



41%

UNPROFITABLE CUSTOMERS

-\$6.2m

LOST PROFITS

-\$19m

LOST VALUE

-62%

LOST VALUE PERCENTAGE

Food Processing Company

Case Study

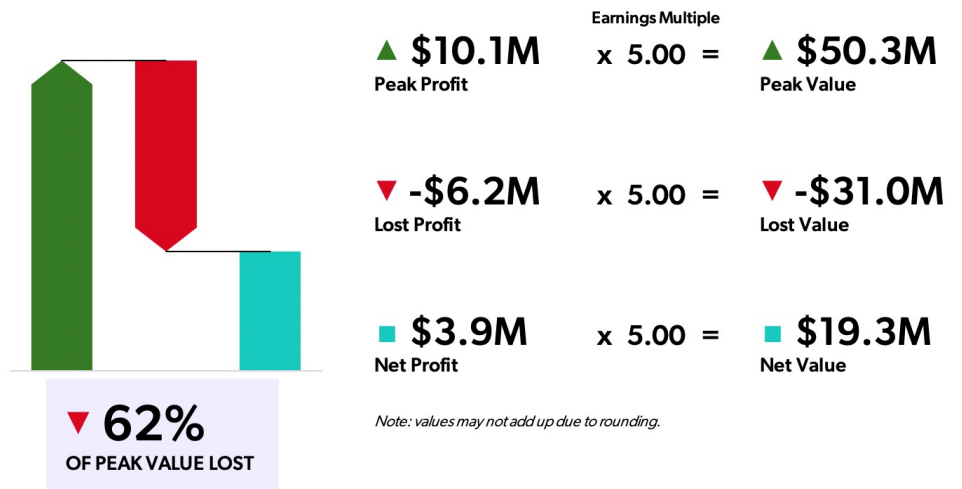
Company

- 1,976 total customers nationwide
- 250 employees
- \$130m in revenue

Situation

Betting that it could generate more profit by delivering a higher service level, this food processing company stimulated rapid growth growth by making enormous capital investments to provide customized, less-than-bulk offerings. Expecting both profit and margins to grow in sync with rapidly-increasing top top-line revenue, the management team was surprised and frustrated that both net profit and margins were instead falling rapidly.

Analysis



	% of Customers	Profit
Profitable Customers	59%	\$10.1m
Unprofitable Customers	41%	-\$6.2m
Total	100%	\$3.9m



Focusing only on Revenue can be fatal

Focusing only on Revenue or gross margin can be fatal to a company. Often, costs which should be directly allocated to customers are “buried” in its Operating Expenses. When this happens, the company may continue to unwittingly sell more to unprofitable customers, thereby magnifying losses and destroying company value.

Direct Costs often “hide” within Operating Expenses

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Case Study

Insights Revealed by Profit Inc’s Analysis

- The Company was focused only on growing top-line revenue, even though a new strategy had altered its cost structure.
- Trying to keep up with increasing customized service requirements and rapid growth resulted in business process inefficiencies and higher costs.
- Instead of allocating the higher service level and capital investment costs to the customers generating them, these costs were buried in Operating Expenses.
- When these costs were appropriately allocated, 41% of customers were revealed to be unprofitable.
- Because the company focused only on top-line growth, salespeople’s incentives rewarded them for selling more to unprofitable customers.
- 62% of the company’s value was being destroyed.

Advisory Team Recommendations

- A disciplined bid approach using a detailed pricing configurator
- A reduction in product offerings
- Order minimums
- Leadership change at the executive level
- Freeze on capital expenditures
- Consolidation of two manufacturing locations into one

Results

Faced with the both the difficulty and cost of unwinding their customization strategy, coupled with the realization that they could achieve better ROI by investing the same amount of money elsewhere, the family office owners decided to sell the company.