



Featured Book Review

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The Many Forms of Profitability

A Zen-Like Dialogue About How Businesses Make Money

Review by Barry Silverstein

How can you write about profitability and make the information that must be conveyed compelling and engaging instead of dry textbook-like prose? Zen is the answer.

In this uniquely structured book, Adrian Slywotzky borrows a technique that is as old as storytelling itself — that of the master teacher interacting with his student. A number of business books over the years have used parables, fables and teacher-student relationships as their basis.

The technique works over and over again — witness business best sellers such as *The One Minute Manager*, *Who Moved My Cheese?* and *The Five Dysfunctions of a Team*.

Other business books have conceptually incorporated Zen philosophy, with some titles stretching the concept to absurdity; *White Collar Zen* and *Z.B.A.: Zen of Business Administration* are two such examples. But *The Art of Profitability* does a fine job of combining storytelling with Zen elements to illustrate the myriad forms of business profitability — and there are surprisingly many of them.

When the Student Meets the Teacher

Slywotzky, a management consultant, has authored or co-authored three books on business profitability and value and one book on digital business, so he is more than qualified to write about profitability. Clearly, he was looking for a different way to do it, and perhaps the format of the book reveals a frustrated novelist lurking within.

Slywotzky begins the profitability journey with a gentle warning, advising the reader to read only one chapter per week. The reason is to achieve Zen-like focus on a particular form of profitability and to think

about its applications to the reader's own situation. It is advice well-heeded, for the deceptively simple chapters reveal a great deal worthy of study and thought.

The premise of the book is that Steve Gardner, a young strategic planner for a diversified company called Delmore, is anxious to learn about profitability. He is introduced to someone at a cocktail party who refers Gardner to David Zhao.

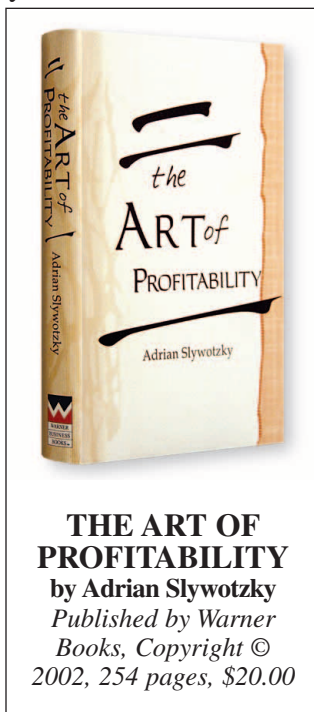
Gardner meets Zhao on a Saturday morning at an unlikely place — Zhao's office at a law firm. Zhao explains that he is employed by the firm not as an attorney, but rather as someone who consults on business structure. Zhao agrees to teach Gardner about profitability under the following conditions:

- The two will meet most Saturday mornings between September and May at Zhao's office for one hour.
- Gardner will be expected to spend four hours per week reading and preparing.
- Zhao will charge Gardner \$1,000 per lesson.

Gardner agrees, but is shocked by the final condition. He tells Zhao he cannot afford it. Zhao's answer is telling of what is to come: "I'm not asking for the money now. You can pay the fee when you're able to — if you ever are."

Twenty-Three Flavors and Maybe More

Each chapter of the book comprises a lesson, and each lesson is basically a dialogue between Zhao and Gardner. We learn in Chapter 1 that Zhao intends to cover 23 profit models. Zhao tells Gardner the number is arbitrary, but signals to the reader a shifting perspective: Most businesspeople do not view prof-



THE ART OF PROFITABILITY
by Adrian Slywotzky
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“... profitability is, indeed, an art and not a science. As much as it is based on numbers, and follows certain rules, profitability is fragile, fluid and not all black-and-white.”

itability as multi-dimensional.

As the 23 profit models unfold, Zhao challenges Gardner with increasingly difficult questions, asks him to do selected readings and provides him with assignments.

Zhao often restrains himself from giving Gardner the answers, instead guiding him to expand his thinking. We see the classic master/disciple relationship developing.

Slywotzky has Zhao explain each of the profit models in uncomplicated terms, using clear, concrete examples. For most models, Slywotzky adds a nice technique — having Zhao draw an elegantly simple diagram that defines the model in visual terms. (The drawings are done in broad Zen-like brush strokes.) In later lessons, we see Gardner begin to draw diagrams himself — suggesting that he has reached a deeper level of understanding.

Slywotzky also ensures that Zhao addresses the differences, similarities and overlaps of the models, lest the reader think that each is a tidy stand-alone concept.

This is an important underlying thread of the book: Slywotzky wants the reader to comprehend that profitability is an art and not a science. As much as it is based on numbers and follows certain rules, profitability is fragile, fluid and not all black-and-white. Higher profitability is defined not only by the result of expenses versus income, but by various business strategies.

The very existence of multiple profit models proves the complexity of the subject. As Zhao and his student discuss the nuances of the profit models, we move away from a singular view of profitability and recognize we are dealing with subject matter that is deep and rich in its dimensions.

What Do the Models Look Like?

Are there really 23 different profit models? While the reader may perceive that some of the models are simply variations of others, it is interesting nonetheless to consider the vastness of Slywotzky’s view of profitability.

Most readers will recognize “Customer Solution Profit,” wherein a company invests the time and energy necessary to learn everything about its customers and then uses that knowledge to create tailored solutions just for them. This model demands high costs upfront and results in initially low profitability, but over time, costs drop dramatically and the company can go into maintenance mode. As a result, profit increases significantly in the later stages. As

Gardner puts it: “Lose money for a short time. Make money for a long time.”

Readers will also understand “Pyramid Profit,” but they may not have thought about it as “the Barbie strategy.” Zhao offers Gardner an example of Mattel’s pyramid strategy with Barbie. Zhao calls Barbie “a system — a carefully crafted, coordinated and integrated system.” He explains that the low-end, low-cost Barbie that appeals to children is “a firewall of defensive product at the bottom of the pyramid” that blocks out competitors. The high-end, high-cost Barbie, a quality collectible targeted to adults, represents “a powerful profit-generator at the top.” Zhao points out that the successful implementer of the Pyramid Profit model “must understand all of the customers, current and potential.”

“Multi-Component Profit” is well-illustrated by Coca-Cola, a single product that is sold in multiple venues. Coke can be purchased by the consumer in a grocery store, at a restaurant and from a vending machine. Each time, the cost per ounce differs, yet the consumer actu-



ally buys the product at every price point, depending on where he or she happens to be at any given time.

“Switchboard Profit” is one of the more intriguing models due to its concentration of power. Zhao uses the Hollywood agent Michael Ovitz to illustrate the concept. He says Ovitz first packaged talent, then worked with a literary agent to get stories and ultimately put the talent and the stories together to sell to movie studios. Gardner correctly suggests that the real profitability came when Ovitz reached critical mass. Ovitz sought to represent many individuals — movie stars, writers and directors — all of whom were hot commodities to the studios. By pitching a complete package, Ovitz was able to command even higher fees from the studios and get even more stars to sign on with him because of his success.

“Digital Profit” is perhaps the most enticing profit model because it can result in a tenfold increase in productivity, while allowing the digital company’s customers to design their own products and even solve their own problems online. The digital profit model also allows companies to get information much faster — so they can make decisions that impact profitability much sooner.

Some of the other profit models are more abstract, however, and not as easy to differentiate. Slywotzky acknowledges this in the fictional dialogue, as teacher and student discuss and sometimes debate the profit models.

Zhao calls some of the models “first cousins.” At one point, Zhao asks Gardner to detail the differences among “Time Profit,” “New Product Profit” and “Specialty Product Profit.” The chart that Gardner creates for his own clarification also helps the reader better understand the subtle nuances of these three profit models.

By the last lesson, Gardner has not only learned the 23 profit models, he has uncovered the secret of Zhao’s teaching methodology. He realizes that the sequence of the lessons was not random. He sees that while Zhao begins his conclusion with the traditional, oldest profit models, the teacher’s final profit model

is the newest — one that can be used to achieve great success without even being a big business. He realizes that Zhao did not place the “first cousins” together, so that Gardner does not fall into the trap of focusing on the similarities rather than the differences.

We also learn in the last lesson that Gardner has been offered a promotion at Delmore — the position of vice president at the company’s paper division, which he helped revitalize through applying some of his lessons with Zhao. He tells Zhao he will not accept the offer, however, because he wants to continue to strategize for many businesses. Gardner explains: “There are some doors we’re not meant to walk through. I’m pretty sure this is one of those.”

Pearls of Wisdom

Zen master teachers are known for imparting wisdom that is both universal and introspective. Their role is to lead students to self-realization and spiritual awakening.

Slywotzky does an admirable job of having his character Zhao be both business teacher and spiritual guide to Gardner.

Zhao’s salient observations are peppered throughout the text. Gardner also verbalizes some key concepts. Here is a sampling of their collective wisdom:

- “You have to have a genuine, honest-to-goodness interest in profitability.”

- “Different parts of a business can have wildly different profitability.”

- “Sometimes it’s useful for a teacher to stand in exactly the same place as his student.”

“‘Digital Profit’ is perhaps the most enticing profit model because it can result in a tenfold increase in productivity, while allowing customers to design their own products online.”



● “The hardest thing in business is to keep the entrepreneurial spirit alive and flourishing in the wake of continued success.”

● “Profitability is thinking differently, always asking: ‘How does the high profit happen?’”

How Profitability Comes Alive

Several additional concepts are at work in the book to make profitability come alive. Throughout the weeks and months, Gardner discusses his own experiences, both positive and negative, at Delmore. We see a picture of the fictional company emerging that could represent a company the reader works for or is familiar with. Each division of Delmore is discussed in the context of Zhao’s lessons. Zhao comments on the company and seems to have the uncanny ability to know about things before they happen. Gardner’s own trials and tribulations at Delmore depict the challenges faced by a diversified company in many lines of business.

Gardner applies what he learns at some of the sessions with Zhao to his position at Delmore with varying success. Gardner gets to see that profitability is complex, ever-changing and dependent on an individual company’s management, lines of business and business conditions. There are no easy answers — a point that becomes painfully clear to both Gardner and the reader.

Zhao frequently uses examples to illustrate the profit models. While the character may be imaginary, the stories he relates about companies are real. These illustrative anecdotes provide depth and insight into each profit model and make it easier to understand the concepts and see how they apply to the real business world.

The author cleverly weaves required readings into the text, as Zhao chooses articles and books for Gardner that are pertinent to each lesson. A wise reader will pick up the cues and read the books Zhao recommends to his student. (An even wiser reader might do the readings in the same order prescribed for the student.) Some of the titles seem odd at first

— *Einstein’s Dreams* by Alan Lightman and *ABC of Reading* by Ezra Pound, for example. Others seem self-serving — Slywotzky includes all of his own books on the required reading list. Nonetheless, every book Zhao mentions is selected for a specific reason, and the teacher enlightens his student, and the reader, as to its relevance.

The dialogue and interactions between teacher and student make what could be ponderous subject matter engaging and readable. We witness the inscrutability of the master teacher and the impatience of the student thirsting for knowledge. We notice Zhao’s ability to read his student, and his pointed use of silence to provoke his student’s responses and encourage critical thinking. We see Gardner’s ability to think expansively grow over the months. We admire the way Gardner has matured by the end of the book, as he turns around the relationship and asks his own insightful questions of his teacher. ■

What’s Special About This Book

Slywotzky demonstrates that the art of profitability is a multi-faceted subject deserving serious study. He has the ability to succinctly explain each of twenty-three profit models in just enough detail, while suggesting that there is much more to learn.

Through Zhao the master teacher, the reader delves into the economics of profitability. More important, however, is the strategic insight shared by Zhao and, increasingly, by his student as the book progresses.

While some of the story line may seem forced, the overall effect of the book’s structure makes the topic enjoyable, easy reading. This is a book that is at once simple and complex, revealing in its many layers how readers can make their companies highly profitable. *The Art of Profitability* is a book that can be read many times and will have lasting value.

The author: Adrian Slywotzky is vice president and member of the board of directors of Mercer Management Consulting, Inc. He has worked extensively at the CEO level for major corporations on issues relating to new business development and creating new areas of value growth.

He is the author of *Value Migration: How To Think Several Moves Ahead of the Competition* and has co-authored a number of books. Slywotzky holds degrees from Harvard College, Harvard Law School and the Harvard Business School.

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