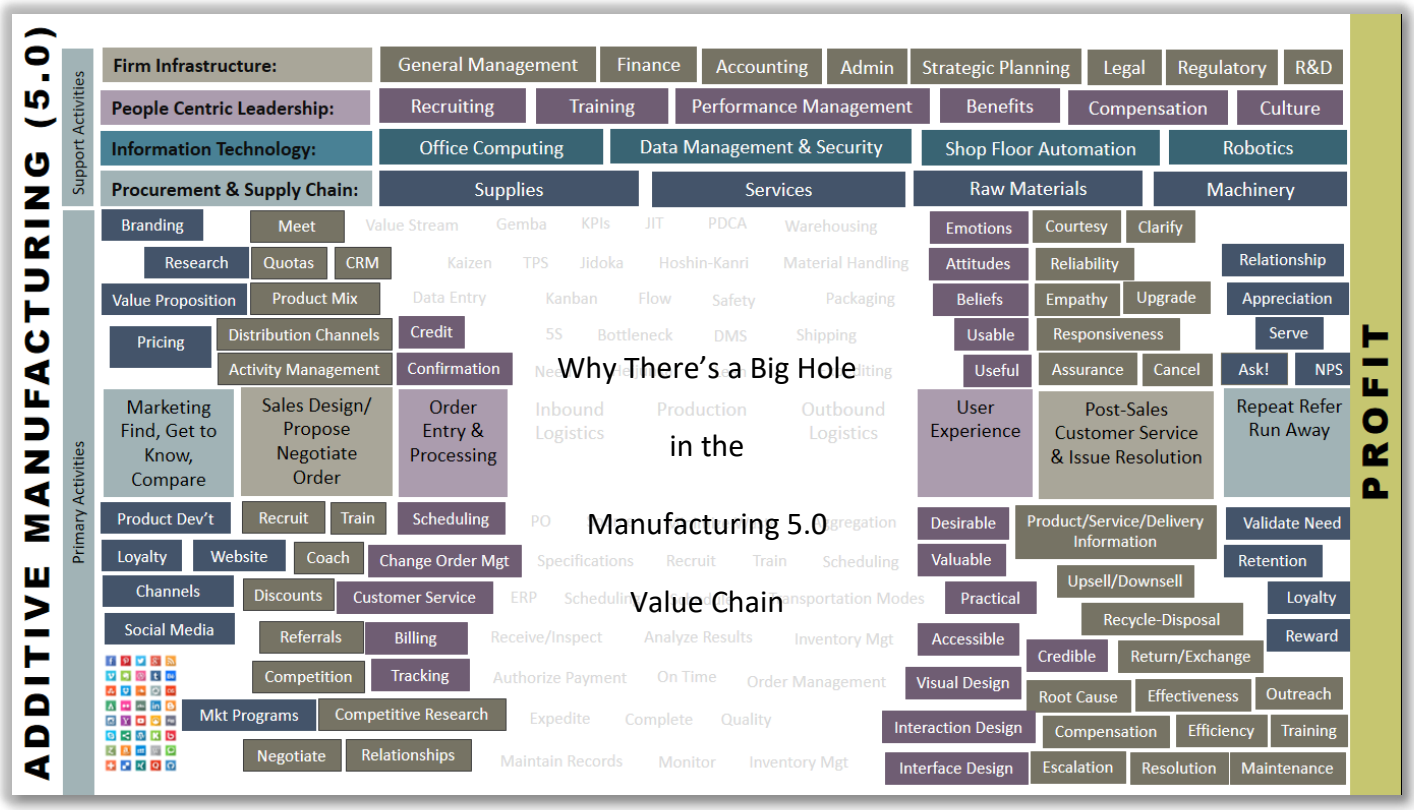
The Manufacturing 5.0 Manifesto

Within 5 Years the Future of Manufacturing… *isn't* Manufacturing



What to Do To Survive, Thrive, *and* Prosper… in The Additive Economy

A dinosaur business focuses on revenue and production efficiencies…

A nimble, sustainable business focuses on value-add and effectiveness…

THE LEGENDARY VALUE INSTITUTE

GROW. PROFITABLY. NOW.

Can 44 Pages Transform Your Financial Destiny?

Author's note:

It seems rather remarkable. That you can sit down for the next 30 minutes or so, and your company's entire financial destiny (and yours with it) could shift because of it.

In fact I would have been reluctant to make that kind of claim (or believe it myself) just a few years ago. But I've seen manufacturers transform their profitability and growth with my own eyes using the "secrets" in this Manifesto. You'll see some of their results in the pages that follow – this is for real.

The success stories alone could fill a volume the size of this report again. I want more manufacturers to experience what it's like not just to survive… but to thrive. Because survival just got more difficult with the advent of Manufacturing 5.0. And you've got your own personal copy to learn how to navigate the challenges ahead. Congratulations.

> *I recall your session as if it was yesterday. You asked us all to plot our "Return on People" on the chart. Unfortunately at that stage this indicator was actually **negative $9,955 per employee**.*
>
> *We immediately set a new goal and implemented our Profit Plan. As of our most recent year end, I am pleased to confirm that we achieved **$31,671 profit per employee** - the highest profitability levels in the organization's history.*
>
> Mikel Rhodes, CFO,
> Delta Building Products

Print this report out (if you haven't already), sit back and relax in your favorite chair, and carefully read what follows. Go ahead and share it with your C-level and management employees. Feel free to send a copy to fellow leaders in your peer-mentoring group, your industry vertical Association, to your golf, tennis, squash, racquetball, hockey, boating or skiing friends who run manufacturing companies too. There's enough success here for everyone.

The Most Valuable Report You'll Ever Read

My reason for sharing what I've discovered the hard way over years and years of doing this work is quite simple. Once you realize the impact it's had... you can't help but to read it more closely, think through each implication, and pick out the parts that will be the catalyst for pivoting your firm to survive, thrive, and prosper, despite the tsunami of change that's about to hit.

Then at the end of the report I've got a real surprise for you.

First, I'm going to clearly spell out the single over-arching idea you should take away from what you're about to read. Because it's the one concept every manufacturing organization I've personally spoken to that has transformed their profitability has told me made all the difference.

Now, you might be tempted right now to turn to the back and read it. But I strongly advise against it. Your revelation of it will always be more powerful than my explanation of it. So, my hope for you is you get the same epiphany before you get to the end. This way you'll enjoy both the same experience reading it... and, more importantly... the same stratospheric levels of success as when I've shared this in speaking engagements with thousands of business leaders.

Once I spell out the critical concept for you, I will also take it further. By giving you a better perspective and more detailed description of why it's so important and how you can apply it.

And the second special treat I've got for you is an incredible resource you can access quite literally for free that will take everything you're about to discover in The Manifesto and show you exactly how to drill down even deeper into all the nuts and bolts and apply what you will learn quickly and easily for take-it-to-the-bank results. So you are well-positioned for whatever change throws at you, no matter what.

Table of Contents

For the last 25 years, I've had the privilege to work with world class professionals: Anne is right there at the top. Her commitment to helping companies to grow is total. She's all about creating value for the stakeholders. She's been a true partner to me and my company, contributing to creating real value and solid foundation. We took our Customer Profitability Ratio from 2:1 to 5:1 within 1 year – a huge boost to profitability. When we involved our reps in the process, they got it instantly and committed to take this to 100:1 with our biggest 100 customers. And they did!

Alain Ouzilleau, President, Cabico Custom Cabinetry

In one very focused question I was provided with specific tools to increase my bottom line by at least 38% immediately, and with discipline, even more.

Richard Wilson, President, Craftsman Specialty Products

The "Secrets" To SIGNIFICANTLY Increasing Manufacturing Profits – Safely, Sustainably and Now…

What you now hold in your hands is just a snapshot reflecting the 30 years of extensive research and testing I've done in the real world using uncommon profit strategies that you never learned in business school. These strategies have delivered results for manufacturing companies from the Fortune 50 to smaller owner-led businesses where things can turn on a dime.

Up till now, this information has been closely held and only available to select firms who were accepted as clients. These companies have invested well over 6 figures to have me shift their employee's mindsets about the company's profit potential and their role in making it happen, and to help them implement practical, profitable strategies to double and quadruple their profitability. These are not conventional short-term slash-and-burn tactics, but ways to add value and be richly rewarded.

I strongly suggest that you print this manifesto out right now, and read it immediately. Plus, there's a special chart on page 19 that I suggest you print out and hang near your workspace. There's a very big idea inside it and many people have finally succeeded in transforming their bottom line once they grasped the concepts you are about to receive right here for free.

You're going to repeatedly see the term "profit vault" in the pages that follow. When I first started writing this Manifesto, I was tempted to use the term "war chest", which is much more familiar to everyone. However, having a "profit vault" to cushion you from the impact of change and fund your future seemed a much more positive term.

Because as you'll see in the pages that follow, the "war" you'll be fighting is one against progress… and as we all know that's a war you can't win…

Who Is Anne C. Graham?

You might know me from my Best-selling book *Profit in Plain Sight*, which went to #1 within 8 days of being released. The information in this report was NOT included in that book.

You may have seen me speak at small CEO-peer-mentoring groups across North America such as TEC/Vistage, or at major conferences such as the PROFIT500 CEO Summit or the Association for Manufacturing Excellence Conference.

You may have read articles by me in Forbes and other leading publications, or seen my Linked In Pulse posts.

Finally! A practical approach to a complex problem. Anne's vision on business is unique and effective
Juan Jose Gonzales,
Co-founder and COO,
Gazelles Growth Institute

About three years ago, I quietly began working on an elite level mentoring program for manufacturers that goes beyond the typical consulting model to produce significant and sustainable increases in bottom-line profit that is based on changing customer and employee behaviors, not bookkeeping. I've devoted a lot of time to my early-adopter clientele who see this as a considerable competitive advantage, so chances are you haven't yet heard of this stealth approach to reinvigorating the manufacturing sector. But in those 3 years, I've also seen major changes start to impact manufacturing.

I've been behind numerous success stories for many, many years, and I feel awkward tooting my own horn, but it's important to help you understand how powerful the methods I am going to reveal to you are...

- At the age of 23 I developed and spearheaded the strategy that reduced discounts in a Fortune 50 company from an appalling 40% on average to less than 5% within one year...
- At the age of 30 I restored a failing division of another Fortune 50 to profitability after 5 years of losses… within 14 months.
- At the age of 38 I helped a large telecommunications supplier increase top line revenues by 583% simply by using a no-cost marketing strategy that changed the playing field on the competition…
- At the age of 43 I developed a strategy to increase loyalty and retention and transformed a 50% client turnover rate into a 95% client retention rate while taking a new business close rate from 1 in 100 to *1 in 3*. (what would it mean to your business to see those kinds of results)
- At the age of 52 I triggered a process that put $4 million back on the bottom line of a $40 million company using nothing more sophisticated than post-it notes (simple is good)

Bottom line, nobody taught me any of this. I simply learned the hard way how to grow profitable businesses the right way (and frequently took sabbaticals that gave me the quiet time to systematize the processes that deliver the greatest impact. Your business probably doesn't allow you to take that kind of thinking time.) My own business, now 17 years strong, earns profits that are 5 times the standard in my industry. That gives me unlimited opportunities to invest in scaling the business, to take time off to

recharge, and to devote significant time to volunteering. But so what? You want to know what's in it for you…

Why Are These "Secrets" Being Shared?

I have already told you that for the past several years I've been personally coaching a select group of manufacturers. What I didn't tell you yet was that it was all for a bigger purpose.

In my early 30s, I had a life changing experience that defined my mission in the business world. I was working for the 2nd largest computer manufacturer in the world (the Apple of its day, with very cool technology and customers who loved us). That company made a series of wrong turns trying to grow revenues to $1 billion (Ha! These days that's less than a week at Facebook, but at that time it was a big deal), at the expense of profit. They employed the traditional profitability strategies we've all been taught. They cut costs – travel, training, marketing, R&D. They cut people – over 120,000 people around the world *in less than 4 years*. And they bled to death, with the bare bones eventually being bought for a song by a competitor whom none of us had ever taken seriously. That company was Digital Equipment.

You've heard it before… but do you follow this simple wisdom?

Revenue is vanity. Profit is Sanity.

My dreams of the corner office career vanished with the blood-letting, but I was young enough to pivot and bounce back. Many wonderful employees never recovered from being downsized, and a lot of lives were ruined. Customers were left hanging. **My purpose became to decipher the drivers of true profitability, and to share that with the backbone of our economy – manufacturers – to ensure that no company would ever find themselves in that situation again.** And over the years of business turnarounds that followed, I built, tested, and proven the systems that I wish I'd had access to during all those years of turnarounds.

Since then, recurring recessions have taken their toll even on well-run companies who are stuck in old thinking, and I continue to see all the same damaging cost-cutting and downsizing behaviors that we all take for granted. It's so unnecessary when there are so many constructive, productive, and effective profitability strategies that never see the light of day.

You can't cut your way to growth.

I've achieved the first part of my vision to share a lot of my knowledge thanks to having a #1 Best-Selling book. But I still see companies struggling to implement the proven strategies, so it's clear my work is not yet done. And unfortunately, with the changes about to come in manufacturing, the risk has never been greater that more companies simply won't have the deep pockets they need to survive.

But I can still only work with a very limited number of manufacturers each year because each one of them gets my personal attention. And that's why I decided that it was time to get this information out there for free so that everyone could benefit…

The Reason Why Even Lean Businesses Still Struggle to Reach Their Full Profit Potential

I just got back from the world's largest Lean conference. It was great seeing all the familiar faces, current clients and having the opportunity to make new friends. But every time I go to this event I am struck by how almost everybody in attendance is still following dangerously outdated thinking.

Lack of fundamental knowledge about the future of manufacturing and the real drivers of profitability is really the primary cause for so much struggling and time wasting, and it's sad. It's the reason why the overwhelming majority of leaders will fail to achieve their goals for their manufacturing business, even if they read good business books, invest in training courses, hire consultants and work extremely hard, long hours.

I'm going to address the issues I see, because I know from past experience that my unique perspective can really make a tremendous difference in your business, as it has for many of my clients. I cannot sit on the sidelines anymore and allow so many companies to flounder needlessly due to a misunderstanding of what REALLY drives profitability today.. and most importantly, what is going to be essential in the future to survive, thrive and prosper in the wave of change that will overtake the manufacturing sector within the next 5 years.

Because the future of manufacturing is… not manufacturing.

This Manufacturing 5.0 Manifesto exposes these issues, one by one, and you will gain a clarity about the future of your business (and how to grow it, profitably) that you've never had before.

I'm going to show you how my clients on average more than doubled their profitability within one year, and I'm going to show you the some of the exact concepts that are responsible for this growth so that you can build a profit vault that will cushion your firm through the changes to come.

But first, let's take a look at where Manufacturing is today and put it in perspective with traditional thinking…

Putting Manufacturing Into Perspective

Before we dive into the strategies that drive exponential profit growth (hence funding change and growth in your business with ease), we need to step back and put the Manufacturing business model into perspective. You need to see how it fits into the changes that are shaping our future. Looking at how traditional business evolves will give you some idea of where the current state of manufacturing is, and how it's changing (and not just with Industry 4.0 which is rapidly becoming irrelevant, old-school thinking, even if you're having trouble keeping up with it so far!). Understanding the current state of manufacturing is critical to your long-term success in the future state.

There's a surface-level renaissance in manufacturing. We're hearing a lot about re-shoring, parents are encouraging their children to explore vocational skills and trades as a way to get a highly paid job and robotics are eliminating the sweaty, filthy, messy work that used to be how the world perceived

manufacturing. TQM has given way to Lean, and more and more companies are working hard to bake excellence into the shop floor.

That's all good… but there's a huge challenge with that thinking. It's still based on *subtractive* manufacturing – i.e. the equivalent of turning a large tree into a telephone pole and discarding all the excess material that is not part of the finished product.

What you really need to turn your attention to is the reality of Manufacturing 5.0 – and a world of localized additive manufacturing-on-demand: LAMD. Let's unpack that for a second:

- **Localized:** offshoring, reshoring, and chasing cheap labor will become irrelevant when production shifts to be as-close-to or right AT the source of demand: the final customer. Inbound and Outbound Logistics as we know it will be unrecognizable within 5 years.

- **Additive:** that's a fancy term for 3D printing, where only the necessary amount of material is built, layer upon layer to create a finished product. There are over 22 different materials now being 3D printed, and even cellular tissue such as veins have been successfully re-created and implanted. If a vein can be 3D printed, you can bet your product will be too… and it will happen within 5 years. Today's shop floor with all of the existing production lines, parts bins, automation and robotics will vanish.

- **Manufacturing-on-demand:** the days of mass production and inventories are coming to an end – imagine a new Tesla 3D-printed just down the street vs produced in a high-tech giga factory. The disintermediation of supply and distribution chains and the manufacturing process itself will be massive.

This means that more and more manufacturers are going to get a lot more concerned about having deep enough pockets to keep up – especially smaller and mid-sized manufacturers who feel they're falling behind on Lean and who worry about competing with much bigger players who are further ahead and perceived to have deeper pockets that create an ongoing advantage (that's a myth in many cases, by the way, but I'll tell you a bit more on that later in this Manifesto…)

There was a recurring theme amongst attendees from 4 continents at the recent international manufacturing conference, whether I was talking to plant managers, COOs, or CEOs. It was that change consumes cash… and many of them do not have the profits required to fund the IOT (Internet of Things) across the shop floor or the automation and robotics they were anticipating under Industry 4.0…. let alone the more massive changes associated with Manufacturing 5.0.

However, the more we talked, the more each of my colleagues realized that not being all the way down the IoT, Lean or 4.0 path was not necessarily a bad thing… because these are massive undertakings in most companies, yet in fact they're only one small part of the drivers of profitability that every business will need to master if they're going to survive, thrive, compete, win and prosper on a global stage where others have already claimed that high ground, often at great cost.

Don't get me wrong – I love Lean, the internet, and automation and they're an essential part of the toolkit… but the future of manufacturing lies in pivoting what you've been doing today towards a

simple, powerful, different direction where claiming the high ground will essentially lock out competitors.

All of this reminded me of a slide I have used in a number of the presentations that I have done over the past year or so.

If you've seen me speak, perhaps you remember it?

I tell people that if they have not addressed the profitability drivers at every step of their Value Chain, that single insight holds the key to claiming the high ground today, ASAP… because Production (where Lean is most often implemented) is less than 20% off the Value Chain. An excessive focus of time and money on Lean means you've missed the boat and are leaving huge profits and competitive advantage on the table… but more importantly means you're going down a road that ends at a cliff in the future.

That's the reason why small and mid-size manufacturers who are faster and more nimble (even if they're technically "less Lean") have a small, unique window of opportunity to completely disrupt the playing field and seize the high ground first. Larger manufacturers may hesitate as they face a fork in the road – they risk being blindsided if their focus remains on optimizing production and further investing in Industry 4.0. And, they may be reluctant to give up their massive investments in conventional production efficiencies in favor of the new business models I'll walk you through shortly. The only silver lining is that some of the rigor and process that they've learned from Lean may serve them well as they rethink their value chain.

What is about to happen in manufacturing has already happened elsewhere. One only has to look at the service industries – Air BnB, Lyft and more to see how conventional arthritic business thinking is being replaced by more agile business models. Look at the software business, where what was once "manufactured'" onto diskettes and CDs, packaged, shipped to retail outlets and sold is now merely downloaded over the net or sold but subscription in the software-as-a-service model. And in your own experience witnessing the birth or growth of any industry you likely have already seen patterns of disruption play out time and time again.

My own experience confirms that optimizing the overlooked areas of the value chain holds the single biggest opportunity in the current state of manufacturing and in fact is essential for having any level of competitive advantage and profitability during the massive change in manufacturing that you'll experience within the next 5 years. Let me say that again… the rest of your value chain holds the key.

The Fortune 50 example I gave you of how I reduced average discounts from 40% to 5% was all value-chain driven… almost impossible for competitors to copy… and a huge driver of profitability. I did it as a pilot program on my own, and then we implemented the strategies more broadly once we knew how effective it was. Profits skyrocketed.

All the other examples I provided from my earlier career stages - the 583% increase in sales, the 50% increase in loyalty, the 1-in-3 close rates were ALL value-chain driven. There was virtually no cost to implement them, yet they exponentially increased profits in a sustainable way that had nothing to do with conventional cost-cutting.

If, in the past, you've invested in Lean, ERP, and automation in your operations area, or even pursued conventional Sales or Customer Service training in other areas of the value chain, you've had to step up to the plate with six or seven figures and may or may not have achieved the desired results. One firm I worked with had invested 3 years and well over a million dollars in an ERP system yet still had no usable data, no ROI, and hadn't even come close to the kinds of tangible, take-it-to-the-bank impact on profits that other areas of the value chain can deliver. The way I've learned to optimize the value chain is not obvious, otherwise you would already be doing it. But when you understand the drivers, it is simple, profound, and powerful.

The Window of Opportunity is Closing, but You Can Still Profit from Rethinking These Strategies

The reason I mention all this that the company who spent millions with no bottom line impact could be describing almost all of the usual initiatives I see business leaders investing in today.

Get on the Lean journey, pilot various robotics and automation options, develop your Internet of Things strategy and hope you can implement it right, wrestle with ERP, try to embed CRM in everyday behaviors, dive into big data, see if there's an ROI for any of these things, if so keep investing, if not, discount to try to drive more revenue, cost-cut to try to make the numbers and look for another silver bullet. Sounds familiar, doesn't it?

There are more and more bright shiny objects to chase in almost every area of your business, and less and less time available to spend evaluating which ones will deliver a strong ROI and which will become a black hole. Customers are increasingly seeing their suppliers as commodities thanks to globalization, which means many deals are defaulting to low price, not value. Some of your competitors are chasing product standardization and efficiency, others are providing increased customization. The one thing you know is that the middle ground between the two is no-man's land. And if that wasn't enough, rapid innovation by small entrepreneurial firms in low-overhead garages somewhere who aren't even on your radar are poised to use 3D printing to disrupt established brands and create new niches. It's not pretty out there.

But before I go any further, let's talk about effective deterrents. Do you have homes in your neighborhood who prominently display a security company sign on their front lawn or in a window? A friend of mine in the business shared that many of those homes don't actually USE the services of the security firm on the sign or decal! But it makes thieves go looking for an easier target… just in case.

Ultimately you want to create a deterrent effect in your market. The way to do it is to build such a strong value chain and such deep pockets that your competitors think twice about trying to copy what you do or compete on price – because you've become the gold standard in your industry. Sophisticated

competitors will realize that trying to discount their way into your customers or promise higher quality will land on deaf ears, and they'll go looking for easier targets.

And the good news is that unless one of your competitors is already the gold standard in your industry, you still have time to claim that place for yourself. If you're already the gold standard on the quality of your product because you've invested in Lean, you still have an opportunity to polish that image until it blinds your competitors, by applying yourselves to the rest of your value chain and creating the gold standard user experience at every stage of the process. The high ground, the gold standard is only big enough for 1. That's why Apple still has lineups around the block whenever they launch a new product, while their competitors don't.

Now let's look at a few obstacles that currently stand in your way…

Obstacles To Being The Gold Standard in Your Industry

Now that you know how manufacturing is evolving, and that your competitive advantage depends on creating value throughout all the other areas of the value chain, let's take a look at the obstacles you might face in actually getting it right and seeing financial impact. Because at the end of the day, we're still trying to create the profit that will provide a safety net during massive change and provide the means to fund the pivots you'll need to make.

By exposing and eliminating these problems, you'll be able to implement value chain strategies that will grow your bottom line faster (and easier) than you ever thought possible… in fact, the work that I do shows that safe, sustainable, exponential increases in bottom line results are the norm, not the exception. These are the same overriding concepts that highly profitable manufacturers (who earn two to ten times more profit than their competitors) understand and operate on.

The format of this section will be similar to a medical diagnosis. You'll see the problem, its symptoms, cause and an overview of the solution.

Let's take a look at one fundamental problem most manufacturers experience.

Symptoms: Deep focus on achieving quality and shop floor efficiencies, only some of which ever translate into the desired ROI or increase in profits.

Cause: Subtractive Manufacturing Thinking

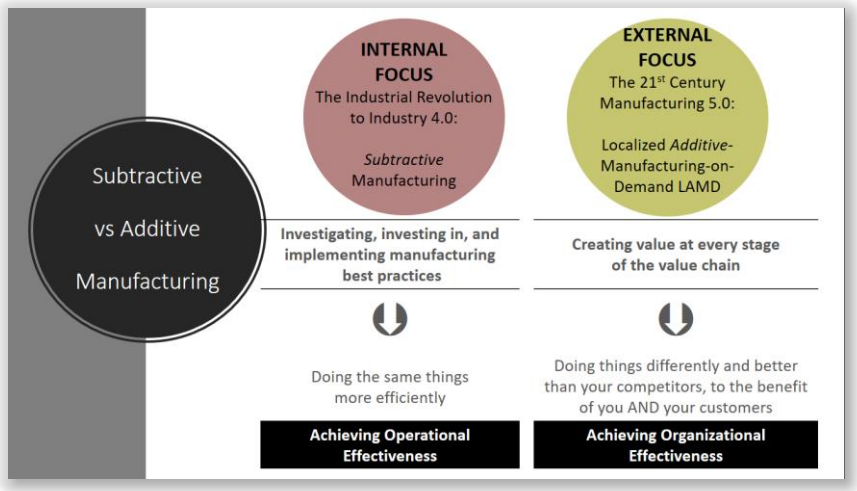
Manufacturing Problem: Lack of Vision and Strategy for 21st Century Additive Manufacturing

The very first obstacle we need to look at is you and your thinking

The way I see things is that there are two different and diametrically opposing ways of thinking when it comes to building a profitable manufacturing business:

- There's internal operational thinking that focuses on quality to maintain competitive advantage
- There's external strategic thinking, which focuses on creating unbeatable value-add.

The slide below is from one of my first presentations in my ProfitU™ program.



Here's the deal, highly profitable businesses focus *externally* to create strategic differentiation and value add by focusing on their customers, their markets, their stakeholders, and the world.

Less-successful businesses think about operational excellence *internally*, and focus on efficiencies and quality within the walls of their factory.

An internal operational-excellence thinker is always looking for the next big thing that will improve production, but often start their day reviewing email and production reports, go through a few rounds of internal meetings – most of which will rehash recurring issues with quality, productivity, and on-time- and complete. Then its check more email, deal with staff in and out of your office who need "just a minute", do some more email, check the latest production reports, and call it a day. Often, they'll be on their computer all evening, trying to catch up. An internally-focused thinker is always caught up in the whirlwind of everyday business, with hectic days. And although they THINK they're being strategic, those around them see a lot of bright shiny objects being chased and rarely caught.

In fact, from the Industrial Revolution right up to Industry 4.0 a vast collection of bright shiny objects has been created. Today its benchmarking, reengineering, standard work, lean, training, logistics, change management, systems. Tomorrow it's the Internet of Things, automation, robotics, human-machine interface and so on. Yesterday it was time-motion studies, standardization, mass production, total quality management, and some other concept already forgotten or replaced with new and improved.

There are vast investments of time and money made based on the *promise* of results, yet only a few are implemented fully and on an ongoing basis. In those rare cases the resulting operational improvements have often been dramatic but also subject to the law of diminishing returns because they are boundaried by the 4 walls of the business. Many companies have failed to translate those gains into sustainable profitability increases. I know – I hear variations on this theme all the time when I speak to executives.

Simply improving operational effectiveness does not provide a robust competitive advantage because rarely are "best practice" advantages sustainable. Once a company establishes a new best practice, rivals tend to copy it quickly. Meanwhile, deliveries continue to be late, rework continues to eat profits, and employees get jaded and burned out by repeatedly being asked to change and adapt to the 'next big thing'.

If your team rolls their eyes whenever you come back from a training program or conference, excited to share and implement what you've learned, chances are you've unintentionally fallen into the trap of internally-focused thinking. The question these manufacturers ask themselves is, "What's the easiest way for me to increase sales and reduce costs right now?"

External thinking to differentiate by creating sustainable, hard-to-copy value add is a completely different way of looking at possibilities, and its where ALL the fun is in your business.

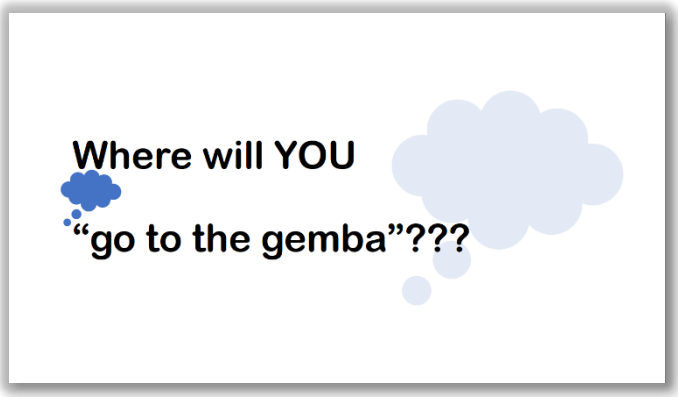
It's about having a clear vision of the future and what will need to be done *differently*, not simply *better* than everyone else, in order to leverage market preferences, capture emerging opportunities, leverage the inherent strengths of the business and develop new capabilities and growth. And it's the key to sustainable competitive advantage and higher-than-average profitability because its clever, adaptable thinking, not locked into the status quo.

Not only are these gains significant and sustainable, they are *exponential,* because there are no boundaries within the global marketspace. It means envisioning and evaluating a broad range of strategies and business models that your conventional competitors don't even see, and then making intelligent choices and implementing for impact that's consistent with the vision.

External thinkers spend their time out in the marketplace, not behind their desks, asking their customers strategic questions about the future of their business and how they rate as a supplier today. They listen closely to the answers without being defensive or slipping into sales mode, and that valuable input (which will never come from a survey, by the way – I know you're going to want to go there, but don't!) sets their agenda for how to create hard-to-copy value and eliminate waste across the entire value chain.

The visionary external-thinking manufacturer knows that sales is responsible for selling the products and services available *today*, and that their biggest opportunity is to make sure the leadership team and everyone around them understands what it will take to "skate to where their customers are going" (to paraphrase Wayne Gretzky), with the right products and services *tomorrow*. Good revenue always follows by creating unique value that pulls customers to them, rather than creating undifferentiated products that they push out to the marketplace. Costs that shouldn't even be there are easily identified and eliminated.

Here's some information that any seasoned manufacturing leader will confirm. They spend at least 100x more of their time, attention and effort going to the gemba on their *own* shop floor, huddling in front of the DMS boards, and implementing all the other impactful tools of Lean in a very narrow slice of the value chain than they ever spend "going to the gemba" with customers – asking good questions about the rest of the value chain and implementing improvements there. Why? Because it's easier to be internally focused, and far less scary for most people.



An external-thinking, value-focused manufacturer on the other hand, knows that all the fun in the business is "going to the gemba with customers," using their ingenuity to solve their real problems, save them time, save or make them money, create a feel-good to drive loyalty, or provide peace of mind that no competitor can copy. They know that It's 100x easier to fill a need than to create demand, and that its 100x easier to keep customers when you create an outstanding experience instead of just a quality product, because quality is table-stakes these days. If you're focused on delivering all-out value to a customer, price becomes a non-issue, and instead customers reward you with lifetime value and profit.

And here's the rub. The overwhelming majority of manufacturers confuse traditional *operational* effectiveness with *organizational* effectiveness. They chase incremental profit gains internally instead of taking advantage of the unlimited potential to turn external value into exponential profit.

They have vision statements that aren't truly visionary, with no plan to pivot their business in a world where Industry 4.0 leads only to a hamster on a wheel where they'll be running hard while standing still in a world that is changing around them.

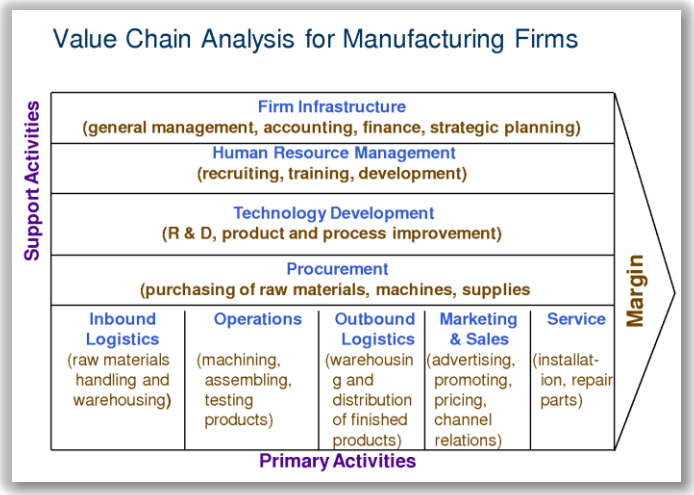
Studies show that being on the hamster wheel of internal focus leads to an appalling productivity statistic – beyond the shop floor, the typical employee from the C-suite to the front lines, spends no more than 28 minutes per day on work that's of value. The rest is well-intentioned, habitual busy work that adds to value whatsoever. They have no externally-focused strategy to understand what customers want and need.

And did I already say that customer satisfaction surveys DON'T cut it? In fact, even high customer satisfaction scores have been proven NOT to correlate with loyalty, retention, or profitability. WHAT a huge profit-in-plain-sight opportunity!

Unfortunately most don't have clear goals to grow profitability other than on an incremental basis. Few dare to set a goal to double, triple, or quadruple their profitability in the coming year and then develop a plan with their team to create enthusiastic buy-in and commitment to achieve it. To add insult to injury, without a clear strategy for external focus that goes beyond conventional meet-and-greets, sales calls, or satisfaction surveys, and without a clear set of accountability tools to rethink and rework the value chain, they can't follow any sort of detailed plan to turn good intentions and occasional external input into impact. So they go back to clearing their inbox and bemoaning the economy or the competition.

Alright, let's say that I have either convinced you that you need to be externally focused, highly strategic, and have deep pockets to survive, thrive, and prosper in the change that is going to upend conventional manufacturing. Or you already knew it but didn't know how to get there. Now, let's talk about what will stand in your way…

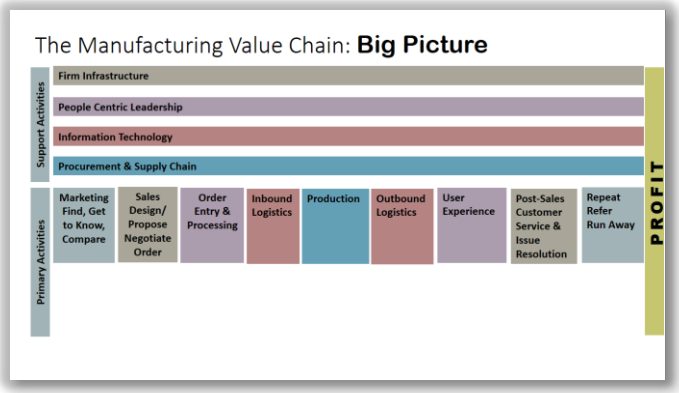
Most Value Chains Invisibly Destroy Value Everyday - Instead of Adding Value



The Value Chain was introduced by Michael Porter at Harvard 30 years ago. By then, my university days were long past as I'm sure yours were too. Fortunately at the time I was an avid reader of Harvard Business Review and was exposed to the concept early on. I've been embedding and updating this concept in my work since the mid-1990s when I was up to my eyeballs in the turnarounds I was doing. The basic 1980's pre-internet structure is still elegant, but I've updated it for you below to better reflect current business realities.

Because your business is a lot different now than it was in the 80's, isn't it? Yeesh, TQM was still a new term back then, so we need to dive a lot deeper into today's business don't we? Because while models are helpful, reality is not so simple. A company's value chain is typically part of a larger value system that includes companies either upstream (suppliers) or downstream (distribution channels), or both. This perspective about how value is created forces managers to consider and see each activity not just as a cost, but as a step that has to add some increment of value to the finished product or service.

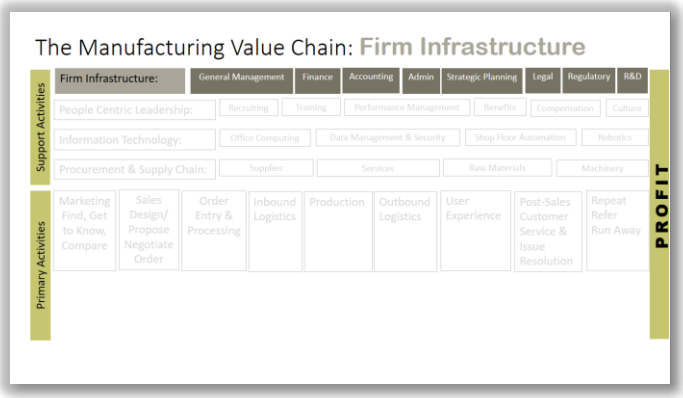
But that's still operationally-focused internal thinking. The big externally-focused strategic question to answer is how does every element of the value chain add value to a *customer* – whether that is an internal customer (i.e. an employee) or an external customer. And the second question is whether that value is taken for granted or actually adds profits onto your bottom line.



You'll see that I've updated the 1980s Value Chain into the 13 critical areas of business today. All of them are important, wouldn't you agree?

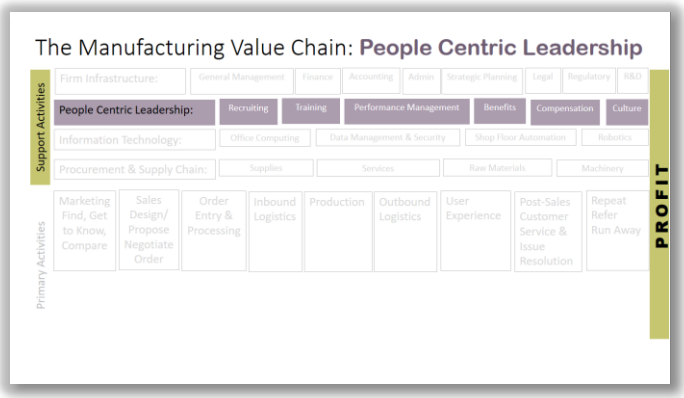
We can break out each of these areas into similar functions – the actual stuff that either adds or destroys value at every stage.

Let's take a look at what each of these activities consists of…



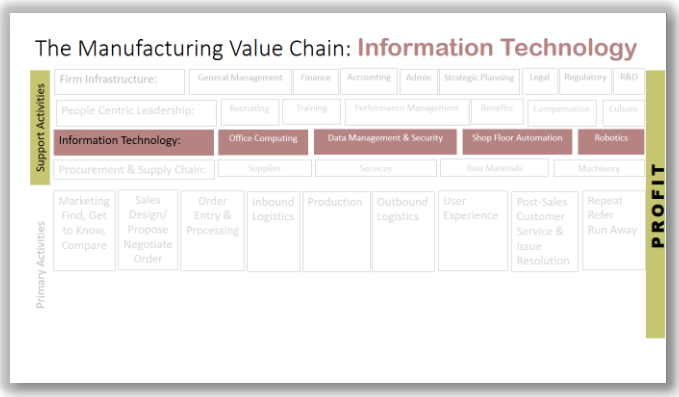
As an executive, firm infrastructure is probably where you spend much of your day, and each of these could be broken out into multiple sub-categories:

- General Management
- Finance
- Accounting
- Administration
- Strategic Planning
- Legal
- Regulatory
- R&D
- And more…



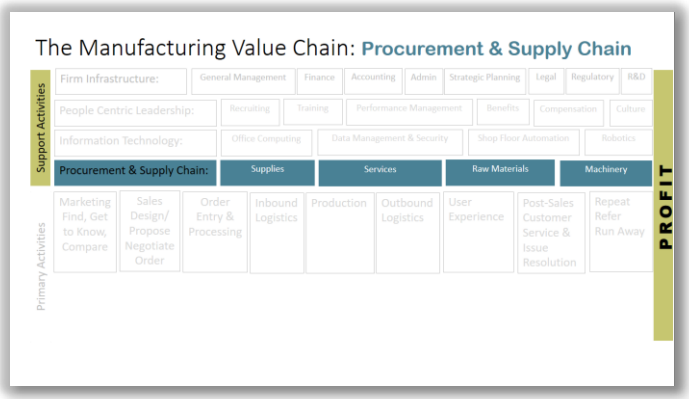
In the 20th Century, this area was called Human Resources, and includes many sub categories within these main areas:

- Recruiting
- Training
- Performance Management
- Benefits
- Compensation
- Culture
- And more…



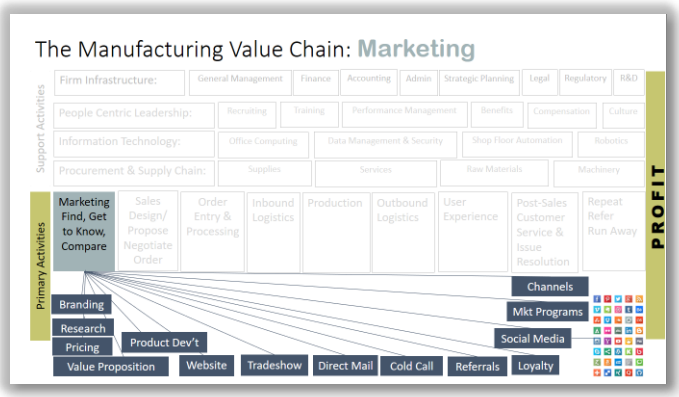
Information Technology has always been complex, even more so with the emphasis on Industry 4.0 elements, and each of these categories is merely the tip of the iceberg with many additional functions:

- Office computing
- Data Management & Security
- Shop Floor Automation
- Robotics
- And more…



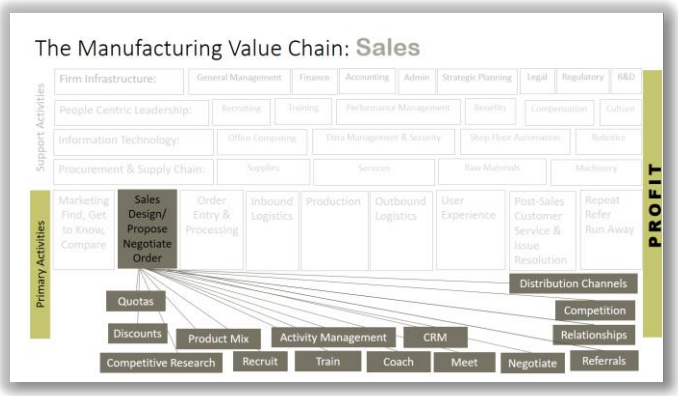
There isn't a manufacturer in the world who doesn't spend significant time, energy, and investment on their Procurement and Supply Chain, including:

- Suppliers
- Services
- Raw Materials
- Machinery
- And much more in each of these areas



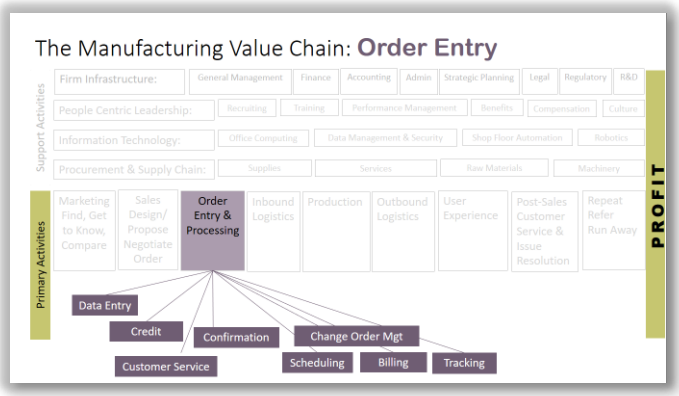
Marketing functions can vary depending upon whether your clients are B2B or B2C, but include:

- Branding
- Value Proposition
- Competitive Research
- Product Development
- Pricing
- Website
- Tradeshows
- Direct Mail
- Cold Calls
- Referrals
- Customer Loyalty
- Social Media
- Marketing Programs
- Channels Development & Support
- And more…



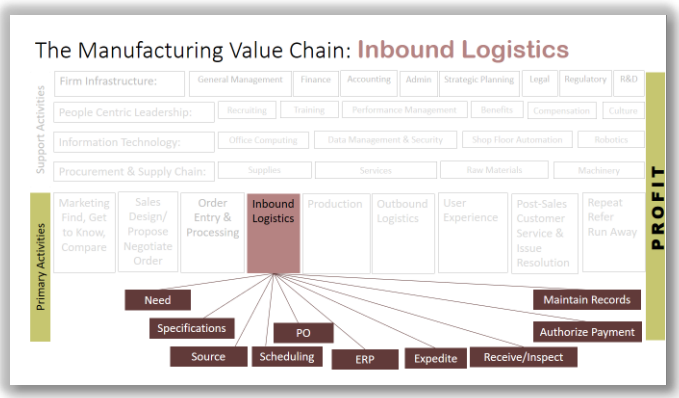
Sales Activities Include:

- Setting Quotas
- Establishing Discounts
- Competitive Research
- Managing the Product Mix
- Recruiting
- Training
- Coaching
- Meeting Clients
- Activity Management
- CRM
- Negotiations
- Seeking Referrals
- Building Relationships
- Winning Against the Competition
- Managing Distribution Channels
- And more…



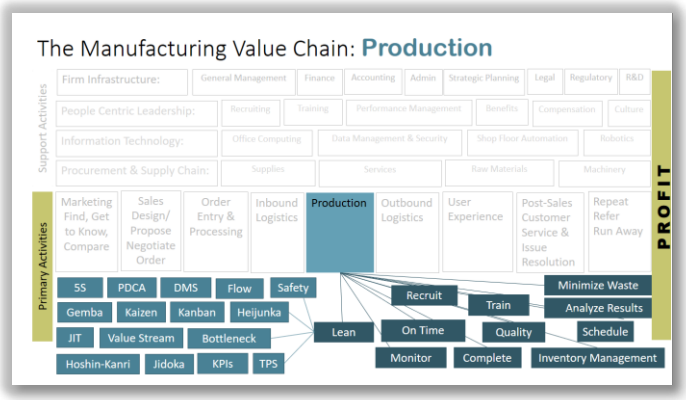
Order Entry is a critical area of the value chain where things go right or start to go very wrong:

- Data Entry
- Credit-worthiness
- Confirmation
- Change Order Management
- Customer Service
- Scheduling
- Billing
- Tracking
- And more…



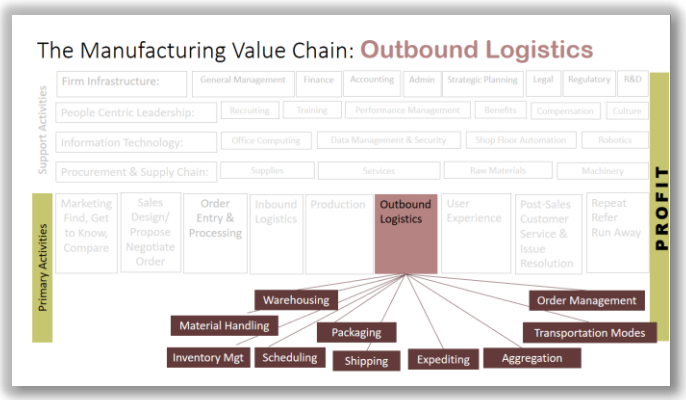
Inbound Logistics Activities include:

- Forecasting needs
- Establishing specifications
- Sourcing
- Issuing Purchase Orders
- Scheduling
- ERP Management
- Expediting
- Receiving/Inspecting
- Authorizing Payment
- Maintaining Records
- And more…



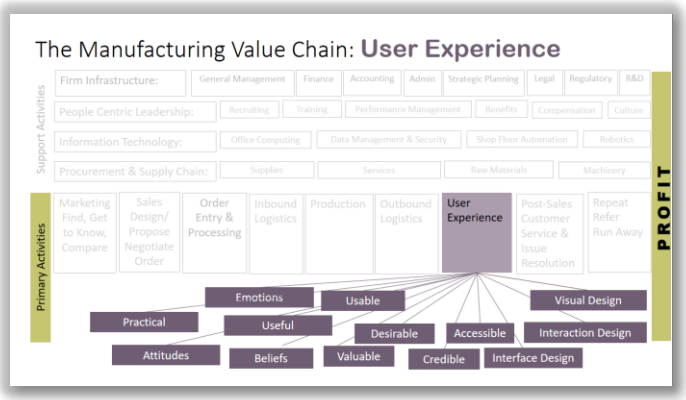
Production, long considered the core function of manufacturing includes:

- Recruiting
- Training
- Quality Management
- On-Time Delivery
- Complete Orders
- Monitoring Production
- Inventory Management
- Scheduling
- Minimizing Waste
- Analyzing Results
- 5S
- PDCA
- DMS
- Flow
- Safety
- Gemba
- Kaizen
- Kanban
- Heijunka
- JIT
- Value Stream
- Bottleneck Analysis
- Hoshin-Kanri
- Jidoka
- KPIs
- TPS
- and much more…



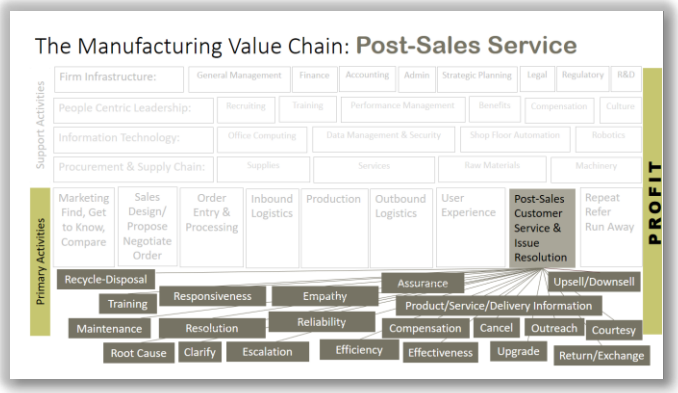
Outbound Logistics include:

- Warehousing
- Inventory Management
- Materials Handling
- Scheduling
- Packaging
- Shipping
- Expediting
- Aggregation
- Transportation Modes
- Order Management
- And more…



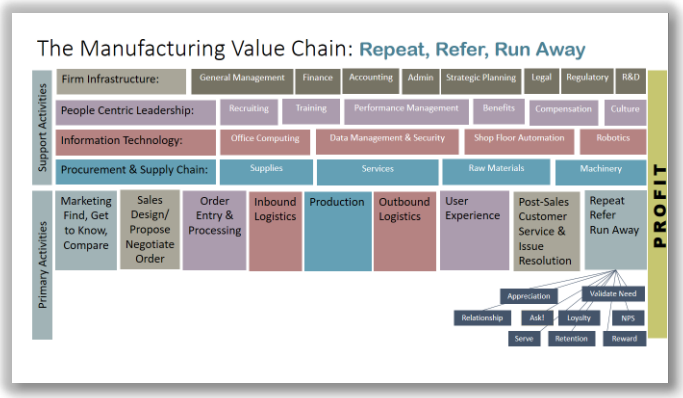
The cradle-to-grave User Experience is a relatively new area of Value Chain focus for most businesses

- Emotions, Attitudes, Beliefs
- Usable
- Useful
- Practical
- Desirable
- Valuable
- Credible
- Accessible
- Interface Design
- Interaction Design
- Visual Design
- And much, much more…



Post-Sales Service includes:

- Assurance
- Empathy
- Reliability
- Responsiveness
- Resolution
- Root Cause
- Clarifying the requirement
- Escalation
- Efficiency
- Effectiveness
- Product/Service/Delivery Information
- Upsell/Downsell
- Upgrade
- Return/Exchange
- Cancel
- Compensation for issues
- Courtesy
- Outreach
- Recycle-Disposal
- And more…

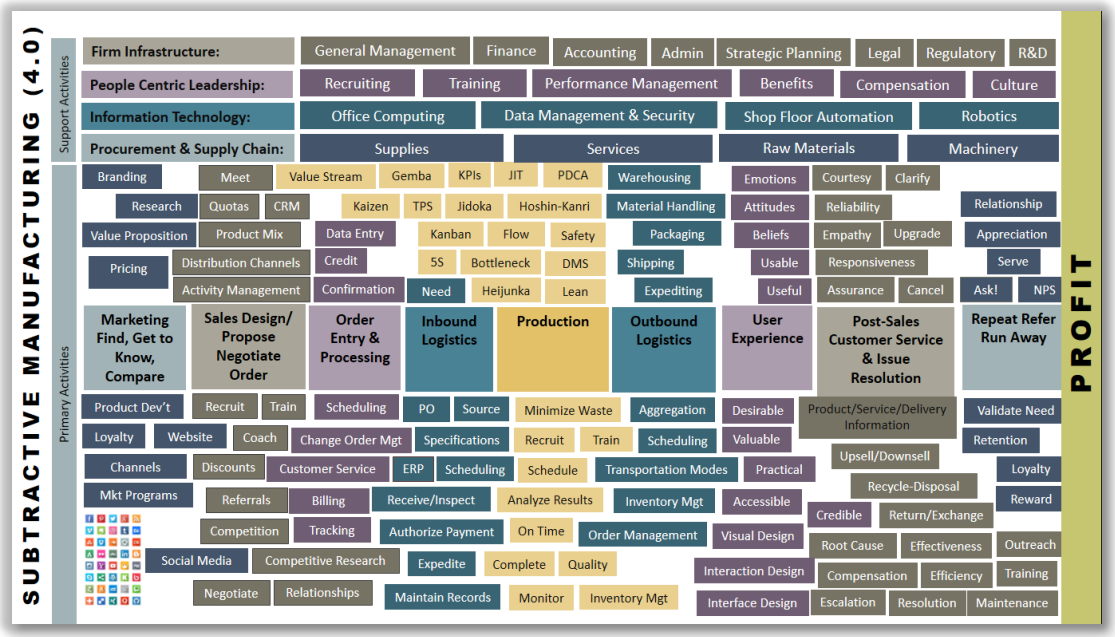


At the end of the Value Chain, customers take one of 3 actions. They buy from you again (repeat), they refer new customers, or they switch to the competition (run away), which you can impact in these ways:

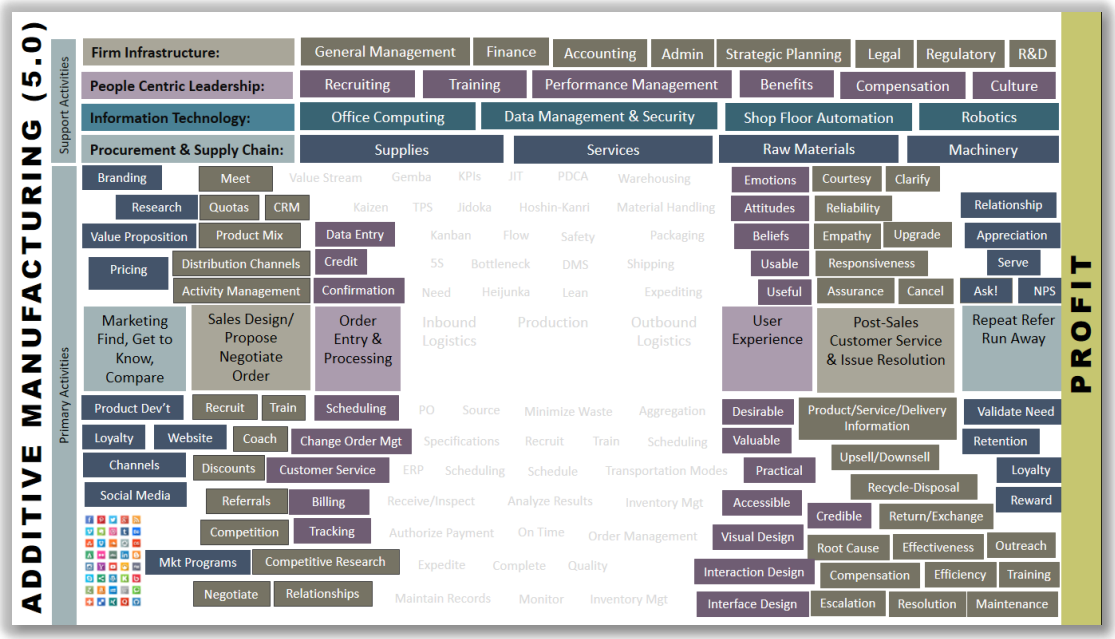
- Appreciate
- Validate Need
- Nurture the Relationship
- Ask for Repeats and Referrals
- Serve
- Earn Loyalty
- Reward Loyalty
- Retention Activities
- Improve Your Net Promoter Score (NPS)
- And More…

And after breaking out all of the activities that need to take place in your business, you can see that value is created or destroyed in literally hundreds of areas. As a manufacturer, you're intensely focused on several of them already. There's only one problem. If you're ready to see what's about to happen to your business, go ahead and turn the page (but brace yourself)

Industry 4.0 Value Chain (Today):



Manufacturing 5.0 Value Chain… Within the Next 5 Years:



Do you notice a little something missing? Yep, your traditional value chain is about to get hollowed out in production and logistics – right where you've been most focused on creating value, right where you've been spending all your time, money, and energy. Oops.

Don't believe me? Turn the page again…

You've Been Perfecting Yesterday's Business Model

If you've been massively investing in streamlining your production operations and improving quality over the last 10-20 years, your time hasn't been wasted because quality really was a differentiator in the last century, but can you see now how narrow-sighted that has been? Seriously… every business who has jumped on the quality bandwagon to keep up with their competition has missed the most powerful forms of differentiation in the other areas of the value chain, has left massive amounts of waste in their organization… and have left themselves open to the huge risk of change.

Look at how production changed over the 20th century. Do you really think it won't evolve again?

And here's the really crazy part, do you know what most manufacturers spend an overwhelming amount of time on? Searching for even more tools, tactics, and activities to squeeze into that big gaping hole that's just appeared in the chart above. They're focused on looking for new sources of competitive advantage right in those 3 elements of the value chain in today's legacy structures that will disappear in the world of localized additive manufacturing on demand. It's crazy, isn't it? Why on earth would you spend any more time looking for more ways to perfect your buggy whip? The time, energy, and available cash of most manufacturers is being spent trying to squeeze the last ounce of efficiency out of their manufacturing operations and logistics (just 3 of the 13 components of the value chain), at the expense of the much bigger opportunities across the rest of the organization – the rest of the organization that will still be required in Manufacturing 5.0. Make no mistake: the Industry 4.0 value chain above is the chart of an organization that is stuck in the outdated subtractive manufacturing model and sadly lacking in external focus and vision. It screams INTERNAL THINKING!

So here's my question to you…

Still don't believe me? Let's add telecommunications to the examples I've already given you of businesses that have been massively disrupted. A dozen years ago I saw something in Tanzania when climbing Mount Kilimanjaro that blew my mind – a Maasai warrior in traditional garb… on a cell phone! It made me dig deeper into the future of manufacturing.

The African continent had made a leap in technology right past all the manufactured components of traditional telecommunications: telephone poles, millions of miles of copper cables, transformers, and even traditional desktop telephones. Any supplier to the telco industry who thought the had a massive market opportunity using conventional approaches had a rude awakening. Only 10% of Africans had cellphones in 2002… as of 2015, their usage is on par with that of the US, at almost 90%.

The value chain in Telecomm has been hollowed out forever, replaced by new business models, new products, new suppliers… and it's not going back. In fact, continue to watch developing nations like Africa, where logistics are a nightmare. The additive model illustrated in the Manufacturing 5.0 value chain (i.e. 3D printing) is likely to happen there first. So now what?

The solution to realizing that you have an outdated business model is not trying to hang on to it as long as you can just because you've heavily invested in it – emotionally as well as financially. If you were to look at your behavior, wouldn't you agree that you've been subconsciously following business as usual by planning to add more and more internally-focused tactics and activities such as automation, IoT, and robotics to improve and streamline your production operations – yes, the ones that will vanish?

Let me offer a small piece of advice. As long as you continue to operate in an Industry 4.0 world, you'll always be spinning your wheels wondering why you are not achieving the level of profitability you've always wanted AND there's a new wrinkle. You're going to start to worry and wonder how long you can even hang on to your buggy whips and telephone poles in a rapidly changing environment. Sure, its going to take time… but not as long as you think it will.

Now, before you jump to the conclusion that I am predicting doom and gloom and the demise of the manufacturing sector, I'm not. No, not at all. Simply recognize the problem with the massive change that's about to occur goes much deeper than that. Businesses and consumers will still need hard goods, and they won't all be printing them in their home or work facilities. So what DOES the future look like for manufacturers?

I've only peeled back the first few layers of this onion; if you really want to get at the truth we are going to have to get a little more personal…

Playing "We've Always Done it This Way" Is Not A Business Strategy

Let's return to our previous conversation about external focus and the fact that change consumes cash. My big question to you is: Do you currently have a new business model in mind that will help you survive, thrive, and prosper in the transition to Manufacturing 5.0? Do you have a deep enough war chest to fund all of the change that will be required?

I've been a big Star Wars fan since I was a youngster in the 70's, and when you think of how they've developed the story over more than 40 years I can't help but marvel at the feat (40 years? Wait a minute, where did those years go…!) With a tweak here and a tweak there, they've kept it going and I'm sure the final release in 2019 will be every bit as much of a blockbuster as the first one.

But the storm troopers are about the only thing that has stayed the same other than cameos from some of the original characters – they've kept reinventing the lead roles, the technology on and off-screen, the story line, the user experience, the merchandising, the spin offs such as the Clone Wars and more – all akin to managing every area of the value chain beyond producing reels of film for conventional movie houses. They jumped on the 3D, VHS, DVD, and BlueRay bandwagons, much like you may be jumping on IoT, automation, and robotics today, still all related to the original technology of a roll of film. Not all of those were successful.

And now, they're skipping all of the "production" of any kind of consumer media and going straight to Netflix: *localized viewing-on-demand*. Are you seeing the parallel?

What's great about this analogy is that George Lucas didn't just make a movie and then milk it with weak sequels (well, OK, other than JarJar Binks – totally weak). He had the 40-year vision for where the movie industry (as well as the story) was going, right from the beginning, and how all the special effects and more were going to enable him to do new and exciting things in new and exciting ways… not by building miniature starships out of plywood and paint and flying them on wires, but by using software and technology to simulate many of the scenes. "Shooting on the set" in the 1970s looked very different from the way they developed the latest movie in the series, right?

Yes, you may say that you have a 40-year Vision Statement in your Strategic Plan … but do you have a 40-year vision for your industry… where it is going… and what your role and place in it will be? I didn't think so.

This is a great question for two very important reasons: the first reason is that it's a great wake-up call and the second is that your existing vision is likely "be the best at XYZ" which is simply the internally-focused way of thinking.

And it's this type of thinking that reinforces all the issues we've already surfaced earlier.

This, my friend is not a successful manufacturing strategy, it's the way companies become extinct in times of change.

Don't worry though, the problem is not hopeless – actually if you identify with anything you've read so far you should feel a sense of relief, because the truth is you've been working harder than you need to for a fraction of the results you deserve. And it's not your fault – because no one is really talking about this.

I often share the slide on the right in speaking engagements because I have fallen victim to this same line of thinking myself, and I should have known better. My first career was in multi-part business forms – how many of those do you see these days? I've also spent time in the computer training industry, back in the days when a 3 year-old couldn't operate a smart phone better than most adults. Those little tykes don't need technology training because its become so intuitive.

These were big Fortune 50 companies and smaller owner-led firms. They were touted as growth industries at the time, and I couldn't see the forest for the trees - I fell for the entrenched vision of the future every time, not really seeing what was coming. However I'm an external thinker, so in every case, I intuitively used the short period of time that I had to work within the existing business model to get the externally-focused parts of the value chain humming with value and profit. That ended up positioning those companies very well for the changes that overtook them. That's the opportunity I want to work on with you, so that only the best image on the slide above becomes your reality.

When I started my own business I developed my own long term vision AND saw very clearly where the industry was going. I have worked towards it ever since. Remember when online universities were a bit of a joke, only for students who couldn't get into a "real" school? Well, now all of the Ivy League and more provide online options to increase their reach. Continuous learning, implementation, and improvement wasn't going to stay as a conventional consulting, book-learning, or classroom training model, it was going to become a *localized, customized learning-on-demand model*. Seeing the pattern?

Because my own business was new to me, I was able to throw out the ostrich and dinosaur thinking and take a more visionary approach – unlike your business today, I had no legacy investments to slow me down. I saw what was coming in my industry, as early as 2001. That was in the days of AOL dial-up, if you can remember that, i.e. we didn't have much of an internet. However, I saw what would be possible – an interactive internet-based learning program that would replace the ineffective sit-in-a-classroom-leave-with-a-binder-good-luck-with-the-implementation model that prevailed at the time (and still does, in many "we've always done it this way" universities).

Is it any wonder I can spot a similar trend in the manufacturing sector?

I spent the first several years with a business model that – on the outside – looked exactly like everyone else's. The outside world benefited from consulting services where I shared and taught my unique

approach to driving profitability safely, sustainably, and with integrity by impacting small everyday customer and employee behaviors across all areas of the value chain. The feedback I received – illustrated by the comments below – had some remarkably common themes: that the real opportunity lay beyond conventional efforts to streamline operations… and that the impact was exponential.

I've looked to manufacturing to increase profits. Anne came at the issue from another angle, and delivered results.
David Doepker,
Founder & CEO
Doepker Industries

Anne showed me some easy steps to improve profitability. The best part is that I can get these improved profits without increasing overhead:
an infinite ROI.
Kristi Zadderey, CEO

In one very focused question I was provided with specific tools to increase my bottom line by at least 38% immediately, and with discipline, even more.
Richard Wilson, President
Craftsman Specialty Products

But inside my business, I wasn't following the same line of thinking as all the other consultants. Instead, I was quietly taking steps towards my vision of my industry, focusing on delivering a lot of learning in conventional ways while keeping my business very nimble so that I could pivot when the technology caught up. And that's exactly what's happening as we speak. Any company, including mine, now has access to the highly sophisticated Learning Management Systems and technology that used to be the exclusive and expensive domain of really big universities and corporations. See the parallel?

Why Manufacturing Leaders Listen So Closely To What I Have To Say

Just a few years ago I invested two years to take a tightly-focused sabbatical, documenting and refining everything that needed to be done to build a strong, profitable value chain in a business, and afterwards began a mixed learning model pilot program where I accepted selected manufacturing firms as clients. The results have been nothing less than spectacular…

- One client took their Customer Profitability Ratio from 2:1 to 5:1 (I'll share exactly what that is shortly). They expanded the pilot and took it to 100:1 in the following year – a massive shift in their bottom line. That provided the cash flow to acquire a competitor, which doubled the size of the business and vastly expanded the trading area.

- Another client went from a loss of almost $10K *per employee* to profits of $27K *per employee*… and took it to $31K of profit *per employee* the following year. With hundreds of employees, their business was completely transformed.

- A third went from lending his company money from his personal accounts just to keep it solvent, to having enough cash in the bank to replace his aging fleet of cement trucks – no small investment!

- A fourth found out the real reason why his product wasn't selling (and it was a self-inflicted wound in their process that had nothing to do with his sales force or the actual product quality). He avoided making the 6-figure investment in sales training he'd been considering (which wouldn't

have impacted the issue one iota), took a root-cause approach to drive over a million dollars of unnecessary cost out of the problematic process, and returned to profitability for the first time in 5 years.

- Another was able to increase his prices by 6%, just by understanding how to trigger a higher perceived value with his customers. That one move alone doubled his profits within 3 months.

But exponential increases in profitability only tell part of the story. One client refers to this process as the "Holy Grail of Profitability", and credits it with saving his 2nd marriage, because instead of just working longer and harder hours to increase sales but never having anything left to show for it, he finally could take the time off to be with his new wife, knowing that his employees had the tools, processes, and accountability structures to keep adding profits even when he wasn't there.

Even though the results were mind-blowing, I knew I could make the program even better, and even easier to implement and sustain, so I spent another six months fine-tuning the material and creating a beta online university - ProfitU™. Over the past year a 2nd select group of clients have been beta-testing it, and they've experienced the same types of exponential increases… and in only a fraction of the time thanks to the efficiency of online learning combined with a rhythm of implementation for results.

Instead of having to put everyone in a room for periodic workshops (old-style lock-step learning), the team members learned online in brief spurts at their convenience during the week, and when they got together it was all hands on deck to implement, see results, and hold each other accountable for accelerating the process. By dedicating only about 90 minutes per week – about the same they're spending on email *every day* – my clients are doubling and quadrupling their profitability within 1 year! And, ProfitU™ has just gotten better. I learned from the wonderful gamification built into my Fitbit, and have added some similar motivational elements that fully engage the millennials I'm seeing on some of the teams. Now, ProfitU™ is a game that everyone wants to win!

You might be wondering why I limited the number of clients both times I have accepted applications. Well, one of the reasons is that unlike most programs out there that have no real interaction between the mentor and the students, I monitor the week-to-week completion trends, I provide unlimited access for any member of a company's ProfitU™ team to reach out to me directly, and I get on the phone with the Team Lead at least twice a month to keep everything on track and hold them accountable. This strictly limits how many clients I can have at one time. The lesson there is that people are still required, even when there's automation.

But I am getting way ahead of myself here. I still have more I want to share with you. So, back to the purpose of this Manifesto – helping your business survive, thrive, and prosper during the massive changes that are about to impact manufacturing.

How Do You Know What Your Profits Really COULD (and Should) Be?

I don't mean to get all philosophical on you, but have you ever really thought about what profit means to your business – and to you? If you really think about it, it's the measure of how highly your customers think of you, and how good a job you and your employees do. And isn't that what we all

want? To be richly rewarded for the time, the effort, the energy, and the ingenuity that you devote to working in the business day after day?

You can't just take profit. You have to earn it. And it's the measuring stick, the bragging rights by which you get to stand out from a crowd of also-rans. It's also the currency that either creates possibilities in your business, or denies you the opportunity to grow, to take it to the next level, and THAT'S why its so important to deliberately earn a LOT more profit now… because you're going to need every cent to take advantage of the opportunities that will present themselves in the next 5 years as the world shifts to localized, additive manufacturing-on-demand.

Most business leaders get the concept of profitability wrong. Sure they set goals (usually a small incremental improvement from last year which inspires small cost cutting efforts and a bit of sales growth) but rarely do they commit to a big, bold, inspiring profit target that invigorates the organization and changes the playing field. Right now, you're probably settling for so much less than you could be.

But here's the deal. Right now your employees would roll their eyes at you, shake their heads, and go right back to business as usual if you told them that the goal was to double, to triple, or to quadruple your profits this year. Because they simply don't believe its possible and they don't know how (and you probably don't either, because you're smart, you're working hard, and if it could be done you'd already have done it, right?)

The reason you are not making the kind of money in your business (or working the amount of hours you want) is that you don't know what "best in class" profits look like… or what you need to do differently to get there. Just like in the days before Lean, you didn't know what world-class manufacturing looked like.

But once you know what the top players in your industry have already achieved, you're going to be hard-pressed not to want to beat them at the game. Think about it – don't your employees think they're the best when its time for a raise? Show them what "best" looks like… and challenge them to help you achieve it, step by step and day by day.

I'm always shocked at how many leaders don't have any idea what the profitability in their business should be, or how to increase it in any way other than trying to increase sales and slash costs. So, the question is, "Do you know what profit your industry achieves?" Sure, you may benchmark a lot of things these days, but do you know how your profits compare to the best in class? Do you know what you need to do to achieve world-class profitability so that you can build a profit vault to see you through seismic shifts in the industry?

If you don't know how high the bar is really set, then you cannot make effective decisions on what activities in the value chain you should be spending your time on to create the greatest impact and what activities are actually busywork that are destroying value. You don't have the roadmap to exponential profits or to building a profit vault to help you deal with the hidden risks your business will experience within the next 5 years.

So, let's roll up our sleeves and figure out together what level of profit you should set your sights on, in order to help you navigate the future and get you where you want to be...

I've been fortunate enough to share what I'm going to show you next with executive audiences across North America, and it's a very simple concept that often has transformative impact. We're going to benchmark your profits using a metric that's almost never reported upon in the press… but is very powerful.

It's called Return on People… and isn't it the everyday behaviors of everyone in your organization that either creates or destroys profit? A marketer zeroes in on what your customers need to hear to help you stand out from the competition or your brochures and websites sound a lot like everyone else's… a sales representative either works hard to sell value or discounts your margins away just to buy the business… your shop floor employees work hard to produce a quality product and ship it complete and on time or fail to take the care they should and create a need for re-work… your accounting department sends an accurate invoice to the right person and follows up promptly for payment or lets receivables get out of hand… your customer service team courteously, competently, and promptly help your clients with any questions or concerns, or waste time escalating issues for resolution… as an organization, you earn the right to do business again, or you unwittingly convince the customer to try someone else next time.

Return on People is actually measured by Profit per Employee, and here is the slide you'll need to calculate where you're at today, and where you should be.

The Return on People Calculation

$$\frac{\text{Net Income}}{\text{\# of Employees}} = \text{Profit Per Employee (Return on People)}$$

First, enter your Net Income from last year. No, not gross margin, not EBITDA, but the Net Income right at the bottom of your income statement.

Then, enter your number of employees. If you have a seasonal business, you can use FTEs (full-time equivalents).

Divide your Net Income by your number of Employees – what do you get?

Many companies find they're in the $5K-15K range… some already know they're in the negative… some do quite a bit better. But did you know that some top manufacturers are earning up to almost $1million of profit-per-employee? That may not be achievable for you or for your industry right away… but send me a quick email at M5M@AnneCGraham.com with your results and what industry you're in, and I'll send you the benchmarking summary data and the best-in-class for your industry.

Meanwhile, let's stay focused on how to double or quadruple wherever you're at today, just like the company above whose starting point was -10K of profit per employee… and where they took it to +31K in just a couple of years. Wqrning!! The fastest way and most short-sighted way to improve your profit per employee is to load up your distribution channels with product and downsize all your employees! But we don't want to go there, so we need a better plan.

For the purposes of an example, let's assume your current results are right in the middle of what I usually see… that your profit per employee is $10K. Besides, that makes the numbers easy. (If yours are 'way higher than that, don't get comfortable… it just means your industry as a whole might outperform

others). You want to work your way through the value chain, NOT just to cut costs, but to look for what adds value to your customers (that you can charge for), and where there's waste, not unlike what you may have done in your Lean journey.

Exponential Growth in **Return On People**

Starting Profit Per Employee	**$10,000**		
Month 1	11,000	Month 7	19,487
Month 2	12,100	Month 8	21,435
Month 3	13,300	Month 9	23,579
Month 4	14,641	Month 10	25,937
Month 5	16,105	Month 11	28,531
Month 6	17,715	Month 12	**31,384**

Just look at what happens when you set a goal to increase your profit per employee by just 10% each month. In just 12 months you will have tripled your profits. That's the work my clients do.

Some set lower goals based on where they're at today, some set higher goals. We'll work that out together and monitor it for opportunities every step of the way.

Alright, so you now have a new financial target to get to by uncovering value. Great!

But wait, you say, where does a whopping 10% improvement each month COME from! Well, let me just say that I've uncovered a lot of uncommon strategies and tactics over the years by scrutinizing each area of the value chain. My experience with clients who've followed the structured implementation process in ProfitU™ is that the two parallel streams of profit accelerators each deliver somewhere between 16-38% more to the bottom line each semester. Every business is different, so your results may be more than 10% per month or they may be less… but even if you only doubled your profits in the coming year, would you complain?

First, you need to have a rigorous process in place to take and track profits that's different and better than what you have today, because otherwise you'll have good intentions, but then revenues will come in lower than expected, costs will come in higher than expected, and your profits will evaporate.

The only other requirement is to know which everyday behaviors and activities are value-add and which ones are value-destroy, and then help your employees automatically behave in value-add ways without even really knowing it. If you just tell every person they have to increase profits by 10% each month they'll either run for the door, or you'll get some very aberrant behavior as they mistakenly try to do the right thing. Changing the behaviors that are driving your current results is where the magic is, it's why relatively few firms can safely and exponentially grow profits, and that's what took me over 20 years to discover and systematize. You need to make some changes… but probably NOT the ones you'll instinctively want to make.

Let me give you an example.

A client who manufacturers custom kitchens had their own fleet of delivery trucks crisscrossing North America, and a new CFO decided that they could cut costs pretty dramatically by using commercial shippers. Makes sense on the surface, right? Well, it backfired in a VERY big way. A little-known fact is that in the kitchen business, corner units need to be installed first, and the company-owned trucks were loaded to facilitate that.

In the commercial hub and spoke system, the boxes became a mish-mash, which caused mayhem at the installation end, especially when some orders arrived at different times on different trucks. But it gets worse. Even with the best packaging, damage happens in shipment. With the company trucks, the company knew it immediately, the company-owned truck brought the damaged pieces right back on its return run and the company made it right immediately, thus making sure the customer's kitchen could be installed as quickly as possible. With commercial shipping… well, the ring-around-the-rosy of finger pointing meant a lot of delays before even knowing about the problem, then wasted time, effort, often a significant delay for the unhappy dealer, installer and homeowner, more costs to return damaged parts when the truck wasn't already dead-heading... and so on. Costs to fix damaged goods rose by over 10 times… and profits were in free-fall. But it gets worse.

With company-owned trucks, the drivers got to know the local installers, many of whom worked solo on the jobsite. The drivers would pitch in to help the installers get everything inside the home in a way that the installer could then manage on their own. Those relationships were a powerful source of competitive advantage because the installers would tell the dealers which brand to steer their customers to… and the company threw that advantage away, leaving the installers and the dealers up in arms with the abrupt destruction of anything even resembling customer service. The cost-cutting CFO was well-intentioned – but by not understanding the core value-add elements in that business throughout the value chain, he damaged relationships, the company's credibility, and their bottom line. It took the company just 3 months to trigger that debacle and more than 3 years to recover from it.

The Difference Between Value-Add and Value-Destroy

So what is value-add – really? Value-add is time that is directly related to generating income. But not just ANY income – *profitable* income. You might not know it, but 40% of companies who increase sales in a given year *decrease* their profits. They think they're growing… but it's in the wrong direction.

Value-add is SO much more. It's everything you do to save a customer time, save or make them money, solve their real problems with creative solutions, provide peace of mind, or create a feel good. And, it's everything you do to save your internal customers (aka employees) time, eliminate costs, solve their real problems to increase productivity, provide peace of mind, or create a feel good to drive loyalty and retention. How much of your personal time is actually spent doing any of those things? Well, the answer isn't pretty, and it clearly illustrates that most companies, including yours, are heavily weighted towards activities that destroy value.

One study of Fortune 500 CEOs estimated they had 28 productive minutes a day. Another one estimated it at 38 productive minutes a day.

Another study estimated that CEOs spend approximately 30% of their time dealing with escalated customer issues.

I know, it sounds crazy, right? You're spending 5 or 6 times as much time on "bad stuff" as you are on "good stuff". One adds value, one destroys value.

Now, extrapolate that throughout your business, and you'll see just why your Return on People has nowhere to go but up, and big time. Throw in a couple of hours of email per day (a necessary evil, but it never moves the needle in your business unless you're in order entry). Throw in some "regular" meetings where old news and old issues are continually rehashed. Throw in reports that are generated and reviewed but rarely become a catalyst for any positive change… well, I think you'll see how the list gets bigger and just keeps you going in circles.

Value is only added when you actually do the work to earn profit from a customer or to eliminate waste across the value chain so that more of your people are spending more of their time doing the things that earn profit from a customer. That's it. That's the big secret, and the big barrier. That's important because many internal thinkers get caught up in the busy-ness of internal work that paying customers never see or value. Only customers create the cash flow that your employees turn into profit once they remove all the waste that eats into it long before it ever flows to the bottom line.

Of course, I'm not suggesting that you shouldn't spend any time on all the internal activities you do today. You have "internal customers" at each stage of the value chain too, and anything you can do to help them be more productive in serving your customers or eliminating waste is value-add, even if they're not directly customer-facing. Some of these activities are just maintenance which you can never completely eliminate. But it's time to devote more daily hours to value-add.

Value-add means

- creating products that fill an identified need, not just the usual new-and-improved that nobody really wants
- marketing products and improving your marketing process in a way that helps customers take action sooner to shorten the sales cycle, and to see you as the only choice, which improves margins
- getting it right the first time so that in only rare instances do your employees need to make it right the 2nd time… without needing to escalate
- choosing the right projects and investments and managing them well
- streamlining every area of your business

But to really survive, thrive, and prosper in the future, there is something else that goes hand-in-hand with creating your profit vault – within the value chain and the business model that you have to work with today. It's starting to envision and work towards a value add Manufacturing 5.0 vision, so that you can *deploy* the contents of your profit vault for maximum benefit as opportunities arise. Think about it. What will you need to invest in or divest of so that you can add value in the future when you no longer manufacture and ship products in a hollowed-out value chain?

It took a LOT of cash for me to pivot my business model, and to build the online learning and accountability systems that support it. I had to take my marketing, sales, and customer service functions to a new level, not to mention investing in infrastructures like trademarks and the technology that supports learning management systems. My business is different from yours, but I've seen first hand how change consumes cash.

Which Manufacturing 5.0 Business Model Will Work Best for You?

There are going to be a variety of business models that emerge in the coming years to support localized additive manufacturing-on-demand.

- **One is the Apple model,** where you don't manufacture anything yourself, but you become wizards at engineering, marketing and service. It's not a bad model… their Return on People is typically between $400K to $500K per person per year! But achieving an Apple-like expertise in engineering and marketing is going to take cash.

- **Then there's the Walmart model** – they have real estate everywhere which keeps them close to their customers and they excel at supply chain management. In this model, you'll need to invest in real estate to be super-close to your customers/end users, equip those facilities with a range of 3D printers, and likely provide your customers with a lot more than just your own products to justify the distributed investment – it's going to take a lot of cash to become a one-stop shop, or to develop Walmart-level logistics expertise if you don't already have it.

- **Of course there's the Eat or Be Eaten consolidation model** - maybe you'll be the one who buys up all your competitors' product designs and patents, and become the go-to for 3D printing the components you manufacture today. Just know that "component manufacturing" is still an interim step that's going to consume a lot of cash… and sooner or later that model will evolve again to one where your customers print their own finished product using designs of their own or designs they license from you. Which will it be? Only time will tell.

- **Or maybe you're the one who decides to be "eaten" by your competitors, as an exit strategy**. As you know, the highest price multiples are paid for strong balance sheets, strong customer relationships, and strong cash flow. So even if exiting the topsy-turvy world of Manufacturing 5.0 is your choice, you need to build a profit vault if you want to sell your company at a premium. And if you're staying in the game… well, to the victors of the profit vault game go the spoils.

Alright, I think that's more than enough painting the picture of why its so important to HAVE a profit vault and how its going to lead to opportunities that you're not even seeing today. Let's get back to the

small window of opportunity that you have today to embed profitable behaviors across every step of the value chain, so that you can fund your profit vault.

Unless you have really focused on optimizing your value chain in the past, I wouldn't think your company is generating more than that 28 minutes of typical value-add per person each day. Everything else is maintenance work or busy work that's destroying value! But the number doesn't really matter. Because even if somehow you're double or triple the productivity of everyone else there's still massive waste in every day. That's what we've got to change if you expect to generate an industry-leading level of Profit per Employee.

The 3 Easiest Ways To Boost Your Profit per Employee

If you are asking yourself "how on earth could I take our Profit per Employee from a negative or low-5-figure number to well into 6 figures?" the answer will not be found in an MBA, an Executive Education program, more Lean training, a new CFO, or your typical consulting project. The answer is that you need to build activities and everyday behaviors into how your employees deliver value throughout your value chain and you need identify and help your people eliminate the everyday behaviors throughout the value chain that are destroying value. You need to get everyone productive with more than 28 minutes per day of value add if you hope to find that 10% boost every month. It's not nearly as impossible as you may be thinking… but it's not obvious.

Your biggest challenge is that many of these value-add behaviors don't have immediately-identifiable financial impact – i.e. one example is a customer who costs you a bundle by continually paying late and having you finance them at your expense. What you're doing today – dunning letters, collection calls etc. – isn't changing that behavior, because it doesn't add value to the customer! When you help them shift that behavior to paying on time, it won't be obvious that you've eliminated costs that shouldn't be there, so you also need a means to identify those wins and add that value to your profits. It's not difficult, but you'll need to learn a systematic approach in order to capture the value, otherwise all those gains will pretty much melt right back into your business without ever seeing the light of day.

By the way, a 23-year old accounts payable clerk at one of my clients found a way to clean up receivables in just 30 days when she understood how she had the ability to change customers' payment behaviors in a value-add way. They put those savings right on the bottom line.

That's why setting profit targets that increase in small monthly increments is so crucial, because it shifts your behavior. You'll learn to take profit off the top, rather than as a leftover after your revenues and expenses are dealt with. You don't have to depart from your usual GAAP-based computerized systems and reporting, but you DO need to overlay a slightly different approach that makes all the difference. For the first time, you'll see how easy it becomes to earn the levels of profit that you really want, and for the first time, you'll see that profit accumulating in its own vault, ready for you to deploy in a more strategic way. Right now, your business is not set up to help you achieve and surpass exponentially higher profit goals – far too much is simply not visible.

You also need to know which behaviors create or destroy profit on a customer-by-customer basis. That serves as the barometer for which activities you should personally be spending your time on and which

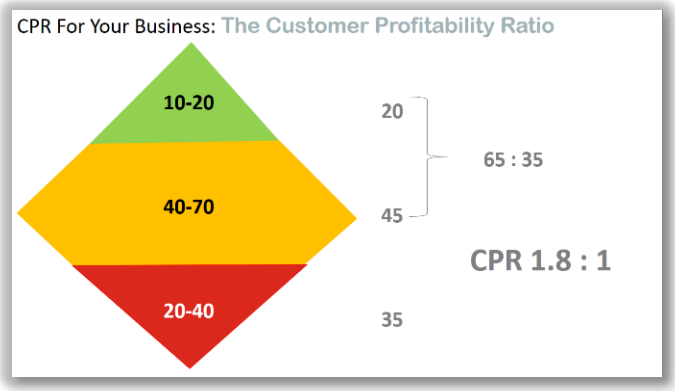
activities you should be eliminating. The trick is to consistently focus on those activities that can create value for a customer or savings for your business in a way that delivers higher profits. Using visual customer profitability management tools, you and your people can see where the bar need to be raised… and raise it.

So we've just surfaced three concepts crucial to exponentially increasing your profits – identifying where there are opportunities to create value throughout the value chain, engaging your people in being part of the solution using visual management tools, and then taking profit off the top to crystalize the less-visible profit wins and ensure they make it to the profit vault.

But where do you start to get those customer-by-customer insights?

The Step-Wise Approach to Scaling Your Profits to Achieve Exponential Increases and Build Your Profit Vault

I spend a considerable amount of time in ProfitU™ teaching teams to identify the desirable, profit-driving behaviors and then track and manage them customer-by-customer using simple visual management tools. Don't worry if you have thousands of customers – this process focuses on the ones who really move the needle for you, and you get spill-over benefits for the rest. Unfortunately I don't have the space or time to go into great detail here, but I can certainly get you started.



Take a look at the slide to the left, which illustrates the Customer Profitability Diamond and the very powerful and game-changing Customer Profitability Ratio (CPR) that I used in an example earlier. These are the actual results for that client.

We don't use conventional number-crunching to generate these results, rather this is a proprietary tool that I've developed that pulls deep knowledge about customer behavior from those employees who interface with customers at all stages of the value chain – not just sales.

The results illustrated are typical of what I've seen over and over again during 15 years of building out this tool with corporate teams during the live ProfitU™ kickoff workshop.

Only 10-20% of your customers are highly profitable. Another 40-70% are so-so… and somewhere between 20-40% of your customers are costing you more than they're worth. Now, that doesn't mean "fire the customer!" because when we drill down into the reasons why they're unprofitable, the cause is – bizarrely – more often US than THEM! Just think of aggressively discounting or over-serving, as two of many examples. Disturbingly, it's often your biggest blue-chip customers who are in the red-zone category… and its costing you a bundle. Most businesses chase sales, believing that revenue is the

starting point to profit. Well, only *profitable* revenue delivers profit, and this brings that message home loud and clear.

When you follow the example numbers in gray, you'll see that having 20% of your customers in the green zone + 45% in the yellow zone means that 65% of your customers are technically profitable for you at some level. But when you create a ratio that compares 65% to the 35% who are unprofitable for you, you'll see that your Customer Profitability Ratio is only 1.8 profitable customers for every one who is not. Rounding that up, it's 2:1. OUCH! One unprofitable customer for everyone that is profitable? And you wonder why its hard to make good profits! We can usually hear a pin drop when your team realizes the implications… and behaviors change in an instant. Because they know that 5:1… 10:1… 50:1… or 100:1... is better than where you're at today. And they want to help make it happen.

So let's move on so I can illustrate my point about the need to create profitable behaviors throughout the value chain. Part of this area of the work centers on understanding what customers truly value… and what they don't even notice.

I was working with an organization that had a revolving door of customers, with an annual turnover of 50%. They were planning to drop prices substantially to try to hang on to those who were left – NOT a great profitability tactic! What we did instead was to find out why their highly-profitable green-zone customers stayed while everyone else was churning. The results were very surprising, because those customers identified areas of value that the organization wasn't even aware they were providing. Applying that knowledge to every area of the value chain, we updated the marketing materials with a new value proposition that reflected how customers perceived value… and took the company's new-business-close-rate from 1 in 100… to *1 in 3*. Now THAT'S leverage that brings the cost of sales way, way down!

Then, we applied the customer feedback to the end of the value chain – the "repeat, refer, or run away" stage. We invited those who had "run away" to return, using the new marketing messages. 50% of those who had left returned immediately.

And when we built the new marketing messages into the ongoing service and renewal process, the 50-50 churn rate transformed into a 95% retention rate. And no, you' can't get at the deep insights required with a conventional customer satisfaction survey. In fact, that's the worst tactic to attempt.

Oh… and by the way? We also identified common traits amongst the highly profitable Green Zone customers to develop an Ideal Customer Profile, and constructed a new client qualification form to help spot the good ones from the duds. Why not bring profitable customers on board from Day 1, right?

Exponential profit increases are easy when you make the subtle shifts in behaviors and leverage that kind of value-add power across the entire value chain.

Are you with me so far?

The Concept Of Value Creation Beyond The Shop Floor

If you are on board with this it should be clear that your goal is to have all the good work and value you create in your business serving you in as many ways as possible. You do this by taking the deep learning you've done with Lean and extending the *philosophy* of Lean (not just the current Lean practices which rarely translate well) to eliminate waste and add value across the entire enterprise.

By taking a systematic approach to uncovering what your customers value most, you can focus on getting the biggest bang for the buck. And by extending how that value is layered into multiple stages of the value chain as I illustrated above, you do the heavy lifting once and then reap the benefits multiple times. You soon learn how to build "early warning" markers for red-zone and green-zone customers into your sales process… you accelerate your sales process and can charge higher prices by strengthening your value proposition… you strengthen those relationships not by providing just great quality (which 3D printing automatically provides) but by providing more creative and value-add solutions… and you have the time to nurture and build those relationships through service when you're no longer consumed by shop floor issues, rework issues, shipping issues and so on, and so on, and so on.

This is what creating value in a way that delivers immense profits is all about. Obviously there are much more advanced methodologies and strategies, but if you are stuck on conventional Lean and not focused in the right areas to start with, then all the advanced stuff won't do you any good.

Remember when I said it wasn't all doom and gloom for manufacturing? The seismic changes that are coming in manufacturing are actually the best thing that ever happened to your business. The question is whether or not you can pivot to looking at value-add in a new way.

The bottom line is that if you're not earning industry-leading profits right now – you've got to get re-focused NOW so you can uncover value in new areas of the value chain today… before it all changes… and capture it in your Profit Vault. Nothing else is more important. Period.

The Real Difference Between Creating Value And Destroying Value

In order to be successful in exponentially increasing profits you simply must learn how to identify value-drivers effectively. Unfortunately most people are approaching value all wrong. Their flawed thinking begins with the very first question that they ask themselves when looking to increase profits. Most manufacturing companies ask themselves: "How can I grow sales?" and "How can I cut costs?"

The answer to both of these questions leads to a lot of disappointment, frustration, missed opportunities and effort that has no return for the time spent. The reason why is that it reflects the outdated thinking taught in our business schools about what makes a business successful. Frankly, these questions border on the absurd…

First off, the "grow sales" question is the wrong question because the usual answer is to chase new business, and that often requires big investments in marketing, huge sales efforts, and big discounts to win. It's backward!! When all is said and done, the classic saying that old customers are the best source

of new revenue is really true. And since we've already established that your productive time is limited – why waste it chasing potentially bad business that costs you a great deal more than you might think.

The same goes for the "cut costs" question. I've lived through enough short-sighted belt-tightening, downsizing, and rightsizing experiments that I know that nothing is truer than the old adage that you can't shrink your way to growth. Most often, the costs that are cut are not material enough to make a difference, and the good investments that get put on hold are exactly the ones that WOULD make a difference in getting you out of the hole. I'm not against reducing expenses when they reflect waste… but I am against cutting "costs" that are actually investments in the future of your business. The challenge is knowing the difference between the two.

In a keynote that I did at the Profit500 CEO Summit a couple of years ago I talked about the difference between creating value and destroying value. I was surprised by the number of leaders who have followed up with me who wanted to thank me for this one distinction.

Which Question Are You Asking Yourself When You Think About Value?

When you ask the grow-sales-cut-costs questions, you're taking a tactical approach. Your focus is on hitting a specific number, no matter what it really costs the business. When you take this approach you are forced to continually flog and coax your employees (even though that just means they repeat what's already not working), with no buy-in to the real goals and no way to realistically expect them to continue growing sales and cutting costs indefinitely without burning out. I call this myopia, because the time and energy devoted to marginal returns is exhausting and rarely effective. What makes this approach even worse is the re-direction of leadership time away from a strategic focus to nickel-and-diming. It's just not where the fun is in your business.

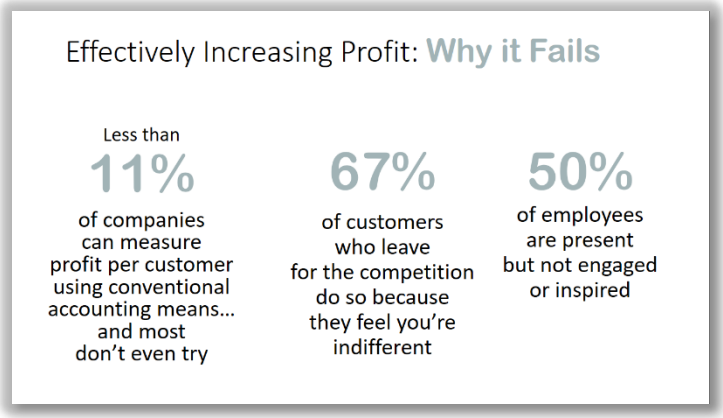
Value creation is about developing creative problem-solving abilities in conjunction with your employees and your customers. The better question is "how can we solve our customers' challenges AND eliminate the challenges holding us back too?" When you take this approach you end up building a team of highly committed customers and highly productive employees that, together, pave the way to profitable business growth. Because this is energizing, invigorating work, you get to spend your time coaching and congratulating, and its where ALL the fun is in your business. Over time, it's your company that reaps most of the benefits.

Some of my clients have begun to offer on-the-spot bonuses and/or annual profit sharing to those who demonstrate the ability to create value or eliminate the issues that destroy value. And I've been told by each and every one of them that they thought it was money very well spent.

Now we're going to look at a way to apply everything you've learned so far. But first, I have some bad news…

How To Execute for Impact and Exponentially Grow Your Business and Your Profits

The bad news is; Even when you have good intentions you will still fail to achieve most of your goals unless behaviors around execution change too.



Pay very close attention to the problems on the left. My experience has shown these three statistics are responsible for a lot more than just profit challenges. In fact, being deficient in any one of these three areas will certainly stunt your business growth.

Since each of these areas are so vital to your success let's take a look at each challenge individually.

There are two essential functions that drive all of the profitability in your business: Engage your employees so that they will engage your customers. Regardless what your future manufacturing business model looks like, those won't change.

When employees know where they fit and why they matter, they will automatically behave like owners and look for ways to increase value-add activities and decrease value-destroy activities.

When your employees create value-add experiences, your customers feel engaged and appreciated. Appreciation is a powerful emotional trigger for loyalty, and must be personal, in-the-moment, and authentic, not "packaged" in a loyalty program.

It's surprising to me that there's so much talk about engaging employees, and so much talk about customer loyalty, but I've never heard anyone else talk about the essential connection between the two – and that's really what business is all about. Building a profitable business is about people doing business with people, no matter how much automation might be involved. And it is all driven by helping your employees see how they can shift small everyday behaviors and feel like winners when they see the Customer Profitability Ratio start to improve. Just like a sports scoreboard, it is a simple, powerful, easy-to-understand metric that is highly engaging.

Your Business Has Customer Profitability Blind Spot But Is Trying to Manage Profitability!

Understanding *customer* profitability is a crucial skill for any business. Yet most if not all the leaders I meet have only been trained to track overall revenues and expenses which eventually lead to some level of profit or loss at a macro level. We need to go *micro* to get the customer-by-customer impact I've described… but you'll never get there in the usual accounting-driven ways.

Perhaps you measure Gross Margin by customer, which is a start but creates two problems. One, there are far too many value-destroyers below the Gross Margin line which remain invisible with this approach. Maybe you've even tried a complex cost-allocation model to try to get at customer profitability at a bottom-line level, but doubtless you've found it time-consuming. The second problem is that all of that after-the-fact number crunching does nothing to engage employees or show them how they can personally make a difference.

Think about how absurd that is. My advice to you is that it would be really helpful to know which of your customers are profitable and which ones are not, using behavioral insights that employees can impact. That's why I teach The Customer Profitability Diamond to every client– because it's that important.

How To Show Customers How Much You Really Care

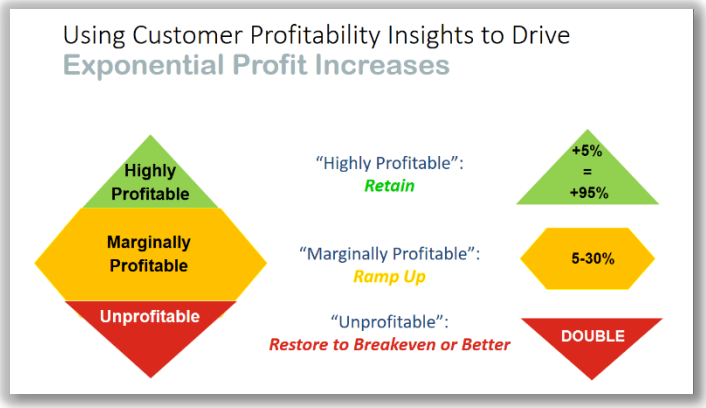
The next challenge with profitability is the perception by customers that "your company is indifferent". That's where that "appreciated" feeling on the part of a customer who's been genuinely engaged by one of your employees is so critical to managing customer churn. We've all seen the research on how much more profitable an existing customer is vs a new customer, and we instinctively know that losing a customer is not good (in general… although it is a good thing to deliberately "lose" customers who will always be unprofitable for you).

But the best way to understand customer profitability is not to develop more exact financial calculations – one client I worked with had spent over 3 years and $1 million trying to extract that data from their systems, without success. He and his team used the Diamond to generate actionable, good-is-good-enough-for-good-decision-making insights in less than an afternoon and created tangible bottom line results in less than 30 days.

One of my favorite sayings is "If you can't tell me your Who's Who of customer profitability, you can't impact your profitability". Wouldn't you agree?

Throwing short-lived discounts at customers is also ineffective in showing them you care. What they really crave is for you to understand their business and help them get better.

Most companies think that's the salesperson's job – but it's not…



The bad news is that it can be tricky to identify the real drivers of customer profitability in your business, as every business is different. The good news is that once you have those, the Customer Profitability Diamond process is really simple.

Typically there are only 6-7 drivers to evaluate – that's it! With the right members of your team in the room looking at a subset of your biggest customers, they only have two categories to choose from: which customers do well on those drivers, and which ones do poorly. The actually process translates those insights into a vivid picture of who is mainly green and who is mainly red – those who score 50/50 end up in the yellow zone. The beauty of this is that what seems a complex issue can be reduced down to the core actions that need to happen next using this method.

One reason why having a way to easily evaluate customer profitability is really important is that it makes it very easy to identify the right strategies to safely and sustainably increase profitability in a highly customer-focused way, by retaining, "ramping up" or restoring your customers to breakeven or better. The first time you see this picture of your customers emerge, you'll likely be dismayed at what you find… but relieved to know that now you can do something about it.

When you start working with the actual drivers, its really easy to see that in many cases customers are not as profitable for you as they should be due to what I call your own self-inflicted wounds. It's not that you have a lot of bad customers! It's that many of your own internal policies and processes are the root cause of the problem. More importantly, you'll see where you can easily improve what you're doing today, and that has a snowball effect across all of your customers. It's that snowball effect that starts to drive the exponential profit increases.

Listen, your employees can't help you become more profitable until they see how their everyday behaviors are helping or hurting and until they understand that they can move the needle by becoming engaged in the process AND accountable for small, high-impact actions that drive results.

The Small Actions That Deliver Major Profit Impact

But it's the impact I want to draw your attention to in the visual above. Research tells us that

- retaining just 5% more customers can drive up *to a 95%* improvement in profitability
- at any time, 5-30% of your customers could be doing *more* business with you
- just getting unprofitable customers back to breakeven can *double* your profits

Do you see how easy it is to understand and impact what is going on with a powerful tool like this? And, do you see how easy it is for employees to understand how the activities they are responsible for relate to improving or destroying profits? Do you see how increasing your profits 10% each month using tools like these all of a sudden seems very achievable? Lastly, do you see how this whole structure creates the opportunity to create more value for customers, to dialog with them on what's not working so well, and in the process let them know that you are not indifferent, but that you care deeply about their success and yours? And to exponentially increase your profits while you do it?

If you answered yes to the above questions you should develop your Diamond and implement the accompanying visual management tool that lets everyone track their progress. Let us press on…

Metrics: The Language Of Business (And Profits)

The third challenge on the slide a few pages ago was engagement. Gallup's data shows that 50% of your employees are not engaged, and that's the final profitability hurdle to overcome. Part of the reason is that they really don't understand where they fit in the overall strategic plan (less than 5% of employees can correctly identify their company's strategic goals for the year even when you think its crystal clear to them), they don't know where they fit, and they don't know why they matter.

Imagine if you were on a sports field but you didn't know what sport you were playing, what position you were playing, or what the rules were to win. And, you had no way to actually see the score – instead, all you saw was rows and rows full of player stats – similar to what you and your employees see when you present all your KPIs instead of presenting a simple scoreboard that shows them how to win. Would you know what to do next? How would you rate your chances of success?

Now think of the new metrics I've shared with you here. We've talked about Profit per Employee – about asking employees to actually help you achieve best-in-class results… because they're the best, right? That's a strategic goal that every employee can buy into, especially when you share why profit is so essential to the future survival of the business. Employees won't support greed… but they will support what's-in-it-for-me. This is a macro, big-picture measure that you'll only want to look at once a year, because if you do it more frequently to take a granular approach, it can drive behaviors that work against what you're trying to achieve.

Then there's the Customer Profitability Ratio. Whether on the front lines or deep in a support or manufacturing function in the organization, your employees will understand the half-dozen drivers of success or failure far more than they'll ever internalize a massive set of KPIs. And they'll understand how what they're doing every single day is helping or hurting. This is a micro, all-hands-on-deck measure that they can see moving every day on the visual management tool. Most companies never take visual management beyond the shop floor… and yet you already know how powerfully that can drive production results.

Obviously there are a lot of other metrics that are impacted by these two once you get them moving in the right direction. Sales go up, costs go down, efficiency and effectiveness improve, and your employees get very adept at spotting new opportunities to help win the game. Engagement increases,

your customers are thrilled with the value-add attention, and your business thrives. If you just start using these two, you'll be light years ahead of your competitors today. The game is to turn value-add into a profit vault, and you can win it.

A Quick Recap Of Manufacturing 5.0 and The Need to Build A Profit Vault

Obviously in just 48 pages I can't cover everything you need to know about building a profit vault to see you through the massive shifts in manufacturing that are about to occur. What I've attempted to do in this Manifesto is to get you thinking about your business differently than you ever have before. Here's a quick recap:

1. **The future of manufacturing is… not manufacturing.** The type of automation initially forecasted in Industry 4.0 is going to get hop-scotched by 3D printing which will hollow out the value chain and force you to find value elsewhere. That's the most powerful concept from this report, but knowing about it and being able to use this knowledge as a business compass are two different things.

2. **Change consumes cash.** You will need a profit vault in order to survive, thrive, and prosper through the upheaval during the shift from subtractive manufacturing to localized-additive-manufacturing-on-demand (LAMD). But it won't come from conventional approaches to increasing sales and cutting costs.

3. **Internally-focused production thinking is short-sighted.** Don't throw away your investment in Lean. But be cautious of new investments in systems or equipment related to 4.0 thinking – that's a clear sign that you're stuck in the outdated paradigm of internal thinking focused on production efficiencies which is the equivalent of moving deck chairs around on the Titanic. You've probably spent massive amounts of time and money and effort to perfect production. And that's why every reader of this Manifesto has a visceral reaction to that Big Hole In The Value Chain diagram that's on the front cover.

4. **Highly profitable businesses are externally-focused.** These businesses understand that it's not just about efficiencies, it's about embedding effective customer-focused, value-add behaviors in every area of the business. It's not difficult, but there are a few hidden land mines that make it relatively unlikely that you can transform established habits on your own through trial and error.

5. **You have a narrow window of opportunity to exponentially increase profits.** There is still time to leverage "business as usual" by uncovering profit in every area of your current value chain… but you will get distracted and caught up in the turmoil of all the bright shiny objects related to additive manufacturing if you wait any longer. Build those habits now so they can serve you in the future, otherwise you'll be fighting a war on two fronts.

6. **Manufacturing 5.0 is still based on people serving people.** The push to automate today's plants is a something of a red herring, because the type of people you will need in the future will shift significantly. That means it's time to pivot all the efforts you're investing in today to close the current skills gap, and refocus on becoming the employer of choice for the skills that will be in

demand tomorrow. That means engaging your employees in engaging your customers.

7. **You don't hire employees for life… you create them.** They want to do a good job… but you need to engage your employees in feeling like they're winning the game and like they matter, by shifting their everyday behaviors, holding them accountable to eliminate value-destroying activities and helping them focus on value-creating activities because that's where all the fun is. That's why the Return on People metric is one of the most powerful KPIs you'll ever share, and why the Customer Profitability Diamond and the Customer Profitability Ratio are two of the most valuable tools you'll ever have.

8. **You don't buy customers for life… you earn them.** When facing increasingly global options that require only the transfer of intellectual property over the internet to have products manufactured in their own back yard, you'll need to engage with your customers and uncover new ways to add value like never before if you want to create the Gold Standard competitive advantage that keeps them coming back to you.

9. **Shift Happens.** Remember that we overestimate what we can achieve in 1 year but underestimate what we can achieve in 5 years. Within 5 years, your business is going to look very different from what it does today. You can lead the change or let it happen to you – your choice.

When you follow these recommendations you'll be well on your way to increasing building your profit vault so that you can survive, thrive, and prosper in Manufacturing 5.0.

How to Exponentially Increase Profits to Fund Change

If you responded even in a small way to the Big Hole in the Value Chain Diagram, it's time to shift strategies. You've been following accepted best practices, but it's time to realize that continuing on that path is filled with risk. It's time to make sure you can survive the change that's about to overtake you by shifting your effort and focus to the *rest* of the value chain.

As I mentioned at the beginning of this Manifesto, I am committed to helping as many manufacturers as I can to build a profit vault and successfully navigate the change to come so that they have options despite the disruption of their accepted ways of doing business.

I can't achieve that goal by continuing my traditional consulting model, which limits me to only 3 clients per year, and which comes with a very high price tag that is out of reach for many.

However, you can access ProfitU™ and still be mentored by me 1:1. Together, we'll put the tools I've mentioned here (and many more) in place so that your team can help you pivot your business, create value, and exponentially increase your profits. Not only will I conduct a live kickoff workshop for you and your team to construct your Customer Profitability Diamond, but I will make myself available by email to your team on an unlimited basis, and you (or your designated team leader) and I will talk by phone twice a month to discuss strategies and tactics that are unique to your business. I will continue to offer my "whatever it takes" guarantee as long as I can… at least until the end of 2018 when I forecast

that demand for this program may require me to rethink that. You can expect to double or quadruple your profitability in the coming year on a safe and sustainable basis, as long as you do the work.

ProfitU™ is certainly not for everyone.

But if what I've outlined above rings true, If you know its time to get serious about building a profit vault to fund change so that you can pivot to Manufacturing 5.0 and survive, thrive, and prosper during the process, though… this program is for you. You likely only have two questions: how much does it cost and how will I find the time?

The bigger question is whether I have room for you. To ensure that I can give each firm in the program such a high level of support, I can only do two intakes per year due to the workload of the live kickoffs, and there is a very real limit on the number of companies in the program at any one time.

A "Free" Option To Discover Proven Profit Strategies…

Let's talk about what it costs and what it takes – because I have a very nice surprise in store for you.

In every business relationship someone has to make the first move. Plus, someone has to make the first investment and therefore take the first risk. You've already made the first move by reading The Manufacturing 5.0 Manifesto. Because of that, I'm willing to work a little bit differently from what you may be used to, because I'm an Accelerator, not a consultant, and I am willing to invest in your success.

I don't take the usual large upfront fee that impacts your budget process and cash flow, forcing you to cross your fingers and hope you'll see results. Yes, you read that right. I don't take a large upfront fee.

Instead, I work with you for the first 30 days with no money down, to generate the profit and cash that pays – with ease – the first of the 4 post-dated checks you'll write me to cover the first year of the program. During those first 30 days I show you exactly how to implement a deceptively simple yet very powerful systematic approach to profit that you will simply lather, rinse and repeat permanently, while we create the team and put the foundations in place for the live Kickoff. Then, I invest again to help you generate cash and profit over the next 90 days (Semester 1) which more than covers the 2nd post-dated check, and so on and so on. Every 90 days I help your team learn and apply strategies and tactics that have exponential impact.

That means that saying yes is not a budgetary decision – this is essentially "free" because I've make sure you have a return on investment from our work together and new money in your profit vault before you ever pay me.

The only catch is… you have to do the work. You see, I've learned from experience that companies who are serious about their success stay committed to doing the work to generate the cash, and those are the companies I love to work with. If you're not doing the work, I'll respectfully return your checks and move on to clients who are more serious about their results. No risk, no harm, no foul. Just upside for you, and a calculated risk on my part that's in your favor, because I know the results this work generates.

Will You Be Profit from Being Proactive… or Stay Reactive and Risk It All?

The only thing worse than being caught unaware in the shift to Manufacturing 5.0 would be to be caught with an empty profit vault to buffer you from change, with no way to pivot with ease and invest in your future. The biggest risk you could take right now is to leave profits at the level they're at today.

ProfitU™ is a 3 year program completed in house by your team in approximately 90 minutes once per week where first you'll learn, then you'll do. If you have time for email, you have time for ProfitU™ (because email never moves the needle in your business). The Learn-Do model is proven to deliver take it to the bank results. But let's not get ahead of ourselves… simply commit to just the first year, just 4 semesters. In Year 1 I'll share some of the same strategies currently being used by manufacturers earning industry-leading Return on People results. Many of whom are current and past clients.

I can't promise you that you haven't seen some of these concepts before, because we're talking about engaging your employees and customers in activities that will increase (profitable) sales, eliminate unnecessary costs, and give you a structure to track and manage profit that you've never had before.

But I can promise you that many of them are completely unique to ProfitU™, learned in the school of hard knocks and perfected over the years. They all have one thing in common; they are so powerful they will increase your business even if you do them wrong! But I'll be there to help you get them right.

There is only one thing you need to do next. Send me an email at YesToProfitU@AnneCGraham.com and simply tell me you want one of the limited places available. We'll get on the phone, exchange some Q&A to make sure it's a good match for both of us, and get the ball rolling… all with no upfront financial commitment by you. If I don't have a place for you now, I'll add you to the waitlist in priority sequence.

This could be the day that starts the transformation of your business… and starts you down the path to survive, thrive, and prosper in the changes to come.

Don't delay – do this now… just send a quick email.

To your success,

Anne C. Graham

Profit Accelerator
#1 Best-Selling Author
Founder, The Legendary Value Institute
Creator, ProfitU™

Anne challenges business leaders to attack the myths which prevent businesses from reaching their full profit potential and provides thoughtful guidance on how to deliver outstanding results. This is not flavor of the month. It's practical, relevant, and timeless.

Jim Bogusz, COO
The Beedie Group

PS – You of course have the option to wait and see if any of my Manufacturing 5.0 predictions come to pass… but whether they do or they don't, would it hurt to have more profit? Or you could wait until later to explore this option (by which time you will have forgotten this and moved on to the next big thing). I really don't want to see either of these happen, because it will mean you'll continue to struggle with outdated internally-focused thinking. But if that's your choice, may I ask you a small favor? If you've benefited at all from this report, just forward it to a fellow manufacturer whom you know needs help with profitability now. Cheers.