STRATEGIC RESOURCES

THIS WAY

"Turning the Corner" to REAL PROFIT℠

A perspective and "how to" for owners / managers of **small and middle market firms** to deliver more **profitable growth** and maximize the **long-term value** of their business

REAL PROFIT STRATEGY℠

Let's get started…

For the last 25 years, Strategic Resources, Inc. (SRI) has served closely held and family-owned small and middle market businesses. Our goal has always been the same: to help owners and managers **drive profitable growth and maximize the long-term value of their business**.

From our founding days, we saw that while many businesses could otherwise make, distribute, and service their product well, they often **needed help with how to "*sell*" product**…and, in particular, **how to do so profitably**.

The fact that more sales do not always translate into more profit, or that growth is often a focus for its own sake and not because it's profitable – these are common challenges for small and middle market firms that have always been a core motivation of our work.

Since the Great Recession of the late 2000s, the need to tackle these challenges has become more important in many industries. Years of cost-cutting efforts have now reached a natural conclusion. While some of those efforts were necessary, the fact remains that cost-cutting is often short-lived, and generally not a long-term strategy for success.

Now is the time for many businesses to "turn the corner" from the reliance (or over-reliance) on cost-cutting **toward profit and growth-oriented opportunities**. Our approach to helping owners and managers do just that is called our **REAL PROFIT^{SM} Strategy**. We call it "*real profit*" because the value that is created is exactly that – long-term, sustainable, and profit-motivated.

The purpose of this eBook is to share **perspective and a "how to"** for owners and managers to deliver profitable growth and value creation. The insights here are based on our first-hand experience and a set of common opportunities we've seen play out at small and middle market firms time and time again, with concepts illustrated by **real-world examples**.

So read on, and feel free to share this eBook with others you think might similarly benefit from a focus on REAL PROFIT^{SM}. We hope the ideas here are of value to you and help your business **"profit from the know-how."**

"Turning The Corner" To REAL PROFIT℠

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The "rules of the game" are changing in many industries as today's pace of change accelerates. Since the Great Recession, our experience has shown that five key opportunity areas can help a business **"turn the corner"** from a focus on cost-cutting **toward profit and growth-oriented opportunities**

We call these areas the **"Big 5"** because they are commonly the biggest value levers owners / managers can pull to drive **profitable growth** and **maximize the value** of their business

The BIG 5	Motivating Facts and Statistics	Our Perspective
Get back to basics with **action-oriented segmentation**	Understand how the **changing nature of competition** influences today's customer values and needs, which are in turn reflected in whether different customer types are profitable or unprofitable	**"It's About More Than Just *Product*"**
Identify your *real* winners and losers with **customer profitability management**	Identify and better **manage best and worst customers**. The bottom 10 – 25% of customers can reduce profitability by up to 200%. Yes, that's a <u>*negative*</u> -200%[1]	**"Go From Gross Margin to Operating Margin"**
Make the most of a 1% improvement with **pricing and value-selling**	Get the **biggest bang for the buck**. A 1% improvement in price can increase profit by 8%, an impact nearly 50% greater than a similar decrease in variable costs and 3x greater than a similar increase in volume[2]	**"Good Data + Good Process = Good Pricing"**
Align to the "right, next, best" opportunity with **salesforce effectiveness**	Maximize **selling efforts**. The salesperson's inability to communicate value during customer interactions is perceived as the #1 inhibitor to sales success[3]	**"Be Relentless About Execution"**
See (literally) what really creates value through **business performance visualization**	Create **new ways to look at a business** and related opportunities. A typical transactional analytics effort can shift 1 – 3% of revenue to the bottom line in the first 12 months[4]	**"Begin to Realize the Promise of Technology"**

1. Customer Profitability Measurement and Management, 2. The Price Advantage, 3. Conversations That Win The Complex Sale, 4. Pricing and Profitability Management

? ***Has your business turned the corner?***

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Learn More and Get Your REAL PROFIT℠ SCORE at www.strategicresourcesinc.com

Has your business turned the corner?

With years of cost-cutting efforts having reached a natural conclusion, now is the time to shift focus to more sustainable, long-term drivers of profit and growth. Our recent experience shows that five key opportunities lead the way.

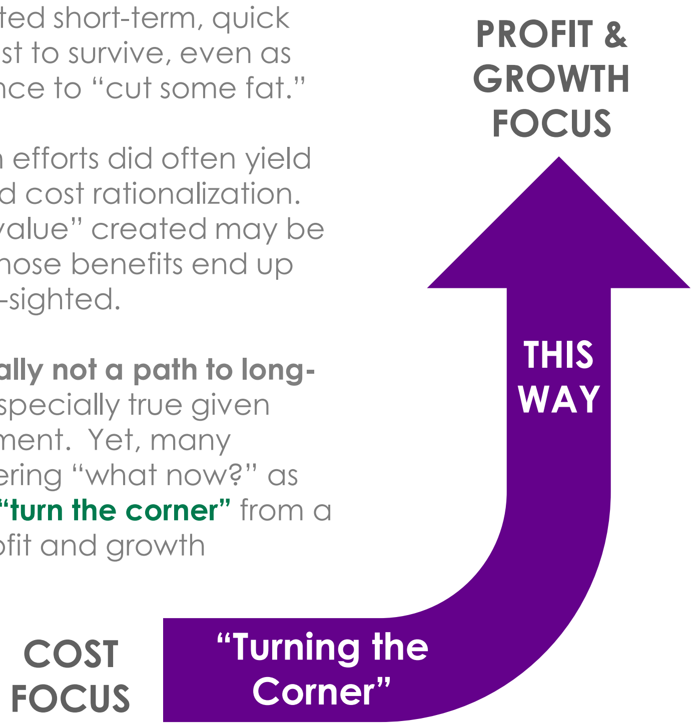
Today's business environment is changing, and the nature and pace of that change can be expected to increase in the years ahead**.** Look at headlines of late, and you'll see how. Warnings of a new (*read*: not as good) normal, of persistently slow growth, and of ongoing hurdles to profitability dominate discussion and are expected to challenge business performance going forward.

Whether one believes in the severity of those headlines is one thing. Regardless of any hype though, most business owners we talk to agree that today is – and the future will be – much different than the recent past.

Recently, many businesses have emphasized better cost management. And rightfully so. The Great Recession necessitated short-term, quick fixes for many businesses just to survive, even as others finally took the chance to "cut some fat."

The good news is that such efforts did often yield the intended rightsizing and cost rationalization. The bad news is that the "value" created may be anything but, as many of those benefits end up being short-lived and short-sighted.

Cost-cutting alone is typically not a path to long-term success, and that's especially true given today's changing environment. Yet, many business owners are wondering "what now?" as they contemplate how to **"turn the corner"** from a focus on cost toward a profit and growth orientation.



What change do you want to drive in your business?

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So…*What Now?*

Our recent experience shows that a focus on **five key areas establishes the right foundation to "turn the corner"** from a reliance (or over-reliance) on cost-cutting toward pursuit of sustainable, longer-term, profit and growth-oriented opportunities.

We call these areas the "The Big 5" because **they are often the biggest value levers a company can pull**, regardless of whether they've been a focus of late or not.

Despite that fact, these are areas that owners / managers have historically been either reluctant to tackle, or where they have lacked the know-how to do so.

Capitalizing on these areas can be more difficult than cost-cutting, but with many cost management efforts having reached a natural conclusion, **now is a logical time to evaluate such opportunities**.

Those businesses we've worked with who have committed to and followed through on doing just that have reaped the benefits, which can include:

- Returning **up to 1 – 3% of sales to the bottom line** in as little as 12 months
- **Doubling or tripling profitability** within a few years
- Achieving **sustained, profitable growth**, where more sales also translates into more profit

The BIG 5

1 Get back to basics with **action-oriented segmentation**

2 Identify your *real* winners and losers with **customer profitability management**

3 Make the most of a 1% improvement with **pricing and value-selling**

4 Align to the "right, next, best" opportunity with **salesforce effectiveness**

5 See (literally) what really creates value through **business performance visualization**

What investment could you make right now that would increase profitability by up to 1 – 3% of sales in as little as 12 months?

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While not the only five opportunities for a business, many of the owners / managers we deal with compare investment in these areas with common alternatives (e.g. capex, IT investment, etc.) and find "Big 5" levers to be the best option for delivering a return in less than 12 months.

The rationale for pursuing "Big 5" opportunities applies whatever the goals may be for a business, whether that's to work a bit smarter (not harder), to extract more profit / value, to jumpstart the next phase of growth, or to position a business for sale or transfer of ownership to the next generation.

A Brief Aside: Commonly Asked Questions

At this point, **we commonly get two questions**:

The first is around **data and information** and whether what's needed to pursue the areas of opportunity we've described is available. The short answer to that question is a resounding "yes." Very few businesses have failed to take part (at least in some small way) in the wave of investment in IT infrastructure that's occurred over several decades and has established a foundation of useful data and information in most organizations.

A starting point for the right data and information is indeed there. The real challenge today is that many owners / managers don't know that the information exists, don't know how to get at it, or don't know what to do with it – all of which are entirely different but much more solvable issues.

The second question is around **know-how** and whether ideas about what does and doesn't work are sufficiently established in (what may be perceived as) "newer" areas of opportunity. Again, the answer is "yes." In recent years, **trends in idea sharing have led to a proliferation of new thoughts on almost every imaginable subject**.

This proliferation of perspectives means that a lack of well-developed and readily available thinking is no longer an excuse for inaction. In fact, the "flipside" is true: businesses must now develop ways to keep up with the latest thinking and to determine the right time to act on the right ideas.

With these hurdles removed, a key requirement in the future will be the ability to ***combine* data and information with the right know-how** to drive a business forward. And to do so continuously over time amidst an ever more rapidly evolving business climate.

1 Get back to basics with **action-oriented segmentation**

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The nature of competition in many industries has changed in the last five to seven years. What probably hasn't kept up (but should) is how owners / managers segment their business. Or maybe a business still doesn't even have a segmentation scheme, or what exists is just one-dimensional.

Segmentation is important because it provides a new lens through which owners / managers can look at a business, which helps uncover the hidden gems and "aha moments" that spell opportunity.

Segmentation often takes the form of complementing a product-centric view of a business with a more customer-centric view. Even with a customer-centric view, looking at segmentation by customer size, order behavior, discount structure, product / service mix, etc. – any number of variations can be informative and important depending on a company's business model.

Often, this exercise starts with education around what segmentation is and why it's important. Many owners / managers just aren't familiar with the alternative ways they can or should be looking at their business, whether that's based on customers, channels, markets served, business models, etc.

Segmentation requires a thoughtfulness about what an informed view of a business looks like today, in order to use that view to drive action. This requires knowledge of how to parse data in different ways and see patterns. And that's often not a simple thought exercise at all.

Now more than ever, the actions necessary to drive a business forward are probably very different than what drove success in the past. This creates a need for today's approach to segmentation to **align with new "rules of the game" in an industry such that segmentation is appropriately *actionable***.

What do we mean by "segmentation"?

"Segmentation involves dividing the market of potential customers into homogeneous subgroups. These subgroups may be distinguished in terms of behavior patterns, attitudes, demographic characteristics, psychographic profile, and the like."

Kellogg on Marketing (2010)

Case in point

Take a family-owned contractor we worked with recently. The company, which serves the utilities and railroad industries, had seen **losses that caused its bank to increase oversight** due to a lack of confidence in management. Ownership sought to regain the trust of its creditor and position the business on solid footing for the future.

Upon being engaged, SRI initiated a segmentation exercise. While management had historically looked at the business in aggregate, **we helped them identify five unique segments, which corresponded to distinct markets they served**. Segmentation was combined with profitability analysis, which clearly highlighted that losses were the result of performance variances across segments. **The company had some big "winners" but also big "losers"** that were dragging on financial performance.

Based on these insights, we helped management develop a **new operating plan**. The company was able to redeploy capital toward assets that served its "winning" segments, while improving price and asset utilization on "losing" segments. Management also shed excess equipment that no longer served priority segments and improved project management.

Operational changes led to a multi-million dollar improvement, which **doubled the company's bottom line**. Improved operating profits and cash flow provided a basis for a successful refinancing, repayment of family loans, and implementation of a management succession plan to the next generation of family leadership.

Industry:
Contractor serving utilities and railroads

Key Idea:
Segmentation gave management a new way to look at its business, which led to a new operating plan that doubled profitability

What's the BIG IDEA?

"Although it may seem counterintuitive, segmenting the market and tailoring the marketing strategy to a subgroup of potential customers may prove to be more profitable than attracting a broader customer base"

Kellogg on Marketing (2010)

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Case in point

Segmentation similarly became important with an industrial supplies distributor when **ownership sought to sell the business**. The company engaged SRI as its exclusive representation, and in doing so sought guidance on positioning the business for sale.

The company was growing nicely and had gross margin performance that exceeded industry averages, but management couldn't articulate why.

Upon being engaged, **SRI segmented the business to understand the company's value drivers.** That segmentation uncovered the drivers behind margin performance. Parts of the business had lower margins typical of other distributors in the industry, but a service / solution-oriented part of the portfolio had margins that were far above average.

When looking at the industry, it turned out that **buyers were seeking the development of value-added services**. They sought to acquire service-driven, solution-oriented businesses that were harder to replicate given higher barriers to entry.

With segmentation insights in hand, **SRI was able to position the company's business as 65% "value-added."** Furthermore, the company was able to highlight to buyers that its **sales and marketing strategy was "ahead of the curve"** in already stressing the value-added nature of its products and services.

All of this differentiated the company and made it more attractive to buyers, which resulted in **the company being sold at a 25% premium over industry multiples**.

Industry:
Industrial supplies distributor

Key Idea:
Segmentation allowed ownership to uncover the company's intrinsic value and position its real worth to buyers

What are the trends shaping your industry? How are they influencing how you look at your business?

2 Identify your *real* winners and losers with **customer profitability management**

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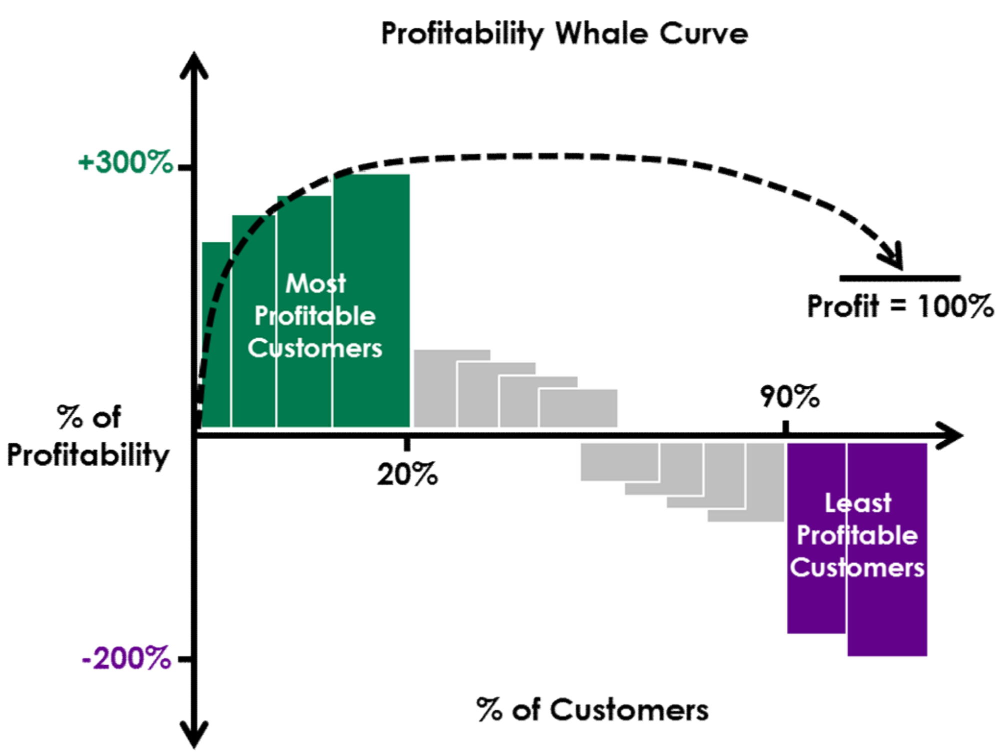
We've preached the importance of customer profitability management for some time now. But frankly, the challenges around data and information described earlier were too much for many companies to overcome. While that's now changed, the most basic fact still remains: for many businesses, **the bottom 10 – 25% of customers can reduce profitability by as much as 200%** (yes, that's a negative 200%)[1].

Upon hearing this, a lot of business owners / managers will nod their heads, knowing that unprofitable customers exist in their business, just as they do in other businesses. The head-nodding stops though when asked to identify who those customers are in their business because few companies we've seen have gone through the exercise to identify them. Or, and this is often more likely, management lacks consensus on who its good and bad customers are, and so nothing can be done with the insight.



1. Customer Profitability Measurement and Management (Harvard Business School)

When companies do go through the exercise of determining customer profitability, conventional wisdom is often challenged. **We've seen numerous cases where a company's biggest customer is actually their <u>least</u> profitable…and nobody has ever realized it**.

The steps to better understand customer profitability include efforts to aggregate data, to develop ways to correctly assign (not allocate) costs, and to create a more comprehensive customer P&L, inclusive of many elements of operating costs and overhead. **A guiding principle here is often to go from managing a business at the gross margin line to doing so based on operating margin**. A lot can happen between those two profit lines on the income statement.

This work is not always easy stuff, and we don't mean to understate the complexity and effort that can be required. But relative to the value that can be created, the effort is usually worth it. **Even simple fixes can go a long way to deriving more profit customer-by-customer.**

Perception

100%
customers

100%
profits

vs.

REALITY

25%
customers

+300%
profits

+

75%
customers

-200%
profits

What's the BIG IDEA?

The bottom 10 – 25% of customers can <u>reduce</u> profitability but up to 200%? What is the status quo costing your business?

Case in point

Customer profitability management is **relevant to many business models**. That proved to be the case at a building materials distributor, which had both drop ship and direct-from-warehouse operations. Members of management had **opposing opinions on the profitability** of those two parts of the company's operations.

The company's operations manager and sales manager disagreed on whether a certain drop ship customer was profitable or not. To complicate matters, the customer happened to be the company's largest. The sales manager wanted to grow business with this customer, while the operations manager saw the customer as "bad business."

The company engaged SRI, and we analyzed the profitability of sales to drop ship customers vs. traditional warehouse sales. **Key to that exercise was *assigning* the right cost elements to each part of the operations to get a clearer, more accurate picture of the profitability of various types of customers**.

Our analysis proved that the company's largest customer was in fact its most profitable as well. With that fact in hand, we **helped management build consensus on where to confidently target growth**, which included "unleashing" the sales manager to finally grow drop ship business.

Additionally, evaluation of the profitability of customers whose business flowed through the warehouse **highlighted areas where the company's costs were out of line**. SRI helped management identify the resources to improve warehouse operations with process changes that dramatically reduced costs. With a new cost profile for this part of its business, management also made pricing changes that further increased the overall profitability of warehouse operations.

All told, the company saw a **multi-million dollar improvement to its bottom line**.

Industry:
Building materials distributor

Key Idea:
Customer profitability analysis yielded consensus on the right accounts to grow with AND identified operational opportunities to reduce cost-to-serve

Industry:
Publishing manufacturer

Key Idea:
Customer profitability informed which accounts to keep as leadership refocused the company's business model and consolidated operations

Case in point

Work we did with a **manufacturer** also focused on customer profitability. This family-owned manufacturing business had seen a **steep drop-off in sales** as its industry and markets contracted. Additionally, **the basis of competition had shifted** from cost efficiency to value differentiation.

At first, ownership responded by cutting costs, but that didn't solve the problem. **SRI got involved and developed a customer profitability database that stratified customers according to job profitability**. Suddenly the reasons for the sales decline became clear. The "old school" business of customers placing large, long run orders were down, while customers seeking custom jobs were up.

Seeing the light at the end of the tunnel and how underlying trends would play out in the industry, **ownership made the difficult but necessary decision to pivot its business model entirely**. The shift changed the company's focus from manufacturing efficiency to manufacturing flexibility.

As a result of this decision, the company **consolidated its manufacturing footprint**. The customer profitability database was used to evaluate which customers would continue to be a good fit for the new operations as management shifted its focus.

Failure to make this change would have likely caused the business to shut down, but instead the company saw a **multi-million dollar improvement to its bottom line**. An informed view of customer profitability allowed ownership to take the right action to save the company.

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3 Make the most of a 1% improvement with **pricing and value-selling**

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The dreaded subject: pricing. We've seen many owners / managers cringe just hearing the word, and in some ways that's understandable.

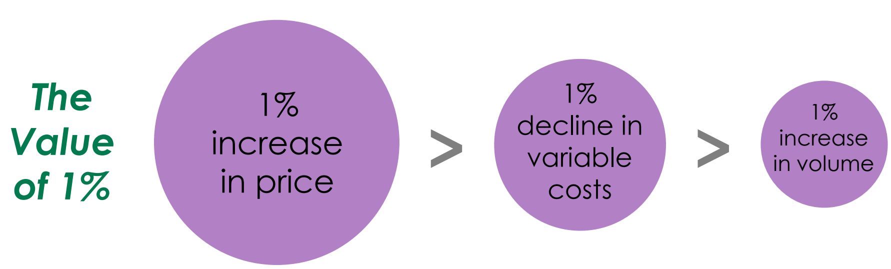
Pricing is a sensitive subject in most organizations, one that is seen as a "high risk" area for tinkering. Additionally, **many businesses don't think they have the ability to shape or influence price, and they have historically lacked a process** to proactively manage pricing. As a result, many businesses take a blanket (vs. strategic) approach to pricing practices.

While we may not be able to make people feel better about broaching the subject, we can highlight the fact that **pricing is the single most impactful value lever** a company can pull. **A 1% improvement in price can yield up to 8% in improved operating profits**, which is 50% greater than a similar decrease in variable costs and 3X larger than a 1% increase in volume[2]. That's a lot of value.

For the businesses we work with**, tackling pricing usually starts with establishing a fact base**. Using common transactional data, simple analytics begin to highlight where price variances exist today and where opportunity may lie.

That fact base is then combined with a process, which puts the appropriate controls and monitoring in place to enable companies to go from reactive to proactive in managing price. Frequently, that process highlights tactics the salesforce should employ (e.g. rebates, bundling, etc.) to help deliver on target prices and related profitability goals.

Rarely are there "home runs" in pricing. Rather, with the right approach, owners / managers who have never actively managed this aspect of their business can reap huge rewards by slowly getting better step-by-step over time. It's not just about increasing prices either – often decreases are necessary too, as in cases where we uncover that a company's cost structure isn't competitive.



2. The power of pricing (McKinsey)

Case in point

A lawn maintenance and landscaping business we worked with saw the benefit of evaluating its pricing practices. Management lacked distinct views of the financial and operational performance of each division, leading to **"clouded" judgements about the company's pricing decisions**.

The entirety of the business **operated on a cost-plus pricing model**. The model was based on a fully loaded labor cost per hour that the company's accountant developed annually. A single cost number was applied "peanut butter" across the business in aggregate.

SRI was engaged and quickly realized that this "peanut butter" approach failed to account for key differences in labor and equipment assets between divisions. **We developed a new pricing model that took into account these differences, highlighting opposite (but related) pricing opportunities.**

On the one hand, **every job that the company bid for its landscaping business was "under-costed" and therefore "underpriced,"** which resulted in losses on many of its jobs. Payroll for that division included more highly-skilled workers with a higher labor rate. Additionally, much of the company's equipment was only used by that division. The new pricing model correctly assigned these labor and equipment costs.

Conversely, **the lawn maintenance division was "over-costed" and therefore "overpriced"**. The division made "great" margins but lost most jobs because pricing was too high. With lower prices based on the right cost structure, margins remained "good" while the division grew tremendously as it won more work – a net-net better outcome overall.

Pricing changes led to **a reduction in "loss" projects** for the landscaping business, while the lawn maintenance **division grew at healthy margins**.

Industry:
Lawn maintenance and landscaping business

Key Idea:
The company's cost-plus pricing model did not correctly account for asset utilization, causing services to be both over- and under-priced

Case in point

In another instance, we worked with a manufacturer of exterior building panels where profits had declined. We helped management see that **deteriorating performance was driven, in part, by the lack of a pricing strategy** and related tactics.

Review of the company's pricing practices showed that no price actions had been initiated in the last four years, despite the fact that raw material prices had increased, and the company had improved its products while adding value-added services. **The company still felt threatened by the "need to be price competitive"** and customer claims that price increases would cause them to move business.

Industry:
Building materials manufacturer

Key Idea:
A new pricing strategy with related tactics delivered price optimization that enhanced profitability

SRI helped management assess the company's value proposition and pricing vs. competitors. With a fact base in hand, targeted price increases were developed, and "what if" scenario analysis evaluated the resulting financial impact. Additionally, **a price communication plan was created** to support recommended price changes. **The combination of analysis and planning allowed management to gain consensus and buy-in to finally execute price increases.**

When it came time to execute, SRI trained the sales team on how to communicate and justify price changes with customers.

The resulting price changes increased profitability by 20 – 30%, delivering the most significant profit improvements in the company's history. The company also realized share-of-wallet increases and market share gains, as customer "threats" failed to materialize. The business improved both its top and bottom line, driving true *profitable growth*.

What's the BIG IDEA?

Pricing is the biggest value lever a company can pull, yet most take pricing practices for granted

4 Align to the "right, next, best" opportunity with **salesforce effectiveness**

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When customer segments change, when a view of profitability informs how customer relationships should be managed differently, or when price is proactively addressed – these catalysts (among others) can require revisiting go-to-market strategy and **realigning the salesforce to different priorities while providing new tools for sales success**.

Salespeople at many businesses are not focused on what we call the "right, next, best" opportunity. "Right" means that salespeople are focused on delivering targeted performance…and that they know what the right expectations are. Failure (or lack thereof) in communication often creates a disconnect between a company's priorities and the activities of the salespeople. Establishing **clear goals that are linked to accountability** is key to aligning sales efforts.

"Next" means **being proactive** in managing the business for the future. This means salespeople are not just focused on the same old customers or the same old tactics. Properly established goals – like shaping demand for product mix, driving cross-selling, annuitizing relationships, finding new customers or market segments, etc. – will require salespeople to proactively shape market outcomes. This doesn't always happen on its own.

And "best" means that salespeople **prioritize appropriately**. If faced with a decision to choose between a call to an existing customer, for instance, versus researching opportunities at a new customer, the salesperson makes the right choice. This ensures that activity is not confused with outcomes, and that the sales team can look for and prioritize new opportunities appropriately based on expected outcomes.

How confident are you that your salesforce is focused on the "right, next, best" opportunity?

Much of this may sound like back to basics, but many sales organizations fail to deliver on all dimensions of the "right, next, best" philosophy. Or, and this is frequently the case, doing so requires investment (that has yet to be made) in new education and skill-building to equip the salesforce for success.

Case in point

A **distributor** we worked with who had experienced significant growth struggled with salesforce effectiveness. Lacking an understanding of where growth was coming from, as well as what constituted good growth, **ownership was unable to effectively mobilize the sales team**.

The owner of **the business hired SRI to create a sustainable go-to-market strategy and then translate that strategy into sales success**. The effort started with creating a new segmentation model and marrying segments up for the first time ever with customer profitability. From there a number of salesforce effectiveness opportunities emerged.

The company's salespeople were not focused on the "right" opportunities. Clear direction had not been provided to salespeople regarding preferred product vendors. **Vendor relationships were refocused** to prioritize profit maximization, and new measurement was put in place to drive the right behavior. This process helped the sales team understand the very important role they played in shaping customer demand for the right vendor product lines.

Industry:
Building materials distributor

Key Idea:
A new go-to-market strategy allowed management to translate growth objectives into executable direction for the salesforce

Establishing new share-of-wallet growth goals gave salespeople a vision for the "next" opportunity to pursue within their existing customer base. This led to **establishing a list of key accounts and coverage** to drive organic profitable growth. Additionally, new target accounts were identified to enhance business development efforts.

Finally, salespeople were equipped to pursue the "best" opportunities and maximize win rates with the creation of **differentiated account plans**. Better selling stories and a focus on additional product options led to more growth with profit-maximizing customers.

These and other related efforts ensured that **sales resources were aligned to deliver appropriate performance and financial results**.

What's the BIG IDEA?

The salesperson's inability to communicate value is still perceived as the #1 inhibitor to sales success[3]

3. Conversations That Win The Complex Sale (Petersen and Riesterer)

5 See (literally) what really creates value through **business performance visualization**

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By this point, you can appreciate how "Big 5" opportunities are worthwhile as standalone efforts in their own right. That's certainly true. What's also true is that **the value they deliver can be accelerated and multiplied** when a business simultaneously pursues efforts to become more analytical and data-driven. **That's where business performance visualization can help.**

When many owners hear "analytics," they think, "Oh, I have a dashboard already." Our experience, however, is that most of today's "dashboards" are simply a laundry list of numbers or collection of too many charts – all crammed into a single computer screen. The **dashboards are probably still static** and frequently fail to fulfill on their promise of delivering more insights. Additionally, that failure is often after a lot of IT / technology investment.

With business performance visualization, we create dynamic views of a business that lead to new insights and an ability to identify new opportunities in a business. They can also be used to measure and monitor performance in a way that better drives accountability.

Visualization helps with "seeing and knowing" what's going on in a business, instead of relying on "hunches" or potentially unfounded, ill-informed conventional wisdom. Most people respond better to visual learning, and we've seen businesses get their people more engaged with data through the use of visualizations.

We help owners / managers visualize the performance of their business, in a way that engages their teams and delivers real insights. **With a focus on *seeing* the real value drivers in a business, insights become more actionable and more closely linked to *real* performance and results.**

For manufacturers, business drivers might be cost efficiency and job profitability. For distributors, customer sales mix and order behavior. For service businesses, asset (i.e. personnel and equipment) utilization and customer retention management. In reality, it's combinations of all these things, which must be understood together.

What's the BIG IDEA?

86% of firms say they're only "somewhat effective" with data and analytics efforts; more than 25% say they're "ineffective"[4]

4. The need to lead in data and analytics (McKinsey)

It is our experience that **very few businesses today can afford not to bolster their visualization and analytics capabilities**, given that 1. competitors are probably already doing something to "up their game", and 2. the future basis of competition in many industries will rely on an organization being more analytically driven.

Case in point

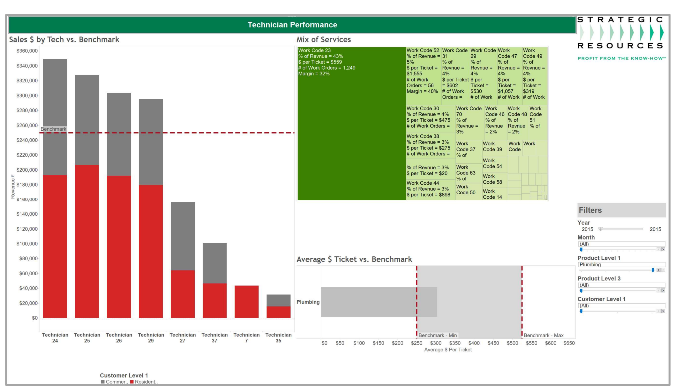
Recently, we worked with a **services** business to deliver business performance visualization. Ownership sought help enabling its organization to become more data-driven, and **the company's current IT and data software wasn't cutting it**.

Ownership engaged SRI to create a visualization platform leveraging the company's most important data and information. The goal of the effort was to yield actionable insights, but do so in a way that brought numbers to life and engaged the company's departmental managers.

SRI took the company's transactional data and created **business performance analytics that looked at opportunities related to asset (personnel and equipment) utilization, sales mix, margin variances, and pricing**. Workshops with senior leadership reviewed the analytics to prioritize the right value drivers for the business to focus on right now.

Industry:
Home services business

Key Idea:
Ownership is migrating away from Excel toward visualizations to help the leadership team become more data-driven and analytical in how the business is managed



With those priorities in hand, visualizations that allowed departmental managers to dynamically interact and "click and play" with analytics were created. Visualizations were combined with a new process for root cause identification of issues and opportunities.

As a result, **ownership and department managers now have specific metrics they are focused on to drive performance improvement**. And they now have a way to act on priorities using business performance visualization as a foundation.

IN THEIR OWN WORDS

"The visualization looks exactly like what we've been envisioning for our service departments. The information will help service managers focus on what they can work on and address issues that they can control. It will also remove the focus from line items that they worry about that are minor in the big picture. It will allow us to see and measure progress. Exciting stuff!"

Company Owner

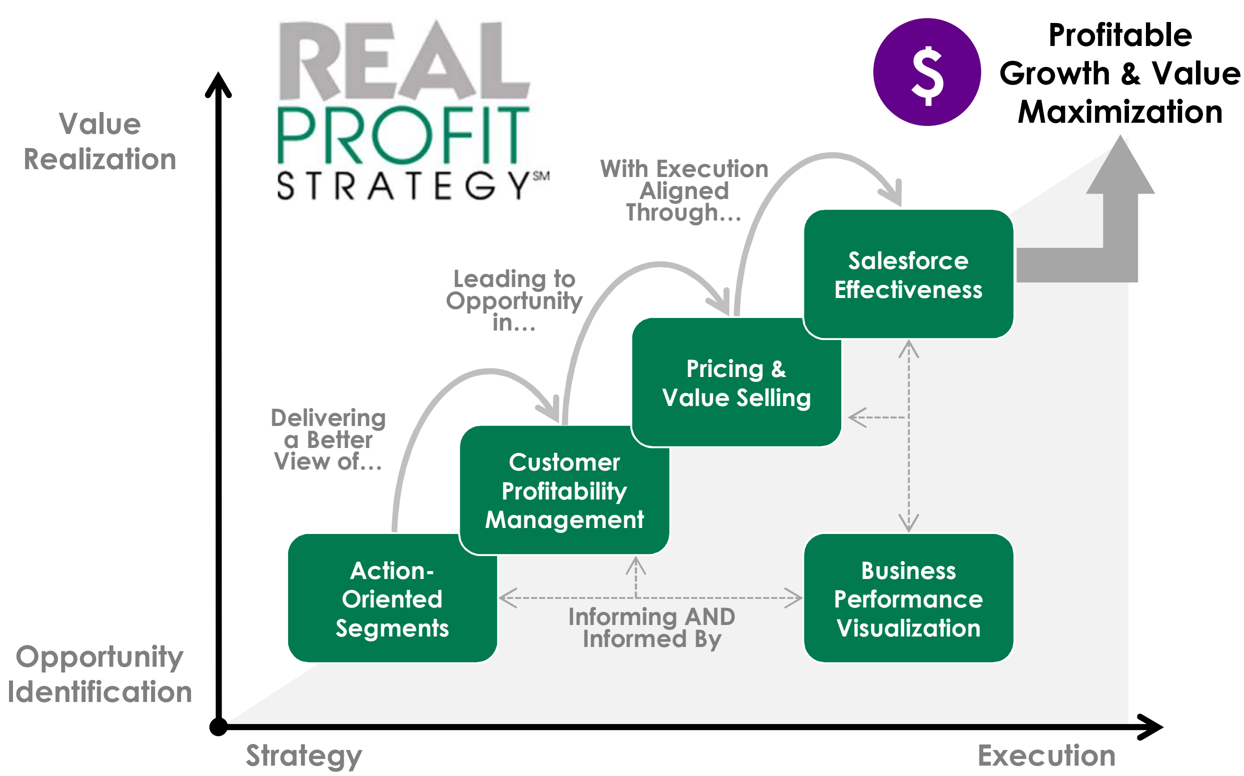
Pulling it all together: REAL PROFIT℠ Strategy

By now a careful reader may have guessed that **"Big 5" opportunities can be pursued in isolation or (and this is usually best) in combination with each other**. And that's exactly right.

The relationships between these areas define a logical roadmap for both getting started and for pursuing opportunities over time. That roadmap is what we call our **REAL PROFIT℠ Strategy** (see below). And given that approximately **66% of change initiatives still fail** to achieve their objectives, having a plan of attack is more important than ever for many businesses[5].

While every business is unique and there is no "one size fits all" approach, REAL PROFIT℠ Strategy provides (at a minimum) a framework for how to capitalize on the biggest values levers that many owners / managers have been reluctant to pursue, or where they have lacked know-how to do so.

We use this framework with owners / managers as a starting point to give them structure, priorities, and the outline of a game plan for pursuing opportunities that deliver *real, profitable growth*.



5. *The Irrational Side of Change Management (McKinsey)*

So what's the next step for your business?

Whatever the goals for your business, REAL PROFIT℠ Strategy can help you realize them. It might be to work a bit smarter (not harder), to extract more profit / value from your business, to jumpstart the next phase of growth, or to position your business for sale or transfer of ownership to the next generation. For over 25 years, we have helped business owners / managers identify and take the right next step for their business.

Strategic Resources, Inc. (SRI) is an advisory firm to closely held and family-owned small and middle market businesses. We partner with owners and managers of businesses in transition to drive profitable growth and maximize the long-term value of their company. SRI is a long-term partner with results-oriented relationships that go from analysis to strategy through execution.

If you are interested in learned more about what you've seen here, check out our website at www.strategicresourcesinc.com. There you will find a link to "**Get Your REAL PROFIT℠ Score**", which will take you to a scoring tool you can use to determine if "Big 5" opportunities are a fit for your business.

Additionally, feel free to give us a call if you'd like to discuss any of the ideas presented here in more detail. We are always happy to talk more about how you can benefit from "Big 5" and other related areas of opportunity.

We hope the information here is of value to you and look forward to helping you "profit from the know-how."

Authors

Dave Hess
Principal / Co-Founder
dhess@strategicresourcesinc.com
(843) 715-9773

Mike Yayac
Principal / Co-Founder
myayac@strategicresourcesinc.com
(717) 394-6850

Bob Hadfield
Principal
rhadfield@strategicresourcesinc.com
(717) 394-4065

Ben Hess
Principal
bhess@strategicresourcesinc.com
(312) 315-0852

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