

Medical Supplies Manufacturer

## Case Study *Strategy & Performance*

SKU RATIONALIZATION

# Successfully rationalizing a product tail

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“The ability to deliver not only on a detailed SKU rationalization program, in an extremely broad SKU portfolio that worked, but also with profit increases is a very good result. Significant operational performance improvement was achieved and for the first time the organization could agree and execute on which SKUs eliminate, leading to a significant and sustainable improvement in margins.”

## Background

The client organization 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 centers.

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 organization could uncover from a typical rationalization 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 rationalization program 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 rationalization, along with price and profit opportunities
- Identifying replacement SKUs for an obsolescence and substitution program
- And defining a conflict resolution methodology to support the wider change agenda

# Case Study *continued*

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### 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.

AlignAlytics used its SKU rationalization algorithm module to process and define various options:

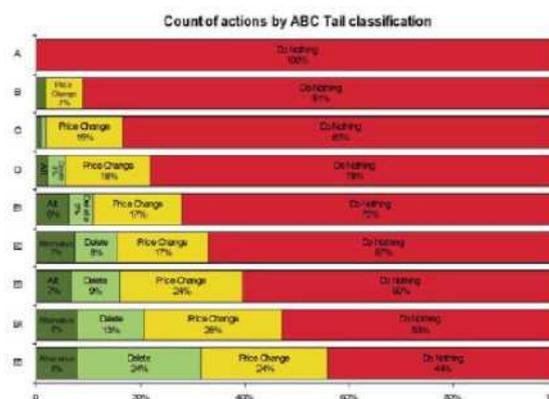
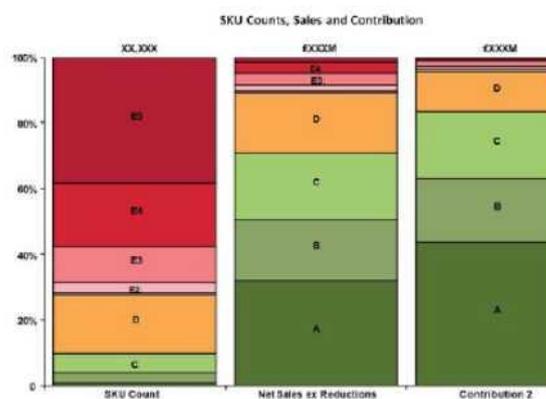
- Customer loss risk using SKU/customer combinations
- Price increase opportunities for 35% of the tail
- Alternative SKUs that could replace those being phased out
- 'What-if' scenario planning before deciding on the final SKU rationalization methodology, alongside product life-cycle management.

### Project Outcomes

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 organization, 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 organization, 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.



### Want to know more?

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