Where Hidden Margin Lives in Your Operations

Find profit trapped in pricing, product mix, and operational complexity.

Mark "In Place" only when current data supports the answer. Treat an unverified assumption as a gap to resolve.

1 Pricing: Are we getting full value for what we deliver?

OBJECTIVE

Confirm prices reflect the value you deliver, and that discounts and cost increases are managed with discipline.

RESEARCH INSIGHT

McKinsey research finds a 1% price improvement can lift operating profit by about 8.7%, assuming no loss of volume.

CHECKLIST	IN PLACE	GAP
1. **Realization:** We know list price vs. price collected, by product line.	☐	☐
2. **Discounts:** Discounts and special terms follow clear approval rules.	☐	☐
3. **Cost increases:** We have a set process to pass through rising costs.	☐	☐
4. **Value:** Our most differentiated products are priced on customer value.	☐	☐
5. **Extras:** We charge for expedites, small orders, and custom work.	☐	☐

2 Product Mix: Which customers and products create profit?

OBJECTIVE

See which customers and products create most of your profit, and act on the ones that consume more than they return.

RESEARCH INSIGHT

Harvard research by Robert Kaplan finds 15% to 20% of customers typically generate 100% or more of a company's profits.

CHECKLIST	IN PLACE	GAP
1. **Customer profit:** We know true profit by customer after cost to serve.	☐	☐
2. **Product profit:** We know margin by product and part number.	☐	☐
3. **80/20 view:** We know which 20% of customers and products drive profit.	☐	☐
4. **The tail:** We have repriced or exited money-losing accounts and products.	☐	☐
5. **Focus:** Sales and service time goes first to our best-margin customers.	☐	☐

Operational Complexity

3 What are we paying to manage that customers do not value?

OBJECTIVE

Remove the complexity that adds cost your customers never see and never pay for.

RESEARCH INSIGHT

Bain research finds 70% of executives say complexity drives up costs and hinders growth.

CHECKLIST	IN PLACE	GAP
1. **Part numbers:** We retire part numbers that add cost without profit.	☐	☐
2. **Special orders:** Custom and rush orders are priced to cover true cost.	☐	☐
3. **Footprint:** Our facilities, warehouses, and handoffs match today's volume.	☐	☐
4. **Process:** We have mapped non-value-added steps from quote to delivery.	☐	☐
5. **Sourcing:** We review costs and alternatives for our top materials yearly.	☐	☐

BIGGEST MARGIN LEAK

NEXT ACTION, OWNER, AND DATE

WHERE TO FIND THE DATA

AREA	DATA TO PULL FIRST
Pricing	Invoice price and discount history for your top 20 products.
Product Mix	Margin by customer and part number, including freight and service.
Operational Complexity	Part numbers with no sales in 12 months, expedites, and site overhead.

Find the first $1M of hidden margin.

See how Hans Bachmeier and Diana Yonke help leaders turn hidden margin into profitable growth.

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Sources: McKinsey & Company (2014); Robert S. Kaplan, Harvard Business School (2005); Bain & Company (2008).