



A&M INSIGHTS

Simplification for growth: How can businesses reduce the adverse impacts of complexity?

Why is reducing complexity important?

Branded consumer product companies are typically product innovation and marketing-led organisations that often accept product/Stock Keeping Unit (SKU) range complexity as an inevitable and acceptable consequence of their top-line focus. This is particularly true for major global branded businesses but also the reality in many smaller private equity-owned businesses. However, few businesses realise the true cost of SKU portfolio proliferation and the broader impact it has on business complexity. More SKUs does not always equate to more sales, sometimes the opposite.

The impacts of SKU complexity include diversion of resources away from winning products, weakened demand/supply management, increased out-of-stocks, increased product obsolescence, reduced manufacturing OEE and increased operational and administrative costs. The combined effect of all of this is to harm top-line growth and damage bottom-line results.

The business complexity wheel



- Brand/product portfolio related
- Business operating model related
- Data & regulatory



Guiding principles for effective SKU management

In A&M's experience, allowing an SKU to be created typically costs an international consumer products company €50K (+/-25%) before that product is ever marketed, made or sold.



Why is reducing complexity so hard to tackle?

If the business case for reducing complexity is so strong why do so many businesses find it so hard to tackle? The answer lies in the multi-faceted nature of the problem:

- **Different stakeholders:** Marketing, Sales, R&D, Operations and Finance all have different priorities when it comes to range planning and management.
- **Misaligned priorities:** Performance targets are for the most part functionally oriented rather than geared to overall business outcomes and you get what you measure.
- **Multiple processes:** Category management, range planning, product innovation & development, integrated business planning and Sales and Operations Planning (S&OP) all impact complexity and the right management disciplines and hurdle rate standards are often missing.
- **Category specifics:** Depending on the category, specific complicating factors may apply such as seasonality, the need for range authority and pack/price architecture requirements. In reality, customers often confirm that a well curated, more coherent range provides better choice.
- **Trade customer requirements:** Retailers may demand customised packs or have specific category strategy-driven ranging requirements.
- **ESG imperatives:** Most responsible businesses are making specific commitments to improving their environmental and societal impacts. This will have an increasing impact on the product range and how it is manufactured and distributed.
- **Lack of data:** And finally, the lack of good data hides the true impact of complexity and masks the products that should exist versus those that should not.



What can businesses do about it?

Making progress with tackling simplification for growth requires leadership and a multi-disciplinary approach:

- **Sponsorship:** Lead from the top. Because of the cross-functional nature of the problem, sponsorship and leadership have to be at the most senior level. Quantifying the real business case for simplification is usually an important starting point.
- **Education:** Raise awareness about the benefits of proactive product portfolio management for the business more broadly; there is typically a big education job to do. Leverage the business case and use external best practice examples.
- **Measurement:** Establish the metrics needed to measure portfolio complexity and its impact on the business and broader environment. This needs to include the role of each SKU in supporting or undermining the business's sustainability commitments.
- **Operating model:** Establish the governance, processes and tools needed to reduce complexity and provide effective ongoing dynamic portfolio management. The right disciplines and metrics will need to be embedded in multiple business processes.



How to tackle complexity reduction

SKU simplification programmes are potentially complex and are generally best tackled in three phases – A&M brings proven approaches, tools and models to support each phase:



Initial Tail Reduction:

This is primarily about the low-hanging fruit based on basic financial and volume criteria, with appropriate sense-checks and safeguards.



Strategic SKU Simplification:

This is more complex, going beyond a pure Pareto analysis to embrace specific category considerations, different analytical approaches and collaborative planning with trade partners.



Continuous Portfolio Management:

This is about change leadership and embedding new disciplines and metrics across the business. The right governance and accountabilities are key, else proliferation will return.

In A&M's experience, the business case for simplification is usually very strong. For example, a global Consumer Personal Care company assessed the average cost of an SKU simply existing at €70k before the product was ever being produced, marketed or sold. Another major pan-european food business was able to reduce costs by more than €100m per annum by implementing a comprehensive, proactive SKU deproliferation programme; reducing the number of SKUs across Europe from c. 12,000 to c. 3,000 without consumers even noticing!



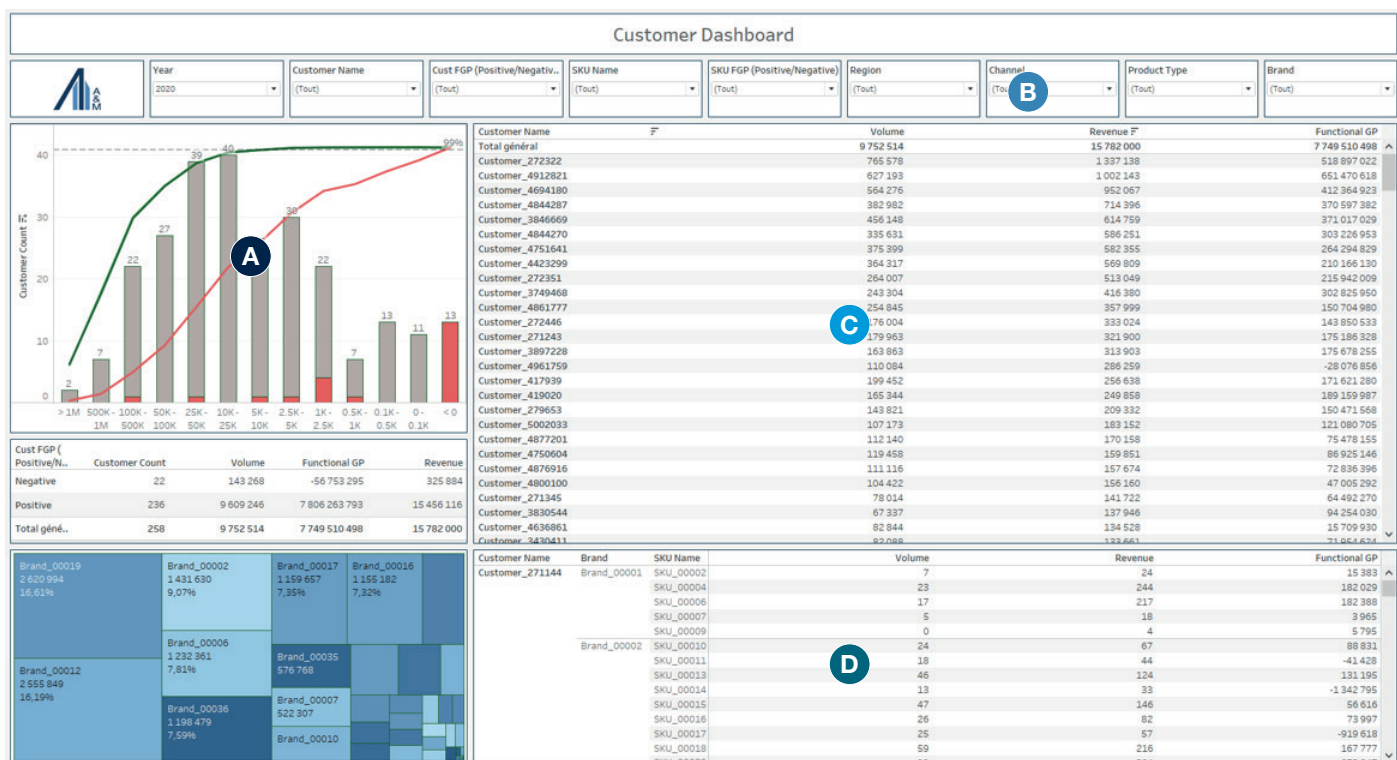
Tailoring the approach to your business

Within the overall three-phase approach there are a number of variations in approach that will need to be accommodated based on the characteristics of different businesses and product categories, for example, grocery versus apparel and luxury (where seasonal and semi-permanent range planning considerations are especially important).

1. Use the right strategy and analytics lenses:

The lenses that need to be brought to bear reflect the fact that this goes beyond a Pareto analysis and carry different relevance and priorities in each context, for example SKU financial performance Pareto, share and contribution hurdle rates, gross margin return on physical space, role in pricing architecture, role in the omnichannel path to purchase, role in brand building, ESG performance, etc.

Dynamic SKU and Customer Profitability Dashboard



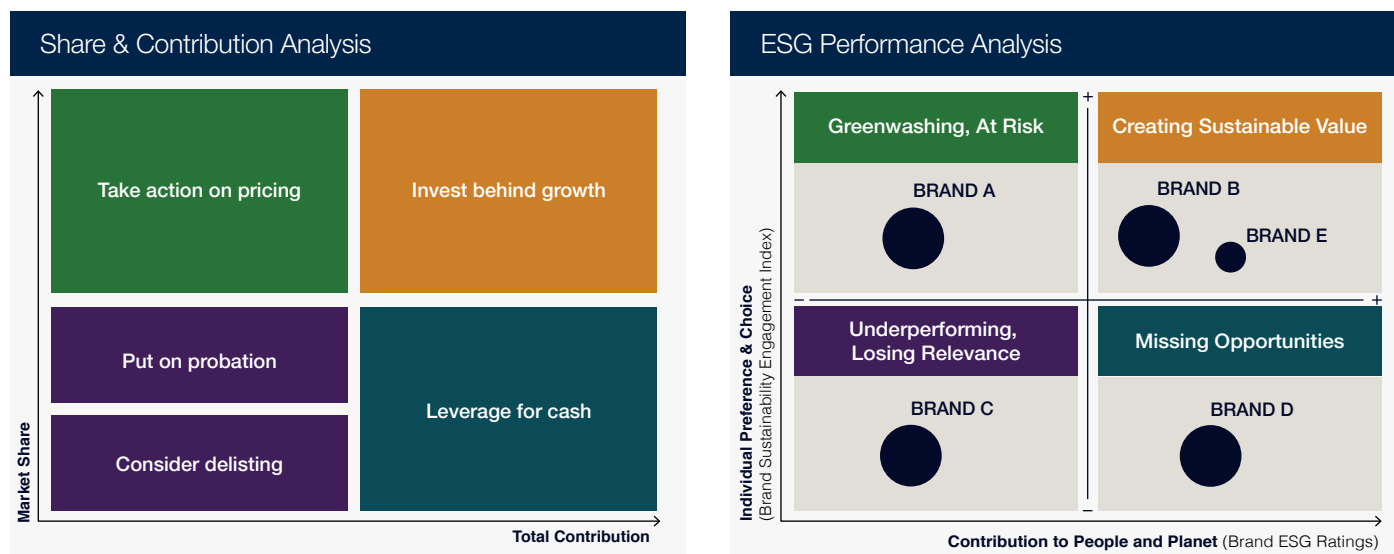
A
Pareto visualisation

B
Filters by region, product category, brand, ...

C
Underlying data/ financials (is updated real-time when new filter is selected)

D
Underlying clients/ PoS (is updated in real-time when new filter is selected)

Tailoring the approach to your business (continued)



2. Be ready to manage emotion:

The levels of emotion will vary, with the most prestigious brands often being the most resistant to adopting financially oriented, fact-based processes in areas such as SKU management. The business up-side needs to be sold strongly.

3. Language and metrics matter:

For example, talking about 'simplification for growth' rather than range rationalisation can help enormously with acceptance. Also, linking the outcomes to Executive variable compensation can help even more.

4. Implementation needs careful planning:

For example, to minimise lost sales and avoid unnecessary stranded costs and write-offs. The methods and tools we will bring reflect the need to address both the demand side brand/consumer context as well as the supply side situation to manage such issues.



What expertise can A&M bring?

Our people are experienced operators and are equipped with the methods, tools and best practice models needed to realise effective 'simplification for growth' programmes:

- A&M brings the business case framework for simplification that we can tailor to your business. It has to start here!
- We bring the rigor and proven analytical techniques needed for effective SKU portfolio management, reflecting brand building and marketing considerations, operational considerations and robust financial impact analysis.
- We bring best practice governance, metrics and portfolio management process models that can readily be tailored to the needs of your business.
- We bring practical experience of implementation in different industry environments, including consumer products, apparel and luxury goods, as well as physical and online retail.



A&M: Leadership. Action. Results.SM

A&M has worked with some of the largest European consumer businesses to stabilise financial performance, transform operations, capture profitable growth and accelerate results through decisive action. When traditional improvement activities are not enough, A&M's restructuring and turnaround heritage brings fact-based, action-oriented leadership to transformation and delivers rapid results.

Our professionals have both operational and advisory experience together with a proven track record in leading businesses through tough, complex situations.

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ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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