

Case Study: Product Line Optimization

A midsized frozen foods manufacturer contacted us to discuss Product Line Optimization. Their Operations people had identified short runs and changeovers as a major contributor to plant downtime. The excessive downtime was causing serious capacity constraints and service issues, and the plants were struggling to keep up with an ever-changing production schedule.

While they acknowledged the issue, Marketing and Sales were resistant to the idea of simplifying the product line. They were able to “make a case” for even the lowest-volume products, citing their importance to key customers or to the overall product line strategy.

Franklin Foodservice Solutions was engaged to help break the impasse and optimize the product line.

We met with the Operations, Supply Chain, Sales, and Marketing people individually to get their perspectives. We gained a sense of the scope of change required to alleviate the capacity issues, as well as Sales and Marketing’s tolerance of volume risk.

Then we gathered “SKU by SKU” data on the entire product line, including:

- category
- label
- sales volume
- gross profit
- production line and throughput
- customers

We developed a ranking of the product line against these criteria, to identify the products that were underperforming in one or more areas. We also asked Operations to identify products which “had good numbers,” but still caused production problems in the plants.

Armed with graphic illustrations of the issues, we held a team meeting to get everyone on the same page and dealing with the same information. Beginning with our ranked product lists, the team agreed on a list of “problem products” which would be reviewed for possible discontinuation.



The team members then met to discuss the products on the problem list, and assign them to one of four classifications:

1. Drop
2. Drop and Substitute
3. Up or Out
4. Tolerate

Once tentative decisions were made, we modeled the P&L impact of discontinuing products, substituting other products where feasible, and taking action to overcome volume or GP issues on the “Up or Out” products. This model was used to guide the iterative “horse trading” process, whereby the best solution was identified.

It should be noted that several problem products were fixed by adjusting the raw materials specifications, and combining similar products into a single SKU.

The final decision involved elimination of 14% of the company’s products, which were contributing less than 4% of the company’s volume and no profit. The positive financial impact of simplifying the product line was estimated at \$107,000.

After the final decision was made, we looked at raw material inventories to identify the best timing for discontinuation of each product. Finally, we developed communication documents for use internally, with Sales and Brokers, and with customers. These documents explained the rationale for the discontinuation, the anticipated runout date by product, and guided customers to appropriate substitutions.

As a result, the company made significant gains in capacity and service level, with minimal impact on customers and sales volume. And they learned an effective, repeatable process to incorporate into their annual planning cycle.

