

## ■ The Connection Between Process Focus and the Profit Zone

By Willie Carter

Most companies underestimate the costs associated with not listening to the customer - using archaic and redundant processes and producing poor quality - and not to mention the impact on profits. The reason is simple: they are unable to attach a value to the full financial impact of those costs. As long as they fail to see the value, however, the notion that poor process performance and profits are not linked will continue to persist.

In their book *The Profit Zone-How Strategic Business Design Will Lead You to Tomorrow's Profits* (Random House: 1997), Adrian J. Slywotzky and David J. Morrison define the profit zone as "the arena of a company's activity where high profit happens... The profit zone is where sustained, superior profit creates enormous value for a company." It is my contention that a process focused business organization can provide the "sustained" and "superior" profits that create the immense value that stakeholders cherish.

Slywotzky and Morrison say there are 22 different business models that explain and quantify the mechanism by which high profit occurs. Three are clearly tied to a process focus and lead to superior profits. They are:

1. **A Customer Solutions Profit Model**
2. **A Time-Based Profit Model**
3. **A Low-Cost Profit Model**

### ■ The Customer Solutions Profit Model

*This business design creates a flow of information about the customer's business that enables the supplier to understand the customer's economics and priorities better than anyone else does. It is a forward-looking approach because it goes beyond present needs, taking in the customer's needs in the future.*

Companies that embrace this model reach the profit zone by investing heavily in capturing the voice of the customer so they can create products and services that meet both spoken and unspoken needs. They engage in continuous dialogue with their customers to determine current and future needs.

This model mirrors the approach outlined in Joseph Juran's Quality Planning Roadmap:

- **Determine who your customers are**—what market segment you can serve best.
- **Identify what those customers need**—what benefits are they looking for or problems they have.
- **Relate those problems or needs to what you can deliver.**
- **Design product and service features that will best respond to those needs.**
- **Design processes that will allow you to produce, sell, and deliver those products and services efficiently and effectively.**
- **Put the plan into operation** throughout the organization.

#### The Customer Solutions Profit Model

A manufacturer of electronic components equipped its sales reps with laptops so they could tap into their business unit and do component design and circuit simulation right at the customer's facility.

They even installed resident sales engineers at some of their key customers to interface directly with customer engineering, manufacturing, and purchasing groups to capture their needs instantly and provide timely solutions.

#### Application Potential:

This model can be applied to companies in both the manufacturing and service sectors, large and small.

In other words the voice of the customer should drive process design and focus. It is important to recognize that customer needs and priorities are dynamic. Spotting shifts in priorities and needs and responding to them requires focusing on your processes to ensure they are always capable of fulfilling changing customer requirements. An organization capable of managing their processes will achieve high profits.

## ■ The Time-Based Profit Model

*The time-based business design is rooted in the concept that time is a critical business performance variable—and a powerful source of competitive advantage.*

This design focuses on responsiveness—giving customers what they want when they want it. Compressing time leads to sustained, superior profits because the following changes occur:

- **Increased productivity**
- **Improved product or service quality**
- **Faster product development cycles and time to market**
- **Reduced costs**

This business design is process focused because we can use process improvement and Lean techniques to drive time and waste out of the organization's processes. Organizations need to improve their processes to improve responsiveness and to survive. As their processes are improved, they become more efficient and effective.

The fundamental objective of process improvement is continuous customer satisfaction. Reducing time (eliminating non-value-added activities) in an organization accelerates innovation, time to market, and customer responsiveness. Streamlining processes leads to time compression—increased responsiveness and profits—thereby creating a profit zone.

An added benefit is that in most cases, when a company can deliver products and services faster than its competitors, prices can be increased. A good example of this approach is Intel, the company's design for profit is to stay two steps ahead of its competitors. By doing this, they are able to command higher prices for their memory chips.

### The Time-Based Profit Model

The product development cycle for a loudspeaker manufacturer was taking 30 - 36 months before handing off the design for customer approval. The customer requirements changed and dictated that the design must be completed in 18 months.

The company formed a cross-functional team to map out the process and reduce cycle time. The team was able to uncover bottlenecks and waste which when implemented reduced the cycle time to 15 months.

#### Application Potential:

Because time is a critical performance variable, the time based profit model is fundamental to all types of businesses. The most widespread application is in medium size to large companies because the layers of bureaucracy and the number of sign-offs usually create long process cycle times.

## ■ The Low-Cost Profit Model

*The fundamental premise of this model is simple: Be the low-cost producer.*

Global competition, accompanied by the drive for greater efficiency and productivity, inevitably leads to excess capacity. Excess capacity, in turn, makes price an increasingly important factor in the customer's buying decision. Lower prices rapidly cut into profit margins unless total unit costs continuously trend downward.

In a world where customers can demand and get products and services that provide higher quality at lower cost, survival will require companies to adopt new strategies and priorities to meet the challenge.

A successful low cost business design must identify and quantify the non-value-added activities and waste in an organization's processes. The quantification of waste can sensitize upper management to the profit potential of process improvement.

## ■ Forging the Link

Quantifying waste and what it is costing the organization is the first step in connecting process focus to profits. Each of these three business models—Customer Development/Customer Solutions, Time-Based, and Low-Cost—are process focused.

Organizations need to bring forth the right tools—process mapping/cycle time reduction, Lean, Six Sigma, and other process improvement tools—to implement these profit models and create *high profit*—not average profit, not cyclically inflated profit, not short-term profit, but *Profit Zone* profit.

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### The Low Cost Profit Model

Ransohoff, a Cincinnati-based manufacturer of industrial parts cleaning systems, high-pressure water deburring systems, and wastewater filtration and treatment systems needed to be more price competitive and needed to reduce their order to delivery cycle time. They decided to implement Lean technology to streamline their processes, reduce their costs and cycle time.

On a single, multiple unit order Ransohoff has experienced an 80% improvement in quality, 18% in cost reduction in material, and a whopping 416% return on investment in this project.

#### Application Potential:

As this example shows, reduction of costs can help an organization become more price competitive. This model applies to all types of businesses, manufacturing or service, large or small.

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