

Develin & Partners delivering bottom line benefits



Improving product & customer profitability, and reducing costs

A Prepared Foods manufacturer believed it was doing reasonably well with an overall 40% gross margin and profits of 10%. Not bad, considering its customers were major supermarket chains who demanded safe, fresh, consistently high-quality products delivered to extremely tight schedules day after day. Customers also expected such services as proactive product review and innovation, sourcing of new and exotic ingredients, new ways of presenting and packaging products, 24x7 service, and so on.

The company thought it had financial control through accurate measurement of direct costs and gross margins. But management was concerned to discover that as volumes rose so did overheads - and sometimes at a faster rate. Meeting its growth and margin targets meant uncovering where processes were failing, and understanding which features of the customer relationship were losing money.

The company found that, in order to meet the increasingly complex service demands from customers, internal processes had grown complex. This complexity caused additional overhead costs, eroding profitability, as was clear from the bottom line of the company accounts. What was not clear was the impact on individual product and customer profitability. So management could not see where they could improve efficiency without damaging customer service.

Identifying product and customer profitability

Salvation came in the form of a detailed profitability analysis that showed that only 50% of the company's 200 products made money. Simply getting the 50% that lost money to break even would add 25% to the overall profit!

Breaking down the analysis into the products for each of their major supermarket customers, as shown in the figure (see right), gave an even more interesting picture.

Taking each customer in turn, the net profit associated with each product that the customer bought was calculated. The list of products was then put in a sequence so that the most profitable was first, the second most profitable was next, and so on. The cumulative profit provided by this sequence of products was then plotted, one curve for each customer.



