OLIVER WYMAN

GETTING "QUICK WINS" TO WORK

Driving lasting margin improvement in 90 days or less

“We thought we were doing all we could to close the margin gap but we barely moved the needle.

When we finally got our pricing quick win program right, I was amazed by how much we got and how quickly it came.”

– SALES LEAD
$BN US COMPANY

You are a senior executive running a P&L. For the past couple of quarters results have been worse than expected – and now you need cash, fast. But the problem is that you've already picked the low hanging fruit and your sales force, product and ops teams are tired of hearing leadership ask for yet another 'push'. So what now?

We have often found that even after executives have employed many of the classic tactics, such as tightening expenses, pressing vendors for cost reductions, and even broad price increases, it is still possible to generate substantial value within weeks through a 'quick win' program that takes a more rigorous, fact-based view of the business.

Two recent examples provide a good illustration. In the first case, an environmental services business generated $40m of margin (1.4% of revenue) within six months by carefully analyzing unprofitable customers, then pricing up those who were unlikely to be price-sensitive. In the second, a foodservice distributor improved its bottom line by $25m (1.6% of COGS) within 8 months by setting up a robust vendor negotiation program, based on more actionable analytics.

But achieving such impact so quickly is far easier said than done. There is a lot of appropriate skepticism around many so-called quick win programs. How, then, to successfully capture the promised quick wins, and to avoid slipping back after the initial push?

QUICK WIN CHECKLIST

PRICING AND CONTRACT TERMS

- ✓ Cut the negative contribution tail of customers and products
- ✓ Raise prices on customers that are under-priced versus peers
- ✓ Raise prices on specialty/niche products with a differentiated proposition
- ✓ Raise prices where cost increases have not been sufficiently passed through
- ✓ Reduce prices in return for new volume/share growth deals with large customers
- ✓ Introduce specific service fees
- ✓ Tighten contract term compliance, and follow up on missed charges
- ✓ Deploy a series of targeted discounts or promotions

SALES

- ✓ Share weekly sales force performance vs. peers and 'hard wire' incentives
- ✓ Give the sales force prioritized prospect lists
- ✓ Identify and proactively follow up on missed customer orders
- ✓ Reassign accounts across sales reps to focus on areas of opportunity
- ✓ Support sales reps with information on 'next product to sell'
- ✓ Systematically call customers with 'good news' (e.g. price reductions) to prompt orders

COST

- ✓ Identify suppliers with limited market power and push to reduce costs
- ✓ Address 'high cost to serve' customers where the costs are not driven by customer needs
- ✓ Renegotiate supplier costs on non-critical items
- ✓ Track and promptly capture the benefits of suppliers' cost reductions
- ✓ Select partner suppliers and offer them increased spend in exchange for better deals
- ✓ Conduct cost deep dives on top product categories - understand cost drivers & identify savings
- ✓ Renegotiate central contracts on GNFR (Goods Not For Resale)

Most successful quick wins programs do three things well…

1. DRILL THE DATA AND DO THE MATH

Companies often see a range of possibilities for quick wins, but thoughtful analysis will highlight the most impactful ones. This is important to both build conviction in the business and to avoid wasted efforts. Identifying the best opportunities relies on two capabilities. The first is the technical ability to rapidly access and 'join up' enterprise-wide data, often from multiple unconnected systems. The second is the experienced analytical expertise to 'do the math' and find the high impact actions. Without either of these, companies could easily misdiagnose or miss the most lucrative opportunities – or worse still, fail to convince leadership that an opportunity exists.

In many cases, companies have all the necessary data somewhere in the systems but often give up too quickly because they are stumped by technical challenges and can't see a ready way to the insight they need.

Take our environmental services example. The necessary data was stored across three legacy systems and more than 100 separate databases. The IT function had quoted three years (and a substantial investment) to bring this information together. A different approach, with a focused technical 'SWAT team', yielded actionable analysis within six weeks and the first bottom line impacts within three months.

With the key data assembled, companies need experienced analytical resource with relevant expertise that can cut through the mass of data and complexity, and drive out the most actionable insights.

Consider a chemical distributor, with antiquated legacy systems, where the only insight into customer orders was gleaned by the small number of committed sales reps prepared to spend hours examining 'dot matrix' style printouts of transactions. By importing the right statistical expertise from a different distribution sector, the company was able to systematically identify missed order opportunities across thousands of customers within four weeks. Within eight weeks it deployed a desktop tool allowing reps to access this insight easily and automatically, turning a quick win into a sustainable upside.

"We've sat on the opportunity for years because we've never had the analytics to validate and act on it."

– VICE PRESIDENT OF CONTRACT SALES $BN US DISTRIBUTOR

2. MAKE EXECUTION REALLY SIMPLE

Companies often struggle with keeping quick win programs impactful yet simple to execute. We have seen numerous quick win programs abandoned because the execution complexity overwhelmed a busy sales force, operations or purchasing team. Our experience is that managers often think they have kept it simple to execute, but they haven't fully engaged those who actually have to make it happen.

Take the example of a large US distribution company that conducted an extensive 'customer peer pricing' analysis to identify opportunities to price up specific customers. With the opportunities in hand, managers mistakenly assumed that all they had to do was to put that information into the hands of their empowered sales force. However, few reps took any action and the initiative stalled.

The problem was that the execution process for the sales reps was far too complex. In order to push any changes through, reps were required to use multiple IT systems and make several judgment calls on prices. Additionally, little time had been spent engaging them in either the rationale or logic behind the analysis, or the process for turning the analysis into actionable price changes. Not surprisingly, few reps 'bought in' and little changed.

To address this issue, the company quickly redesigned and built an execution process which was much simpler for reps: All they had to do was hit a button to approve or reject a suggested price increase and a central pricing team would handle the rest. To build buy-in the company also conducted a rapid series of road-shows building confidence around the quality of the opportunities and simplicity of execution. The result: a $25m improvement in margin run rate (0.5% of sales) in just four months.

> "Our first attempt stalled because what looked like a simple price execution process to us was in reality fairly cumbersome for sales reps."
>
> – CFO, $BN US DISTRIBUTOR

3. CREATE AN EFFECTIVE FEEDBACK LOOP

Few companies make an adequate effort to track the impact of a quick-win initiative and understand what is working, and what isn't. Yet a thoughtful and accurate feedback loop can often add 50% to 75% more value to the program.

Take the earlier example of the foodservice distributor that achieved a significant reduction in COGS. A team of analytical experts used granular insight and analytics to identify savings opportunities and set detailed cost reduction targets. Based on this, the company launched a wave of supplier negotiations led by the buying group. Every negotiation had a clear 'ask' and the buyers were armed with analytical reports customized specifically to support each 'ask'.

In parallel, the analytical team developed detailed tracking and reporting on the program. This drove several benefits. Weekly reports on costs savings vs. targets (across different categories and buyers) allowed the executive team to actively manage the program 'in flight'. They could quickly see which buyers were delivering and which buyers needed help (or an extra push).

A process to share weekly 'success stories' and cost savings was put in place. Learning on what was working was rapidly shared across buyers, building momentum and confidence in the early stages of the program.

The company subsequently compiled a negotiation playbook for all buyers based on the learning from the program. In parallel, it is automating the most powerful analytical approaches to be available to buyers on their work-bench at the push of a button.

Not only was the company able to actively manage and refine its quick win program by tracking and monitoring the results, it was also able to use what it learned to build a sustainable high-capability process.

An effective feedback loop can often add 50% to 75% more value.

CONCLUSION

The 'data and the math' is often the most fundamental building block, and the toughest. Many distribution businesses lack the technical ability to cut through messy IT systems, or the experienced analysts who know just what to look for. But for those that manage to navigate these challenges, the payoff can be real and fast.

The most successful quick win programs do more than just temporarily boost the bottom line; often they serve to ignite and fund true performance transformations – catalyzing sustained capability development and organizational momentum over several years.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. Oliver Wyman's global Operations Practice specializes in end-to-end operations transformation capabilities to address costs, risks, efficiency and effectiveness. Our global team offers a comprehensive and expert set of functional capabilities and high-impact solutions to address the key issues faced by Chief Operating Officers and Chief Procurement Officers across industries.

In the Pricing, Sales, and Marketing practice, we draw on unrivaled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in distribution and wholesale: an obsession with attracting, serving, and growing customers, constant dedication to operational excellence, and a relentless drive to improve capabilities. We have a track record of helping clients win in this environment, creating real competitive advantage and driving significant growth. We believe our hands-on approach to making change happen is truly unique – and over the last 25 years, we've built our business by helping distributors and wholesalers build theirs. Oliver Wyman is a strategic advisor to the NAW and sponsors a number of NAW roundtable events for companies with revenues $1 billion +.

www.oliverwyman.com

CONTACTS

Samuel Rosenberg
Partner
samuel.rosenberg@oliverwyman.com

Chris McMillan
Partner & Global Head, Pricing, Sales, and Marketing
chris.mcmillan@oliverwyman.com

Scot Hornick
Partner
scot.hornick@oliverwyman.com

Varun Ratta
Partner
varun.ratta@oliverwyman.com

AUTHORS

Chris McMillan, James Adams, Richard Balaban, Ian Brown, Keith Creehan

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