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

\[
\begin{align*}
\text{Peak Profit} & = 3.9M \\
\text{Lost Profit} & = 2.5M \\
\text{Net Profit} & = 1.4M \\
\end{align*}
\]

\[
\begin{align*}
\text{Peak Value} & = 19.6M \\
\text{Lost Value} & = 12.4M \\
\text{Net Value} & = 7.1M \\
\end{align*}
\]

Lost value percentage: \(-64\%\)

<table>
<thead>
<tr>
<th>% of Customers</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable Customers</td>
<td>73%</td>
</tr>
<tr>
<td>Unprofitable Customers</td>
<td>27%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>
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.