**Theme:** 2.

**Reading:** Profit Pools: A Fresh Look at Strategy.

**Author:** O. Gadiesh and J. L. Gilbert.

**1. The Profit Pool Lens**

-A ***Profit Pool*** is the total profits earned in an industry at all points along the industry’s value chain.

-A pool can be deeper in different parts of the value chain.

-The firm who sees deepest parts the industry’s profit pool clearly first can gain a disproportionate share of industry profits.

**Example:** *-U-Haul: Low priced consumer truck rentals to get customers in, which made a low margin, sold them high margin accessories, e.g. insurance, boxes, storage, which consumers had a low propensity to shop around for.*

*-Competitors focused on maximising profits on truck rentals thus couldn’t get the no. of customers required to sell high quantity of accessories.*

-***Segment profitability*** may vary by customer group, product category, geographic market or distribution channel.

-The pattern of ***Profit Concentration*** is often different to ***Revenue Concentration.***

*Profit concentration exists where barriers to competition exists or in areas overlooked by competitors.*

-The pool is not stagnant: as power shifts: competitors, suppliers, customers react, thus the profit pool changes.

-Mapping out the current pool shows high-profit areas. It can also help see how where the pool will deepen and dry up in the future.

**2. Turbulent Industries**

-Structural change results in a shift in the distribution of profits along the value chain.

-Change can open new sources of profit and close off old ones.

***\* Choke Points in the Profit Pool \****

*-Choke points are particular business activities that control the flow of profits throughout an industry.*

*-They occur for many reasons: Patents, Dominance in certain*

*areas. e.g. Intel’s dominance in microprocessors, Microsoft: Windows/Internet Explorer.*

**3. When Growth Isn’t Good**

-Increasing revenue will not increase profits if higher profit segments are lost and lower profit segments are gained. *e.g. Dell retailing and Gucci adding lower priced goods.*

-Profit pool can be segment based *-Dell.*