

# THE PROFIT POOL PERSPECTIVE

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## Key Takeaways

- › The profit pool analysis sets out all the profits made in the business from the component supply to distribution
- › Understanding your most profitable segments in the future and how to grow the most high-yield sections of your customers and products are important to diagnosing your strategy
- › For both internal and external profit pools, a dynamic forward-looking perspective is important
- › Clearly analyzing where future profits will be and employing focused and creative approaches to access will allow you to maximize profits

## Questions to Consider

- › Where in the supply chain can you earn the most?
- › What are the most profitable aspects of your business? How can you expand them?

## INTRODUCTION:

It is no longer enough to analyse only the traditional view of profits earned by a business in a modern industry. A 360-degree view of profit- and profit opportunities along the value chain- is essential.

All sources of current and potential profit - considering both external and internal profit pools - need to be analysed, understood, and acted upon. Many car companies, appliance manufacturers and electronic goods retailers, for example, now make far more money in services, warranties, and finance than on new product sales. The same is true for elevator companies.

To be comprehensive in understanding and effective in action, strategies must address

- › **The external profit pool:** Documenting and analyzing the potential to participate in (or withdraw from) various stages of the industry's profit pool
- › **The internal profit pool:** Documenting and analyzing the true sources of profitability within the current (and future) business model.

## Guidance

A new addition to business strategy is the perspective of the profit pool. Profit pools look at an industry from a total profit perspective, from manufacturing of materials to after-service activities. This perspective reveals that certain aspects are most profitable. It is important to identify these most profitable aspects and focus on them. For example, car industries realized that leasing and financing was more profitable than the actual sale of cars. The profit pool can help your business define how it serves the industry by learning what parts of the business are most profitable. Play to capture the greatest share in the profit pool. It's important to have a clear understanding of the present in order to contextualize future goals. Understanding the profit pool, which customers are profitable, and how you can grow your most profitable resources is key in designing a strategy.