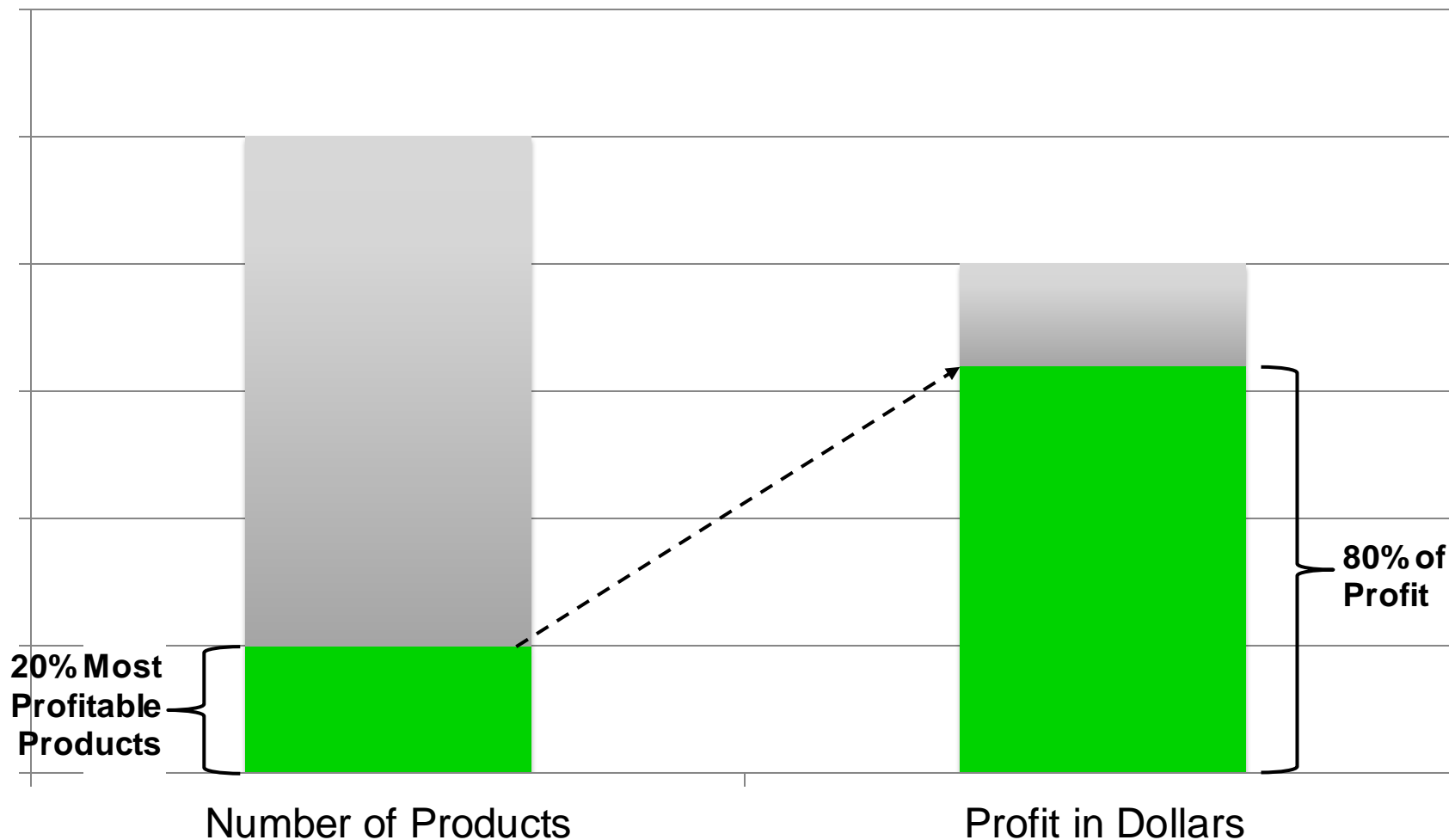


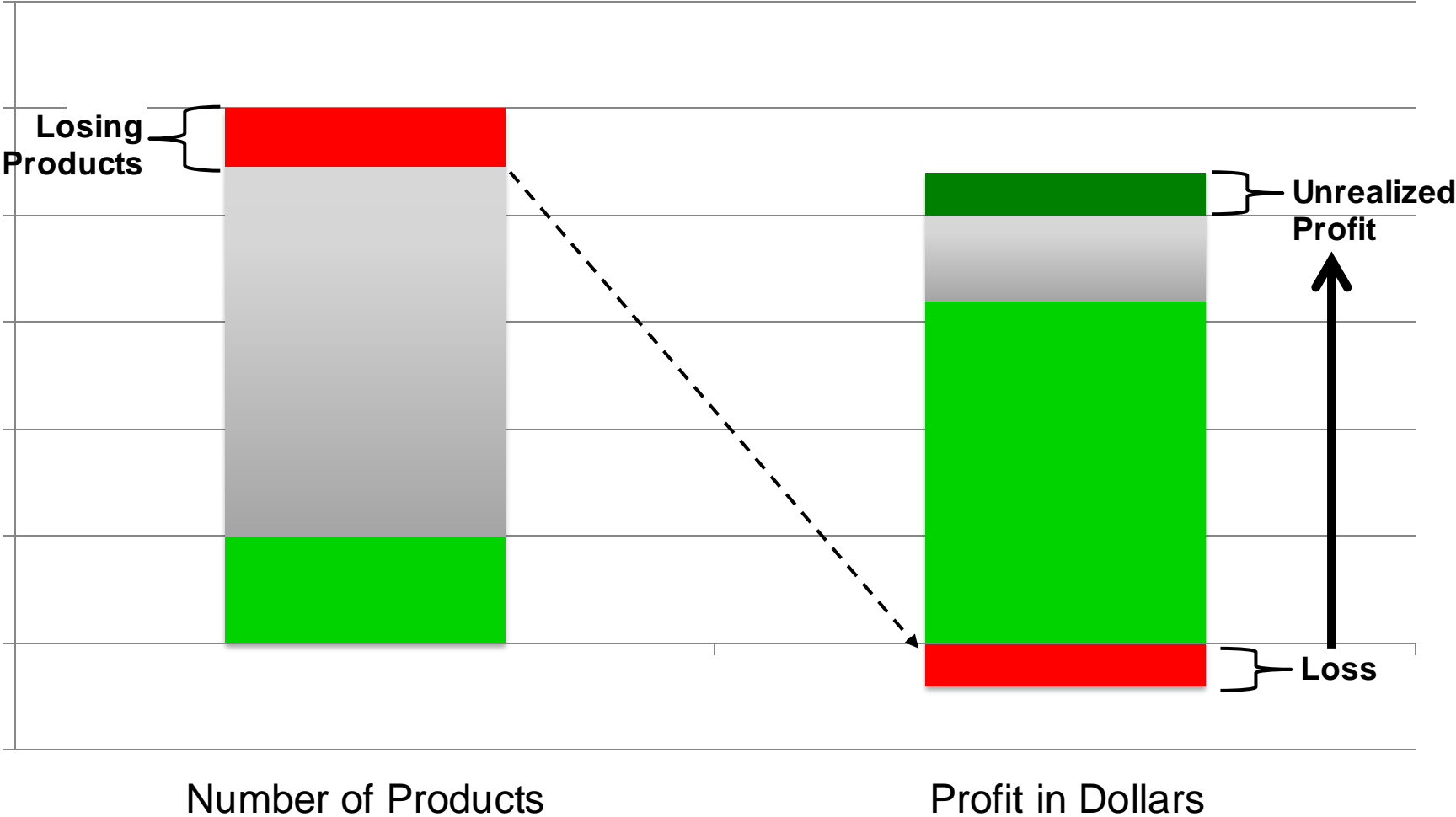
Customer / Product Rationalization (CPR)

Overview

Most Companies Realize that 80% of Profits Come from 20% of Products



Which Products Do We Sell That Lose Money?

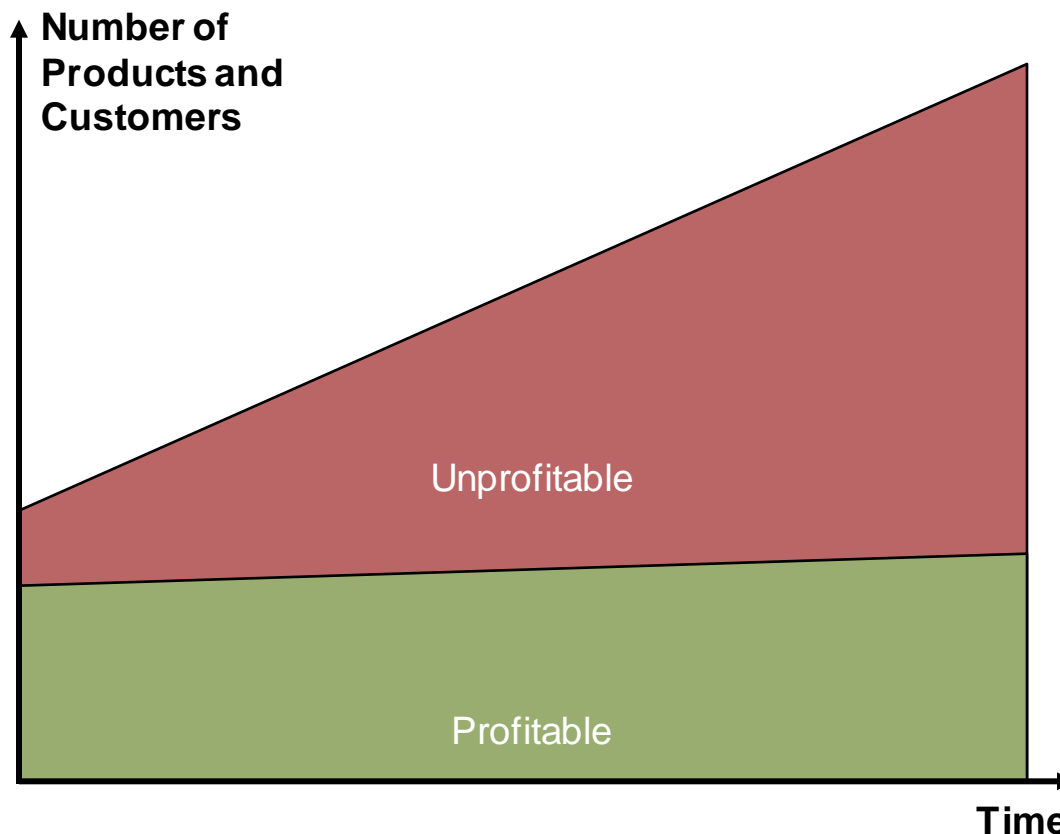


Rationalizing these products can turn a loss into a profit

However, Determining True Profitability Is Typically Difficult

- Most costing systems allocate non-direct costs based purely on **volume** – masking actual product profitability
- Examples of hidden cost drivers not typically accounted for include:
 - Customer Support Required
 - Product Complexity
 - Technology Investment
 - Manufacturing Lot Size

In Addition, Without a Formal Review Process, Unprofitable Products and Customers Will Proliferate Over Time



Marketing and new product development's roles are to **introduce as many new products as possible**



Innovation is now often measured by percentage of revenue from newest products, **which increase the number of products**



Key Question

Who has the role to find and eliminate unprofitable products?

Even If Actual Product Profitability Is Understood, the Organization Will Resist Rationalizing Products

Organizational Resistance

“It’s a new product and it’s profitability will grow over time - trust me ”

“This product is a loss leader and we need to make it”

“We have to sell the product to keep our customer happy”

Key Questions to Answer

- When will the product be profitable?
- Who is accountable to monitor profitability?
- Do other products profitability compensate?
- What is the customer profitability?

The Situation Is Confounded By Differences in Manufacturing and Sales / Marketing Objectives

Product Focus



We run our plant at 95% utilization and have less than 1 week of back orders!

Manufacturing does what it takes to fill orders and maximize capacity utilization
regardless of product profitability

Customer Focus



The customer is always right

Marketing, typically driven by sales volume, does whatever it takes to please the customer
regardless of customer profitability

Osti & Associates Has the Expertise Required to Overcome Organizational Resistance to Pruning Customers and Products

Osti & Associates Expertise

- Experts at diagnosing costs and allocations to determine true customer and product profitability
- Understand the linkage between business strategy and customers/products
- Custom database development to link customer profitability to product profitability
- Group facilitation capability critical to bridge the gap across opposing business departments
- Team development techniques including Meyers Briggs and KAI to enable teams to make decisions more quickly
- Implementation expertise essential to build a sustainable CPR process

CPR delivers tangible results

What Are the Benefits of CPR?

- Better understanding of actual profitability helps to make better decisions
- Reduced complexity
- Reduced inventory and inefficiency
- Improved working relationship between sales/marketing and manufacturing
- Management attention on key customers and products

Bottom Line: **Improved Profitability**

How Can Osti & Associates Help You Assess Your Organization's Improvement Potential?

CPR Fast Diagnostic

How long will it take to complete?

- 2 weeks

Who will need to be involved?

Your Organization

- Limited access to senior executives
 - Business Unit Managers
 - CFO
- Subject matter expertise from Manufacturing, Sales/Marketing, Accounting/Finance

Osti & Associates

- 2 full time CPR experts

What will it tell you?

- Segmentation and ranking of the product/customer portfolio
- Accuracy of the current cost allocation practice
- Profitability improvement estimate

Contact Osti & Associates



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