Case Study – Margin Improvement

Through case studies we like to share some of our successes to give you an idea of how we help our clients improve their business results.

Company

The company, that prefers to remain unnamed, is a small wholesale-chain with a focus on catering professionals. Their clients include restaurants of all types, as well as companies that offer canteen services to their employees. They have an active assortment of approx. 40.000 products that splits in four main departments: Fresh Food, Packaged Food, Drinks and Non-Food.

Business Issue

The client's internal IT system didn't allow the Product Management / purchasing team to easily compare the performance of the various suppliers in a category with each other. As a result there was doubt that the negotiations resulted in the best possible margins. Especially in categories with significant volumes even small improvements in the margin, would contribute to a significant growth of the overall profit.

Solution

We exported product, margin and performance data out of the IT system using its standard reporting capabilities. This data was then cleaned up where needed, merged and stored in a database, allowing us to analyze it in many different ways. In these analyses, we focused on two different levels:

1. Contribution of the suppliers to the category in the areas of sales, profit, volume, and year-on-year growth
2. The margins of individual products in the context of the subcategory they are part of

The first level was used to quickly identify opportunities for improvement, so that the more labor intensive second step could be done more efficiently. In the detailed product-level analyses we looked at sales volumes, absolute as well as relative margins, and used quadrant analysis color coding so that there too it would be easy to spot the largest opportunities quickly.

Results

For one strategically important category in Fresh Food the Product Manager / Buyer quickly identified that the contracts with one supplier offered a significant opportunity for better trading conditions. Armed with a mixture of strategic and tactical information, he was able to convince the supplier that the margins on two products were seriously out of line with the rest of the assortment, and negotiated better prices.

As a result, the overall annual profit of the category increased by 6.5%, which meant that the payback time for the project could be measured in days rather than months or years !