The background of the cover features dark silhouettes of several people in business attire. Overlaid on this is a white diagram consisting of a horizontal line, a vertical line, and a diagonal line with an arrow pointing upwards and to the right. A white oval is drawn around the intersection of the horizontal and diagonal lines.

# PROFIT MAPPING

A Tool for Aligning Operations  
with Future Profit and Performance



ANIL MENAWAT AND ADAM GARFEIN

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**T**HIS BOOK IS ABOUT perspectives—identifying, understanding, and balancing them to accomplish a common objective. Profit mapping is about looking at a problem from various viewpoints and finding a solution in a systematic way. It is not about creating a pie-in-the-sky vision. It is about taking action and building a roadmap to create your own future with full cognizance of your capabilities and constraints.

Profit mapping is an expression of wisdom passed on to us by philosophers, thinkers, and doers who came before us and left enduring imprints upon us. They taught us to live in the future with an awareness of the past and present. They persuaded us to get out of our comfort zone of data mining the past and challenged us to confront our own reality gap in creating the future. We are eternally thankful.

A. M.: The roadmap to profit mapping began in the spring of 1978 in the engineering economics class taught by Prof. Wilburn Schroder of the University of Maryland. As a young engineer I was enthralled by the possibilities that were later reinforced during my days at Union Carbide. Looking at a problem from multiple perspectives had become a habit. From early childhood my grandfather encouraged me to think about the future holistically. My parents perpetuated the same ideas

with examples from Hindu scriptures and daily living. They explained how decisions in their lives would have affected all of us if they had not considered the future and the holistic view. But, it was not until much later that Prof. Raj Mutharasan (my Ph.D. dissertation advisor) made the two distinct lines of thinking—multiple perspectives and holistic analysis—one whole concept in my mind. The systems theory was the thread that tied the two together. There are far too many people who have played a role in shaping these ideas. S. P. Srinivas, my office-mate in graduate school, helped me understand the nuances of systems theory. My former students from Tulane University—in particular Jay Manouchehri, James Gomes, Mohammed Hindawi, and J. B. Phillips—and I debated each afternoon endlessly until we ran out of coffee. Dr. John Morano, my boss at Aeroquip, challenged me to apply these concepts to real-life situations. The ideas were just a beginning. Transforming the raw ideas into a successful methodology took a lot of support from my wife, Vibha, whose relentless encouragement and endless belief in my capabilities keeps me going. My brothers, Arun and Sunil, believed I was onto something remarkable and encouraged me to continue my pursuit. My good friend Ashok Varma helped me in refining the message and in understanding the challenges. I am forever grateful to all.

A. G.: My profit mapping odyssey crystallized in graduate school at The Pennsylvania State University. As a budding gerontologist I developed an appreciation for the challenges of researching complex dynamic systems (i.e., people) and the holistic insight that comes from investigating multiple perspectives. I would like to single out several faculty members in particular—Michael A. Smyer, John R. Nesselrode, Steven H. Zarit, K. Warner Schaie, and Sherry L. Willis—who instilled the importance of theory (strategy) and methodology (systematic thinking and doing). They helped me develop an appreciation for individual differences (resulting from unique capabilities and constraints) in performance. Later on, I extended these concepts into the business world as a strategy and e-business consultant and educator. Listening to clients, I recognized the commonality in their concerns, although they expressed them differently depending on their roles in the organization. Numerous individuals, too many to name here, greatly influenced my way of thinking about rapidly changing, complex, and interconnected business systems. I would like to thank my wife, Gina Jay, for being a partner in this journey and for

her unwavering support and encouragement since the day we first met in graduate school. I also want to thank my mother, Jamee Henson-Hammer, for encouraging me to pursue my dreams.

The process of writing this book has been a remarkable journey for both of us. While our ultimate destination was clear at the outset, the challenge of communicating our perspective and associated bias was greatly smoothed by the invaluable support and feedback received from several individuals. We would like to thank Gina Jay, our independent editor. Her gentle diplomacy and eye for detail constantly challenged us to more clearly articulate our thoughts and ideas, and vastly improved our message. We are greatly indebted to Jeanne Glasser, our senior editor at McGraw-Hill Professional. She believed in us from the outset and provided invaluable advice along the way, for which we are very appreciative. We would also like to thank Janice Race and Alice Manning for their linguistic art.

### **Profit Mapping—Get the Latest News and Information**

See [www.profitmapping.com](http://www.profitmapping.com) for the latest news and information about the ProFIT-MAP methodology. Be sure to sign up to get on the mailing list.—A. M. and A. G.

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# Introduction



Chapter



# Driving Operational Excellence through Profit Mapping

*Not to see the forest for the trees is a serious failing. But it is an equally serious failing not to see the trees for the forest. One can only plant and cut down individual trees. Yet the forest is the “ecology,” the environment without which individual trees would never grow.*

—Peter Drucker, *Post-Capitalist Society*

**E**FFECTIVE MANAGERS instinctively know what to do. They labor over facts to understand the current situation, and they try to create mental pictures of the future and what it should look like. They are like artists who focus on the whole painting, but who understand that it is the details that convey their story. Nowadays managers have the benefit of enormous amounts of data collected throughout the organization, residing in massive enterprise databases. They can assess the current situation rapidly. Until now, however, they have lacked methods and management tools that can peer into their desired future and then look back to determine how to get there from where they are today.

This book is about operational decision making in both manufacturing and business services environments. It is not about building a “pie in the sky” future or yet another strategic approach, improvement framework, measurement system, or method of developing good managers. A good strategy coupled with the right people with appropriate knowledge

and skills is not sufficient for success. Success comes only with operational excellence that is properly aligned with strategy. The challenge is knowing what actions to take and when and where they should be taken.

This book is about equipping managers with what they most want and need if they are to achieve this—relevant, forward-looking information to holistically compare their operational options on an equal basis. A vision—no matter how timely, insightful, or bold—is hollow if its viability and a path to realizing it cannot be assessed. Even an experienced tour guide with an incorrect or incomplete roadmap can get lost. Navigating without the means to determine the impact that a given set of actions will have on the bottom line is risky.

### **PROFIT MAPPING— A GPS NAVIGATION SYSTEM FOR OPERATIONS**

ProFIT-MAP™ is a forward-looking management decision methodology that allows you to navigate the forest and trees of business strategy and execution proactively. It is a systematic approach to decision making with six well-defined, intuitive steps. It helps you compare your options for process effectiveness, resource requirements, and financials. ProFIT-MAP simultaneously focuses on multiple parameters of business operations, analyzes their dynamic interactions, and evaluates their impact on resources and costs. ProFIT-MAP does this by reconstructing the environment of the future for each of your decision options, based on the requirements of the future business needs—not on your performance in the past.

Profit mapping virtually eliminates decisions that have adverse effects on your business. It is a dynamic, multidisciplinary, and objective approach that is driven by facts and refined through the validation of real-world implementation. It helps you correct your situation immediately and guides you to where you want to go, like a GPS navigation system. Whether you need to make “real-time” decisions or create an operational roadmap, ProFIT-MAP guides you with confidence.

Most companies focus on tracking their past performance and then trend to extrapolate their future operational requirements and capabilities. Unfortunately, your past performance, no matter how successful, was based on different work requirements, demands, customer needs, and market conditions. Things that may have helped you in the past

may not produce the desired result in the future because the environment has changed. Current improvement approaches provide only general guidelines; they have no methodology for application specifically to your business. They are unable to provide the necessary insight into the specific actions you need to take for your company. They cannot help you test your ideas in advance to guarantee success.

There are many helpful books written by academics and former CEOs discussing strategy development, people processes, and the importance of having the right person for the right job. The concepts in this book start with the premise that your organization has already invested in strategy, processes, and people. Still, the competition is putting intense pressure on your business and margins. In *The World Is Flat*, Thomas Friedman<sup>1</sup> issues a wake-up call that in a connected world in which political and trade barriers are falling, countries with lower costs of doing business, particularly when it comes to labor, are going to compete more and more fiercely. There is no time to explore and experiment; you have got to know that your strategy is going to succeed before you implement it.

Our focus is on equipping managers with a management tool to enable them to achieve their operational objectives, ensuring that goals are both attainable and synchronized with strategy. Doing so enables you to control your operational destiny and to proactively navigate your response to the global sourcing pressures that surround you.

Corporations spend countless hours developing strategic plans, reorganizing processes, and putting key people in critical places. Equal or greater effort goes into the activities involved in executing the strategy, yet very few companies succeed in fully achieving their goals. Management's dilemma is not about what to do (strategy) or who needs to do it (people); rather, it's about how to do whatever it is they are doing better (execution).

## **Driving the Organization with ProFIT-MAP**

The ProFIT-MAP approach marks a radical, yet intuitive, enhancement to operational decision making that is equally suitable for use from the "top floor to the shop floor." The focus is on the activities performed by people and machines to improve business execution. ProFIT-MAP constructs an activities composition of the process and ties this information to the resource requirements and costs of producing the product or

service. As business conditions change (such as changes in demand, product or service delivery capabilities, vendor performance, business strategy, and so on) ProFIT-MAP reassesses the resource requirements and cost/profitability implications of the new activities composition. If your goal is not attainable ProFIT-MAP identifies the gap that cannot be bridged within your current capabilities, constraints, and costs. It can then help redefine your approach based on what is achievable.

Profit mapping does not change the way you run your business. It does not change your ongoing strategy, process improvement initiatives, or measurement frameworks. Rather, it enhances them. For example, if you are not realizing the full potential of your lean, Six Sigma, or continuous improvement initiatives, the problem is not caused by the guidelines provided by these approaches. The problem is that you do not have tools that can assess what it will take to be successful, given the situation at hand. ProFIT-MAP provides insight into which actions will be effective; it helps you avoid decisions that will take the company in the wrong direction. No other methodology can do this!

The ability to redesign activities within operational constraints to achieve the objectives of your strategy is a critical management requirement and sets the stage for winning before taking action. At first glance, this may sound too good to be true; however, the systematic framework, methodology, and case studies presented in this book show that it is real.

We sympathize with managers who struggle with day-to-day strategy execution, knowing that their education and training probably placed greater emphasis on crafting strategy than on making it happen. As Lawrence Hrebiniak<sup>2</sup> aptly observes, “It is obvious that the execution of strategy is not nearly as clear and understood as the formulation of strategy. Much more is known about planning than doing, about strategy making than making strategy work.”

Knowing precisely how and what to change to achieve desired results is an age-old management challenge. Larry Bossidy and Ram Charan<sup>3</sup> write: “We talk to many leaders who fall victim to the gap between promises they’ve made and results their organizations delivered. They frequently tell us they have a problem with accountability—people aren’t doing the things they’re supposed to do to implement a plan. They desperately want to make changes of some kind, but what do they need to change? They don’t know.”

Managers are quick to declare how busy the whole organization is at implementing improvement programs and initiatives. They go into great detail about their plans and what they are doing. Yet, when we ask them to explain why they are taking specific actions or how they know whether their efforts will succeed, we typically get blank stares. After some thought, they tell us, “This is the way things are done around here,” or “This is the new and improved approach,” or (of course our favorite) “Success comes [hopefully] from executing the plan.” After reflecting a bit more, they often step back and admit, “There is probably a better way, but we have no way of knowing what it is.” Their mantra is that some action is better than none, hence they continue. Doing nothing would be the sure death of a fine career, whereas failure is a mere setback.

Managers therefore forge ahead, typically relying on correlative reasoning, extrapolation of aggregated data about past performances to the future, and rules of thumb about what types of changes are likely to be successful. Companies are realizing, however, that these approaches are not very effective in complex settings where decisions are increasingly “financial-critical” for survival.

Managers also bemoan macro-level concerns that strike at the heart of profitability and competitiveness. Market share is stagnant or decreasing, and never seems to rebound. Health-care costs are astronomical and rising. Labor agreements are chipping away at profitability. Raw materials costs are increasing as a result of global demand and limited supply. Many such examples exist.

Our message, at the risk of being pretentious, in simple terms is—*get over it and let's work with the hand dealt to us*. Managers may not be able to do anything about high fixed costs in the near term, but they can do a lot more operationally to increase effectiveness and quality while striving to reduce cost. In order to overcome changes in demand and financial constraints, organizations must learn to become cost-competitive; price competitiveness is not sufficient. Industry leaders win by focusing on operational execution, cost management, and customers. The devil is in the details, and they understand that success happens only when the plan is grounded in reality, as opposed to invalidated expectations.

### **THE OPERATIONAL REALITY GAP**

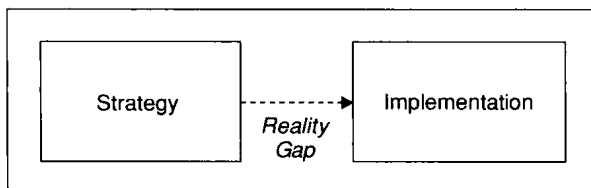
Companies are adept at creating strategies and action plans to achieve desired results. Yet, in most organizations, there is some form of

disconnection between strategy making and strategy execution. Figure 1-1 illustrates that this disconnection results in a “reality gap” between the expectations of the strategy and the ability of the organization to implement the strategy. The presence of this chasm is in part the result of the lack of convenient and easy-to-use management methods and tools that can foresee the results before implementation, creating a lack of synchronization between those that make the strategy and those that execute it.

The reality gap results from the inaccurate information and analysis that goes into the construction of strategic and operational plans. A disconnection between management’s expectations and what can actually be accomplished can occur when operational issues are viewed as “something that can be worried about later” during the strategy-making process. In other words, developing the strategy and then handing it down for execution leads to a reality gap. Other contributors to this gap include incorrect information about markets, customer demands, organizational capabilities, and the framework used to determine expected costs.

A strategic plan is a high-level device to gain excellence—customer, product, and operational. It focuses on taking an organization from its current situation to a new and hopefully better future. Every manager wants the best for his or her company, but when the desire is not in line with the organization’s capabilities and constraints, troubles begin. The disconnection creates a false sense of hope and leads to disappointment when things don’t work out according to plan. Whether their focus is on gaining market share, improving profitability, improving customer satisfaction, or any other such ideal, strategic plans reflect the vision and the desires of senior management. Well-formulated strategy, carefully communicated throughout the ranks, can inspire the whole organization and lead it into a new competitive mode and greater performance.

**Figure 1-1.** The Operational Reality Gap





Unfortunately, having a strategic plan and having the right people do not guarantee success. Success comes only from execution of operational plans that achieve the objectives laid out in the strategy. Strategic plans generally do not include roadmaps to achieve their objectives. The responsibility for developing those roadmaps is delegated to middle managers, who create operational and project plans to execute on the strategy. Therein lie two weaknesses leading to reality gaps that frequently spiral into failure: a lack of synchronization between strategic and operational plans, and improper execution of the operational plans.

Operational plans specify how to structure individual process activities and steps within the context of organizational capabilities and resource constraints. They define specific actions that the organization must undertake to advance the strategic goals. Figure 1-2 shows sample strategies and how they are translated into specific projects and programs for execution. Although the specifics may vary, the cycle is fairly consistent in all organizations.

The cycle of meeting corporate objectives is a top-down process. Senior managers define objectives, and middle managers have to figure out how to meet them. Although anecdotal arguments and correlative

**Figure 1-2. Translating Strategy into Action**

