

Senior Leadership

BUSINESS
GROWTH

Tools for Profit™ A Powerful Framework for Increasing Operating Profit & Cash Flow

By Andrew Ortyn, Andrew.Ortyn@Nimble-Leader.com

With any business, a primary focus of senior leaders is to help their organizations *establish the critical links between their people, their customers and business profitability*. For it is in establishing these linkages that businesses are capable of achieving extraordinary performance across such measures as Operating Profit, Cash-flow, Return on Investment (ROI), Economic Value Added (EVA) and others.

The purpose of this article will be to explore practical means for achieving the above metrics for business success.

Successful organizations are characterized by the ability to attain the “high ground” in terms of their MARKET POSITION. What they *stand for* in the minds of their customers is of greater perceived value than the value provided by their competitors.

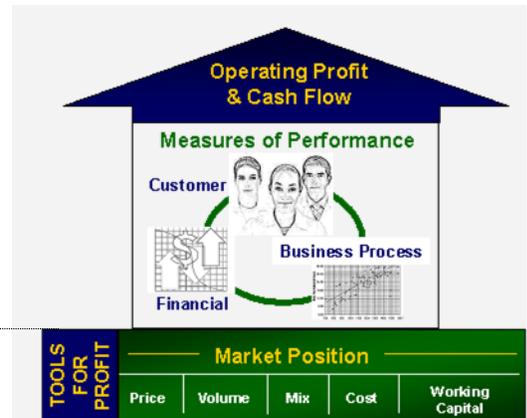
A MARKET POSITION sets a product, service, or business *apart* from the competition *in the customer’s mind*. Every existing product, service or business has a MARKET POSITION because the customer has defined it!

Consider the following example. Assume a company has a 6% EARN rate. For every \$100 in Net Sales, the business delivers \$6 in Operating Profit. Through rigorous customer focus, this same company achieves a leadership MARKET POSITION, allowing it to achieve an additional 1% on the “average” PRICE of its prod-

ucts and services. Carried to the bottom line, this 1% increase in Net Sales translates into an impressive +16.7% increase in Operating Profit over a one-year timeframe!

As business leaders ponder the *market leaders* in their own industry, our experience shows the PRICE premium of a leadership MARKET POSITION is considerably more than 1%. In addition, a superior MARKET POSITION *also* leads to greater flexibility in managing VOLUME -- *the quantity* of products and services sold to customers; MIX -- *the different kinds* of products and services sold to customers; COST -- *the expenses incurred* to sell products and services; and OPERATING WORKING CAPITAL -- *the short term investment* required to generate sales (e.g. appropriate inventory levels, etc. . .)

The more a business’s products and services are perceived as valuable by it’s customers, the *more control* it has over effectively managing PRICE, VOLUME, MIX, COST, and OPERATING WORKING CAPITAL. Collectively – MARKET POSITION, PRICE, VOLUME, MIX, COST, and OPERATING WORKING CAPITAL represent



important Tools for Profit.

Together – these tools offer a *powerful* framework for how business leaders might think, analyze, discuss and act upon business opportunities. The greater the level of “common” understanding of the Tools for Profit by senior leadership *within* and *across* a business’s functional areas . . .

- The greater the level of communication *within* and *across* the organization.
- The greater the *speed, flexibility, and depth of response* an organization has relative to how it responds to fast changing market pressures.
- The greater the *improvements* to Operating Profit and Cash Flow.

Fundamentally – a working knowledge of the Tools for Profit will assist business leaders in building a strong House of Profit!

About the author . . .

Andrew Ortyn is Founder and CEO of Nimble Leader, a management consultancy focused on helping organizations establish the critical links between their people, customers, and business profitability. Mr. Ortyn holds a Masters in Management from the Kellogg Graduate School of Management where he studied marketing and business policy. He holds a B.B.A., magna cum laude, from the University of Notre Dame. He is a Certified Public Accountant.

Copyright © Nimble Leader LLC