Commercial Building Construction Company

Case Study

36%
UNPROFITABLE CUSTOMERS

-$551k
LOST PROFITS

-$2.8m
LOST VALUE

-9%
LOST VALUE PERCENTAGE

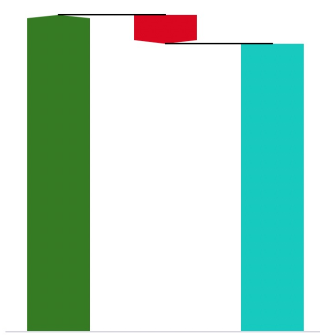
Company

- 81 Customers
- 1100 employees
- $200m revenue

Situation

By catching a wave of rapidly-rising demand in the local market, the company took on a wide range of new projects and aggressively recruited talent to keep pace. While enjoying three years of 20% annual revenue growth, the management team was confounded as profits fell and profit margins slumped to less than half of the industry average.

Analysis



▼ **9%**
OF PEAK VALUE LOST

	Earnings Multiple	
▲ **$6.0M** Peak Profit	x 5.00 =	▲ **$30.0M** Peak Value
▼ **-$551K** Lost Profit	x 5.00 =	▼ **-$2.8M** Lost Value
■ **$5.5M** Net Profit	x 5.00 =	■ **$27.3M** Net Value

Note: values may not add up due to rounding.

	% of Customers	Profit
Profitable Customers	**64%**	**$6.0m**
Unprofitable Customers	**36%**	**-$551k**
Total	**100%**	**$5.5m**

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Insights Revealed by Profit Inc's Analysis

- Because the company had no standard sales process or operational systems, rapid staff expansion resulted in chaos as each manager, supervisor, and salesperson independently implemented their own execution methods. The resultant 700+ possible execution permutations generated myriad miscommunications and cost overruns.
- The company frequently undertook projects external to its core expertise, resulting in costly mistakes.
- Cost overruns were hidden in operational expenses, rather than being allocated to customers, jobs, or departments.
- When costs were properly allocated, 36% of customers were revealed to be unprofitable. Nine percent (9%) of the company's value was being destroyed.
- Senior leaders compounded problems by fostering a culture in which personalities were favored over disciplined execution and profitable performance.

Advisory Team Recommendations

- Implement a disciplined pricing process using a detailed pricing configurator that accounts for all direct costs for each prospective customer or project.
- Reject specialty projects outside of the company's core capabilities.
- Develop "Company Way" to standardize quoting, execution and behaviors.
- Immerse all employees in the "Company Way" to establish accountability.
- Implement a profit-sharing plan based on specific performance outcomes.

Results

Though championed by the CEO, other senior leaders resisted higher standards of professionalism and accountability. The CEO lacked the moral fortitude required to overcome the resistance, and the reforms were only partially implemented. Although still marginally profitable today, the company financially underperforms compared with competitors.

"Chaos costs…"

To grow without eroding profitability, a company must first implement systems that define and reward desired behaviors, appropriately allocate direct costs, and accurately measure profitability in "real time" as the company grows.

This company's leadership mistakenly assumed that simply hiring great talent and "letting them do their thing" would deliver both higher revenues and higher margins.

Lacking standard cultural expectations, systems, processes, and incentives, rapid growth only exacerbated chaos and destroyed value.

After *Profit Inc* properly allocated direct costs, 36% of customers were revealed to be unprofitable. Many more customers yielded extremely low margins.

9% of the company's value was being destroyed.

"We must all suffer one of two things: the pain of discipline or the pain of regret."

- Jim Rohn