



Growing your business™

## **Profitability 2.0**

### A bigger vision than cost-cutting

Is your company as profitable as it could be? If not, it might be time to abandon conventional wisdom and do things differently.



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is published by PwC's Private Company Services (PCS) practice. Here we discuss the challenges privately owned businesses face and where the opportunities lie, suggesting how you can effectively make the most of both.

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# Profitability 2.0

## A bigger vision than cost-cutting

*Is your company as profitable as it could be? If not, it might be time to abandon conventional wisdom and do things differently.*

Profitability pressures are relentless. Meanwhile, ongoing economic challenges in the post-recession landscape have prompted most companies to seek further ways to trim their operating costs: A tall order for businesses that thought they had done all they could to improve their cost structures and margins over the past several years.

At the same time, businesses are intent on growth. Reconciling the need to trim with the need to grow entails working through a much more complex, multidimensional set of considerations than in the past.

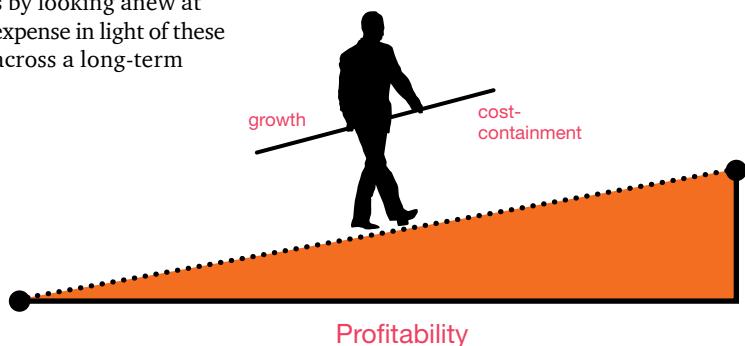
What we at PwC call “Profitability 2.0” requires a comprehensive analysis of these considerations. They include customer demand and segmentation, labor costs, talent availability, technology, transportation and energy costs, regulatory and tax regimes, and even foreign exchange rates.

How can all those business components be aligned to improve the bottom line? The way to start is by looking anew at every operational expense in light of these components and across a long-term planning horizon.

Companies that do this are likely to conclude that although cost-containment remains vital, cost-cutting by itself may in fact undermine profitability at times rather than boost it. Spending more in one area may drive down unnecessary expenditures in other areas. Likewise, reconfiguring a product portfolio or supply chain could improve profitability more than across-the-board cuts would. In the process, a company’s business model may change, potentially introducing new business risks, which a company should bear in mind when conducting its overall profitability analysis.

The ultimate goal? Higher customer value and lower costs, achieved in a way that not only delivers near-term benefits but also is sustainable.

The following suite of infographics looks at what private companies have been thinking and doing lately where profitability is concerned. What’s your company doing?



## Is cost-cutting enough?

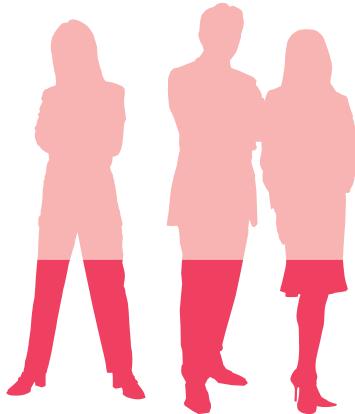
Roughly one-third of private companies flag profitability challenges and decreasing margins as major barriers to growth.

It's not surprising then that three-quarters of private companies say cost containment is among their top three priorities.

But cost-cutting will get companies only so far.

### What CEOs are saying\*

Profitability challenges are a growth barrier



**1/3** of private-company CEOs say this is a growth barrier

Cost containment is a top priority



**3/4** of private-company CEOs say this is among their top three priorities

For cost containment to be sustainable, companies will have to find innovative ways of doing more with less, streamline unnecessary complexity, and respond nimbly to rapidly changing markets, technologies, and global cost structures.

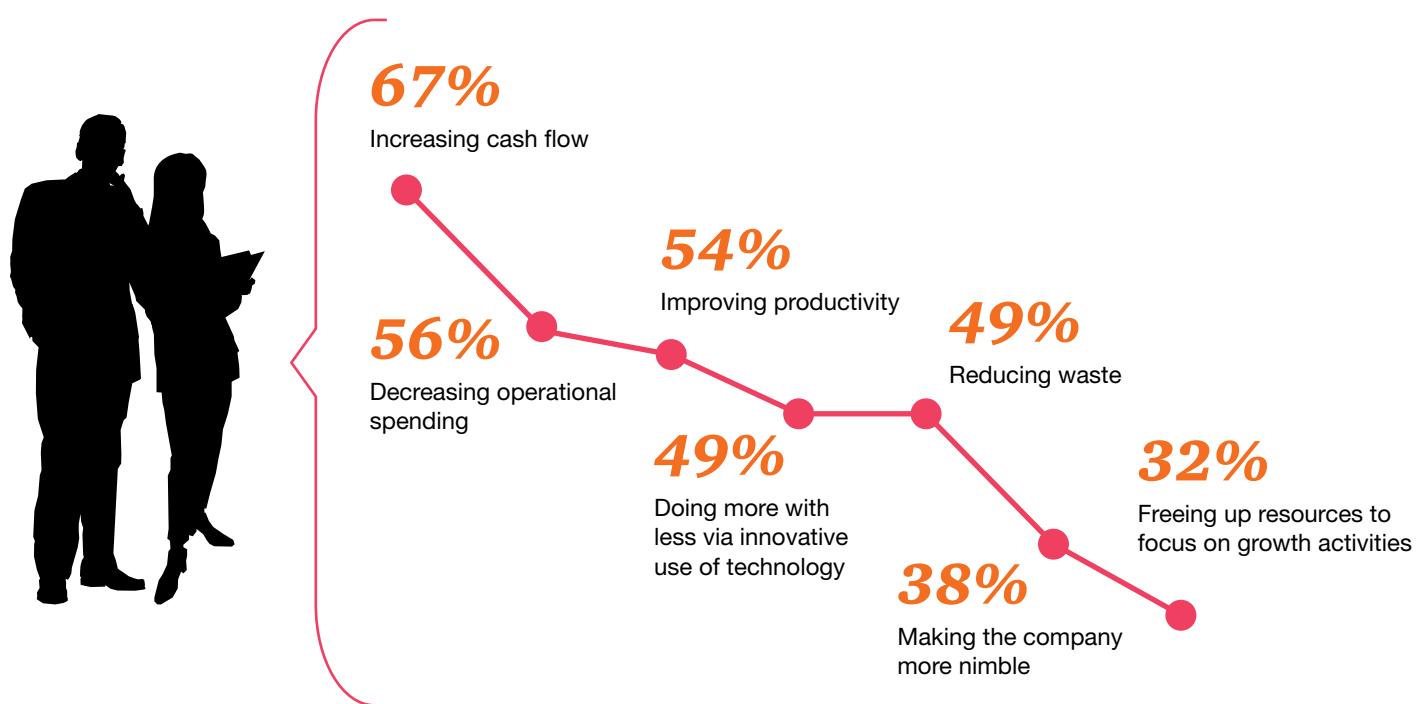
\* Trendsetter Barometer, PwC, 2013

## Next wave of cost containment

Companies are looking at more than just driving down expenses

### Top cost-containment goals

Where companies are focusing most\*



\* Trendsetter Barometer, PwC, 2013

Percentages in the graph denote private companies that ranked these cost-containment goals as "very important." Multiple responses were allowed.

## Is your company pulling the right levers?

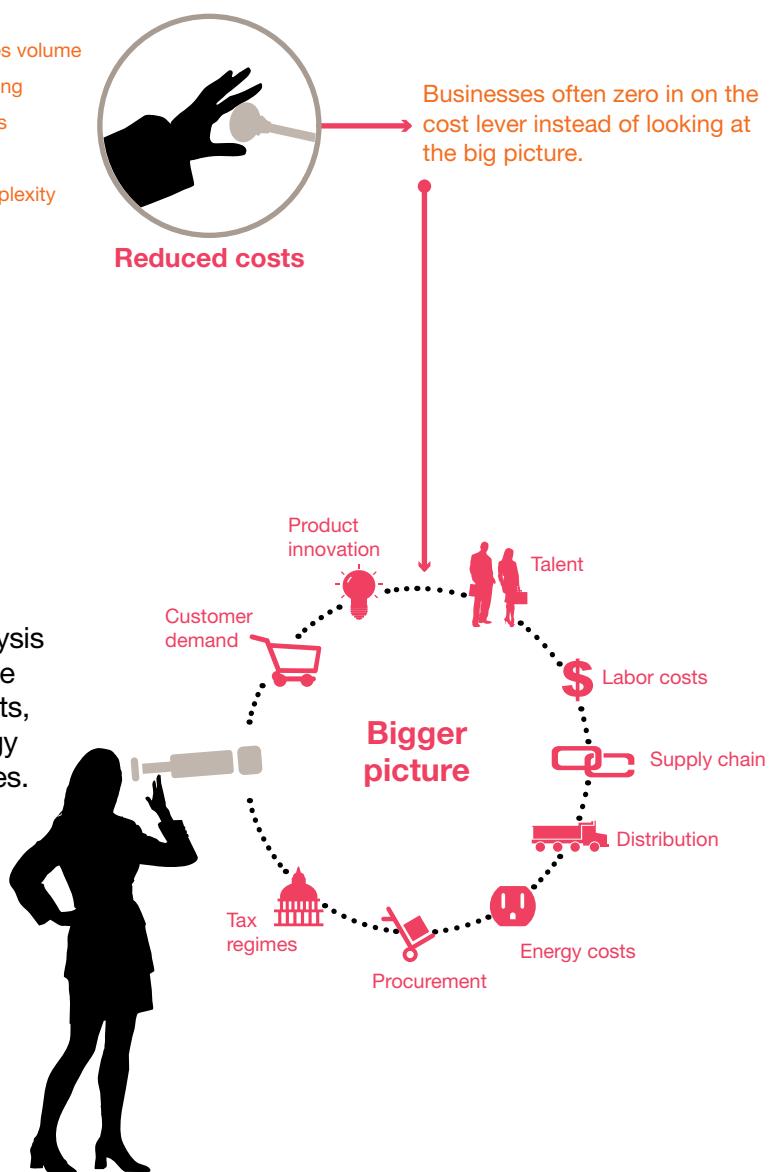
Companies can pull many different levers to improve profitability.



Rarely is pulling one lever enough for sustainable results.

Profitability 2.0 involves a comprehensive analysis of multiple, overlapping dynamics. They include customer demand, talent availability, labor costs, product/service innovations, technology, energy costs (including transportation), and tax regimes.

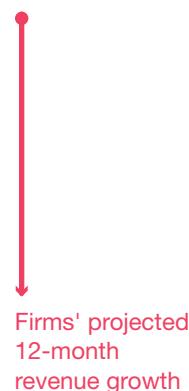
To improve its bottom line substantially, a company will need to align these dynamics better, taking a fresh look at every operational expense in light of them. The resultant conclusions might surprise businesses, causing them to rethink conventional wisdom.



## Simplifying operations

Companies that focus on reducing operational complexity expect higher revenue growth

Businesses taking a bird's-eye view of their operations find that concentrating on ways to reduce complexity makes better sense than a single-minded focus on selected cost budgets. But such businesses are in the minority. They're also growing at a faster clip than their peers.



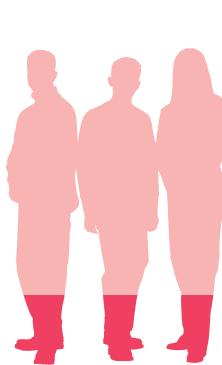
Firms prioritizing complexity reduction



Firms prioritizing cost reduction

- Revenue growth
- Priority focus

### What CEOs are prioritizing\*



**17%** are prioritizing complexity reduction



**58%** are prioritizing cost reduction

\* Trendsetter Barometer, PwC, 2013: In this survey of US private companies, 17% of respondents ranked complexity management as a highly important supply-chain improvement, whereas 58% gave that ranking to supply-chain cost reduction. For more on profitability and operations (including supply chain), please visit our [website](#).

# Rethinking your profitability strategy

## How a new approach paid off for one company

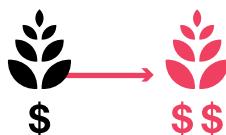
Companies often assess procurement, production, distribution, and other operational areas separately rather than linking them together in the value chain to achieve greater profitability.

And more often than not, the focus is on cost-cutting rather than on how to do things differently.

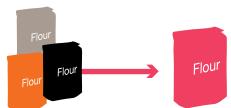
One baked-goods company seeking to increase its profitability went against the grain. Instead of zeroing in on ways it could reduce individual costs, the company chose to focus on increasing value and reducing complexity in its overall operations.



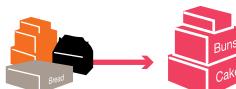
### Here's what the company did:



Switched to a more-expensive flour with a longer shelf life, reducing waste and flour reorders



Used just one type of high-end flour in the baked goods rather than a blend of three different flours, streamlining the number of suppliers



Simplified distribution by limiting the shapes and sizes of the baked-goods boxes to several styles, differentiating the products with wrappers instead



The end result?  
Greater profitability.



Customers liked the revamped products better. Sales increased as a result, while the overall cost of goods sold went down.

### **More information**

Want to learn more about profitability 2.0? Please contact someone on the PwC team, including:

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<sup>1</sup> Forbes 2012 List of America's Largest Private Companies