

CANNIBALIZATION ANALYSIS CASE STUDIES

Project Name	Client	Brief Description	Key Analyses		
SKU RATIONALIZATION	BEAUTY INDUSTRY	Performed a SKU rationalization for a personal care brand 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





- 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

REFRESH

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

		SKU level thre	esholds						Optimization inputs					
2	:017 full-year performan	Sales performance view			Supply-chain complexity view		YoY gros	eth inputs						
		Absolute \$ Net revenue threshold/S	Absolute unit volume threshold/S	Absolute GM% threshold/S	Apply volume variability threshold	Volume volatility threshold % (excludes SKUs with high	Revenue threshold for applying YoY growth filter (to ensure higher revenue SKUs are	YoY growth % threshold (SKUs with less than specified YoY growth are	Revenue drop because of sales, supply chain and YoY	Revenues after applying thresholds (before	revenue drop off after optimizati on (as % of baseline	Include Indirect Offline channel (Please select "Yes"	Include Direct Online channel (Please select 'Yes'	
. 5	iub-category	KU	KU	KU	('Yes' or 'No')	volatility)	not excluded)	evoluded)	thresholds (%)	optimization)	revenues)	or 'No')	or 'No')	
		\$231	22	5.0%	YES	717%	\$625	-50%	1.50%	\$63,480,632	90.0%	Yes	Yes	
н		\$2,681	20	5.0%	YES	721%	\$14,686	-50%	13.98%	\$4,968,473	90.0%	Yes	Yes	
l lo	ategory 3	\$10,143	17,806	5.0%	YES	461%	\$17,686	-50%	0.05%	\$8,403,543	90.0%	Yes	Yes	
l la	ategory 4	\$5,895	2,148	5.0%	YES	450%	\$9,110	-50%	12.29%	\$2,882,306	90.0%	Yes	Yes	
l lo	ategory 5	\$13	5	5.0%	YES	721%	\$24	-50%	7.27%	\$10,727,837	90.0%	Yes	Yes	
l lo	ategory 6	\$624	11	5.0%	YES	632%	\$629	-50%	3.55%	\$8,468,591	90.0%	Yes	Yes	
l lo	ategory 7	\$5,847	731	5.0%	YES	490%	\$10,008	-50%	2.48%	\$5,119,036	90.0%	Yes	Yes	
Į (ategory 8	\$207	18	5.0%	YES	472%	\$871	-50%	2.49%	\$2,020,920	90.0%	Yes	Yes	
0	ategory 9	\$336	129	5.0%	YES	515%	\$3,156	-50%	2.70%	\$1,222,151	90.0%	Yes	Yes	
	ategory 10	\$3,576	1,304	5.0%	YES	649%	\$9,227	-50%	3.69%	\$2,591,273	90.0%	Yes	Yes	
	ategory 11	\$481	297	5.0%	YES	538%	\$1,084	-50%	1.02%	\$1,548,189	90.0%	Yes	Yes	
	ategory 12	\$34,598	7,823	5.0%	YES	89%	\$38,958	-50%	8.25%	\$63,652	90.0%	Yes	Yes	
	ategory 13	\$3,821	245	5.0%	YES	264%	\$4,681	-50%	0.63%	\$188,737	90.0%	Yes	Yes	

	SKU count					Net revenues				Gross Profit (\$)				Gross Margin (%)			
			applying	Drop in	Drop in			After applying				After applying				applying	
		After	thresholds	SKU count	SKU			thresholds	% Change			thresholds	% Change			thresholds	% Change
		applying	and margin	(#) vs.	count		After applying	and margin	VS.		After applying	and margin	VS.		After applying	and margin	VS.
Sub-category	Baseline	thresholds	mazimizati	baseline	(%)	Baseline	thresholds	maximization	baseline	Baseline	thresholds	maximization	baseline	Baseline	thresholds	mazimizati	baseline
	503	431	400	103	-20.4%	\$66,821,718	\$65,821,637	\$60,201,851	-9.9%	\$13,449,688	\$13,448,681	\$12,975,606	-3.5%	20.1%	20.4%	21.6%	1.4%
	13	10	10	3	-23.2%	\$5,229,971	\$4,498,929	\$4,498,929	-14.0%	\$1,691,150	\$1,717,128	\$1,717,128	1.5%	32.3%	38.2%	38.2%	5.8%
Category 3	4	4	3	1	-33.3%	\$8,845,835	\$8,841,476	\$8,272,353	-6.5%	\$3,543,502	\$3,545,031	\$3,464,170	-2.2%	40.1%	40.1%	41.9%	1.8%
Category 4	27	19	19	8	-28.6%	\$3,034,006	\$2,661,187	\$2,661,187	-12.3%	\$548,142	\$566,136	\$566,136	3.3%	18.1%	21.3%	21.3%	3.2%
Category 5	129	62	62	67	-51.9%	\$11,292,460	\$10,470,979	\$10,470,979	-7.3%	\$2,372,363	\$2,907,684	\$2,907,684	22.6%	21.0%	27.8%	27.8%	6.8%
Category 6	7	4	4	3	-44.4%	\$8,914,306	\$8,598,200	\$8,598,200	-3.5%	\$1,004,172	\$969,701	\$969,701	-3.4%	11.3%	11.3%	11.3%	0.0%
Category 7	20	17	15	6	-27.6%	\$5,388,459	\$5,254,760	\$4,931,525	-8.5%	\$1,775,860	\$1,778,675	\$1,724,960	-2.9%	33.0%	33.8%	35.0%	2.0%
Category 8	66	57	52	15	-21.9%	\$2,127,284	\$2,074,320	\$1,945,385	-8.6%	\$938,438	\$914,820	\$887,565	-5.4%	44.1%	44.1%	45.6%	1.5%
Category 9	17	15	13	4	-25.5%	\$1,286,475	\$1,251,796	\$1,185,836	-7.8%	\$588,550	\$566,292	\$552,488	-6.1%	45.7%	45.2%	46.6%	0.8%
Category 10	28	23	23	6	-20.0%	\$2,727,655	\$2,627,114	\$2,627,114	-3.7%	\$542,668	\$558,402	\$558,402	2.9%	19.9%	21.3%	21.3%	1.4%
Category 11	26	23	22	5	-17.6%	\$1,629,672	\$1,612,991	\$1,499,206	-8.0%	\$429,204	\$427,344	\$419,496	-2.3%	26.3%	26.5%	28.0%	1.6%
Category 12	0	0	0	0	-20.0%	\$67,002	\$61,473	\$61,473	-8.3%	\$10,366	\$10,698	\$10,698	3.2%	15.5%	17.4%	17.4%	1.9%
Category 13	3	3	2	1	-42.1%	\$198,671	\$197,414	\$180,584	-9.1%	\$113,710	\$113,154	\$106,881	-6.0%	57.2%	57.3%	59.2%	2.0%
Total	845	667	624	221	-26.2%	\$117,563,514	\$113,972,276	\$107,134,622	-8.9%	\$27,007,810	\$27,523,747	\$26,860,913	-0.5%	23.0%	24.1%	25.1%	2.1%

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