



By Keith Bailey

AVOIDING THE HACK AND SLASH

Businesses are getting used to paring back costs, but how close to the bone can you go without damaging the business?

Now more than ever, executives need to reassess their business positioning and cost structures in anticipation of challenging times ahead. Companies often add products or services either from ad-hoc customer demands or what seemed a good idea on the day.

These add-ons let extra costs and complexities creep into the business. Over time, revenues may increase, but margins and profitability may actually decline. Decreasing revenue by consciously removing poorer-performing products or services can actually increase profitability and strengthen an organisation to survive tougher trading conditions.

A company review can be more challenging when there are a variety of products and services and sales outlets, but a back-to-basics review can provide the pathway to improving business competitiveness and profitability.

The following techniques have been used for improvement reviews as well as for

assessing businesses in distress. It's vital to support the analysis with facts in a way that lets stakeholders understand the observations, conclusions, and subsequent plans.

One technique is to use the Pareto principle (also known as the 80/20 Rule), which says that in anything a few (20 per cent) are vital and many (80 per cent) are trivial. Sort your revenue by product lines or customers in dollar order—if you have good financial information, you can extend this to include gross margin contribution—to identify your key performers or problem areas. These assessments will often show that disproportional effort versus reward is occurring within the business.

In a review for one manufacturing client, we found that the top three products by revenue had minimal gross margin contribution flowing into the business. It kept everyone busy, but this was the main reason the business was in distress and was not profitable.



You can do the same assessment to rank your supplier spend and determine if you have leveraged from this or if you have too many suppliers—or unsatisfactory commercial arrangements—with your core suppliers.

Product positioning review

Another technique is to review where your products fit in the supply chain and compare their impact on achieving market success versus the actual risk and complexity to supply.

Figure 1 makes this visible. Position each product on the chart and analyse its contribution and risks relative to your other products. Core products that give you best leverage in the market and are key to your intellectual know-how should be your main focus, but are they performing and adequately supported? To provide further clarity you can graph the revenue, earnings before interest and taxes (EBIT), or costs on the chart to put it in perspective.

Once you have positioned your products within the chart grids, consider the following strategies as they affect your customers, or how your supplier costs are affecting you:

Grid A: Strategic items

Key products and customers should be supported by:

- stable and long-term relationships
- innovative partnering agreements
- inter-company and vertical integration.

Grid B: Leverage items

These give you the best impact and generally have the lowest level of risk and complexity to

service your markets. To further leverage these, consider:

- pursuing competitive bidding from suppliers
- searching for lowest cost supply
- implementing business-wide standards to maximise economy of scale, or further simplify.

Grid C: Bottleneck items

These have a disproportionate level of risk or complexity with minimal contribution to the success of your products or your market impact. Solve this by:

- simplifying the product, process, or service
- finding a securer supply
- reducing risks
- rationalising and standardising
- searching for substitutes.

Grid D: Non-critical items

These products have minimal impact and are probably the easiest ones to resolve or improve. Look at:

- removing or replacing poor suppliers
- reducing administration and logistics (perhaps outsource or merge with shared services)
- implementing supplier-managed processes
- implementing long-term supply agreements to simplify, stabilise, and maximise value.

This technique can also be used to understand how your customers see your products fitting within their supply chain. Some of their products may be considered to be in Grid C or D, and if this happens to be your core product or service, you should pursue the opportunity while it is there.

Ease versus impact assessment

When you do these reviews, you may conclude that there are a number of tasks to be done, but where do you start? You can prioritise by using a simple ease versus impact assessment, as shown in Figure 2.

Rate the ease of each potential task on a scale of 1 to 10, with 10 being the easiest and 1 the hardest. Then rate what the impact would be if the task was completed, with 10 being the highest impact and 1 the lowest impact. You can plot your results on the graph or simply multiply the numbers to get a score.

The easiest items with the highest impact (these are the items with the highest score or those you've plotted in the top-right quadrant) should be the first to kick off. You can further refine this analysis by adding circles representing expected gains in revenue or EBIT.

Ask your management team to work with you in developing and applying these simple assessments. Not only will you gain consensus on the conclusions, you will also gain support in implementing the strategy and tasks. This will further improve the business and reduce costs without sabotaging it. ■

About Keith Bailey
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Product Positioning & Supply Chain Strategies

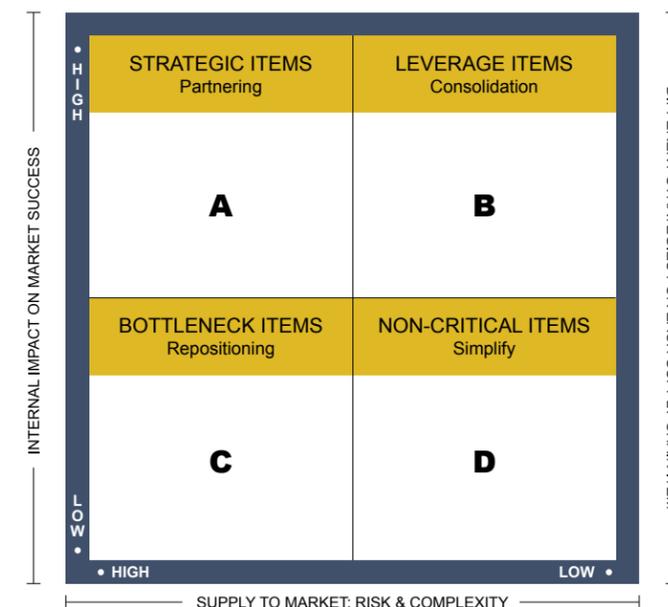


Figure 1. Product positioning and supply-chain strategies

Ease V Impact Prioritisation Grid

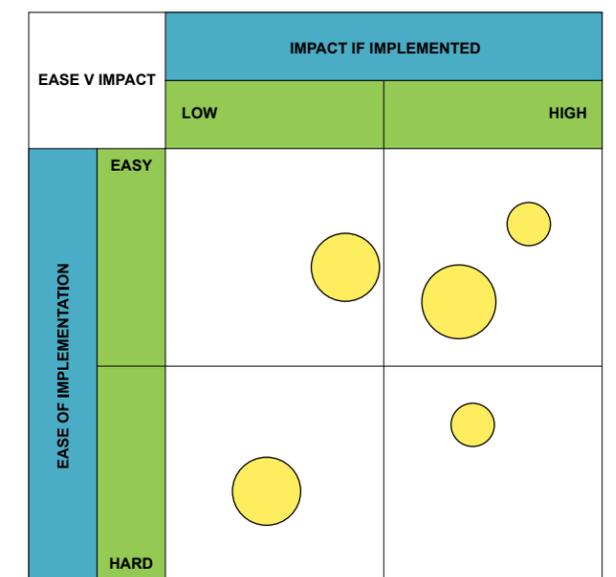


Figure 2. Ease versus impact prioritisation grid