



“Identifying Core Functions in a Product-Oriented Businesses”

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If your business is in distress and entering a turnaround process, you will need to identify those core processes that are net-positive on the business and those that are net-negative. You will remove those that are negative.

If your business is product-oriented—meaning you derive most of your revenue from the sale and distribution of products—then you can look at the invoice register or some other report to identify these products. Most businesses have revenue streams comprised of some combination of products and services.

In any case, I want to tell you that for the average business, this is not going to be a straightforward process. Even if your company is not very large, you will discover that most products and services and business functions are interrelated and untangling everything—or just getting adequate drill-down visibility on what is generating the most profit—may be very difficult.

Suppose that one of your hottest products is widget A and you literally sell thousands of them every day. But suppose that you don't make hardly any profit on these widgets. If you go through your product line and eliminate all the products that are not high on the profitability list, thinking this will lower costs and increase profits by allowing you to sell only the best items, you may be in for a rude awakening.

It is possible that you have some big customers that are very profitable and they order a lot of widget A and a lot of widget B, and you are keeping widget B because it is very profitable. But when you eliminate widget A, this customer quits ordering widget B also.



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So the net effect is a big loss. This is why you should consider things from every angle. In actuality, you are in a very dangerous and desperate situation, and you will need to make some drastic changes to survive, so you will likely have to risk losing this type of customer because you will be making big cuts and not delicate cuts.

In any case, in order to restructure your revenue streams, you will need to address this issue.