



Restore, Reposition, Revitalize!

By Andrew Ortyn, ortyn@precisioncatalyst.com



Where does your business sit on the above continuum?

In working with our clients, we find many businesses exhibit characteristics across the following . . .

- **RESTORE** business discipline - the organization needs to work on key fundamentals for effective operation.
- **REPOSITION** to maximize profit - the core fundamentals are in place; however, the business is missing out on inherent profit opportunities.
- **REVITALIZE** to achieve the next plateau – the current business is optimized and must look beyond its existing business model to achieve the next level of profitability.

RESTORE business discipline:

One of the first questions we ask when meeting with business leaders is, “What does your business “stand for” in the minds of your customers?” In strategic terms, what you “stand for” is the essence of your MARKET POSITION. This represents the *top-of-mind* response your customers provide when asked to describe your organization. In thinking about MARKET POSITION:

- Can you easily articulate what you “stand for” in a few words?
- Will you elicit the same response from your employees *up-and-down* the organization?
- Will your customers’ perspective on what you “stand for” mirror your own response?

If not . . . you may have internal and (or) external gaps relative to your business’s *reason for being*. On occasion, these same gaps lead to substandard execution with respect to where and how your employees spend their time; and

importantly, how they spend the CASH resources of your business.

Example – Chemical Manufacturer

When asked to describe what their business stood for in the minds of customers, the President said, “We *supply, train, and service* distributors with a national brand image (product) at a competitive price”. The Region Sales Leader stated, “We offer distributors their own brand identity (product) at a competitive price.”

On the surface - the above comments from both President and Region Sales Leader appear similar. However, the President implies an investment to supply, train and service distributors. The Region Sales Leader defaults primarily to low price. In a competitive situation with a potential customer, which message do you think will receive priority? What are the implications for return on investment?

In addition to what your business “stands for” in the minds of your customers, you might ponder the profitability of your business across multiple levels: by product, by customer, by market segment . . . or by any other profitability metric germane to how you run your business.

The linkage between what you “stand for” and the profitability of your products and services speaks volumes on whether or not you hold a *differentiated* MARKET POSITION. Higher margins correlate to greater differentiation with competitors. Lower margins typically correlate with commoditization, commodity pricing, and commodity profit margins! Without a clear, specific, and granular understanding of business profitability, the more

difficult your task in making resource efficient business decisions.

Gaps in clarity around what you “stand for” in the minds of your customers and (or) lack of effective profitability metrics may contribute to inefficient decision-making. Unattended—these gaps could jeopardize the overall health of your business.

If the above characterizes your organization, you may need to retrench and redefine your MARKET POSITION (what you “stand for”) – both internally and externally. While difficult, this effort *will* set the stage for future growth.

REPOSITION to maximize profit:

If your organization is on this point of the continuum . . . congratulations! Your value proposition is consistently held both internally and externally. You possess the appropriate business infrastructure to make resource efficient business decisions. In this situation, the key question centers on whether or not your leadership team is able to maximize the relationship between what you “stand for” in the minds of your customers and the actions you take in the areas of . . .

- **PRICE:** *What you charge* customers for your products and services
- **VOLUME:** *The quantity* of products and service sold
- **MIX:** *The different kinds* of products and service sold
- **COST:** *The CASH expenses* incurred to sell products and services
- **OPERATING WORKING CAPITAL:** *The short-term investment* in your business (i.e. Accounts Receivables + Inventories – Accounts Payables)

Consider the following . . . a business delivering 6% Operating Profit to Net Sales will generate +17% improvement to the bottom line, assuming an effective 1% across-the-board price increase. The greater the value or differentiation of what a business “stands for” in the minds of customers, the greater the business’s ability to drive substantive increases in profitability through tactics such as a price increase.

Assuming a differentiated MARKET POSITION, a thorough search for untapped pockets of profitability may lead to significant performance improvements.

Relative to PRICE . . .When was the last time

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your business took a price increase? How do the effective price points of your products and services compare to your competitors? Have your discounts continually increased over the last several years? Are there opportunities to roll back these discounts . . . even slightly?

Relative to VOLUME . . . Have you considered alternative distribution channels for your product and services that may result in volume growth - without compromising your existing base of business (i.e. Upset distributors)? Are there hidden opportunities within your existing volume base characterized by small volume but high margins? If so, does this represent a volume growth opportunity, assuming a greater level of focus?

Relative to MIX . . . Are there opportunities to “bundle” your existing products and services to capitalize on existing and (or) new markets?

Relative to COST . . . When was the last time your CASH outflows were scrutinized to determine the effectiveness of these expenditures in contributing to revenue and profitability growth?

Relative to OPERATING WORKING CAPITAL . . . A 10% reduction in inventories and (or) accounts receivables will free up an equivalent amount of CASH. Given your current profit margins, what percentage revenue growth would be necessary to deliver the same increase in CASH? You might be surprised at your findings. The answer might also shape your passion for reducing working capital!

Example – Food Processor of Specialty Meat Products

A food processor in the US Northeast served three markets: commercial distributors, retail grocery chains, and schools. After a thorough and detailed profit review, it was determined the school segment contributed sales of less than 10% of the total business; however, this market segment delivered double the profit margins of the remaining two markets. Why the superior profit margins? The business also possessed a “unique” software program that allowed school districts to control inventory levels, thereby controlling their CASH outflow. No competitor serving the school

market possessed the same level of capability. With renewed focus on the school market segment, the business generated +50% year-to-year volume growth, while at the same time implementing a selective price increase!

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Again – your ability to profit maximize is linked specifically and directly to the value of what you “stand for” in the minds of your customers – your MARKET POSITION. Greater value means greater flexibility in how you manage PRICE, VOLUME, MIX, COST, and OPERATING WORKING CAPITAL.

REVITALIZE to achieve the next plateau:

Assume your organization has uniform clarity on what you “stand for” in the minds of your customers, you have a clear grasp on your business profitability at a detailed level, and your profitability profile screams COMMODITY margins. What next?? The answer may lie in your ability to innovate – “executable” innovation consistent with the strengths of your business. Historical research suggests +95% of new product offerings are doomed to failure. Implication . . . successful innovation is hard work and fraught with risk!

When evaluating new product offerings, consider the following to help your team manage the inherent risk:

- Is the value proposition of proposed new product offerings “quantifiable” in dollar terms? Will the new offerings deliver 30% - 50% margin improvement over existing product and service offerings?
- Are the new product offerings a strategic fit with your company’s core competencies?
- Does the current management team have the depth of experience to shepherd the new products to market . . . without compromising the attention necessary to maintain your existing business?

If the answer to ANY of the above questions is

“NO”, proceed with caution. A “NO” answer implies additional TIME and CASH resources to overcome the learning curve associated with entering existing and (or) new markets with new products.

Our recommendation . . . before you embark on any new product development initiative, be sure you have contingency plans to drive profit and cash-flow should the new product development process take an unexpected turn. This will help your business weather the inherent uncertainties of the innovation process and ultimately achieve the next plateau of growth and sustainability.

So . . . where does your business stand on the continuum? *RESTORE business discipline? REPOSITION to maximize profitability? REVITALIZE to achieve the next plateau?* Regardless of your answer, the outcome will provide the catalyst to galvanize your team against a common and important objective!

About the author . . .

Andrew Ortyan is a founding principal of Precision Catalyst, a management consultancy focused on helping organizations establish the critical links between their people, customers and business profitability.

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