

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 economy is forcing companies to turn to new information technologies that reveal and isolate money-losing segments for reform or ejection. By using precision cost and profit analysis tools similar to WayPoint Analytics, 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 you can do the same for your business: It's a fact that there is little correlation between Gross Profit Margin and actual Net (or real) Profit rates, so you'll want to avoid using Gross Profit as an indicator. Instead, 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. In other words, reduce your Cost-to-Serve.

If there is not a way to tailor a profitable service model in any given segment, eliminate the loss by phasing out that element. This is how to cut intelligently when cuts need to be made.

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 the extreme winners and losers get to be what they are
- Techniques that will protect and grow the most profitable elements of your business, and transform the biggest losers into winners
- How to capture the best parts of competitors' markets, and how your own most-profitable elements can be defended

By the way, something you'll want to think about is 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? Act first!

A tool like WayPoint Analytics gives you the edge you need over competitors. WayPoint allows companies like yours to rapidly and continually assess the real profits or losses associated with each element of your business. You can then assess and tailor a profitable service model for your money-losing elements.

QUANTUM
PROFIT™
MANAGEMENT

Measure & Manage Cross-Subsidies



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