

# CONSUMER PRODUCTS EXPERIENCE CASE |

## Accelerating Sourcing, Modeling, Market Analysis, and Operational Excellence



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Margin Growth Acceleration via Strategic Sourcing,  
"Should Cost" Modeling, and Operational Excellence

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## Consumer Products:

Margin Growth via Sourcing, Modeling, and Operational Excellence

### Some Familiar Technologies Still Endure

It was a dark and storming night...Well, that may be a bit of a stretch but this consumer products company certainly helps make any night less macabre and, perhaps, more romantic. This storied candle and home décor company continued to deliver consistent, very respectable EBITDA numbers but the team felt certain they could do even better.

Several pockets of opportunity they had in mind included professionalization of the team's purchasing department, some stock-keeping unit (SKU) rationalization, pricing optimization modeling, and some additional lean disciplines built into the operations (production and maintenance teams). While the collective will and long-term vision were there, the firm's internal capacity to take on more capability-building responsibilities while getting customer orders out on time was not up to the challenge. Besides the lack of capacity, the team needed more production and pricing experience to draw upon, strong project management to ensure improvements were made on time and on budget, and new metrics in place to see their hard work translated into incremental margin.

The executive team was rightfully proud of the firm's many strong points (category management dominance, lengthy customer & vendor relationships, healthy company culture, and a reputation for exceeding customer expectations) but needed help extending transformational resources and accelerating results. That's where we fit into the plan.

### Storied Company with Many Good Things Afoot

Focused on the Food /Drug/Mass Market ecosystem, executive management was looking for ways to improve production efficiencies, contain proliferating stock-keeping unit (SKUs) counts, and quickly transform their loosely-structured, somewhat neglected purchasing team into a more professional, data-oriented strategic sourcing team. Through these changes, the executive team expected to boost EBITDA without relying entirely on price increases that could potentially unsettle their retailer customer base. Several areas of strength already in place included:

- Unmatched in industry due to high production flexibility, customer service excellence, and dominating category management.
- Highly collaborative sales and research & development (R&D) teams adept at cultivating enduring relationships with customers over the years, by providing customized products across price points.
- Veteran operations team managing 5 primary production processes.
- Organic growth of 5% on top of 20% growth from a recent acquisition.

### Consumer Products Manufacturing & Distribution

#### Experience Case Synopsis:

- Building up strategic sourcing, portfolio pricing & cost models, in-house market intelligence, SKU rationalization procedures, and operational excellence practices in a consumer products environment

#### Client Profile:

- **\$145 Million** candle and home décor manufacturer and distributor
- 475 employees + 90 temporary staff
- 20+ production lines
- Private Equity ownership

#### Financial Results:

- **10%** reduction in impactable procurement spending

#### Operational Results:

- **20%** increase in planning accuracy
- **21%** decrease in SKUs
- **17%** improvement in inventory turn velocity
- **30%** reduction in production delays and equipment downtime

#### Organizational Benefits:

- Strategic sourcing professionalization with upgraded processes, research tools, and partner scorecards
- Market Intelligence team set-up with shared information protocols designed to strengthen retail relationships
- Dynamic portfolio pricing and cost optimization models
- Data-driven SKU rationalization process
- 1,3, and 5-year performance goal-setting
- Maintenance excellence program
- Improved supplier relationship management (SRM) program
- Departmental silos reduced through shared information, increased collaboration, and mutual accountability



## Opportunities: Getting "Good to Great" Rolling

With positive momentum due to the firm's reverent dedication to customer service, the team was clipping along at a steady pace. However, management was well aware of several nagging weaknesses dragging down what was, by all accounts, a strong business. The organization faced several issues they had to overcome in order to reignite margin growth. Several challenges included:

- No targets set during annual planning process with the necessary KPIs rolled up across departments to report progress.
- Some seasonality needed to be planned and acted upon more efficiently—about 20% of sales derived from seasonal, holiday-themed products.
- The team's accommodating product development stance had created a SKU proliferation problem. Over 1,400 SKUs added too much complexity in manufacturing and slowed inventory turns.
- Retail customers were increasingly demanding more market intelligence to make sure they were stocking the products end customers wanted. Also, retailers wanted to get a jump on any lucrative fashion trends.
- The firm had a smattering of supplier contracts but there was much room for more favorable terms and standard application across contracts. Raw materials were not consistently negotiated and spot buying was too heavily relied upon due to hazy forecasting methods. New suppliers were not actively sourced as a normal practice. Furthermore, the firm had no dedicated resources for strategic sourcing and limited cross-functional category management.
- The candle market was experiencing rising raw materials costs and the firm didn't have a definitive sense of what could be done about the margin squeeze. They had no price modeling in place to understand the "should cost" or targeted pricing across the product portfolio. So, they could not say with any conviction if rising costs were part of their overall market environment or if there were some firm-specific variables adding to their materials costs.
- Like most consumer products companies, their product packaging was inextricably linked to their brand identity, added consumer appeal, and provided signals of quality to their end consumer. But this was also a large cost component as well. The team was overdue for packaging revamps and a re-assessment of the materials used to entice customers.
- Sales and operations teams were not communicating and collaborating as harmoniously as they needed. In the wake of proliferating SKUs, customized batch orders were putting a strain on production. The team needed a clear-cut, sales & operations planning process (S&OP) process with flexible production scheduling and sequencing.
- Some customer-directed customization caused the firm to be stuck with obsolete inventory. Customers were not held responsible for orders; this laissez faire policy was adding to unsold inventory build-up, too. Additionally, they needed to re-evaluate minimum/maximum inventory levels and ROP (re-order points) more quickly.



### Catalyft Team's Past Experiences:

**15+**  
Consumer Products  
Engagements  
*(Total)*

**4**  
Workstreams Involved in Con-  
sumer Products Engagements  
*(Average)*

**6**  
Consumer Products Engage-  
ment Length in Months  
*(Historical Avg.)*

**\$90 Million**  
Company's Revenue Size  
*(Historical Avg.)*

**4.5 to 1**  
Consumer Products  
Return On Investment  
*(Historical Avg.)*



## Implementing Next-Level Business Capabilities

Collaborating with a multi-departmental team (including executive management, sales, operations, maintenance, research & development, finance, and the buyers) across an eight-month timeframe, several crucial new business components were developed and implemented including:

### 1 | Strategic Sourcing Professionalization

The biggest cost impact for this firm was trapped within its loose confederation of buyers—relying upon old, worn-out pathways to decisions, spotty data, inherited processes, and seat-of-the-pants supplier relationship management. The buyer group was working in isolation from the rest of the organization and even had moats within the buyer group itself due to being heavily focused on specific product category responsibilities rather than collective spend. The buyer team needed to move from being passive administrators to active contributors to market intelligence, inventory control, and margin enhancements.

Partnered with strategic sourcing subject matter experts, the department transformed into a more professional, data-driven team. Building up the team's capacity to design, develop, and implement a cost-conscious, iterative process for sourcing exercises, the firm benefitted from near-term cost savings but, more importantly, now had strategic sourcing expertise embedded within the organization to continue their cost savings trajectory as a normal course of doing business. That's now just standard operating procedure for the firm's strategic sourcing team.

Turning an assembly of self-managed buyers into a strategic sourcing team coalesced around our 6-phase approach — including Category Analysis, Strategic Sourcing Design & Development, Supplier Qualification, Supplier Selection, Supplier Relationship Management (with controls and process refinements), and Continuous Training stages. More detail on each phase of this approach:

- **Category Analysis:** initial phase on the professionalization pathway incorporated scope definition criteria, spend category data collection methods, organizational process and workflow definitions, and cost savings candidate determination.
- **Strategic Sourcing Design & Development:** key activities in the second phase included category savings opportunity prioritization, strategy development for category management, contracting best practices, new technology application needs, vendor scorecard design and review process, sourcing role clarity, and strategic sourcing system component design and testing.
- **Supplier Qualification:** the third phase included customized request for information (RFI) and request for proposal (RFP) development, supplier relationship forum design and cadence, and firm-specific RFI/RFP qualification analysis criteria and modeling.
- **Supplier Selection:** fourth phase involved supplier site visits, supplier survey methodology and channel administration, negotiation responsibilities and procedures, supplier selection process, and favored communication channels (including selection impacts within the firm, selected suppliers, and runner's up).



## Partnering In Consumer Products



### Key Challenges:

- ⇒ Fiercely Competitive Markets
- ⇒ Mercurial Product Cycles and Holiday Seasonality
- ⇒ Profit Margin Pressures
- ⇒ Complex Inventory Management
- ⇒ Proliferating Stock-Keeping Units (SKUs) Due to Mass Customization and Personalization Demands
- ⇒ On-Going "Make vs. Buy" Analysis and Portfolio Pricing Needs
- ⇒ Shop Floor Productivity Barriers
- ⇒ New Technology Adoption and Integration
- ⇒ Balancing Packaging's Marketing Appeal with Materials Costs
- ⇒ Continuous Improvement Cultivation



- **Supplier Relationship Management:** the fifth phase centered on contract roll out, supplier consolidation, supplier collaboration meetings, scorecard reviews for mutual benefit, and key product planning updates.
- **Continuous Strategic Sourcing Training:** the final aspect of Strategic Sourcing professionalization revolved around new team member on-boarding, skills sharpening on data analysis methods, an interactive training module illustrating the impacts of daily decision-making to the firm's financial statements, supplier relationship collaboration best practices with negotiation training, and evolving work process and procedure updates.

The strategic sourcing team developed from within but also became more directly aligned with sales, research & development, finance, and operations. Several good things happened due to their newly-strengthened position within the firm. Procurement decision-making was more tightly woven into their sales & operations planning (S&OP) process, the team shared more relevant forecasting information with suppliers, thus, tightening up suppliers' own planning and production effectiveness. With published monthly numbers on key spend categories flowing and more timely forecasts being shared on anticipated raw materials consumption, suppliers gained a deeper understanding of future needs and became more intimately involved in collaborations to improve customer service and help save money across the supply chain.

**2 | SKU Rationalization and Inventory Controls**—the firm needed to ratchet down their proliferating SKUs for a few reasons—including lower inventory holding costs, improving cash flow, and setting up more efficient production planning. So, a top priority included cutting out the least-profitable SKUs in the present while concurrently building up in-house analytical capabilities to make sure the team did not continue to build back up to past's unwieldy and untenable levels. The team developed a SKU decision model incorporating several crucial inputs to deciding which SKUs stay and which are cut. Key parameters included customer satisfaction scores, input costs, profit margins, brand equity points, production ease, and shelf life. Using this SKU rationalization model, the firm went from 1,400 to 1,100 SKUs.

Additional inventory controls involved establishing well-defined supplier lead times, ratcheting down just-in-time (JIT) procedures, optimizing customer order quantities, and testing ways to sell excess and obsolete inventories to current customer and through online exchanges. An improved S&OP process also helped to keep inventory under control and fill rates improving.

**3 | Shared Market Intelligence**—knowing all too well that continued success and livelihood depended on making sure their retailers were happy, the firm wanted to step up the amount of data and market information shared with their closest partners. By sharing more information, the firm would be adding more value to the relationships by helping retailers more clearly understand product demand, learn about trending new product introductions, clarify market pricing across regions, and provide commodity price index visuals to help retail partners see cost increases were based on the firm's own rising raw materials costs.

By building up a more open data-sharing position and strengthening ties with retailers, all parties were better educated on historical sales performance, planning effectiveness, new product positioning, end-consumer taste trends, and margin enhancement opportunities.



## Partnering In Consumer Products



### Team Performance Enablers:

- ⇒ 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 / Visualization Timeliness and Usability
- ⇒ Production and Maintenance Integration



By cleansing in-house data, boosting market & industry research capabilities, and developing market intelligence snapshot reporting selectively shared outside company walls, the firm's products became even more valuable to their Mass Market customers and made doing business together that much easier.

**4 | Dynamic Portfolio Pricing and Cost Models**—sales and marketing were always looking for ways to leverage select pricing power pockets to better capitalize on events (like stronger regional retail channels and hot seasonal trends). Meanwhile, R&D, production, and finance were trying to find better ways to contain input costs while smoothing out demand planning. With this team creating customized products for their retailers, they struggled with when to stop building in more quality from a cost of goods sold perspective. They needed to better understand the level of quality a customer expected (and was willing to pay for) while also leveraging lower-cost material inputs that were "good enough".

The team needed to build up their pricing and cost analysis capabilities to help answer perpetual questions such as: Where can we raise wholesale prices while minimizing the risk of losing the account? Should we make this product in-house or should we find a supplier to make it for us? What should the cost of our current high-volume SKUs be? What raw materials can be substituted without lowering the perceived quality and performance of the product?

By building up their in-house analytical capabilities and creating customized portfolio pricing and cost models, the team exerted a stronger influence on margins and had a data-backed, structured, and repeatable way to answer their pricing and cost questions—today and beyond.

**5 | Production and Maintenance Excellence**—Given the firm's highly-collaborative relationships with Mass Market retailers, the team had numerous product lines designed exclusively for larger customers. While specialization certainly helped to keep customers close, the limited production runs of specialized product lines were challenging for planning, production, and maintenance. Production planning was smoothed some by virtue of removing several lower-margin SKUs from the line-up. Furthermore, the team developed a more disciplined S&OP process with more active internal communication across departments to ensure all impacted areas knew what was coming down the sales funnel. To help improve productivity, the team collaborated with us on line balancing, leaner product change-over procedures, a central operations control room with visual performance trending, production constraint visibility utilizing a newly-installed SaaS application, and workflow simulations for new product lines.

To improve machine uptime, the team focused more on root cause analysis by drilling down on their Overall Equipment Effectiveness (OEE) trends, implemented centerlining and recalibration processes for key equipment, turned on underutilized features of their work order system, and developed a skills training program in partnership with key equipment vendors.

## The Team's Collective Results

Through an 8-month collaboration, this candle and home décor firm significantly decreased raw materials spend in key categories by 10%, reduced cash and margin-draining SKU numbers by 21%, increased inventory turn velocity by 17%, improved planning accuracy by 20%, and reduced downtime and delays by 30%.



## Our Way of Collaborating :

### Identify



2-4 meetings at no cost

- Discussion of issues
- Alignment around probable causes
- Framing of analysis scope

### Qualify



3-6 weeks at cost

- Qualify opportunities with Trapped Value Analysis (TVA)
- Quantify anticipated results
- Initial engagement design
- Key meetings: Launch, Opportunity Review, Solution Review, and Final Framing of analysis scope

### Modify



4-8 months

- Final engagement design
- Execution of engagement design
- Realization & measurement of results
- Ownership & sustainability

## Office Locations :

NYC

One World Trade Center  
Suite 8500  
New York, NY 10007  
212 220 3897

CHI

444 West Lake Street  
Suite 1700  
Chicago, IL 60606  
312 260 9907

MIA

200 South Biscayne Blvd  
Suite 2790  
Miami, FL 33131  
305 925 8112

SFO

101 California Street  
Suite 2710  
San Francisco, CA 94111  
415 636 7999

TOR

20 Bay Street  
11th Floor  
Toronto, ON M5J 2N8  
647 725 9662



# Our Services



## Enterprise Excellence

- Integrated Operational Performance
- Sales & Marketing
- Human Capital
- Margin Growth & Cash
- Information Technology Transformation



## Operational Turnaround

- Cash Conservation & Liquidity Generation
- Contingency Planning
- Development, Review, & Implementation of Cost Reduction Initiatives
- Interim & Crisis Management
- Operational Reorganization



## Organizational Analysis

- Mergers & Acquisitions
- Organizational Readiness Appraisal
- Trapped Value Analysis & Resolution Approach
- Our Commitment to Community — Pro Bono Advisory Services for Small Businesses & Education



# Key Statistics

Clients' Historical Return On Investment (avg.)  
**4.8 to 1**

Team's Collective Career Engagements (total)  
**1,496**

Specialists: Years In Consulting (avg.)  
**21**

Subject Matter Expertise (SME) Network (total)  
**500+**

Team's Historical C-Suite Executives Roles (total)  
**39**

Team's Career Training Sessions Delivered (total)  
**4,935**

Supply Chain Cost Savings (avg.)  
**19%**

Working Capital Unlocked For Reinvestment (avg.)  
**21%**

Tech-Enabled Productivity Increases (avg.)  
**27%**