

5 Secrets of Effective Profit Management

Leaders get swept up in the day-to-day, losing focus on the real levers of profit management. These are the secrets used by the best to produce sustained winning performances.



Each Account Imposes a Unique Cost Structure

Product mixes, volumes and purchasing effectiveness vary widely between accounts, and directly impose differing transactional costs on your company in servicing the account. In every business, there are accounts that purchase less frequently, and with a smooth process that imposes very little cost. Conversely, there are also accounts that impose a very high cost through a frequent or chaotic interaction with your company.

Recognizing these differences is vital to effectively managing the profit generated in the business. Get accurate account cost data so your team can differentiate between high- and low-cost accounts.

Takeaway: Obtain or develop accurate account-level cost information so your organization has visibility on the most important metric needed to actively manage account profitability.

Account Gross Profit and Servicing Costs Must Be Balanced

The gross profit generated by an account can be thought of as a budget for servicing that account. Keeping the servicing cost within the gross profit envelope guarantees profit on the account. Traditional gross margin management misses this critical fact with an inherent assumption that cost rates are the same for all accounts, which they most certainly are not. In reality, every account has its own unique cost structure and therefore needs its own unique gross margin target.

One-size-fits-all margins cause lost business when low-cost accounts are overpriced. This also virtually guarantees losses on high-cost accounts, leaving a tiny handful in the sweet spot where the target margin is accidentally close to the ideal.

Takeaway: Obtain or develop accurate gross profit and cost reports for every account, and have

your team use this information for all aspects of account management. From bids and pricing, to product delivery and customer service, balancing gross profit and cost structure is essential for sustained profitability.

Key Accounts Need Unique Strategies — Others Can Be Grouped Homogeneously

You can only make or lose big money on big accounts, so effective management mandates that you work the top and bottom of your profit ranking reports. It's critical to create and execute an individual strategy to manage the pricing, margin and cost structure associated with each of your high-volume accounts.

Each key account should have a frequent periodic review so your team can fine-tune the account's individual strategy. Accounts that fall in the middle of the list can be bucketed into homogeneous groups where broader solutions can apply. For example accounts could be bucketed by size, industry, product category or other factors until the groups tend to be populated by companies that look and act the same. At this point, broad-based strategies can be developed to fit each of the groups, eliminating losses and guaranteeing profitability within each group.

Takeaway: Use your profit rankings and your cost information to develop short-term strategies to protect and penetrate your best accounts, and to work with your worst accounts to make them profitable. Create broad strategies for the homogeneous groups.

Know and Manage Profit Deltas

To lock in an upward trajectory, it's important to know which accounts are generating profit increases and which are doing the opposite. Obtain or develop profit delta reports that show the differential as compared to previous periods.

Recognizing that each drop in profitability requires an equivalent gain somewhere else (just to stay even) will help your team focus on activi-

ties and tactics that drive those gains and prevent losses. This element alone is a critical secret of perpetually winning companies.

Takeaway: Obtain profit delta reports for every account, territory, product line and vendor. Utilize these reports to protect and replicate growth areas, and to tackle and reform those that are taking your profit gains in the wrong direction.

Use Profit Metrics and Incentives to Engage Your Total Organization

Every organization employs people of goodwill and good intelligence. The fastest and most pervasive gains are always driven in organizations that harness the majority of the company's collective brainpower, and apply it to profitability. Be sure your management communication, your systems and processes, and your measurements and incentives are all working in service of the previous points.

Having parts of your organization drawn away by historical or traditional incentives that are only loosely related to your core objectives will certainly limit your ability to realize fast and permanent gains.

Takeaway: Develop communications, measurements and incentives that are directly related to profit and profit change, and then apply them at all levels. End traditional incentives that pay people to lose sight of the objectives, or worse, pay them to protect and grow money-losing business.

WayPoint Analytics is a low-cost, add-on system specifically designed to generate the exact reports needed for effective profit management. It uses a highly detailed and very accurate internal costing system to distribute all your company's operating expenses across the transactions that imposed them, giving the most detailed and accurate cost and profitability information available anywhere.

Armed with precise profit information your team can move quickly to protect and grow the most profitable parts of your business, and to close off profit drains by changing the dynamics of what's dysfunctional.

Usually implemented in only a few weeks, wholesalers and distributors have been using this advanced system for years, and have gained millions in incremental profits without requiring new sales. You can, too!

Randy MacLean is the founder of WayPoint Analytics, the inventor of Quantum Costing, and the creator of the WayPoint system. His company provides analytical services and advisory services to companies that have become the profit-leaders in distribution.



Randy is a best-selling author, has founded more than a dozen companies and two conferences, and has been presented numerous corporate and industry awards.



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