Wilson Perumal & Company's

Insights to Action

Success Stories from Leading Companies

A coatings manufacturer was struggling with a large product portfolio

CoatCo, a multi-billion dollar global coatings manufacturer, operates in a highly competitive business segment. Constant changes in demand either for a particular product line or geographic area are typical for the industry. Growth by acquisition coupled with customer demand for new products left CoatCo with a large variety of products within its portfolio, more so than its competitors. Even though each of the products in the portfolio seemed to play a strategic role, portfolio complexity as a whole was having a compounding effect across the company, in particular on forecasting, production, inventory, and distribution. Perhaps most concerning were the product availability issues were directly leading to lost sales. In fact, market research showed that product availability was the number one purchase criteria, ranking above price. CoatCo needed to understand what benefits could be unlocked from a simplified product portfolio, the associated risks, and how to go about this simplification.

Benefits from volume concentration in fewer SKUs

Analysis of CoatCo's operations highlighted that reducing product breadth would drastically reduce demand variation. Eliminating high variation products would lead to increased production capacity, as there would be fewer changeovers between products and improved production scheduling. This was particularly important as capacity was so strained that overtime and costly third party manufacturers were necessary to meet demand. Increased output would lead to lower production cost per gallon by leveraging economies of scale. Removing high variation products would also result in better forecasting and help drive down inventory levels and improve on time deliveries. Ultimately, by improving product availability, CoatCo could recapture significant lost sales.

Selecting which SKUs to rationalize

Once CoatCo understood how product complexity was manifesting itself and the benefits that could be realized from portfolio rationalization, management decided they needed to review the portfolio in a holistic manner. Products were organized based on technical attributes allowing direct comparisons between products in order to identify portfolio gaps, or overlaps indicating substitution potential. Operational and financial breakpoints were determined to pinpoint products that were disproportionate contributors to complexity. Finally, risks and implementation concerns were identified, grouping SKUs into low, medium, and higher risk categories.

Potential barriers to product elimination and mitigation plans

To mitigate the expected resistance to portfolio simplification, key leaders within the sales organization were included in the benefit analysis and SKU rationalization process. Viable replacements were offered for rationalized products, with a proper transition plan for key customers, thereby mitigating the risk of revenue loss. CoatCo was also aware that some customers were comfortable with a certain product and might resist change, so sales teams were trained to educate them on the benefits of substitutes, which included highlighting increased product availability, a key customer satisfaction metric. In cases where the substitute products were currently more expensive, CoatCo determined that driving more volume to those products would actually reduce COGS and allow for pricing flexibility in certain cases.

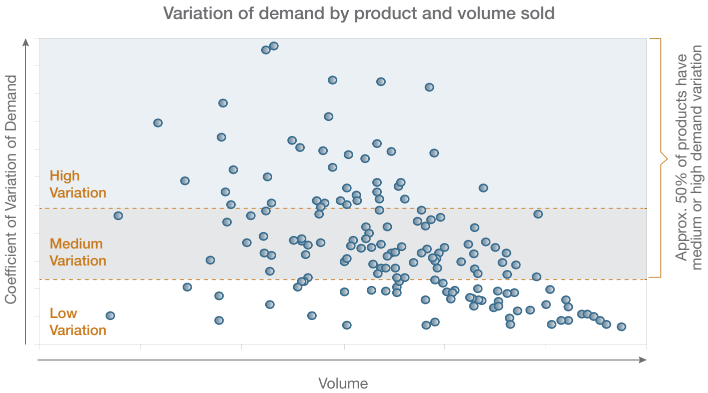

Figure: Large number and variation of products amplified the impact of complexity across CoatCo

Results: Through portfolio optimization efforts, CoatCo identified initial opportunities to improve EBITDA by 10%, gain 9% extra manufacturing capacity, and reduce working capital by 15% from inventory savings. This was achieved within 3 months.

www.wilsonperumal.com
contact@wilsonperumal.com

Wilson Perumal & Company, Inc.
One Galleria Tower, 13355 Noel Road
Suite 1100 Dallas, TX 75240

Wilson Perumal & Company, Ltd.
Longcroft House, 2/8 Victoria Avenue
London EC2M 4NS, United Kingdom