

NAW  
Spring 2017 Billion Dollar CFO Roundtable

# New Chief Profitability Officer Role: MPG – Managing Profitable Growth

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## Today's Menu

- From Cost Control and Revenue Enhancement to MPG
- The Case of Baxter's Stockless Inventory
- The MPG Star of Value
- Three Eras of Markets
- Managing MPG
- Cost Optimization
- Huge New Opportunities for the Chief Profitability Officer



# From Cost Control and Revenue Enhancement to MPG

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- Broadening Focus
  - From cost control and revenue enhancement  
... to MPG – Integrated Profit Management
- Broadening Focus
  - From internal company focus  
... to links to customers and suppliers



# 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 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 CFO Role: Chief Profitability Officer



# The Moral of the Story – for CFOs

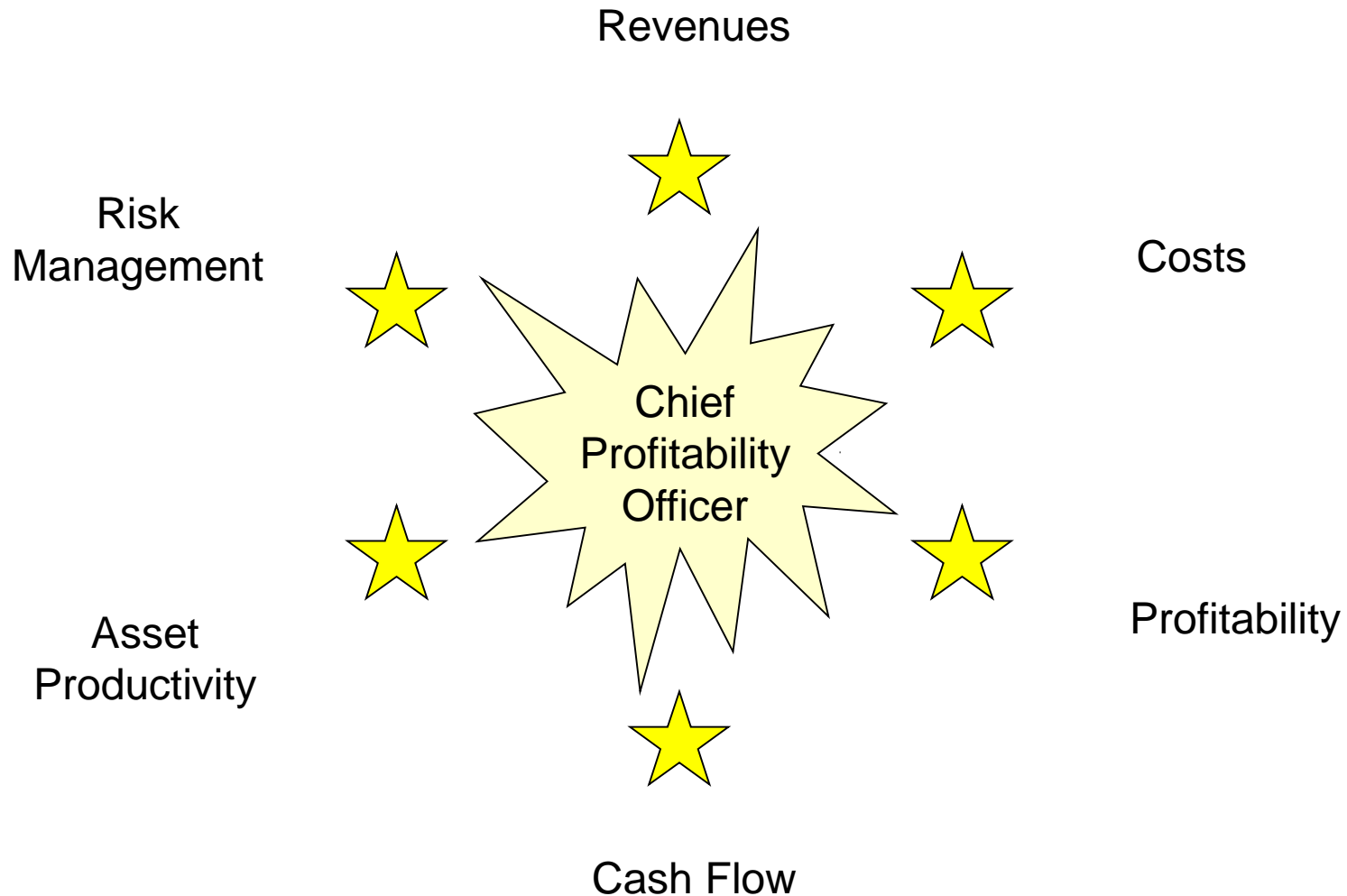
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- Enormous Impact
  - On Strategy
  - On Revenues and Profits
  - On Competitive Positioning
- Requires MPG
  - With Sales
  - With Marketing
  - With Operations



# The MPG Star of Value

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# Improvements In All Financial Aspects

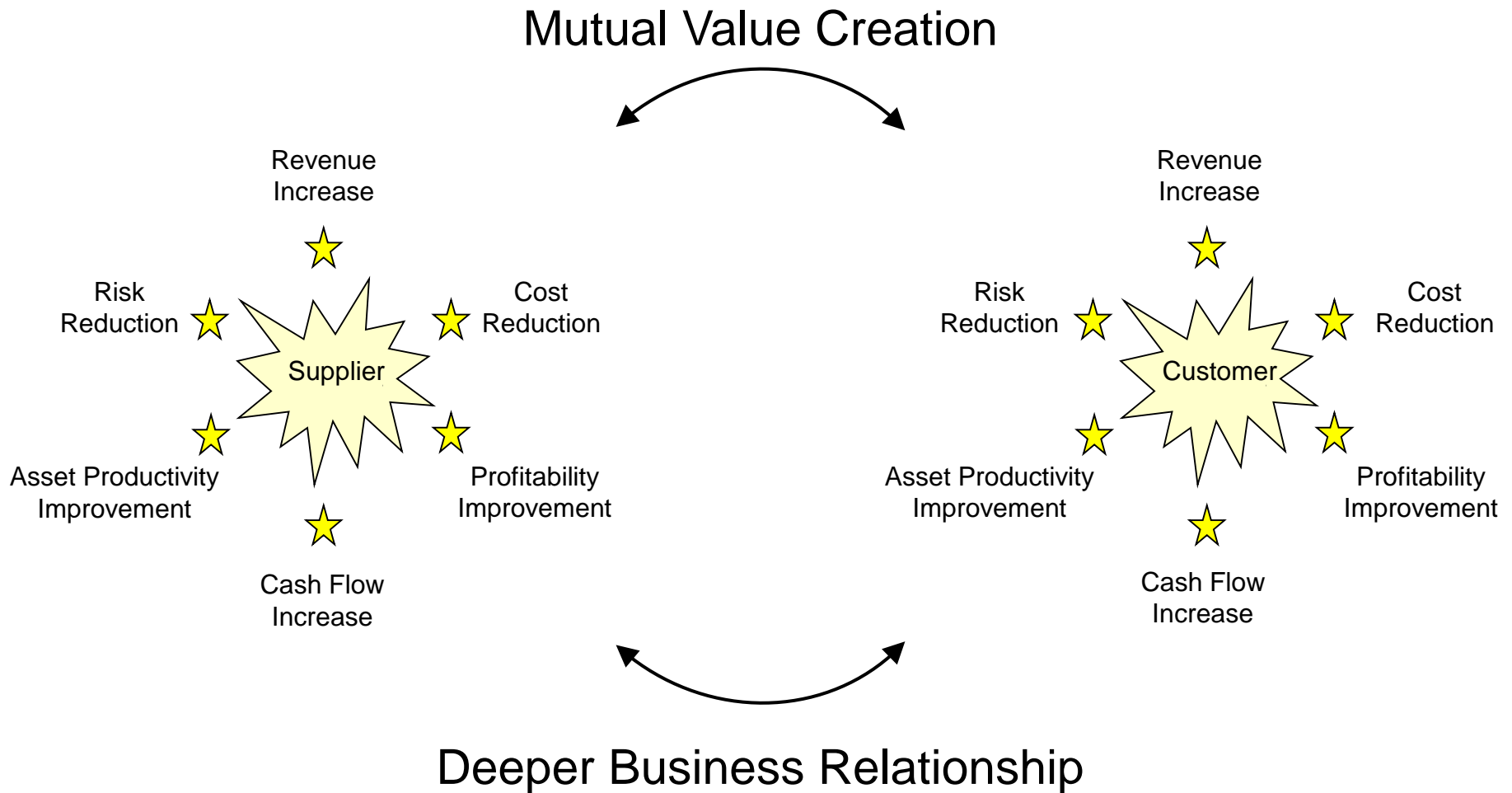
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- Revenues
  - 35-50% increases, even in highly-penetrated accounts
  - Eliminates price sensitivity
- Costs
  - Major cost reductions in Supply Chain Management, and Sales & Marketing
  - 25-40% cost reductions
- Profitability
  - Targeted profitability improvement initiatives
  - 25%+ gains
- Cash Flow
  - Immediate cash flow increases, as inventory lowered and excess cost reduced
  - No investment needed
- Asset Productivity
  - Fast elimination of non-earning assets
  - Assets put to higher and more productive use
- Risk Management
  - Enormous switching costs in key accounts
  - Shed unneeded assets and expenses





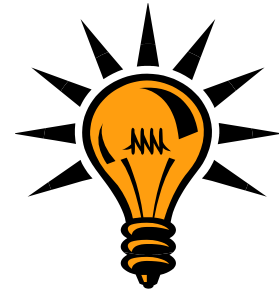
# Parallel Improvements for Key Customers – *Virtuous Cycle*



# New Frontier of Strategic Differentiation

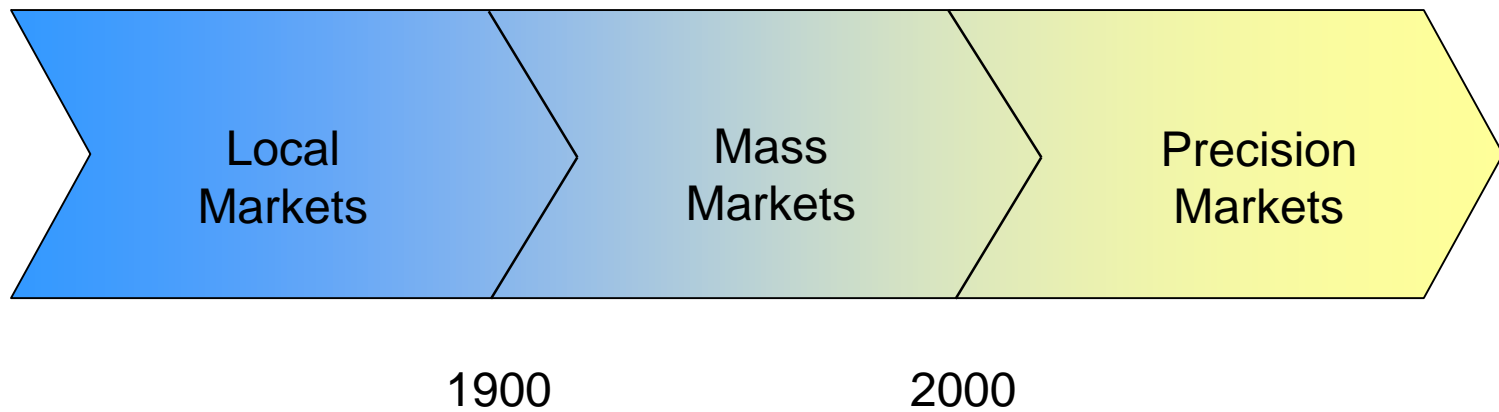
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- What <sup>was</sup>~~is~~ Customer Service?
- What's Your Worst Nightmare?
- Why Not Me?

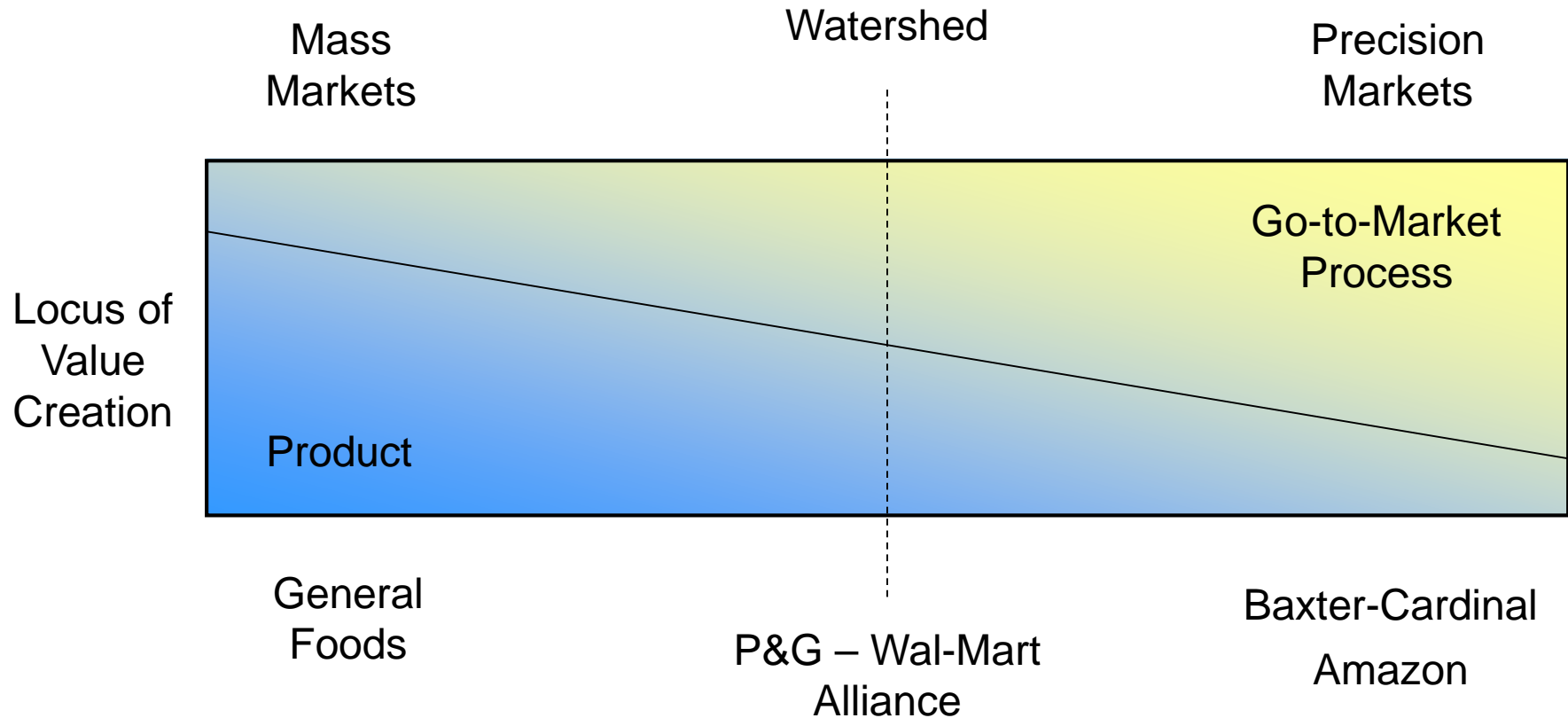


# Three Eras of Markets

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# New Locus of Value Creation



# New Era, New Imperatives

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## Mass Markets

- Stable, Homogeneous Markets
- Broad-Market Targeting
- Separate Revenue and Cost Initiatives
- Traditional CFO Role

## Precision Markets

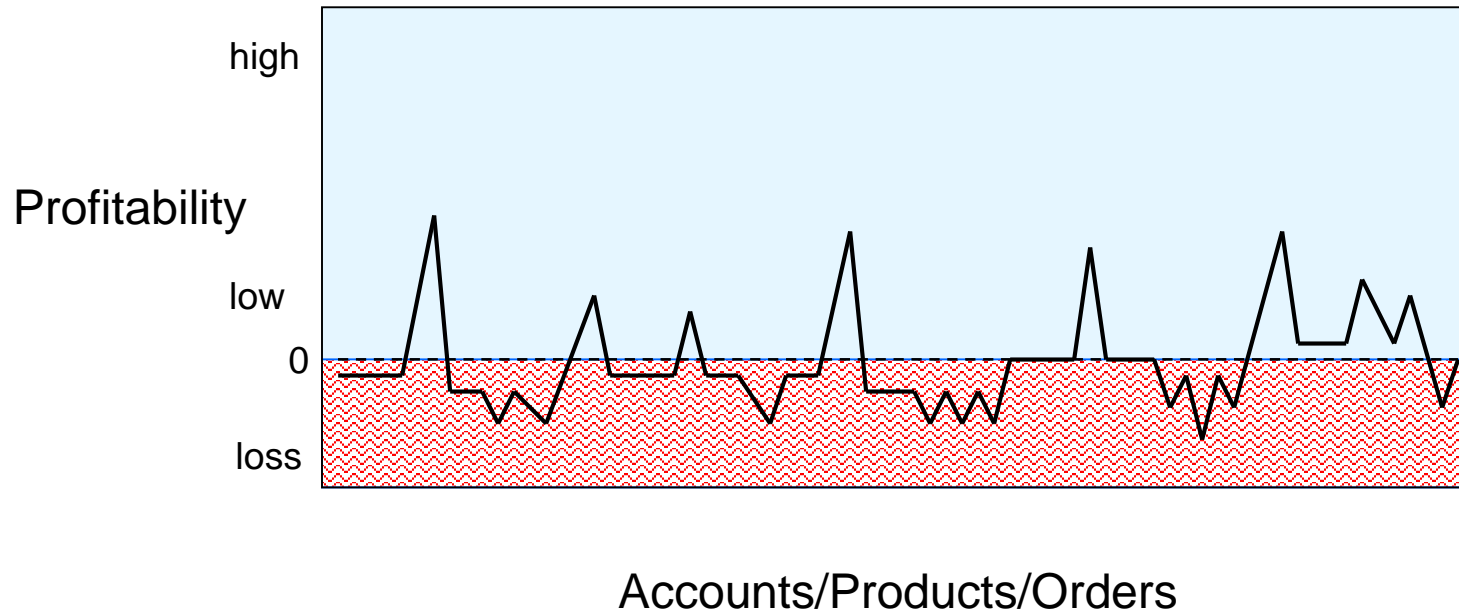
- Dynamic, Heterogeneous Markets
- Precision Account Targeting
- Integrated Profit Management
- Chief Profitability Officer



# Problematic Consequences – Huge Opportunities

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## Islands of Profit in a Sea of Red Ink



# MPG

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- Profit Mapping
- Profit Levers
- Partnering with Counterparts in Sales, Marketing, and Operations



# Profit Mapping

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- The Problem with Accounting
- Transaction Analysis
- The Hunt for Profitability and ROIC
- Laser-targeted Initiatives





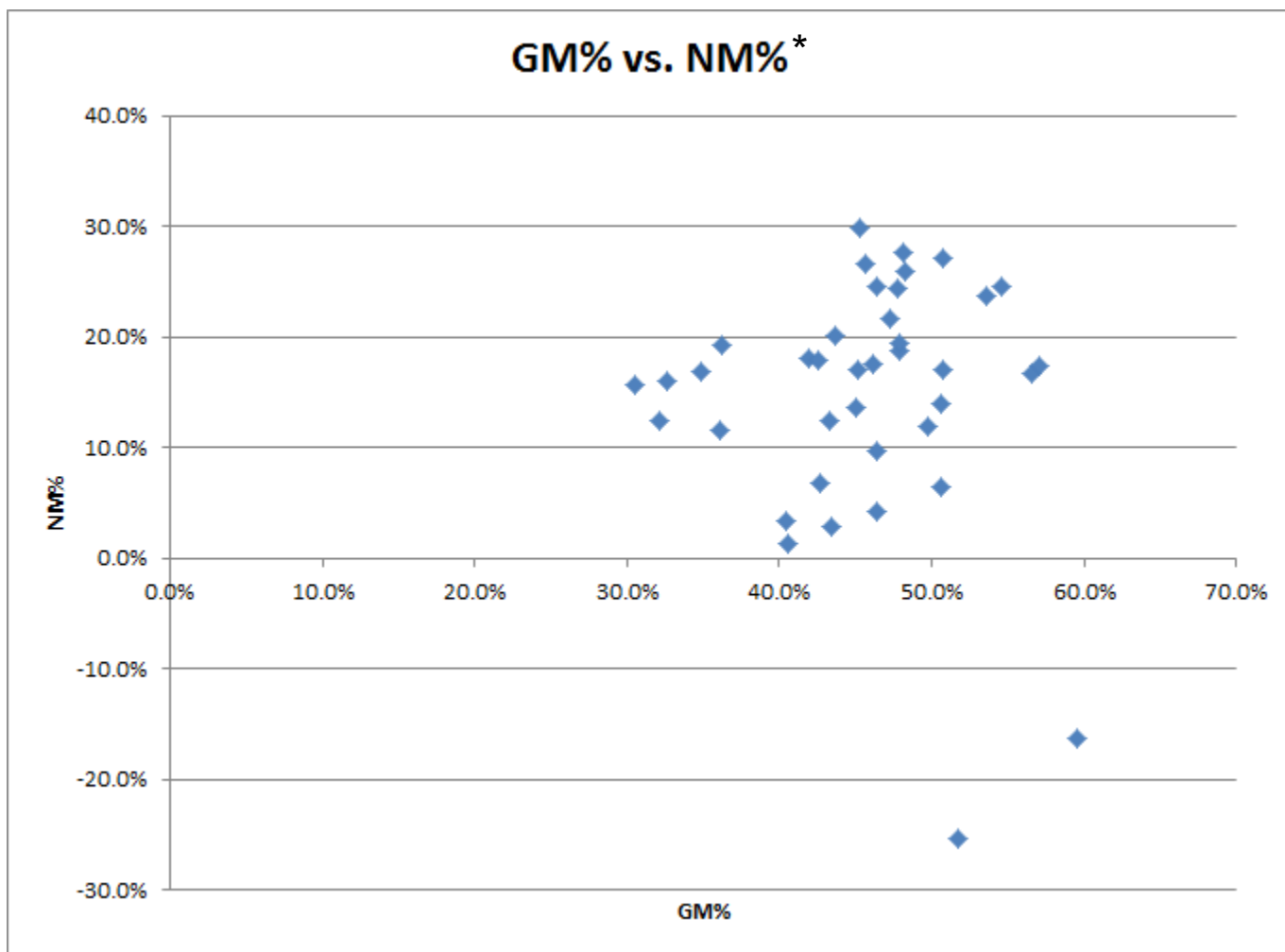
# Sales Rep Comparison Example

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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



# Gross Margin is Not Correlated with Net Margin



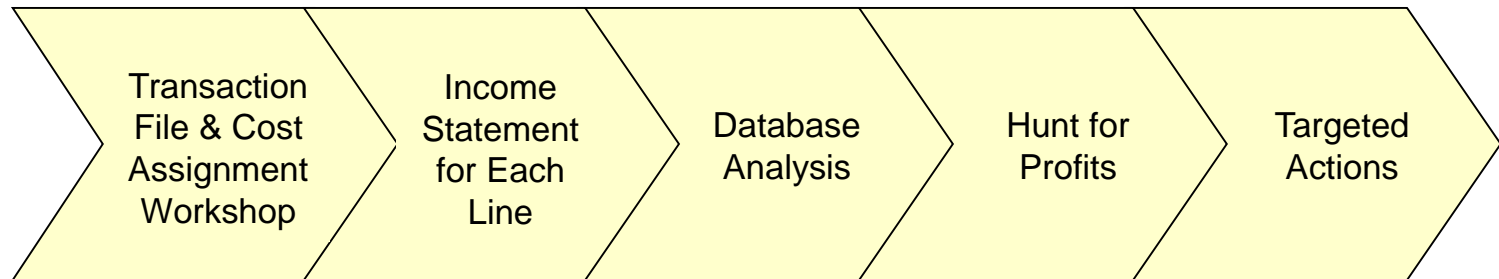
\* Disguised actual data representing product categories of a very successful public company



# Profit Mapping

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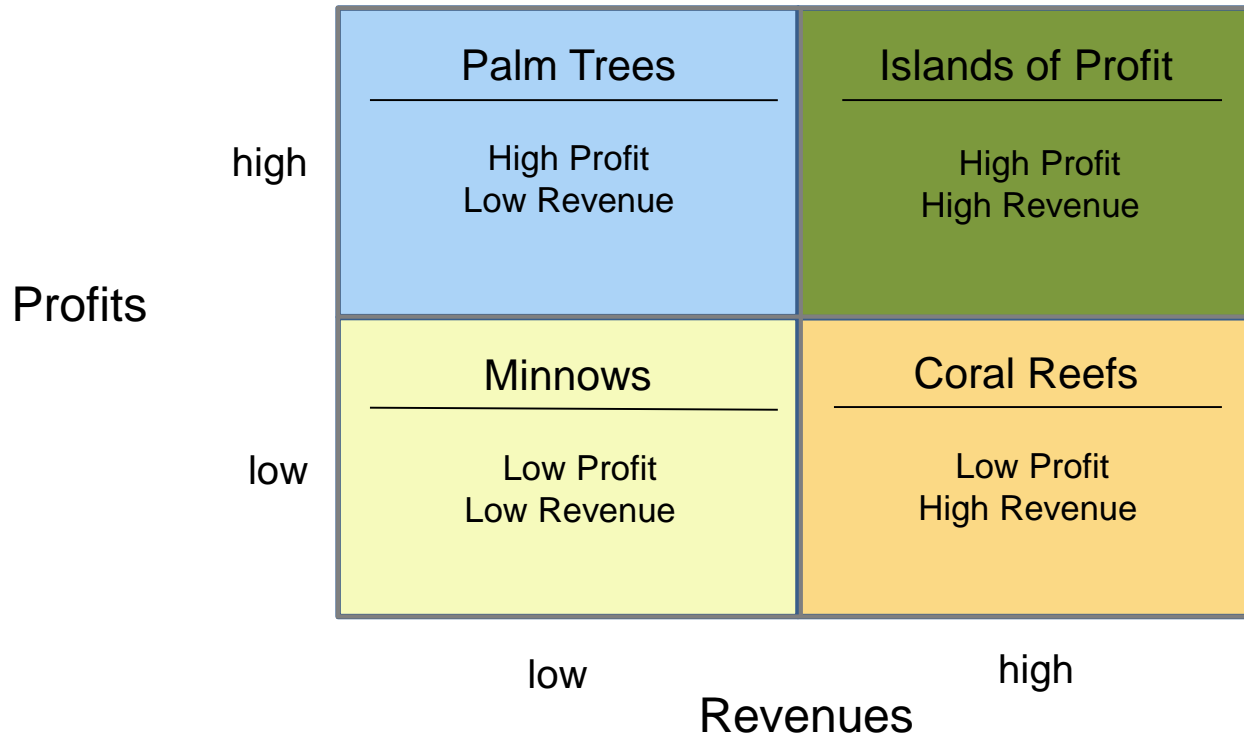
## Five-step process



## Tips and pitfalls

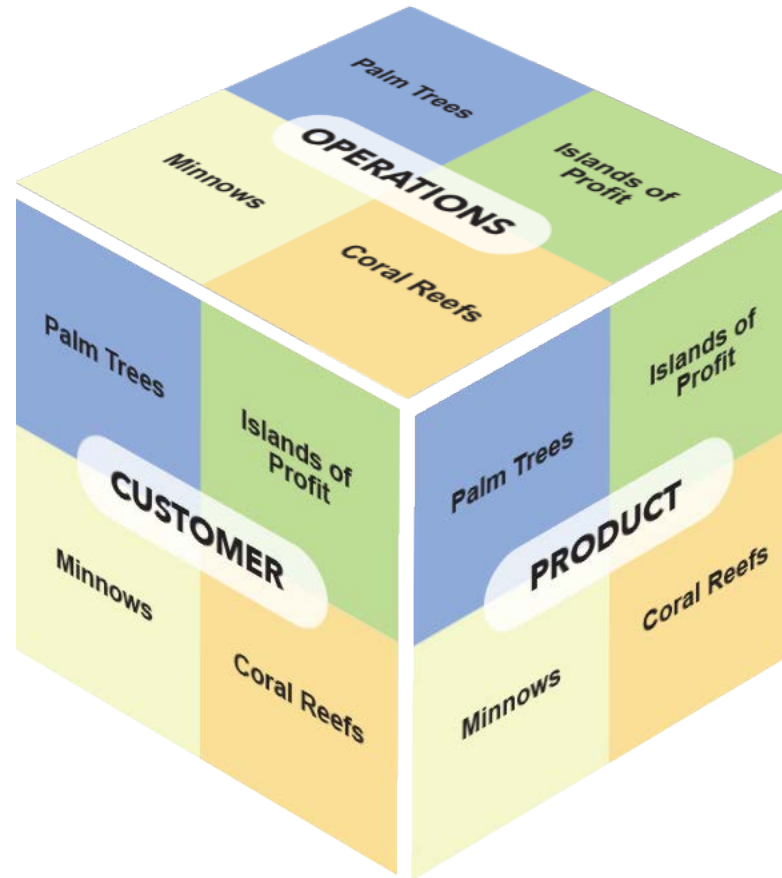


# Profit Maps – Show Patterns of Profitability



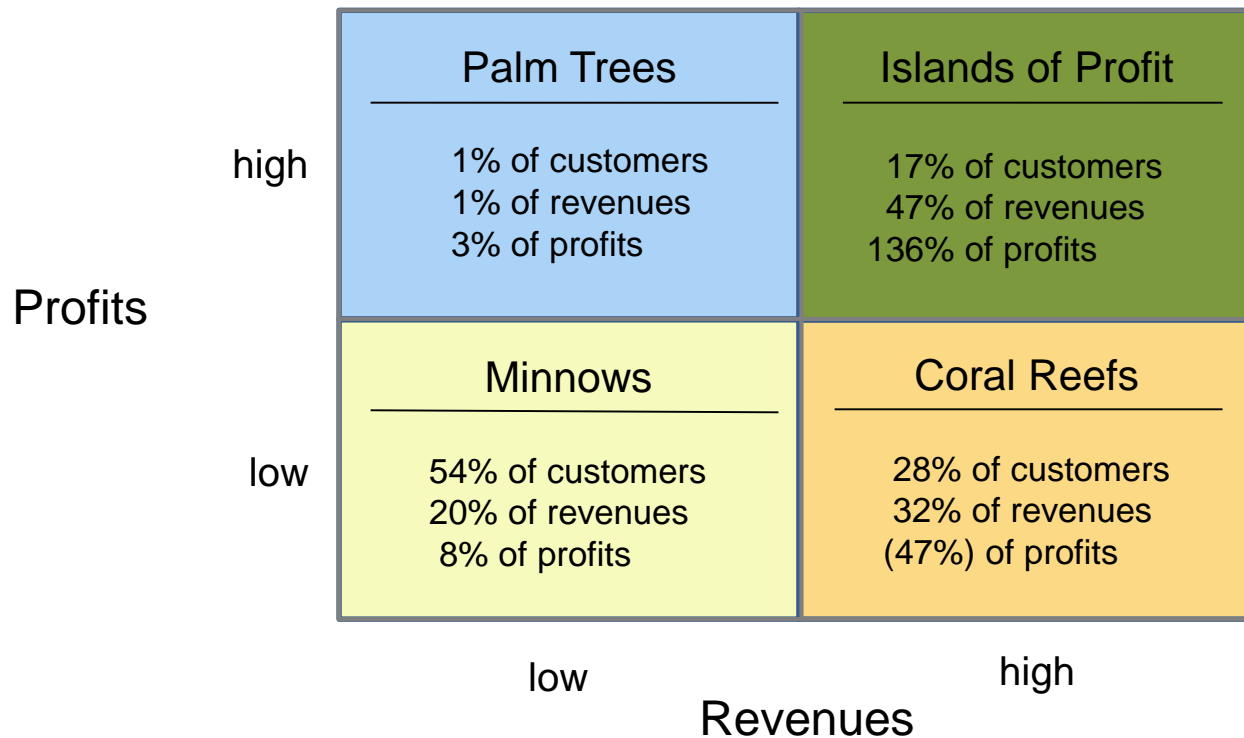
# Profit Landscape – Total Profit Analysis of a Business

Profit Landscape looks at all combinations of Customer, Product and Operations



# Profit Maps – Customers\*

Focus resources on 17% of the customers to build more profits with customers who are already the best customers – sell to your strengths

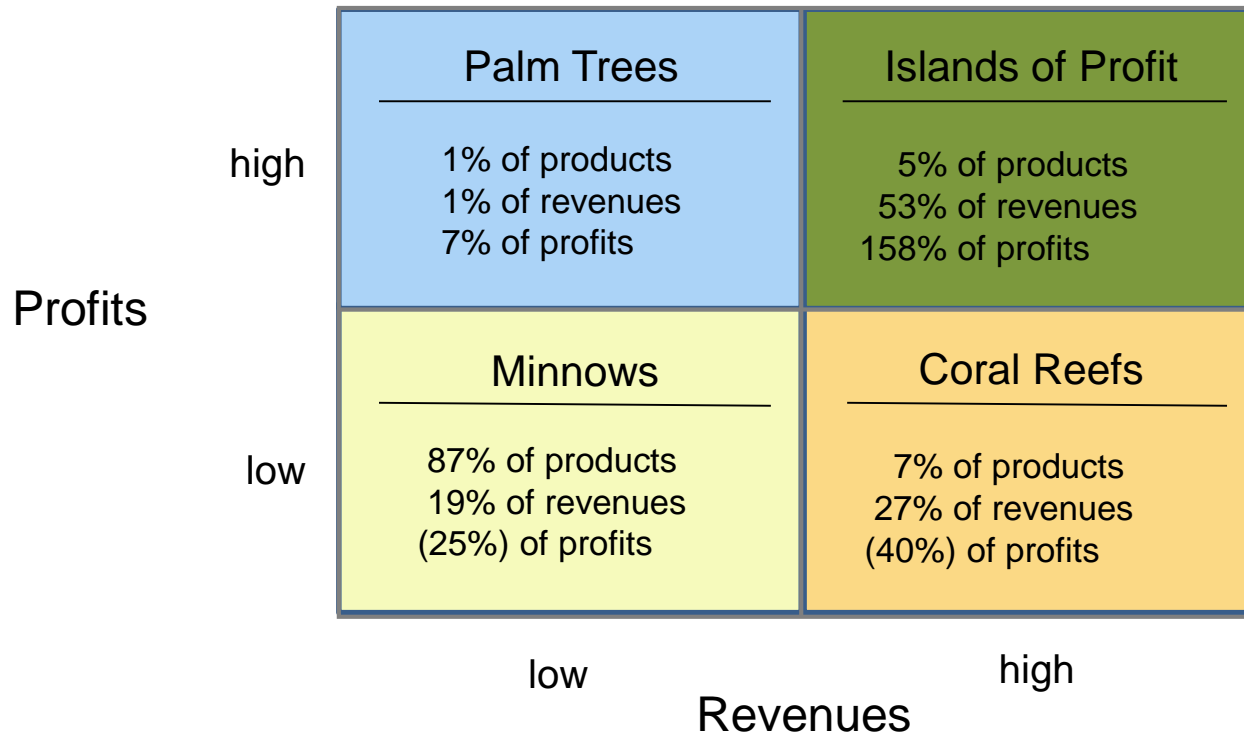


\* Disguised ACTUAL data



# Profit Maps – Products\*

Focus resources on the 5% of products that are producing 158% of the profits – highest leverage



\* Disguised ACTUAL data



# Profit Levers

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- Priorities, Priorities, Priorities
- Match Your Cost to Serve with Profit Potential
- Key Strategic Profit Initiatives
- Grassroots Profit Opportunities with Real-time Metrics and Tailored Compensation
- Manage your Profit Opportunities: Coordinate!





# Manage Your Profit Opportunities: Coordinate!

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## Case Example 1: Craft Beers

- Anchor brands
  - 60% of the distributor's revenues
  - 75% of these revenues were profitable
  - 25% of these revenues were unprofitable
  - The unprofitable revenues' losses eroded about 20% of the profits earned by the profitable business
- Craft brands
  - 40% of the distributor's revenues
  - 30% of these revenues were profitable
  - 70% of these revenues were unprofitable
  - The unprofitable revenues generated losses amounting to three times the profits generated by the profitable business
- What should they do?



# Manage Your Profit Opportunities: Coordinate!

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## Case Example 2: EDI Replenishment

- EDI replenishment orders were generating strong growth and gross margins
- The all-in net profit analysis showed surprisingly large net profit losses
- What should they do?



# Manage Your Profit Opportunities: Coordinate!

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## Case Example 3: Flow Control Devices

- Two primary customer segments: semiconductor fabs and universities
- Traditional accounting showed that the fabs produced weak gross margins, while the universities produced very strong gross margins
- The MPG analysis showed that the universities produced surprisingly large net profit losses, while the fabs produced high profits
- What should they do?



# Partnering with Sales, Marketing, and Operations

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- The problem:

Revenue

- COGS

Gross Margin

- Sales costs

- Supply chain/operations costs

- Overhead costs

Net profit

← Who is responsible for net profit?

- The solution
  - MPG: integrated profit management
  - High-level profit initiatives
  - Constant grass-roots granular profitability actions
- Create a Deming Quality Cycle with actual all-in net profits as the metric



# Cost Optimization

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*All these cases:*

*converted fixed costs to variable costs...*

*and reduced costs...*

*without cutting crucial company capabilities*



# Partnering with Sales, Marketing, and Operations

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- Profit Mapping
- Integrated Strategic Profit Initiatives
- Profit Toolkits – Sales, Marketing, & Operations
- Profit Crossroads – Coordinated Profit Opportunity Management
- Profit Metrics – Real-time Order Profitability & Speed of Improvement Management



# Huge New Opportunities for the Chief Profitability Officer

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- Huge New Opportunities
  - Strategy
  - Revenues and Profits
  - Competitive Positioning
- Major New Requirements
  - All-in Net Profit Information
  - MPG: Integrated Profit Management
  - Coordinated Profit Metrics



# The New World of MPG

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- Focused Strategic Profit Initiatives
  - ... Driving Huge New Profitable Growth Increases
- Coordinated Grassroots Profit Opportunity Management
  - ... Driving Huge New Efficiency Gains
- Financial Performance
  - ... Going Through the Roof





# MPG – The Chief Profitability Officer

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Decisive Factor for:

***Market Share***

***Profitability***

***Strategic Advantage***

