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It is all about profit reality

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For better or for worse, beliefs often drive actions, but when those beliefs persist long enough, they can fall out of sync with the broader world and sometimes be at total odds with reality.

Many business disciplines are held beyond reproach such as revenues are good but costs are bad, give the customer what they want and do not interfere when things are running smoothly. We must not forget the old potato that turnover is vanity, profit is sanity but cash is reality.

Well, could it be that those beliefs are now well past their sell by date and could be undermining both profitability and success?

There is often a general assumption that increased revenues equal additional profits. However could it be that this is missing the point? Just maybe part of the problem is that traditional accounting categories are far too broad in order to truly identify which accounts and products are profitable and which are not.

What would be helpful to all businesses is to develop a strategy which estimates the profitability of every order line for every customer using transactions over a quarter. The system introduced to monitor this critical performance does not have to be sophisticated but it will identify a prime profit trend. Businesses can then set about protecting and cultivating those lines of business.

We have all grown up in an age of mass markets where businesses attempt to get more and more volume in order to create lower costs through economies of scale.

Today there is an explosion of information, real-time visibility, and different pricing for different products which results in companies being faced with a world of mass customisation and mass globalisation with increasingly complex relationships thrown in for good measure.

The whole essence of great management is to create a foundation with the right information, the right priorities and the right processes.

When all is said and done, it is just a different way of managing and improving overall performance.