CONSUMER PRODUCTS EXPERIENCE CASE |

Professionalizing a Global Supply Chain

Standing up supply chain best practices in a popular consumer products firm (carved out from parent co.)

EXPERIENCE CASE | Kitchen Appliance Manufacturer, Marketer, and Distributor

Embedding Supply Chain Best Practices

Building Up Supply Chain Capabilities in a Promising Carve-Out

A long-term, repeat Private Equity (PE) client contacted Catalyft early in their own acquisition process with an interest in us looking at a company they planned to bid on—a popular kitchen appliance distributor and marketer. They were in pursuit of a well-established consumer products distribution and marketing division that was being sold by the consumer products parent. Our client was very enthusiastic about the brand's strong reputation and consistent product quality—and fortunately for us—keenly interested in optimizing the supply chain to boost EBITDA.

Once the deal settled, we got to work alongside our PE client's deal team to understand the operational and organizational repercussions of carving out this coveted consumer products firm. As the Trapped Value Analysis (TVA) progressed, we had a clearer understanding of where the financial and operational upside potential was lying in wait for this newly-stood-up company. Ultimately, our engagement concerned clean separation of operational linkages to the parent company, design future key processes (sales & marketing and new product development), and, crucially, the professionalization of their global supply chain—including key suppliers in China and Taiwan.

Carve-Out Complications

Our PE client had immediate plans to acquire this kitchen appliance firm in a high-stakes auction and subsequent carve-out of the appliance division from the parent firm. In this instance, a carve-out refers to the process in which a parent company sells a portion of its business, typically a subsidiary or a division, to a private equity firm. The parent company wanted to streamline operations, raise capital, and focus on its core business activities. Several carve-out concerns for this client included:

Ownership Transfer: The sold portion becomes a separate entity, either partially or wholly owned by the buyer.

Value Creation Expectations: Our PE client acquired this popular brand with the intention of improving operations, growing the business, and eventually selling it at a profit.

Complexity: Carve-outs are complex transactions because the carved-out entity depended on the parent for key functions, such as sales & marketing, IT, HR, and the supply chains, thus necessitating careful separation.

Generally speaking, carve-outs provide private equity firms with valuable opportunities to acquire business units at favorable terms, which they can later scale and sell for a higher valuation. This was the case with the kitchen appliances firm now in our client's possession.

Consumer Products

Case Synopsis
- Efficient, well-coordinated carve-out and subsequent global supply chain build-up (processes, tools, best practices) of a popular, PE-owned consumer products firm

Client Profile
- $200+ million portfolio firm
- Private Equity ownership

Engagement Results
- Cost reductions in warehouse, logistics, and labor by moving to a vetted third-party logistics (3PL) agreement
- Professionalized sourcing group processes and capabilities
- Established a sourcing footprint in Vietnam to mitigate risks in primary manufacturing resource—China

Operational Benefits
- Designed comprehensive sales & marketing strategy
- Boosted new product development capabilities
- Optimized inventory management
- Created customized request for proposal (RFP) process
- Streamlined procurement processes
- Analyzed over 500 bids from 25 suppliers across 29 product families
- Implemented upgraded Warehouse & Logistics key performance indicators

Organizational Benefits
- Successful implementation of transition service agreement (TSA)
- Procurement professionalization
- Strategic sourcing master service agreement (MSA)
- Better, more valuable 3PL partners

Financial Benefits
- 45% reduction in warehouse, logistics, and labor costs
- $3M tariff avoidance
- Lower inventory holding costs
- 4 to 1 Return on Investment (ROI)

Coordinating with a Large Financial Consulting Firm

Given the complex nature of our PE client's carve-out, there were several interconnections that needed to be addressed from the outset of our engagement. Our client had also hired a financially-focused acquisition specialist firm to work on the financial and IT-related extrication needs while we focused on supply chain optimization and building up key processes. While the two areas of scope were distinct, there was still some overlap (organizational design, financial processes, IT resources, etc.) that called for our Catalyft project manager to work closely with the financial services team to smoothly coordinate project steps, ensure we implemented new processes and tools in alignment with the other team's financial directives—and most importantly, make sure we didn't overtax all the PE partners, firm executives & managers, and employee subject matter experts (SMEs) shared by our two advisory & improvement teams.

Working with New Management, Employee Experts, and PE Partners

In addition to the aforementioned financial consulting firm, our PE client had several of its own Directors assigned to this particular portfolio firm and was actively involved with building out a new management team. After several working sessions and a 4-week Trapped Value Analysis (TVA) to understand carve-out implications and where the most potential for supply chain professionalization resided, the team co-developed an initial project approach with a highly-detailed Key Event Schedule (KES), incorporated more in-house SMEs into the carve-out engagement, and secured workstream leaders.

The workstreams included:

- Executive Management Steering and Oversight
- Sales & Marketing
- Customer & Consumer Services
- New Product Development
- Procurement and Supply Chain
- Warehouse Operations and Logistics
- Human Resources and Finance

Areas of Opportunity for the Freshly-Acquired Firm

Working with PE Partners, firm management, another financial services consulting firm, workstream leaders, and a team of SMEs across 20 weeks, several key process and systems components were built up in:

1| **New Product Development and Value Engineering—**Our PE client has big plans and outsized aspirations for expanding the firm once all the process and people were in place—after the carve-out dust settles—if you will. Looking to the future with these near-term and long-term value creation plans in mind, we worked with firm management and carried-over SMEs to create a modified new product development process that was necessary in the stand-alone company. The new process was highly data-driven, and the roles & responsibilities were streamlined to help facilitate a fresher speed-to-market capability. The new product development process incorporated more value engineering processes earlier in the genesis of new products and updated criteria that applied to the current product lines but also perceived areas of new kitchen appliance growth.

Catalyft Team's Collective Consumer Products Engagements:

15+
Consumer Products Engagements
(Team Total)

4
Workstreams Per Engagement
(Historical Average)

6
Number of Months For Most Consumer Products Engagements

$90 Million
Consumer Products Clients' Revenue Size
(Historical Average)

4.5 to 1
Consumer Products Return On Investment

2 | Sales & Marketing—Looking toward the product line extension future and revenue opportunities, we conducted Sales & Operations Planning (S&OP) process mapping to understand the linkages amongst sales and the supply chain. We also conducted the initial analysis and developed a comprehensive go-to market strategy platform with Management that included: a conventional marketplace strategy, digital marketing, creative services, and brand services.

From a tactical standpoint, we worked with the sales & marketing teams to review current accounts, understand the more profitable partners, and flag customer relationship risks that needed immediate attention. To assess current revenue generation capabilities, we worked on sales representative reviews to understand the sales team's strengths and training opportunities. We developed a win\loss matrix to help the team understand where they were most successful and also to note any prior prospects that were due for another approach.

To help smooth carve-out implications in the firm's customer experience and reputation arenas, we implemented communications to keep customers apprised of changes and allay fears. In addition, we worked with Sales to lay out bespoke account transition plans to ensure no disruptions in customer ordering processes or relationships with the firm. Finally, we initiated development of a Sales Future State with new procedures, documentation, and recommended training to further develop and accelerate the firm's sales & marketing capabilities.

3 | Strategic Procurement and Supply Chain—In the iterative development of a robust, resilient, and accelerated supply chain, this workstream was crucial to the success of the firm. To establish the baseline for current supply chain capabilities and understand where the upside potential resided, we established a supply risk assessment and mitigation process. This new assessment was developed for our engagement—but was also built into the team's go-forward procedures. Additionally, a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis on the current sourcing organization was conducted to pinpoint where the team needed support.

Working with the in-house team we co-created a Supplier Forum to be used in pending negotiations in China but also in all future supplier relationship development. The team designed and developed Future State Go-To-Market Support, redesigned the procurement and supply chain organizational structure to fit the new responsibilities and work loads. The genesis of the Supplier Forum involved gathering historical distribution data to support a new RFP process, creating a new RFP bid package, identifying thirteen third-party logistics (3PL) service provider candidates, conducting initial round of bids, narrowing the field to three, and finally selecting the most valuable service provider for the firm.

To support the new processes and organizational structure, we developed key performance indicators (KPIs) and service level agreements (SLAs) to go into the new master service agreement (MSA). The team also developed a sourcing strategy and category plans, conducted a Supplier Forum in China, trained the internal team on strategic sourcing and negotiation strategies, and analyzed over 500 bids from 25 suppliers across 29 product families,

For sustainability of new practices and continuous improvement, we developed multi-scenario planning models for the team and new costed bill of materials (BOMs). Finally the Catalyft team shared their market analysis knowledge—transferred to the in-house team—with procedures and a customized training program.

Enablers For

Consumer Products

Team Performance Enablers:

- ⇒ Customer-Oriented Focus
- ⇒ Strong Project Management Office (PMO) and Knowledge Management
- ⇒ Strategic Sourcing Professionalization
- ⇒ Dynamic Portfolio Pricing and "Should Cost" Modeling
- ⇒ Market Intelligence Sharing Across Distribution Channels
- ⇒ Collaborative Employee Communication and Engagement
- ⇒ SKU Rationalization Procedure
- ⇒ Enhanced Sales & Operations Planning Integration
- ⇒ Complex Technology Integrations
- ⇒ Data Analytics and Visualization Timeliness and Usability
- ⇒ Production and Maintenance Excellence and Integration
- ⇒ Pragmatic Training and Onboarding Plans

4 | **Warehouse Operations and Logistics—**With this team, we dove deeply into data collection and process analysis for all warehouse and logistics operations. With the carve-out creating some service ties to the former parent, we reviewed the transition service agreement (TSA)—including risk analysis—and ongoing roles and responsibilities to ensure there would be no hiccups in delivering customer orders as a separate entity. Accordingly, we developed a communication plan and educational messaging to all parties affected by the TSA. To ensure the TSA was performing according to plan, we helped the team develop TSA KPIs to show performance and agreement adherence along with dispute resolution mechanisms if future performance faltered. Finally, we created an exit strategy for terminating the TSA upon completion—along with a final evaluation to ensure all services were completed and successfully transitioned.

With inventory now stored in different locations post-separation, this workstream mapped out the entire order-to-delivery process—including Warehouse Ops, Inventory Mgmt, Logistics and Carrier Management—to create an optimized, more cost-effective storage and flow of goods for the new entity. The optimization process entailed building out new roles, securing warehouse space, finding better, more valuable 3PL partners, and moving on-hand inventory. A comprehensive inventory transfer and relocation strategy was implemented in three waves and managed by the project team.

Several new warehouse and logistics key performance indicators (KPIs) were implemented to see performance gains and early warning signs of constraints in the new process. These new KPIs helped control vendor performance, shipping accuracy, order processing, and picking & packing rates (please see KPI inset on this page).

5 | **Sustainability & Knowledge Management Handoff—**The project team developed TSA monitoring for the consumer products management team. We created procurement and supply chain professionalization procedures and reference materials related to new operations. Finally, we updated all project management elements (KES, SOPs, Warehouse Operations and Logistics process maps, data hierarchies, vendor negotiation training, risk logs, etc.) and uploaded them on a secured share drive for the consumer products team to use beyond this engagement.

The Results

Leveraging a talented, experienced project team, the new firm now has impressive cost reductions in warehouse, logistics, and labor by moving to a vetted third-party logistics (3PL) agreement. They now have professionalized sourcing & supply processes and capabilities to continue to improve customer service while reducing costs. Also, the firm now has an established sourcing footprint in Vietnam to mitigate supply risks popping up in China. Collaborating with the PE team and Catalyft, Management and in-house SMEs successfully delivered a 4 to 1 ROI.

Warehouse & Logistics KPIs Implemented

- **Vendor compliance % -** accuracy and quality of customer standards (including labeling, palletizing, loading and shipping of goods)
- **Cost per unit shipped** - assesses the cost efficiency of shipping and handling
- **Invoicing % -** hourly billing invoiced for hourly warehouse staff over initial estimate
- **Unload containers %** - unload containers within 48 hours of receipt
- **Receipt accuracy %** - 3-way match of ASN to P.O., item number, and quantity
- **Shipping order accuracy %** - accuracy of order picked and shipped (quantifies vs. requested volume)
- **Inventory damages %** - number of damages reported per 1,000 orders
- **Floor loaded outbound loads %** - quality of stacking and security of loads according to Customer Standards
- **Order processing lead time** - amount of time spanning from order initiation to successful dispatch
- **Returns processing time—**amount of time required to receive and assign disposition
- **Picking and packing efficiency %** - overall speed and accuracy of order picking and packing processes
- **Fill rate B2C %** - percentage of B2C customer orders satisfied from on-hand delivery
- **Fill rate B2B %** - percentage of B2B customer orders satisfied from on-hand delivery
- **On-time, in-full delivery %** - percentage of shipments delivered according to pre-established schedule
- **Warehouse receiving dock to stock time** - the time required to unload inbound shipment containers and place the goods in stock—ready to ship