



# Profit Isle

A Leading Enterprise Profit Management (EPM) Platform



**NCMA**  
NATIONAL CONTRACT MANAGEMENT ASSOCIATION  
BOSTON

## Reimagining Supply Chain

# Agenda

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Minimizing Costs is not Maximizing Outcomes (profit)

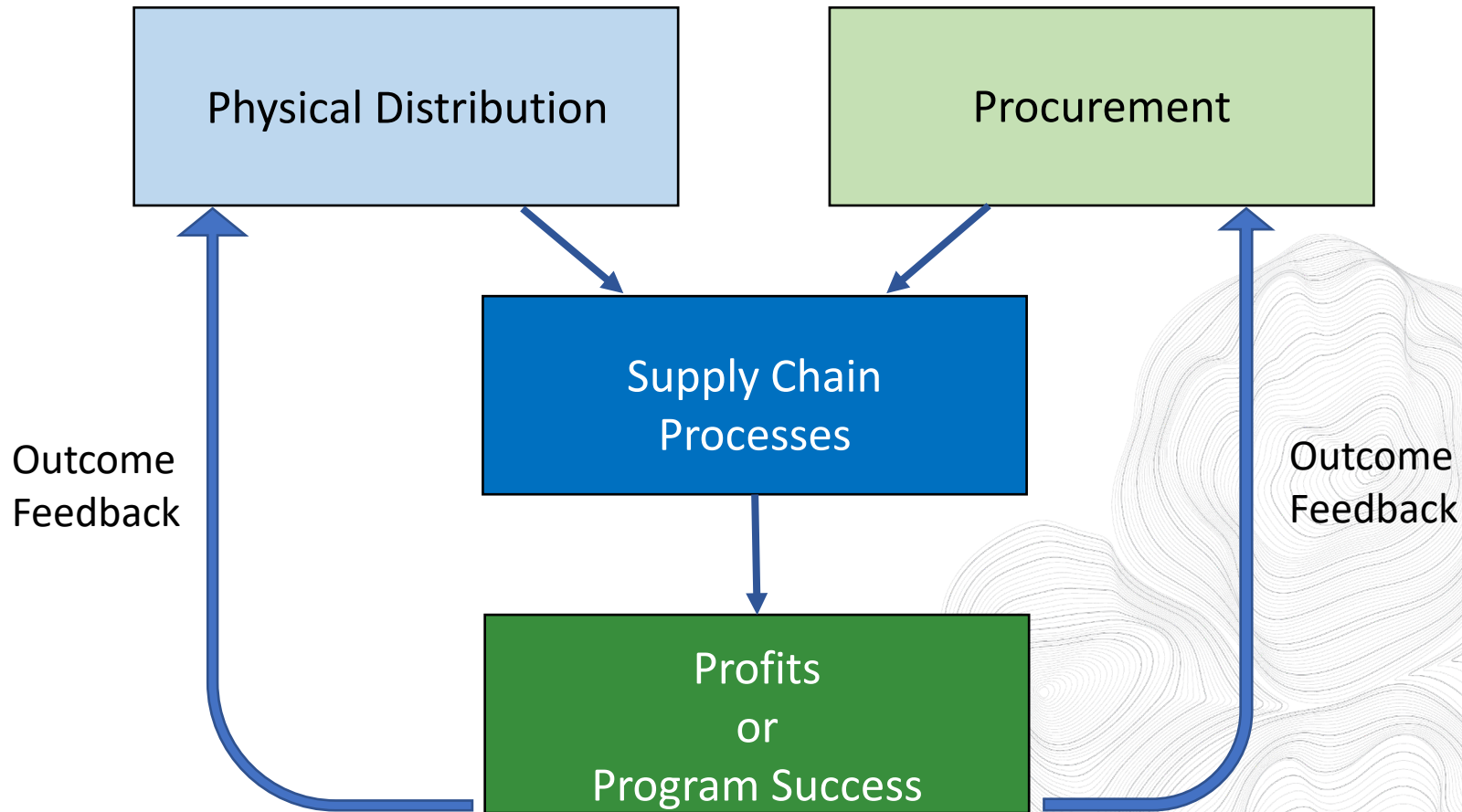
Supply Chains are NOT Normal

New metrics are needed

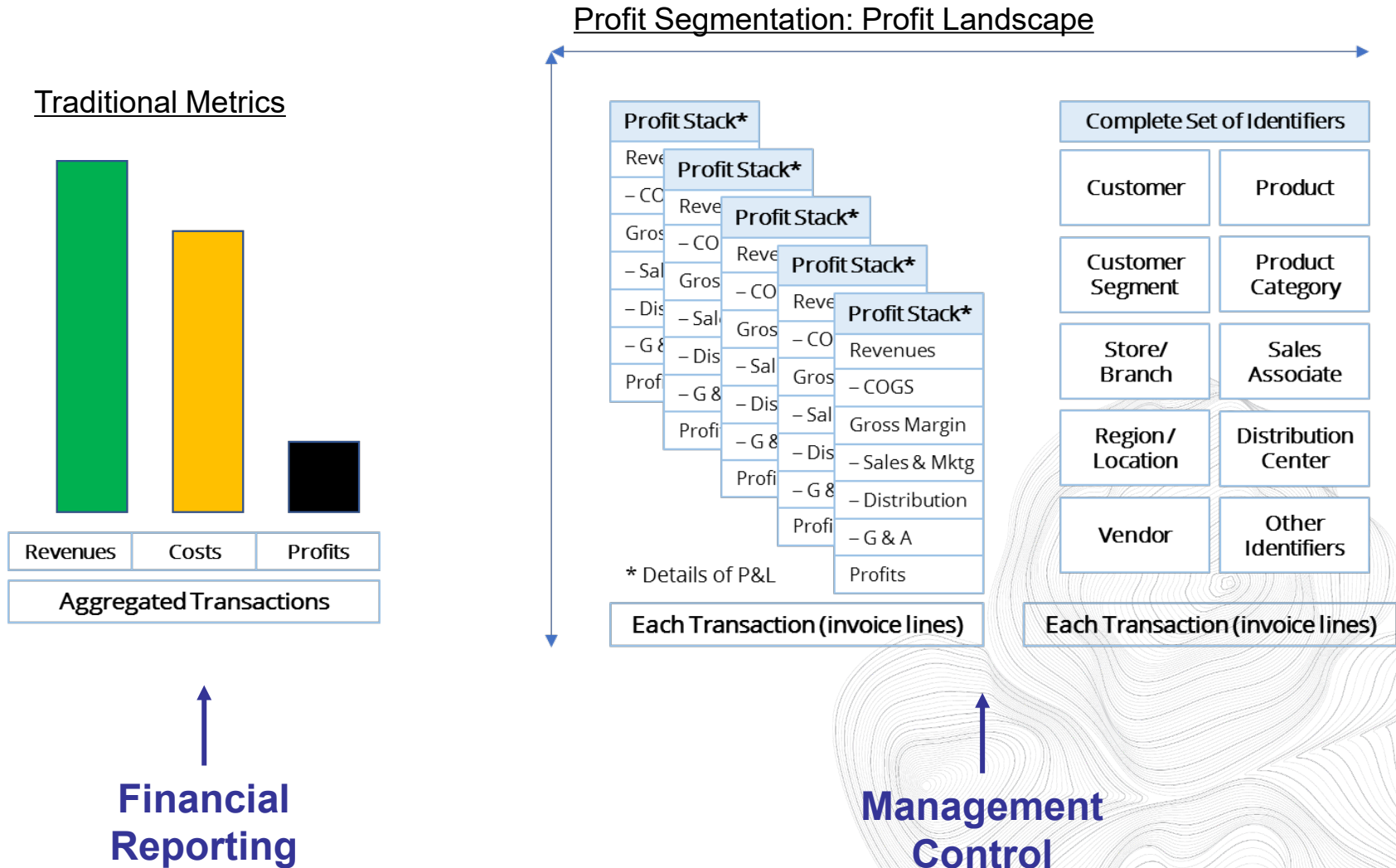
Conclusion

# Minimizing Costs is not Maximizing Outcomes (profit)

Procurement begins the Supply Chain Management process and sets the stage to maximize your outcomes (Profits or Program Success) – not to minimize your costs

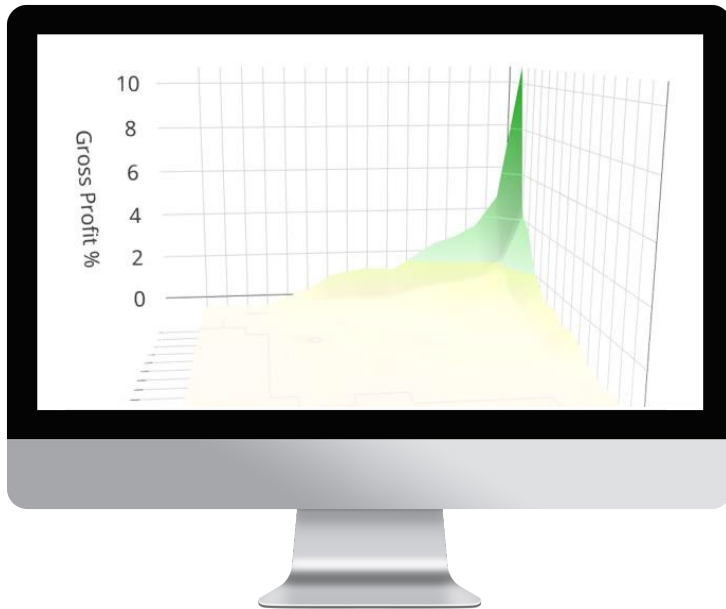


# Enterprise Profit Management (EPM): Transaction level P&L's



# Segmentation - Peaks and Drains

Legacy (ERP) View: **Gross Margin**



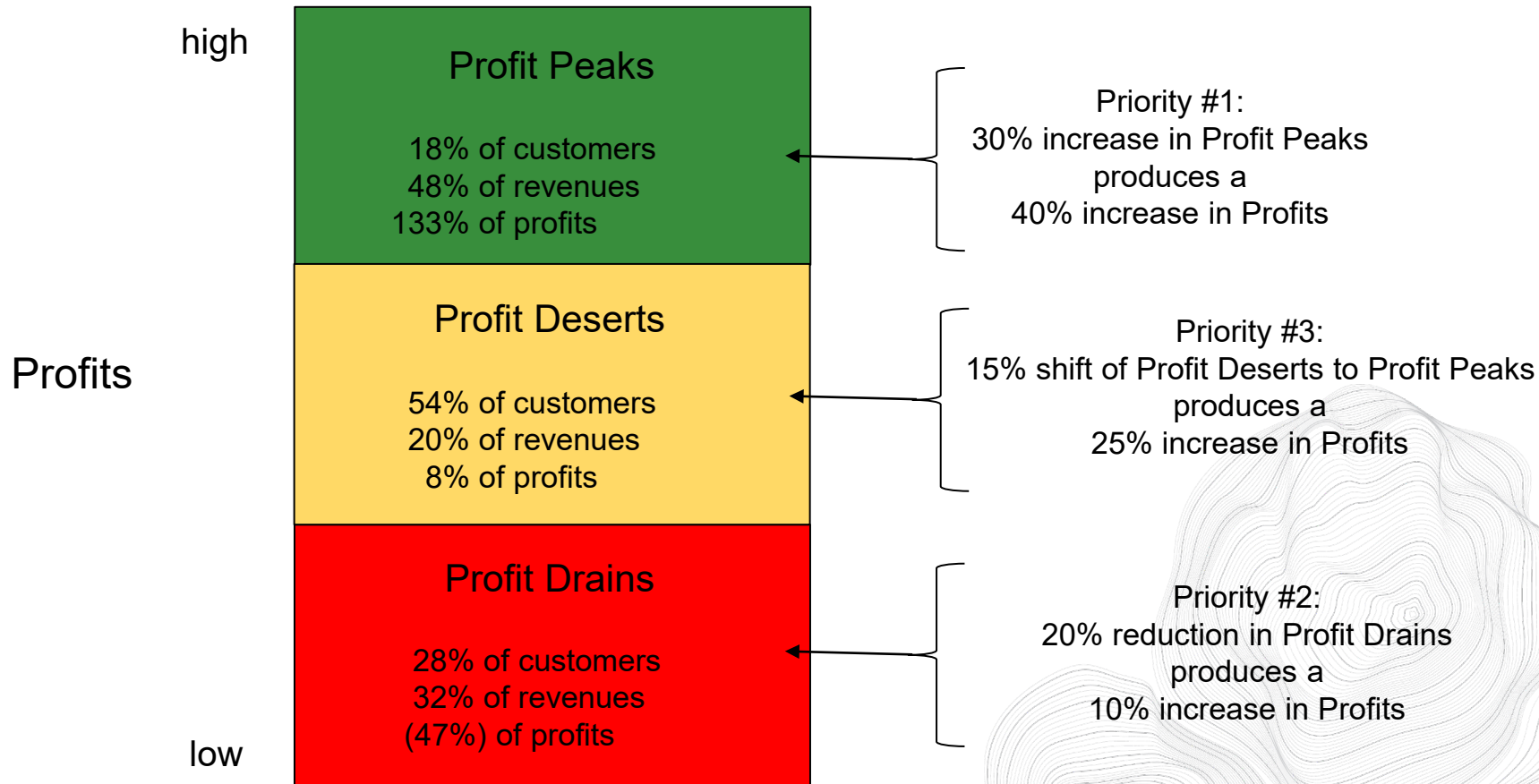
**Limited Visibility**  
Accurate, but lacking  
details

EPM View: **Transaction Level Profit**



**High-Resolution**  
Granular details of  
profit peaks & drains

# Supply Chain Activity – It is NOT Normal



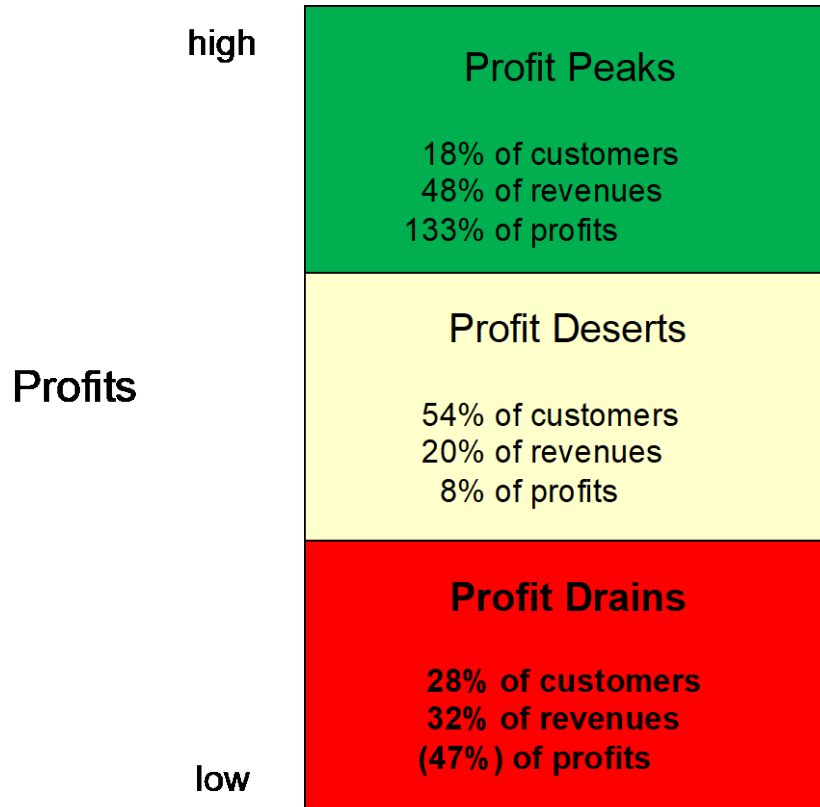
# Enterprise Profit Management Grid – Visibility and Focus

		Products			Customer Profit Summary
		Profit Drains	Profit Deserts	Profit Peaks	All Products
Customers	Profit Peaks	27% of revenues (26%) of profits	<1% of revenues (4%) of profits	32% of revenues <b>167% of profits</b>	59% of revenues <b>137% of profits</b>
	Profit Deserts	10% of revenues (9%) of profits	1% of revenues (11%) of profits	9% of revenues 25% of profits	20% of revenues 5% of profits
	Profit Drains	9% of revenues <b>(49%) of profits</b>	1% of revenues (11%) of profits	9% of revenues 18% of profits	21% of revenues <b>(42%) of profits</b>
All Customers		46% of revenues <b>(84%) of profits</b>	2% of revenues (26%) of profits	52% of revenues <b>210% of profits</b>	100% of revenues 100% of profits

Product Profit Summary →

# Profit Health Index (PHI): For Customers and Products

Critical Metric for KPIs, Operating Reviews, and Compensation



$$\text{Profit Health Index} = \frac{(\text{Profit Peaks} - \text{Profit Drains})}{\text{Profit Peaks}} = \frac{(133 - 47)}{133} = \frac{86}{133} = 65\%$$



# New Metrics – Conditional Pricing

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**There is no such thing as a single price any more**

**All pricing varies by at least the following:**

- Time
- Quantity
- Order Patterns
- Value Added Services

**Contracts should explicitly show conditional pricing**

# New Metrics – Inventory

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Old Paradigm –

Maximize Turns (just in time)



Supply Chain Disruptions



Inflation



New Paradigm –

Return on Invested Capital  
Focused Investment

# Reimagining the Supply Chain - Recap

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- Minimizing Costs is not Maximizing outcomes
  - Get Profit and Program Success Feedback
  - Deploy EPM Systems or similar feedback solutions
  - Set organizational expectations to outcomes not just costs
- Pricing is conditional
  - Set contract conditions for prices
  - Establish guardrails for unexpected behaviors
  - Establish accessorial for services and non-compliance
- New metrics are critical
  - Focus on holistic metrics vs. siloed metrics (like PHI)
  - Replace GM% with NM% or Total Landed Cost (TLC)
  - Replace inventory turns with ROIC (or similar)

# Questions to Think About

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- Are you using a profit health index to guide your contracting resource assignments, operating reviews, and compensation?
- What is your visibility into customer and product profitability?
- Do you have a systematic process to rapidly feedback success and failure to the procurement team to enforce current or modify future contracts?
- Is pricing conditional in your contracts? What are the key conditions that are always included to protect profitability or outcome success?
- How many old silo-based metrics are still active in your supply chain?
- Do you have a systematic policy and process linking your program success / profits to procurement activities?

EPM shows your financial landscape in  
**HIGH-RESOLUTION**

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New Metrics are required for a  
**NEW SUPPLY CHAIN**