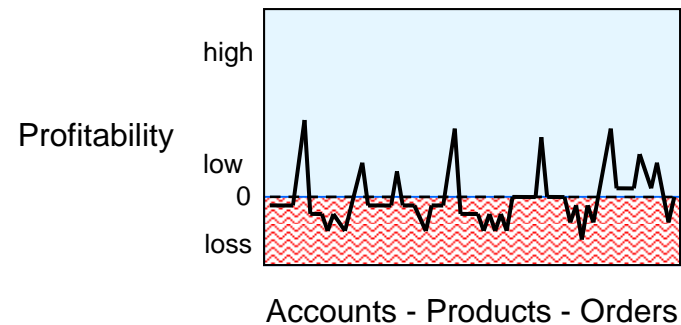
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Islands of Profit in a Sea of Red Ink

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



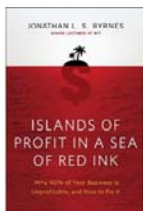
Barriers to Profitability

Four big barriers

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



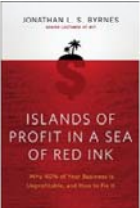
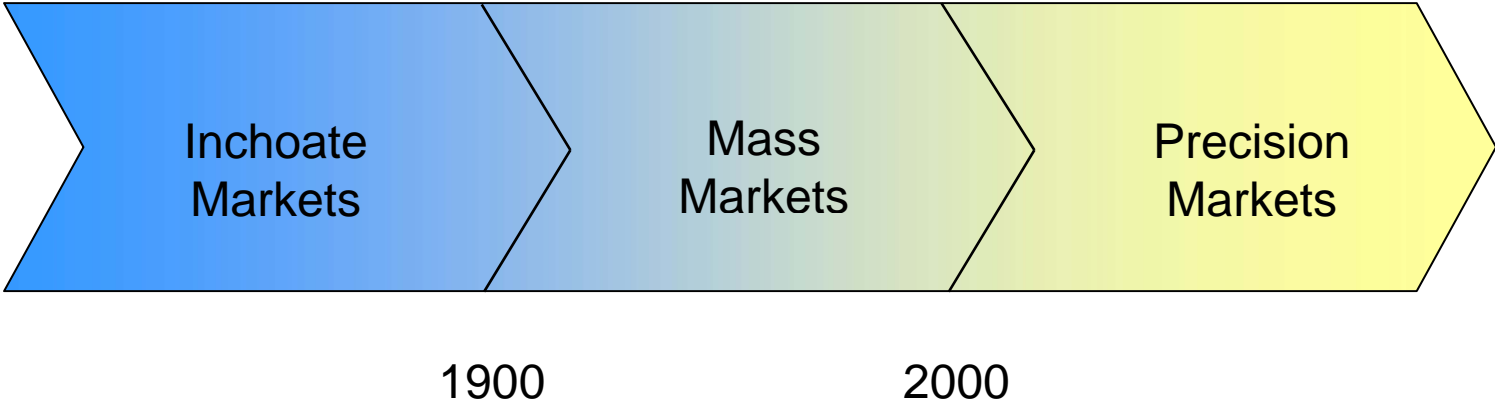
The legacy of the Age of Mass Markets



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Three Eras of Markets



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The Case of Baxter's Stockless Inventory



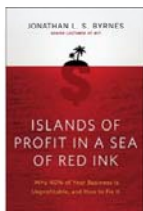
Stuck in the mud

What business are we in?

Major cost reductions – foreseen and unforeseen

Surprise revenue increases

Pile on!



What's Going On?

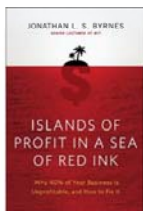
Huge new revenue and profit increases

Decisive strategic differentiation – enduring financial gains

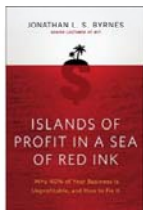
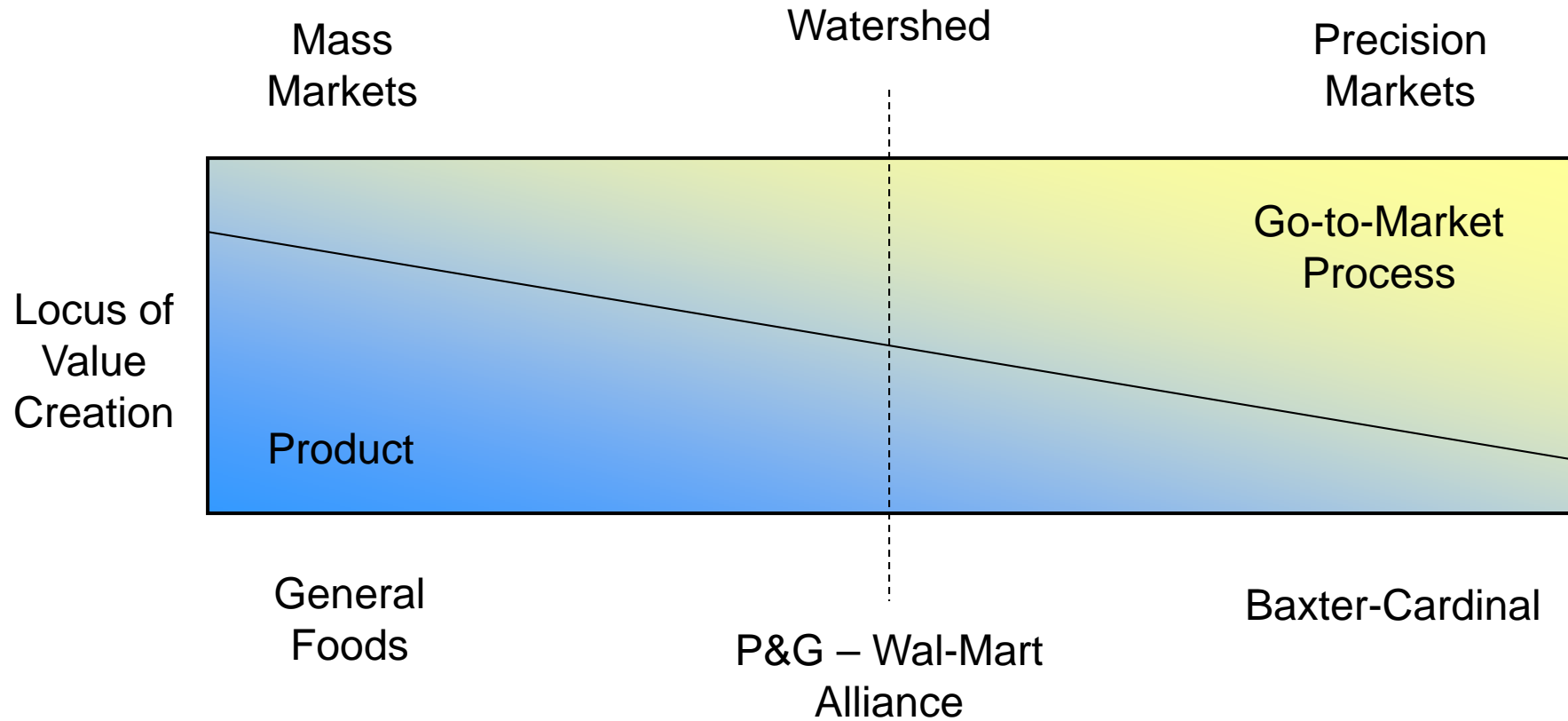
It's not about the products!

30-60% supplier base reductions across industries

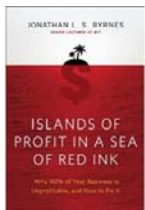
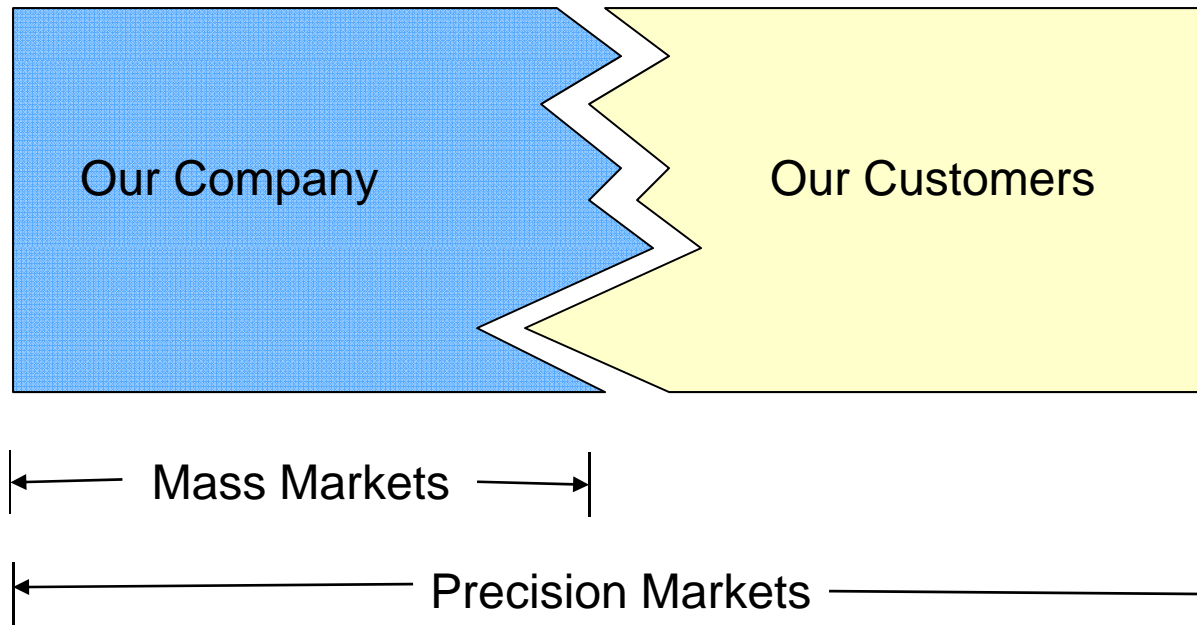
Who wins big? Who gets pushed out?



New Locus of Value Creation



New View of Value Creation – And Profitability

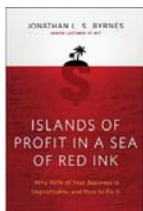


Managing the Turnaround

Four key elements

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

The fallacy of the “Big Bang” theory



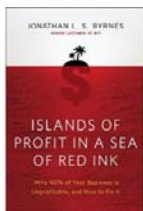
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The Right Information

What's wrong with accounting

Profit mapping

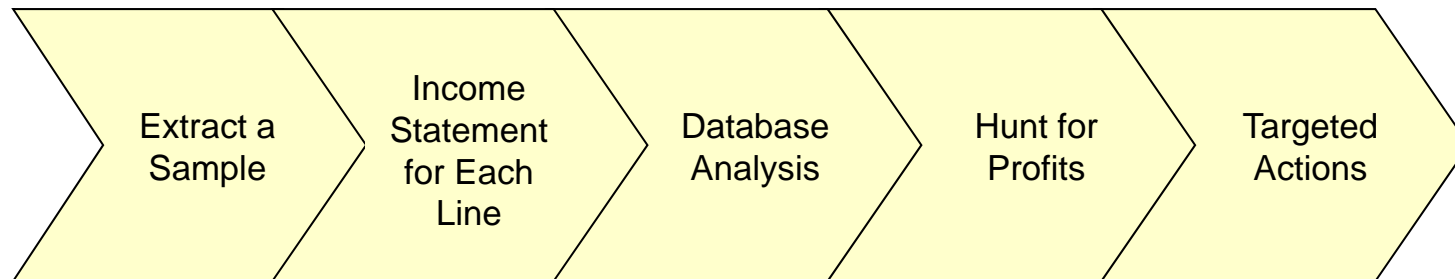


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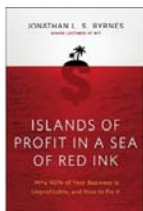


Profit Mapping

Five-step process



Tips and pitfalls



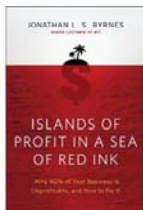
The Right Priorities

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

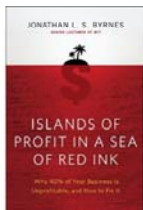
Don't forget to build for the future



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



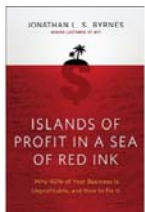
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Investment Decision Matrix

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

Strategic Relevance



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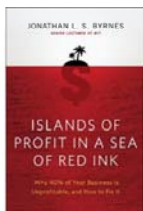
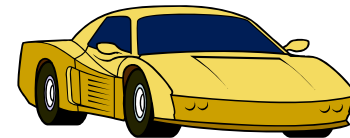


The Right Compensation

Front wheel drive

Are all revenues equal?

Align sales with profitability

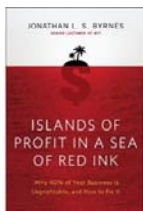


Transformational Leadership

Transforming the business

The fallacy of large-scale change

Transforming the culture



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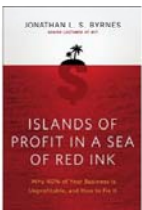
Profitability Turnarounds

High sustainable profitability



Grow into your sweet spot

Enduring strategic advantage



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