



Wilson Perumal
& Company

REFOCUSING FOR PROFIT & GROWTH

*Guide to Portfolio Optimization
for CPG Companies*



PORTFOLIO OPTIMIZATION UNLOCKS SIGNIFICANT FINANCIAL BENEFITS

Portfolio optimization remains an under-utilized lever for value creation in most CPG companies, despite many leaders recognizing the growing complexity in their organizations.

When portfolio optimization occurs without the necessary expertise, the agenda is often too narrowly focused on “cutting the tail,” yielding results including an unclear business case and failure to achieve targets.

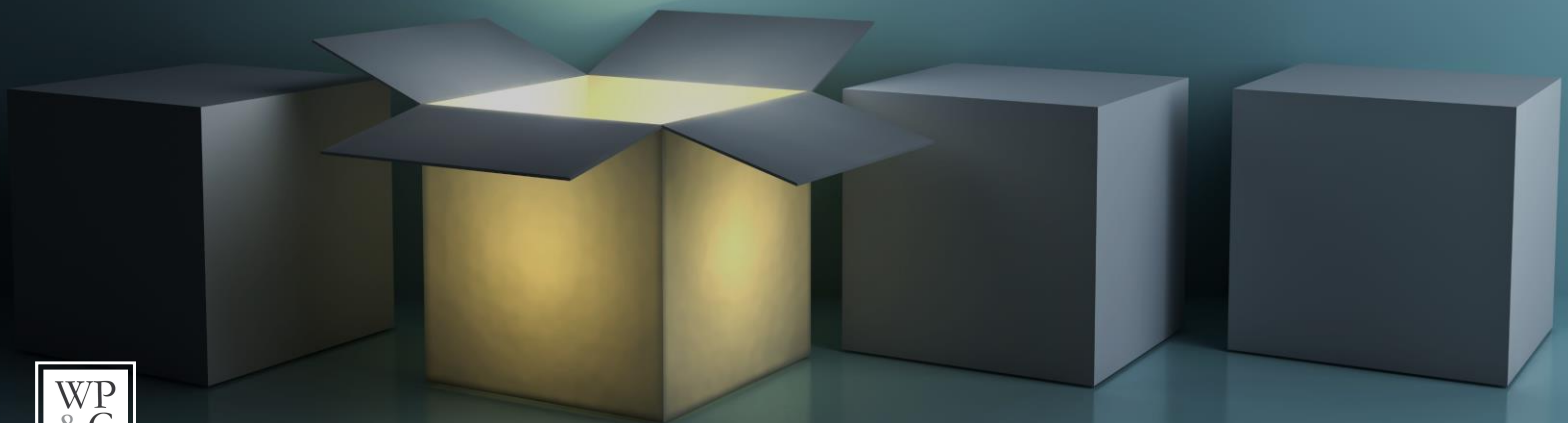
With our proven approach, we help CPG leaders quickly align and arm their organization with a critical understanding of SKU- and customer-level profitability, specific value levers, and a capacity to remove perceived barriers.

Our unique methodologies include Square Root Costing to quantify true SKU-level profitability, and a 5-facet approach to ensure a holistic view.

Companies that leverage WP&C's Portfolio Optimization typically see 10–30% increases in EBITDA and 10–25% reductions in working capital.

Companies also commonly see additional benefits in service level improvements, growth rates, and the ability to unlock previously unachievable larger-scale, longer-term benefits.

WP&C's Portfolio Optimization 'Phase 1' typically lasts five weeks, quantifying the business case and specific portfolio levers for value creation. 'Phase 2' then focuses on execution and value capture.



5 KEY ASPECTS OF PORTFOLIO OPTIMIZATION APPROACHES THAT WORK

Too often, companies tackle portfolio optimization with a singular focus. WP&C guides your team through the process and avoids this by applying a:

1

Balanced approach focusing not just on analysis, but also on practical implementation

2

Deeper view of profitability, at the operating profit level by SKU, that accounts for the **cost of complexity** (using Square Root Costing)

3

Holistic review of the portfolio (using the 5 Facet Approach) to understand the cost vs. benefit of a product across the value chain

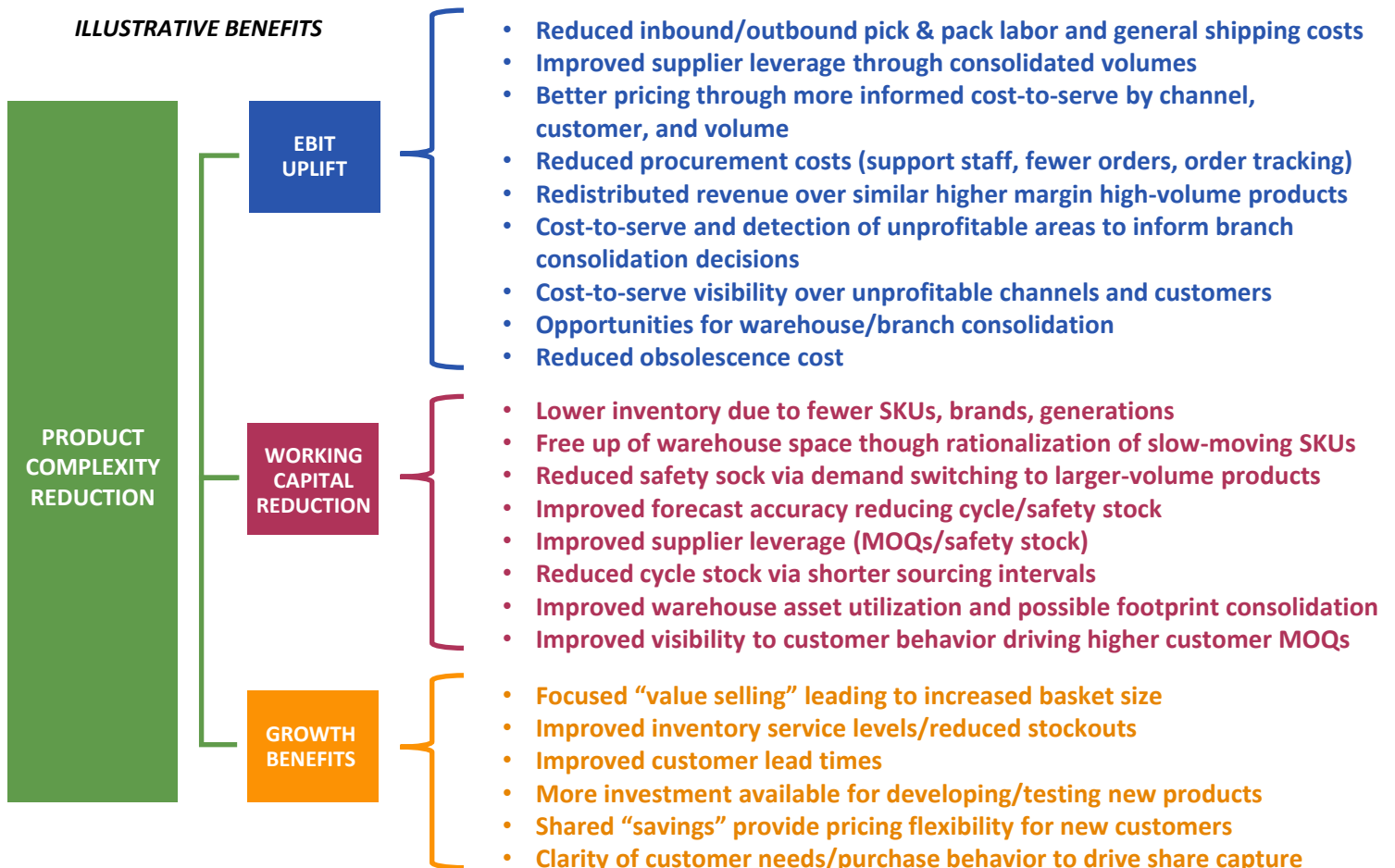
4

Focus on **incremental revenue & substitutability** helps to determine true incremental value and minimizes revenue risk

5

Cycles of experience, best practices, and industry-leading methodologies including a focus on integrating PLM and sustainment

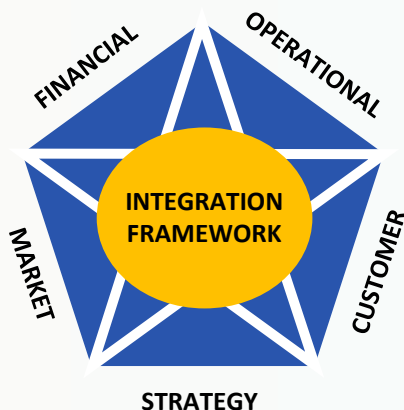
PORTFOLIO OPTIMIZATION DONE RIGHT DRIVES COST SAVINGS AND ENABLES GROWTH



PORTFOLIO OPTIMIZATION IS MORE THAN SKU RATIONALIZATION;

it requires a holistic approach that
considers internal and external forces

5 FACET APPROACH FOR PORTFOLIO OPTIMIZATION



Other key “shaping” factors

- Regulatory constraints
- Breakpoints to remove fixed costs
- Productivity improvements to remove variable costs
- Linked revenue

FINANCIAL

- What is the **true profitability** across the portfolio?
- How does profitability vary by product family, customer, channel?

OPERATIONAL

- How do different products drive **operational complexity**?
- What is the link between complexity and working capital?
- How much capacity (labor, whse, etc.) does variety tie-up?

CUSTOMER

- How does the current value prop and customers drive complexity?
- To what degree do customers **value the “full service”** approach?
- What is the opportunity for **substitution** in the portfolio?

STRATEGY

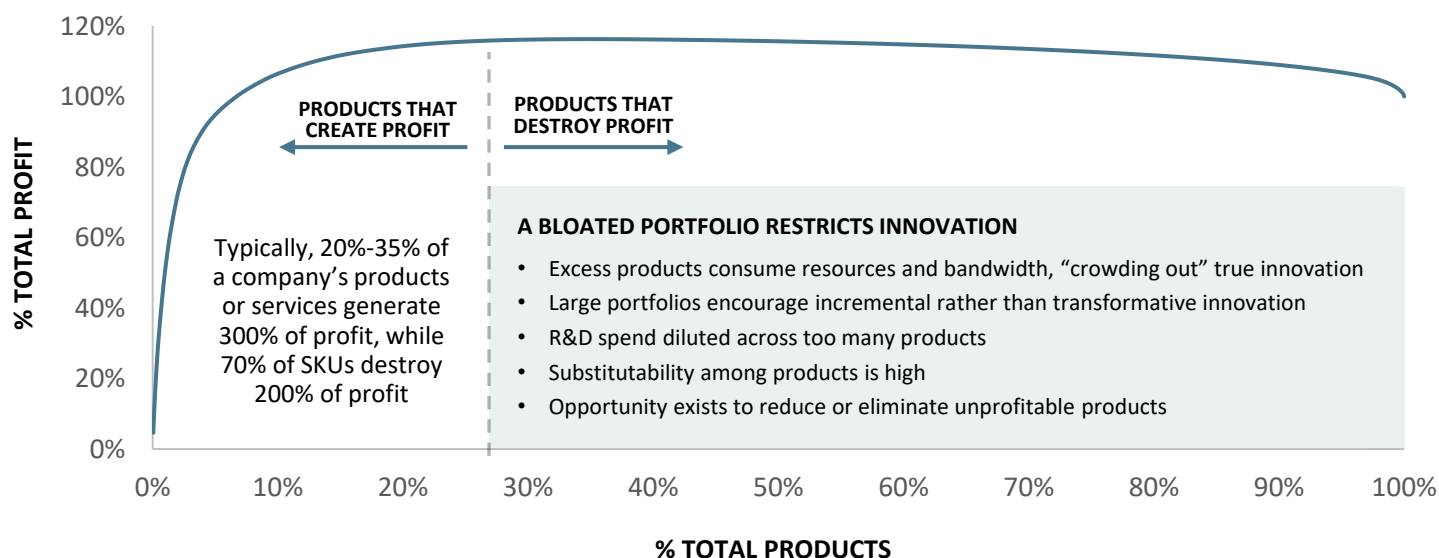
- How well does the current portfolio **support strategic targets**?
- Where does the strategy suggest additional investment needs?

MARKET

- What **market trends do we need to reflect in NPD and Portfolio**?
- What considerations to reflect current moment in cycle?

MAKING SPACE IN YOUR PORTFOLIO IS THE PREDECESSOR TO INTENTIONAL INNOVATION

COMPLEXITY-ADJUSTED SKU PROFITABILITY



WITH A SIMPLIFIED PORTFOLIO, YOU CAN INNOVATE EFFECTIVELY

BLOATED PORTFOLIO



Unfocused product expansion & poor product lifecycle management results in a business drowning in too many profit-eroding products

OPTIMIZED PORTFOLIO



Focused product portfolio achieved through portfolio optimization results in products that are properly differentiated & positively contribute to EBIT

CAPACITY FOR INNOVATION



Freed up resources can be devoted to transformational innovation, the ability to execute on strategy is enabled, and sustainable results are achieved

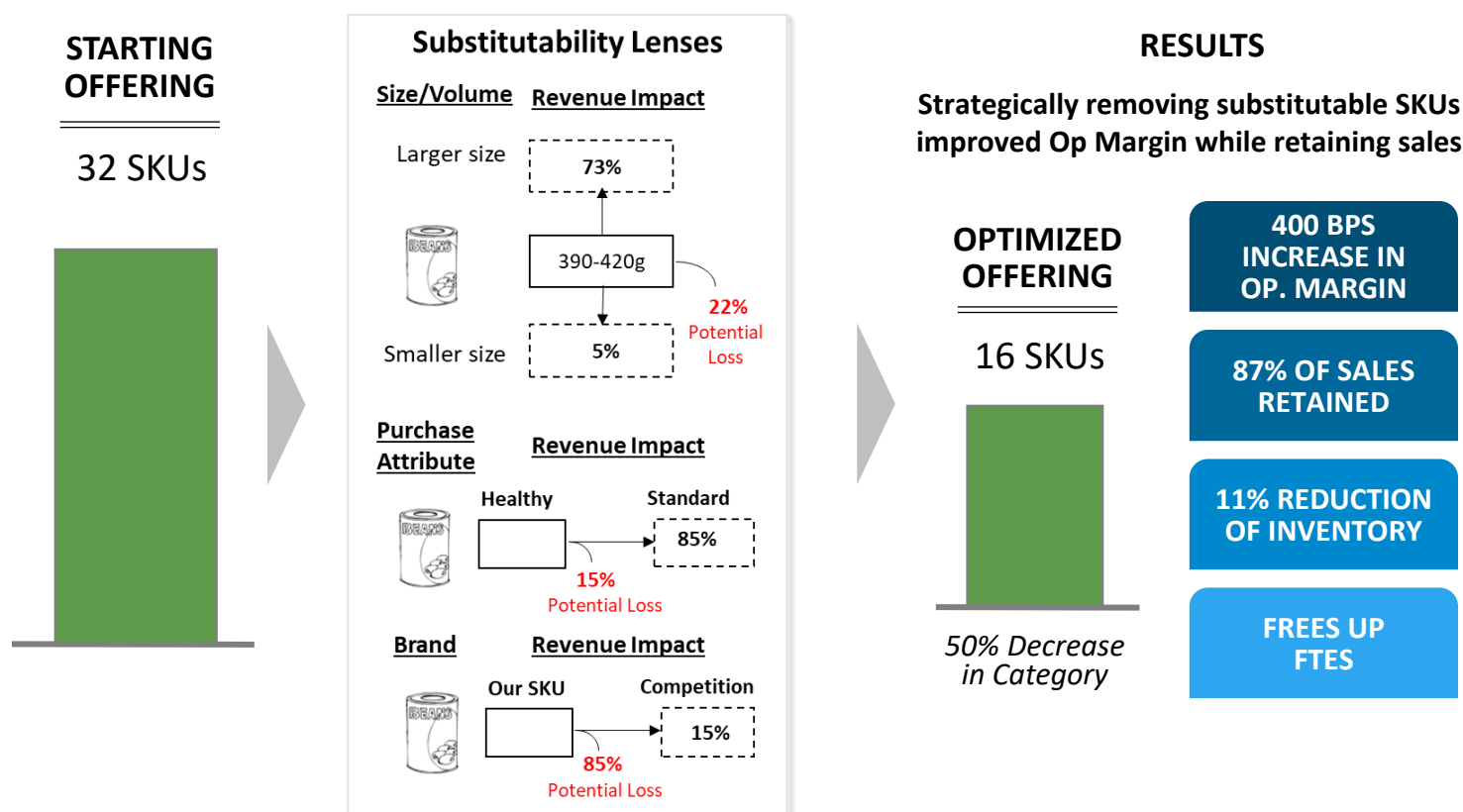
TYPICAL BENEFITS OF PORTFOLIO OPTIMIZATION:

10–30% increases in EBITDA and 10–25% reductions in Working Capital

CLIENT	SOURCES OF BENEFITS	IMPACT
\$800M Industrial Products and Services Provider	<ul style="list-style-type: none"> • Defined profitability by product segment • Rationalized, repriced dilute products • Established new operational capabilities 	<ul style="list-style-type: none"> ✓ 15% EBITDA improvement in 8 months ✓ \$25M reduction in working capital
F500 – Coatings Manufacturer	<ul style="list-style-type: none"> • Operational benefits incl: reduced raw material shortage and downtime, improved throughput and quality/defect rates • Commercial improvements 	<ul style="list-style-type: none"> ✓ 15% working capital benefits ✓ 18% EBIT benefit ✓ 9% increase in mfg. capacity
EU Wine Distributor	<ul style="list-style-type: none"> • SKU rationalization and consolidation • Improved range mgmt. • Enabled salesforce/go-to-market redesign 	<ul style="list-style-type: none"> ✓ 400 bps EBIT improvement ✓ 22% WH Working Cap. reduction ✓ 50% of SKUs removed from WH
\$14B Animal Feed Manufacturer	<ul style="list-style-type: none"> • Cost analysis across portfolio, mfg. sites and distribution (Square Root Costing) • Rationalized product portfolio, reducing 3-touch distribution moves 	<ul style="list-style-type: none"> ✓ \$35M reduction in distribution costs ✓ Simplified product portfolio
EU CPG Manufacturer and Distributor	<ul style="list-style-type: none"> • Category, brand and SKU rationalization • Improved range mgmt. • Exit / sale of unprofitable brands 	<ul style="list-style-type: none"> ✓ 10% EBIT improvement ✓ 18% WC reduction ✓ Exit 9 brands and 1 category
F1000 HVAC Manufacturer	<ul style="list-style-type: none"> • Consolidated SKUs in product categories • Realigned volume and channel strategy • Reduced product testing complexity 	<ul style="list-style-type: none"> ✓ 20-30% SKU reduction ✓ 8-11% EBIT increase ✓ 10-12% Engineering Capacity increase

QUANTIFYING SUBSTITUTABILITY TO PUSH DEEPER ON RESHAPING YOUR PORTFOLIO

In an effort to capture more market share, a European food distributor increased the sizes and flavor variety of products across the portfolio, cannibalizing its own sales



LET'S DISCUSS PORTFOLIO OPTIMIZATION

The WP&C team brings robust transformation expertise, proven methodologies, implementation processes, and proprietary tools to quickly deliver results.

START THE CONVERSATION >

PORTFOLIO OPTIMIZATION PAGE >

