

Challenging complexity and improving margin by addressing customer/product portfolio performance with 80/20 True Profitability



\$2B manufacturer
with 9 core Bus in
15 countries

>5K customers
and >100K
SKUs

80/20 sales focus
drove 20%
revenue growth

Portfolio priorities
generated >70%
EBITDA growth



Background

- Our client is a over 100 year old, US based manufacturing company with operations in EMEA and APAC with business units that span direct (via channels) and OEM customers in commercial and industrial markets.
- Products span high volume commodities to complex systems and diverse manufacturing processes and supply chains across multiple ERP systems.
- Company was engineering and product led for most of its history, growing both organically and via acquisitions.

The Challenge – low, stagnant margins

- Given its background the customer/product portfolio had proliferated significantly and with it, complexity costs from all the levels of variety and activity required.
- As a result, the company was spending more money with the low value customers and products than with the high value ones, primarily because they did not measure the drivers of complexity and cost.
- Complexity had become a ‘vicious circle’ of value destructive factors pulling down margins and growth potential.

The Advanced Analytics Journey

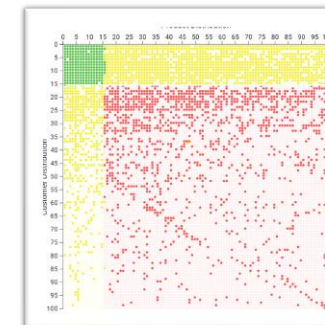
- BIG Data.** The 80/20 True Profitability model was created by stitching data together from over 20 ERP sources which was reconciled against the GL. This ‘one combined version of the truth’ was further enriched with Cost-to-Serve modelling and business led data tags, groupings, bandings and calculations to create granular customer/ channel/ product profitability analytics.
- “Forest to trees”.** Such was the level of complexity, the 80/20 models and visualization immediately brought clarity, with leadership able to identify opportunities that the BUs could buy into. Furthermore top-down scenarios were modelled to establish the gap and to estimate the “size of the prize” of profit improvement initiatives, whilst bottom-up scenarios defined operational targets to support the top-down goals.
- Aligned Action.** Agreed profit improvement actions, driven by cross-functional teams across multiple initiatives, such as Precision Pricing, Product Line Simplification (PLS), Customer Differentiation and Working Capital Optimization. Benefit delivery is tracked through monthly data updates and progress measurement at detailed customer/ product/ role levels to manage accountability and rapid course-correction needs.

The Results Journey

- Precision pricing.** Targeting low value Quad 4 “tail products and customers” increased contribution margins by 6-22% across 5 different BUs, while maintaining margins elsewhere.
- Rationalization.** PLS actions reduced low contribution margin SKUs by 20-40% across most business units.
- Segmentation.** Differentiating customer focus and service drove revenue growth of core Quad 1 customers while reducing cost to serve for tail customers

“Our True Profitability analytics allowed us to reallocate and prioritize our resources on customers and products with the highest growth and margins” President and CEO

80/20 Quadrant Activity Heat Map



True Product Profitability Curves

