
SPEED TO MARKET

A Newsletter for
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Do You Need to Rethink Your Business?



Any business can find itself in a situation where sales are declining and earnings are falling even faster. The typical response is to cut costs, hoping that somehow this will rectify the situation. The problem is that cutting costs is not a solution—it's merely a stopgap measure.

This is analogous to an airplane that is in a steep dive, headed for a crash in Omaha. The captain's version of cost cutting is to jettison people to make the load lighter. However, all this does is alter the angle of descent, so now the plane will crash in Denver. Buying time is fine, but if nothing is done to deal with the basic problem in the interim, all you do is postpone the inevitable.

In an article, *A Turnaround Primer*, published some time ago in *The Wall Street Journal*,¹ Peter Drucker discusses the underlying problem:

Every business operates on a business theory—a set of assumptions regarding the outside (customers, markets, distribution channels, competition), and a set of assumptions regarding the inside (core competencies, technology, products, processes). These assumptions are usually taken for holy writ by the company and its executives. It is on them that they base their decisions, their actions, their behavior. But a business theory is not a law of nature. Eventually it becomes inappropriate to the realities of the market and technology. Then long-successful companies begin to deteriorate. They lose their bearings. And the only thing that can effect the needed turnaround is rethinking and reformulating the company's business theory, and repositioning the company on a new set of assumptions.

We had the experience recently of visiting a company that was exactly in this predicament. For many years, they made wire shelves and racks for appliances (ovens, refrigerators) primarily for OEM customers. When appliance manufacturing went overseas, racks went too, and the company found itself with an expensive plant, too many people, and too much overhead. But rather than do what needed to be done—rethink the business and reposition it on new set of assumptions—they chose to throw more people out of the plane. They were stuck in their old concept of the business—their tired and no longer true assumptions—and could not get past them.

¹ A Turnaround Primer, *The Wall Street Journal*, February 2, 1993

We see this a lot in Michigan these days as companies that were once very successful supplying the auto industry, now find themselves struggling because of reduced sales, global competition, and severe price pressure from the automakers. Over the past five years, Michigan's economy has lost 308,900 jobs and is projected to lose another 9,600 jobs in 2006. The state's manufacturing workforce has declined by about 25 percent during this period.²

However, many companies are able to adapt and prosper. For example, Apollo 8 Industries, a company that makes custom upholstery for cars, has branched out to include boat owners, casinos and restaurants, airplanes, and is even considering medical upholstery. Burtek, a small engineering firm expanded, into military contracts to build radar systems, and customized trucks to be used overseas.³

One of our clients, Kurek Tool in Saginaw that should be familiar to readers of this Newsletter, saw time and material work with short lead times as a "nuisance" that interfered with their regularly scheduled production. We showed them the importance and substantial profit margins on this work, and why it made sense to devote capacity to it. By seeing their business in a new light, using speed as a competitive advantage, and developing the processes necessary to go after time and material work, they were able to increase their revenues by one third in one year, and earn a higher level of profit to boot.

Challenging prevailing assumptions and repositioning a business is not an easy thing to do. People have a tendency to hang on to what worked in the past, and not give it up. This is often a source of conflict when a business transitions to the next generation. Hanging on to the past is also the reason it's virtually impossible to rethink your business yourself. This is one of those times you definitely need the benefit of an outside perspective and assistance.

At Delta Dynamics, we've developed a proprietary seven-step program for reformulating a company's business theory and repositioning it to generate new growth. It involves a combination of data gathering and interpretation, uncovering hidden assumptions, and trend analysis combined with our experience, perspective, and ability to think clearly and strategically. Redesigning the organization, and implementing the new foundation is the final step in repositioning the business for profitable growth.

If your business is declining and you have tried typical tools and techniques such as strategic planning and process improvement with negligible results, then it's time to call Vince Bozzone at 248-333-0482 to discuss your situation and learn how our program can benefit you. There is no charge for this consultation, and I guarantee you will find it valuable...and maybe even essential for the future of your business.

² University of Michigan News Service Nov. 18, 2005

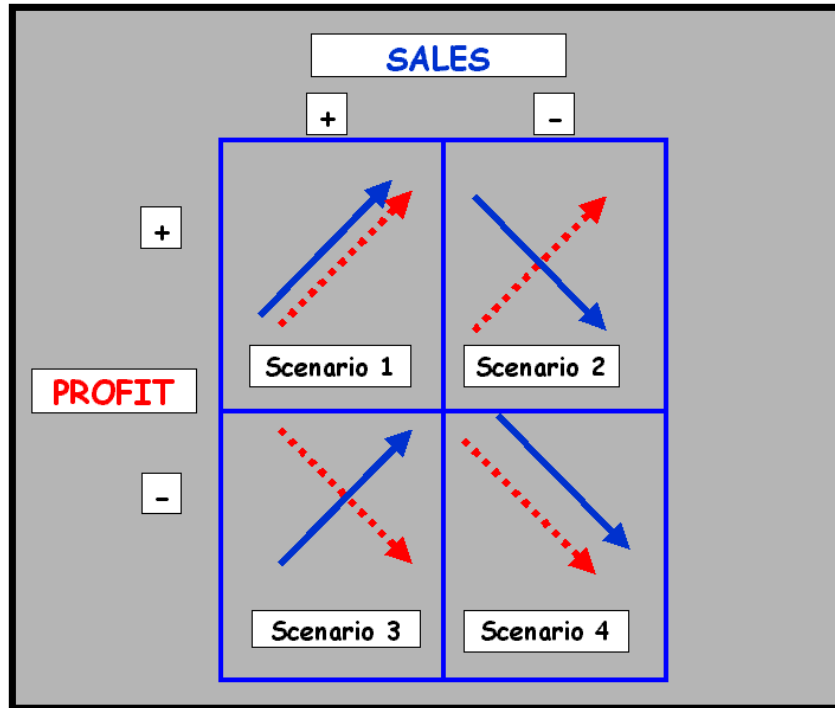
³ Detroit Free Press, July 16, 2006

Use a Quad Matrix to Look at Your Business Like an Analyst

Editor's Note: *This article was published previously. It fits so well in this discussion we thought it made sense to include it here VB*

Analysts and others who need to get a handle on organization performance quickly can use this matrix to compare sales and profit (or earnings). The matrix provides a convenient way to contrast these two key indices and interpret their relationship. Situating an organization in the matrix illustrates four different scenarios (and a number of sub scenarios), and provides a basis for assessing and interpreting an organizational situation.

Where Does Your Company Fit?



Scenario 1: Both sales and profits are growing. This suggests a healthy organization that has the ability to serve more demand with no increase in total costs.

■ Variations on this theme would be profit growing at a greater rate than sales which suggests the organizational infrastructure has the capacity to serve more demand more efficiently.

■ Conversely, if profit is increasing, but at a lesser rate than sales, this suggests some organizational limits are being pushed and inefficiencies encountered (e.g. may indicate deteriorating marginal earnings for each new dollar of sales).

■ Alternatively, it may mean the company has invested in additional infrastructure to support anticipated growth in demand, but that demand (sales) has not yet materialized.

Scenario 2: Here revenues are falling and profits rising. This suggests serious cost cutting is underway, likely through downsizing (cutting fixed costs and overhead) and/or via product redesign and establishing more efficient production processes.

■ This scenario could also result from selling off unprofitable businesses or pruning high volume, negative margin customers.

■ This is only a short-term strategy, however. Cost-cutting can buy the business some time to work on increasing sales, or if this is not feasible, to resize the organization so that costs are in line with sales, making the business profitable at a lower volume level. It's very difficult for management to cut costs faster than revenues are declining.

Scenario 3: Revenues are increasing with decreasing profits. The organization is not able to process additional demand profitably, which suggests a lack of adequate infrastructure and related organizational problems. Chaos and confusion can result when an organization is under pressure to meet increasing demand that it cannot handle. The result is waste and increased costs.

■ May also indicate pricing is too low (buying market share). This may be a legitimate business strategy but needs to be confirmed.

Scenario 4: This is obviously the worst-case scenario with both revenues and profits declining. Major work is required to address sales and profit deterioration. The organization may choose to migrate to Scenario 2 with a cost-cutting strategy and program, thereby buying some time to address sales issues which require more time to see results (cost cutting can generally be accomplished more quickly than building sales).

Summary: This matrix provides a useful framework for understanding an organizational situation quickly. Scenario 1 is obviously the preferred situation for any company. However, every scenario is unstable and can evolve into a different space. Locating an organization in one of the quadrants provides a "quick and dirty" way to gain a basic understanding of a situation and focus improvement efforts.