



SKU rationalization for a health & wellness company

Health & wellness company

Built a comprehensive and user-friendly model to identify products that can be removed from the portfolio without a significant impact on the top-line.

Recommended to prune ~30% of SKUs that had low Gross Margins/sales, thereby impacting the overall revenues only by 2% and increased the overall Gross Margin (%) by 0.4%.

SKU rationalization

Situation

- Client had an opportunity to simplify the product portfolio, and the supply chain expenses without a material impact on the top line.
- Partnered with the client to build a user-friendly model to identify the products that can be removed from the portfolio and evaluate the impact for the same.

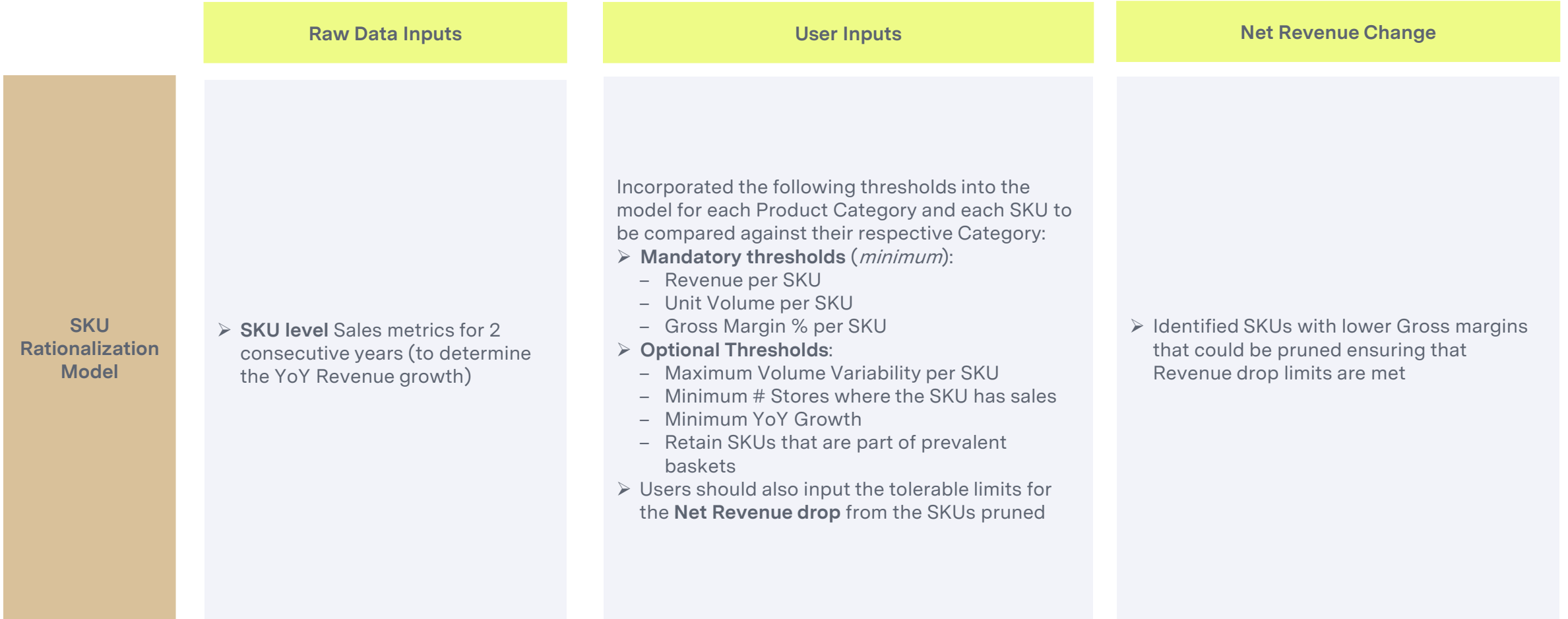
Accordion Value Add

- Built a comprehensive model to determine the products that could potentially be pruned based on various user inputs such as Revenue/Margin, Unit sales, Store presence, Growth, Volume variability, etc., for each Product Category
- Among all the SKUs that could potentially be pruned, based on the tolerable limits for the Net revenue drop (%) provided by the user, SKUs with lower Gross margins are shortlisted and recommended for pruning
- Performed a Market Basket Analysis to determine the product basket combinations that were frequently purchased together, to ensure that products that are part of prevalent baskets are not pruned.

Impact

- Recommended the client to prune ~30% of SKUs that were identified to have low Gross Margins and minimal sales, which only impacted the overall revenues by 2%.
- Removing the low performing and low Gross Margin SKUs from the Product portfolio would increase the company's overall Gross Margin (%) by 0.4%.

Approach & methodology



Snapshot of the SKU rationalization model

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

		User Inputs												
	Criteria for pruning SKUs			Criteria for pruning SKUs		Criteria for pruning SKUs			Criteria for pruning SKUs				SKU Exception List (Criteria for retaining pruned SKUs)	
	Sales thresholds			Supply-chain threshold		SKU presence thresholds			YoY growth threshold				Market Basket analysis	
Category	Absolute Net revenue/SKU	Absolute net volume /SKU	Absolute GM% /SKU	Apply volume variability threshold ('Yes' or 'No')	Volume variability threshold % (excludes SKUs with high % ACV)	Apply SKU presence thresholds ('Yes' or 'No')	% ACV threshold	Coverage of Stores % threshold	Apply YoY growth threshold ('Yes' or 'No')	\$ Revenue/ SKU cutoff to apply YoY growth filter	YoY growth % /SKU (SKUs with less than specified YoY growth are excluded)	Proposed Net Revenue drop (as % of baseline revenue)	Retain pruned SKUs considering Market Basket analysis ('Yes' or 'No')	Core SKUs Retain all Core SKUs ('Yes' or 'No')
Category A	\$51	1	0.0%	YES	553%	YES	20%	20%	NO			5.0%	YES	YES
Category B	\$21	2	5.0%	YES	194%	YES	20%	20%	NO			5.0%	YES	YES
Category C	\$519	30	5.0%	YES	373%	YES	20%	20%	NO			5.0%	YES	YES
Category D	\$530	17	5.0%	YES	300%	YES	20%	20%	YES	\$1,957	-40%	10.0%	YES	YES
Category E	\$14	16	5.0%	YES	300%	YES	20%	20%	NO			10.0%	YES	YES
Category F	\$2,649	115	5.0%	YES	270%	YES	20%	20%	YES	\$41,983	-40%	10.0%	YES	YES

2018 performance - Overall			Change (After applying threshold) vs. baseline	applying thresholds, margin maximization and SKUs	% Change (Final) vs. baseline	
	Baseline	After applying thresholds				
	\$ SKUs	705	516	-26.8%	437	-23.5%
	2018 Net volume	3,735,287	3,673,104	-1.7%	3,617,269	-3.2%
	2018 \$ Net revenues	\$83,330,053	\$82,544,072	-0.9%	\$81,561,626	-2.1%
	2018 \$ GM	\$63,466,624	\$63,035,009	-0.7%	\$62,434,334	-1.6%
	2018 GM %	76.2%	76.4%	0.2%	76.5%	0.4%
YoY growth %	-17%	-15%	1.5%	-16%	1.0%	

Category	2018 Net volume				2018 \$ Net revenues				2018 \$ GM				2018 GM %				YoY revenue growth % (17-18)			
	Baseline	After applying thresholds	After applying thresholds, margin maximization and SKUs retention	% Change vs. baseline	Baseline	After applying thresholds	After applying thresholds, margin maximization and SKUs retention	% Change vs. baseline	Baseline	After applying thresholds	After applying thresholds, margin maximization and SKUs retention	% Change vs. baseline	Baseline	After applying thresholds	After applying thresholds, margin maximization and SKUs retention	% Change vs. baseline	Baseline	After applying thresholds	After applying thresholds, margin maximization and SKUs retention	% Change vs. baseline
TOTAL	1,457,644	1,444,032	1,413,670	-3.0%	\$41,585,975	\$41,288,658	\$40,854,890	-1.8%	\$31,050,011	\$30,949,772	\$30,677,148	-1.2%	74.7%	75.0%	75.1%	0.4%	-29%	-29%	-29%	0.2%
CATEGORY A	330,319	328,334	328,353	-0.6%	\$19,424,463	\$19,265,636	\$19,266,336	-0.8%	\$13,196,488	\$13,208,122	\$13,208,585	0.1%	67.9%	68.6%	68.6%	0.6%	-42%	-42%	-42%	0.5%
CATEGORY B	819,321	812,733	796,820	-2.7%	\$14,566,495	\$14,480,947	\$14,203,203	-2.5%	\$12,008,495	\$11,936,055	\$11,754,152	-2.1%	82.4%	82.4%	82.8%	0.3%	-19%	-19%	-18%	0.3%
CATEGORY C	114,883	114,736	114,691	-0.2%	\$4,538,640	\$4,535,401	\$4,534,568	-0.1%	\$3,610,474	\$3,608,445	\$3,607,850	-0.1%	79.5%	79.6%	79.6%	0.0%	-26%	-26%	-26%	0.2%
CATEGORY D	27,821	27,093	27,093	-2.6%	\$585,946	\$578,707	\$578,707	-1.2%	\$388,462	\$383,643	\$383,643	-1.2%	66.3%	66.3%	66.3%	0.0%	-7%	-7%	-7%	0.5%
CATEGORY E	72,164	72,073	63,110	-12.5%	\$1,229,499	\$1,229,345	\$1,152,241	-6.3%	\$835,438	\$835,457	\$800,742	-4.2%	68.0%	68.0%	69.5%	1.5%	-	-	-	-
CATEGORY F	92,536	88,463	83,003	-10.3%	\$1,240,331	\$1,198,562	\$1,119,836	-9.8%	\$1,010,593	\$978,050	\$922,176	-8.7%	81.4%	81.6%	82.3%	0.9%	3%	8%	9%	-0.3%

Synthesized view of the top-level impact on each of the metrics by category