

Medical Supplies Manufacturer

Case Study

Strategy & Performance

SKU RATIONALISATION

Successfully rationalising a product tail

Background

The client organisation holds over 20,000 SKUs; across thousands of customers and multiple customer segments; in 20 key countries; manufactured over 10 sites; distributed through 20 regional distribution centres.

As a specialist manufacturer, the underlying complexity of product design, components and highly differentiated local markets; is a constant constraint to the extent of value the organisation could uncover from a typical rationalisation project. The need for operational effectiveness was however becoming a serious concern and cost competitiveness was beginning to have an impact on performance.

Challenges

The implementation of a successful SKU rationalisation programme required a process that could deal with multiple requirements and challenges, including:

- Important local country SKUs considered in a global context
- Defining the importance of a SKU to end-customer markets using multiple measures and not sales value alone
- A focus on rationalisation, along with price and profit opportunities
- Identifying replacement SKUs for an obsolescence and substitution programme
- And defining a conflict resolution methodology to support the wider change agenda.

PMSI approach

Transaction level data was extracted from 5 separate systems, including product order line information by customer and various inputs such as sales and order quantities. Cleaning techniques were used and the data was re-structured for the exercise.

PMSI used its SKU rationalisation algorithm module to process and define various options:

- Customer loss risk using SKU/customer combinations
- Price increase opportunities for 35% of the tail
- Alternative SKUs that could replace those being phased out
- 'What-if' scenario planning before deciding on the final SKU rationalisation methodology, alongside product life-cycle management.

Case Study continued

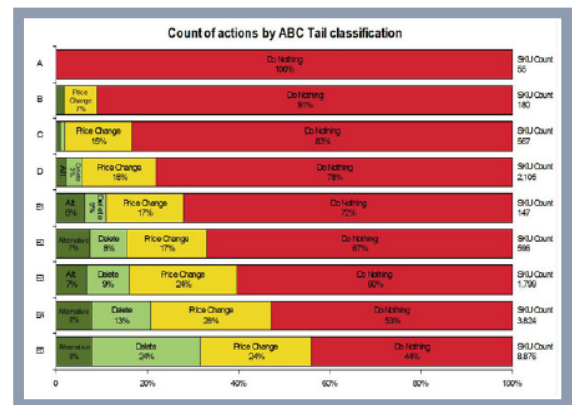
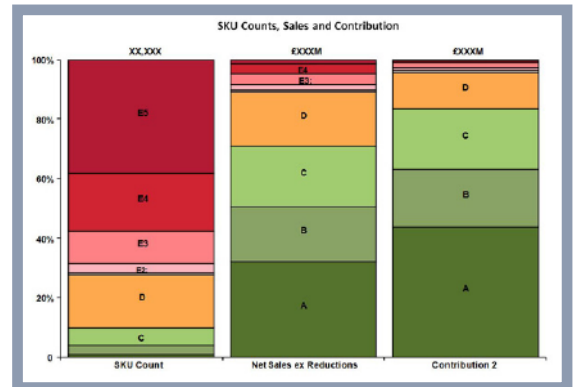
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Outcome

SKUs were classified in broad categories with various actions assigned to each SKU group, sub-groups and identified products for review. Within these A-E classifications specific actions were defined such as 'do nothing', 'price change', 'obsolete' and switch to 'substitute'.

Where price adjustments could deliver additional value to the organisation, against minimal risk parameters, these changes were implemented. Obsolescence, substitution and new product introduction then began across the tail of products delivering value to the organisation, guiding the customer through an appropriate solution, while delivering improved margin performance for the business.

These actions defined a clear strategy for the business that not only simplified the manufacturing and supply chain but also increased profit contribution. Around 20% of SKUs were eliminated with a 5% contribution uplift over a 12 month period.



“ The ability to deliver not only on a detailed SKU rationalisation programme that worked, but also profit improvement, resulted in minimal short-term sales impact with a significant operational performance improvement. For the first time the organisation was able to agree and execute on which SKUs to supersede, leading to a significant and sustainable improvement in margins. ”



Patrick Mosimann Director

Formerly of Mercer Consulting, Morgan Grenfell and Arthur Andersen, with an MBA from Wharton Business School (University of Pennsylvania) and a B.Sc in Economics from LSE. With experience from across a variety of sectors, including consumer goods, manufacturing, healthcare, banking and telecoms, Patrick brings a hands-on approach to all client relationships, while delivering leadership and support for project teams through his intimate knowledge of BI solutions, predictive and advanced analytics.