



DO BUSINESS FASTER™

## Jim's Profit Accelerator 81: Grow Profit as Sales Slow

Early indicators suggest a possible slowing in the industrial sector of the economy (wait, this isn't an economic sleep-fest!), which could drag down sales growth for many—including you! Never mind the reasons. The question for you, as CEO, is “What do I do now?” Most of the time, most of us wait too long and then regret it.

Even worse, if you're looking at a potential change in ownership in the next five years, now's your chance to demonstrate the profit-making power of your business. Here's how:

Instead of goosing sales in this hot market, harvest that emphasis, let sales continue to grow, but gently move your team to a better place: margin growth.

In the seven quarters that Mary Barra has been CEO at General Motors, sales have remained virtually flat at \$40 billion, but adjusted EBIT has jumped from \$500,000,000 to \$3,000,000,000. Yes, that's billion—an increase of six times!

But wait, there's more: You're thinking that GM was such a slug that just firing the laggards would produce this result. While that happened, it wasn't the driver (sorry, couldn't resist) of dramatic results. Instead, “To deliver those margins you've got to make the right decisions and look at yourself and say, ‘Do I have a viable business [in a region or vehicle segment]?’ If I don't, I have no business being there.”\*

**SPEED BUMP:** Targeting will leverage profit quickly.

Here's how you can General Motors your way to better profit:

### Eject Business Segments or Products with Little Hope of Profit.

Once sales are moving, as they are for most of us, it's easy to overlook weak business segments. The blowback from disappointed customers or internal leaders can dilute leadership resolve. Vague benefits seldom trigger action, and by themselves each little segment may not promise enough to invest in change. If you target relentless margin improvement overall, the math can compel action. What is the impact on your operating earnings of a 1 percent increase in operating margin percentage? Here's an example:

	Now	Then
Sales	\$100,000,000	\$100,000,000
Profit %	6	7

**SPEED BUMP:** Increases in profitability can be powerful and quick.

### **Ignore Cost Accounting**

Conventional wisdom requires that we improve our cost accounting to know where we're making money. That's almost always the wrong approach. Instead, charge your best minds with this three-step approach:

1. Target the weakest profit segments of the business: Remove allocations of overhead from your analysis until the end.
2. Ask them to estimate the biggest contributors of cost for the segment: Then reluctantly ask your financial team to sharpen the estimates of the top cost drivers in the segments targeted to go out the door. It's not perfect, but it pops out the answer. Refining the analysis won't change the action: Keep it or drop it.
3. As to overhead: Once you've targeted a segment, mark the overhead costs for that business and remove them. If the costs aren't clearly tied to the product, ignore them. If the costs include people who are contributing to other products, challenge their manager to boost their performance.

### **Raise Prices**

Invest in small but regular price increases, usually annually. Instead of a 6 percent price boost in one jump, gentle prices up by 2 percent a year. Slow and steady won't attract attention for all but a few products. Test the water on the sensitive ones with a 1 percent increase. You'll be surprised at the modest response. If there's a firestorm, leave the price alone and use the discussion to find other value to deliver to the customer. It's always there, if you look.



**BONUS TIP:** Skip the cuts to overhead. It delivers pennies, instead of the dollars you need.

**ACCELERANT:** Which business segments will you drop this quarter?

For more information on how you can accelerate revenues and profits in your business, please call or email me.

\* *Wall Street Journal*, 10/26/15, p. R2

For more information, visit [www.grewco.com](http://www.grewco.com).

Jim Grew is an expert in CEO-level strategy and executive leadership whose clients refer to him as the Business Defogger and Accelerator. Jim helps leaders swiftly discover the hidden opportunities within their businesses and exploit them for dramatic results. Nearly three decades of success as a COO and CEO coupled with his experience running nine thriving businesses provide the foundation for his consulting work as president of the Grew Company. He presents regularly to industry groups, mentors business leaders, and shares insights on his blog, BizBursts.com: <http://bizbursts.com/>. He holds BA and MBA degrees from Stanford University.

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