

# CANNIBALIZATION ANALYSIS CASE STUDIES

Project Name	Client	Brief Description	Key Analyses
SKU RATIONALIZATION	BEAUTY INDUSTRY	Performed a <b>SKU rationalization for a personal care brand</b> that involved identifying underperforming products and estimating impact on Gross Margin, Revenues etc. Also, evaluated product-price architecture at two major retailers to identify gaps.	SKU Rationalization

# DUE DILIGENCE – SKU RATIONALIZATION FOR PERSONAL CARE PRODUCT COMPANY

## ABOUT THE CLIENT

Client is a U.S. based retail brand with products in the **personal care segment**, selling across major retailers and through their own direct channel

### SITUATION



- Client wanted to perform a **SKU rationalization** exercise as part of their **due-diligence process to evaluate the potential impact on Gross margin and Revenues**
- Merilytics conducted the SKU rationalization analysis to identify **SKUs that can be discontinued** while considering Retailer penetration, and Sales and GM contributions

### VALUE ADDITION



- We built a **comprehensive analysis model, where the user can identify the list of SKUs in various views such as margin performance based view, Supply-chain complexity view and the YoY growth view**
- The combination of low growth, high supply chain complexity and weak margins was used along with thresholds on revenue drop by product segment to identify the list of SKUs to potentially discontinue
- In addition, the model outputs provided the synthesized list of pruned SKUs by segment & retailer and the potential impact on the Retainer because of these changes

### IMPACT



- Potential to **reduce total number of SKUs by 25%, leading to an increase in Gross Margin % by 3% with minimal reduction in revenues**
- Identified **retailers where existing SKUs could be pruned** and replaced with **higher-margin SKUs**.

# SKU RATIONALIZATION MODELING

User can input constraints such as GM% threshold, volume threshold etc., before maximizing the GM%

REFRESH									
2017 full-year performance									
SKU level thresholds									
Sales performance view									
Sub-category	Absolute Net revenue threshold/\$ KU	Absolute unit volume threshold/\$ KU	Absolute GM% threshold/\$ KU	Apply volume variability threshold ('Yes' or 'No')	Volume volatility threshold % (excludes SKUs with high volatility)	Revenue threshold for applying YoY growth filter (to ensure higher revenue SKUs are not excluded)	YoY growth % threshold (SKUs with less than specified YoY growth are excluded)	Revenue drop because of sales, supply chain and YoY growth thresholds (%)	Revenues after applying thresholds (before optimization)
Category 3	\$231	22	5.0%	YES	717%	\$625	-50%	1.50%	\$63,480,632
Category 4	\$2,681	20	5.0%	YES	721%	\$14,686	-50%	13.98%	\$4,968,473
Category 5	\$10,143	17,806	5.0%	YES	461%	\$17,686	-50%	0.05%	\$8,403,543
Category 6	\$5,895	2,148	5.0%	YES	450%	\$9,110	-50%	12.29%	\$2,882,306
Category 7	\$13	5	5.0%	YES	721%	\$24	-50%	7.27%	\$10,727,837
Category 8	\$624	11	5.0%	YES	632%	\$629	-50%	3.55%	\$8,468,531
Category 9	\$5,847	731	5.0%	YES	490%	\$10,008	-50%	2.48%	\$5,119,036
Category 10	\$207	18	5.0%	YES	472%	\$871	-50%	2.43%	\$2,020,920
Category 11	\$336	129	5.0%	YES	515%	\$3,156	-50%	2.70%	\$1,222,151
Category 12	\$3,576	1,304	5.0%	YES	649%	\$9,227	-50%	3.63%	\$2,531,273
Category 13	\$481	297	5.0%	YES	538%	\$1,084	-50%	1.02%	\$1,548,189
Category 13	\$34,598	7,823	5.0%	YES	89%	\$38,958	-50%	8.25%	\$63,652
Category 13	\$3,821	245	5.0%	YES	264%	\$4,681	-50%	0.63%	\$188,737

SKU count									
Net revenues									
Gross Profit (\$)									
Gross Margin (%)									
Sub-category	Baseline	After applying thresholds	Drop in SKU count (#) vs. baseline	Drop in SKU count (%)	Baseline	After applying thresholds	% Change vs. baseline	Baseline	After applying thresholds
Category 3	503	431	103	-20.4%	\$66,821,718	\$65,821,637	-9.3%	20.1%	20.4%
Category 4	13	10	3	-23.2%	\$5,229,971	\$4,498,929	-14.0%	32.3%	38.2%
Category 5	4	4	1	-33.3%	\$8,845,835	\$8,841,476	-6.5%	40.1%	41.9%
Category 6	27	19	8	-28.6%	\$3,034,006	\$2,661,187	-12.3%	18.1%	21.3%
Category 7	129	62	67	-51.9%	\$11,292,460	\$10,470,979	-7.3%	21.0%	27.8%
Category 8	7	4	3	-44.4%	\$8,914,306	\$8,598,200	-3.5%	11.3%	11.3%
Category 9	20	17	3	-27.6%	\$5,388,459	\$5,254,760	-8.5%	33.0%	33.8%
Category 10	66	57	9	-13.6%	\$2,127,284	\$2,074,320	-2.5%	44.1%	44.1%
Category 11	17	15	2	-11.8%	\$1,286,475	\$1,251,796	-2.7%	45.7%	45.2%
Category 12	28	23	5	-17.9%	\$2,727,655	\$2,627,114	-3.7%	19.9%	21.3%
Category 13	26	23	3	-11.5%	\$1,629,672	\$1,612,991	-1.0%	26.3%	26.5%
Category 13	0	0	0	-20.0%	\$67,002	\$61,473	-8.3%	15.5%	17.4%
Category 13	3	3	0	-42.1%	\$198,671	\$197,414	-1.2%	57.2%	57.3%
Total	845	667	178	-21.2%	\$117,563,514	\$113,972,276	-3.1%	23.0%	24.1%

Synthesized view of the top-level impact on each of the metrics by channel and retailer