Product Development and Lifecycle Management

PRODUCT PORTFOLIO SIMPLIFICATION UNCOVERS $45 MILLION OF SAVINGS

A strength taken to the extreme can be a weakness. If a company provides a high-quality selection of products and adds new varieties and custom creations, it's great customer service. But when those SKUs continue to add up, it gets harder and harder to provide service and maintain costs. If that company can strategically reduce product portfolio complexity, it can improve customer service levels, unlock constrained capacity, and increase profitability.

AN UNSUSTAINABLE SITUATION

A global food company's product portfolio had grown too large as it catered to the variety its commercial customers demanded. As a result, plants struggled to manage multiple product lines and small runs while maintaining service levels and profit margins. When the costs of both ingredients and labor increased, the situation got even worse. The company couldn't service its best customers. Some products and some customers generated small or even negative margins. The company would have to retire unprofitable products, even if it meant losing customers.

It brought in a "big four" management consulting firm to provide a strategy to save costs and reduce complexity without impacting key customers. The firm ran an analysis and made recommendations based on its proprietary benchmarks.

The food company enlisted Integrated Project Management Company, Inc. (IPM) to lead the execution of the proposed changes. When IPM's consultants worked with the company to plan and implement the management consulting firm's suggestions, they discovered problems. Because the original firm didn't understand the products and the company's production complexities, its recommendations wouldn't work.

So, IPM first had to help the food company realign the strategy, then execute it.

WORKING SHOULDER TO SHOULDER

IPM started building a plan from the ground up by learning about the company, its products, and its manufacturing operations. The program manager visited facilities and engaged with plant management. He learned about the company's different product classes to help determine which products could be combined or eliminated.

The program manager framed the plan into a program structure with multiple workstreams. To improve service levels quickly, IPM worked with the commercial and sales teams to find quick wins by eliminating the products with negative margins and no strategic value. A cross-functional team, including commercial sales, strategy, customer service, manufacturing, R&D, and finance, examined each of the 1,500-plus SKUs. Their goal: uncover redundant or similar products and substitution potential using multiple objectives and weighted factors.

At the same time, there was a workstream to evaluate customers for possible retirement based on profitability, strategic importance, and working relationship.

INCREASING SERVICE LEVELS AND PROFITS

The program uncovered a combined $45 million in annual savings through purging and consolidating products and retiring customers. Removing more than 150 underperforming products reduced the number of SKUs in the portfolio by 10 percent. Importantly, it unlocked 60 million pounds of capacity, enabling a shift to higher-margin products. A focus on its highest-value customers improved service levels as well as margins.

IPM also set up the company to carry the work forward. A cross-functional team was established to continue to review the portfolio to identify future savings. And the company will apply the methodology IPM demonstrated on the commercial portion of the business to its retail products.

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