27%
UNPROFITABLE CUSTOMERS

-$2.5m
LOST PROFITS

-$12.4m
LOST VALUE

-64%
LOST VALUE PERCENTAGE

Facilities Maintenance Company

Case Study

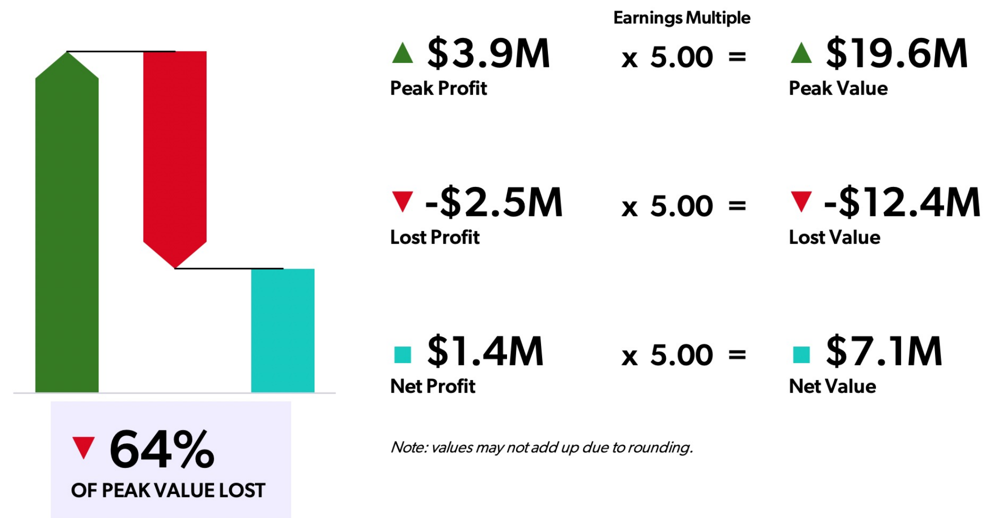
Company

- 11 national brand customers
- 2000 employees
- $70m revenue

Situation

Buoyed by its stellar past operational and financial performance, the Company embarked on a rapid growth strategy by focusing on securing contracts with large national retailers encompassing hundreds of locations. Top-line revenue soared. However, the management team was disappointed to find margins, profit, cash flow, and customer satisfaction rapidly declining.

Analysis



	% of Customers	Profit
Profitable Customers	73%	$3.9m
Unprofitable Customers	27%	-$2.5m
Total	100%	$1.4m

“Understand *before* you Expand”

A company must clearly understand its costs before expanding its revenue.

This company’s management team launched a revenue growth strategy without first clearly understanding the direct costs that would be required to service each of their customers, or how costs would vary from one customer account to another.

After the expansion, when *Profit Inc* properly allocated direct costs, 27% of customers were revealed to be unprofitable.

64% of the company’s value was being destroyed.

Customers impose different service levels and payment terms. These direct costs must be applied to customer accounts in order to understand profitability.

Facilities Maintenance Company

Case Study

Insights Revealed by Profit Inc’s Analysis

- Rather than implementing a proactive, financially-informed plan to create profitable scale economies, the Company’s “on-the-fly” expansion into large, broadly-dispersed customer accounts dramatically increased service-levels, costs, cash-flow problems and debt.
- The management team neglected to directly account for onerous payment terms imposed by large customers, thereby increasing costs and further exacerbating cash flow gaps that the company’s credit line could not bridge.
- Insufficient on-boarding processes, inadequate training, and ineffective operational controls led to poor service levels, extraordinarily high employee turnover, and rapidly escalating personnel costs.
- Several layers of unaccountable managers not only taxed overhead costs, but also reinforced declining service quality among the Company’s front line workers.

Advisory Team Recommendations

- Implement a disciplined pricing process using a detailed pricing configurator that accounted for all direct costs for a prospective customer.
- Renegotiate customer payment and bank credit line terms
- Make personnel changes: Promote the best field leader and replicate this leader’s best practices. Restructure and delayer leadership. Replace CFO.
- Launch a cultural change campaign: Develop the “Company Way”
- Attract, train, and retain the *right* employees: Become “employer of choice” in the industry

Results

Armed with a clear understanding of its costs, the Company implemented the advisory team’s recommendations. Profit, margins and cash flow rapidly improved, and the company became debt-free.