

## Managing Product Portfolio Complexity: Applying a Demand-Shaping Approach to Match Customer Value with True Cost

### *Industry & Client Situation*

A leading commercial and industrial products manufacturer had historically experienced sub-par profitability relative to its main competitors.

Bridge's initial hypothesis was that this performance gap could be explained by higher-than-average indirect cost and SG&A expenses, which were driven by exorbitant levels of product portfolio complexity fueled by a highly-configurable product line:

- 100,000+ products had been shipped in the previous fiscal year
- Sales were highly concentrated, creating a long tail of extremely low volume products
  - 1% of all configurations (high volume) accounted for more than half of unit sales
  - Half of all configurations (low volume) only represented 2% of unit sales

However, given specific product characteristics and market dynamics, previous product rationalization approaches that focused on short-term complexity reduction had failed to address the issue in a sustainable way, allowing complexity to creep back in over time

### *Approach*

Engaged by the CEO and working with a cross-functional client team, Bridge leveraged its Product Portfolio Complexity Management toolkit not only to quantify the size of the problem but also to propose effective ways to address the issue in a sustainable manner. Bridge's methodology:

- Started with a market-driven perspective that took into account customer requirements and preferences (i.e. customer value);
- Developed a thorough understanding of the drivers and "true cost" of complexity;
- Utilized a comprehensive set of solutions that not only managed the supply side (e.g. retire unprofitable product lines, restrict product options) but, most importantly, helped shape demand toward product configurations the customers valued most for their application (lower value would be matched with more standards products); and
- Designed structural changes to pricing, processes, systems, policies and guidelines required to ensure long-term sustainability.

### *Results*

Our analyses identified a total profitability improvement opportunity of 66% above previous EBIT levels.

Customers were not aware that they had been ordering unique configurations that drove higher costs. They were willing to consider more standard substitutes, which would not only provide them with a more affordable alternative but also ensure more reliable lead times. Therefore the bulk of the opportunity could be realized by shaping demand toward more profitable products with limited revenue risk.

Bridge provided a detailed roadmap and specific plans defining where demand could be shaped at each step of the value stream (from product specification to quotation and order preparation), how complexity could be reduced, where indirect cost and SG&A could be reduced, and what structural changes were needed to ensure sustainability.