



## Consumer Products Company generates millions in additional contribution margin dollars through post merger integration of rationalized product portfolio

Published: August 2009

***Consumer Products Company partners with AUXIS to execute a rigorous SKU rationalization program aimed at validating SKU specific profitability by Customer and the subsequent re-positioning of all SKU's in order to drive bottom line growth.***

### ***The Challenge:***

In late 2007, Auxis' client, a diversified marketer and distributor of small kitchen appliances and personal care products for use in and outside the home, completed the acquisition of a major competitor. The combination of the two companies created one of the largest U.S. public companies focused on the small household appliance and pet supply products industries, with the scale and customer relationships to provide category leadership and efficiencies. In the midst of this merger, the new company faced many immediate integration issues, including the challenge of combining "like" item and brand assortments.

Prior to the merger, the competitor boasted over 1,900 SKU's in inventory. AUXIS management believed that the company was clearly over-assorted, and was most likely carrying many unprofitable products that would weaken the new company performance. To address this challenge, AUXIS recommended margin-enhancing actions including the execution of a rigorous SKU rationalization program.

### ***The Approach:***

In today's environment, customers are looking to fine tune their assortments in order to reduce inventory levels and out of stocks, as well as drive sales. This mindset now falls back into the vendors hands to ensure that their product offerings meet all customers expectations, as well as exceed there own internal strategic objectives.

Merging two companies with like products and assortments can post significant challenges across all departments within the organization. What, when and how final SKU disposition decisions are made will effect every department within the new company, so it was critical that AUXIS create the approach, methodology and framework in order to meet and exceed all those requirements. It was also imperative that this process meet its timeline goals while still yielding the expected results.

AUXIS teamed up with our client to develop an activity based costing analysis (ABC) model, along with a thorough SKU rationalization project plan to support the decision making processes associated with the results obtained. Below were the key steps that helped guide this project to a successful conclusion.

- Execute SKU/Customer (ABC) rationalization profitability analysis – Contribution margin focused
- Identify SKU's not meeting company margin goals
- Formed SKU SWAT teams with specific decision meeting agenda's established
- Internal decision meetings held by Customer/SKU
  - o Institute price increase and/or
  - o Covert to another SKU and/or
  - o Exit SKU

## **AT A GLANCE**

### **CLIENT PROFILE**

A Consumer Products Company which markets and distributes a wide range of small appliances under well-known licensed brand names, as well as company-owned brand names.

### **THE CHALLENGE:**

- Contribution margin for each merged company SKU/Customer was unknown
- Over-assorted merged company product mixes at category and brand levels
- SKU/Customer pricing issues both internal and external
- Coordination of entire SKU rationalization project/process effort

### **THE SOLUTION:**

- Identification of actual contribution margin for each SKU/Customer
- Full execution of detailed SKU rationalization program

### **THE RESULTS:**

- Merged company SKU count reduced from over 1,900 to 165
- Contribution margin increased by 74% (US) and 20% (Canada) through SKU eliminations, substitutions and price increases
- Expeditious and successful liquidation of all excess and obsolete inventory



- Present final decisions to customers based upon customer feedback, complete final decisions and actions
- Determine SKU quantities for replacement for Reverse Logistics
- Notify suppliers of SKU decisions, where applicable
- Determine inventory impact to each SKU decision
- Determine disposition of excess inventory
- Determine impact on warehouse capacity and recommendation
- Determine inventory valuation of eliminated SKU's

This detailed effort involved Sales, Sales Operations, Marketing, Demand and Supply Planning, Sourcing and Purchasing, Warehouse/Distribution, Reverse Logistics and Finance.

### ***The Results:***

AUXIS' successfully completed the SKU rationalization program on time while meeting the company strategic objectives.

The final results:

1. Successful implementation of the SKU rationalization initiative that reduced total SKU counts from over 1900 to 165
2. Increased contribution margin dollars by 74% for the U.S. and by 20% for Canada through the elimination of certain low margin SKU's and implementation of price increases
3. Successful disposition (sell-off) of excess and obsolete inventory.
4. Developed a disciplined action plan and summary of SKU rationalization decisions based on recommendation to rationalized SKU's. Recommendations included price increase, replace the SKU with a more profitable one or exit the SKU from account.
5. The SKU rationalization generated \$7M non-cash charge to eliminate certain items in inventory that were not to be carried forward.

### **About Auxis**

Auxis is a management consulting firm dedicated to enabling growth for our customers. We offer a multi-disciplined approach to develop and implement practical, robust and scalable solutions that generate superior business performance, providing significant competitive advantages to our clients. Our core belief is that our success should be measured by tangible and sustainable financial results.

Simply put, Auxis helps clients prosper.