



Title: Profits Without Products

Author: Mack Hanan

Summary:

According to Mack Hanan if your company makes products you are in serious trouble unless you can turn your product-based business into a service-based business. Mack wrote this book back in 1992, and if you review some of today's successful organizations you will realize that Mack was definitely on to a big idea. The idea is to remove your organization from the price war arena into the value added service arena where price is not the only deciding factor. Your product is merely a component of the service you provide your customers. Your services are customer-centered, based on their needs. There are three models in Hanan's book for your customer-centered approach: you can integrate your customer's operations for them, you can reengineer your customer's processes, or you can manage your customer's facilities or operations.

Top take away points –

- A high-margin business is a high-value-adding business. Product producers are finding that there is no way they can make up the costs of promotion intended to increase volume because the margins just aren't there to support the effort. When your product(s) does not have an advantage through differentiation the margin potential and profits are very difficult, if not impossible, to maintain. Doing business as a service opens the doors to many flexible money-making practices that are beyond the scope of product based companies. As a service provider you will still make your product only you will sell the product as part of your service. Only by making your customer's business competitive can you become a service business.
- Applications, not products, are today's principal source for margins because they are the principle source of value. Your business purpose must be to help your customers become advantaged against their competitors. You will have to know your customers critical success factors, how to reduce their costs and increase their revenues, and how to set up and manage a continuous stream of profit-improvement projects to make each customer more advantaged than their competition. Help each customer make his numbers and grow their managers.
- Your clients must feel comfortable, believe that working with you is a learning experience, and they must obtain measurable and quantifiable results. Get your potential clients to ask you how. By asking how they are, in effect, inviting you to help them. You must be able to apply what you know to the clients operations. The value you provide must always be greater than the client's investment.



- Your service must grow clients in specific industries, along specific lines of business, and grow specific managers within these lines of business. There are three things for you to measure: the client's improvement in percentage of profits being made on sales, improved percentage of investment turnover, and improved percentage of assets retrieved from operations as a result of reduced or eliminated costs. You must grow your clients and derive your own growth from their growth. Your client's prospective profits from your help must exceed their current direct and opportunity costs, and their investment with you to obtain those profits.
- The three basic service models: system integration, process reengineering, and facility/category management. Systems integration results when you integrate their component parts more cost-effectively. Process reengineering happens when you restructure, resize, redesign, and reengineer their processes to run faster/ more productively/ less expensively. Through facility/category management you manage or co-manage the clients operation to reduce its costs or increase its revenue. Whenever a significant cost exists that can be shown to be unnecessary there is a universal need to fix it. Whenever a significant amount of money is being left on the table as a result of opportunity costs there is a universal demand to go get it. In order to reengineer you will need to know the clients current process flows, where major costs cluster and how much each cluster contributes to negative cash flows, and where major revenue sources cluster and how much each cluster contributes to positive cash flow.

Review:

What's good-

The author may very well open your mind to the concept of moving from a low margin product driven organizational strategy to a large margin value-added customer service driven organizational strategy. Doing so takes you out of the competing on price market to the competing on added-value and differentiation market. It is much more profitable and profit sustaining to compete on differentiation and added value than on product profit margins. Hopefully the author will inspire you to begin to identify how you can become a service versus a product provider.

What's might not be so good-

If you don't have a demonstrated and proven track record in successfully developing and implementing a strategic plan for your own organization you aren't capable or ready to make this dramatic change in your organization or to sell your service concept to potential clients. You may lack some of the internal skill sets required to successfully implement your service idea. Get help if you need to, and turn this idea into opportunity and increased profits for your current product driven organization.

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