Introduction

The genesis of this book is a meeting that we recently had with the CEO of a multibillion-dollar distributor. He had just met with his management team about how Amazon and the other digital giants had entered his business and were steadily vacuuming up market share.

This was the third meeting we had that week with CEOs of major companies asking us the same questions:

- How can I defend my company against these aggressive digital giants that have overwhelming digital capabilities and a price-cutting mentality?

- I'm cutting my costs across the board, but my profitability is dropping—what else can I do?

- How can I identify and invest in growing my real profit core—my business segments that will provide high growth—and remain profitable and defensible against my new competitors?

- How can I align my organization around my profit core and build dominance in my target market segments?

As we outlined our experience helping companies overcome these issues, our thoughts turned to a seminal management committee meeting that we had had with the top managers of one of the largest hospital supply companies several years earlier.

The company's vice presidents gathered around a broad mahogany table in the company's boardroom. The president sat at the head of the table.

As the operating review progressed, each vice president in turn said, "I made budget." When they got to the president, he looked at them and said, "That's great. I'm the only one who didn't make budget."

What Happened?

As we dug into the situation, we saw that the vice president of sales had increased revenues, but the new customers had ordered products that were not stocked in the local distribution center. The vice president of operations was measured on a set of standard costs; he had to source these products from a distant warehouse, and he had beaten his budget by negotiating a lower freight rate.

The company had increased budgeted revenues and decreased budgeted costs, but it had lost profits. This was not supposed to happen, and they did not see it until it was too late.

We had just completed a project that developed the first vendor-managed inventory, which we describe in Chapter 1. In a nutshell, the company developed the capability to provide a new service with which it could deliver products directly to the patient care areas and clinics of its hospital customers. In the process, we found that the company's actual cost of the products depended on both the products themselves and the cost of the related services. But this cost not only varied from customer to customer but also from product to product within a customer—depending on the location of each product's destination and other factors.

This was both a huge opportunity and a major problem. The opportunity was that the company was carving out a new business that was completely defensible against price-cutting competitors who had a lower cost structure because they simply dropped their products off at the hospital's receiving dock.

The problem was that the hospital supply market was fragmenting rapidly, as different customers wanted different packages of products and related services—while the company was set up to sell and deliver only a narrow set of products and services. The company needed to realign its market positioning (account selection), organization, and management processes with this new rapidly evolving segmentation.

Moreover, when we tried to calculate the profits from the new system, we found a big problem: the company's traditional accounting system could not match each revenue increment with the actual cost of producing it because the traditional accounting categories, like revenue and cost, were too broad. When we simply spread the costs across the order lines, we got a wildly inaccurate picture—much like the hospital supply company president's discovery in his management committee meeting. Their traditional metrics and key performance indicators (KPIs) showed their average profitability but not their true, granular, rapidly shifting profit landscape.

And this was happening in company after company.

After some head scratching, we developed a completely new way to analyze profitability, which we call *transaction-based profit metrics and analytics*: we carefully assign the correct costs to each transaction (invoice line) based on each transaction's actual costs, essentially creating an all-in P&L for each order line. For example, if a customer walked into a store and bought two pencils, an eraser, and a ruler, we produced three distinct all-in P&Ls, one for each transaction. Because each order line had a set of unique identifiers (for example, customer, product, store, sales rep, delivery), we could create a powerful data set that would combine and recombine the relevant transactions on a monthly basis to show the actual profitability of every nook and cranny of the company—especially their rapidly shifting Profit Peaks and Drains that were hidden by their average metrics.

This profit segmentation dynamically shows a company's true profit landscape, and it forms the basis for a powerful new and completely different way to analyze and manage a company—one that provides the basis for successfully competing with the digital giants (and which is central to Jonathan's graduate and executive courses at MIT).

We developed a solution in Profit Isle, our software-as-a-service (SaaS) profit solutions company, to rapidly produce this analysis at high volumes, enabling managers to immediately focus on creating their highest-payoff actions. We have analyzed tens of billions of dollars of client revenues using this solution, supporting management teams that have produced sustained

10 to 30 percent year-on-year profit increases, even in the presence of competition from the digital giants.

When we stepped back and thought about how the digital giants' data-driven precision marketing was disrupting industry after industry, and the increasingly critical need for company profit metrics to match the rapidly changing business environment, we saw that company after company in industry after industry was undergoing a fundamental shift in the way that it needed to be managed.

In essence, we have entered a new era of business: we are experiencing the end of the mass market era, and accelerating into a new era, which we call the Age of Diverse Markets. The objective of this book is to explain how to manage and thrive in this new era by aligning your organization around your profit core (both current profits and your projected defensible market positioning) to build dominance in your target market segments.

Book Overview

This book has three sections, matching the three essential management steps you need to take to succeed in this new era of diverse markets and digital giants: Part I, "Choose Your Customer," Part II, "Align Your Company," and Part III, "Manage to Win."

Choose Your Customer

Chapter 1, "Today's Flood of Change," describes this sea change and explains what is changing. Not only is the basic management process changing, but the new era is also characterized by a broad shift in technology that has created a massive opportunity for a set of digital giants like Amazon to emerge and grow to dominate important segments of our economy.

This chapter outlines how managers must change their management process to reposition for success in the new era. While the mass markets era created an opportunity for limited product segmentation (for example, regular Coke versus Diet Coke), the Age of Diverse Markets is characterized by much more extensive and complex segmentation involving both products and related services.

The good news is that there are plenty of opportunities to grow and thrive in the new era, but it requires that management use true profit data to thoughtfully **choose** its target customers, **align** the company to capture, dominate, and grow its target segments, and **manage** its increasingly complex internal business processes to accelerate its focused growth and respond to its rapidly evolving market segment needs.

Simply improving the efficiency of what a company always has done is a recipe for disaster.

Chapter 2, "Navigate the Currents of Change," identifies and analyzes the currents of change that are transforming industry after industry, ushering in the Age of Diverse Markets. The chapter describes how these currents will differentially affect new entrants and incumbent firms.

Chapter 3, "Build Your Strategic High Ground," focuses on granular profit analytics, one of the most important manager capabilities in the Age of Diverse Markets. The objectives are to explain how to analyze a company's Profit Peaks, Profit Drains, and Profit Deserts and to give managers a practical understanding of how to build a set of management processes that put this information into action.

Chapter 4, "Manage to Thrive in a Period of Crisis," analyzes the impact of the current pandemic on companies, and it describes how managers can build a set of processes to grow customer loyalty, manage supply chain shock waves, and accomplish productive downsizing. The goal is to enable managers to develop a program that will provide cash flow and profits during the crisis period, while building a strategy and set of management processes that will produce long-term sustainable success in the prolonged period that follows.

Align Your Company

Chapter 5, "Create a Winning Customer Value Footprint," explains how to identify and meet your target customers' deep needs by creating extended products and developing deep strategic product management capabilities.

Chapter 6, "Own Your Customer High Ground," focuses on the processes of selecting and managing customers, including pricing and strategic partnerships. The fundamental nature of a key account (that is, a Profit Peak customer) is changing dramatically, so it is critical that you choose your customers carefully so you are devoting resources to customers who fit your capabilities and strategic direction and who will join you in building win-win relationships that give you both strategic dominance and long-run sustained profit growth.

Chapter 7, "Develop the Right Customer Relationships," discusses how to build the supply chains and channels that will enable you to effectively structure your customer relationships. The objective of this chapter is to explain how to design and manage this complex process.

Manage to Win

Chapter 8, "Manage at the Right Level," focuses on one of the most important enablers of company success. To succeed, managers at all levels of a company must shift their focus and management processes from the old command-and-control Age of Mass Markets practices to those that will enable them to develop and manage the decentralized initiatives needed to win in today's Age of Diverse Markets. This chapter explains how managers at the three key levels of management— top management, upper management, and operating management—can make this transition.

In the final chapter, "Become a Value Entrepreneur," we describe the evolving capabilities that will be the hallmarks of successful managers of the future. This set of capabilities, which we call *value entrepreneurship*, is rooted in the three key imperatives: choice, alignment, and management. We explain how managers can develop and perfect these new skills through both training and leadership experiences.

The future holds a very exciting, rewarding, and productive opportunity for the next generation of managers. This book guides you in building a proven, pragmatic pathway to success.