Straight to the Bottom Line

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Title… "An Allegory of Boxes and Balls"

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There exists a ball manufacturing industry that is rich with history and has a culture all its own. This is a great business with the vast majority of the industry being family operations. In fact, many of these businesses are multi-generational and quite large with many employing at least 100 workers. At the same time, many smaller production facilities are still viable due to the low cost of production and high equity.

This industry has a solid domestic market with an increasing global vision as well. The domestic market is filled with multiple distribution platforms including retail, both public and private education and some business-to-business transactions that are direct shipped. In these production facilities, raw materials are used to manufacture basketballs, footballs and ping pong balls. These three types of balls are then loaded into various sized boxes and shipped by truck daily.

With the variability in use by the end consumer and variations in ball production, the prices paid for the balls go up and down. The basketballs and footballs are worth much more than the ping pong balls, with the footballs usually bringing the highest price. In most cases, the ping pong balls are of little importance to the profitability of the production facility, but in a tight margin business, they are still important. In the consumer side of the business, the market chain pays significant attention to the price, demand, supply and possible stock piles of each of the balls. The ball production facility thinks mostly about boxes.

Into one of these businesses arrived a fresh college graduate who had actually grown up in a family that owned a ball production facility. In fact, his family had multiple locations and held a prominent place in the industry. Upon entering college a few years prior, this young man decided to study not the details of ball manufacturing, but to focus his studies on basic business economics. In his formal education, he learned the basics of cost-of-production, key drivers in business profitability and value of goods sold. In school, these discussions are theoretical and there are examples from many different industries and business models. He learns about managing cost input, product distribution and end user preferences. There was little if any discussions about boxes and balls, but the principles were all applicable.

After arriving back at the family business, this young man was given the task of learning all phases of the operation. Over the first year, he worked in each part of the business and began to gain an understanding about the overall business philosophy. Much of this learning came from conversations coming and going, over coffee and at lunches with suppliers and other ball producers. He is surprised by the openness with which other box and ball producers discuss the numbers from their business. He notes much discussion about the price each facility received per box. He wonders about this since he knew that every facility shipped boxes of various sizes with different amounts and combinations of the three balls. With this growing knowledge, he begins to study the income side of the business by reviewing income statements from box and ball sales. It occurred to him that, in some cases, their buyers didn't even want the box and it ended up in the recycle bin. What they were buying were the balls.

He begins to see a disconnect in the coffee shop talks about boxes and the dollars of income from the sales reports. One day he asks the simple question to his dad, “Why do we spend so much time talking about boxes?” He explained further that nearly all of the discussion he has had with the family and with others in the industry have been centered on the number of boxes sold. He questioned further about how much counting boxes really described profitability.

As he continued to make his case within his family business, he coined the following mantra that best described his point; “We need to spend less effort counting boxes and start counting the different types of balls that we sell”. Not only do we need to focus more on balls and less on boxes, we also need to think about what the market prices are for each type of ball. He had noticed recently that their facility had produced more boxes because of an increase in basketball production. However, the market has an excess of basketballs and footballs bring more value. “Is there a way we can produce more footballs, even if we sell a few less basketballs and maybe even a few less boxes?” His math had indicated that this approach would return more dollars to the business. He further noted that the proximity of their facility to a regional hub of football packaging made this even more advantageous. Basketballs seemed to be a bit in excess and even were being held in warehouses for future shipments, probably to public schools. And ping pong balls, though important, didn’t seem to drive the bottom line very much. In short, he wanted to focus on making more footballs in the family business.

The business made a point to not even talk about boxes sold going forward. From now on, this facility will talk about how many of each ball they sell per day. Furthermore, the owners committed to not only knowing how many of each ball they sell, but the value of each type of ball and the gross income from the resulting sales. With the income generating side of the business now seen in a different light, this young college grad started analyzing production cost. He wondered if a paradigm shift might be needed there as well. He knows that the true bottom line is best managed by counting balls and sales and subtracting actual cost; just like he learned in school.