

By Dave Turbide, CFPIM, CMfgE, CIRM

# To Sell or Not To Sell

*Putting profitability above sales dollars*

I had the opportunity to sit in on a company meeting recently, where the previous year's results were reviewed with all of the company's employees, and the forecast and plans for the coming year were laid out for all to see.

It was not a particularly pretty picture. This company faced some significant challenges and was projecting a million-dollar loss for 2008. The general manager, who had been in this position only nine weeks

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at the time, vowed that the company would not lose money this year and talked about how he planned to turn things around.

As I listened to the general manager speak, the thing that pleased me the most was the first thing he had to say. The sales department had just brought in a new order for a machine of a particular configuration. The company's engineering and production managers analyzed the order and determined that the company would, in fact, lose money on the sale and also would incur some liability for supporting the product once it was installed. So the general manager announced that the business was going to refuse the order.

That may sound simple and logical. But it is, in truth, a very difficult thing to do.

I have seen many, many examples where companies continued to sell unprofitable products for countless

different reasons. Perhaps executives felt turning away business was simply unthinkable. Maybe it was because leaders could not envision disappointing an important customer. Or it could be that professionals thought sales dollars were a more important measure than profit in the incentive system. Sometimes it was just that no one really knew when the sale was accepted that it would be unprofitable.

There's no doubt that the salespeople (and the vice president of sales) would not be happy with the general manager's decision. It's equally likely the company owners might not be too pleased, at least until the decision is explained and justified. The customer won't be happy either, unless he can be convinced that there is a better solution to the problem he was buying this machine to address.

The bottom line is, not all sales are good for the manufacturer, and managers must be able to tell the difference and have the guts to make good decisions in the face of strong resistance. Good decisions, in this case, are those that consider the good of the entire enterprise. Any sale might be good for the sales department, but not every sale is good for the company.

### Knowing a product's value

One critical aspect of this problem is that many executives don't really know if a particular order or product is profitable because they don't know its true cost. That's what manufacturing systems are for, but many are not fully or effectively implemented. And even in those that are, the product costs

are simply that—product costs—and many do not include proper overhead allocation, installation, support, and warranty costs.

Another factor is the effect of handling a particular order on the overall operation of the plant. If the promise date is within normal lead time, accepting the order and building the product may interfere with other production and cause expediting, overtime, and late deliveries to other customers—all of which have an expense.

### Tough choices

Nevertheless, even when true cost information is available, it is still a difficult decision to choose to turn away a sale. It would be of great benefit to the health of the company if the sales function was tied to profit rather than revenue. That way, salespeople would bring in only business that made sense for the company, products that were as good for the manufacturer as they are for the customer—truly a win-win situation.

I believe that this is not done for two strong reasons:

- Writing sales incentive plans that are tied to profit is not easy (not in the least because this information is not always available).
- Such plans go against tradition.

Now is the time to determine if your products and services truly are profitable. If your sales incentives are tied to the profitability of specific products, you must consider the organization as a whole. Do you have the strength (and the insight) to refuse an unprofitable order? Think about it. ■

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