

THE PROFIT ZONE

How Strategic Business
Design Will Lead You To
Tomorrow's Profits

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MAIN IDEA

Conventional business thinking has been that market share is king -- in other words, whichever company has the largest share of the market will ultimately generate the greatest profits.

The Profit Zone philosophy, however, suggests that not all market share is created equal. Specifically, in any market, there will be one strategic area where the greatest amount of added value for the customer will be created. Whichever company can dominate that key strategic area -- The Profit Zone -- will generate the greatest profits and the greatest market valuation -- irrespective of what their share is of the market as a whole.

Businesses get into the Profit Zone through the use of specific profit models -- explicit strategies for generating revenue. There are a large number of profit models which can be used.

Before a profit model can be brought to bear, however, the business must first be designed effectively and efficiently across four business dimensions:

1. Customer selection -- who the business targets as customers (and who is not targeted).
2. Value capture -- specifically which profit model will be applied.
3. Strategic control points -- which differentiate a products.
4. Scope -- the range of business activities which will be performed by the business rather than outsourced.

And finally, developing a business design to position the business in the Profit Zone is not a one-time activity -- it must be performed again and again if long-term success is to be achieved. Why? Simply because the Profit Zone in any market is in a constant state of flux and transition -- it moves as customer preferences move and change.

Section 1 -- The Profit Zone Concept in Business Design Page 2

Conventional business thinking was:

1. Do anything that is required to win market share.
2. Profitability will follow as a natural consequence.

The Profit Zone concept suggests a better approach is to ask:

1. What do customers value the most?
2. How can we make a profit providing that to customers?
3. How can we increase our market share in that area?

In short, the Profit Zone suggests that profitability rather than market share should be the focus, and everything a company does should focus on positioning the company advantageously in that part of its industry where the greatest profits are earned.

Section 2 -- Applying Profit Zone Concepts and Principles To Strategic Business Design Page 5

To move your company into the Profit Zone, find out and know the answers to these key questions:

1. Who are the current customers?
2. How are their priorities changing?
3. Who should become customers in the future?
4. How can the business add value for its customers?
5. How can the business become customer's first preference?
6. What profit model will the business employ?
7. What is the current business design?
8. Who are the real competitors of the business?
9. What business design does the best competitor use?
10. What should be the next generation design of the business?
11. What is the current strategic control point used?
12. What is the company worth at present?

Be able to answer those questions in detail at all times and you'll be well positioned to beat your competitors to the Profit Zone.

Section 3 -- Examples of Applications of the Profit Zone Philosophy Page 7

The 11 companies profiled here have created more than \$700 billion of additional market value for their stockholders over the past 20-years by reinventing their core businesses to stay in the Profit Zone as consumer preferences have changed.

