Turnaround of a Commodity Manufacturing Business

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Imagine you have just become the leader of this business.

This business is a manufacturer of a pure food commodity: flour. There are 12 manufacturers in the industry who all manufacture exactly the same products. The products from all manufacturers are virtually identical, with no difference in performance. The product has been manufactured to the same specifications for over 100 years with no change, and no opportunity to change specifications in the future.

End-user use of the product is declining, so industry volume has declined in each of the last 7 years. Your volume is declining faster than the category, resulting in gradually eroding market share.

In total, you have the number two share position, at about half the size of the market leader. However, this is by virtue of having broader distribution than regional manufacturers. In each local market, the share position is more likely to be #3 or #4, putting your distribution points at risk.

You have a significant manufacturing and distribution cost disadvantage compared to virtually every other manufacturer.

You are a price follower. Your pricing and level of price discounting has been set by the market leader for over 20 years.

Rising wheat prices due to poor crops in a variety of wheat producing countries are squeezing margins.

The business is part of a large portfolio of businesses, where you hold the lowest priority position for the owners. The request for investment capital to upgrade antiquated 50 year old equipment has been denied for each of the last 10 years.

Your brand, while broadly recognized, is also broadly perceived to be generic, while the market leader and regional brands have a premium image.

Two years later …

You are enjoying a 21% increase in volume and profit has increased 85%. Your business has had the largest percentage increase in profit of all businesses in the owner's portfolio. A $9 million capital improvement project has been approved and implemented. Your growth is causing the market to grow. Market share is increasing at the expense of the market leader, while your marketing and price promotion expenditures have decreased by 15%. Key employees of the market leader are calling you to inquire about job opportunities.

