



CORPORATE TRANSFORMATION SERVICES

CASE STUDY: IMPROVING PRODUCT PORTFOLIO PROFITABILITY FOR A HVAC EQUIPMENT MANUFACTURER

Introduction

Alvarez & Marsal (A&M) was recently engaged by a leading European heating, ventilation and air-conditioning (HVAC) equipment manufacturer to provide visibility on EBITDA performance and 2023 outlook.

The HVAC market has recently faced a major shift in technologies, induced by energy transition. Traditional products (i.e., gas boiler) are replaced by low/no-emissions products (i.e., heat pumps). Momentum is mainly driven by state regulation and government subsidy programs.

Client's challenge

The company's core business was severely impacted by this market switch as well as the uncertain fossil energy boiler ban in several European countries. The historical products were now operating on a shrinking market, dropping by 50 percent in the last two years. The new products, not as established as former ones, were facing higher competition especially from Asia.

Client portfolio complexity continuously increased to a state where 80 percent of the revenue was generated with less than 7 percent of the Stock Keeping Unit, and 95 percent with less than 20 percent (see Figure 1: Turnover pareto analysis).

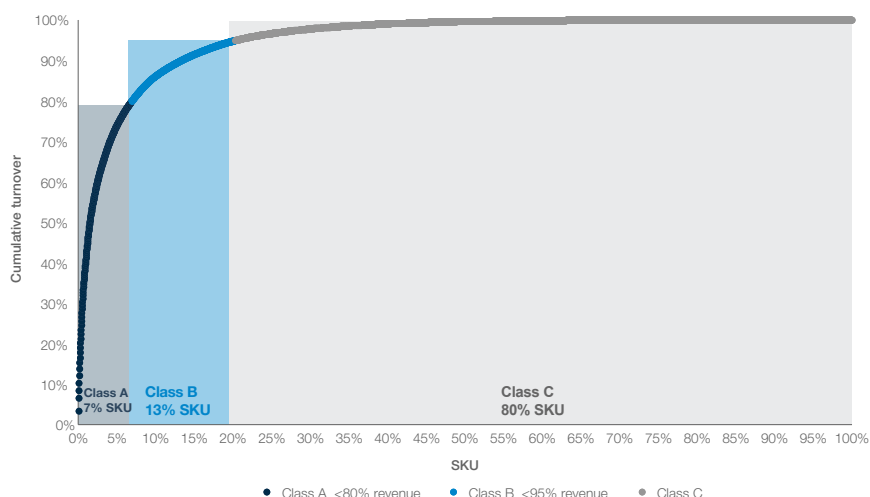


Figure 1: Turnover pareto analysis

The HVAC market has recently faced a major shift in technologies, induced by energy transition.



This sub-optimal portfolio profile translated into complexity costs, high inventory and congestion for bottle neck manufacturing assets. It also presented a risk as several products and brands were competing on the same markets. Current situation was not ideal at a time where large investments were required to fuel heat pumps development.

In this context, the customer requested A&M to review brands and products positioning for greater consistency and commercial efficiency, and secondly to look at the profitability of each product to simplify offerings and reduce complexity costs.

A&M's approach

Based on this assessment, A&M designed an approach to address and optimise the product portfolio profitability of the HVAC's equipment manufacturer against sales ambition and market trends outlook. The approach consisted of two phases:

PHASE A

Portfolio consistency:

The objective was to define the most relevant portfolio segmentation regarding the market he operates.

The A&M team collected the current product positioning matrix for each segment. Then the team assessed it and drew several conclusions on brands positioning (Brand A vs. brand B and C), segments reconciliation (residential vs. collective building/public sector) and offering clarification.

BEFORE

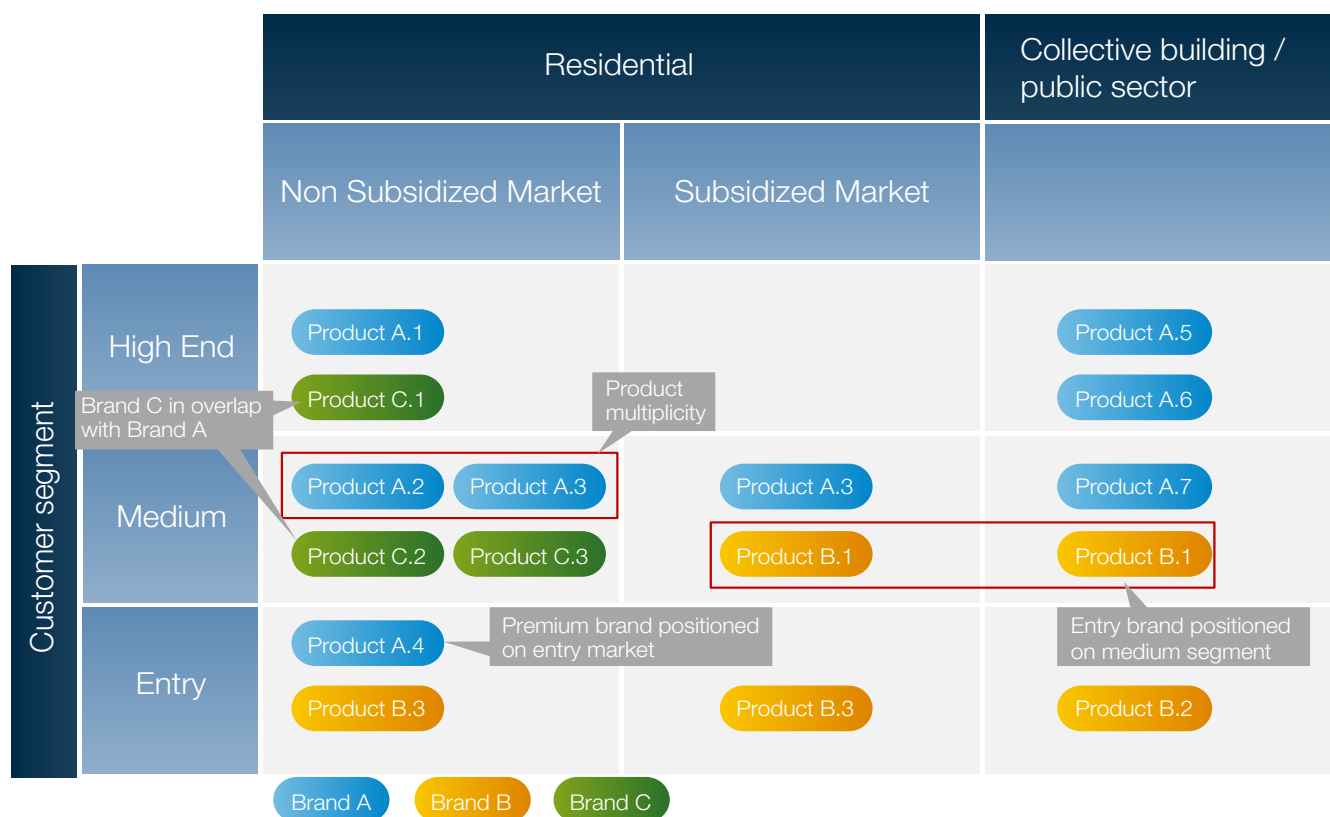


Figure 2: Portfolio matrix - Before



PHASE A (continued)

Portfolio consistency:

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AFTER

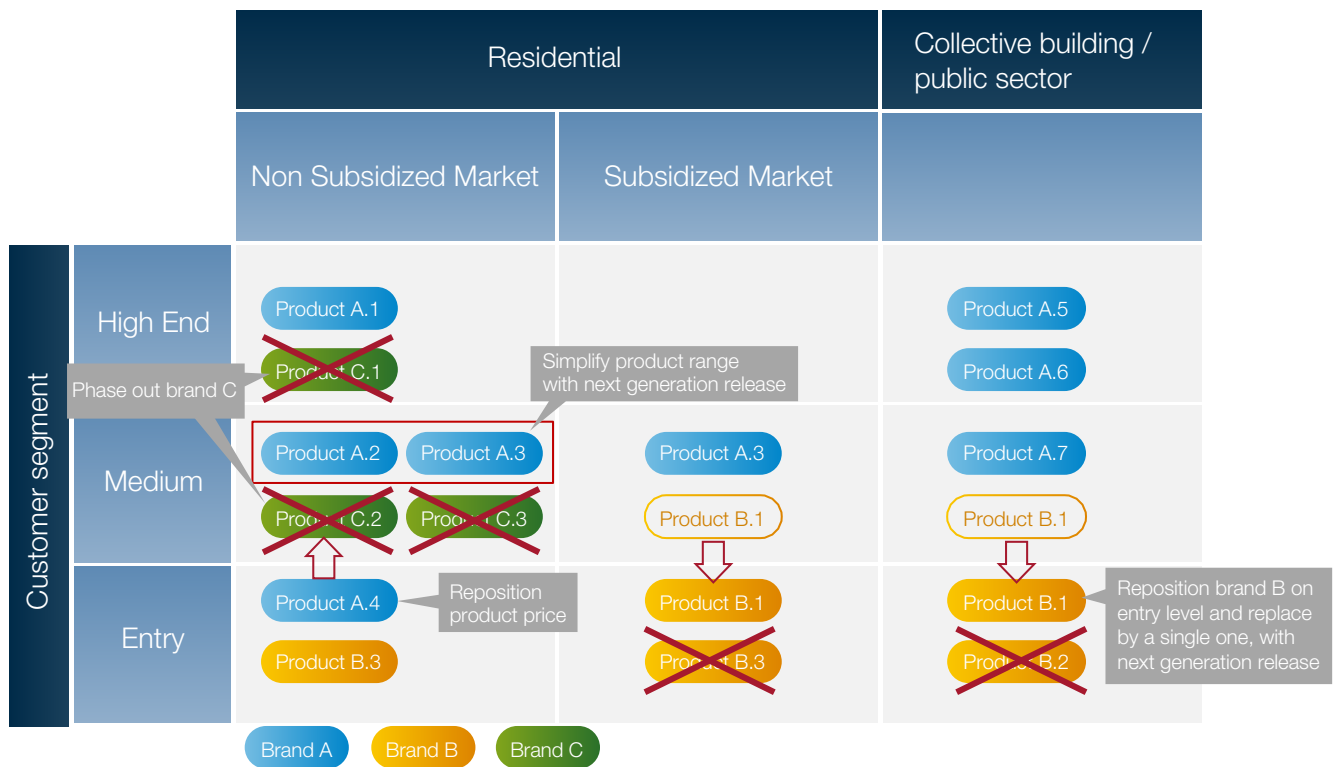


Figure 3: Portfolio matrix - After



PHASE B

Products net margin:

The objective was to improve product portfolio profitability for each product family and to reduce the cost of complexity.

The A&M team performed EBITDA calculation at SKU level with a thorough level of detail on indirect costs allocation: Sales & Marketing (i.e., salesforce, communication, promotion, loyalty program...), production (i.e., management, industrialization, quality...), supply chain (i.e., storage, transportation, planning...). Then the team built the S-curve (% EBITDA in sales vs. cumulated sales) profile design for each product family (See Figure 4: S-Curve example). The team focused on negative/low profitability products, runner products as well as long tail.

A practical tool for finance and marketing to get full visibility on SKU contribution to EBITDA was handed over for future performance review before each budget cycle.

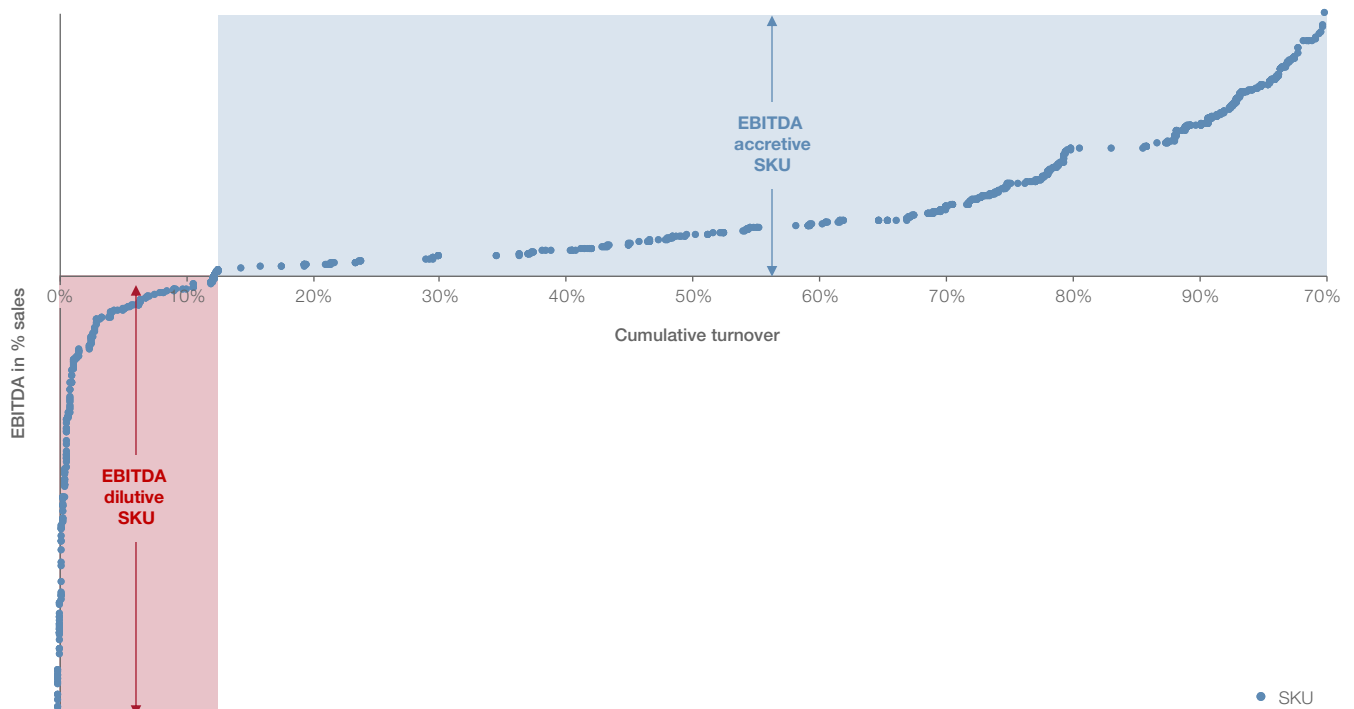


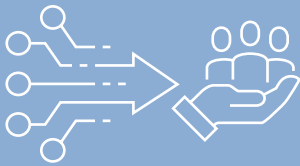
Figure 4: S-Curve example



Key recommendations & Impacts

A&M identified several opportunities to boost portfolio profitability thanks to:

1. **Merging** of overlapping customer segments (residential vs. collective buildings/public sector)



2. **Price increase for selected products** (i.e., premium and technology differentiated products), accessories and traded products



3. Product redesign, **up to 10 to 15 percent cost** of goods sold improvement



4. Low volume products phasing out, **up to 20 percent SKU reduction**



A&M also anticipated collateral benefits such as **inventory reduction by 5/10 percent, R&D pipeline throughput improvement as well as better Capex allocation.**

Further assessments showed some segments should have a different value proposition to strengthen client position in the market.

A&M's work was an eye-opener for the client's leadership. For the first time, they had a robust portfolio analysis. A&M's team strengthened clarity as well as confidence in actions to undergo for developing a new products business, and to secure cash generation in a shifting market.



A&M: Leadership. Action. Results.SM

A&M has worked with some of the largest European and global organizations to stabilize financial performance, transform operations and accelerate growth through decisive actions. Our restructuring and turnaround heritage brings fact-based, action-oriented leadership to transformations, delivering rapid results. Our professionals have both operational and advisory experience together with a proven track record in leading businesses through tough, complex situations. To speak to us about our experience delivering transformation and performance improvement initiatives for leading businesses, please visit our website or speak to one of our contacts below.

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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 8,000 people across six 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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429357-31912/September 2023

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