

# Ventor LLC Case Study

## Favor Your Core for Financial Turnaround

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**Let's imagine** that you have been invited to sit on the board of a very special supermarket chain. This company is unusual in that it carries only three products—milk, bread and caviar. At standard pricing, the company figures it should clear three to five percent net. But the company has not attained that profitability, and in fact is financially distressed. You request only one analysis, armed with which you quickly determine that the company has fallen in love with the wrong customers.

You find that some customers buy bread and milk, some even buy caviar. But one customer buys milk in bulk, making life difficult for more profitable customers. To add insult, the customer pays poorly and takes unearned discounts.

You prescribe barring the doors to that customer, and the company instantly flourishes.

Easy, right? Too easy to be true?

The answer is that most middle market corporate turn-arounds are effected by a close understanding of the company's core products and core customers, and this analysis can surprise even veteran board members.

Core products are products that earn a satisfactory margin. Ditto for core customers. But too frequently, management's strategy, execution or personal relationships with some customers get in the way of optimal profitability. Sometimes it means a missed quarter of profitability. Sometimes it means the bank comes calling, looking for a restructuring.

Using database techniques, we divide the sales of our clients into three categories: The first is the Sustainable business: Core products purchased by core customers. The second is the Improvable business: Core customers who don't buy enough core products that are clearly the norm in the sustainable business. And the third is the Vampire Business. These customers are there to suck your blood if you will let them.

We've done this work in all sorts of industries. Some cases:

### **1. Finding the Sustainable business.**

A regional office supplies retailer found its market under sever pressure form big box stores. We found that virtually the entire company was under attack, with a large Improvable segment that kept turning down. The answer was to close stores that showed no signs of turnaround. Only one store's sales didn't turn down—and it turned out the “store” was an internet site. Today all the retail stores are closed and the company is a successful and pioneering internet retailer.

### **2. Fixing the Improvable Business.**

Another case involved an industrial distributor of engine parts with a nationwide sales area. The company did not exhibit financial distress, but it wasn't achieving its projections. A database analysis showed that the Sustainable cohort was relatively small—twenty product categories sold to only 16 sites represented 80% of contribution. There were no Vampire customers, so the Improvable cohort was therefore huge. We challenged management to find only five existing customers that should show buying patterns similar to the core customers—and they found ten such customers. The next year, the company added additional sales reps and saw contribution from operations increase 20%.

### **3. Killing the Vampire Business.**

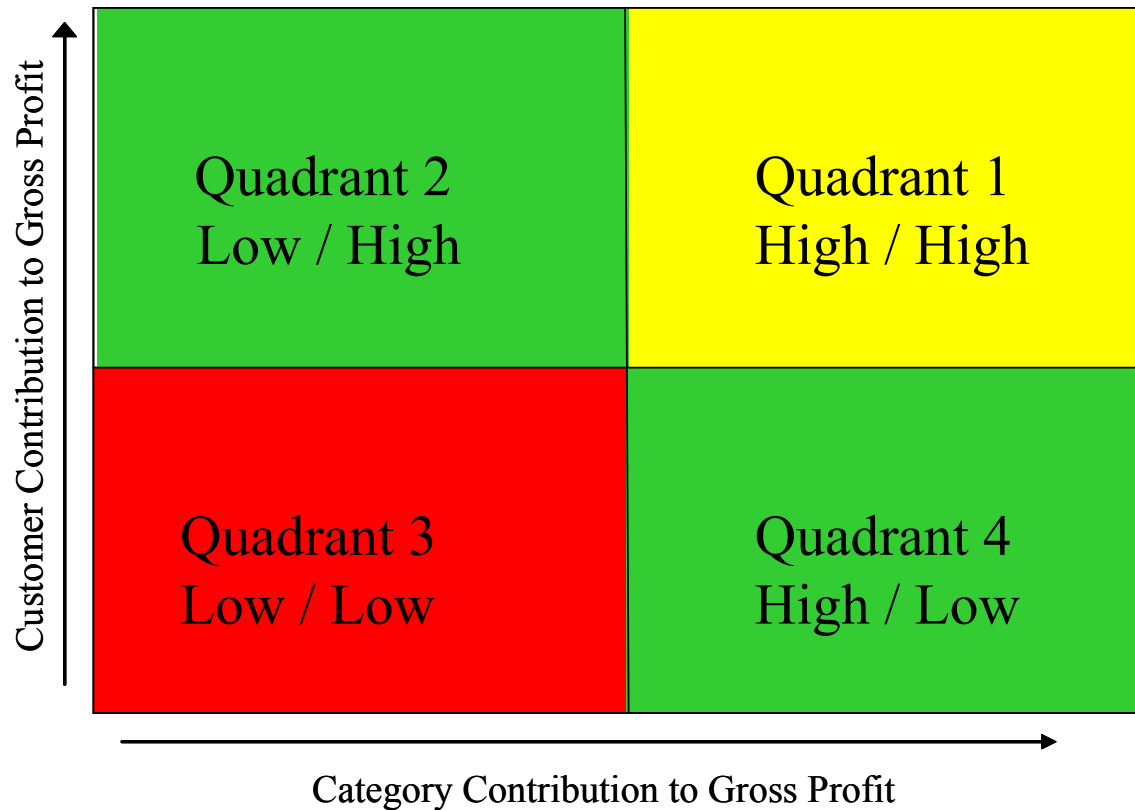
For a manufacturer/distributor of mens' dress shoes, fashion shoes sold to mom-and-pops and chain stores were the Improvable business. Solid products, good customers with only occasional credit problems.

The Sustainable winner was a military dress shoe sold via the US base exchange system. It was a profitable shoe, but ugly. And that was the problem. The company's management had convinced the board that the future lay in expanding a fashion business, with emphasis on high-end sales outlets and licensing of well-known brands to enhance demand of imported Italian loafers. The lack of financial results hadn't deterred management from pursuing their personal prestige, until the losses tripped a bank covenant. Then it was time to re-evaluate the strategy.

This was an easy Vampire product to discriminate against. The product broke even and the customers took unearned discounts!

The core product / core customer diagnostic helps uncover the processes, organization and even personalities that can dampen portfolio companies' performance. Developing this metric is important to ensure that your portfolio company's operational strategy is finely tuned to maximize financial results. Put another way, if the operational strategy is not finely tuned, portfolio performance won't be either.

## Core Product/Core Customer Matrix



### How Core Products / Core Customers Works

We correlate the profitability of customers and products and create a visual matrix which contains four distinct quadrants. The customers and products identified in Quadrant one make up the Sustainable business, typically where the bulk of profits are realized. Customers and products of Quadrants 2 and 4 are the Improvable businesses, where buying behavior of Quadrant 1 is encouraged. Quadrant 3, the Vampire business, is one where pricing needs to be adjusted or customers eliminated.