Market trends force company to rethink its product portfolio

BeerCo, a large multi-national beer manufacturer and distributor, is operating in the midst of a changing market landscape. The demand for beer is rapidly shifting from high-volume traditional brands to specialty, low-volume craft brands. Although they traditionally made low-variability, high-volume products, it has recently added multiple new beer categories to adapt to the new market reality. While these new brands have significantly contributed to BeerCo's revenue, it has been difficult for the company to understand the incremental costs associated with an expanding portfolio as well as the true profitability of each new product. BeerCo needed to better understand the complexity-adjusted operating costs and margin of its products, how to optimize its existing portfolio, and then better anticipate the margin benefit of new products.

Understand the complexity-adjusted profitability of each category

BeerCo has five product categories ranging from budget beers to high-end craft beers. After reallocating its manufacturing and overhead expenses to accurately reflect the complexity costs within each category, the company realized that 40% of its products had a negative operating margin. The complexity-adjusted costs of craft beers showed that they were significantly less profitable than standard costing assumed due to the extremely high variety and relatively low-volumes. Meanwhile, the high-volume traditional brands were actually more profitable due to the standardized conversion costs and lower overhead burden per unit.

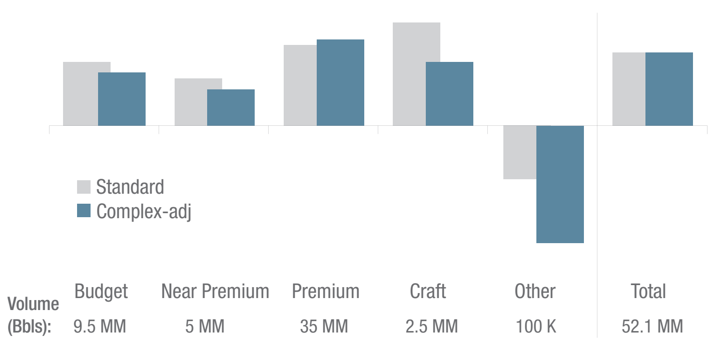
Optimize the product portfolio

With a better understanding of the profitability of each category, BeerCo realized there were many opportunities to reduce costs, improve plant & employee efficiency, eliminate or re-price unprofitable products, etc. For example, the gross margin of the Near Premium segment was lower than expected. In order to improve this margin, the company focused on a combination of cutting material costs and increasing revenue through volume growth to reduce the plant conversion costs per unit. It was also necessary to broadly re-strategize. The company needed to align its plant loading to minimize costs and critically question the role of unprofitable brands in its portfolio. It was also important to evaluate low-volume products that increase costs while decreasing overall capacity due to increased changeovers and decreased operational efficiency.

Create a predictive model for potential new products

In order to prevent future unprofitable brands and unnecessary complexity costs, BeerCo created a new predictive model based on their complexity costing. It was based on key findings such as the relative cost differences between categories, the impact of low-volume on manufacturing and overhead costs, and the minimum volumes to achieve profitability. The model also has future implications on pricing, production planning, marketing spend, and resource allocation, especially as the beer market shifts more and more towards low-volume, specialty craft brands.

Operating Margin



Results:

After BeerCo rethought its product portfolio based on a complexity-adjusted costing model, the company was able to optimize its products, have a better informed corporate strategy, and realistically evaluate its new product funnel. These changes benefited BeerCo by over $35MM in the first year alone.

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