



Wilson Perumal
& Company



**OFFERING
INTRODUCTION**

PORTFOLIO OPTIMIZATION

REFOCUSING ON THE CORE FOR PROFIT AND GROWTH

Executive Summary

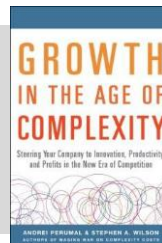
- Portfolio optimization can unlock significant financial benefits for companies: **typical outcomes are 10-30% increases in EBITDA and 10-25% reductions in Working Capital**
 - Companies often see additional benefits in service level improvements and growth rates
- While many companies recognize their complexity issues, **portfolio optimization remains an under-used lever for value creation in most companies**
 - Many companies recognize the issue, yet are unable to quantify the business case, and lack the experience to execute successfully, or;
 - Efforts focus on “Cutting the tail,” and lack a holistic approach that unlocks bigger benefits
- Wilson Perumal & Company is a leading management consulting firm with **deep expertise in portfolio optimization – we can guide you through this process**
 - Starting with the business case, we bring analytical rigor, cycles of experience and unique methodology to achieve your portfolio optimization goals
 - Methodologies include: Square Root Costing, our approach to quantify true SKU-level profitability (Square Root Costing) and our 5-facet approach, to ensure a holistic view
- Our approach starts **by understanding SKU- and customer-level profitability, specific value levers, and perceived barriers**, to quickly align the organization
 - A typical Phase 1 lasts about 5 weeks, quantifies the business case and specific portfolio levers for value creation, followed by a Phase 2, for execution and value capture

Typical benefits are 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 |

Wilson Perumal & Company at a glance

- Focused on complexity, helping clients compete in a complex world
- Boutique, strategy & ops consulting firm with ~40 full-time consultants
- Founded 2009 by Stephen Wilson and Andrei Perumal
- Value & results oriented: focus on profit, growth and working capital outcomes
- Publications: 2 books published by McGraw-Hill and significant work with The Wall Street Journal
- Our clients are leading corporations and private equity firms
- Consistently recognized (e.g., 2019 Best Small Strategy Firm to Work For)



Building a more resilient portfolio helps your organization better react to changing market forces

Recent examples of companies making big changes to their portfolios



Harley Davidson announced fewer models and less bike options to simplify factory operations and increase scarcity



Uber folded e-scooter brand Jump into Lime, exited 8 unprofitable Eats markets, and shifted corporate focus from Rides to Eats

Portfolio optimization can bring immediate benefits to support resiliency

INCREASE CAPACITY

Reduce portfolio noise to ensure capacity to react to emerging customer needs and support other innovation

IMPROVE COST & LIQUIDITY

Get out of profit eroding products and increase cash on hand to better handle other emerging business issues

BETTER MEET CONSUMER NEEDS

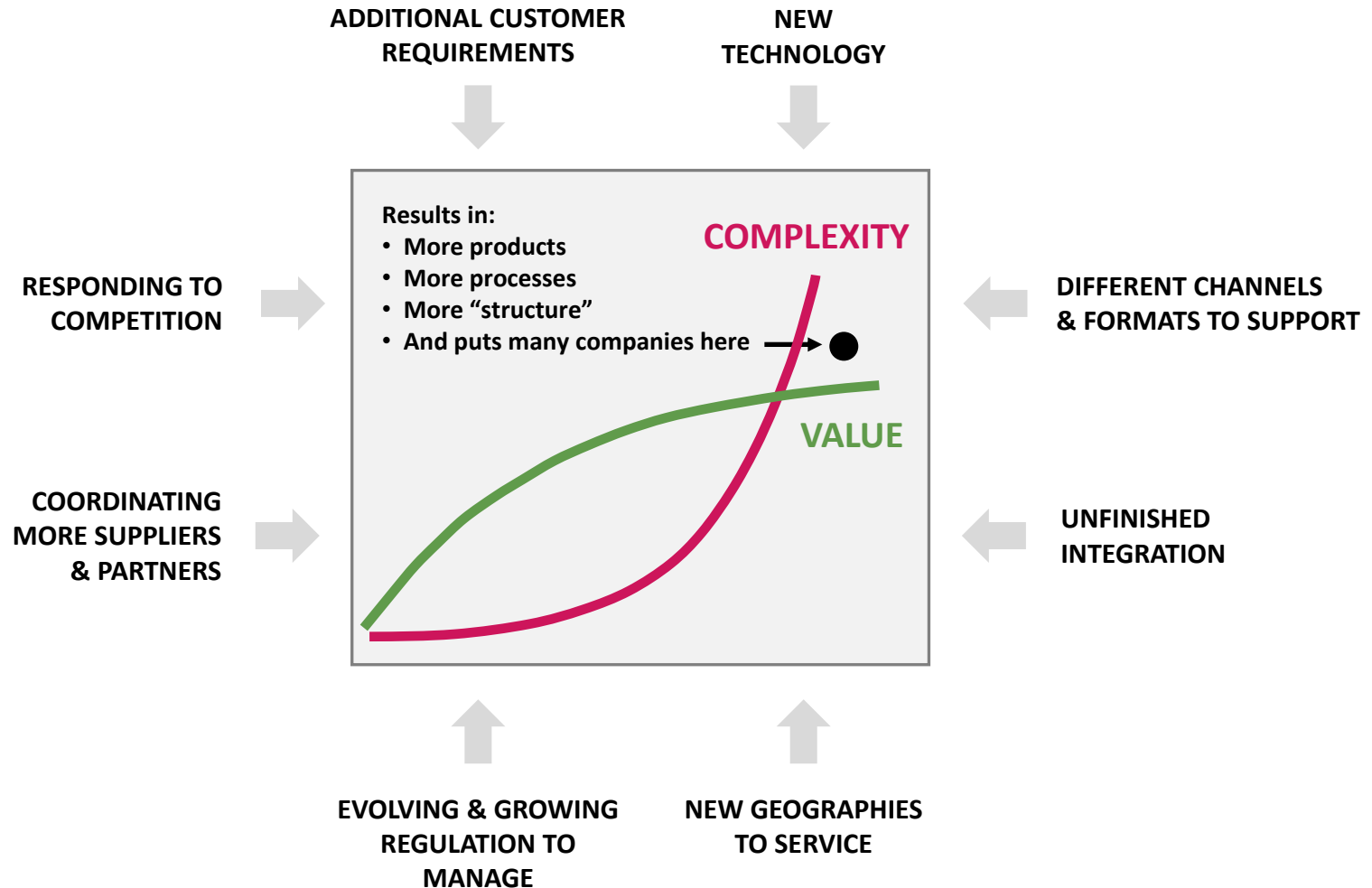
Update offering to align with new consumer needs; leverage product development, acquisitions, & JVs to add missing offerings

ENSURE SUPPLY CHAIN VIABILITY

Optimize with focus on raw material & supplier variety; keep products that use easily substituted materials, get rid of those that rely on at-risk supply chains

Companies are becoming overwhelmed by complexity...

Complexity is the opposite of scale and why many companies find it hard to maintain earnings as well as growth over time



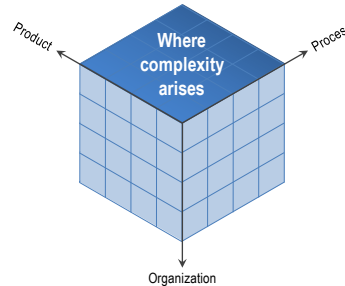
...Which often starts with product proliferation, as companies seek to drive growth

INTERACTION

Product-Process

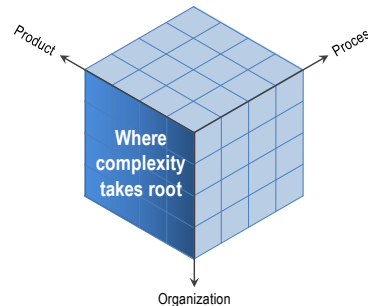
*Where Complexity **Arises***

THE COMPLEXITY CUBE



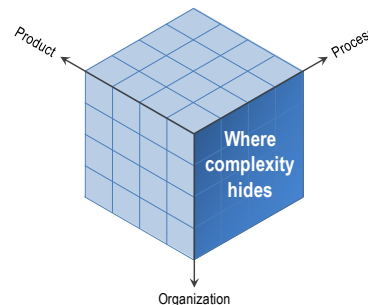
Organization-Product

*Where Complexity **Takes Root***



Process-Organization

*Where Complexity **Hides***

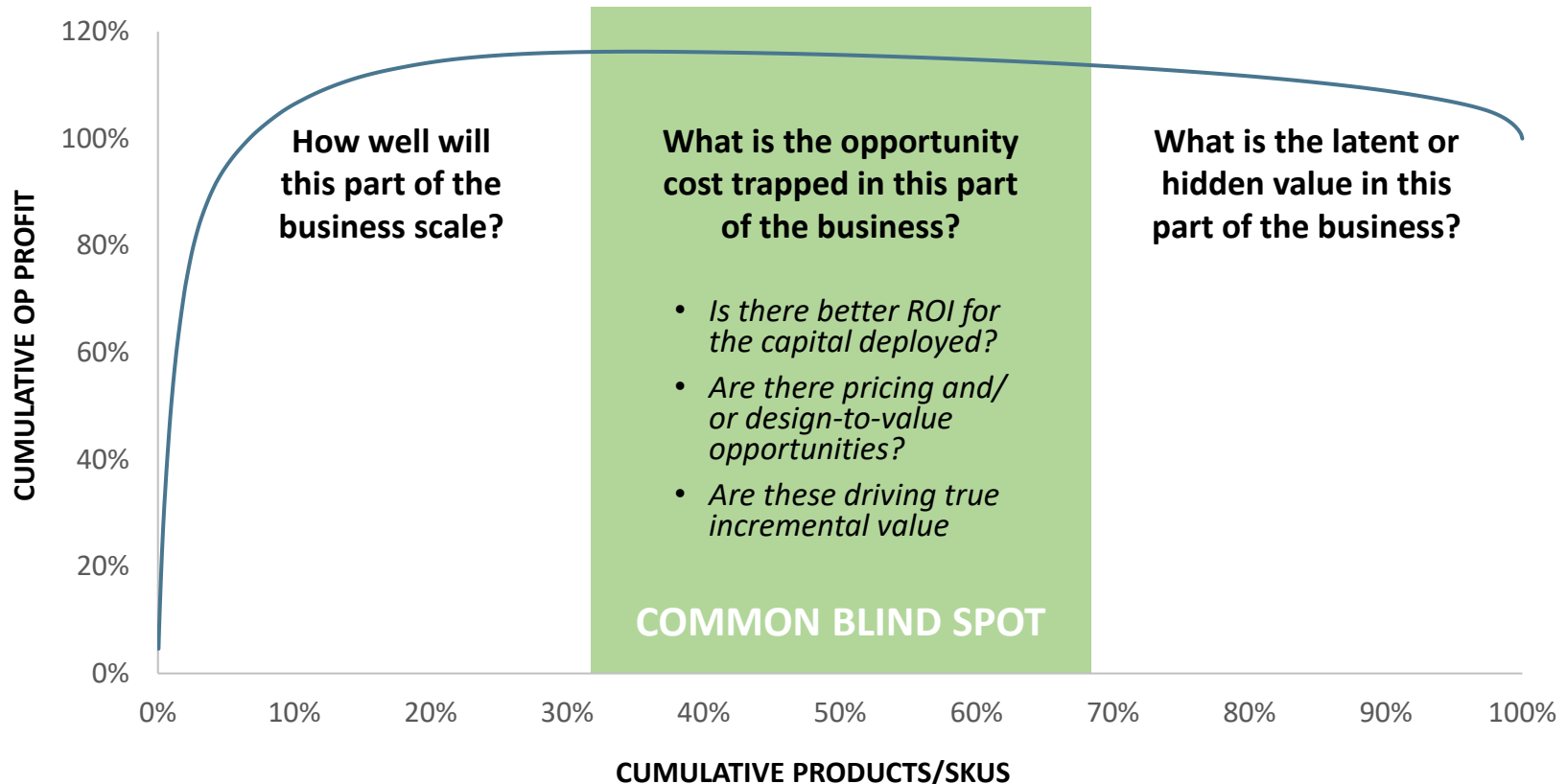


SYMPTOMS

- Hard to maintain shelf availability
 - Many “exceptions” in processes
 - **Pricing inconsistency**
 - **Assortment shortages/surpluses**
 - **Customer confusion/ordering mistakes**
 - High # of suppliers
-
- **Inability to leverage scale or technology**
 - Multiple faces to the customer
 - **Difficulty executing change projects**
 - Requirement for specialized sales/support
 - Poor space utilization, need for extra space
-
- Lots of activity, but not much outcome
 - High cost of IT and complex systems
 - Long decision-making cycles
 - Too much SG&A (\$, people)
 - Low levels of process automation
 - Too many locations, offices, facilities

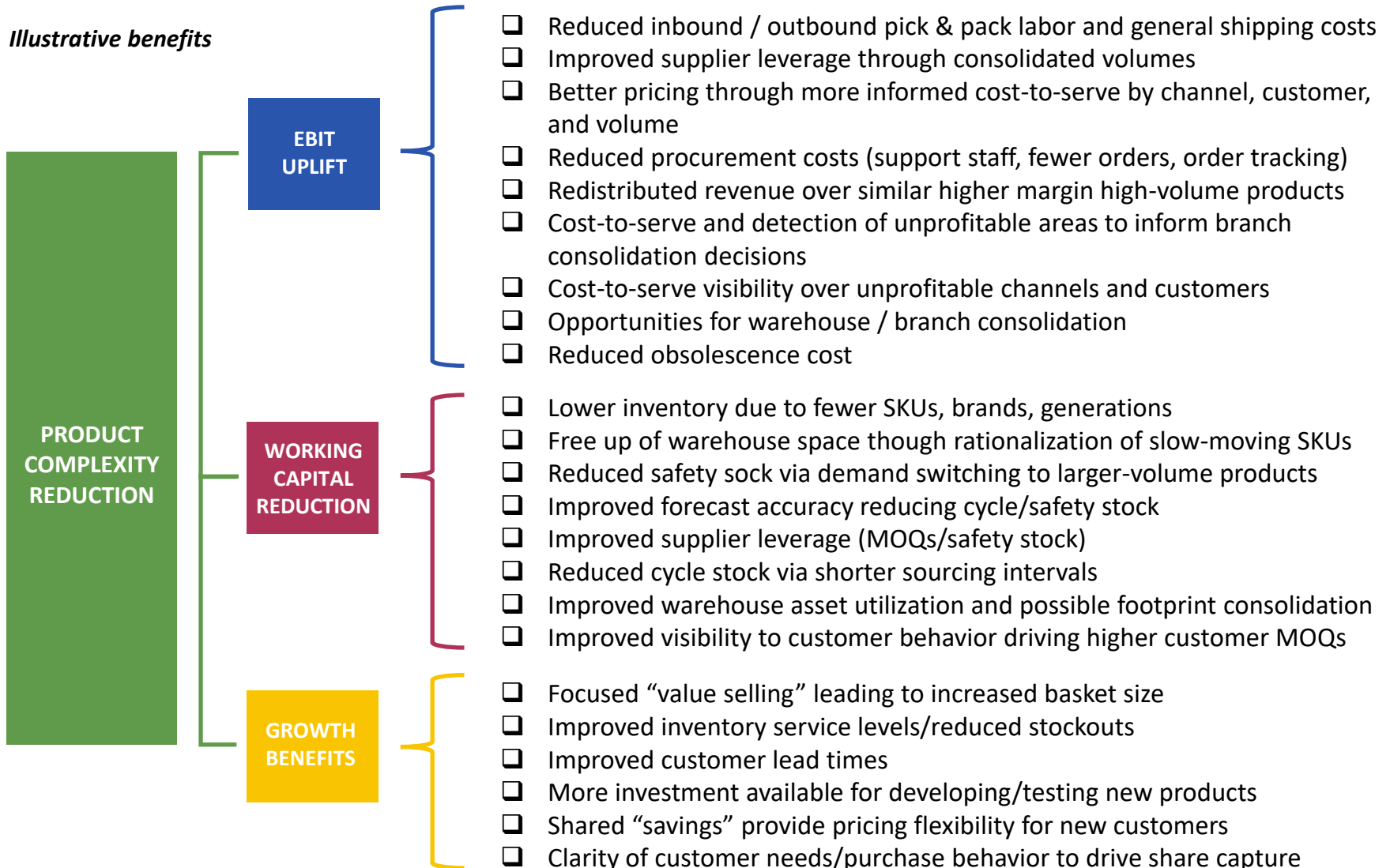
Portfolio complexity can quickly lead to decreased margins while also tying up valuable capital

Profit Whale Curve - OP by cumulative SKUs



Beware the “stagnant middle”, products with low but positive margins that consume scarce resources that might be better deployed elsewhere

When done right, portfolio optimization will drive significant cost & growth benefits



What makes our portfolio optimization approach different?

*Too often companies tackle portfolio optimization with a singular focus.
Our approach avoids this by applying:*

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

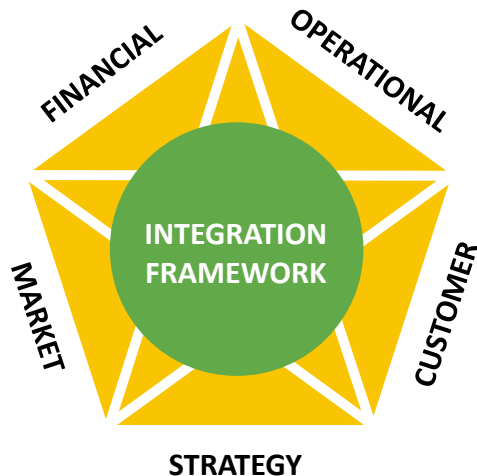
Focus on **incremental revenue & substitutability** helps to determine true incremental value and minimizes revenue risk

5

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

Portfolio optimization is more than SKU rationalization; our holistic approach considers internal & 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 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?

Many companies don't understand where they really make money, in response we developed Square Root Costing

CASE EXAMPLE

A multi-billion dollar outdoor vehicles company continues to increase the variety within their offering, but fails to understand how different products contribute to profitability

SQUARE ROOT COSTING IN ACTION

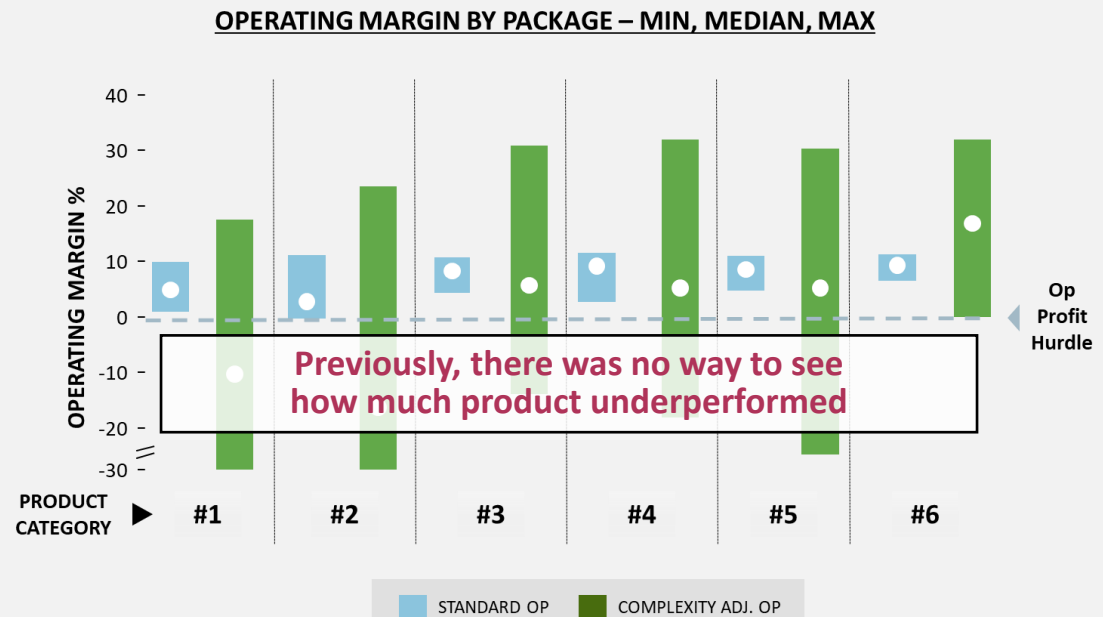
For this client, our Square Root Costing methodology quickly **revealed wide variation in profitability across product categories, enabling portfolio transformation** and new product development resourcing changes.

“Your models have been very helpful and ultimately will change how we work”

- Senior Management

Many companies think all products are profitable, but Square Root Costing reveals stark differences within & across products/categories

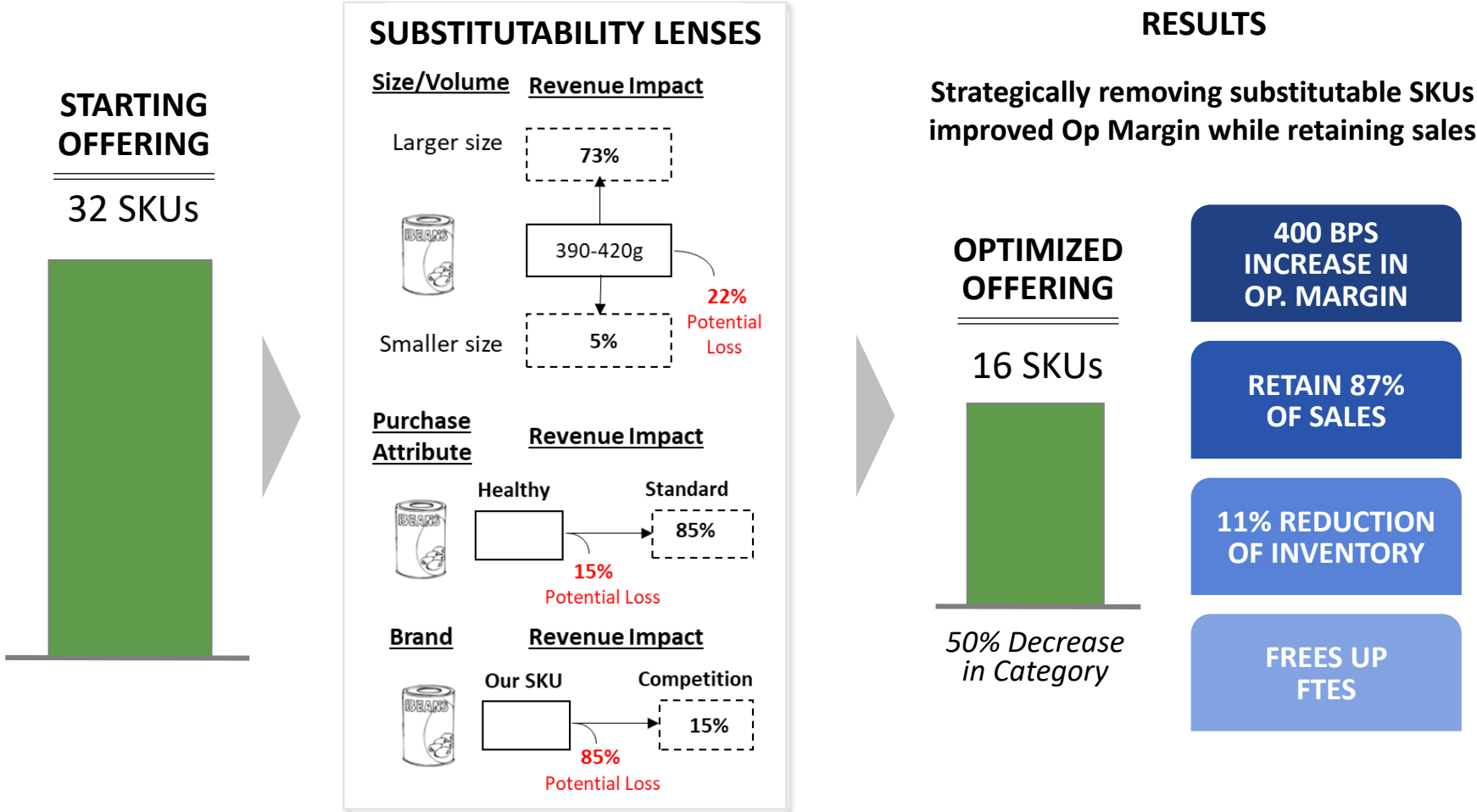
- A faster & more dynamic alternative to other methods such as Activity-Based Costing
- Helps determine where the business has truly achieved scalability and where complexity costs are eroding profits



By quantifying substitutability, we can push much deeper on portfolio reshaping

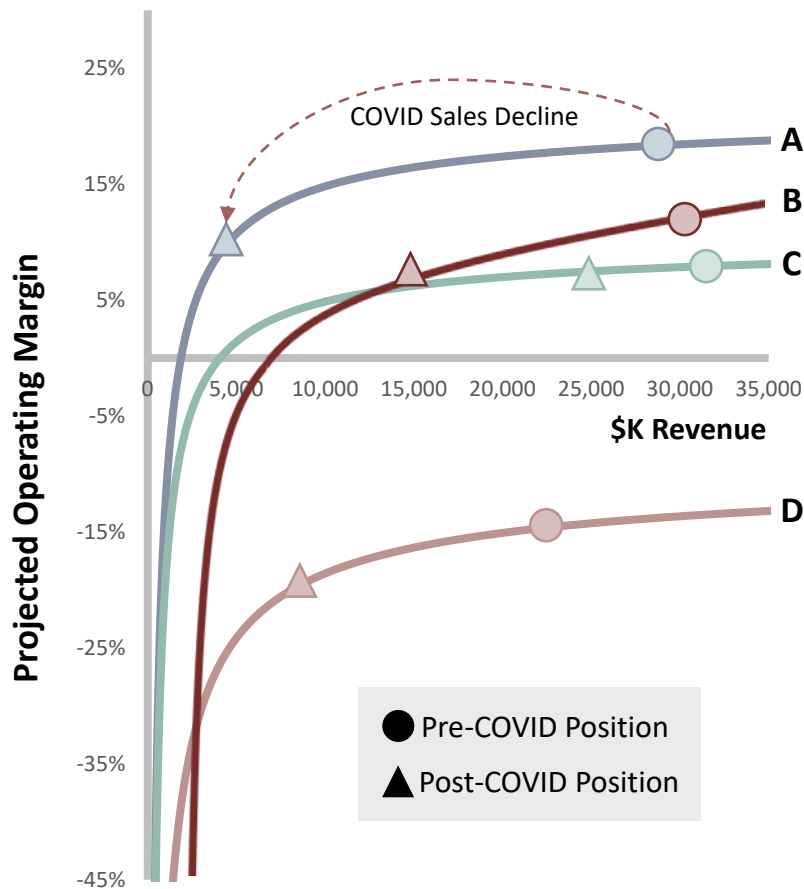
**CASE
EXAMPLE**

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



In today's environment, where do you invest, assess, or divest for maximum revenue recovery?

Complexity-Adjusted Profit Scaling Curves



Pdt A – Invest

Increasing sales restores A's margin; position on the slope means slow recovery

Pdt B – Invest

B's steep slope means quick margin recovery

Pdt C – Sustain

C's margins remain flat with sales decline

Pdt D – Change Cost Structure/ Eliminate

D's will never be profitable with the current cost structure

How Has Product Profitability Changed?

- Profit scaling curves help firms understand the true profitability of products/SKUs now and potential for scaled growth
- The crisis has moved all products down their respective profit curves reducing firm's profitability and scale

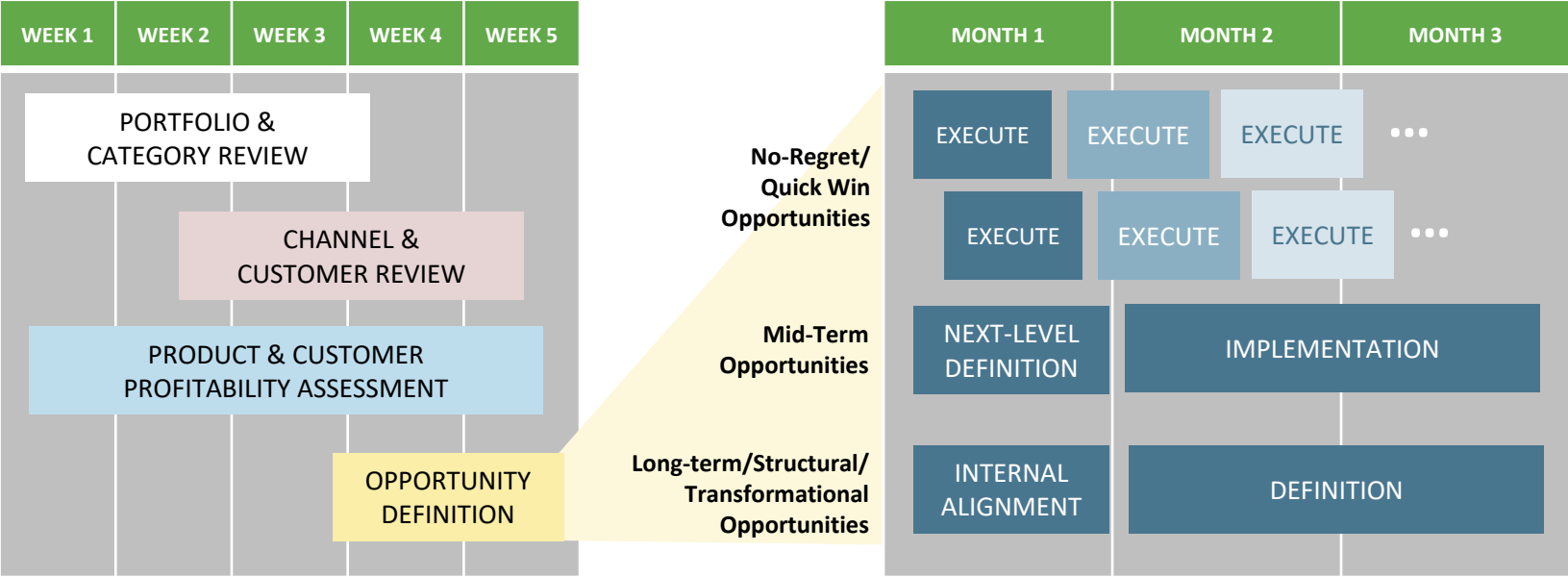
What does recovery look like?

- While this may be temporary, it is important to rethink portfolio size and shape in the new world
 - Which products do you want to invest in for the future?
 - Which products should be end of life?
 - Have customer behaviors shifted permanently?
 - How has competition changed?

Optimization starts by understanding profitability, value, and strategic alignment (product, customer segments)

1 Rapid 5-week assessment of profitability & opportunities within products and channels

2 Short, mid, and longer-term opportunity realization, definition, and planning over 1-3 months



An Initial 5-week assessment quantifies the business case, uncovers true service/product profitability, and builds a list of actionable opportunities



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CASE STUDIES

Cost Reduction for a Consumer Durables Co.
Portfolio Optimization at a European Food Co.
Battling Proliferation at Industrial Equipment Co.

RESOURCES

Vantage Point: Square Root Costing
Uncover your True Profit Generators
Spotlight: Profit Scaling Curves