5 Ways Managers Kill Performance

(And Sometimes, Companies)

Many managers are still using outdated and ineffective ideas and methods that can limit, or even eliminate their ability to deliver great results. Be sure you're not doing the same.

Using One-Size-Fits-All Metrics

Many companies are still operating with systems that provide little insight into the profit nature of particular deals or orders. In these environments, managers most often resort to single-point or "rule of thumb" measures to gauge and drive performance. Because the underlying business may have elements with wide volume variances, and because the cost structures of various elements is largely unknown, none of the traditional sales metrics are useful for anything but a fraction of the activity being managed.

For instance, most wholesale organizations use gross margin as the primary sales metric where, say, 22% is the desired point. In reality, 9% margin may provide excellent returns on certain high-volume low-cost business, while 30% is nowhere near enough to cover the costs at the other end of the spectrum. These organizations are much better served by tailoring margin targets according to the cost structures that accompany the underlying business.

The single-point target has the organization missing opportunities where lower margins are viable, while attracting business where high transactional costs overwhelm the target margins. Both situations cause losses for the company, and act to preserve poor profit performance.

Takeaway: Obtain or develop a system that tracks the cost structures associated with every account and product line, and set margins on a granular basis to ensure profitability at all levels of transactional cost.

Not Prioritizing Profit Performance

Too often, managers are mired in complex tactics associated with activities not directly related to profit performance. Organizations frequently lose sight of the fact that bottom-line profit pays for everything, and pursue objectives that are, at best, only loosely connected with profitability. Winners are relentlessly focused on the bottom line and work back to the inputs, being sure of the actual profit impact of each step.

Top companies are now using NBC (Net before Compensation) as their primary metric. (NBC can be calculated by subtracting cost of goods and all operating expenses, except for customer-facing sales compensation, from revenue. Or, take bottom-line profit and add back in the sales compensation. NBC indicates how much profit is made in the territories — after paying for the product and the costs of delivering it to the customer. NBC is the territory profit that will be split between the sales force and the company.)

Takeaway: Switch to NBC as your company's main sales management metric. This will ensure that both gross profit and operating costs are included when evaluating the profitability of any piece of business. Companies adopting this practice tend to be the leaders in their markets.

Over-Emphasizing Top-Line Growth

At the end of every period of market expansion, companies become accustomed to the benefits of a growth environment. Continual revenue and volume increases mask low attainment of internal efficiencies, and even poor management decisions. When the music stops, oversized and inefficient infrastructure turn profits around in a hurry, and can impose very painful decisions on the company's management.

The first reaction is to restore the glory days by finding new top-line growth. This frequently results in the accumulation of dysfunctional money-losing accounts, which tend to accelerate costs faster than they accelerate revenue.

Smart companies focus, instead, on dividing their high-volume accounts into profitable and unprofitable categories. Then they work to consolidate, protect and penetrate the profitable group, while working to change the cost structures associated with the money-losing accounts so they can be moved into the other category.

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Paradoxically, this commonly results in increased volumes, as the companies put more focus on, and provide better service to, their volume accounts.

Takeaway: Stop beating the bushes — let the growth come organically through better service and deeper penetration of your critical accounts. Flogging the sales force to collect increasing numbers of profitless small accounts will undermine profitability.

Failing to Engage the Entire Organization

Frequently, the strategic plan is developed and driven from the top of the business, without sufficient input and participation of the broader company. The zeal to execute in a hurry can lead managers to overlook the existing processes and incentives that will work against any potential for success.

More specifically, new strategies are most commonly undermined by an existing compensation plan that effectively pays the sales force to drive business in a way that directly conflicts with the strategy. Companies cannot successfully mandate one type of business, while paying the sales force to deliver another.

Takeaway: Be sure to adapt sales incentives to precisely match the company's goals, so the sales force will be properly rewarded for delivering what the company management needs to achieve. Profit-based sales compensation programs are now feasible—in an era where granular profit information can be had through add-ons to virtually any system.

Unwilling or Unable to Drive Change

The most common failure mode in new profit programs is where the senior management cannot or will not drive the necessary change. It takes real leadership to coach a team to victory with brand-new goals, brand new strategies, and brand-new tactics. People are most comfortable with what they know, and particularly with what has worked before. A critical role of the leadership team is to recognize change in the environment, and to guide everyone into a new and exciting future.

During this decade, wholesale distribution is becoming more and more knowledge-based. New systems provide incredibly detailed profit information, giving smart companies a real edge in focusing on the best parts of their business. As Peter Drucker says, "In a knowledge society, managers must prepare to abandon everything they know."

This is never been truer than it is today, where leaders must be able to switch their organizations to new metrics and new priorities, or forfeit the business to those that do.

Takeaway: Be prepared to reevaluate traditional practices, and be ready to substitute new and better information- driven practices in their place. Education will fill a crucial role in helping the team understand and master the new knowledge, metrics and practices. As always, early adopters will see huge benefits in growth and in profitability, as less nimble competitors do their best to propagate inefficient past practices.

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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