



Quantum Profit Gram #3

Since only microscopic businesses can claim uniform, across-the-board profitability rates, all others must have areas of greater and lesser profits. Most often, more profitable lines, markets and segments are cross-subsidizing others that wouldn't be viable in isolation.

The weak economy is forcing companies to turn to new information technologies that reveal and isolate money-losing segments for reform or ejection. With precision cost and profit analysis tools like WayPoint, market leaders are closing off profit leaks to capture free cash flow. Today, identifying cross-subsidies is an essential skill, and acting to eliminate granular losses is a critical activity.

Here's How: There's little correlation between Gross Profit Margin and actual Net (or real) Profit rates, so avoid using Gross Profit as an indicator and get detailed Net Profit numbers for every element of your business. Next, identify the losers and dig deeper to find out why their Cost-to-Serve is greater than the Gross Profit they generate. Then act to reduce the manpower and activities required. If there's no way to tailor a profitable service model, eliminate the loss by phasing out the element. This is how to cut intelligently when cuts need to be made.

What happens if your competitors are first to act, dumping profitless customers on you while freeing up their best reps to pick off your important accounts?

It's time to consider:

- How to accurately measure the profitability of customers, lines and territories?
- How to find cross-subsidies that rob earnings, creating your need for financing?
- Why and how did the extreme winners and losers get to be what they are?
- What techniques will protect and grow the most profitable elements, and transform the biggest losers into winners?
- How to capture the best parts of competitors' markets, and how can your own most-profitable elements be defended?
- Would a tool like WayPoint give you an edge over competitors using ad-hoc or spreadsheet-type internal projects in attempts to assess their business?

With the right tools, companies like yours rapidly and continually assess the real profits or losses associated with each element of their business. They can then assess and tailor a profitable service model for their money-losing elements.

(I'm high on WayPoint because it's a low-cost system specifically designed to deliver the precise information you'll need to use my profit improvement techniques. You can implement quickly—usually about three weeks—and it's considerably more powerful and capable than the typical home-grown project.) Get more information using the links to the right...

D. Bruce Merrifield, Jr.

QUANTUMTM
PROFIT
MANAGEMENT

Measure & Manage Cross-Subsidies



Get FREE best practice techniques for distributors at www.merrifield.com
919.357.2372

Learn more about WayPoint Analytics at www.waypointanalytics.info
623.434.8931