

1. Problem Statement

Small packaged food manufacturing unit supplying snacks to local distributors in India, experiencing profit margin decline from 9% to 4% despite 18% sales volume growth over the last 12 months, deciding between cost reduction, selective price increases, or maintaining current operations.

Key Metrics

- Sales volumes growth: 18%
- Profit margins: declined from 9% to 4%

Constraints

- Significant increase in raw material costs (edible oil, packaging)
 - Rising logistics expenses
 - Mostly fixed operating expenses
 - Distributors resisting price increases
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2. Peer Benchmarking

Peer Group: Small packaged food manufacturers supplying local distributors

sales_growth: 12-20%

profit_margin: 6-11%

- Sales volume growth strong vs peers (18% vs 12-20%)
 - Profit margin significantly below peers (4% vs 6-11%)
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3. Strategic Scenarios

Cost Optimization

Impact: Profit margins recover to 7-9% (within peer 6-11%) through targeting acute raw material (edible oil, packaging) and logistics cost reductions, sustaining 18% sales growth

Pricing or Revenue Adjustment

Impact: Profit margins rise to 6-8% via 5-10% selective price increases on premium SKUs, with sales growth moderating to 12-15% (peer range)

Status Quo or Wait-and-Watch

Impact: Margins persist at 4% (below peer 6-11%), sales growth at 18% (top of peer range) but risks further erosion if costs rise

Recommended: Cost Optimization

4. Risks & Early Signals

- Raw material prices spike due to market fluctuations or seasonal shortages
 - Distributors resist consolidated delivery changes, impacting relationships
 - Staff overlook or inconsistently apply daily inventory checklists
 - Negotiation delays prevent timely supplier contract signings
 - Utility or rent negotiations fail due to lack of leverage
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5. KPIs & Governance

Profit Margin %: 4-5% → 7-9% (Monthly)

Raw Material Costs (% of sales): Current → -10-15% (Monthly)

Logistics Costs (absolute): Current → -5-10% (Monthly)

Inventory Waste %: Current → <5% (Monthly)

Sales Growth %: 18% → ≥15% (Quarterly)